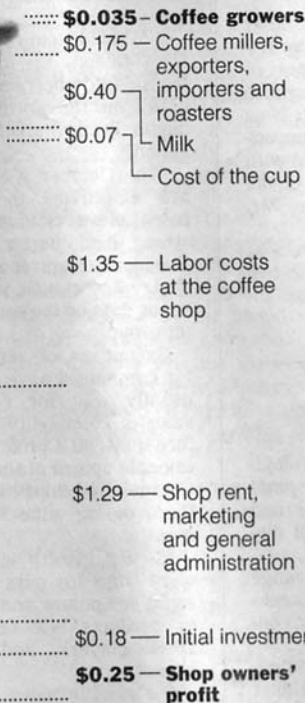


# Move Over Starbucks, Juan Valdez Is Coming

## \$3.75 Retail, Pennies for Farmers

Coffee growers earn almost nothing from the \$3.75 people pay on average for a double cappuccino at the specialty coffee shops that now dot American cities.

### Where the \$3.75 goes



Source: Specialty Coffee Association of America

By SHERRI DAY

How about a nice large cup of coffee, light on the guilt?

The Colombian Coffee Federation, which represents more than 500,000 Colombian coffee growers, is planning to open its first coffee shops — all bearing the name Juan Valdez, after the federation's signature character — in the United States by early 2004. Gabriel Silva, the president of the federation, which is based in Bogotá, says the coffee growers have been "too passive" in claiming a larger piece of the \$8.4 billion specialty coffee industry.

"In a cup of coffee that you get at a coffee shop, between 1 and 2 cents goes back to the farmer," Mr. Silva said, referring to Colombian growers. "We need to build our own solutions and take the destiny in our hands and really fight for our share of the industry."

Coffee growers are facing a difficult market. Per-capita consumption has been in decline since 1963 with the only growth area the specialty coffee shops, led by Starbucks, according to the International Coffee Organization in London. The price of coffee beans has also declined significantly from a high of about \$1.20 a pound five years ago because of a global oversupply of coffee beans from countries like Vietnam and Brazil. In Colombia today, the average coffee grower gets only about 68 cents for a pound of coffee, Mr. Silva said.

Industry trade groups have tried to stem coffee farmers' losses by encouraging coffee producers to destroy oversupply and raise prices. They have also encouraged food companies to buy so-called fair trade coffee, which aims to guarantee what its advocates say is a living wage to poor coffee farmers in developing countries.

But even with Starbucks buying fair-trade coffee at an average of \$1.20 a pound, Colombian coffee growers make only about a penny from each cup of coffee sold, Mr. Silva said. The average Starbucks' latte costs \$2.25 to \$3 a cup; a mocha costs \$2.45 to \$3.25.

By selling its own coffee at its own coffee shops, the federation, which represents both small and large coffee growers, plans to return 4 to 5 cents for each cup of coffee sold. Each of the federation's 560,000 farmers will also have an ownership stake in the shops, Mr. Silva said. The profits from the retail operation will go back to the

The New York Times

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federation, which said it would put marketing dollars behind the Juan Valdez brand and work to improve Colombia's coffee-growing regions by building roads, schools, health centers and housing.

"It's certainly interesting," John Glass, a restaurant analyst at CIBC World Markets, said of the coffee growers' plan. "I'm sure they can capture, to some degree, some more integrated profit if they vertically integrate it. The example would be Exxon Mobil. They own gas stations. They take it out of the ground, and they sell it."

The first Juan Valdez coffee shop is scheduled to open in New York, where the federation owns property

marketing campaign. Future Brands, another IPG unit, will work with the company on branding.

The stores will largely be modeled after five coffee shops that the federation operates in Colombia. There, they are testing product mix, pricing and the intricacies of running a retail operation. The stores, which are relatively spartan, serve nine different blends of coffee and are decorated in neutral browns and beiges, accented with wooden chairs that do not encourage patrons to linger. Although prices of the Colombian coffee have yet to be set for stores in the United States, Mr. Silva said he expected them to be lower than Starbucks'.

"Starbucks sells an experience," Mr. Silva said. "It's almost like a social place where you go there and meet your friends and read the paper and have some milk with coffee. They are not maximizing the potential of the pure coffee experience. Our stores are going to be much more down to earth — less opportunities for social interaction. It's not going to be a gathering place; it's going to be a place to get superior coffee, the best coffee in the world."

The federation's plan promises to be a delicate balancing act, as the group will be directly competing with its primary consumers, packaged-goods companies that market 100 percent Colombian coffee as an ingredient in brands like Folgers and coffee shops, especially Starbucks, which controls 38 percent of the domestic specialty coffee shop market.

Officials at Starbucks, which has recorded 12 consecutive years of same-store sales growth despite the slumping economy, said they supported the Colombian coffee growers' efforts and would continue to buy coffee beans from them. Starbucks officials said the company was a "significant buyer" of Colombian coffee, but they declined to say how much coffee they purchased from Colombia, which is the second-largest coffee-producing nation in the world, after Brazil.

"We're not worried," said Dub Hay, Starbucks' senior vice president for coffee. "We're well aware of what they're going to do; we think there's room for everyone."

A representative of Dunkin' Donuts, which says it sells more cups of coffee a day than any other retailer, expressed support for the growers' efforts, along with a little confusion



Tony Cenicola/The New York Times

Bags of Juan Valdez coffee. The Colombian Coffee Federation, which represents more than 500,000 Colombian coffee growers, is planning to open its first coffee shops — all bearing the name Juan Valdez, after the federation's signature character — in the United States next year.

## Coffee growers don't make much from each cup of coffee sold in the United States.

on 57th Street and Lexington Avenue. The federation also plans to open three more flagship stores in Boston, Washington and Seattle.

The Juan Valdez trademark, which was created by DDB Worldwide Marketing in 1960's, is probably most familiar from a series of television commercials featuring the character standing in American supermarket aisles. The character was suspended in 2001, after coffee bean prices dropped significantly and the federation could no longer bankroll the ad budget for Juan Valdez.

But last summer, Juan Valdez made a comeback. The federation paid \$1.5 million to buy him a cameo appearance in the Jim Carrey movie "Bruce Almighty." The federation plans to spend about \$20 million on its coffee shops, but did not say how much of that would go for advertising and marketing. It will spend another \$9 million this year and next to promote its marketing program for 100 percent Colombian coffee. The Sawyer Miller unit of the IPG Group is spearheading the federation's

## More Than Starbucks

Though Starbucks is far and away the largest of the retail coffee shop chains, it does have competition in the fast-growing industry.



Source: Mintel

The New York Times

about the identity of the coffee shops' namesake. "Is that the guy with the horse?" asked Jon Luther, the chief executive of the restaurant division of Allied Domecq, which owns Dunkin' Donuts.

The federation has enlisted McKinsey & Company, a management consulting firm, to help develop its retail plan for its United States stores. McKinsey has been advising the federation on the creation of its coffee shop business model and the rollout of the stores.

But the federation's learning curve will be steep as the group will

have to figure out how to transfer its skills as coffee growers to retail sales, analysts said.

"There's so much more to it," said Mitchell J. Speiser, a restaurant and food service analyst at Lehman Brothers, about the federation's plans. "It's site location; it's branding. It's the right management team. It's hiring the right people. Just on paper, having real Colombian coffee and creating a retail shop around it, they do win the authenticity factor, but it takes a lot more than that to create a successful brand and a successful retail chain."