

RECESSION: ON COFFEE

With the recession still dominating the media, here, James Sweeting, a director at coffee roasters, Lincoln & York (www.lincoln-and-york.com), gives his opinion on the impact the recession has had on the coffee industry to date, looking at positive trends as well as the pressures that have been placed on the sector.

BACKGROUND

Lincoln & York provides high quality roasted and packaged coffee products and services to its clients in the UK and Europe. Specialists in the private label industry, it creates coffee products for a wide variety of clients ranging from many high street names to the coffee shop and retail sectors.

With coffee roasting at the heart of their business, Lincoln & York have become a one-stop shop sourcing the finest raw ingredients from around the world and provide services ranging from expert consultation through to packaging the finished product. As well as coffee distributors and retailers, the company also works with other roasters to enable them to provide an enhanced service to their customers, including short runs and contingency requirements.

Lincoln & York's directors, Simon Herring and James Sweeting (pictured), can claim 40 years combined experience in the coffee industry. Their company has played a pivotal role in servicing the growth of the UK coffee market, providing them with unique and invaluable insight into contemporary tastes and trends in the UK and across Europe. The company says that it monitors the social, environmental and economic impact that coffee growing has on local communities closely, to ensure that wherever possible producers receive a fair price, working conditions are acceptable and business sustainable.

The economic landscape

Several months ago things looked very bleak for the economy in general. Most pundits were signalling that the retail, leisure and hospitality sectors would suffer badly, and would be areas to avoid as a stock market investor.

Everyone was to batten down the hatches, start saving, and prepare their companies for harder times. Many of these fears have been realised: high street retailers have been hit hard, spending has dropped, the fall in sterling has pushed up the cost of imported goods, and legions of retailers have gone cap in hand to landlords in the hope of having their rent bills reduced. Big name retailers have gone to the wall and credit insurance has rocketed...as if you could get it!

So what has all this meant for the UK coffee industry and, in particular, the out of home (OOH) sector? Well so far things have not been as bad as they could have been.

It seems that coffee consumption is holding up. For sure certain areas are struggling. Coffee shops in the City of London are obviously not doing so well because bankers and lawyers have lost their jobs. However, in more touristy areas, shops are doing well with a 5% increase in sales as visitors are coming in droves. The fall in sterling versus other currencies (and in particular the euro) has given large numbers of French, Italians and other Europeans a very good reason to visit Britain. The good news here is that they are heavy coffee drinkers and have boosted the demand for espressos in our bars and cafés.

Allegra Strategies believe that the coffee shop market is growing at about 7% per year and will do so until 2012. From our experience at Lincoln & York so far this year, these findings are born out, in spite of the wider economic problems. As suppliers of private label or bespoke products to over 150 clients in the food service, speciality retail and distributor sectors, we have seen sales to 15 out of our top 20 clients grow year on year. Tonnage is also up in 2009 (so far).

Recession pressures

So, is the recession having any negative effects? Well actually yes. Whilst the coffee consumers have not altered their behaviour too much, the people who distribute the products from the manufacturers to the high street cafés, bars and hotels are under pressure.

A number of them are naturally concerned about their own customers' ability to pay the bills. Cash flow, which is the lifeblood of all businesses, is somewhat restricted as banks cut lending and credit insurance is difficult to get. Many of our customers are under pressure to reduce



prices and are having to do so in order to keep business.

Some clients are asking for cheaper products or 'recession-beating blends'. Others are quietly dropping Fairtrade and moving to more economical coffees. However, they are in a minority and we can report that our own Fairtrade and Rainforest Alliance coffees are up 20% year-on-year by value.

One feature that has helped us weather the recession and continue to grow steadily is flexibility. We started as a small company and so we are still able to roast small quantities if required. Flexibility within a business during a time of recession is vital.

Another trend which has been kicked into the long grass a bit by the economic gloom has been recyclable or compostable packaging. However 'green' concerns have not gone away and we think they will continue to be a big issue for the coffee industry. At Lincoln & York, we are developing coffee packaging that keeps coffee in perfect condition whilst in use, yet once finished can be disposed of and the material will fully decompose in less than a year.

We have always had an interest in reducing our environmental footprint and this new packaging allows us to offer our

clients a 'green' option. Just prior to the recession we were finding that we were getting more and more queries from customers about reducing packaging. Obviously there are still issues to be worked out, such as metallization and printing on the material but we are hopeful that we will have this option by the end of 2009.

There is a great deal of pressure on us to reduce coffee prices, yet at the same time we have suffered a 25% fall in sterling against the euro and the U.S. dollar since January 2009. What do we buy in dollars? Coffee. What do we buy in euros? Packaging. So it should not have come as a surprise when prices went up by 8-10% in April this year. It was very stressful and all I can say is that buyers in general (me included) have had nearly 10 years of sterling on the rise and it has made our job easy. Business has boomed and prices have been stable/falling. The next 10 years won't feel the same.

Current coffee trends

Despite the pressure on costs I can tell you that Lincoln & York clients who are successfully beating the recession are the ones who are innovative with their coffee products and in particular with the coffee

blends themselves.

There is now a real drive amongst many independent coffee shops, bars and some distributors to increase the blend qualities. This is partly due to the influence of the World Barista Championship, the Speciality Coffee Association of America (SCAA) and the Speciality Coffee Association of Europe (SCAE). It is also in part due to a number of Australians and New Zealanders working in the UK who have brought a high quality coffee culture with them.

The trend is for independent cafés to have bespoke high quality arabica blends as their house espresso and filter coffees. So to the uninitiated, we are talking about espresso blends with Ethiopia Sidamo and Yirgacheffe instead of Djimmah 5, Brazil Bourbon instead of regular unwashed Brazil, and Costa Rica Tarrazu and Guatemala estate coffee instead of regular hard bean blends.

The aromas and tastes of these blends are fantastic. What's more, they cannot be replicated by normal coffees. This is because the beans are high quality and have several different nuances and aromas and if the barista does his job properly then the experience is unbeatable. Guess what? They can charge more for it too!