

April 2014

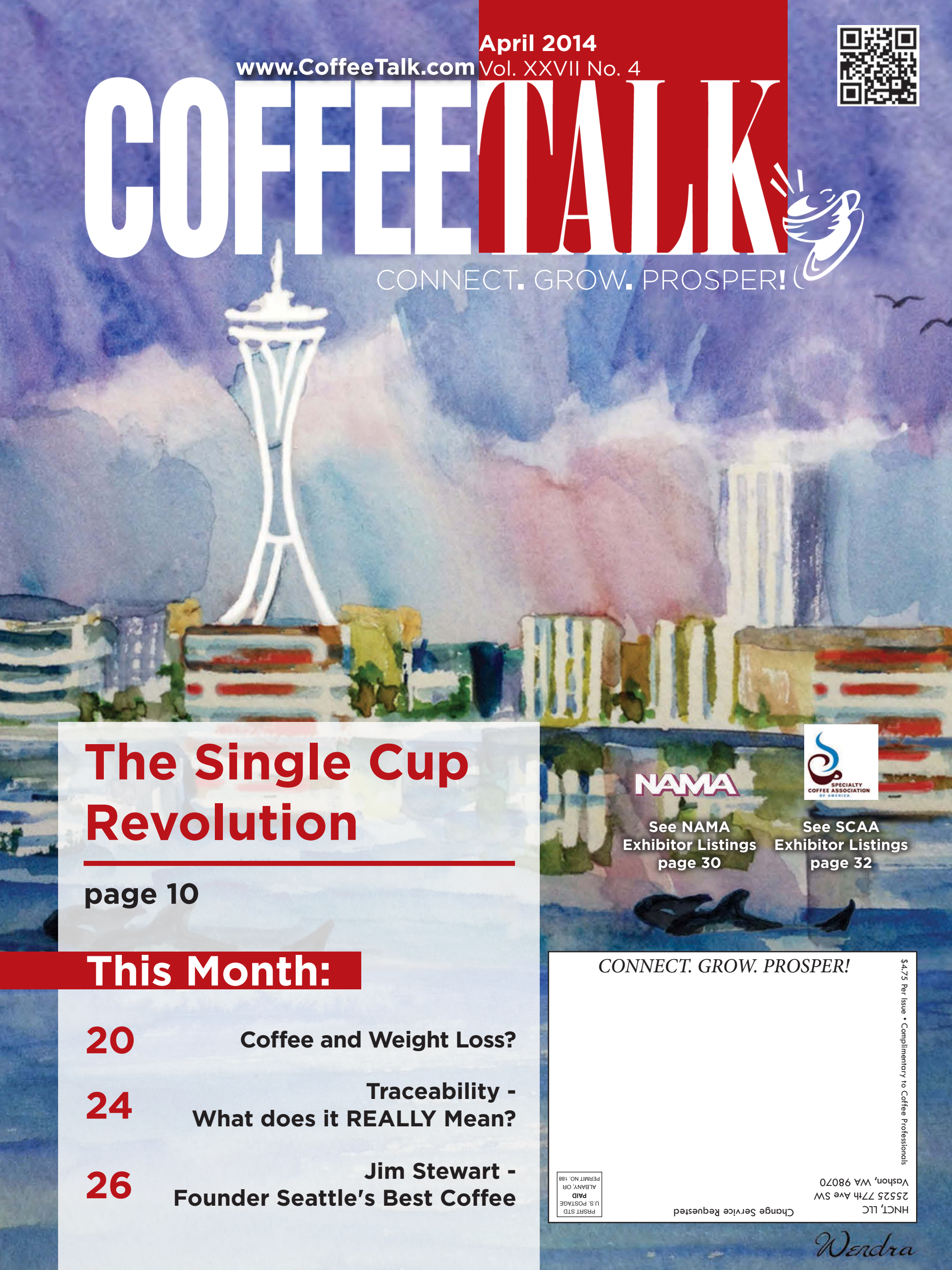
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COFFEE TALK



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What does it REALLY Mean?

It takes a few years working on the ground in a producing country to realize that “traceability” is not the objective, but in fact is rather the inevitable result of reaching a much more basic objective, that of consistently raising the income of coffee small holders. It’s easy to fall into this trap as the whole world seems to be clamoring for “traceability.” But at the end of the day, the reason we are doing all this work is to earn more money! It’s pretty basic, really; we need to stay focused on maximizing earnings, and accept that this is best done by raising both the intrinsic and the perceived value of the coffee.

Raising the intrinsic value is the first step in the process and it is most conservatively accomplished by raising quality. And noting that since coffee is a “manufactured” product, a very good way to do this is to adopt a manufacturing mentality and integrate process controls (and the accountability these controls demand) into the process. The inevitable result of taking this approach is consistent quality, fully traceable coffee!

The second step is to raise the perceived value of the product; this is accomplished by appropriately marketing the results of the first step, and realizing the resulting increased earnings. Traceability does not exist without process controls and accountability! The next time someone tells you they have “Traceable” coffee, ask them to show you where the money went. It is a sequence, *accountability* comes before *traceability*.

Our experience in Mexico amply demonstrates the value of process controls and the accounting systems needed to support them. Our program consistently pays producers more than commodities prices for their coffee and this year we are seeing that Grupo Terruño Nayarita’s associates are earning between 10 percent and 20 percent more than other producers who are only 20 to 30 miles away from our group. These tangible results are easy to see and appreciate.

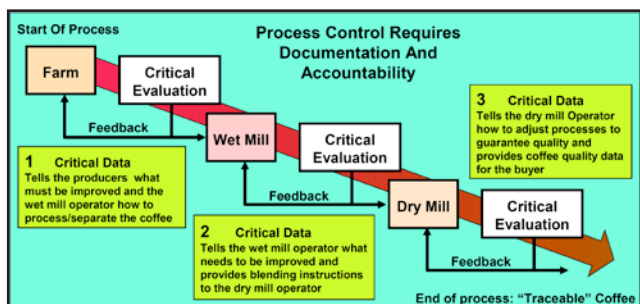
And there is added benefit to offering high quality coffees to buyers outside of the NYC-based market; it helps producers smooth out conventional commodities based pricing schemes. In 2005, in his presentation “Market Outlook For Differentiated Coffee” at SINTERCAFE in Costa Rica, Lawrence Pratt, from the INCAE Business School, showed that premiums for the best coffee result in a relatively stable price year to year that is nearly unaffected by the commodities market. Pratt has thus defined our secondary objective: identify and sell the best coffees outside of the NYC-based market!

This philosophy has been applied for over 15 years in Mexico where San Cristobal Coffee Importers has teamed with Cafes Sustentables de Mexico (CAFESUMEX) and rural Mexican coffee producing societies. Since 2005 “Gupo Terruño Nayarita” has exported 118 containers of controlled quality, excellent coffee that has a barcode and serial number on every bag; all bags fully traceable at www.trackyourcoffee.com.

Coffee production

Unlike other commodities such as petroleum or pork bellies, coffee is a “manufactured” product; green coffee, ready for roasting, is the ultimate result of a number of process steps, all of which affect its quality.

Process controls are essential. Producers need to document all process inputs and outputs and acquire the data needed to continuously improve quality, assure accountability and ultimately provide the traceability needed to satisfy government regulators.



Generalized coffee process sequence, from harvest to sale of green coffee ready to roast

This is exactly what has been done successfully in Mexico: by managing process, Grupo Terruño Nayarita’s producers are able earn more for their coffee than do their neighbors who are selling into the commodities market. Also the premiums for the best coffee have *simultaneously*:

- Paid growers more money for ALL of their fruit than their neighbors earn by spot selling into the commodities market.
- Paid the added cost of a quality assurance system.

It is simply good business.

Bottom up process controls strengthen the supply chain by installing quality management systems where they are most needed, at the bottom.

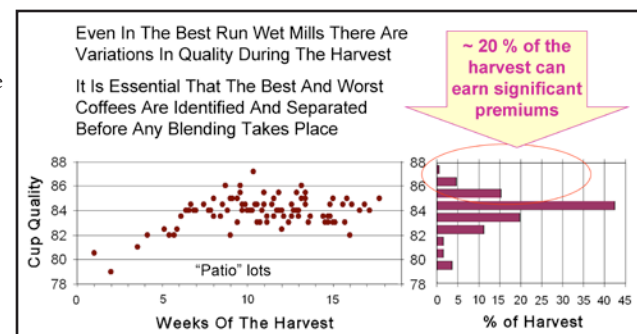
Quality management systems traditionally exist only in large organizations. Small producers and small cooperatives who supply the majority of the world’s coffee are generally “flying without instruments.” This is simply too risky for those without the resources to survive the downside.

Process control can be very basic: separation of daily lots

Fruit entering the process must be evaluated before being allowed to enter the wet mill or placed on patios or beds for sun drying. Inferior fruit MUST be separated and processed or dried separately.

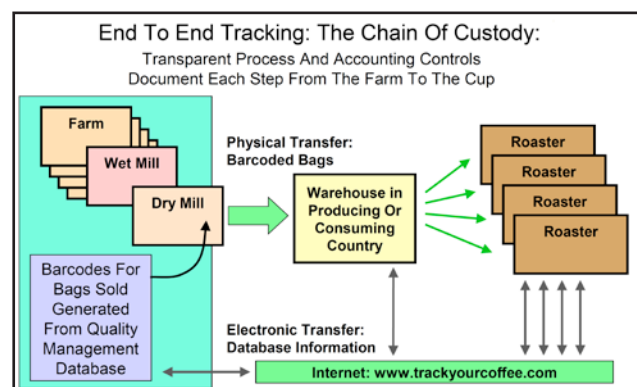
Also each day’s input of fruit needs to result in one “lot” of dried product, either parchment, or sun-dried fruit, and these daily “lots” must be kept separated until they can be individually evaluated. This is essential. Experience has shown that there are significant variations in quality from day to day.

Once the coffee is mixed, the best lots and the worst lots may contaminate the resulting blend. It is too risky to mix daily lots for the sake of convenience; if quality and consistency are valued, blending can only be done by design after each daily lot has been evaluated.



The data show that cup quality as a function of time of the harvest can have significant variations

Blending of daily lots is ALWAYS done with the objective of maximizing value and fulfilling contracts. We use the FincaLab® system to create blends, assign blend identification numbers, and issue work orders for dry processing that result in defined lots of fully traceable coffee for sale with barcodes and serial numbers on every bag.



Exporting the concept

Samson Guma, founder of Yeti Agro Forestry in Ethiopia noticed the success of Grupo Terruño Nayarita. Samson has now installed the FincaLab® technology in his wet mill in Garjeda, Ethiopia, and is implementing its controls to improve his coffee quality. Samson and Grupo Terruño Nayarita associate CAFESUMEX, have instituted an “internship” program and are currently collaborating to offer hands-on training in coffee process controls to Ethiopians. Mr. Abdi Itana Tumtu, arrived in Nayarit, Mexico, last February. He is working shoulder to shoulder with the CAFESUMEX quality assurance team, as well as getting experience in the wet mills of the group’s member societies and the CAFESUMEX dry mill. Abdi is getting four months of hands on experience in all aspects of the coffee production process.



Abdi Tumtu in the CAFESUMEX office in Tepic, Nayarit

Summary

Maximization of the value of a product requires attention to both its intrinsic value and its perceived value. To attempt to quickly raise the perceived value of coffee by building on the public’s perception that all it takes is a cell phone GPS to demonstrate “traceability,” is to risk losing public confidence in the long run when faced with the inevitable failure to deliver a consistent quality product for lack of the process controls needed to raise and manage the product’s intrinsic value.

A bottom up approach provides the needed accountability and transparency, and hands-on, on-site training help assure success in replicating Grupo Terruño Nayarita’s success in other countries.

The use of process control systems such as the FincaLab® amply demonstrate that “traceability” begins with documentation of the reception of proven perfectly ripe coffee cherries of known origin and results in a consistent and known quality product that can be “traced” back to the trees which produced the fruit.

There can be no traceability without accountability.



By James Kosalos, San Cristobal Coffee Importers and Samson K. Guma, coffee farmer and founder, Yeti Agro Forestry, Ethiopia.