

## COFFEE PRICES REMAIN FIRM *Arabica Demand Forecasted to Exceed Supply*

**F**or the first few months of 2012, coffee prices should not move down until it is certain how the supply gap turns out. While we see the Futures markets softening due to a lot of economic news around the world, it is too soon to expect the softening to be reflected in coffee selling prices. Ingredient costs continue to be high for food companies, consumers, grocers, restaurants — coffee roasters are no exception. *Bloomberg News*, on December 14, 2011, stated “Arabica coffee demand will exceed supply by 7 million bags this season, equal to a year of Japanese [coffee] consumption.” (Japan is the world’s fourth largest coffee consuming country.)

**In 2012, it is safe to anticipate an abundant supply of robusta and lower-grade arabica.** The same cannot be said about the higher-quality washed arabica sector. Ongoing supply problems in Colombia (see page 2) and excessive rain in Central America will keep the supply/demand

ratio tight and lead to firmer differentials again.

It also serves as a reminder that if anything unusual happens this year that adversely affects the future Brazil crop (frost, drought, etc.), the extremely limited global

stocks won’t be able to prevent a price explosion.

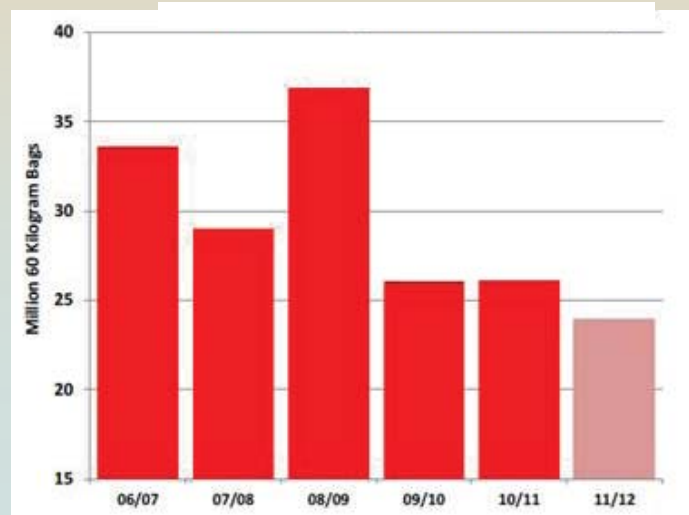
Please read the article on page 3 to see how to best leverage the rebound in coffee sales, demand for quality and the opportunity it provides for profitability improvement.

## COFFEE STOCKS AND SUPPLY REVISED DOWNWARD

Current coffee stocks and available supply have been revised downward due to many factors, but primarily adverse weather.

- World output of Arabica coffee will shrink 4.3% to 79.6 million bags in the current crop year, which began in October, according to the London-based International Coffee Organization.
- Heavy rains, along with coffee rust (roya) and the coffee berry borer, in Colombia have reduced its annual projections by 2.0 million bags (60 kg bags) to 8.5 million bags for the third consecutive lower production year.
- Central America was also hit by heavy rains at the start of its harvest in October, which is expected to clip production in El Salvador and Guatemala.
- Brazil (supplier of one-third of the world’s coffee supply) is in an off-year low production cycle, estimated at 49.2 million bags of both arabica and robusta coffee, falling short of recent record crops.
- Global coffee consumption is growing, especially in Asian markets, whereas North American consumption is relatively stable.
- World green coffee bean ending stocks reduced 2.4 million bags to 24.0 million and remain tight, resulting in a lower surplus. (See chart at right for trailing six-year view.)

### WORLD COFFEE STOCKS



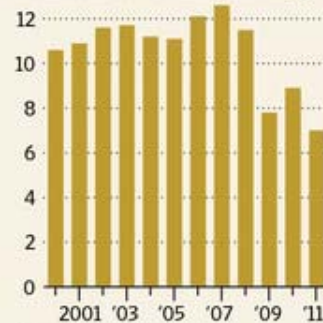
## COFFEE DIFFERENTIALS TIGHTENING AND INCREASING

After the markets hit a multi-decades high last summer, it created temporary coffee surplus on the market. That, along with new crop offers, led to differentials softening for a short time. Currently, differentials at origin have tightened up and recently began increasing, especially following the poor weather conditions and spreading coffee leaf fungus in Colombia. (For more information about differentials, see the April 2011 issue of Origin to Cup.)

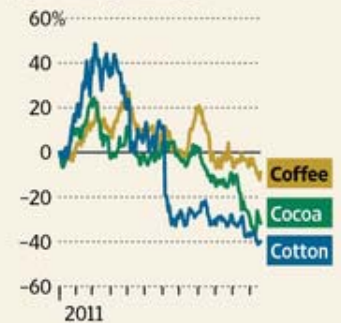
### Filtering Through

As output from key grower Colombia declines, coffee prices are holding their ground when compared to other soft commodities.

Colombian coffee production, in millions of 60-kilogram bags



Futures prices, percentage change



© January-November

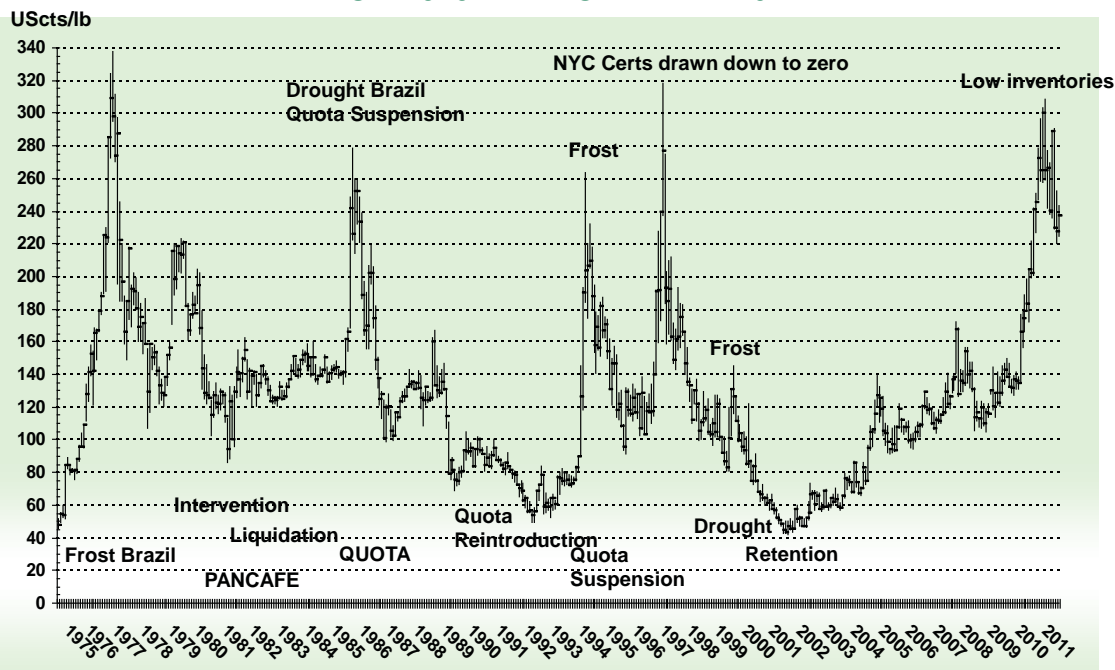
Sources: National Federation of Coffee Growers of Colombia (production); SIX Telekurs (futures)

## CONSUMPTION GROWING FASTER THAN SUPPLY

As the physical supply of arabica coffee tightens around the world, people have also increased coffee consumption, particularly in coffee-producing regions such as Brazil, Southeast Asia and India. This takes coffee supplies out of the market that would normally be available to established roasters.

“We may be approaching a day where top-quality coffee is both rare and expensive,” said Randy Layton, Boyds Coffee Roastmaster. “More countries are developing a new and younger coffee drinking culture. In addition, a number of impacts recently affected the coffee supply: weather, unstable labor, financing options at origin, even pests and plant disease.”

### MONTHLY NEW YORK COFFEE FUTURES (BASIS SPOT MONTH) FROM 1975 TILL NOVEMBER 2011



At left is a 35-year graph showing the changes in coffee prices and factors that affect those prices. Graph is courtesy Volcafé-USA.

# COFFEE DRINKERS DESIRE BETTER COFFEES

## Current Situation:

- Coffee consumer surveys continue to report positive trends for specialty-quality coffees, meaning that consumers desire high-quality coffee drinks.
- In addition, during 2011, the sales recovery for specialty coffees outpaced the rest of the foodservice industry, showing up to six percent growth in some segments (casual, fast-casual and quick serve restaurants).

## Opportunity:

- Capitalize on the profitable coffee sales opportunity by meeting the consumers' demand for high-quality coffee. By optimizing your coffee program with minimal changes, you can increase your profits.
- Also, introducing new coffees and featured coffees along side your consumers' favorites will help encourage trial and keep your beverage offerings fresh and interesting!

## How it works:

- Upgrade your coffee to attract consumers seeking quality coffees. By raising

menu prices slightly, your upgraded coffee should pay off with additional profits!


## Economics:

- See our Profit Calculator below to show how Boyd Coffee Company can

help you optimize your coffee program.

- Contact your Boyds Coffee representative for more information on how we can partner with you to improve your coffee profitability.

Below, the coffee profit calculator shows how we can optimize your coffee program profits with minimal changes to the menu price.

**COFFEE PROFIT CALCULATOR™** 

Use this form to calculate potential profits from coffee sales.

Direct Cost		Calculated Yield	
Calculate Cost Per	lb. or Case	<input checked="" type="checkbox"/> Brew Yield	69.00
Coffee Cost (per lb.)	<input type="text" value="7.95"/>	<input checked="" type="checkbox"/> Pots per lb.	5.33
Coffee Used per Week (lb.)	<input type="text" value="15"/>	Cups Sold per Pot	4.60
		Saleable Cups / lb.	24.53
Volume Sold		Your Cost	
<input checked="" type="checkbox"/> Water Used per Pot (oz.)	<input type="text" value="75"/>	Cost per Cup	\$0.32
<input checked="" type="checkbox"/> Coffee Used per Pot (oz.)	<input type="text" value="3"/>	Cost per Pot	\$1.49
<input checked="" type="checkbox"/> Amount Poured per Cup (oz.)	<input type="text" value="15"/>	Need Help?	(800) 545-4077
<input checked="" type="checkbox"/> Free Refills Poured (#)	<input type="text" value="0"/>		
Menu Price (\$)	<input type="text" value="1.39"/>		

Gross Profit Per Cup	Gross Profit Per lb.	Gross Profit Per Week	Gross Profit Per Year
\$1.07	\$26.15	\$392.27	\$20,398

**\$7.95**  
Price Per Pound

**\$1.39**  
Menu Price

**COFFEE PROFIT CALCULATOR™** 

Use this form to calculate potential profits from coffee sales.

Direct Cost		Calculated Yield	
Calculate Cost Per	lb. or Case	<input checked="" type="checkbox"/> Brew Yield	69.00
Coffee Cost (per lb.)	<input type="text" value="8.30"/>	<input checked="" type="checkbox"/> Pots per lb.	5.33
Coffee Used per Week (lb.)	<input type="text" value="15"/>	Cups Sold per Pot	4.60
		Saleable Cups / lb.	24.53
Volume Sold		Your Cost	
<input checked="" type="checkbox"/> Water Used per Pot (oz.)	<input type="text" value="75"/>	Cost per Cup	\$0.34
<input checked="" type="checkbox"/> Coffee Used per Pot (oz.)	<input type="text" value="3"/>	Cost per Pot	\$1.56
<input checked="" type="checkbox"/> Amount Poured per Cup (oz.)	<input type="text" value="15"/>	Need Help?	(800) 545-4077
<input checked="" type="checkbox"/> Free Refills Poured (#)	<input type="text" value="0"/>		
Menu Price (\$)	<input type="text" value="1.45"/>		

Gross Profit Per Cup	Gross Profit Per lb.	Gross Profit Per Week	Gross Profit Per Year
\$1.11	\$27.27	\$409.10	\$21,273

**\$8.30**  
Price Per Pound

**\$1.45**  
Menu Price

**An Additional \$875 in Gross Profit**

Try the Profit Calculator online at <http://www.boyds.com/profit-calculator/>.

Origin to CUP

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