Rise of the African consumer heralds new dawn for coffee sector

**Highlights**

- Although SSA is a middle-ranking global coffee producer (accounting for around 12% of world coffee production), the region produces some of the world’s finest coffee beans.
- But little coffee is consumed in SSA (with the exception of Ethiopia), with per capita coffee consumption averaging just 1kg in Madagascar and 0.9kg in Côte d’Ivoire, compared with 6kg in Brazil and 2.3kg in Algeria, leaving plenty of room for growth.
- The region’s strong economic growth has led to the emergence of an urbanised middle class, which is stimulating demand for consumer goods, including coffee.
- This has attracted the attention of global coffee giant, Starbucks, which is expanding into Sub-Saharan markets, creating tough competition for a number of local coffee chains, such as Kenya’s Art Caffe (partly owned by local roaster, Dorman’s) and Java House.
- Building robust value chains will be essential for ensuring that African producers capture the full value of coffee, rather than continue to export the bulk raw to global markets.

**Sub-Saharan Africa is renowned for the quality of its coffee beans**

Sub-Saharan Africa is a middle-ranking coffee producer, accounting for 12% of world output. Ethiopia and Uganda dominate the region’s coffee production, with outturn in 2013/14 reaching 6.6mn and 3.8mn 60-kg bags, respectively (Chart 1), together accounting for 62% of SSA’s coffee output (Chart 2). Côte d’Ivoire is West Africa’s leading coffee producer, and its outturn of 2.2mn bags in 2013/14 made it the third largest producer in SSA, with a 13% market share. Although SSA’s contribution to global coffee production is modest, the region produces some of the world’s finest coffee beans. Ethiopia, which is the origin of Arabica coffee, is renowned for its unique Yirgacheffe, Sidamo and Harar Arabica varieties, while Kenya’s fine Arabica beans grown at high elevation near Mount Kenya are equally prized by coffee connoisseurs. However, with the exception of Ethiopia, Africans drink very little coffee. As a historical cash crop, coffee has been grown for export while many African producers, notably Kenya and Uganda, have predominant tea-drinking cultures. This has meant low coffee consumption in Africa, although this is changing.

**SSA’s low coffee consumption is set to grow**

SSA’s strong economic growth has led to the emergence of an urbanised middle class which is stimulating demand for consumer goods, including coffee. Per capita coffee consumption is low, and...
with leading consumers – Ethiopia (2.27/kg), Madagascar (1kg) and Côte d’Ivoire (0.9kg) – still well below other emerging markets, such as Brazil (6kg) and Algeria (3.2kg, Chart 3). This leaves plenty of room for growth, which is reflected by the growing presence of local coffee shop chains—Nigeria’s Neo Café, Kenya’s Art Caffe (partly owned by local roaster, Dorman’s) and Java House, and Ethiopia’s Kaldi’s. Dorman’s is the standout local player, with a presence along the entire coffee value chain, from regional bean sourcing to roasting and retail.

Global coffee giant Starbucks to enter SSA next year

These local brands will eventually be joined by global coffee giant, Starbucks, which is finally expanding into SSA. The ubiquitous American coffee chain announced in July that it plans to enter South Africa next year, providing a potential springboard into high growth markets in the sub-region. The American coffee giant signed a deal with local franchise operator, Taste Holdings, to run Starbucks cafés in South Africa for the next 25 years. The deal also allows Taste Holdings to license rights to other African markets where it is already present in the fast-food segment. Starbucks will be a tough competitor for local brands, given its wide sourcing footprint (it buys green coffee in Ethiopia, Rwanda, Tanzania, Uganda, Zambia, Cameroon, Burundi, the DRC and Kenya), its financial firepower, and its strong global brand. As coffee production faces structural constraints in many East African markets—owing to low productivity, susceptibility to disease (Uganda) and erratic internal marketing chains (Kenya)—domestic consumption could put further strain on the supply of beans, constraining exports. This trend is likely to favour multinationals such as Starbucks which, like the wholesale coffee buyers, Mondelez and Nestlé, have the resources to work with farmer cooperatives to boost production, and which can afford to buy more expensive beans. However, given that Starbucks will sell its coffee as a premium product, reflecting its emerging market strategy to position itself as an aspirational brand, it will not appeal to all price-conscious African coffee drinkers, which should leave plenty of room in the market for local coffee shop chains.

Building strong coffee value chains will be key to the sector’s success

The growth of domestic consumption of coffee and of local coffee retailers could provide the impulse to revitalise Africa’s coffee sector and overcome its perennial problems. These include weak and inefficient agricultural value chains, high production costs and the lack of a domestic market for the final product, all of which prevent African producers from extracting the full value from coffee and instead exporting the bulk raw to world markets. The key to capturing the full value of African coffee will be in building robust value chains that ensure that the beans flow seamlessly from farmers to African traders and roasters, and onwards to African consumers.
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