



International Coffee Organization  
Organización Internacional del Café  
Organização Internacional do Café  
Organisation Internationale du Café

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Steering Group on Promotion  
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London, England

**Proposal to increase coffee consumption  
in China received from Mr. Paul Hai Wang**

## **Background**

In September 2005, exporting Members agreed to allocate up to US\$15,000 for Mr. Paul Hai Wang to develop a proposal to renew promotional activity in China. Mr. Wang was subsequently requested to prepare an initial project profile document in accordance with the guidelines of the Common Fund for Commodities for the preparation of projects. A copy of his submission is attached.

## **Action**

The Steering Group on Promotion is requested to consider this proposal and to submit a recommendation to the Promotion Committee.

# **INCREASING COFFEE CONSUMPTION IN CHINA**

## **PAUL HAI WANG**

### **I. Project background and commodity strategy**

1. A significant increase in coffee consumption would foster a strong demand for coffee and support an increase in prices, which would benefit coffee producers worldwide and alleviate poverty in many traditional coffee producing regions. Most traditional coffee consuming countries have reached saturation point in the past 20 years. Therefore, non-traditional coffee consuming countries would be likely to play a role in significantly increasing coffee consumption. China with its vast population and fast economic growth has the potential to be a major new coffee consuming country. In spite of coffee's high public profile in China, coffee consumption has stagnated in the past decade due to coffee's high retail price together with its image as a luxury western beverage. There is no influential player taking action to correct coffee's image and to overcome the hurdle of high retail coffee prices prevailing in China. This project will help to increase momentum in coffee consumption in China.

### **II. Project objectives and rationale**

2. To foster an initial but self-sustaining increase in coffee consumption through offering coffee at an "outrageous discount price" to a group of the most influential and trendsetting consumers in key metropolitan centres in China: People will only become accustomed to coffee by drinking it. The majority of Chinese cannot afford coffee. The project would promote coffee by offering it to key consumers at a discount price which would be very competitive with other popular beverages and would encourage consumers to choose coffee as their preferred drink. Because China is a big country with a vast population, by focussing on selected trendsetting consumers, it should be possible to minimize costs while securing a timely and positive outcome.

3. To encourage market competition and lower prices among coffee retailers through incentives and support: China's private retail coffee sector is the direct link between a cup of coffee and millions of consumers. However, China's proliferation of new coffee stores has not led to an increase in new coffee consumers and business growth because of attitudes to pricing. Only by lowering the price can consumption and business be substantially boosted. This project will provide incentives, support and information to suitable private coffee companies in exchange for them offering coffee at a discount price to target consumers. More importantly, the proposal will introduce a market pricing mechanism within the coffee business sector for the benefit of both consumers and the coffee business as a whole.

4. To increase transparency and efficiency in China's domestic coffee sector: China's current pricing logic is the result of an opaque market with limited information and resources. People involved in the coffee business have to know what their business is really about and where the wealth comes from.

5. To establish an effective and focused public relations campaign to portray coffee as a popular and inexpensive daily beverage: Coffee stimulates the brain and is a social catalyst enjoyed by consumers able to pay for a cup of coffee at a coffee bar. A relevant public relations campaign based on these facts would resonate with consumers.

### **III. Project Components:**

#### **Component 1: Logistical preparation for promotional activities**

Objective: To make the necessary logistical preparations for the distribution of coffee, paper cups and other goods required for promotion activities.

Output: The establishment and functioning of a local logistics centre in charge of all promotional goods imported, produced, and distributed under this component.

Activities:

Activity 1: Contracting a local import/export company responsible for importing green coffee beans and for their subsequent transportation to the destination warehouse.

Activity 2: Leasing a suitable warehouse for the storage of promotional goods.

Activity 3: Contracting suitable local coffee roasters to roast quality coffee in accordance with the distribution schedule and supervising quality and efficiency.

Activity 4: Contracting a local paper cup factory and securing a favourable price for large quantities of cups.

#### **Component 2: Initiating activities to increase coffee consumption in universities and business districts in Beijing, Shanghai and Hang Zhou**

Objective: To offer coffee and other goods free of charge or at a discount to selected coffee stores which, in return, will offer coffee to their consumers at a discount compatible with other popular beverages.

Output: A significant increase in coffee consumption and an increase in regular coffee consumers in the regions where the promotions take place.

Activities:

Activity 1: Contacting suitable coffee stores which meet the promotion criteria and which agree to abide with the guidelines, especially with regard to setting a limit on coffee retail prices.

Activity 2: Planning the distributional schedule in order to optimize efficiency and effectiveness and in accordance with promotional activities.

- Activity 3: Distributing all promotional goods to participating coffee stores based on the schedule.
- Activity 4: Supervising, monitoring and analysing promotions by the participating coffee stores.
- Activity 5: Supporting promotions with advertising/public relations.

### **Component 3: Developing advertising and media**

Objective: To portray coffee as an inexpensive and enjoyable beverage when the coffee stores are social joints for average income people.

Output: Reversing current perceptions about coffee.

Activities:

- Activity 1: Contracting a public relations/advertising agency to design an appropriate campaign to produce promotional materials for the media and to implement promotional activities aimed at the media.
- Activity 2: Contracting a market research agency to carry out surveys of the market and provide periodic statistical analysis on the effectiveness of both consumer and media promotional activities in order to adjust the project if necessary to obtain the best results and ensure its continuity.
- Activity 3: Contracting a local firm for web design, including some editorial and maintenance work.
- Activity 4: Participation at trade shows and exhibitions to enhance the influence of the International Coffee Organization in the coffee sector in China.

### **IV. Tentative costs and financing (including all personnel except managers – see Item V below)**

Component 1: US\$225,000

Component 2: US\$50,000

Component 3: US\$85,000

### **V. Arrangements for implementation and management**

- Project Manager in charge of the planning and overall operational details of the project (Salary and travel costs: US\$120,000);
- Project Secretary to assist the Project Manager office works, scheduling, liaison and so on (Salary: US\$35,000);
- Local Operations Manager (based in China) in charge of negotiations, contracting local agencies and all local logistical details in China (Salary: US\$10,000);

- Local Manager responsible for consumer promotions (based in China) making contacts with local coffee stores, managing all the details of the promotions, working closely with the local Operations Manager and local PR/advertising agency (Salary: US\$15,000).
- Local PR/advertising agency: Hill & Knowlton (to be confirmed).

### **Beneficiaries and benefits**

6. The coffee farmers in all coffee producing countries will benefit from the project. Given coffee's high public profile, current low consumption per capita and the huge metropolitan population in China, suitable promotion activities should be able to produce a rapid increase in coffee consumption growth, and encourage new pricing mechanisms and new business opportunities. The Olympics in Beijing in 2008 and the World Expo in Shanghai in 2010 will also help to boost the development of a coffee culture in China (as happened in South Korea after the 1988 Olympics). As soon as the Chinese are able to afford coffee, coffee will become a popular drink, which will mean an increase in coffee imports from coffee producing countries.

### **Issues and follow-up actions**

7. A belief in coffee is the key to all countries that support this project. China has the potential to be a major coffee consuming country once coffee becomes affordable.

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumptions
<p><u>Programme Goal:</u> To develop coffee consumption in China and reverse the image of coffee from a luxury western drink to an inexpensive daily beverage for Chinese consumers.</p>	<p><u>Measures of goal achievement</u> (a) A substantial increase in coffee consumption measured by the number of cups sold by participating coffee stores; (b) an increase in annual coffee imports into China; (c) a decrease in coffee retail prices in the cities where the promotion activities are taking place; (d) an increase in numbers of local convenience stores/food markets carrying ground/whole bean coffee.</p>	<p>Statistics: (a) Periodic data submitted from participating coffee stores; (b) ICO statistics on green coffee bean exports to China; (c) a periodic survey on retail prices in the cities where the promotion activities are taking place; (d) a periodic survey on local convenience stores/food markets.</p>	<p><u>Concerning the long term value of the project</u> The price reduction would have an immediate effect on increasing coffee consumption. There are two key aspects: developing loyal and influential coffee consumers, and relentlessly pushing retail coffee prices down; Efficiency and continuation of the promotion programme; The commitment of exporting countries to the growth of China's coffee market.</p>
<p><u>Project Purpose:</u> (a) To build momentum for increasing coffee consumption in a well-defined trendsetting group of consumers in some of the most influential cities in China; (b) to overcome the hurdle of high coffee retail prices (especially in coffee stores) by providing cost-saving incentives to retailers to lower their prices and by increasing information and market transparency in the coffee sector; (c) to increase consumer consciousness about coffee as an inexpensive daily beverage and to build demand for a less expensive beverage by cultivating market competition.</p>	<p><u>Conditions that will indicate purpose has been achieved: End of project status</u> (a) An increase in per capita coffee consumption that is substantially higher than the average in the selected group of consumers; (b) demand for coffee beverage at a lower price and stronger market competition drive overall coffee prices down significantly, and an increase in the number of coffee stores willing to participate in the promotion; (c) participating coffee stores having a consistently higher number of daily consumers than other local coffee stores and showing a continuing increase in numbers of consumers.</p>	<p>(a) Periodic survey data on per capita consumption; (b) periodic survey data on retail prices (c) Custom survey data</p>	<p><u>Linking purpose to goal</u> (a) There are enough incentives and support for the coffee stores to commit to price reductions; (b) Coffee is always popular when a country reaches a certain level of economic activity. China will be ready for coffee as a beverage once the price is compatible with most other popular beverages; (c) there is a careful and transparent selection process for participating coffee stores and also an effective system for monitoring and supervising pricing practices by these stores.</p>
<p><u>Outputs:</u> (a) A faster increase in per capita growth in coffee consumption in the selected group of consumers and subsequently an increase in overall market demand; (b) a faster increase in green coffee bean imports into China; (c) overall coffee retail price adjusts to a lower level; (d) the establishment of an informational website and other efficient PR resources in promoting coffee to China's coffee sector and the selected consumer groups.</p>	<p><u>Magnitude of outputs necessary and sufficient to achieve purpose</u> (a) the donated coffee is no longer freely distributed to participating coffee stores because of higher demand, and the donated coffee would be sold at a premium price with the same guidelines; (b) imports of green coffee beans increase faster than the year before promotion; (c) more and more coffee retailers 'voluntarily' reduce coffee prices to meet the new competition with more knowledge about running a coffee business; (d) coffee is portrayed in the mass media as a popular alternative beverage instead of a luxury.</p>	<p>(a) Monitoring and analysis of the progress of the promotion activities; (b) export and import Statistics; (c) market survey and statistics; (d) public survey</p>	<p><u>Linking output to purpose</u> The effectiveness of the promotion activity promotes stronger market demand, and subsequently encourages more coffee stores to lower their prices to in response to competition and public pressure; (b) China increases its coffee imports to meet higher market demand; (c) the overall price of coffee goes down after the promotion takes effect; (d) public opinion about coffee changes.</p>

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumptions
<p><u>Inputs: activities and types of Resources:</u>                      (a) The support of the coffee exporting countries, private sector and international organizations in donating coffee and other inputs needed for consumption growth; (b) logistical, technical and regulatory support to build a framework to allocate, supervise and monitor donated coffee and other inputs to the private sector in China (the participating coffee stores), which, in turn, channel these inputs to the end consumer following guidelines which set upper limits on the retail price compatible with other major beverages on the market; (c) technical assistance and information to responsible institutions in building website and other public relations activities.</p>	<p><u>Level of effort/expenditure for each activity</u>  <b>Component 1</b> (US\$225,000)                      Logistical preparation for the promotion.  <b>Component 2</b> (US\$50,000)                      Initiation of coffee consumption in universities and business districts in Beijing, Shanghai and Hang Zhou.  <b>Component 3</b> (US\$85,000)                      Development of advertising/media activities.</p>	<p>Promotion Project progress reports.                      Survey data and statistics on participating coffee stores.                      Survey data and statistics on overall coffee consumption and price levels.                      Statistics on exports and imports.                      Periodic reports and on-site visits to assess progress on implementation.</p>	<p>(a) Financing and donations from all sources are made on a timely basis in line with proposed activities and annual work plans/budgets;                      (b) supervision, monitoring and flexibility based on the survey are all important elements in completing the promotion activities successfully;                      (c) support for continuing the promotion from exporting countries and the ICO together with financial incentives to the private sector.</p>