

# Uk coffee market

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Tea or coffee or both are the household names in most of the households worldwide. People drink coffee for variety of reasons. Some drink it to start their day while other may drink it in their offices for a small break. " Coffee appears to have originated in Yemen or Ethiopia and certainly has an early presence around the Red Sea about AD 700. The popularity spread through Europe to such an extent that during the 17th and 18th centuries there were more coffee shops in London than there are today. " (Coffee. uk. com) Every second or third person in the world drinks coffee daily.

It is estimated that more than 2. 5 billion cups of coffee are consumed daily worldwide. It is always interesting to know how a particular beverage or food habit becomes part of human society. The culture of coffee is told to be related with Islam. Massive increases in imports of tea and coffee date from the 1710s, and by the mid-eighteenth century to drink tea was an expected part of the behaviour of people of middle rank. (Weatherill, 1996) II. International Coffee Market Coffee consumption grew during 16th and 17th century. It was one of the main products of trade.

Even today it ranks fifth on the list of largest commodity sold worldwide. Due to major increase in the production of coffee and stagnant or very slow increase in the level of consumptions the bargaining powers of the producers decreased. This resulted poor conditions of the coffee growers. They were getting little share of wealth generated through the sale of coffee. Nestle, Kraft, Procter & Gamble and Sara Lee are the four major buyers of raw coffee beans in the international market. " World coffee consumption is estimated at 114. 7 million bags in 2005.

Domestic consumption in exporting countries in 2005 was just over 30 million bags and in importing countries consumption was estimated at just fewer than 85 million bags. " Despite of increased consumption producing countries have to agree on lower prices due to increased levels of competitions. The profit margins of producers decreased and it impacted living standards of people growing coffee in these exporting countries mainly developing nations.. The World Bank estimates that out of the total 141 developing countries, 95 depend on exports of commodities for at least 50 percent of their total export earnings.

Coffee is a very good example of such " commodity-dependency" representing, for example, 75% of the total exports of Burundi and 54% in Uganda, and about 22% in the case of Honduras. About 20 to 25 million families produce and sell coffee for their livelihood and most of them are small-scale farmers with limited financial resources and scope to diversify out of coffee production. (www. tutor2u. net/economics/revision-notes/as-markets-coffee. html) According to an estimate coffee sales exceeds by \$70 billion each year worldwide.

The developed countries retain large share of revenue which is approximately 93% while developing countries can capture only about 7% of the total revenues. " Coffee farmers in producing countries only obtain a fraction of the final retail price of coffee. A recent Oxfam research report showed that Ugandan coffee farmers only get about 2. 5 percent of the final retail price of their coffee in the UK market. " (www. tutor2u. net/economics/revision-notes/as-markets-coffee. html) III. Demand and Supply Global coffee production has grew faster than the demand of coffee.

This resulted in higher growth in supply rates as compared to demand. The international coffee market is characterized by volatile prices due to the differences in level of production and demands. This results in a risk prone situation for the producer most of the times. This also influences the price consumer has to pay for a cup of coffee. " Each day nearly 2. 5 billion cups of coffee are consumed. It is the 5th most widely traded commodity in the world and millions of people depend directly or indirectly on the production and sale of coffee for their livelihoods. " (www. tutor2u.

net/economics/revision-notes/as-markets-coffee. html) Consumption of coffee and price elasticity of demand The world coffee price has come down more than 100% from 1995 to 2006 even when demands of coffee in developed markets like UK is growing with a steady rate of 7%. This indicates the increase in levels of production and number of producing countries. IV. PESTLE Analysis UK Coffee Market IV. i. Political The political environment is stable for UK producers, suppliers, retailers and sellers. Political stability allows proper analysis of the demand, growth and market share.

IV. ii. Economic UK is developed country and matured economy. The competition is high for the share of consumer wallet. Even the well established brands and business players find it challenging to retain their consumer. It is very challenging for any new player to enter this market of survive successfully unless and until his offers are really unique and offer value for money to the consumer. IV. iii. Socio-cultural Drinking coffee has almost become a culture in UK. People may drink coffee alone reading newspaper or book or with friends or social circle to share their time.

According to coffee experts Allegra Strategies Londoners buy around three million cups of coffee a day from branded outlets alone. (source: <http://www.allegra.co.uk/project-cafe6-keyfindings.html>) Whereas number of independent outlets are higher than the number of branded outlets and coffee available to these independent outlets are price much lower than the branded outlets. Recently consumption of coffee has been associated with a social issue. This is related to the living conditions of coffee producers and the prices they have been receiving for their crops.

Fair trade is a practice where producers are given a minimum fair price for their products. This is to create a benchmark below which the payments to the producers are considered low and unethical. This fair trade price meets the production cost and profit for the producer. In such cases the cost of the buying company may increase which further increases the price of final product. These fair-trade practices are being accepted among the consumers as the sales of fair-trade commodities especially coffee is increasing considerably. " Fair trade market in the UK is worth ?

100m, including fruit, veg, chocolate and wine Supermarkets reported a 42% increase in fair trade coffee sales in 2003 Coffee shops enjoyed a 67% increase in that time" (source: [news.bbc.co.uk/1/hi/magazine/3708585.stm](http://news.bbc.co.uk/1/hi/magazine/3708585.stm)) IV. iv. Technological Technology plays an important role in the production process. Roasting, fermentation and packaging is important in order to maintain the quality and aroma of the product. Over-fermented coffee beans increase bitterness or sourness in coffee. It is important for the producer to maintain the quality which is possible through proper implementation and use of technology.

IV. v. Legal International coffee trade is govern by international policies for production and sales of coffee. International Coffee Agreement and growing concerns over the fair-trade practices is changing the overall scenario of the international coffee markets. In UK a directive has been issued, in which there was a principle of attaining 100% fair-trade by 2010 by coffee retailers and sellers. (MCKAY, 2006) V. Coffee Market V. i. Market Type and Growth UK coffee market is saturated and growing by nearly 7. 2% in Jan 2005.

Approximately 1525 outlets were opened during this period in London. “ Overall, branded chains grew by 5. 6 per cent to 2, 428 shops to January 2005 and now make up 29. 1 per cent of the UK coffee market. ” The number of branded outlets is increasing which has posed a threat for independent outlets which find it difficult to deal with increasing competition for consumer, place and maintenance cost. The number of outlets in UK are as follows: Independents : 4, 738 outlets Starbucks : 430 outlets Costa Coffee : 346 outlets Caffe Nero : 198 outlets (source: <http://www.hospitalitymagazine.com.au/articles/44/0c02db44>. )

V. ii. Types of Outlets and Products Independent outlets are region specific and usually cater the needs of consumer of small geographic areas. Such as tea and coffee stall at college premise or close to university would cater young consumers while close to library or community centre will cater need of consumer from all age groups. The product offered by various outlets varies to serve different taste buds. Coffee can be drink hot or cold, milk or without milk, with ice cream, with or without caffeine and many others.

Difference of taste comes in different pricing. Apart from it coffee flavour is used in candies, cookies and cakes as well. V. iii. Marketing Strategies <https://assignbuster.com/uk-coffee-market/>

Various marketing strategies are adopted by coffee retailers to attract consumers. Starbucks coffee outlets offer VI. Consumer Buying Behavior In the past coffee shops or coffee houses were considered highly influential places which became part of the artist movements, intellectual discussions, political activities and discussion and others. These trends are still present in various old coffee houses.

Consumer buying behaviour and attitudes have changed from past. Now people use coffee joints for various purposes from meeting, discussion to family outings. " The figures from research analysts Mintel show spending on products such as Fairtrade, free-range and organic have soared by 62% since 2002 as a result of changing consumer attitudes". (Western Mail. ) Consumer has also become more aware and concerned about the products he is buying. This shift in buying behaviour has forced companies to adopt strategies in the support of fair trade policies. VII.

Competition The competition within this particular segment is affecting the independent operators adversely as rent and operating cost for them is increasing and they have to shut down their operations. " According to a report by management consultancy Allegra Strategies, Starbucks now has a quarter share of the UK coffee market with 400 outlets. Costa Coffee has 330 stores, while Caffe Nero runs 173. The number of branded coffee shops trebled from 778 in 1999 to 2, 299 and is expected to top 3, 000 in two years. "(Smith, 2004, The Observer) VIII. Conclusion

In order to succeed in the coffee market, marketer needs to look at new consumer segment and markets. As demands in Asia and Latin America is increasing and market is growing these can be an attractive options for the

marketers. These parts of the world are also producing countries for coffees. Company can benefit by serving these markets. For the matured markets company can adopt the niche' marketing strategies for to attract fair-trade coffee consumers or promoting the medicinal benefits like lower risk to Type toDiabetesthrough coffee. Each of the strategy should be based on proper market study through collection of primary data.