

Ties That Bind: Case Study

Tanzanian Specialty Coffee – Peet’s Coffee and Tea

This case tracks the relationship between Tanzanian coffee farmers in the KILICAFE cooperative, the International NGO TechnoServe (through funding from USAID, USDA and Switzerland’s Secretariat for Economic Affairs), and the United States based specialty coffee company Peet’s Coffee & Tea. This international buyer-supplier relationship represented the first direct export of Tanzanian coffee after tax and export policies regarding coffee were changed by the Ministries of Agriculture and Finance to create a more globally competitive coffee industry. This case demonstrates the importance of high product quality, intermediary facilitation, as well as government encouragement and the creation of an enabling environment for success in an international buyer-supplier relationship. This case also demonstrates the importance of flexibility of a supplier to deliver on quantity agreements over time.

Origins and Nature of the Buyer-Supplier Relationship

Following a value chain assessment in 1998 and through a project continuing to this day, TechnoServe has been working to make Tanzanian coffee globally competitive in order to benefit small-scale farmers, their families and rural coffee-growing communities. TechnoServe has also served as a conduit between local Tanzanian farmers/cooperatives and international coffee buyers. The connection between Peet’s Coffee & Tea and TechnoServe can be traced back to Jerry Baldwin, a coffee expert for TechnoServe who is former Chairman of the Board at Peet’s. Mr. Baldwin provided advice to Tanzanian farmers on trips in 2001 and 2002 on how to earn higher prices (despite the global coffee price decline) by improving quality and understanding the needs of the specialty coffee market. In 2003, Jim Reynolds, a Peet’s roastmaster emeritus, visited the growing Tanzanian facilities in order to assess the industry and quality of the product. Because Mr. Reynolds was so impressed with the quality of the facilities and the final product, Peet’s began negotiating a deal with KILICAFE, the Association of Kilimanjaro Specialty Coffee Growers, for a sale in 2004.

Before 2004, the Tanzanian government controlled all coffee exports through a government owned and operated auction. The auction did not sort or control the beans for quality, and farmers and processors were therefore not rewarded for quality through the prices they received. A benchmarking study funded by USAID compared Tanzanian policies to those in Costa Rica, Ethiopia, Guatemala, Kenya, and Uganda. This study led to a realization of policies which impeded global competitiveness in the coffee industry. After much lobbying by KILICAFE, and other key stakeholders, the coffee industry regulations were changed in October 2003. For the first time, specialty coffee producers had the option to bypass the government auction and sell directly to roasters. This increased producer control and accountability in negotiations with international buyers. In March 2004 KILICAFE made their first direct export sale to Peet’s; this sale consisted of 176 bags (23,280 pounds) of Tanzanian specialty coffee.¹ This sale allowed the farmers of the cooperative to earn a price 150% greater than the other growers in their area, and it allowed Peet’s to produce a specialty “Africa Blend” in 2004 and later a limited-edition specialty roast called “Tanzania Kilimanjaro” in 2005.

Peet’s still maintains a relationship with KILICAFE and continues to buy specialty Tanzanian beans. The publicity provided by the relationship between Peet’s and KILICAFE has allowed for

¹ http://www.technoserve.org/news/AKSCG_TZ.htm

the KILICAFE cooperative to grow, and for the group to develop more international buyer relationships. By 2005, in addition to Peet's, KILICAFE had sold its product to VolCafe, Gepa Fairtrade, Lister & Beisler, and Starbucks Coffee.

Role of Outside Support / Facilitation

The role of TechnoServe in facilitating the relationship between Peet's and KILICAFE was vital to the project. The 1998 value chain assessment conducted by TechnoServe was the impetus for external aid to become involved in the industry revitalization. TechnoServe's technical assistance in Tanzanian coffee production led to the increasing quality of the product in order for it to be competitive in the specialty market. Also, the lobbying of the national government that was so critical in effecting change of uncompetitive tax and export policies was supported by TechnoServe. The opportune connection that was created by Jerry Baldwin as a coffee expert with TechnoServe, and former Chairman of the Board at Peet's was essential for the success of the relationship. From the first steps of improving farming processes, to the final steps of exporting a finished product, TechnoServe was essential in forging the successful relationship between KILICAFE and Peet's.

Costs and Benefits of the Buyer-Supplier Relationship

Peet's Costs:

- Peet's invested a great deal of time in developing this relationship with the involvement of both Jerry Baldwin and Jim Reynolds; while interaction began in 2001 it was not until 2004 that Peet's purchased from the growers.

KILICAFE's Costs:

- While demand increased as more buyer relationships were created, this did not directly lead to more output and income per farmer; increased demand has caused the cooperative to grow and more farmers now participate in KILICAFE.

Peet's Benefits:

- With KILICAFE's product, Peet's was able to produce an "Africa Blend" variety and a limited-edition "Tanzania Kilimanjaro" variety of highest quality.
- Peet's was able to advertise this relationship as an act of corporate social responsibility and a good business practice as it greatly benefited the small coffee farmers and their families in Tanzania, and provided a superior product.

KILICAFE's Benefits:

- The first sale to Peet's yielded prices 150% greater than the prices yielded by other local farmers.
- Publicity earned from the sale with Peet's led other buyers to have interest in and ultimately buying from KILICAFE.

Strategies for Overcoming Risks

In order to ensure that the product would be of highest quality, Peet's was involved in advising and monitoring the revitalization of the coffee industry under TechnoServe's charge. In this manner, Peet's was able to help form the quality standards before agreeing to a contract committing to buy a certain amount of the product. This also put Peet's in a situation to be the first buyer of the Tanzanian product and thus take advantage of being the first to sell those specialty beans in the United States.

While KILICAFE was excited and appreciative of the initial purchase by Peet's, the cooperative wanted to make sure that the relationship with Peet's was not the only relationship the cooperative was able to develop. Through an understanding with Peet's and a marketing push

from TechnoServe, Peet's and KILICAFE, the cooperative was able to use the success of the Peet's relationship as a PR tactic to entice other buyers.

Lessons Learned

- TechnoServe's holistic assistance, from beginning to end, helped bridge the gaps between the farmers, the cooperative, the government, and the buyers.
- However, Technoserve's direct assistance to the coffee value chain would have been muted without the unlocking of the enabling environment. Even if a buyer and a supplier have aligned incentives, the business environment and policies created by the government can make or break the ability to have a successful relationship.
- Finally, the flexibility of KILICAFE to increase its membership in order to meet an increase in demand for its product was vital to maintaining the initial relationships and expanding its market with the creation of new relationships.