

**Agribusiness and Food Industry in Developing Countries :  
Opportunities and Challenges**

**COMMODITY MARKETING – VERTICAL INTEGRATION  
A CASE STUDY  
ON COFFEE DAY**

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**Commodity Marketing-Vertical Integration**

**Agenda for next 15 minutes**

- What is Commodity Marketing?
- What is cobweb phenomena?
- What is Western Model of creating marketing integration and branding?
- Successful case study on Vertical Integration – Coffee Day.

- Commodity Marketing is referred here as all forms of the activities of the value chain from production to sales realization.
- Commodity Marketing has experienced high degree of volatility in its pricing.
- Subjected to Inbuilt cobweb phenomena, which leads to getting low remuneration.
- Solution :  
Use western model of creating market integration and branding.  
Case Study on Coffee Day.

## Coffee and Vertical Integration

- Some Statistics  
A cup of coffee is a rejuvenating, mind refreshing and nerve tingling beverage. World over coffee consumption is much more than tea consumption in the hot beverages segment.  
40 million bags of coffee is produced (Each bag is – 50 kgs.)

- Major Coffee Producing Countries.

Brazil, Colombia, Vietnam, Indonesia, Mexico, Guatemala, Ethiopia, and India etc.,

India - 9<sup>th</sup> position producing 3 lakh tons / annum.

Domestic consumption 70 thousand tons.

Remaining goes to Export Market. Therefore coffee prices are determined based on the global prices.

- Global Coffee business moving ahead at the growth rate of .5 percent.

- Price of Coffee – 1994 approx \$ 4.5/kg

- Price of Coffee – 1998 approx \$ 3.5/kg

- Price of Coffee – 2003 approx \$ 1.1/kg

(rate quoted by New York coffee market)

#### What is its effect?

Producers are not getting the remunerative prices. So, commodity suffering in the market.

- Coffee consumption - 1.8% per annum.
- Coffee production - growing at 3.6% annually.

What is this mean?

This means reduction in the price of the commodity.  
Only 23% production being consumed domestically.

What would be the fate of this commodity?

Is there a Solution?

- The Answer is Strategic Integration - Value addition to the commodity.
- Both Forward and Backward integration.
- That is from bean to the cup.

## Case Study – Coffee Day

### Historical Data

Started by V.G.Siddartha CyberCafe in 1993, Café Coffee Day 1998.

- Amalgamated Bean Coffee Trading Company India Ltd (Coffee Day).
- ABCTCL lies in the coffee cradle of India.
- Plantation nestled – Chikmangalure and Mudigere region of Western Ghats.
- 5000 acres of well maintained estates upto 4500 feet above sea level.
- Second Largest plantation company in the Country.
- Certified by “Utz Kapeh Foundation”, for efficient form management and full traceability.
- Utz Kapeh (“good coffee”, in Maya Language)
- Worldwide certification program for responsible coffee production and sourcing.

- ABCTCL is one of two fully integrated coffee companies of Asia, involved in all sectors of Coffee from plantations to retailing to exports.

## Business Divisions

1. Amalgamated Bean Coffee Exports (ABC Exports)
  - Is engaged in export of Standard Indian Grades of Coffee that includes, Arabica Parchment and Robusta Parchment.
  - In 2001 ABC cured 75,000 tons of coffee.
  - In the same year it exported 28,000 tons of coffee.
  - In 2002-03 earned Rs.100 crores from the export of coffee to various countries in the world.

## 2. Fresh and Ground has a chain of 400 exclusive outlets in the state of Karnataka and Kerala.

- 22 exquisite blends of coffee on offer across all Fresh 'n Ground outlets.
- The fastest growing filter coffee brands in India.
- Objectives of Fresh n' Ground.
  - Established Coffee Point Outlets within reach
  - Create chain of Coffee Points
  - Continuously strive to meet the customers need.
  - Retail Quality products at competitive price.
  - Offer the complete coffee experience.

## 3. Coffee Day Takeaway (Vending)

It is vending machine retailing initiative of the company that offers takeaway coffee at extremely affordable prices at Convenient location.

There are 7000 machines set up through out the country for Customer user.

#### a. Liquid Coffee Machine

For consumers looking for a pleasant filter coffee experience.

The machine offers its consumers hot coffee and hot tea.

#### b. Roasted Coffee Machine

For consumers keen on having freshly brewed coffee.

Like Cappuccino, Espresso and Special blends along with milk.

#### 4. Coffee Day Xpress

Is a small format kiosk that serves hot and cold beverage and a variety of food items.

A unique and food retailing concept.

Located at high people traffic areas. Like Shopping malls, Complexes, Multiplexes, Airports, Railway Stations, Petrol bunks,

##### Two type of Xpress Kiosks

1. Shop in Shop (inside retail outlets)

2. Outdoors (at Petrol Bunks)

300 Xpress kiosk around the country – Bangalore, Chennai, Kolkatta, Delhi, Hyderabad, Mumabi and Pune.

## 5. Café Coffee Day

Is the destination format of coffee retailing.

Meeting places for 15-29 years olds. Also served the various types of coffee and food snacks in a bright and invigorating ambience.

230 cafes around the country

270 to be added in next three years.

Two basic formats on which it operates Music Cafes with digital audio Jukeboxes,

85 cafés

15 cafés in 12 cities across with book cafés.

Customer profile at Café Coffee Day

15 – 19 year 25%

20 - 24 years 38%

25 – 29 years 23%

72% students and young professionals - 18% as a daily and 44% visit weekly.

500 to 800 customers daily between 4 pm to 7 pm.

### • Value Chain Analysis

- A string of companies working together to satisfy market demands.
- Value chain is a ladder you climb in terms of value realization as you brand a commodity.

## Value chain in Coffee

- Company owned Cafés
- Vending Machine
- Soluble Coffee Format (instant coffee)
- Roasted Bean (powder form packaging that keeps freshness intact)
- Green Bean segregated (quasi branding willing to pay a price)
- Green Bean (value lowest)



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- **Benefits of Vertical Integration**

- Economies of combined operations
- Economies of internal control and coordination
- Assure supply or demand
- Better quality control and coordination
- Protect proprietary technology
- Gain access to information
- Avoid costs of dealing with the market.
- Gain (or offset) market power.



**Questions ?**

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**Thanks**