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What are the Key Growth Barriers Facing the Australian-Grown Coffee Value Chain?

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Abstract

Coffee is an everyday tradition for 75 per cent of Australians. The average Australian consumes 2.1 kilograms of coffee each year (2021) and 65 per cent have a coffee machine at home (Accumulate, 2023). Despite the popularity, Australia's coffee production statistics are the opposite of it's sky high consumption, with only 50 commercial coffee growers that produce around 600 tonnes of green beans each year (Orr and Escudero, 2021). In this paper, the domestic coffee value chain is described and the key growth barriers influencing domestic coffee production in Australia are discussed. These barriers include access to information and industry collaboration, geographic location and global competition. There is opportunity for industry growth, however it is subject to reduction of the influence of these growth obstacles.

Keywords: Australian coffee industry, value chain, barriers to growth

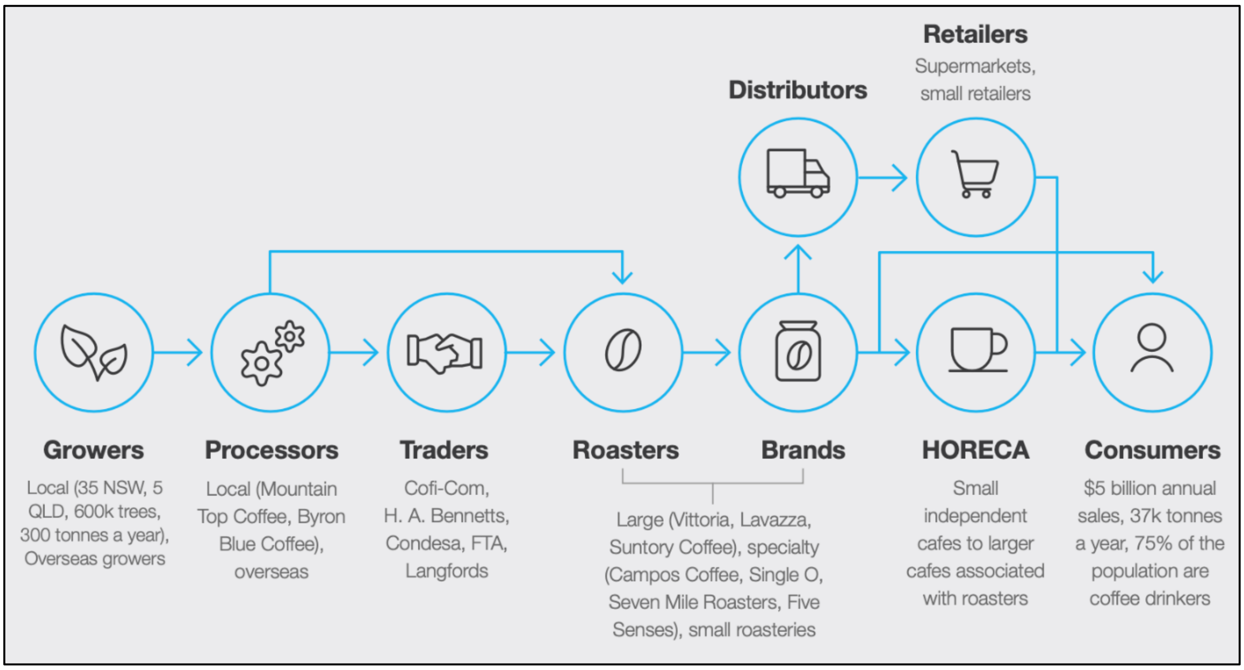
Introduction

Coffee is the one of the most traded commodities around the world (Adhikari *et al.*, 2020) with an annual worldwide consumption of 166.63 million bags (60kg bags) in 2020. The highest coffee-consuming and importing regions include the European Union, the United States and Japan (International Coffee Organisation, 2023). The global industry was valued at $488 billion in 2021 and is predicted to reach $659 billion by 2025 (GITNUX, 2023b). Australia only domestically supplies 1 per cent of our national total coffee consumption – where an average Australian drinks 22.8 L of coffee each year (GITNUX, 2023a). There are around 20,000 coffee shops in Australia that employ approximately 142,000 people throughout the value chain (Adept Economics, 2022) contributing $6.2 billion to the national economy (GITNUX, 2023a). Three hundred tonnes of Australia's green coffee beans are exported each year (about half the volume produced), but it is an amount so small it goes unreported by the International Coffee Organization (Coffee & Conservation, 2023).

Australia's Coffee Value Chain

A value chain analysis is defined as the evaluation of "the full range of activities which are required to bring a product or service from conception, through the different phases of production delivery to final customers, and final disposal after use" (Hellin and Meijer, 2006). Put simply, it is an economic tool that can be used to break down the steps of production along the supply chain. This break down can be used to help analysts identify areas to improve and evaluate performance within an industry. In Figure 1 the Australian coffee industry value chain map is shown.

Figure 1. Australia's coffee industry value chain



Source: (Orr and Escudero, 2021)

The map demonstrates the flow of coffee from growers to consumers. This network together with an examination of industry statistics highlights challenges faced by key stakeholders within the industry. The consequences of these barriers are analysed using value chain analysis.

Value chain principles can be utilised to analyse and evaluate performance by measuring efficiency and responsiveness of key stakeholders within an industry network. In Figure 1, Australia's coffee value chain presents several unique factors such as a small number of growers and processors, overseas stakeholders core to the value chain and the prevalence of small businesses. These factors imply challenges of key growth barriers influencing the Australian coffee industry. The small-scaled nature of the industry (WMF, 2017) limits industry collaboration and access to information, and enhances geographic location challenges, creating global competition. These barriers are discussed within the scope of key value chain drivers and facilitators. Drivers are defined as the interests and goals of the industry that can be used to measure performance (Nurhayati, Tavasszy and Rezaei, 2023). Facilitators are the relatively uncontrollable circumstances, tools and technologies that influence the value chain operation (Nurhayati, Tavasszy and Rezaei, 2023).

Industry Collaboration and Access to Information

In Australia the coffee sector is a relatively unestablished industry, with high annual consumption and low domestic production (GITNUX, 2023a). Defined as an 'emerging' industry (Orr and Escudero, 2021), Australia's coffee sector is in its early stages of development and features limited industry collaboration and access to information. This limits coordination throughout the value chain and results in segmented decision making. As an emerging industry, coffee also has no levied (product taxed) funds allocated to research, development or marketing strategy.

The most influential industry body is AGCA (Australian Grown Coffee Association) or prior to 2022, ASTCA (Australian Subtropical Coffee Association), which represents the interests of all of Australia's coffee industry stakeholders. In 2021, ASTCA defined a need for an "enhanced communication system that coordinates activities across all stages of the coffee production process" (2021). This was a call to action for more established chain coordination, a key value chain facilitator. This push for collaboration was primarily reasoned to create an industry wide marketing initiative that would allow access to a product premium and promote industry growth (Orr and Escudero, 2021). It has been identified that Australia's sustainable coffee production story is its biggest competitive advantage, however Motsinger (2018) asserted that $350 million invested on global sustainability initiatives in the industry have failed due to lack of value chain coordination.

Certification schemes are core to this sustainability narrative, as reported by (Orr and Escudero, 2021). Organic certification is the most valued scheme with 4 of 7 Australian coffee growers (interviewees) in agreeance. Interviewees were also unanimous in their agreement that lack of industry collaboration presents organic certification as a "difficult" challenge (Orr and Escudero, 2021). Furthermore, the small size of the industry does not allow for the influence of economies of scale to achieve this certification (Orr and Escudero, 2021) and emphasises the barrier of collaboration and demand of an industry wide growing standard that contributes to the sustainability marketing narrative.

Lack of shared information is also a key logistic driver identified in the value chain. The underdeveloped coffee industry has resulted in insufficient cooperation between research and industry stakeholders (Orr and Escudero, 2021). There are fundamental communication issues of this research to different stakeholders along the value chain despite various beneficial studies like the development of coffee bean varieties more suited to Australian conditions (Southern Cross University, 2019). The industry recognises the importance of making information readily available to consumers so they can make educated consumption decisions (Orr and Escudero, 2021) which can act as a pull lever and motivate producers to adapt new operations practises that will allow growth within the industry (Vanderhaegen *et al.*, 2018). Unfortunately in Australia societal expectations are skewed to a degree that a majority of Australians do not even know that we produce coffee on our soil ((Zest Coffee Roasters, 2021) and (C. MacLaughin, personal communication, 19 July 2023)). In the coffee value chain this lack of transparency is a feature of limited industry collaboration, again attributed to being an underdeveloped industry.

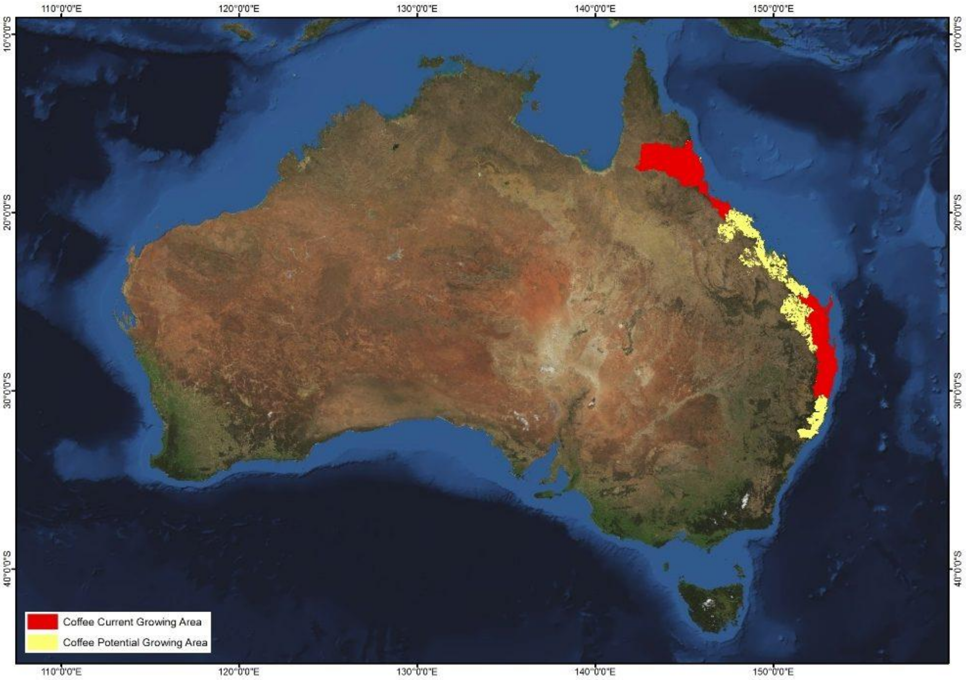
When comparing the recently scaled Australian wine industry's growth strategies and barriers to the Australian coffee industries approach, value chain coordination is key. In the wine industry, strategies include establishing a good industry research system and gaining investments for a collaborative marketing plan (Winemakers' Federation of Australian Wine and Brandy Corporation, 2000). In support, *t*hese core approaches contributed to Australian wine having a dominant share of the domestic market accounting for 82 per cent by volume in 2023 (Wine Australia, 2024). This highlights the influence of a unified research and marketing strategy and furthers the importance of collaboration for industry growth.

Geographic Location and the Scope of Global Competition

The geographic location of coffee growing regions in Australia acts as a barrier for two main reasons. Firstly, consumer perceptions of traditional growing regions and resistance to change in taste preferences, and secondly, logistical drivers such as access to land and facilities and transportation with associated 'coffee miles'.

Coffea arabica (Arabica) is the main species dominating 70 per cent of global coffee production and is typically grown in tropical areas around the equator (Adhikari *et al.*, 2020). In Australia, coffee is actually grown in subtropical regions of Northern New South Wales and Queensland as seen in Figure 2 below (Coffee & Conservation, 2023). Consumer knowledge about coffee growing locations around the world causes resistance in trying coffee grown in different regions as there is the fear that taste may differ (Orr and Escudero, 2021). This challenge highlights the difficulty of arguing that specialty coffee defined by terroir deserves a market premium, as the overall taste may vary from the uniform that dominates the industry currently. Whilst consumers agreed that sustainably grown coffee is relevant to their consumer decision, taste was reported as the number one influencing factor and is more reflective of the consumer willingness to pay (Orr and Escudero, 2021). So, the challenge the industry faces is that if consumers can get coffee that tastes better for cheaper, why would they want to spend more money on a product they value less? If this obstacle of changing consumer perceptions around taste and growing regions is not overcome, Australian producers will continue to be outcompeted by global imported coffee.

Figure 2. Current and potential coffee growing areas in Australia



Source: (WMF, 2017)

Geographic location also provides obstacles in terms of access to facilities for value chain processing and distribution. As the push for a sustainable selling point continues, added transport miles are counterintuitive to the marketing goal, as is individual producers commanding the value chain process. The industry currently lacks centralised facilities in the growing regions that allow for space and equipment to complete the processing steps, as there is no attraction for processors in other industries to these locations (Orr and Escudero, 2021). This lack of attraction is attributed to uncertainty in demand for their service due to the small scale and production volume of the industry. Again, these are central factors of an emerging industry although the uncertainty of demand is also attributed to global competition.

The coffee value chain in Figure 1 incorporates both domestic and global stakeholders, although almost all of the market share belongs to global coffee products (99 per cent) (Geraets, 2023). This dominance in global competition creates a barrier for value chain collaboration and achieving economies of scale in the local market (Orr and Escudero, 2021). Australian grown coffee beans fetch a retail price of around $50/kg (Barrett, 2022), compared to imported coffee beans at around $16.80/kg ($16,800/ton)

(Index Box, 2023). The global competition combined with rising fixed costs associated with coffee production in Australia drives the expensive premium (Barrett, 2022). Even though sustainable marketing initiatives can help underpin this premium, the growth opportunity barrier is still exacerbated due to the industries small size (Orr and Escudero, 2021) and lack of collaboration to achieve wholistic decision making.

It is also worth noting that sustainability initiatives may not be a 'one size fits all' approach for Australian coffee businesses and there may be other alternatives to bolster the presence of Australian coffee in our domestic markets. Whilst the Australian wine industry often cannot compete on price with global competitors, there has been a multitude of alternatives for businesses to boost their local market presence depending on their individual growth barriers (Winemakers' Federation of Australian Wine and Brandy Corporation, 2000). An example of an approach unique to the Australian wine industry is promoting a shift in consumer preferences which has been supported by additional direct-to-consumer marketing strategies and in 2023 contributed to a decline in imported wine volume of 16 per cent (Wine Australia, 2024). Additionally, businesses have been promoting the history of 150 vintages and the varying assortment of Australian wine (Winemakers' Federation of Australian Wine and Brandy Corporation, 2000). These are approaches the Australian coffee industry could adopt.

Conclusion

The current growth obstacles facing the coffee industry as identified by the value chain analysis are extremely integrated and interconnected for the future of the industry. Segmented industry collaboration, limited access and sharing of information, geographic location challenges and global competition are all fundamental drivers restricting industry growth. There is opportunity for economic growth associated with an industry wide sustainable marketing initiative, alternative strategies adopted from successfully scaled industries and whole-of-chain decision making, however the fundamental principle impacting the growth barriers is the nature of the Australian coffee sector as an emerging industry. In summary, it is pivotal that the industry stakeholders improve their overall coordination to work towards establishing a future growth trajectory.

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