Specialty Coffee Market Research 2013

The research was divided into a first stage, consisting of interviews (37 companies), and a second stage, consisting of a survey using the Internet (150 companies/individuals). Although the numbers of samples were statistically small, the effort was the industry's first specialty coffee market investigation.

The report included (1) profiles of members subject to the research; (2) coffee bean handling volume by members; (3) definitions of specialty coffee; (4) market scale; (5) changes in specialty coffee sales and forecasts; (6) changes in forms of distribution; (7) information on specialty coffee production areas; (8) forms of selling specialty coffee; (9) forms of specialty coffee import packing; (10) changes in consumer preferences; (11) trends in consumer prices; (12) changes in consumer behavior; (13) specialty coffee rival goods/services; (14) specialty coffee rival companies; (15) target customers for specialty coffee; (16) position of specialty coffee; (17) trends in new products; (18) own company's new products; and (19) degree of recognition/understanding of specialty coffee. This paper will take up eight of those items.

Contents

Profiles of Members Subject to Research

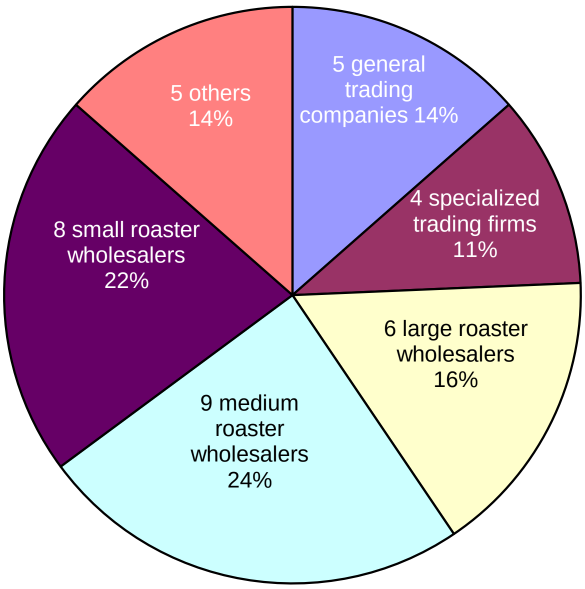
● First-stage research

First-stage research consisted of interviews with a total of 37 companies – 32 importers and roaster wholesalers/retailers plus 5 other companies

Membership Categories

Code	Membership category
A	Producers/Green bean producers/Exporters
B	Importers/Green bean wholesalers
C	Roaster wholesalers/Retailers
D	Coffee shops/Coffee bean retailers
E	Micro roasters
F	Office coffee services (OCS)
G	Coffee-related industries, etc. (manufacturing/logistics/services)
H	Deli cafes/Restaurants/Hotels
I	Department stores/Food stores/Supermarkets/Convenience stores, etc.
J	Press/Publishers/Trade associations/Others

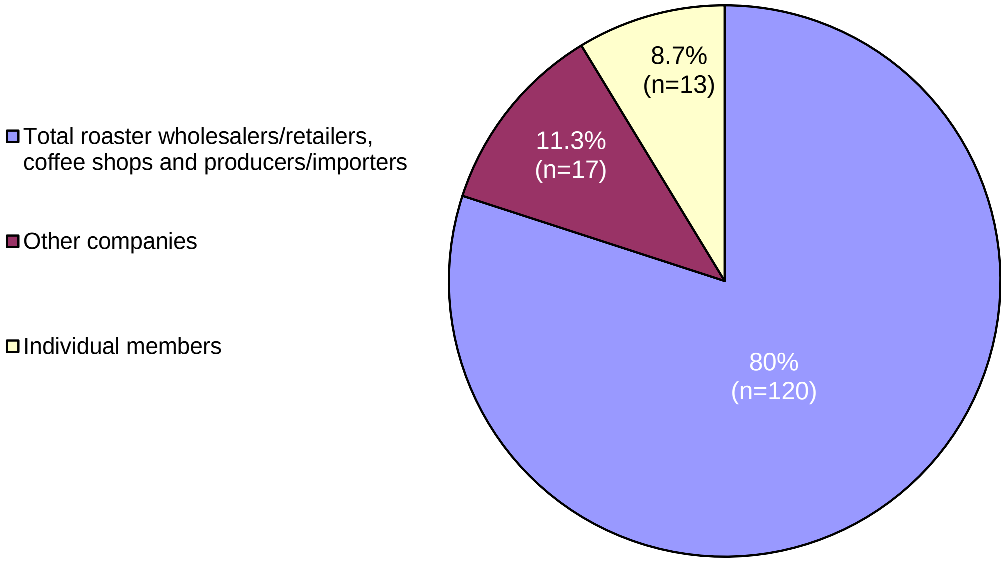
Breakdown of members as determined by the research (n = 37)



● Second-stage research

Second-stage research consisted of a survey utilizing the Internet to a total of 150 companies/individual members – 120 company roaster wholesalers/retailers, coffee shops/green bean retailers, micro roasters, plus 17 other companies and 13 individuals.

SCAJ membership analysis axis (n = 150)



	Membership category	Respondents
Total roaster wholesalers/Retailers, Coffee shops, Producers/Importers	Producers/Green bean producers/Exporters	0
	Importers/Green bean wholesalers	7
	Roaster wholesalers/Retailers	37
	Coffee shops/Coffee bean retailers	19
	Micro roasters	57
Other companies	OCS	0
	Coffee-related industries, etc. (manufacturing/logistics/services)	12
	Deli cafes/Restaurants/Hotels	2
	Department stores/Food stores/Supermarkets/ Convenience stores, etc.	0
	Press/Publishers/Trade associations/Others	3
Individual members	Individuals associated with coffee-related companies/shops	8
	Those planning to start a business	0
	Individual members other than the above	5

Coffee Bean Handling Volume (converted to green beans)

● First-stage research

Category	No. of Interviews	Annual Handling Volume
General trading companies	5	150,000 – 6,000 tons
Specialized trading firms	4	20,000 – 1,200 tons
Large roasters	6	50,000 – 1,900 tons
Medium roasters	9	750 – 150 tons
Small roasters	8	100 – 3.5 tons
Other	5	-
Total	37	-

● Second-stage research

- Annual handling volume among roaster wholesalers/retailers, coffee shops, producers/importers varies greatly – 0.05 tons minimum; 60,000 tons maximum – and there are many relatively small companies. Median volume is 4 tons. Mode volume is 1 ton.
- Among those handling coffee beans, specialty coffee is now a staple product, averaging 69.5% with a median of 90%.

Basic statistics terms

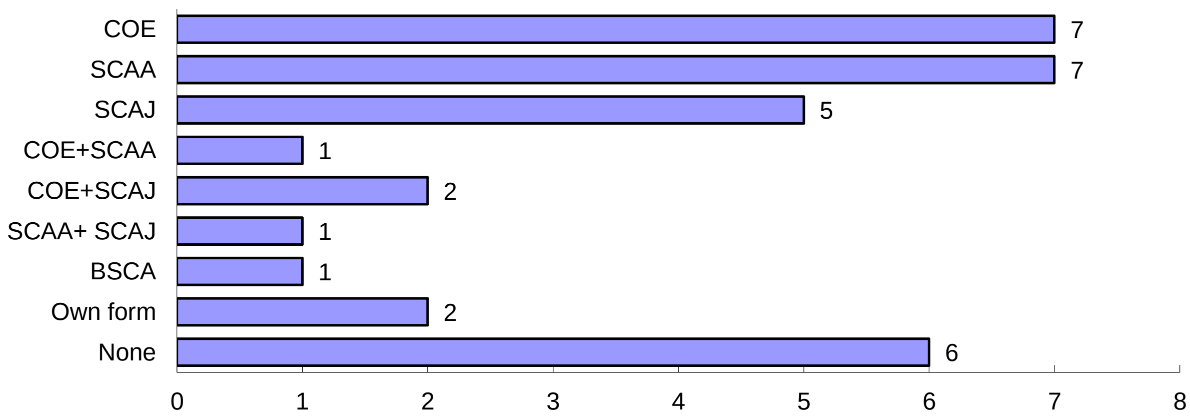
Mean ("average")	The arithmetic average calculated by adding the numerical values of all items in the data set and dividing by the number of items.
Median	The numerical value above which half the data points fall and below which half the data points fall. The median value is not affected by a small number of very large or very small values, as the mean can be. If data distribution is symmetrical, the median and mean are the same.
Mode	The value that appears most often in the data set. It is generally unrelated to the mean or median.
Standard deviation	A measure of how far (spread out) the items in the data set are. It can be directly compared to the original data or to the mean.
Variance	Showing how data is spread out; i.e., the larger the difference among the data, the bigger the variance.
Range	Difference between the maximum and minimum values in a data set.

Definitions of Specialty Coffee

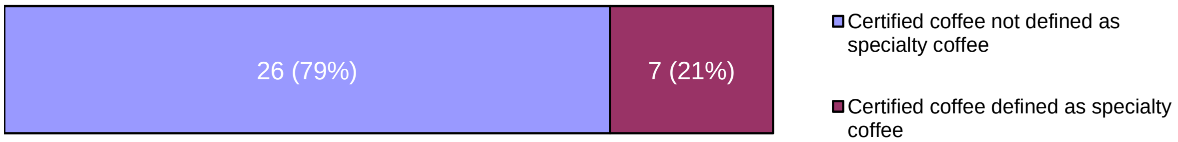
● First-stage research

- Twenty-six out of 32 companies (81%) define specialty coffee based on cupping points.
  - Some replied that they combine multiple forms of cupping to define specialty coffee.
  - Some replied that they unconditionally define brand coffee, designated farms, certified coffee and traceability as specialty coffee. The same is also applied to coffee deemed to be “delicious,” “expensive,” etc.
- Twenty-six out of 33 companies (79%) answered that they define certified coffee as specialty coffee based on cupping.

Cupping Form to Define Specialty Coffee (n = 32)



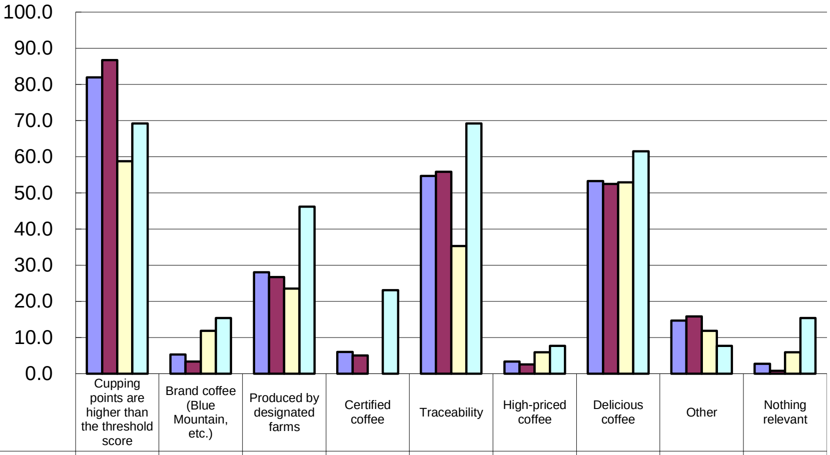
Defining certified coffee as specialty coffee (n = 33)



● Second-stage research

- In terms of defining specialty coffee, “cupping points above a certain score” was top, followed by “traceability” and “delicious,” but differences were great.
- Accordingly, specialty coffee is not defined by subjective concepts like “delicious”; rather, a clear indicator like cupping is set and coffee that passes the threshold is defined a specialty coffee.
- “SCAJ cupping form” is applied by 58.7% of “all,” “roaster wholesalers/retailers,” “coffee shops,” “producer/importers,” “other companies” and “individual members,” followed by the SCAA form by 44.2%.
- Accordingly, in reality, the applied cupping forms are SCAJ and SCAA.

Definition and Understanding of Specialty Coffee (Units: %)



	Cupping points are higher than the threshold score	Brand coffee (Blue Mountain, etc.)	Produced by designated farms	Certified coffee	Traceability	High-priced coffee	Delicious coffee	Other	Nothing relevant
Total (n = 150)	82.0	5.3	28.0	6.0	54.7	3.3	53.3	14.7	2.7
Roaster wholesalers/retailers, coffee shops, producers/importers (n = 120)	86.7	3.3	26.7	5.0	55.8	2.5	52.5	15.8	0.8
Other companies (n = 17)	58.8	11.8	23.5	0.0	35.3	5.9	52.9	11.8	5.9
Individual members (n = 13)	69.2	15.4	46.2	23.1	69.2	7.7	61.5	7.7	15.4

Market Scale (First-Stage Research)

Category	Estimated % specialty coffee in Japan	Total coffee handling (A)	Total specialty coffee handling (B)	Specialty coffee percentage (B/A)
General trading company	6.1 – 6.4%	388,000 – 395,000 tons	17,600 – 17,900 tons	4.1 – 4.3%
Specialized trading firm	3.3%	48,200 tons	11,000 – 11,330 tons	22.8 – 23.5%
Large roaster	4.0 – 4.2%	104,400 tons	7,333 tons	7.0%
Medium roaster	9.8 – 10.3%	2,735 – 2,745 tons	1,313 – 1,553 tons	47.8 – 56.8%
Small roaster	4.9 – 5.7%	300 – 302 tons	224 – 226 tons	74.1 – 75.2%
Other	4.5 – 6.0%	-	-	-
Total	5.8 – 6.2%	543,635 – 550,647 tons	37,470 – 38,342 tons	6.8 – 7.1%
	(Simple average of 27 companies)			(Weighted average of 32 companies)

(1) Estimated percentage of specialty coffee

- Estimated percentage of specialty coffee among all coffee in Japan is based on replies from 27 companies. Percentage of specialty coffee is estimated at 5.8 – 6.2%, a simple average of all replies.
- Estimated at the level of 6% for general trading companies.
- Lowest is an estimated 3.3% for specialized trading firms.
- Estimated at the level of 4% to around 5% for large roasters and small roasters.
- Estimated at 9.8 – 10.3%, substantially higher than average, for medium roasters.
  - This is because a high estimate was given by one of the six respondent companies.
  - The average of the remaining five companies was 5.8%.
  - Excluding the one company that gave the high number, the average of all responses is lower by 1.1 percentage points and estimated percentage becomes 4.7 – 5.1%.
- Estimated percentage for all is 5.8 – 6.2%, but excluding the medium roaster mentioned above, the average is lower by 0.9 percentage points, becoming 4.9 – 5.3%.

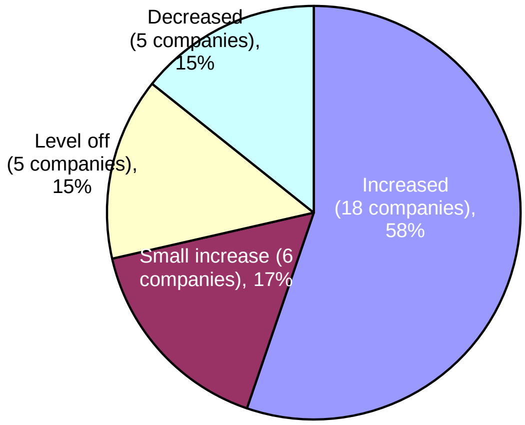
(2) Specialty coffee percentages

- Total specialty coffee handling is 37,470 – 38,342 tons. Against total coffee handling of 543,635 – 550,647 tons, the weighted average of all 32 companies is 6.8 – 7.1%.
- Percentage of specialty coffee to coffee intake varies greatly according to category.
- The specialty coffee percentage for specialized trading firms (5 respondents) is around 23%, higher than for general trading companies.
- Percentage of specialty coffee for large roasters (5 respondents) is 7%, relatively low, because they also handle much commodity and industrial coffee.
- Percentages of specialty coffee of medium roasters (9 respondents) and small roasters (8 respondents) increased to the levels of 40 – 50% and 70%, respectively. This shows that small-scale, specialty roasters handle more specialty coffee.
- At three out of nine medium roasters and three out of eight small roasters, the specialty coffee percentage was 100%.
- These days, the definition of specialty coffee varies from company to company as explained above, and regardless of cupping points there are cases where the following coffee is included:
  - Brand coffee, including Blue Mountain, Emerald Mountain and Hawaii Kona
  - Coffee produced by designated farms
  - Certified coffee
  - Coffee with traceability
  - “Delicious” coffee
  - “Expensive” coffee

Changes in Specialty Coffee Sales and Forecasts

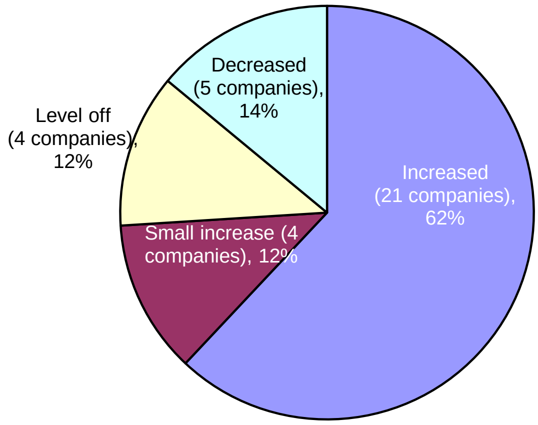
● First-Stage Research

Sales of All Coffee (n = 34)



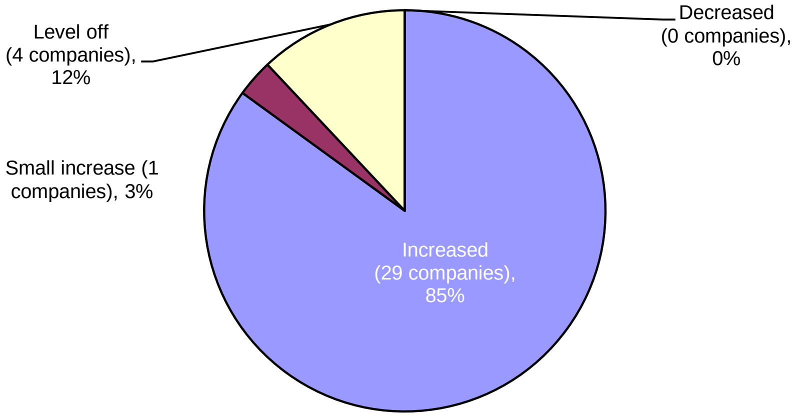
- Among 34 respondent companies, 18 (53%) said “increased” and six companies (17%) said “small increase” – i.e., 70% of the respondents said sales increased.
- Five companies (15%) answered “leveled off” and another five (15%) said “decreased.”
- In terms of categories, those replying “decreased” were medium and small roasters.
- Among medium and small roasters, distinctive increases in sales were seen in those specialized in specialty coffee.

Sales of Specialty Coffee (n = 34)



- As for recent specialty coffee sales at all companies, 21 of the 34 companies, or 62%, replied “increased.”
- A total of 24 companies, or 71% – the 21 that replied “increased” and three that replied “small increase” – thus said that sales had gone up.

Sales Forecasts for Specialty Coffee (n = 34)



- In regard to the sales forecasts of specialty coffee companies, 29 out of all 34 companies (85%) said sales are "expected to increase," showing their high expectations.
- No companies said that sales of specialty coffee would decrease.

● Second-Stage Research

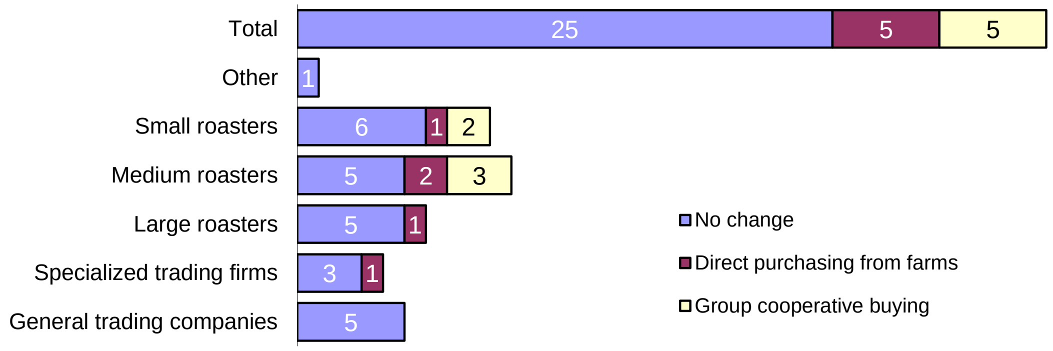
- Regarding sales forecasts for specialty coffee for this fiscal year by roaster wholesalers/retailers, coffee shops, and producers/importers, 67.5% forecast increases while only 1.3% forecast decreases. The difference was large.
- As for the expected rate of growth, the range of predictions was from 103% to 1,000%. Considering median and mode, an increase of 120% from the previous year is used.
- This shows high expectations that specialty coffee is a product that will contribute significantly to sales hereafter.

Changes in Forms of Distribution

● First-Stage Research

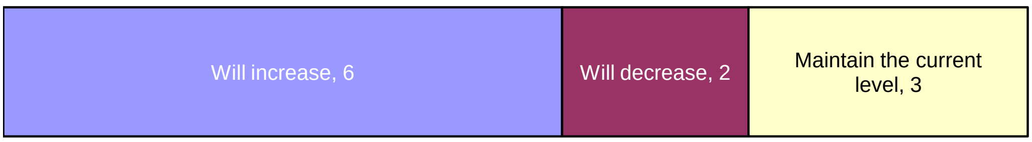
- Changes in procurement methods for coffee hereafter are shown in the graph on the below. Twenty-five out of 34 respondent companies said there would be no change, accounting for 74%.
- Those who said "there will be a change" or "our company will change" said they would "buy directly from farms" or "buy cooperatively as a group" – five each (multiple responses).

Changes in Specialty Coffee Procurement Channels (n = 34; multiple responses)



- Of 11 companies responding that they buy through net auctions, six companies (55%) replied "increase," while two companies (18%) and three (27%) said "decrease" and "no change," respectively.

Forecast of Increase/Decrease via Net Auctions (n = 11)

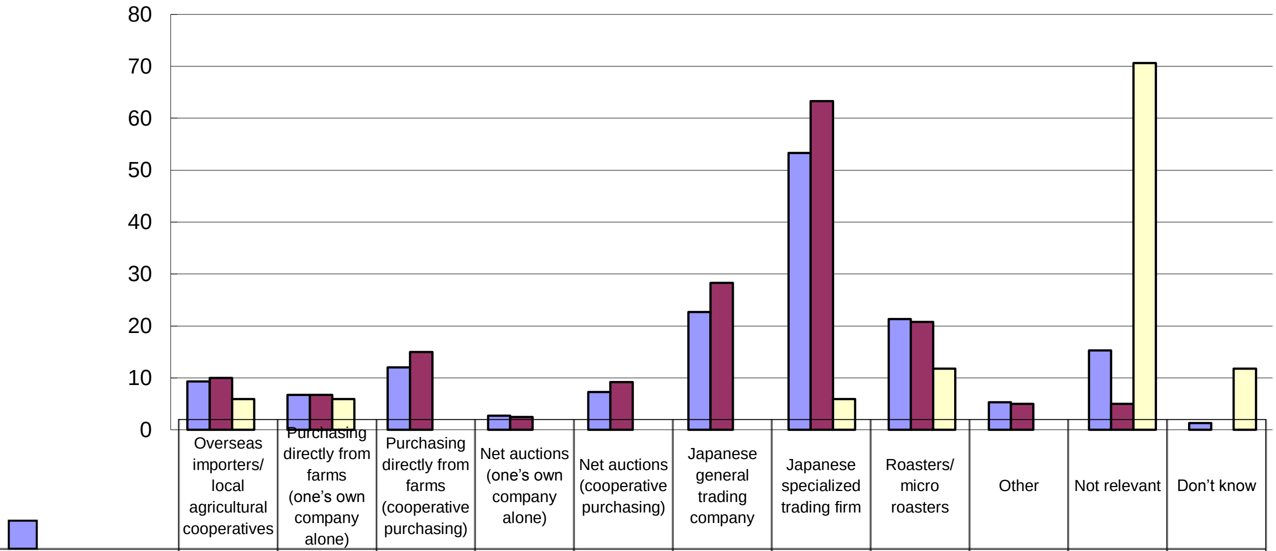


● Second-Stage Research

- As for sources for purchasing specialty coffee, 63.3% of roaster wholesalers/retailers, coffee shops, and producers/importers, replied "Japanese specialized trading firms," showing that such firms are currently the main source.
- Where trading companies are not used, "cooperative buying" surpassed "buying by one's own company alone."
- Buying directly from a farm (cooperative buying) accounted for 15% and net auctions (cooperative buying) accounted for 9.2%, higher than buying by one's own company alone.
- Of companies that buy specialty coffee from a farm, 52% of them responded that they would increase such direct buying hereafter. That is substantially more than the 4% that said they would decrease it.
- As for changes in the rate of procuring products through net auctions hereafter, 92.9%

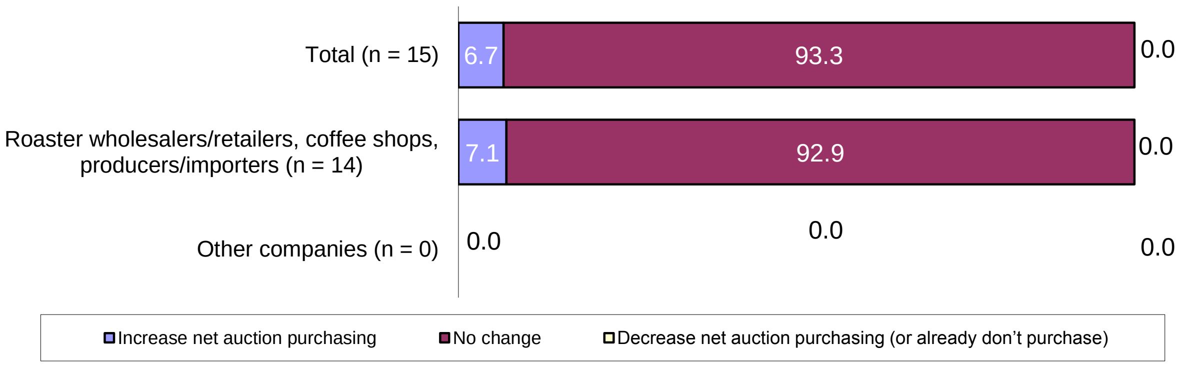
of respondent companies said there would be no change, and this is taken to be the expectation.

Sources of Purchasing Specialty Coffee in 2012 (Units: %)



	Overseas importers/ local agricultural cooperatives	Purchasing directly from farms (one's own company alone)	Purchasing directly from farms (cooperative purchasing)	Net auctions (one's own company alone)	Net auctions (cooperative purchasing)	Japanese general trading company	Japanese specialized trading firm	Roasters/ micro roasters	Other	Not relevant	Don't know
Total (n = 150)	9.3	6.7	12.0	2.7	7.3	22.7	53.3	21.3	5.3	15.3	1.3
Roaster wholesalers/ retailers, coffee shops, producers/ importers (n = 120)	10.0	6.7	15.0	2.5	9.2	28.3	63.3	20.8	5.0	5.0	0.0
Other companies (n = 17)	5.9	5.9	0.0	0.0	0.0	0.0	5.9	11.8	0.0	70.6	11.8

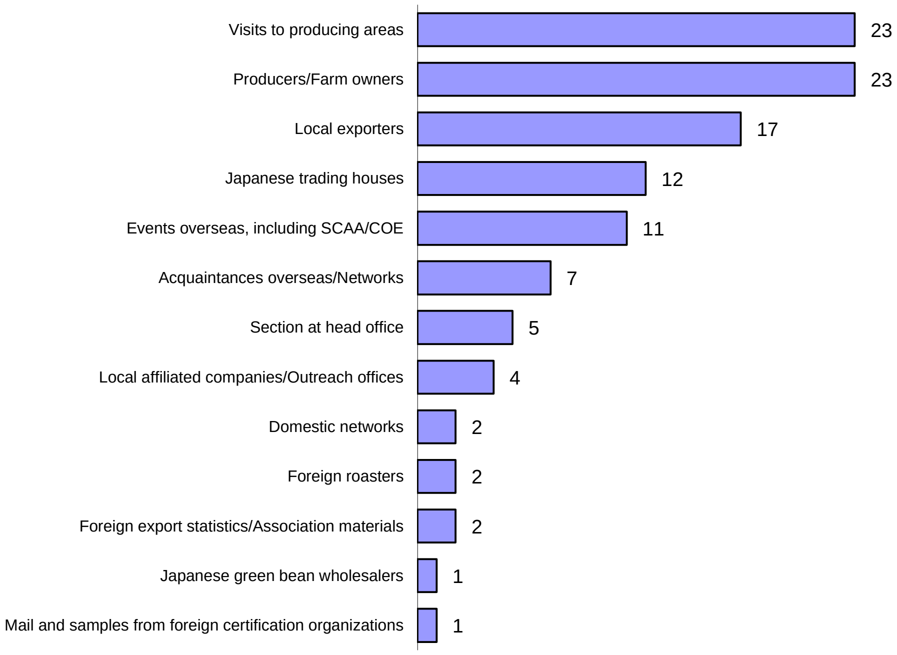
Decrease/Increase Rate of Procuring Products through Net Auctions (Units: %)



Methods of Gathering Information on Specialty Coffee Producing Areas

● First-Stage Research

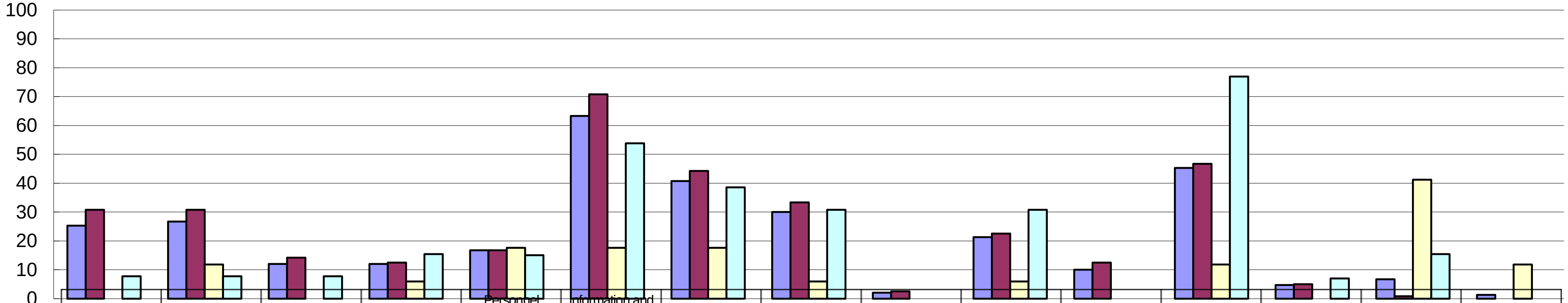
Method of Gathering Information on Producing Areas (n = 34; multiple responses)



- Gathering information by visiting production locations and local producers/farm owners ranked highest – 23 out of 34 companies (68%).
- This is followed by 17 companies (50%) who gather information from local exporters.
- Specialized trading firms gather information from general trading companies, and roasters from general trading companies and specialized trading firms.
- Others include information gathering at exchange activities overseas and personal connections-- at events overseas (11 companies) and acquaintances overseas/networks (7 companies).
- At five companies in the general-trading, large-roasters or other category, information gathering is centralized in sections in their head offices or parent companies.
- Four major trading companies or roasters have local associated companies or outreach offices.

● Second-Stage Research

Method of Gathering Information on Production Locations (Units: %)



	Visiting producing farms directly	Communications initiated by local exporters/traders	Samples sent from production locations	Daily communications by e-mail or telephone	Personnel connections developed at overseas events like COE, SCAA, etc.	Information and samples provided by Japanese trading companies	Word-of-mouth from those in the same line of business	Meetings/events with those in the same line of business	Specialist magazines	SCAJ's Website	Information from SCAL other than its Website	Internet searches	Other	Not relevant	Don't know
Total (n = 150)	25.3	26.7	12.0	12.0	16.7	63.3	40.7	30.0	2.0	21.3	10.0	45.3	4.7	6.7	1.3
Total of roaster wholesalers/ retailers, coffee shops, producers/ importers (n = 120)	30.8	30.8	14.2	12.5	16.7	70.8	44.2	33.3	2.5	22.5	12.5	46.7	5.0	0.8	0.0
Other companies (n = 17)	0.0	11.8	0.0	5.9	17.6	17.6	17.6	5.9	0.0	5.9	0.0	11.8	0.0	41.2	11.8
Individual members (n = 13)	7.7	7.7	7.7	15.4	15.0	53.8	38.5	30.8	0.0	30.8	0.0	76.9	7.0	15.4	0.0

- As for channels for gathering specialty coffee information on production locations, companies obtain information mainly from their procurement sources, i.e., Japanese trading firms. For roaster wholesalers/retailers, coffee shops, and producers/importers, this accounts for 70.8%, overwhelming all other channels. Accordingly, as of now, information from trading companies with whom they communicate on a daily basis is the key source.
- In contrast, for individual members, searching the Internet is the clear preference, accounting for 76.9%, substantially more than other available information gathering channels.