



BTC TRADE FOR DEVELOPMENT

MARKET RESEARCH ON CERTIFIED COFFEE MARKET POTENTIAL IN BELGIUM

A presentation compiled by Euromonitor International Consulting for the Trade for Development Centre of the Belgian Development Agency (BTC) and UTZ

1st December 2017

This report was produced by Euromonitor International for the Trade for Development Centre of the Belgian development agency. The information in this report includes research estimates based on publically available sources, consumer and trade surveys and modelling. The bases and assumptions for the projections assume a stable social and economic environment and outlook in the relevant countries and assume there will not be any external shocks. All source material is therefore provided without any warranties or representations and any reliance on such material is made at users' own risk. Excerpts from this report can be used on condition that their source and author are identified.

INTRODUCTION	3
METHODOLOGY.....	5
EXECUTIVE SUMMARY	7
COMPARATIVE PERSPECTIVE.....	20
THE BELGIAN MARKET	27
CERTIFIED AFRICAN COFFEE	34
APPENDIX	45



Background

The Trade for Development Centre (TDC – www.befair.be) of the Belgian Development Agency (BTC) promotes fair and sustainable trade.

- In developing countries, TDC aims to economically and socially empower MSMEs (micro, small and medium-sized enterprises/organisations) by enhancing their business and marketing knowledge and improving their access to markets.
- This is done by conducting market researches allowing these MSMEs to better understand and capture market opportunities, be it nationally or internationally. These market studies are either used directly by MSMEs or by partner organisations (business support organisations, certification bodies, producer networks,...) in their day-to-day work to strengthen these MSMEs.
- Additionally, with its producer support programme TDC provides financial and marketing assistance to MSMEs.
- Lastly, TDC closely observes the evolution of sustainable markets to inform authorities, civil society, consumers and other economic actors as objectively as possible on the relevance and potential of sustainable trade in Europe and in the South.

Within this framework, TDC has decided to conduct a new market study on certified coffee market potential in Belgium.



Aim of the study

The aim of this study is to assess the potential for certified coffee in Belgium, with a particular focus on UTZ.

Key research questions:

- How can the demand of African UTZ certified coffee in Belgium be grown?
- Do stakeholders think certified coffee (Fairtrade, Rainforest Alliance, UTZ) can become the norm in the Belgian market?
- What are the new developments like sustainable coffee initiatives that are not third-party certified/initiated by the brands themselves.
- What would be the effort for stakeholders to source or promote certified coffee, also taking quality specifications and availability into account?
- What is the harm for individual stakeholders if they do not source or promote certified coffee in a scenario
 - where certified coffee has become the norm
 - where certified coffee is not the norm
- What can be learned from countries where the market share of certified coffee is higher?
- What are the expected benefits (qualitative prescribed) for African farmers if certified coffee becomes the norm in Belgium?
- Is there enough UTZ certified African coffee for the Belgian market?

INTRODUCTION

METHODOLOGY

EXECUTIVE SUMMARY

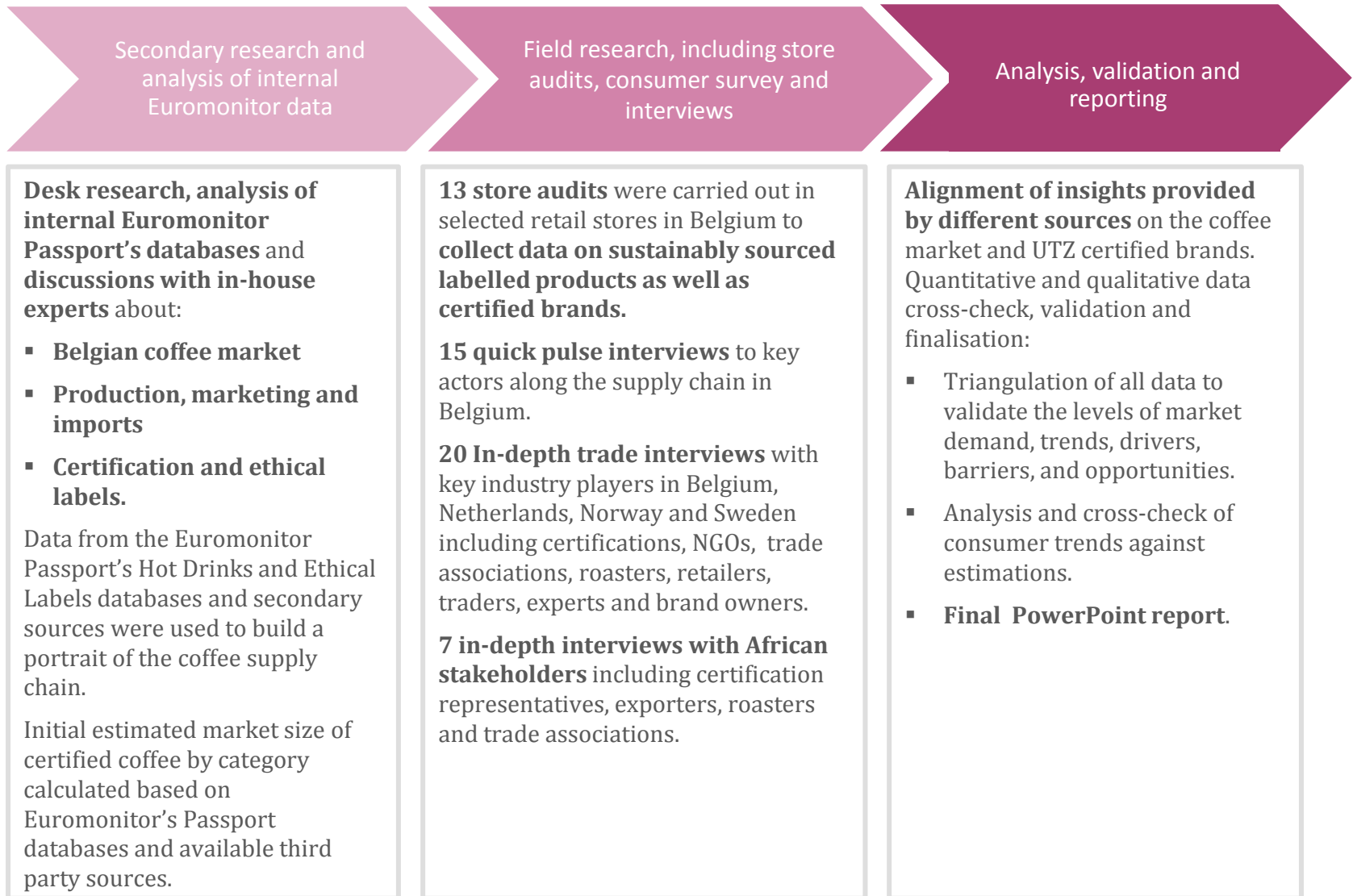
COMPARATIVE PERSPECTIVE

THE BELGIAN MARKET

CERTIFIED AFRICAN COFFEE



Euromonitor approach



INTRODUCTION

METHODOLOGY

EXECUTIVE SUMMARY

COMPARATIVE PERSPECTIVE

THE BELGIAN MARKET

CERTIFIED AFRICAN COFFEE



Third-party certification

Industry Perception

Belgian consumers are too price sensitive

The cost of certification is high and without a clear added value beyond sustainability it will be difficult to pass the cost on to consumers.



Brands are already very active in certified coffee

Belgian brands are already very engaged in sustainable initiatives across their product ranges.



Certification does not add quality to the coffee

Certified coffee is not necessarily higher quality coffee which can be a barrier for brands to get involved. Certification is more often seen as an off-the-shelf solution to boost a company's ethical image.



Much paperwork and limited transparency

Coffee roasters are better informed on grower issues and may choose to work with coffee farmers directly. Own initiatives are seen as more transparent and enable roasters to avoid unethical grey areas.



Facts

Premiumisation trend is gaining momentum

Belgian consumers are prepared to pay more for higher quality coffee, with a strong shift towards single-origin blends and also preference for 100% Arabica.

Less than 5% of branded coffee volume is certified

100% certification is achieved by only two leading brands in the market, accounting for a mere 2.4% of total retail volume sales in 2016 in Belgium.

Impact on quality depends on long-term investment

In order to improve cupping quality to meet consumer demand, more long-term involvement from the industry is needed. Rainforest Alliance (RA) and UTZ work very closely with farmers in order to improve productivity as well as the quality of crops.

The certification programme ensures continuity

Third party certification programmes are designed to deal with "grey areas" helping farmers to avoid unethical practices with a consistent support plan and training. However, only a joint long-term commitment by the brands with certifiers can ensure issues are followed through.

“It is not always easy for consumers to understand the value of certification. They are often lost between different certification claims. Consumers need to make a stronger association of ethical coffee with tangible benefits and higher quality products and then you can justify the higher price.”

- Certification programme representative -
Belgium



“I don’t think the choice of not offering third party certified coffee by roasters is really a matter of cost savings. It is a trade-off [between the cost for certification and the reward in terms of measurable positive brand perception derived from that]. Large brands say they can capitalise on their strong brand identity and would sell their products anyway. In a sense, there is no real incentive for them besides just increasing positive consumer awareness.”

- Certification programme representative -
Belgium

“For certified coffee there needs to be a strong and emotional link between the product and the customer. There is always the risk otherwise that sustainability - and certification - is perceived as too far away from consumers’ day to day lives.”

- NGO - Belgium

INTRODUCTION / METHODOLOGY / EXECUTIVE SUMMARY / COMPARATIVE PERSPECTIVE / THE BELGIAN MARKET / CERTIFIED AFRICAN COFFEE

Belgian branded players are not as yet sufficiently convinced by the tangible benefits of third-party certification

While branded roasters’ own initiatives can ensure quality and sustainability of the coffee supply, third-party certification has a far broader and longer-lasting impact on farmers, their crops and livelihoods.

The brands see third party certification ‘in isolation’, separate from their own investment in the coffee supply chain and consider UTZ, Rainforest Alliance (RA) and Fairtrade (FT) to be ‘in competition’. Roasters describe the certification process as complicated and expensive to implement and so in return for their commitment want certification organisations to ensure higher coffee quality standards and ideally greater flexibility in certification compliance.

Lesson from neighbouring markets: long-term commitment and vision

The success of third party certification in the Nordics provides a 'virtuous case study' for the Belgian branded roasters to emulate. Successful players are those that invest in the supply chain as a long-term strategy to ensure a reliable, superior quality coffee supply, product innovation as well as meeting high ethical standards.



An opportunity for brand building

Leading brands now have a choice to invest in certified coffee as an opportunity to protect and expand their brand equity, unifying their brand portfolio under a coherent sustainability strategy.

Private label in Belgium has gained momentum moving up the premium ladder with a certified product mix successfully tapping into consumers' strong enthusiasm for single-origin, pure Arabica coffee.



Sustainability at the core of company's growth strategy

By placing sustainability at the forefront of product innovation, leading roasters in Sweden, Norway and the Netherlands are successfully attracting consumers to certified coffee and driving sales.

Consumer expectations regarding the ethical practices of farming and ethical trade is growing.



Shorten the cycle

Coffee roasters and retailers in Norway, Sweden and the Netherlands have made long-term commitments to sustainability and invested directly in coffee farming in Africa with the aim to shape coffee quality around their needs. This in turns enables farmers and processors to access vital information around consumer demand. Roasters collaborate with third-party certification partners to ensure farmers get long-term support beyond individual coffee brands commitments.

To stay competitive an ethical value proposition is key to the market

1

Private label has built ethical credibility, taking the lead in certified sustainable coffee

In five years, the volume of certified private label fresh coffee in Belgium has grown around tenfold to reach 90% of certified coffee volume sold in 2016. After Delhaize's partnership with UTZ, all other major chained supermarket/hypermarket retailers rapidly followed suit, tapping into consumers' growing demand for sustainable and traceable products.

2

Nespresso expanded share in premium pods through strong promotion of its own sustainability standards

Nespresso maintains the excitement around its brand by regularly launching new premium coffee aromas. Nespresso has a very sophisticated marketing strategy to inform its customers on coffee ranges and origins, as well as educating them about its AAA sustainable programme and ethical practices. Nespresso's successful strategy is shaping the pod's market and influencing new entrants.

3

Opportunity for investment in certified supply chain by the number one brand to regain momentum

Leading brand Douwe Egberts (JDE) has experienced a steady decline in market share over recent years due to successful competition from private label and niche brands. The company needs a coherent strategy for Belgium to consolidate the company's wide product portfolio. It also needs to create a strong ethical value proposition to align with the direction of the market.

4

As the Belgian market goes premium, opportunities are opening for ethical products


Consumers are increasingly willing to pay a premium for coffee that is certified, sustainable and can be traced back to the country of origin, showing the Belgian market is ready for further action in sustainable sourcing.

Pods and private label coffee show immediate opportunities



Immediate  **Fresh coffee pods**

- ✓ The fastest growing coffee segment
- ✓ Single-origin blends and Arabica already popular
- ✓ Premium pricing accepted
- ✓ Increasing number of companies entering the field
- ✓ Private label launching certified products including certified single-origin Arabica
- ✓ African coffee already appreciated by consumers, yet presence is still limited

Immediate  **Private label coffee**

- ✓ Fast-growing certification rate
- ✓ Highly innovative approach, with new product development focusing on single-origin certified coffee
- ✓ Present across all coffee types, including pods
- ✓ Enjoying large shelf space, private label has the potential to influence consumer perception over African coffee

Mid-term  **Coffee beans**

- ✓ Small market but long-term growth expected
- ✓ Single-origin blends and Arabica expected to drive significant demand
- ✓ African coffee already appreciated, but presence is limited
- ✓ Growth in sales of coffee grinders and bean-to-cup coffee machine sales expected to further underpin the trend

Fresh coffee pods*	Retail volume (tonnes)
2016 total pod sales	11,047.8
2016-21 CAGR	+8.7%
2016-21 growth	+5,693.9
2016 share of branded certified coffee	8%

Total private label coffee	Retail volume (tonnes)
2016 total coffee sales	19,817.4
2016 share of certified coffee	45%
2011-16 CAGR certified coffee	+58%
2011-16 growth certified coffee	+ 8,023.4

Coffee beans	Retail volume (tonnes)
2016	1,983.0
2021	2,207.8
2016-21 CAGR	+2.2%
2016-21 growth	+224.8

*Note: data on certified coffee excludes private label pods
Source: Euromonitor International



Out of home: Specialty coffee as a positive driver for African single origin coffee



Out of home coffee

- ✓ In 2016 out of home coffee consumption accounted for 20% of total coffee sold in Belgium. Sales of out of home will continue growing although at a slower pace than retail coffee.
- ✓ In the public sector, the penetration of certified coffee has improved due to the implementation of the European Green Public Procurement guidelines which puts sustainable sourcing at the core of supplier selection.
- ✓ In the private food service sector certified coffee volumes are also growing to tap into increased awareness around sustainable sourcing.



Speciality coffee

- ✓ Forefront of innovation focused on young mid-to-high income consumers
- ✓ Powerful influencer of out-of-home segment and potential gate keeper for African single origin coffee
- ✓ Reference benchmark for innovation and new product launches in at-home segment

Out of home coffee sales	Retail volume (tonnes)
2016	10,570.3
2021	11,072.3
2016-21 CAGR	0.9%
2016-21 growth	+502

Specialist coffee shops*	Total foodservice sales value (EUR mn rsp)
2016	35.2
2021	48.1
2016-21 CAGR	+6.4%
2016-21 growth	+12.9

*Note: Data refers to total value sales generated by the sector overall



Immediate opportunities are up for grabs if concerns are addressed



Incremental certification

In order to meet the 100% certified volume target, different third-party certifications should be considered as incremental. Brands and roasters should be able to mix certifications (FT, RA, UTZ) to allow flexibility in sourcing.



Visibility

More should be done immediately in order to improve the visibility of the certification and improve consumer knowledge and perception of the different certifications.



Education

More education is needed around the impact of certifications not only on farmers' livelihoods but also on farming practices and bean quality to improve perception among brands and roasters.



More on quality

It is believed quality today does not go hand in hand with certification making it difficult to ask consumers to pay a higher price.



Transparency

As positive perception of African origin coffee grows on consumers, we shall expect demand for African Arabica to increase. More transparency in certified coffee labelling in terms of origin may finally help consumption of certified African coffee, against other high volume origins.



Build awareness

Focused and easily digestible consumer-targeted initiatives are crucial to build credibility around the UTZ label, which in turn can stimulate further demand from coffee manufacturers.

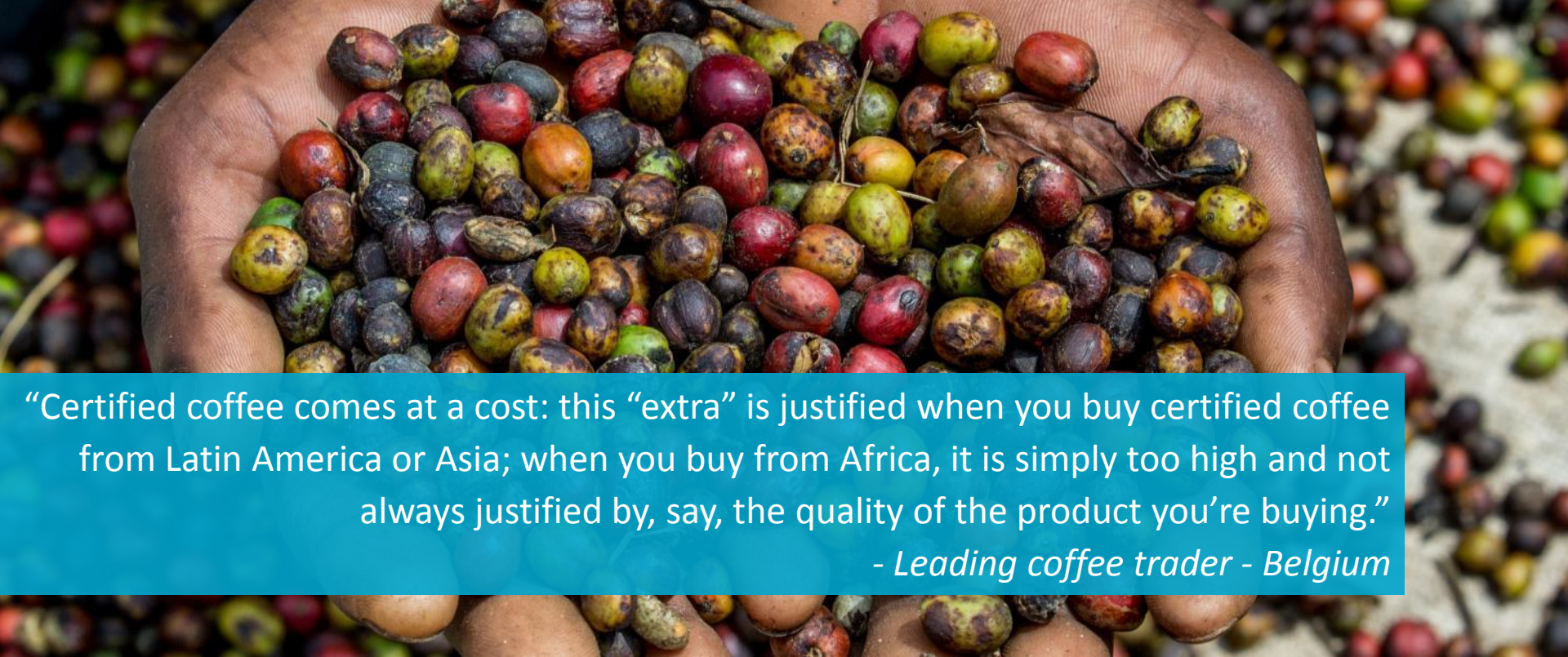


Link to the business

There is confusion among many roasters about the differences between certification schemes, their activities and impact on the quality of the coffee sourced. Brands need greater transparency on the advantages of the schemes and shown a clear link between how sourcing increasing volume of certified coffee can positively impact on their core business.

The merger between UTZ and RA to be concluded in 2018 provides a great opportunity to expand certification and respond directly to coffee players' requests for synergy among certification bodies.





“Certified coffee comes at a cost: this “extra” is justified when you buy certified coffee from Latin America or Asia; when you buy from Africa, it is simply too high and not always justified by, say, the quality of the product you’re buying.”

- Leading coffee trader - Belgium

INTRODUCTION / METHODOLOGY / EXECUTIVE SUMMARY / COMPARATIVE PERSPECTIVE / THE BELGIAN MARKET / CERTIFIED AFRICAN COFFEE

Immediate opportunities emerge for certified African coffee, yet partnerships is needed to address issues around quality and availability in the mid-to-long term

Single-portion fresh coffee is expected to continue expanding in value and volume terms.

Immediate opportunities for African coffee emerge, as demand for single-origin blends and pure Arabica in pods is also set to grow. Current and new entrants in the category will try to gain shelf space by offering consumers a wide range of coffee varieties and aromas.

Pressure on manufacturers to deal with issues such as recyclability and sustainability of pod packaging and business model will push the industry to commit to sustainable sourcing initiatives along the entire supply chain to maintain credibility in the eyes of consumers.

Third-party certified African coffee

Industry Perception

There is not sufficient certified coffee in Africa

The cost of certification is too high and without a clear added value beyond ethical practices it will be impossible to pass the cost onto consumers. Also, there is not sufficient volume available to meet demand.

Ethical concerns are insurmountable

Issues such as child labour are perceived as impossible to tackle and discourage most players from engaging directly with farmers, concerned about their involvement in unethical practices.

Direct sourcing works best

Direct sourcing enables roasters to trade directly with the farmers without intermediaries and also to market the 'story' of the African community or source farm as a strong and attractive selling point and differentiator to their consumers.

Poorly developed infrastructure

The lack of qualified auditing staff in many African countries, such as Burundi, limits the potential for certification. Additionally the production facilities, administration and export processes are not as streamlined compared to other coffee growing regions and are often disrupted because of infrastructure issues and other problems.

Facts

Certification in Africa is expanding and so are sales

While still far from the levels recorded in Latin America, the number of African farmers certified is growing, with some countries such as Kenya offering double or triple certification. Sales of certified coffee is also growing, in line with growing demand across northern Europe.

Certification eradicates unethical practices

Sourcing third party certified coffee ensures investments are made to support farmers transitioning to ethical practices. Walking away would just exacerbate the problems.

Direct sourcing leaves farmers vulnerable

Direct sourcing leaves small growers vulnerable to the demand of few players, which can lead to genuine long-term sustainability only if the sourcing is based on sustainability requirements, strict guidelines and code of practice.

Long-term commitment needed for quality to develop

East African regional growers must be supported to reach the level of quality and sustainability expected. Long-term (10+ years) commitment is essential to transition to consistent farming and processing practices. The industry agrees that Belgian roasters are unlikely to provide that level of consistent commitment, and instead collaboration with certification bodies would rather help ensure wider activity and partnerships along the entire supply chain.

The voice of Africa

The cost of being sustainable is high

1

Investment costs in sustainable and ethical coffee growing is very high and more has to be done at the early enabling stage to support farmers to adhere to the certification schemes and ensure the long-term demand for their products is secure.

Long-term investment needed; individual independent initiatives may not be able to ensure this

2

Long-term engagement is needed, yet Belgian roasters, individually, are unlikely to be able to ensure the 10+ year commitment required to enable farmers to transition to certification. Individual and direct engagement with farmers leaves them vulnerable to fluctuations in demand and does not provide the scale necessary to have a significant impact in the East Africa region.

Certification is not seen to be a guarantee of sales by African coffee growers

3

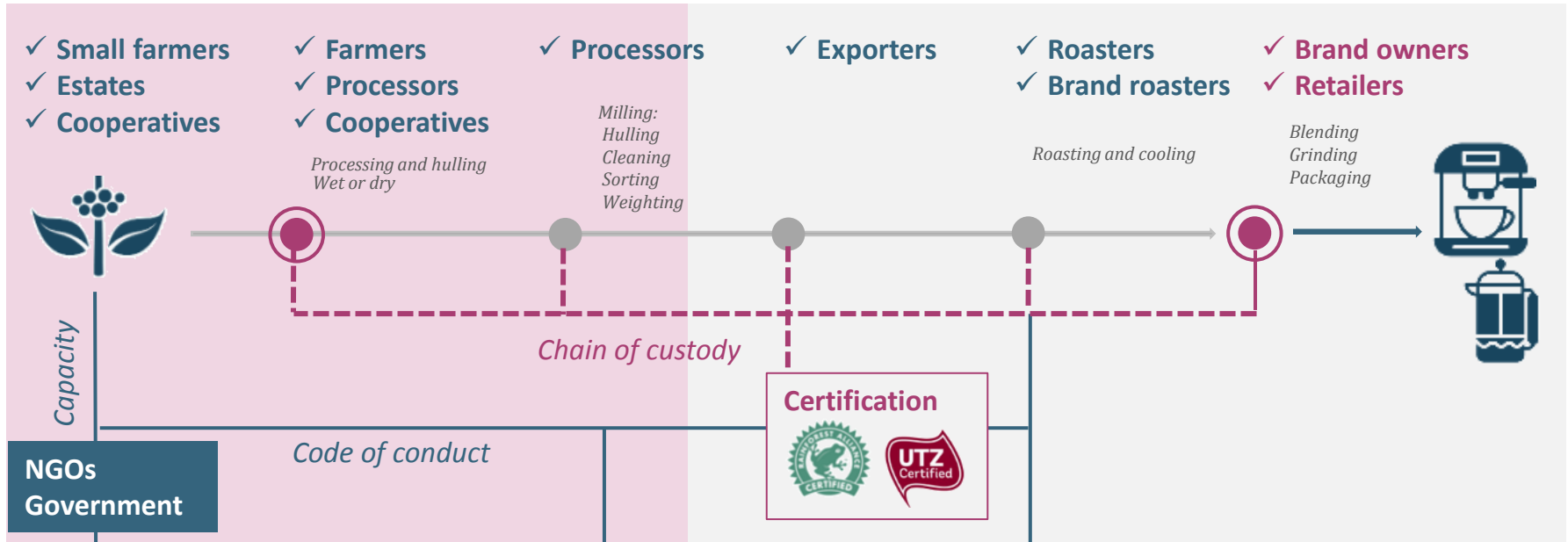
Lack of consistent demand for certified African coffee is an obstacle to the development of long-lasting sustainable projects in Africa. With no guarantee their certified coffee will be sold, farmers cannot join the certification process. Enablers such as NGOs and government institutions support farmers with training and financing needed to enter the certification process, yet it is the direct involvement of value chain actors (roasters and traders) that can inform farmers and cooperatives about the quality they need to achieve to meet Belgian market demand.

4

Quality must also be developed at cupping stage

While large exporting producers such as Ethiopia and Kenya are struggling against Latin American competition, smaller Arabica-producing countries such as Burundi are witnessing considerable growth, showing potential for high-quality coffee. Yet this is still quite limited. Farmers and cooperatives know little about the characteristics such as acidity and aroma expected from premium single-origin coffee which could put farmers in a better negotiating position.

Transparency along the supply chain is essential for credibility



1
Capacity building must factor in the end-market demand
Alongside the activity of NGOs and governments, a firm commitment by Belgian coffee roasters and traders is needed to shape capacity building and sustain it for the long term.

2
Transparency across the supply chain
UTZ and RA partner with capacity builders to assist with the process of adhesion. Relationships between each player along the supply chain from farmers onwards must be transparent and ethical for certified coffee to meet end-market demand for sustainable coffee from Africa.

3
Cupping quality guidelines when setting certification standards
UTZ and RA set standards for their certification. However, the premium paid on top of market price for coffee produced sustainably is negotiated independently between farmer and initial buyer.



Partnerships at the core of long-term engagement in Africa



Availability

Stable availability of appropriate coffee is an issue for most roasters, with regards to non-certified and certified coffee.



Quality

Against a relatively high cost, certified African coffee struggles to consistently meet the quality requirements of Belgian roasters.



Ugandan Robusta

Uganda is the largest Robusta exporter in Africa and volume exports to Belgium have grown by over 60% between 2012 and 2016. However, certified coffee represents only a small part of what is exported.



Lack of transparency

Concerns exist over the risks of dealing with African producers and lack of transparency along the supply chain.

Long-term investment needed

African Arabica is widely recognised as of the highest quality. Coffee from Ethiopia and Kenya shows the most immediate potential. However, more should be done to create lasting business relationships between the roasters in Europe, traders and farmers.

Partnering with roasters' independent initiatives

Small farmers are the backbone of coffee production in Africa. While the quality of Arabica is widely recognised to be exceptional, more should be done to make farmers aware of the cultivation and processing techniques that result in a premium taste at the cupping stage.

Potential in pods and private label

Immediate potential in private label blends and pods which are expected to witness an increase in certified coffee share.

Shorten the supply chain

African farmers have no knowledge of where their coffee is consumed and what is the outlook for different coffee types and roasts in end-markets. Encouraging more interaction between roasters and farmers improves transparency and can positively influence farmers' decisions on cultivation and processing practices to meet end-market expectations.

INTRODUCTION

METHODOLOGY

EXECUTIVE SUMMARY

COMPARATIVE PERSPECTIVE

THE BELGIAN MARKET

CERTIFIED AFRICAN COFFEE

APPENDIX

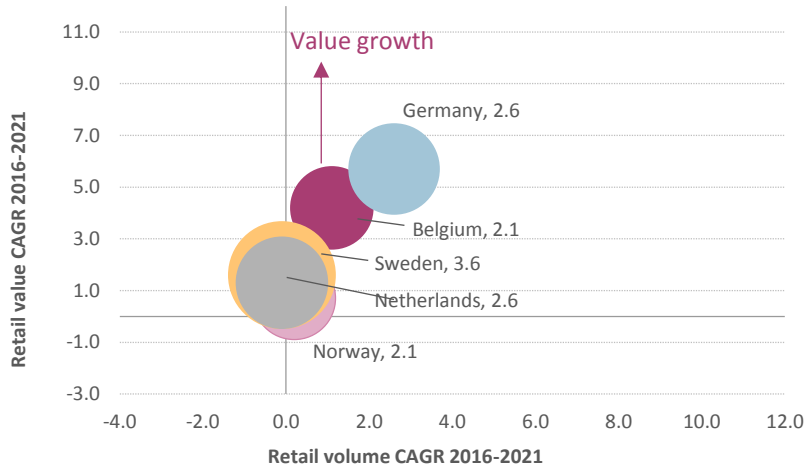




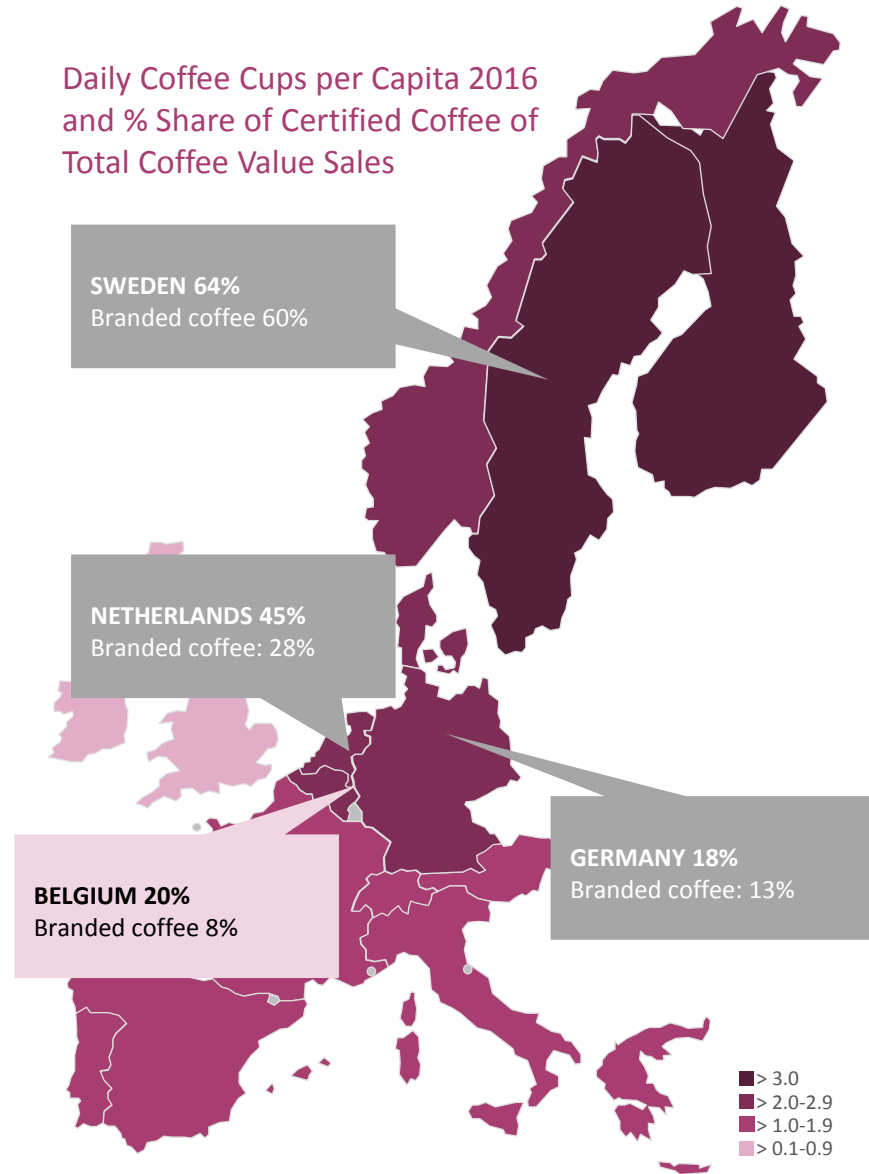
- ✓ Belgium has a smaller certified coffee market compared to many countries in Northern Europe, but it is growing dynamically driven by wide private label availability and demand.
- ✓ Compared to more mature certified markets such as Sweden, Norway and the Netherlands, the development of speciality coffee is slowly catching up in Belgium as are specialist coffee shops.
- ✓ Interest in single-origin coffee is growing, with private label successfully launching products.

Belgium slowly catching up on certified branded coffee

Daily Coffee Cups per Capita 2016 vs Forecast Volume and Value CAGR 2016-2021



Daily Coffee Cups per Capita 2016 and % Share of Certified Coffee of Total Coffee Value Sales



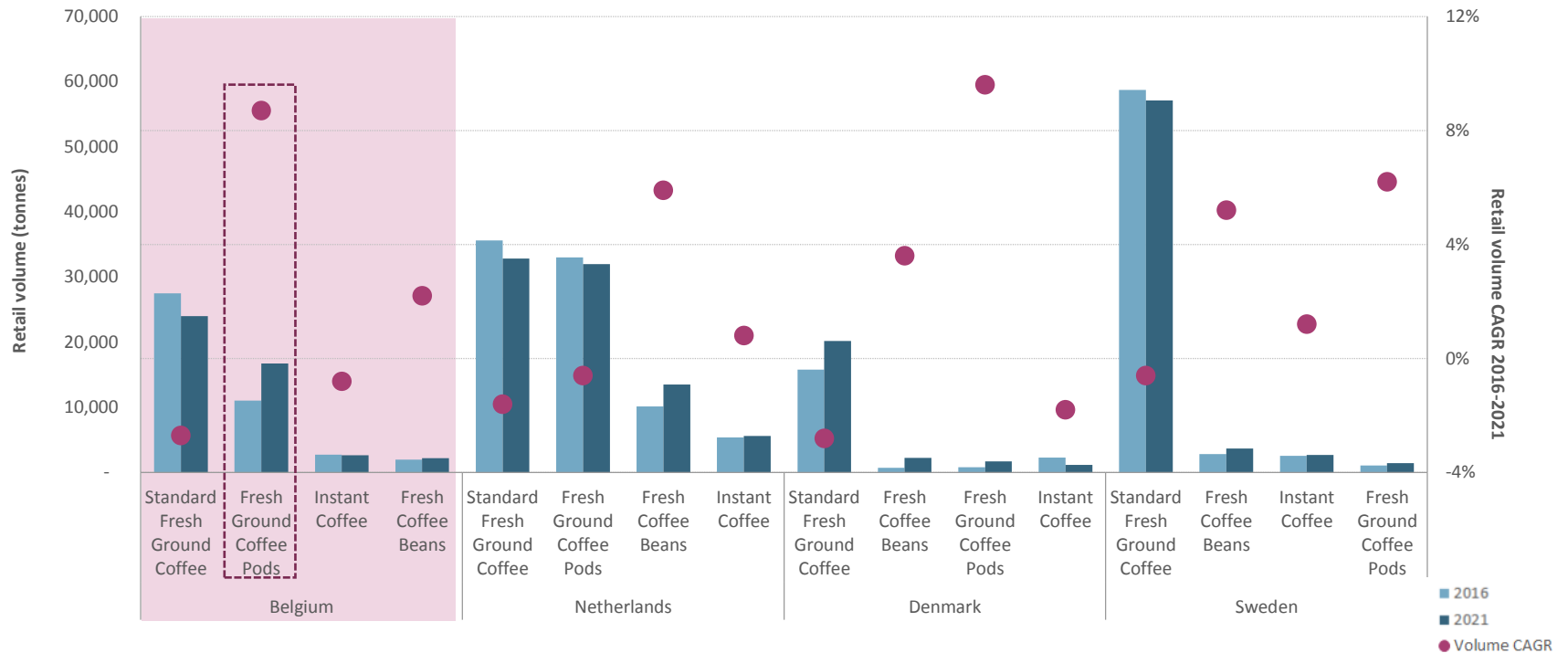
- Coffee drinking culture is strong in Belgium, with consumers drinking on average around 2.1 cups per day. Consumers are switching to pods, which carry a considerably higher unit price, but are also trading up on coffee beans, with average unit price set to post at 3.1% CAGR at constant 2016 prices over 2016-2021 – faster than the region’s average.
- However, certified coffee has only a modest share of branded coffee spend in Belgium, compared to Scandinavian markets and neighbouring Netherlands and Germany.

Source: Data and insights refer to retail coffee sales and third-party certified coffee as per Euromonitor International’s Passport database. Certifications include FT, UTZ and RA. Data include branded and private label coffee.

New opportunities for single origin African Arabica are up for grab as Belgium follows the Netherlands in love for pods

The popularity of fresh coffee pods in Belgium is set to grow following the trajectory witnessed in the Netherlands over the past 10 years. Due to their love for pods, consumer awareness of single origin coffee - including African Arabica – and of its exceptional quality has improved. As the switch to pods continues, per cup expenditure is expected to continue growing over the next 5 years.

Coffee Volume by Category in Selected Markets 2016-2021



Source: Data and insights as per Euromonitor International's Passport Hot Drinks database



As pods reach maturity, consumers embrace newer, value-orientated products, which may lead to growth of premium ground coffee and beans

Coffee Value CAGR by Category in Selected Markets
2011-2016 and 2016-2021



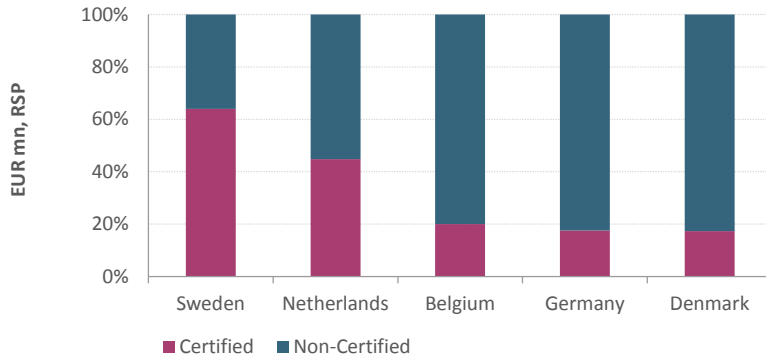
Mirroring the Netherlands, in the long term Belgian consumers are expected to exercise full freedom to experiment with new coffee selections, aromas and origins with a positive impact on sales of single origin African coffee and an increased attention to sustainable sourcing and its impact on quality.

- Pods are expected to generate a considerable share of the overall coffee volume market, yet as the category reaches maturity, growth of pods is expected to slow down following the trend seen in the Netherlands.
- A growing number of consumers are expected in the long term to return to open brewing systems, away from pods and to favour single origin ground coffee and coffee beans.
- More awareness and appreciation for slower brewing and higher quality coffee in Belgium will drive demand for single-origin Arabica coffee, including from East African markets.



Belgium branded coffee lags behind certification but private label shows immediate potential

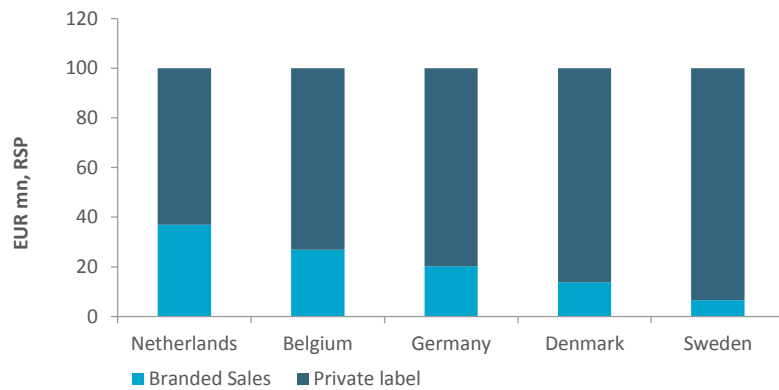
Total Coffee Retail Value Sales in Selected Markets: Certified vs Non-Certified Branded Coffee 2016



Certified branded coffee remains a niche in Belgium, but positive trends are driving demand led by private label

- **Belgium lags far behind.** As of 2016, less than 8% of the certified retail coffee value sold in Belgium was branded, the remaining 12% being private label.
- Around **27% of value sales of coffee** in the retailing channel in Belgium **was sold under private label in 2016.** Certification is expected to grow further, for private label as supermarket retailers invest further in introducing new coffee flavours and origins.

Total Coffee Retail Value Sales in Selected Markets: Private Label vs Branded Sales 2016



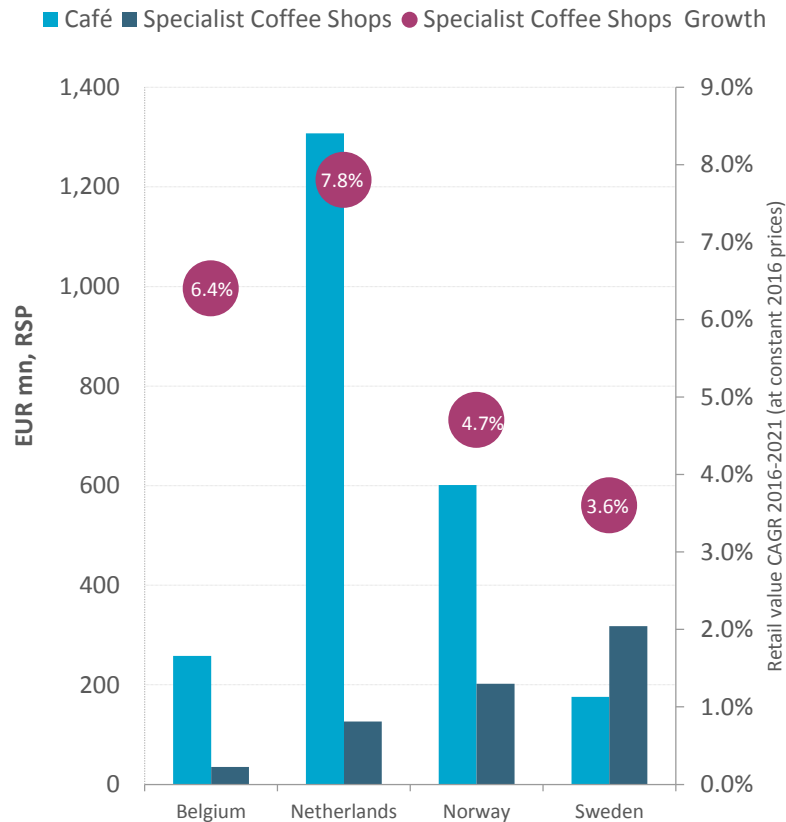
- **The Netherlands boasts one of the most developed certified markets in the EU,** with sustainability a well established and powerful trend in coffee consumption.
- **Branded certified coffee alone covered 26% of Dutch market value in 2016** and are expected to grow even further.
- Most manufacturers in the Netherlands have **integrated sustainability in the supply chain,** following a joint declaration of intention establishing that 75% of the coffee sold in the Netherlands should be sustainably-produced by 2015.

Source: Data and insights as per Euromonitor International's Passport Hot Drinks database and trade interviews. Data on certified coffee in the charts slide include certified private label coffee.



Specialist coffee shops are shaping coffee consumption and may represent a gate keeper for single origin African coffee

Cafés and Specialist Coffee Shops Value Sales 2016 and CAGR 2016-2021 in Selected Markets



Most coffee drinkers in Belgium prefer traditional cafés

- Although coffee bars are a key element of Belgian culture, **the country still lags behind the chained specialist coffee shop movement** when compared to Sweden and the Netherlands.
- Independent specialists represents the lion's share** of total current value sales, with chains such as Starbucks under-represented in Belgium.
- Independent specialists** are set to drive consumers towards a more individualised choice of speciality coffee, which is expected to shape in the long term a potential switch to single-origin freshly ground coffee or fresh coffee beans also benefiting from at-home consumption trends.
- By comparison, **Sweden and the Netherlands boast a relatively well-developed chained segment.** Specialist coffee shops have been hugely responsible for the gradual premiumisation of fresh ground coffee and contributed to the development of consumer awareness around coffee supply chain and processing. A similar premium evolution is expected in Belgian out-of-home channels but at a slower pace.

Source: Data and insights as per Euromonitor International's Passport Consumer Foodservice database

INTRODUCTION

METHODOLOGY

EXECUTIVE SUMMARY

COMPARATIVE PERSPECTIVE

THE BELGIAN MARKET

CERTIFIED AFRICAN COFFEE

APPENDIX





INTRODUCTION / METHODOLOGY / EXECUTIVE SUMMARY / COMPARATIVE PERSPECTIVE / **THE BELGIAN MARKET** / CERTIFIED AFRICAN COFFEE

- ✓ The leading brands Jacobs Douwe Egberts (JDE) and Nestlé, which jointly accounted for 41% of retail coffee volume in 2016, have not yet signed-up to the third party certification schemes on a large scale in Belgium.
- ✓ **Nespresso** in Belgium capitalises on its own 100% AAA sustainability programme, while of the broad **JDE** portfolio, only the brand **L'Or** is 100% UTZ certified.
- ✓ Around **45% of private label coffee is certified** as of 2016, while smaller brands such as **Rombouts** are considering long-term certification strategies, and 100% sustainably sourced niche brands are emerging such as **Ethiquable**.

Belgian coffee market summary snapshot



Quality and certification should go hand in hand

- Although demand for high-quality and certified coffee is increasing, **branded certified coffee market in Belgium remains a niche.**
- According to the interviews, **third-party certifications are considered by leading brands as highly complex, rigid and costly.** There is also the **perception that certifications do not mirror quality**, which further acts as an obstacle to the expansion of ethical sourcing initiatives.
- A stronger association of **ethical sourcing with quality and superior** flavour would help growing demand for certified coffee.



From a low base, foodservice growth outpaces retail coffee sales

- The foodservice channel, which accounts for some 20% of overall coffee sales, was more dynamic than retailing, with volume sales growing by 1%, in 2016.
- **Specialist coffee shops continue to account for a relatively low value share within the market.** Key chains remain cautious about opening new outlets due to the slow and sedentary way in which Belgians prefer to drink coffee.



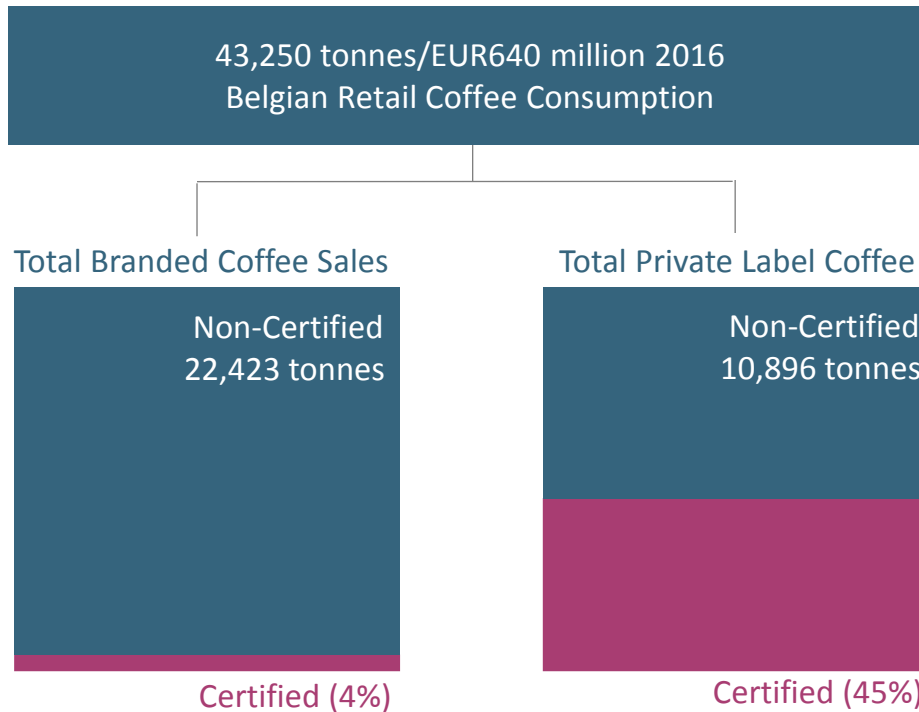
Leading retailers in Belgium rely on third-party certifications to enhance brand perception

- **Penetration of third-party certified coffee in Belgium has been driven by private label.** Colruyt has also developed, in partnership with Vredeseilanden/VECO, a direct sourcing sustainable initiative in Congo. Even hard discounters, including Lidl and Aldi, have expanded their offerings in light of the rise in ethical demand.
- **Branded coffee accounts for some 55% of total volume sales in Belgium.** For the largest roasters, including Nestlé and Jacobs Douwe Egberts (JDE), which are prioritising investment on re-defining themselves and the positioning of their wide portfolios, **the ethical consumerism trend is not seen as a strategic priority to invest in at this point.**



Coffee shops are expected to grow strongly, in terms of both number of outlets and value sales

- **The expansion of specialist coffee shops is expected to accelerate** over 2016-2021 (4% CAGR in outlet terms). These should continue to gain popularity.
- However, it remains to be seen whether Belgians will progressively adopt the on-the-go coffee consumption trend in places other than travel locations.



Note: Estimates based on Euromonitor International's Passport database and trade interviews

23%
Of total coffee volume sales is third-party certified

90%
Of certified retail coffee volume sales is private label

9,931
Total retail certified coffee (tonnes)

In Belgium, certified coffee accounted for only 23% of total volume sales in 2016, boosted by private label commitment

Leading retailers are responding positively and with commitment and innovation to third-party certified offerings. Compared to multinational companies such as Nestlé and JDE with consolidated brand portfolios, ethical labelling, including third-party sustainable certifications, has become a very important marketing tool for private label players and will continue to be so in future.

However, branded coffee sales account for some 55% of the total retail market in volume terms in Belgium (or 23,431 tonnes), with Jacobs Douwe Egberts alone accounting for 64% of the branded offering.

Belgium branded coffee lags behind certification

Selected Leading Coffee Brands by Retail Volume Share and Certification

		Retail Volume Share 2016	Third party certification	Other initiatives	Own initiative
JDE	Senseo	12.9%			
	Douwe Egberts	10.8%			
	L'Or Espresso	2.1%			
Nestlé SA	Nespresso	2.9%			AAA
	Nescafé	2.7%			
	Nescafé Dolce Gusto	0.5%		SMETA/4C	
Oxfam International	Oxfam	0.3%			
Illy SpA	Illy	0.3%		DNV	
Ethiquable	Ethiquable	<1.0%		SPP	

■ Certified coffee sold in Belgium
■ Certified coffee sold outside of Belgium
■ No certification

Source: Data and insights as per Euromonitor International's Passport database

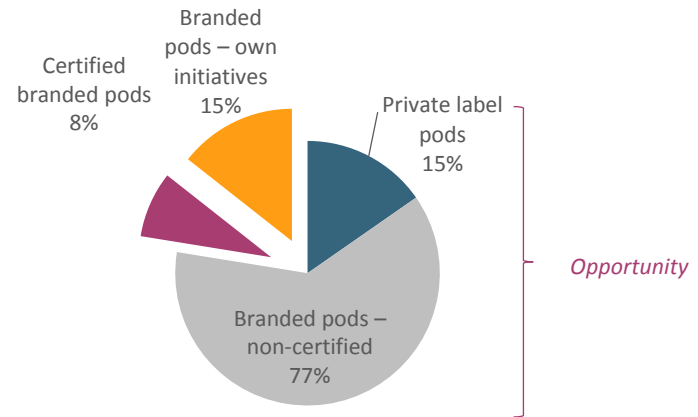


Short-term to medium-term opportunity in pods and private label

Fresh coffee pods: Opportunities as new brands and private label products enter the field

- Third party certified coffee in 2016 accounted for 8% of overall retail value sales of coffee pods. Yet this was mostly due to sales of 100% UTZ certified L'Or (JDE).
- In Belgium, own initiatives include SMETA/4C (Nescafé Dolce Gusto), Nespresso's AAA initiative, and DNV (Illy).
- Significantly in France Nespresso AAA pods are 100% RA certified.
- Other brands have entered the field, including private labels which are expected to use certification as an effective tool to gain consumer trust and cannibalise share from L'Or and Nespresso.
- Beyond potential from increased certification of branded pods, the high share of private labels represents a great opportunity.

Pod Retail Volume Sales, 2016 (tonnes)



Total pod market

Pod retail volume market (tonnes)

2016 total pod sales	11,047.8
2021 projected pod sales	16,741.7
2016-21 CAGR	+8.7%
2016-21 growth	+5,693.9

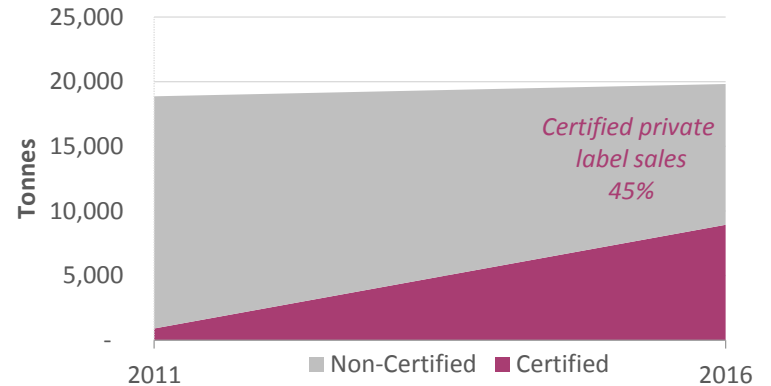
Estimation based on Euromonitor International's Passport Hot Drinks and Ethical Labels database and trade interviews

* Data on private label coffee pods in the chart refers to total sales. Sales of private label certified pods were not available at the time of the research.

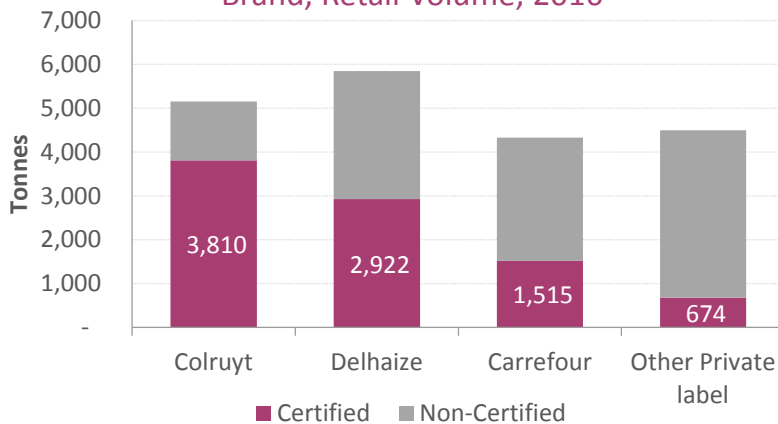
Private labels at the forefront of sustainable sourcing, set to continue increasing share of certified coffee

- Private label third party certified coffee sales have grown almost 10-fold compared with 2011.
- Colruyt is at the forefront, with 74% of its coffee sold being certified.
- The leading supermarket/hypermarket retailers have stated their intention to increase the range and availability of certified coffee over the coming five years.
- Certifications provide credibility and reassurance to Belgium consumers who are becoming more ethically conscious as well as more adventurous in choice of coffee.
- The retailers use certification to add transparency to their single-origin premium fresh coffee ranges.

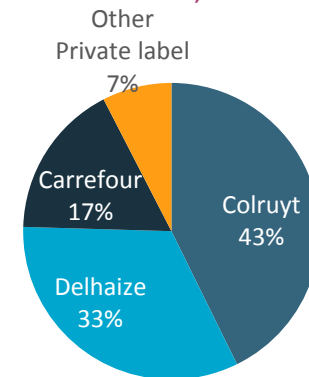
Private Label, Certified vs. Non-certified Volume Sales, 2011-16



Private Label Certified vs. Non-certified Coffee Sales by Brand, Retail Volume, 2016



Private Label Certified Coffee Sales by Retailer, Retail Volume, 2016



Source: Euromonitor International
 Estimation based on Euromonitor International's Passport database and trade interviews



INTRODUCTION

METHODOLOGY

EXECUTIVE SUMMARY

COMPARATIVE PERSPECTIVE

THE BELGIAN MARKET

CERTIFIED AFRICAN COFFEE

APPENDIX



Awareness of quality provides a platform for single-origin certified African coffee

- ✓ As **quality awareness grows**, consumers become more knowledgeable about coffee supply and processing and **receptive to sustainable sourcing initiatives**.
- ✓ Belgian coffee drinkers are **trading up**, with the average coffee price expected to post a 3.1% CAGR at constant 2016 prices over 2016-2021 - **faster than the Western European average**.
- ✓ Pods offer consumers the chance to **experiment with a wide variety of coffee flavours, origins and blends**, as well as single-origin Arabica, *de facto* shaping premium demand towards higher quality.
- ✓ As Belgian consumers become more sensitive with regard to coffee origin, **demand for clear labelling and transparency** is expected to grow.
- ✓ Opportunities emerge for **certified beans** as more consumers are switching to beans to take full ownership of coffee selection and brewing methods.

Certifications: Better conditions for farmers, livelihoods and environment



Fairtrade: Better prices

Decent working conditions and fair terms of trade for farmers and workers to support the development of farming and worker communities, while protecting the environment in which they live and work.



UTZ: Better opportunities

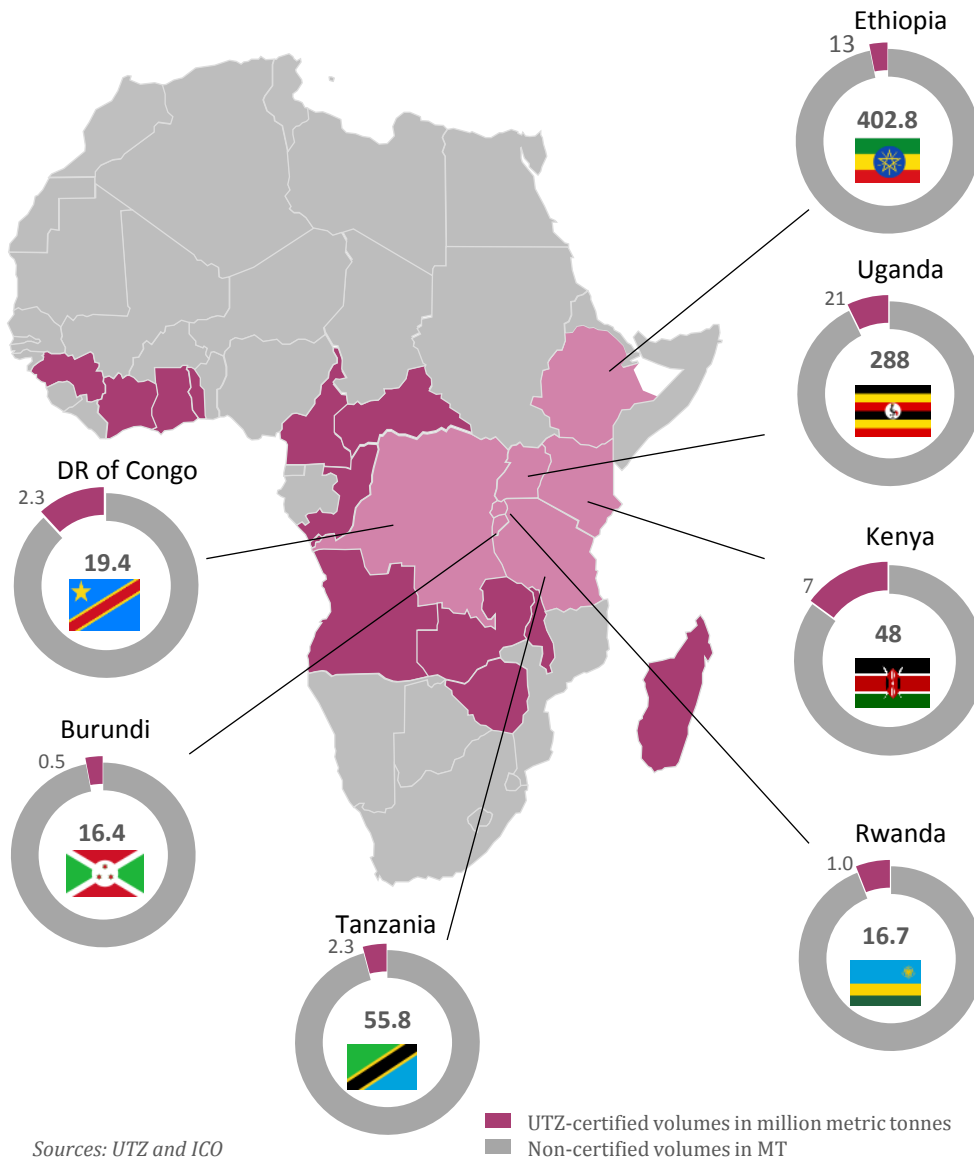
Through the UTZ programme, farmers grow better crops, generate more income and create better opportunities while safeguarding the environment, and securing the Earth's natural resources.



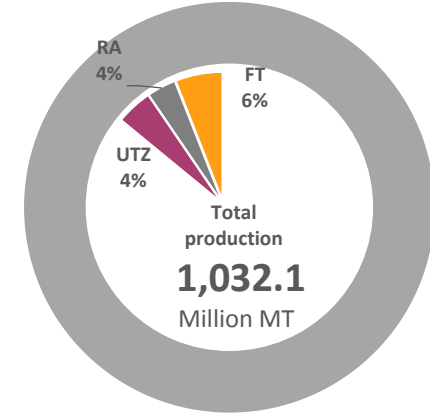
Rainforest Alliance: Sustainable farming

Rainforest Alliance assures the product has been grown and harvested sustainably. Rainforest Alliance also certifies and verifies non-forestry operations across agriculture, tourism and carbon projects.

Africa's volume of certified coffee is growing, yet it still accounts for a very small share of total production



2015 Total coffee production vs certified production capacity by certification*



Ethiopia is the largest coffee producer in the region while Uganda boasts the largest UTZ certified coffee volume capacity. Kenya shows the highest volume of certified coffee capacity relative to total production. Most farmers that are certified have multiple certifications with Fairtrade being the largest certification body by production output in sub-Saharan Africa.

*Sources: UTZ, RA, FT and ICO. Certified coffee production shares are to be considered individually as most African producers hold more than one certification

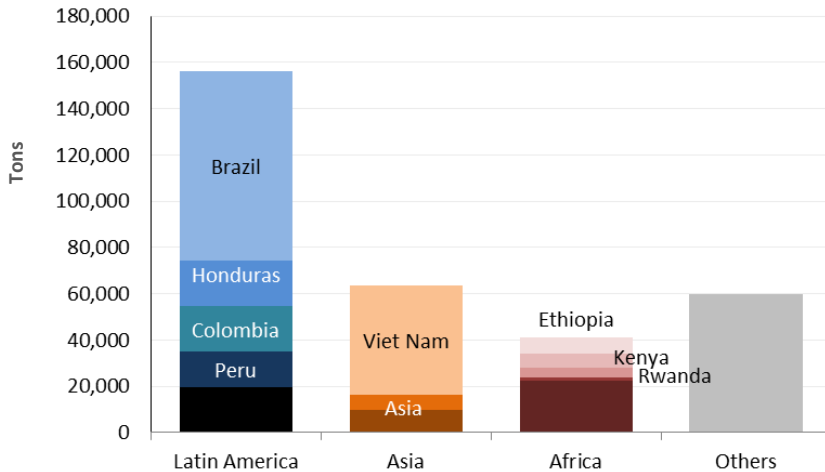


Ethiopia and Kenya struggle against international competition, yet opportunities are up for grabs

Growth from Burundi and Congo show opportunity for East African Arabica

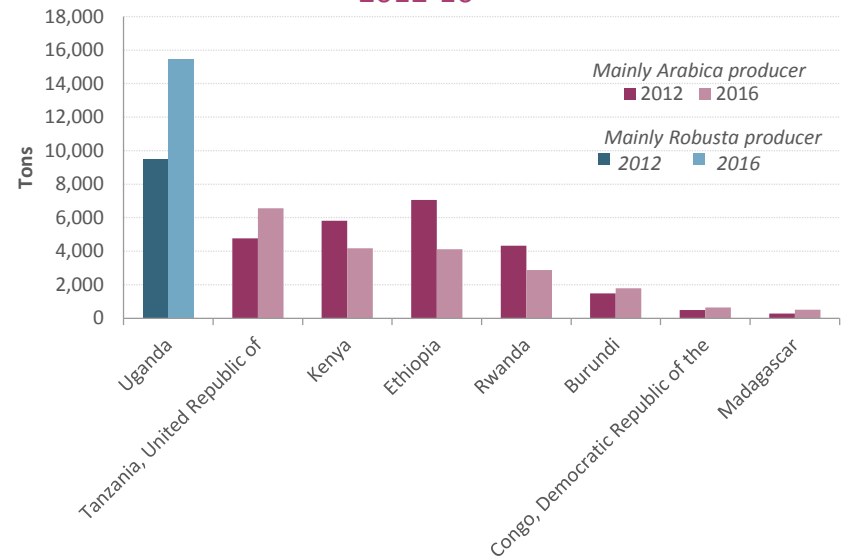
- African coffee accounts for just 13% of the overall coffee imported into Belgium in 2016.
- Demand from the region is however very fragmented. While Uganda and Tanzania, which account jointly for 5% of Belgian coffee demand, have grown considerably and so have other fine Arabica coffee origins such as Burundi and Congo.
- Yet origins such as Ethiopia and Kenya have been identified as struggling against competition from Latin American markets, notably Brazil.

Belgian Coffee imports from region and country of origin, 2016



Source: ITC, UNSD, UNComtrade

Belgian Coffee imports from selected East African origins, 2012-16



Source: ITC, UNSD, UNComtrade

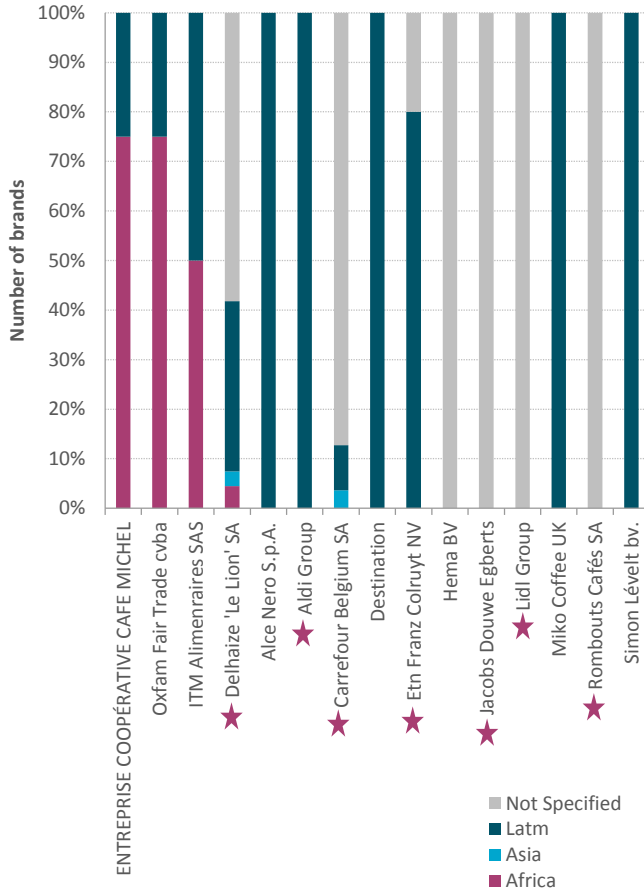
More should be done to improve consumer perception of African coffee and its quality to stimulate demand.

Consumers want transparency about where the coffee comes from and this can lead to increased sales of African coffee in blends as well as new single-origin product launches.

Certification can address the need for a transparent supply chain.

Single-origin growing among certified-products, with African coffee dominating among small brands

Euromonitor Store Audit: Third Party Certified Labelled Coffee Presence by Origin*



- In addition to East African coffee in blends, an increasing number of new, smaller, certified brands are adopting single-origin coffee.
- Among large retailers, Delhaize has the largest private label portfolio of African single-origin coffee.
- The store audit shows the high share of Latin American coffee (Latm).
- Most large manufacturers still lack transparency with regard to the origin of the sustainable/certified coffee they purchase.

The rising demand for transparency among Belgian consumers is expected to be a driving force for certified coffee, and can contribute substantially to improve consumer perception of certification.

African coffee can benefit from this trend, although more should be done to improve consumer awareness around the exceptional quality of Arabica and Robusta African varieties.

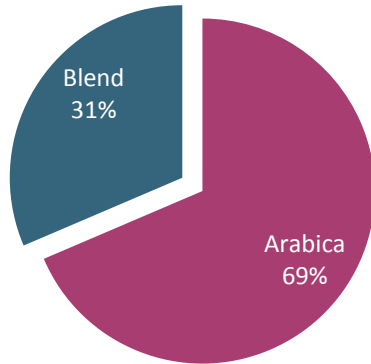
*Source: Euromonitor store audit, 2017. Products recorded includes certified coffee (UTZ, RA and FT)

★ Top selling brands by retail value



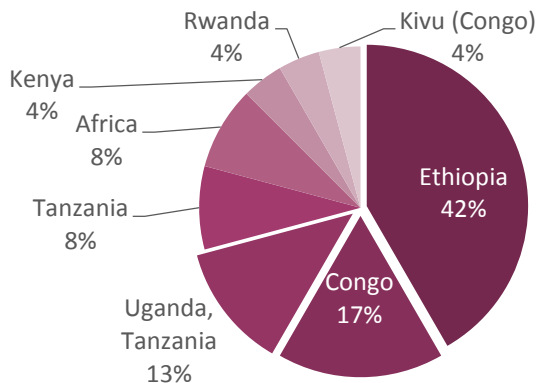
Single origin African Arabica are growing popularity in pure Arabica blends, with Ethiopia enjoying the largest shelf space

Third-party certified retail products containing African origin coffee - Coffee type analysis*

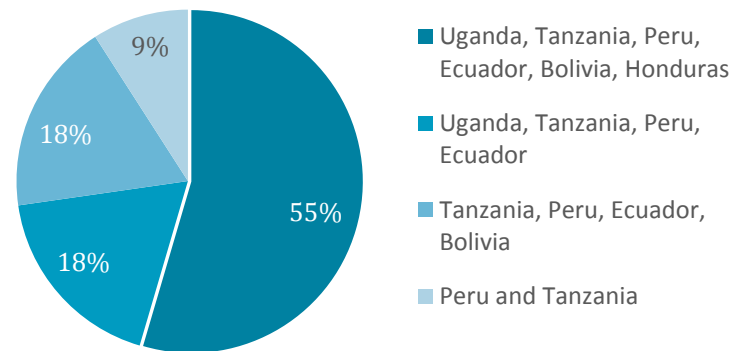


- The majority of certified coffee sold in the retail segment is Arabica.
- Products containing African coffee account still for a small proportion of the products audited.
- In terms of shelf presence Arabica certified products containing Africa coffee (either single origin coffee or blends), represents nearly 70% of the brands audited.
- Ethiopia and Congo dominates Arabica while Uganda and Tanzania emerge as most popular African coffee in blends.

African third-party certified coffee by origin, Retail presence in Arabica blends*



African third-party certified coffee by origin Retail presence in other blends*



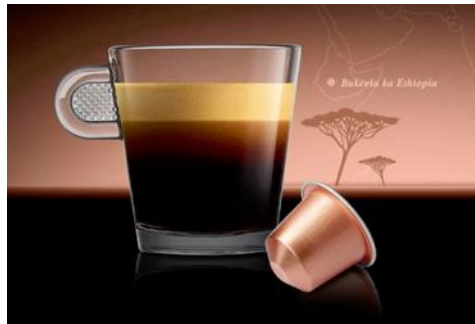
*Source: Euromonitor store audit, 2017. Products recorded include certified coffee (UTZ, RA and FT) containing African coffee as indicated on the package. Count of brands



Pods opens up to single-origin African coffee as well as looking for more innovative packaging solutions to boost sustainable credentials

Branded coffee

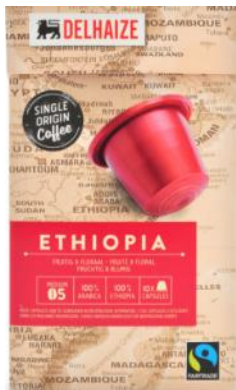
Nespresso pure origin BUKEELA KA Ethiopia



For the Swedish market: Löffbergs' Nespresso-compatible pod is a 100% plant-based and compostable capsule that is sorted as bio-waste



Private labels




Delhaize single-origin Nespresso compatible pods and fresh ground coffee from Ethiopia (Fairtrade)



Colruyt Kivu coffee from partnership with Veco (Vredeseilanden) in Congo





Is there enough
certified coffee in Africa
to respond to Belgian
demand?

Next steps

Mismatch between demand and offer of certified coffee must be addressed for certified coffee to grow further

1

Availability

Despite structural issues, which include price volatility, trade relationships and shipping issues, the volume of certified coffee produced in Africa is considered to be sufficient to cover current volume demand, yet most value chain actors complain that the coffee does not as yet match their requirements in terms of cupping quality.

2

Quality issue

As demand for single-origin coffee from Africa increases, more should be done to ensure that the coffee currently grown as certified finds the right buyer. At the same time it is crucial for the industry to engage directly with farmers to work towards improving the coffee processing practices which can best meet Belgian roasters' cupping requirements.

3

Blends

Immediate volume opportunities come from blends, which still account for the largest share of fresh coffee sold in Belgium. Yet issues around availability of the right quality of coffee, perceived higher price as well as the perceived lack of transparency along the supply chain deter roasters, which in turn favour Latin American varieties.

4

Single-origin Arabica

Opportunities are emerging for Africa single-origin Arabica in pods. Manufacturers are expected to focus on single-origin products to differentiate themselves within the premium segment. Additionally, roasters are expected to improve the perception of pods by working on their sustainable credentials in coffee farming, processing and packing.

Fundamentals look right for UTZ African coffee to increase share of Belgian market

Certification can become the norm in Belgium

East African coffee has great potential

Actions should be taken to improve consumer knowledge of African coffee

UTZ and RA could be seen as the right partner in sustainable product innovation



Sales of certified coffee in Belgium are growing, and so the share of African certified coffee is expected to rise. Private labels and pods emerge as the most immediate opportunity for UTZ. Yet in the long term it is expected that consumers will partially turn to fresh coffee beans to take full charge of the coffee selection and brewing experience.

Consumer demand for traceability is rising. Growth of single-origin coffee responds perfectly to this need. Additionally, Belgian consumers are now exposed to a wide variety of coffee types and origins, mainly thanks to the success of fresh coffee pods and the rise of independent specialist coffee shops.

As consumers become more educated on coffee origins, more should be done to improve knowledge of the exceptional quality of African Arabica, as well improve the perception of its uniqueness to generate demand for single-origin varieties.

As the leading players such as JDE and Nestlé face tough competition from emerging brands and private labels, new challenges must be addressed. Millennial consumers are expected to turn to more premium quality coffee, expecting in turn sustainability and traceability. UTZ and RA can become the perfect partners, providing the right tool to explore African coffee.



APENDIX



Definitions

Product	Definition
Coffee	Aggregation of instant and fresh coffee
Fresh Coffee	This is the aggregation of fresh ground coffee and fresh coffee beans. Often referred to as "Roast & Ground" coffee. Excludes instant/soluble coffee.
<i>Fresh Coffee Beans</i>	This subsector includes all types of packaged fresh whole coffee beans.
<i>Standard Fresh Ground Coffee</i>	Includes all types of fresh ground coffee, whether premium, mild, standard, decaffeinated, mocha, speciality and/or flavoured. Instant/soluble coffees are excluded. Fresh ground coffee includes all loose and packaged ground coffee. This does not include coffee pods.
<i>Fresh Ground Coffee Pods</i>	Coffee pods are portions of fresh ground coffee encapsulated in a container, which can be metal, plastic or paper. Coffee pods are used in special single serve machines. They are usually only compatible with one type of machine. Each coffee pod produces one (and sometimes two or more) portion of coffee after which the pod is discarded. Coffee pod data only counts pods produced for use in dedicated pod machines. Leading brands include Nespresso, Tassimo and Keurig all of which provide branded pod machines.
<i>Other Fresh Ground Coffee Pads</i>	Coffee pads are portions of fresh ground coffee encapsulated on paper or plastic for single use. Such pads are most commonly made from filter paper. Coffee is sold in such format is designed to be used in traditional coffee/espresso machines (may look similar to tea bag), or to be placed directly on a cup. Pads on cup may be in plastic.
Third-party certification	Certification provided by an external and independent organization which verifies that the compliance with the standards/specifications is being met (independent from the certified organization and from the organization that drew up the specifications. Within the context of the certifications, a set of "specifications" comprises a full range of economic, social and environmental criteria that must be fulfilled in order to receive certification). The third-party certification provides independent and impartial confirmation that a product fully meets a set of published specifications.



CONTACT DETAILS

Jem Golden

Senior Consultant

Tel: +44 (0) 20 7251 8024

jeremy.golden@euromonitor.com

Lorenza Della Santa

Global Project Manager

Tel: +44 (0) 20 7251 8024

lorenza.della-santa@euromonitor.com

Alfredo Zucchi

Senior In-Country Consultant

alfredo.zucchi@research13.euromonitor.com

Simon Sedehizadeh

Business Development, Consulting

Tel: +44 (0) 20 7251 8024 ext. 1206

simon.sedehizadeh@euromonitor.com

Rafael Tselikas

EU and International Public Sector Advisor

Tel: +44 (0) 20 7251 8024 ext. 1381

rafael.tselikas@euromonitor.com