



THE BUSINESS POTENTIAL FOR VIETNAMESE COFFEE IN SCANDINAVIAN MARKET

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ABSTRACT

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The purpose of this paper is to illuminate light on the international trade between Vietnam and Nordic Countries in the Coffee market. This paper evaluates the position in both domestic and global markets, in perspective of Vietnamese Coffee in Exporting and Nordic Coffee in Importing. Apparently, the general impact from the Global market is studied in terms of: Global Value Chain and Market structures impacts on prices and demand.

Using value chain and five forces analysis as its primary methodology, this research identifies links in the value chain in Vietnam and the competitive market structure in Nordic countries. That have been developed in their respective coffee industries in order to help the new entrant Vietnamese Coffee improve its competitiveness, increase sustainability and respond to market demands. Furthermore it identifies current patterns of cooperation and competition threats among the other leading producers in production and quality of coffee. The fact is that Vietnam produces mainly Robusta, and the Scandinavian markets prefer Arabica from Colombia, Brazil and some African Countries, as long as their tradition drinking. Because of different types of coffee imported, the competition between Vietnam and the others does not seem to be very intense.

Genuinely, it is not easy to make people reconcile themselves to different taste in a short time. However, there are still opportunities to find a certain market here in a direct or indirect strategy, by the fact that coffee roasters are willing to substitute Arabica beans for Robusta beans, as well as the willingness of consumers to buy and drink coffee blends. The needs of consumers are not limited, and they are more interesting in variety of taste. Moreover, Robusta is growing and more well known in the Central and Eastern Europe, especially the young people trend to Espresso. That is the hope for good Robusta prospects.

Key words: Coffee, Price, Demand, Value Chain, Nordic market

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1 INTRODUCTION

1.1 Background and motivation

In recent decades, coffee has been more popular and became one of the most important commodities trading in the world. The consumption of coffee has a tendency to increase more and more in the future. Scandinavian countries are ranked as the most consuming of coffee per capita in the world.. When you are invited to a local house in Finland or Sweden, a cup of coffee is probably always an opening for a conversation. The weather and the culture have made Coffee become a traditional drink in Nordic countries, and Europe generally, so that there are more potential for the coffee market in these areas.

Follow Brazil, Vietnam is the second biggest exporter of coffee in the world, but the trading between Nordic countries and Vietnam is still weak. The reason is at the taste and the demand of local people. Here, they prefer Arabica coffee, which has the taste of sour and mild. Vietnam is mainly growing Robusta coffee, which has a stronger taste and less aromatic than Arabica. It is really hard to change the habit of drinking Arabica of Scandinavian people in a short time. However, according to some recent researches, there have been changing a bit in the taste of coffee of young people. They have more different favorites and are more towards to Robusta beans for an espresso coffee type.

In Vietnam, Coffee plays an important role in contributing to the development of economics, not only expanding the trading cooperation between Vietnam with the other countries but also create the big amount of employees for society. Since the coffee beans was introduced and planted in Vietnam, it has been grown significantly and now Vietnam has much more potential in coffee market share because of the evolution of modern technology in production.

For three above reasons, I have been curious if there is any possibility for the Vietnamese coffee in Scandinavian market specifically and European countries generally. Could Nordic or European market become potential and profitable market for Vietnamese coffee in the near future?

At this thesis paper, I would like to introduce the development of Vietnamese coffee industry and to analyze the potential market and global value chain. I hope this study would make the importers in Europe have the kind considerations and tight cooperation in the near future.

1.2 Research issues and objectives of the study

Vietnam has quickly become one of the largest coffee producers in the world, but the strong fluctuations in coffee prices are putting a strain on the farmers. On the other hand, the vital issue is at the poor quality because of lacking the effective cultivation methods. Apparently, most of the coffee beans exported to the world from Vietnam are Robusta while Nordic market still prefers Arabica beans much more than Robusta beans. The two reasons above perhaps, restrain the trading coffee beans between Vietnam and Nordic countries.

However, Vietnam is expanding the area to grow more Arabica. They tend to improve quality and promote the sustainable development that can produce certified coffee in the future. In the case example of famous Finnish coffee brand Gustav Paulig Ltd., with the aim and vision of bringing the value taste to the consumers, they always do import the high quality beans from the partner companies. There would be a big challenge for Vietnam to expand in European market, or more in Nordic countries. Vietnamese producers have to change the method and apply the new technology to cultivate the coffee beans effectively and ensure the supply for the demand in the whole world

The purpose of this paper is to study the potential Nordic market for Vietnamese coffee beans. This paper also evaluates price structure of global sourcing on the operating efficiencies of Vietnam comparing to the specialty coffee exporting in the Nordic local market.

In addition, to establish the outcomes if further evolution and expanding market can be made to optimize the profitability of importing coffee beans from Vietnam.

1.3 Methodology

The research method applied in this thesis is relying on empirical research methods, which are based on the data, previous researches and scientific statistics gathering from different trusty sources. The materials are readily available in various databases and libraries, and online materials.

In the back ground of study, I illustrate the role of coffee trends in the reliable source from International Coffee Organization (ICO) and some author's calculations are done to compare and clarify the position of each individual market.

To study the degree of competition, I must define the current market situation. I use a five forces model, which is developed by Michael. E. Porter, to analyze the competitiveness and identify opportunities and threats within industry. The definition and model business strategy is based on Subhash (2001), Jeyarathmm (2008), Mclvor (2005) sources. Apparently, the roles of market players and the impact on price and demand are expounded through the theory of competition market types, wherein the structure of an industry is related to behavior within an industry. The references are integrated from Boone (2005), Townsend (1995) and Brumfitt (2001).

To estimate to price structure model of importing Vietnamese coffee to Nordic market, I start by specifying the value captured in the coffee global value chain which has been studied and used in many other studies. However, my approach is more in the spirit of the recent research of Oxfam – International commodity research coffee which is adapted from the Economist Intelligent Unit. Then, I estimate the price structure and do a comparison with average retail prices which are subscribed by the trusty source ICO, as well as, a mark-up price comparison.

The research goes through the task of applying the framework to analyze and gathering data efficiently and effectively. More noticeably, the analysis depends upon price variations rather than actual prices which are difficult to measure precisely. In addition, the use of time series for doing research is dependent on the average prices which would provide more information than a price comparison at a fixed point of time. Last but not least, because of the different currencies between Euro and American dollars, a fixed average exchange rate is taken from the X-rates online source in April 2012.

1.4 Structure of the study

This research is divided into nine chapters, which will be presented as follows:

In the first chapter, I present the background and motivation to write this paper, as well as the objectives and methodology. The second chapter will mention the theoretical framework I am going to apply for my research study. The third chapter will give the readers an overview of the roles of Coffee commodity in international trading, while the fourth and fifth chapter will sketch some main points of view of Vietnamese in production and exports, and characterize Scandinavian coffee markets.

The following parts by the sixth and seventh chapters, I present the analysis of the potential in importing coffee beans from Vietnam to Nordic market by using “Five forces” framework and “Value Chain” analysis. The eighth chapter will be dedicated to building the cost structure and price model of importing coffee beans from Vietnam to Nordic market, specifically Sweden, Finland, and Denmark. The profitability will be optimized which is undertaken the price strategy. The conclusion and suggestion are summarized in the final chapter nine.

2 THEORETICAL FRAMEWORKS

2.1 Competition types and roles

It can be stated that different kinds of connections can be identified between different contexts of competition and the effects of competition. The structure of an industry is related to behavior within an industry, and proximity between competitors is related to the emergence and growth of international competitiveness. (Bengtsson, Maria 1998, 8.) Their collective behavior determines the level of price, but their individual decisions have no identifiable impact on that level; as they see it, prices are fixed by impersonal market forces, all a matter of demand and supply. The individual competitors see themselves as having to contend with the market, not with each other. (Townsend, Harry 1995, 59.)

The market observation by the buyers is lying on the number of organizations and a wide variety of products. There are two types homogeneous and heterogeneous product. The products are sorted as homogeneous if there are no considerable differentiated brands or providers, thus there can only be one price at any time. Obviously, the minute percentage of the individual cannot have noticeable impact on market conditions. In opposition to product homogeneity, there is heterogeneity when the perceptible diverse and difference among the products is noticed. In perspective of organizations, they are formed groups of four: pure competition, monopolistic competition, oligopoly, and monopoly (table 1).

Pure competition (also known as perfect competition) is characterized by a great number of buyers and sellers, and product homogeneity, as a result, many substitutes. In that case, prices are determined by supply and demand. Clearly, the traders are obliged to accept market prices as facts of life, determined by their joint behavior, which they are individually too small to affect: suppliers and demanders are price-takers (Townsend, Harry 1995, 77). Therefore, there are few barriers for the new entry companies if any.

Monopolistic competition is close to pure competition, but the difference is one big company dominates the market with a few medium or smaller sized companies for e.g. Wal-Mart or Google (used to be “pure competition”). The goods are similar but can be

differentiated in a sense of name or few product features price, image, quality. A good example for this industry is coffee sold with many different names though they are not quite differential products. (Brumfitt et al. 2001, 27.)

The common industry structure is *oligopoly* which there is only a few companies that make up an industry with a large market sale. The prices are controlled by those firms. This type of a market offers room for smaller companies as well and able those to sell similar products with the prices set by the bigger organizations. Suppliers can always improve their joint profit by avoiding competition, and this possibility may influence market behavior. (Townsend Harry, 1995, 114.) Example of oligopoly is Swedish or Finnish coffee market as mentioned in the below part.

In *monopoly*, there are only one seller or manufacturer and many buyers. The prices are defined by the organization enjoying monopoly and the buyers decide what they buy and how much. Typically, entry into this market, called the single business, is restricted due to high costs or others obstacles, which may be government regulation, social and economic situations.

TABLE 1. Types of competition (Boone et al. 2005, 80)

<i>Characteristics</i>	<i>Pure Competition</i>	<i>Monopolistic Competition</i>	<i>Oligopoly</i>	<i>Monopoly</i>
Number of competitors	Many	Few to many	Few	No direct completion
Ease of entry into industry by new firms	Easy	Somewhat difficult	Difficult	Regulated by government
Similarity of goods or services offered by competing firms	Similar	Different	Similar or different	No directly competing products
Control over price by individual firms	None	Some	Some	Considerable in a pure monopoly; little in a regulated monopoly.

2.2 Five forces analysis

Five forces model is developed by Michael. E. Porter, which applies for analysing the competitive environment within an industry to identify opportunities and threats facing a firm. This models points out five important keys in consideration of consumers, suppliers, new entrants, and substitute products or services to sketch the industry's structure and competitive advantages. It is indicated in five terms as listed below:

- ❖ Threat of New Entrants
- ❖ Bargaining power of Suppliers
- ❖ Bargaining power of Buyers
- ❖ Threat of Substitutes
- ❖ Rivalry among Existing Firms

The collective strength of the five forces determines the ultimate profit potential in the industry. If the forces are stronger, then the ability of company to raise price and earn high profits is limited. Hence, a high competitive force can be regarded as a threat and a low competitive force can considered as an opportunity as it allows a company to earn high profits. (Jeyarathmm, M. 2008, 70.)

Analysing these five forces enables an organization to build up a picture of whether the industry is a highly competitive low profit market or a low competition market with high profits. (Mclvor 2005, 122.)

Explaining Porter's five forces:

1. Threat of new entrants: determines how easy is it for new firms to start competing in a market?

Both potential and existing competitors influence average industry profitability. The threat of new entrants is usually based on the market entry barriers that can take diverse forms. (Subhash 2001, 94.) The concept of barriers implies a significant cost of joining an industry. The high cost keeps away potential competitors from entry even when the industry returns are high. (Jeyarathmm, M. 2008, 71.) Thus it would maintain a level of profits for those already existed in the industry.

By Economies of Scale, Jeyarathmm defines it to form a production process in a specific industry, which is obtained through cost reductions and mass production, and herein discount on purchase of raw materials, advertising or assembly costs. The establish companies try to discourage potential competitors from entering to an industry by raising the height of barriers. The potential entrants take a high risk but get a high profit, which means they are required to establish high levels of production or accept a cost disadvantage. In addition, barriers to entry arise from the others sources: product differentiation by building on the loyalty brands, distribution channels, and the impact of government restrictions.

2. *Bargaining Power of Suppliers*: is concerned about how easy it is for suppliers to raise the prices. According to Porter, the power of suppliers are not weakened if the number of buyers is much higher than the number of suppliers; if the product or service is differentiated and unique where it has built up switching cost or there is rare available substitutes, for e.g. electricity; and if the supplier's threat to integrate forward to the existing firms; or a purchaser only orders a small quantity which is unimportant to suppliers. In the other words, the more you need them, the more power they have. (Jeyarathmm 2008, 72-73.)

3. *Bargaining Power of Buyers*, on the contrary with bargaining to suppliers, characterize how the buyers drive prices down or demand high quality. This is driven by the number of buyers when it is a small number, the purchase volume is larger and as a result, buyers' bargaining power is greater. Next is the importance of each individual buyer to the business, and the low switching cost from different alternative products and services. The buyer can be a dictator if the purchased item is unimportant, or can be produced itself. The buyers can pose a credible threat of backward integration for forcing down prices.

4. *Substitute products*: is concerned the alternative ways for customers can find to satisfy their similar basic needs. The existence of close substitutes poses a threat, by limiting the price and profitability. Availability of few substitutes provides opportunity for the company to raise the price and get higher profits. (Jeyarathmm 2008, 73.)

5. *Rivalry among Existing players*: is measured by the number and capability of industry's competitors. The prevailing economic condition in the similar and equal produc-

tion among the competitors, the power of each individual firm decreased because of oversupplying. Therein, the strong intensity of rivalry may result and it will reduce the profit margin when the price competition is narrow. On the other side, the intensity of rivalry is weak among established players within an industry; companies can raise prices and earn greater profits. (Porter's Five Forces -Assessing the Balance of Power in a Business Situation.)

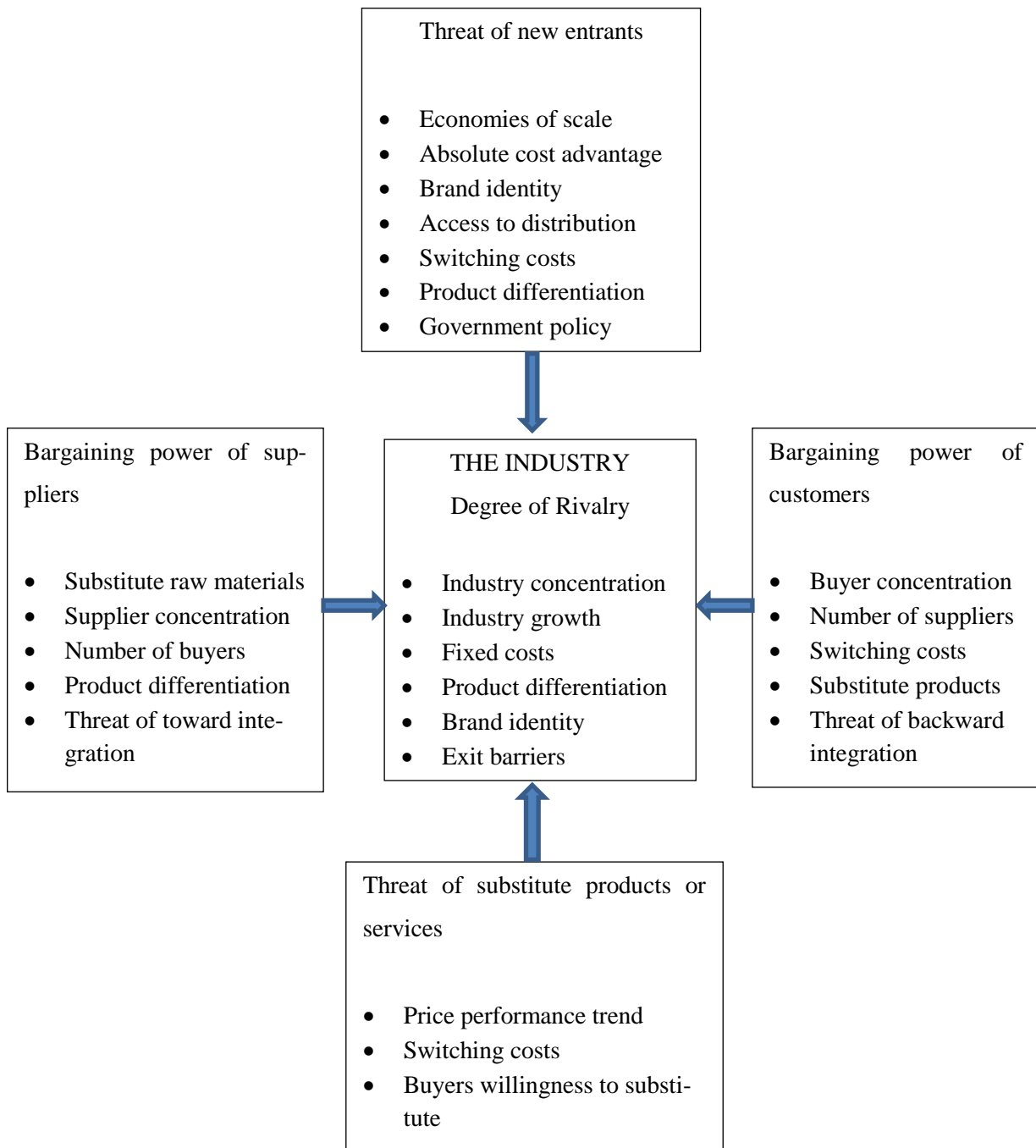


FIGURE 1. Michael Porter's five forces model (Subhash 2001, 93)

3 OVERVIEW OF COFFEE IN THE WORLD

3.1 The origin of coffee beans

Coffee bean was discovered in Ethiopia over one thousand years ago. It has been spreading to Yemen, some countries in the Middle East and quickly to the Arabs. Then, in the middle of the sixteenth century, coffee was brought to Europe. In the major cities of England, Austria, France, Germany and Holland, coffee houses were quickly becoming centers of social activity and communication. Until the end of the seventeenth century, Coffee has been known widely and been an important commodity in the world as we know today.

3.1.1 Types of coffee beans

There is no a certain number of the species of coffee plants. It has been estimated that there are about 25 to 100 species from anywhere else. However, in the commercial coffee industry, there are two important coffee types:

Arabica coffee: is the most popular specie with an aromatic, mild taste and represents approximately 70 % of the world's coffee production.

Canephora or Robusta commonly: has a distinctive taste compared to Arabica and about 50-60 % more caffeine. It represents about 30 % of the coffee market.

3.1.2 The benefit of coffee beans

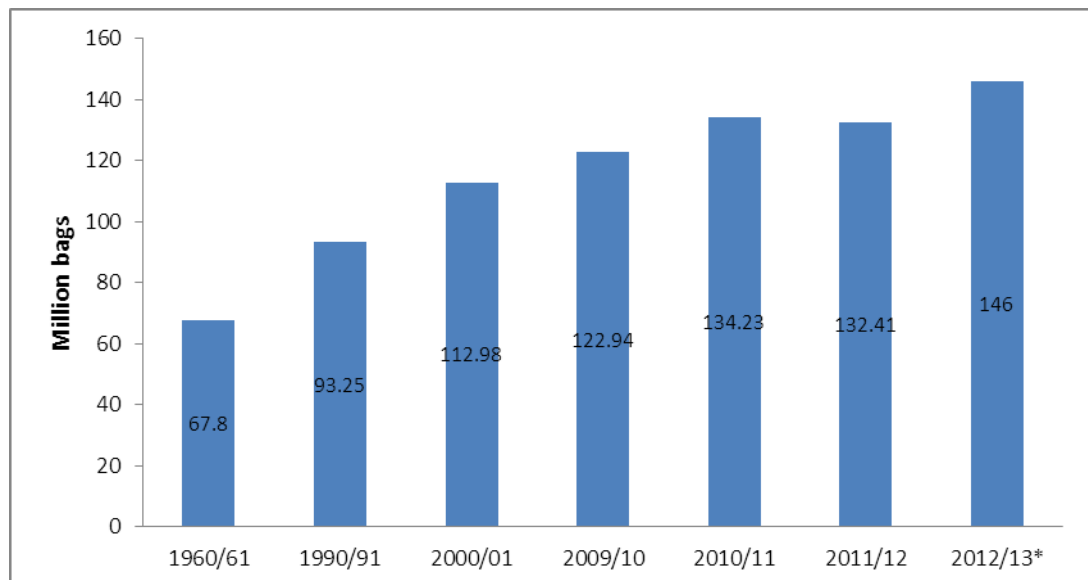
The coffee plant is being used in science, health curing or against disease, and food industry. On the other hand, it creates thousands of jobs for people and brings a big amount of incomes, especially for the undeveloped or developing countries, where coffee is playing important role in their economics. At this moment, the value of trading in the world is around ten billion dollars per year in the average.

3.2 The development of world coffee market

3.2.1 World coffee production

The coffee production has been increasing significantly in recent years due to the development of technology and the evolution of developing countries in producing coffee. Back to many years ago, in the 2000's world coffee production was 113 million 60 kg-bags, increasing approximately 70 % of the 1960's world coffee production. After a decade, post estimates that coffee production in the crop year 2011/2012 will reach 135 million 60 kg-bags, or 8.1 million metric tons (MMT) of coffee beans comprising 79 million bags of Arabica and 56 million bags of Robusta, that increases about 19 % over the previous period 2000/2001. The average growth in production per year since 1960 is 1.37 million bags or nearly 2 %.

In the crop year 2012/2013, the forecast for the total production will be reached 146 million 60 kg-bags, or 8.7 MMT of coffee beans, about an 8.1 per cent increase over the crop year 2011/2012.



Source: Based on data from International Coffee Organization (ICO)

Note: 2012/13* estimated.

FIGURE 2. World Coffee Production, Crop Year 1960/61 – 2012/13*

The centralization in producing coffee is mainly in developing countries, mostly tropical countries, about 90 % of the world total production. Brazil has been leading the first country who has been producing one third of the total production in the whole world, followed by Vietnam, Indonesia, and Colombia. Other significant producers are Ethiopia, India, and Mexico (table 2). More than 80 per cent of coffee is traded internationally and consumed by high income countries.

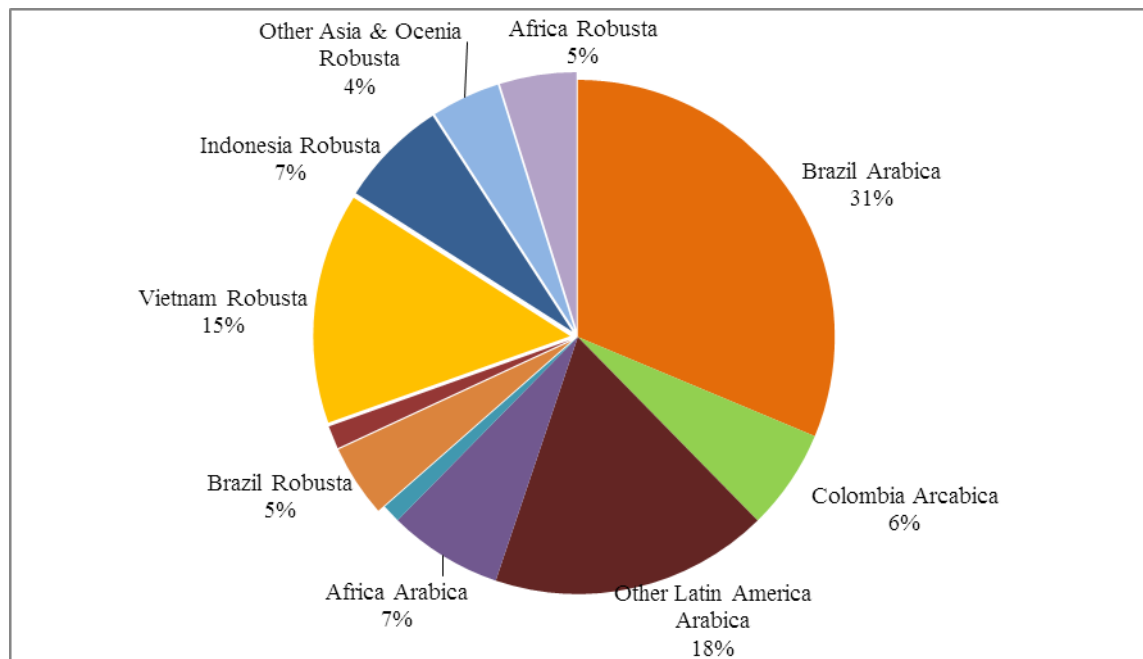
TABLE 2. Ten leading producing countries in crop year 2010/11

	<i>Production (million bags)</i>	<i>% share of world total</i>
Brazil	48.10	35.8
Vietnam	19.47	14.5
Indonesia	9.13	6.8
Colombia	8.52	6.4
Ethiopia	7.50	5.6
India	5.03	3.8
Mexico	4.85	3.6
Honduras	4.33	3.2
Peru	3.98	3.0
Guatemala	3.95	2.9

Source: ICO.

The territory size shows the proportion of all coffee worldwide that is produced as shown in the below chart (figure 3).

In conclusion, the world coffee production tends to be continue increasing, particularly in Africa and Asia. There are more producers in soluble coffee to exports vitally. Arabica coffee is still the main type in trading with 64 % of total, which grown mainly in Latin America and favored for specialty drinks such as those made by Starbucks Corp. (SBUX) Robusta beans are grown mainly in Asia and parts of Africa and are used in instant drinks and espresso. However, the coffee industry is about to decrease in next few years.



Source: ICO and author's calculation

FIGURE 3. World coffee production type, crop year 2010/11

3.2.2 Coffee in international trade

After oil, coffee is the second most widely traded commodity in the world. There are more than about 501 billion cups are consumed every year worldwide. There were 26 developing countries in the world for which exports of coffee exceeded 5 % of their total export earning, and six Latin American and six African countries customarily obtain 40 % or more of their foreign exchange earnings from coffee.

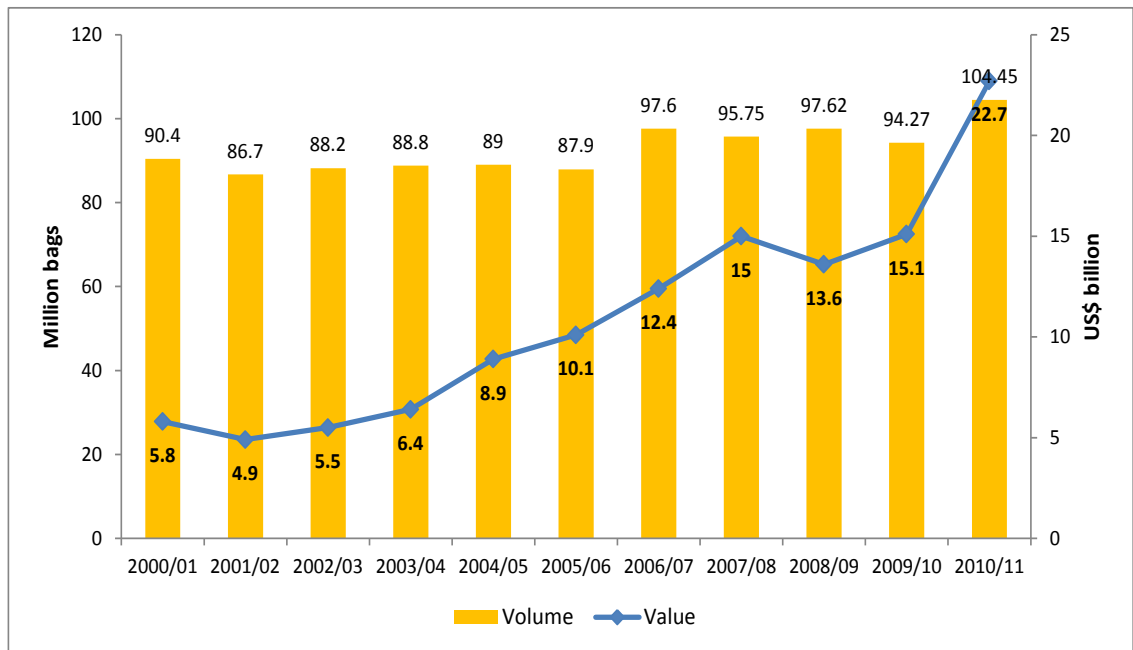
In 2000/2001 total green coffee beans export were 90.4 million bags, while in 2010/2011 exports were 104.5 million bags (ICO 2012). In the last ten years, from 2000 to 2011, the volume of coffee exports has risen in the same period by 15.6 per cent. But the value of coffee exports has risen substantially, with over 200 per cent based on the increasing production and the world price of coffee, from USD 5.8 billion to USD 22.7 billion, which is the highest level on record. The Arabica exports totaled 67.7 million bags, while 36.8 million bags for Robusta, representing an increase approximately 10 per cent for each type. (Table 3, figure 4)

The increase in exports is accounted for in particular by the significant rise in exports of Brazilian natural Arabica and Vietnamese Robusta. Mostly, developing countries depend on exports of commodities at least fifty per cent of their total export earnings. Therein, coffee is one example of important commodities trading when the value of it has been escalating gradually.

TABLE 3. Volume and value of exports, crop years 2000/01 to 2010/11

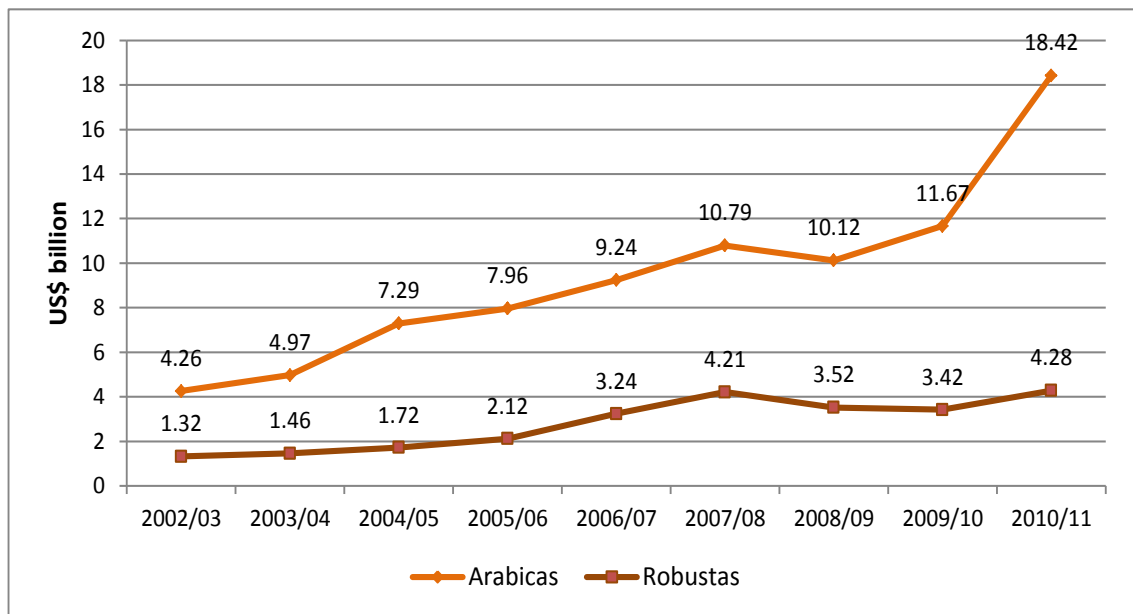
Coffee year	Value (US\$ billion)	Volume (Million bags)
2000/01	5.8	90.4
2001/02	4.9	86.7
2002/03	5.5	88.2
2003/04	6.4	88.8
2004/05	8.9	89.0
2005/06	10.1	87.9
2006/07	12.4	97.6
2007/08	15.0	95.75
2008/09	13.6	97.62
2009/10	15.1	94.27
2010/11	22.7	104.45
Per cent change 2000/01-2010/11	291.4	15.54

Source: ICO (2010)



Source: ICO

FIGURE 4. World coffee exports by volume and value, crop year 2000/01-2010/11



Source: ICO and author's calculation

FIGURE 5. Value of exports by type, crop year 2002/03-2010/11

3.2.3 Main exporters of world coffee market

Brazil is the largest coffee exporter, accounting for 33.25 per cent of the total coffee exports in the world, mainly natural Arabica. Vietnam follows, with a 16.34 per cent share of global coffee exports, making it the world's most important Robusta exporter. Colombia is the third largest exporter, accounting for 8 per cent of world coffee exports in 2010/11; the Colombian exports share has decreased in the last three years since the crop year 2007/2008 with 12 % export market share. These three countries represent 57.41 per cent of total world coffee exports. Indonesia is the fourth largest coffee exporter but its relevance has still decreased about 25 per cent if compare to the previous period (table 4).

TABLE 4. Coffee top five exporters crop year 2007/08-2010/11 (Million bags)

	2007/08	2008/09	2009/10	2010/11	Change 2009/10-2010/11
Brazil	28.04	30.28	30.21	33.86	+12 %
Vietnam	15.78	17.39	14.60	16.85	+15 %
Colombia	11.56	8.72	7.20	8.06	+12 %
India	3.39	2.95	4.23	6.01	+42 %
Indonesia	4.42	5.67	6.59	5.95	-10 %
Other	32.57	32.61	31.44	33.72	+7 %

Source: ICO (December 2011) and author's calculation

3.2.4 World coffee consumption

The majority of coffee producing in developing countries is imported and consumed in developed countries mostly. The world consumption in coffee year 2010/2011 is 138.1 million bags, which is nearly 4.5 times of the total consuming in 1922 with 31.2 million ones. During the last ten years world consumption increased at an average rate of 2.4 % a year. This buoyant consumption is a determining factor in maintaining the balance between supply and demand (table 5).

TABLE 5. Production and consumption of coffee 2007/08-2010/11 (Million bags)

	2007/08	2008/09	2009/10	2010/11
World Production	116.65	128.29	122.94	134.16
World Consumption	132.1	131.3	134.1	138.1
Domestic Consumption	37.27	38.89	40.48	42.05

Source: ICO and author's calculation

USA is the biggest imported country among 33 imported members of ICO. The average amount of consumption in USA is 21 million bags per year, or 30 % total consuming. However, the average consumption per person is only 4 kilograms per year, even lower than European countries. The highest rank in consumption per person is in Scandinavian countries with 12 kg/person/year (table 6, table 7).

In Europe, coffee is the preferred drinking every day, takes 20 % of the drinking market. The consumption of coffee per year is 39-40 million bags, about 57-58 % the whole coffee market. In Asia, Japan is the country consuming highest with 7 million bags per year. Apparently, the consumption in developing countries has been increasing due to the improvement of economies.

TABLE 6. The consuming of imported members of ICO

	2007/08	2008/09	2009/10	2010/11
Total	132.1	131.3	134.1	138.10
USA	21.03	21.65	21.44	21.78
Germany	8.62	9.54	8.90	9.29
Japan	7.28	7.06	7.13	7.19
Italy	5.82	5.89	5.81	5.78
France	5.63	5.15	5.68	5.71
Spain	3.20	3.49	3.35	3.23
UK	2.82	3.07	3.22	3.13
Netherlands	2.29	1.32	9.00	1.35
Sweden	1.24	1.27	1.13	1.22
Finland	1.06	1.12	1.06	1.08

Source: ICO

TABLE 7. Per capita coffee consumption of selected countries

<i>Country</i>	<i>Per capita coffee consumption in 2009(kg/capita)</i>
Coffee Importing Countries	
Finland	12.0
Norway	8.92
Netherlands	8.4
Switzerland	7.65
Canada	5.94
EU	4.67
USA	4.09
Japan	3.36
Coffee Exporting Countries	
Brazil	5.64
Vietnam	0.82
Honduras	3.77
Venezuela	3.52
Costa Rica	3.17
Nicaragua	2.22

Source: ICO

3.2.5 The international coffee agreement

The International Coffee Agreement (ICA) is an international commodity agreement aimed to achieve a reasonable balance between the supply and demand of coffee at a higher price than would otherwise be the case (Wikipedia, last modified 2011).

The objective of the latest International Coffee Agreement 2007 is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the sector (International Coffee Agreement, 2007, London). It focuses on supporting the development of a stable coffee economy in the main exporters from developing countries through investment and planting effects. Therefore, it could be expected to provide a stable environment in which producers could predict the future prices based on current price information.

4 VIETNAMESE COFFEE POINTS OF VIEW

Since the first introduction of coffee tree by French in the end of 19th century, Vietnamese coffee has been developed, particularly the magical rising of output capacity in the last 30 years. Nowadays, Vietnam is known to be the second largest exporter of coffee in the world, mostly Robusta with accounts for 15 per cent global market share. In comparison with such long-standing and well developed coffee growing countries as Brazil, Colombia, Mexico, Western African countries, India, Indonesia, etc... Vietnam is merely a newcomer.

4.1 Production and consumption

In a relatively short time, the total area under coffee in Vietnam has recently increased to more than half million hectares. Mostly 93 per cent planted area is for Robusta. Besides, the Arabica has also dispersed in some areas. According to the Agriculture and Rural Development Department in Vietnam, 30 per cent of the planted area is in need for replanting. To meet the world coffee's demand, Vietnam has been trying to expand the plant area for preferable Arabica type.

In the crop year 2010/11, Vietnamese coffee production reached 19.47 million bags, or approximately 1.2 million metric tons (MMT) of coffee beans. The local consumption is increasing and account for 8 per cent of total production and the balance for export. According to the local coffee producers, Vietnam's domestic consumption has grown significantly in recent years. It is proved that the 20 per cent increasing for domestic consumption is compared to the previous period. However, it is still considerably lower than other producing and importing countries (table 8).

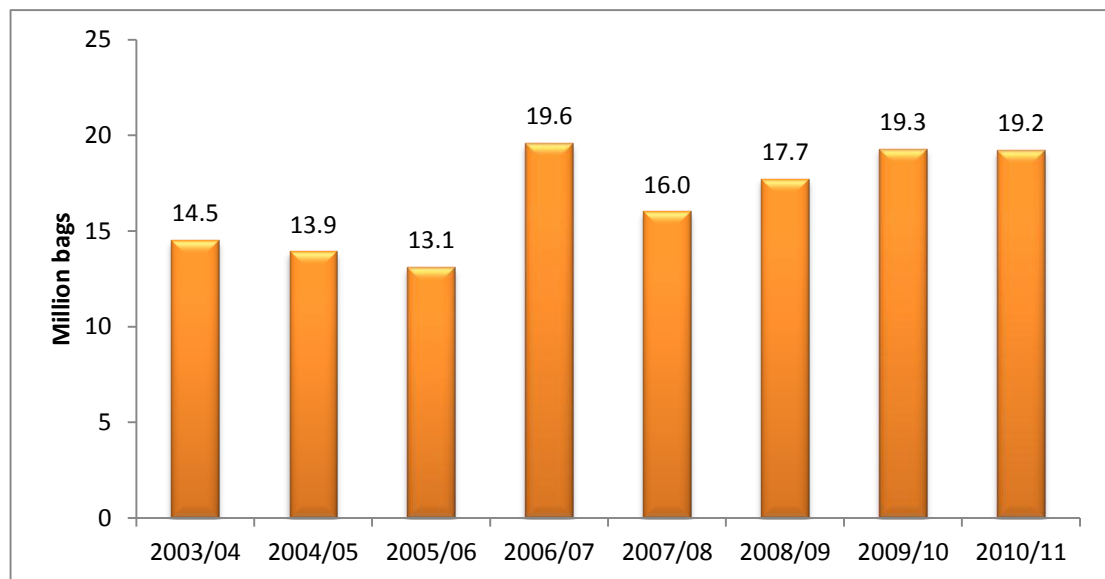
TABLE 8. Vietnamese coffee production by crop year (Oct-Sept)

	2009/10	2010/11	Change
Production (green been, million bags)	17.50	19.47	+11.25 %
Area (hectares)	504.00	556.28	+10 %
Domestic consumption	1.31	1.58	+20 %

Source: Post estimates, Vietnamese Coffee Annual (2011)

Domestic marketers try to court domestic consumers by selling a range of roasted, ground, and instant coffee products in wholesales supermarkets, retail supermarkets, and coffee shops. Especially, the stylish coffee chains have opened and quickly dispersed all over the country; popular cafes include Trung Nguyen Café, Highland Coffee, and Gloria Jean's. (Annual Coffee Vietnam 2011.)

4.2 Trade exports



Source: Intimex Ho Chi Minh Group Joint-Stock Company

FIGURE 6. Vietnamese coffee exports 2003/04-2010/11

The quality and the value of Vietnamese coffee are being improved yearly. Vietnam exported coffee beans to almost 75 countries worldwide. The United States became the largest importer of Vietnamese coffee beans, which imported 2.3 million bags with 321 million USD. Vietnam's coffee bean exports to Germany, Belgium, Italy and some other European countries grew significantly if comparing to the previous year (table 9). China is also the potential market which ranks the ninth in ten biggest importing countries.

TABLE 9. Key markets for Vietnamese green coffee exports

Unit: Volume (million bags) and Value (million USD)

Export Destinations	2009/10		2010/11		% Change	
	Vol.	Value	Vol.	Value	Vol.	Value
USA	1.23	116.46	1.62	208.80	31 %	79 %
Germany	1.35	116.01	1.23	151.44	-9 %	31 %
Belgium	0.42	34.43	1.23	143.27	196 %	316 %
Italy	0.57	47.27	0.95	109.28	68 %	131 %
Spain	0.57	46.08	0.7	81.15	24 %	76 %
Japan	0.42	38.94	0.37	51.13	-12 %	31 %
UK	0.32	24.64	0.25	30.96	-21 %	26 %
Russia	0.25	19.62	0.23	25.93	-7 %	32 %
China	0.15	12.50	0.22	23.97	44 %	92 %
Total exports	8.58	725.40	10.02	1194.18	17 %	65 %

Source: Vicofa; General Customs Office

4.3 Prices

The average export price of Vietnam's Robusta coffee beans for the market year was \$2.15/kg or \$0.98/lb. Even though coffee exported volume in the crop year 2010/11 decreased slightly, exported price increased strongly 50 per cent compare to the previous crop. This is the highest price crop year in the past sixteen years (figure 7), but it is still lower than the record price of 2.65 in 1996/1997.

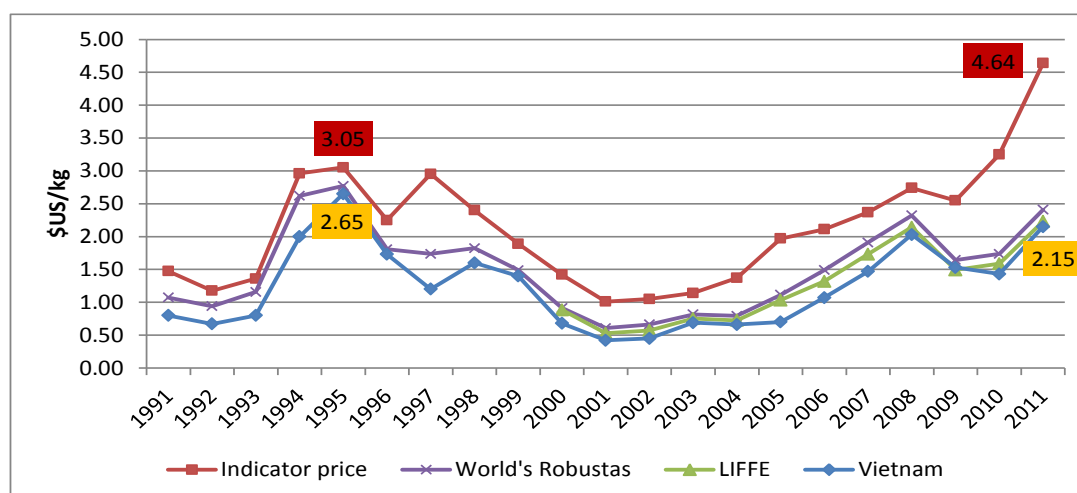


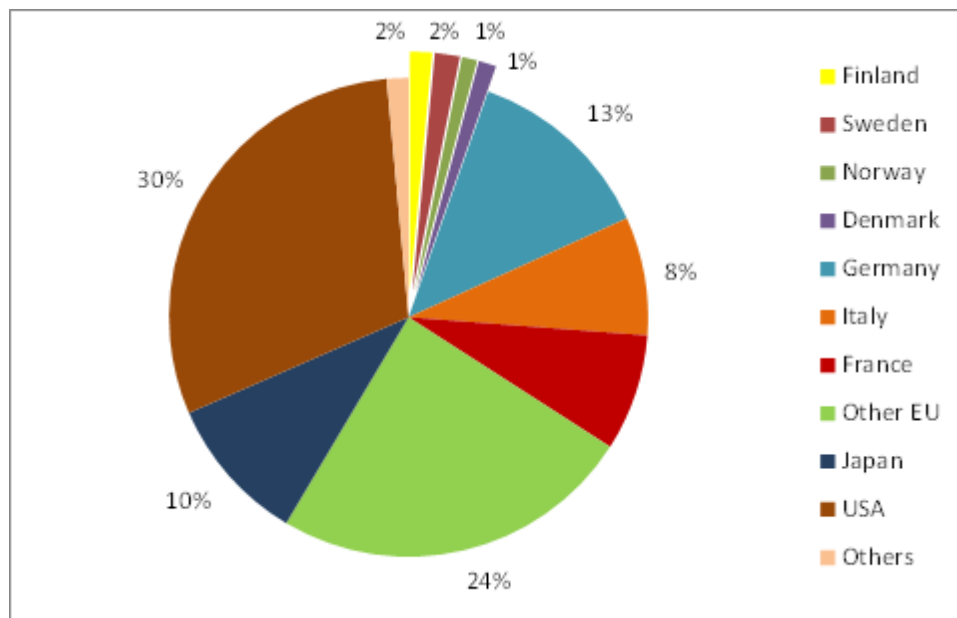
FIGURE 7. Vietnamese coffee export price 1996-2011 (\$US/kg) (ICO)

5 SCANDINAVIAN COFFEE MARKET

The per capita consumption of coffee in Scandinavian is the highest in the world. Finland and Norway consume about 10-12 kg of coffee per capita, Denmark about 9 kg and Sweden 8 kg. The per capita consumption has been relatively constant in recent year and rapid changes are not probable in the near future.

5.1 Market size

In 2010, coffee consumption in Scandinavian totally was about 3.91 million bags and hold 6 per cent of the importing countries. During last ten years, the total consumption increased 9 % if compared to 2000 with 3.59 million bags. Therein, Finland and Norway has had a higher increasing 12 per cent in consuming coffee than Denmark and Sweden with 9 and 4 per cent.



Source: ICO and author's calculation

FIGURE 8. Coffee consumption in some selected countries 2010

5.2 Market characteristic

Importantly, Scandinavians have their own favorite coffee and they prefer Arabicas. Coffee roasters in these countries import green beans, then blend and roast them to suit their traditional taste.

Majority of coffee roasters use only Arabica, as Robusta (< 3 % of imports) does not give the right taste for this market. The typical coffee blend is based on Natural Brazilian beans with Colombian and Other Milds from Central America. There is a trend towards darker roasts, which require slightly different blends of coffees. They pay attention to the quality and the value of cups of coffee which their customers are drinking. For instance, Paulig Ltd. in Finland always chooses high and premium quality beans even though the price is a bit higher than the others producers.

Finland is an importer of highest quality coffee which comes from Colombia, Central America and Kenya, adding in Brazilian unwashed Arabicas. Sweden buys a lot of Colombian milds and other milds from Central America, but the share of Brazilian coffee is considerably higher than in Finland. Norway and Denmark import lower qualities, mainly from Brazil.

Nordic people are very discerning coffee drinkers, they know what they like and insist on getting the kind of coffee they prefer. Coffee taste is a bit lightly roasting, which is much different than other coffee types in Europe, normally dark roasted. This means that it is difficult for foreign exporters of blended and roasted coffee to enter their domestic market, maybe easier for exporters of instant coffee, which is not manufactured there, for e.g. Norway and Sweden, and has not been popular yet for everyone (table 10).

TABLE 10. Production of roasted coffee, soluble coffee 2008/09

	<i>Roasted coffee (tons)</i>		<i>Instant coffee (tons)</i>	
	2008	2009	2008	2009
Finland	57,089	57,740	6	3
Denmark	28,879	29,253	255	184
Norway	32,110	31,904	0	0
Sweden	96,709	102,061	0	0
Total	214,787	220,958	Change of roasted coffee production: +3%	

Source: Author's calculation, EU Report 2011

5.3 Domestic supply and international trade

All green beans used by the domestic roasters are imported. As for roasted coffee, the domestic roasters supply about 90 % of the market and other importers account for the remaining 10 %.

Around 85 % of Scandinavian coffee imports in 2010 consisted of green coffee. The limited imports of roasted coffee (12 %) indicate the large role of domestic roasters in supplying the domestic market, and their considerable role in supplying roasted coffee to Baltic countries, mainly Estonia, and Russia. On the other hand, there is a small proportion of instant coffee import with 3 %. Main suppliers of instant coffee are Switzerland, Germany and the Netherlands (figure 9).

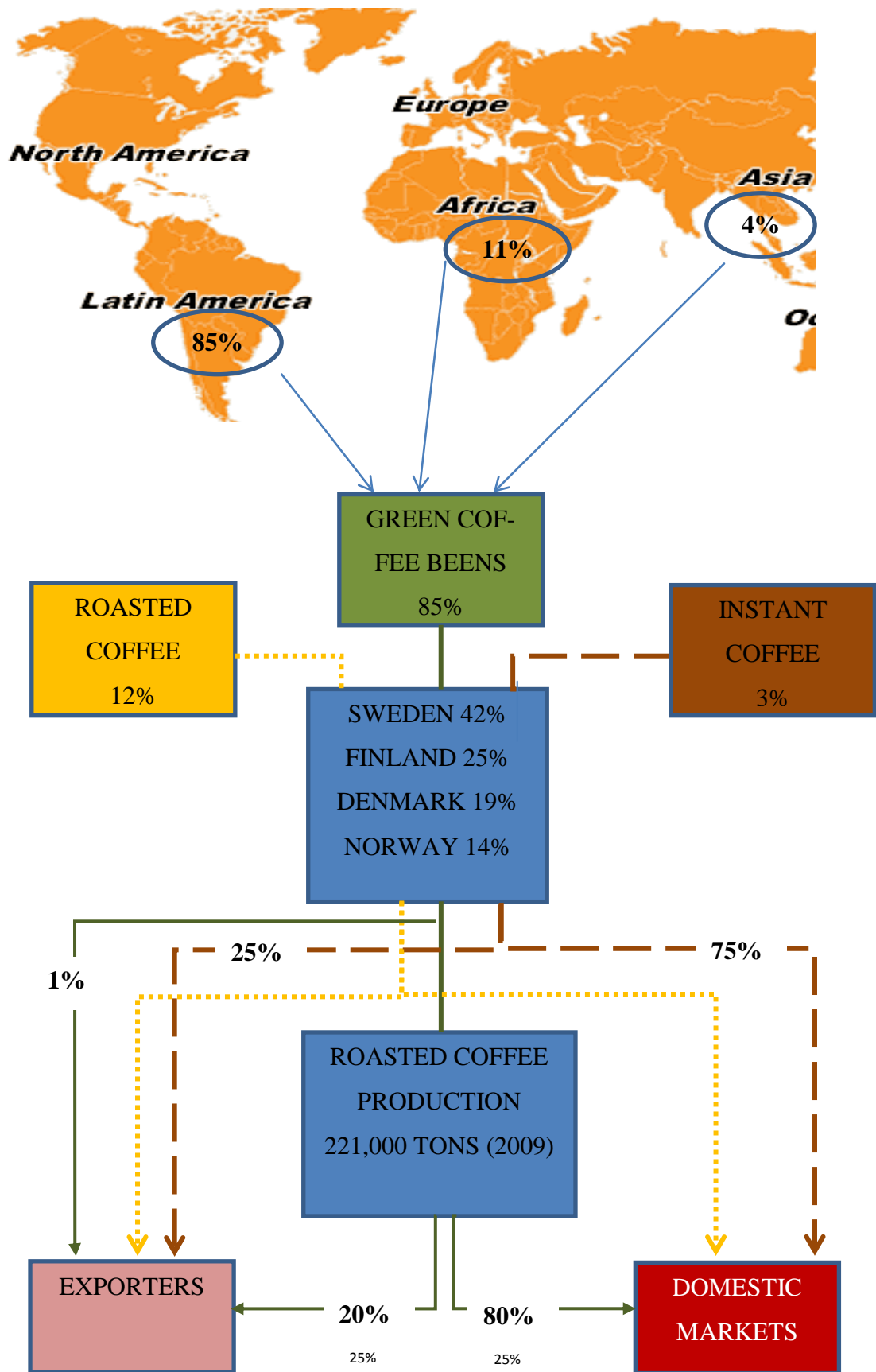


FIGURE 9. The view of international trade of Scandinavian coffee market

5.3.1 Imports

In 2010, Sweden imported highest amount 117.7 thousand tons of green coffee or 1.9 million bags, an increase of 10 % compared to the previous year, while Finland imported 66.5 thousand tons or 1.1 million bags. Norway and Denmark have increased the imports with 18 % and 5 %, but keeps at a lower level than Sweden and Finland (table 11).

TABLE 11. Imports green, roasted and soluble coffee in 2010 (thousand tons)

<i>Types</i>	<i>Denmark</i>			<i>Finland</i>			<i>Norway</i>			<i>Sweden</i>		
	Vol.	%	Δ 2009	Vol.	%	Δ 2009	Vol.	%	Δ 2009	Vol.	%	Δ 2009
Green Coffee*	40.56	70	+14%	66.5	89	-1%	35.85	85	+3%	117.7	90	+10%
Roasted Coffee*	15.1	26	+11%	7.3	10	+40%	4.35	10	+19%	10	8	+14%
Instant Coffee	2.3	4		1.3	2	+18%	1.76	4	+3%	3.1	2	+7%
Total	57.9	100	+18%	75.1	100	+2%	41.96	100	+5%	130.8	100	+9%

Source: European Coffee Federation (ECF) report 2010/11 and author's calculation

Note: * including decaf and non decaf;

Δ 2009: per cent change compare to 2009

Except two main exporters Brazil and Colombia, the balance is supplied by a large number of countries from South and Central Americas and some Africa's, of which the most notable are Honduras, Guatemala, Costa Rica, Nicaragua, Rwanda, Ethiopia, Kenya, Uganda and Mexico. All in all Scandinavian market has imported green beans from more than fifty countries around the world, however it can be seen that a tendency towards fewer supplying countries. Nowadays, due to the significant increasing coffee production of some new entries in Asia, they start to import from few Asian suppliers but still at the low quantity.

Four countries account for 85 per cent of the total imports of green coffee are: Brazil (37 %), Colombia (9 %), Africa (11 %) and others South and Central Americas (39 %).

The 4 per cent remain imports from Asia such as Vietnam (2.5 %), Indonesia (1 %) (figure 10).

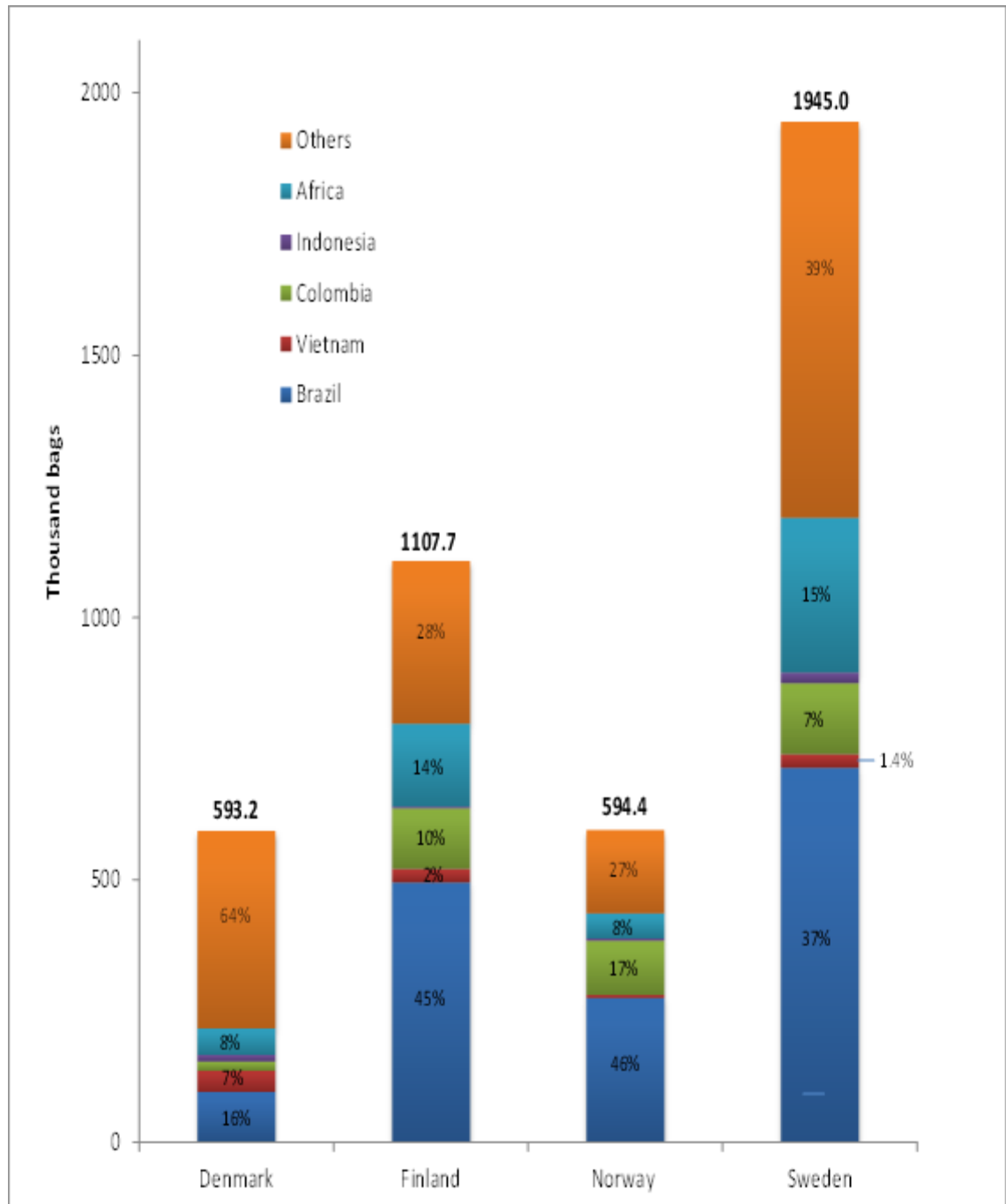


FIGURE 10. Scandinavian imports of green coffee from origin countries 2010

5.3.2 Exports

Twenty per cent of the total production is exported to USA, Canada, Baltic States, Russia, their neighbors and some Western EU countries.

TABLE 12. Exports in green, roasted and soluble coffee in 2010 (thousand tons)

<i>Types</i>	<i>Denmark</i>			<i>Finland</i>			<i>Norway</i>			<i>Sweden</i>		
	Vol.	%	Δ 2009	Vol.	%	Δ 2009	Vol.	%	Δ 2009	Vol.	%	Δ 2009
Green Coffee*	0.7	6		0.15	2	+25%	0.4	61	+67%	1.1	4	-35%
Roasted Coffee*	9.6	91	+32%	9.5	97	+4%	0.2	32	+29%	23.9	94	+2%
Instant Coffee	0.3	3	-70%	0.15	2	+213%	0.1	7	+108%	0.6	2	+22%
Total	10.6	100	+27%	9.8	100	+5%	0.7	100	+55%	25.6	100	0%

Source: European Coffee Federation (ECF) report 2010/11 and author's calculation

Note: * including decaf and non decaf;

Δ 2009: per cent change compare to 2009

6 SCANDINAVIAN MARKET'S FIVE FORCES ANALYSES

I decide to conduct my own brief industry analysis of the Scandinavian market by using the spirit of the well-known Professor Michael Porter, which is based on his Five Forces. Porter's five forces analysis is a framework for industry analysis and business strategy development; therefore it would be a perfect tool to help me assess the potential of the new but uneasy Scandinavian market.

6.1 Buyer power

Finland, Sweden, Denmark market are becoming noticeable in the growing amount of gourmet coffee consumption when they are in the highest rank of consuming coffee per capita 10-12 kg. That is substantially higher the EU average 5 kg, and has remained rather stable in recent years and still in the near future. Finish coffee consumption accounted for 2.7 % of the total EU market in 2009. (ICO, 2010.)

According to the report, the economic crisis did not change much in the Finnish coffee consumption. Moreover, out-of-home consumption of coffee in Nordic countries is generally growing, due to the increasing number of coffee specialty shops and take-away opportunities (Euromonitor, 2010), whereby consumer's taste is increasingly tending toward stronger.

The growth of the demand for certified coffees is also re-shaping the market, although this niche is still limited. The soluble or instant coffee type would become more preferring when we live in the more modernized urban with the fast speed of life.

Apart from supplying their domestic market, they play quite a significant role in supplying the Baltic countries and Russia with roasted coffee. Thus they would expand more market and import more high quality to meet the increasing demand from Russia and USA, Canada, when coffee is not cultivated in the Nordic countries due to climatic reasons.

6.2 Supplier power

The amount of importing coffee from Vietnam is still really low if comparing to Colombia, and Brazil, or Africa. Except the main reason by Robusta type while Arabica is their favorite traditional flavor, the big issue is lying on the quality of the coffee.

On the other hand, the consumer expect the highest qualities but also expect coffee to be reasonably priced while the transportation cost from Vietnam to Nordic countries might be higher than from Colombia or Brazil due to the distance, not even including the risk of business.

In order to meet the challenges of supporting the expected high connection growth between Vietnam and Scandinavian market, Vietnam needs to improve quality of coffee up to international standard and adjust available regulations concerning quality control. Furthermore, the producers seek experienced individuals who have a variety of technical specifications in all process to strengthen the coffee manufacturing efficiently. Apparently, logistics is highly valued. The logistics focuses on increasing efficiency and lowering costs associated with transporting, distributing and channeling its coffee products worldwide. This is a challenge for Vietnam in the perspective of cost exporting to Scandinavian market.

For a case study of Paulig Ltd. (Finland) importing Vietnamese coffee beans, Paulig attains its supplies from Vietnamese partners, through the middle market. The reason is the quantity purchase versus highly the production from a direct grower. A majority of coffee grower in Vietnam is small farmer with 2-5 hectares, which cannot meet the demand of high amount of goods. For that reason, they have to go through the Middlemen.

6.3 Threat of new entrance

Vietnam is one of the new entrances in Denmark, Sweden and Finland since the boom production in Vietnam in the last ten years. Behind, there are some other Asian countries, for instance India and Indonesia. In addition, there are some ICO's projects running in Africa which will support and improve the coffee production there for becoming the potential suppliers with high quality in the near future.

6.4 Threat of substitute

One possible threatening substitute could be coffee type change to instant or soluble coffee, which is easily made for a quick time. Even though this market is not big yet, it will be growing more in the future. The main suppliers of instant coffee for Nordic countries are Germany, Switzerland. Vietnam already started to produce its own instant coffee with its own brand names. It is consumed mostly in domestic market. It has been well-known outside.

On the other hand, in the last five to six years, soft drinks and juices eroded the market via the aggressive marketing of fast-food outlets and the fact that soft drinks were priced lower than even milk products. Now soft drink sales have stagnated and coffee companies are taking advantage to maintain share though aggressive promotions of various kinds.

Thank God that now the young trend to Robusta more than before. It could be a good opportunity for Vietnam as known the biggest Robusta producer in the world. The Vietnamese espresso instant is not really bad idea, but certainly the quality needs to be as high as the fresh or even nearly the taste of a short espresso from coffee shop.

6.5 Competitive rivalry

Scandinavian's main competition in the traditional coffee beans inputs consist of three main coffee suppliers: Brazil, Colombia, and from Africa.

Respectively, price is one of the single most important factors when it comes to exports (given good enough quality). Studying the prices of rival products makes export calculations much easier. The roasters have been able to meet these conflicting demands by controlling costs for expecting profitability in trading. The recent low cost of raw materials, trimming personnel, and restricting the level of promotions has all helped to maintain the profit margins of the industry. There is a big difference in the price level of individual products, and the factors that directly affect pricing are: market competitive structure, geographical position, and the global chain value or market supply chain.

Finland, Sweden and Denmark, all their national coffee market are oligopoly, which is proved by 80 to 95 per cent share of the coffee market was hold by two to five main companies (table 13). The price level can be relatively stable and even between the players for the prolonged period of time. Thus, an oligopolistic firm always considers the reactions of its rivals in formulating its pricing or output decisions.

Normally, market leader has the largest market share and usually leads other companies in price changes, new product introductions, distribution coverage, and promotion spending. When the dominance of a few players is too great and the price level is relatively even high, the conditions are excellent for breaking in. In oligopoly, barriers to entry is considered very high—huge amount of investment, determined by the very nature of the product and the production process, are needed to enter these markets. It is quite hard for exporting some instant and roasted coffee directly from Vietnam without cooperation.

Nevertheless, it still has a layer of hopefulness to enter the Vietnamese coffee to this market through effective price strategy of logistics and procurement management to reduce the purchase price from importing. That will attract more roasters in Scandinavian market when the market is finding out the new and different ironic taste from the world.

By way of illustration, in Finland, the market is dominated by two companies: Paulig with around 40 % market share and Meira with 31 %. Another development is the merger of Luxus Kaffee and Rich Coffee to form Viking Coffee. They have a certain success of their own distribution channel and the exports of coffee. Meira has had recent approached successfully in their neighbor Baltic States, while Paulig has expanded their market outside EU to the US and constantly increase the tonnage shipped.

"We are very heavy coffee drinkers," confirms Raimo Varsa, purchasing manager at Meira Oy, one of Finland's leading roasters. "Some people say it's the cold climate. I don't know. We have had very strict alcohol policies. In older days, people didn't have wine or whiskey at home, so when you had a visitor, coffee and cake were served. One reason may be the high quality. Coffee is very good here, not like in the States, where coffee quality went down and consumption dropped." (Larry Luxner, Finnish coffee: preserving a Scandinavian tradition.)

Expectantly, the consumption of coffees is continuously rising, which means that there is a lot of potential in this market. Because of the rapid growth world's coffee, the importers have been looking for new, possible coffee suppliers. This means that if Vietnamese coffee taste came to Nordic countries, it would not need to steal the other business cooperation from competitors, or rather reverse that by satisfying the need of consumers.

TABLE 13. Market shares for roasted coffee

<i>Denmark</i>		<i>Finland</i>		<i>Sweden</i>	
Company	Market %	Company	Market %	Company	Market %
Sara Lee	31 %	Gustav Paulig	40 %	Kraft	44 %
Kraft Morris	27 %	Meira	31 %	Lofbergs Lila	18 %
BKI	17 %	Viking Kaffe	26 %	Nestle	13 %
Dansk Kaffe-kompagni	14 %			Arvid	12 %
				Nordquist	

7 VIETNAMESE COFFEE MODEL IN THE GLOBAL VALUE CHAIN

7.1 A global coffee supply chain model

Value Chain Approach

“A value chain is a supply chain consisting of the inputs suppliers, producers, processors and buyers that bring a product from its conception to its end use. A value chain approach to development seeks to address the major constraints at each level of the supply chain, rather than concentrating on just one group (e.g., producer) or on one geographical location. Constraints often include a lack of technical, business or financial support services, a difficult regulatory framework, poor public infrastructure (roads, telecommunications, electricity, etc.), a lack of information about or weak connections to end markets, and/or inadequate coordination between firms. Taking a value chain approach is often essential to successful economic development since micro and small enterprises and smallholder farmers will only benefit over the long term if the industry as a whole is competitive.” (A Value-Chain Approach to Coffee Production, Jim Dempsey & Ruth Campbell.)

Coffee is traded down a complex line of intermediaries, from local traders to exporters, international traders, roasters and retailers. The link between producers or farmers and consumers is lost due to the international coffee supply chains works through many involvements as listed above. Each of them will capture a percentage of the retail value coffee supply chain (figure 11).

According to EIU estimates, the farmers receive about or even lower 20 % of the retail price of coffee, or 50 to 70 % of the export price of coffee, which is set on commodity exchanges is shared among farmers, local traders, exporters and governments via taxation. Then the local traders and exporters adding export tax take approximately 20 % of the retail price. Actually, these intermediaries play important roles in providing services to coffee markets, by buying from different farmers and remote regions, as well as processing and transporting coffee in quantities big enough to collaborate with international traders in export.

The remaining 60 % is shared among multinational companies who control most of the international coffee supply chain. It is captured by importers, roasters, and retailers which are buyer-driven. The largest share of the final market value is captured by roasters with 30 % (according to EIU estimates) due to parts of costs reduction and thanks to Just-in-time purchasing strategies. But the price risk is shifted to the intermediaries who receive less than 10 % of the retail price

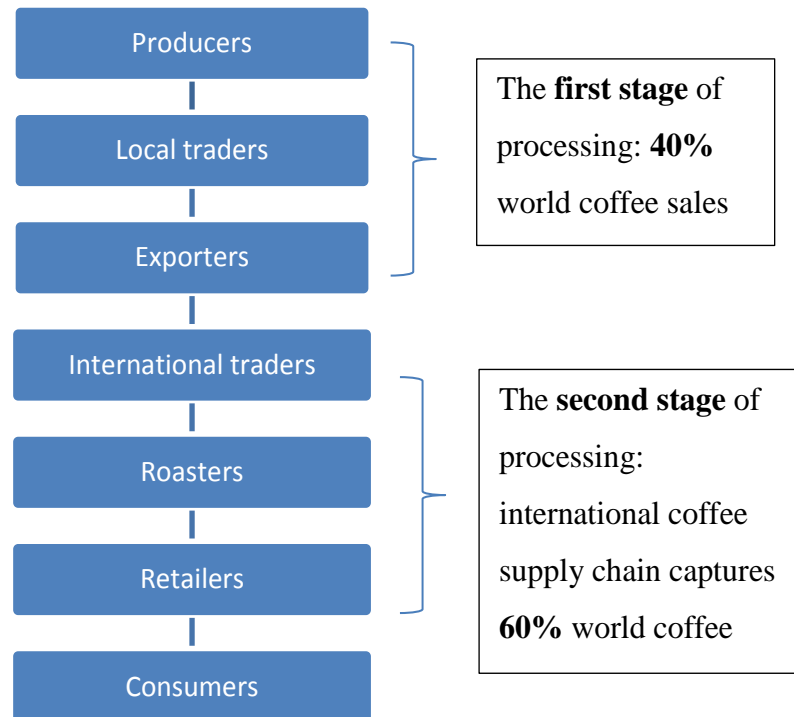


FIGURE 11. Illustrate the simplest case from farmers to exporters
(*independent or owned, controlled by multinational exporters)

7.2 The model of Vietnamese coffee participation in the global value chain

In a simplified model of Vietnam's participation in the coffee GVC (figure 12), the green coffee beans will be collected by the collectors or local traders. However, some of households produce coffee on a large scale and often sell dry coffee to the exporters directly, except for some exporting companies that place orders to buy green coffee directly from households. (Coffee, Cooperation and Competition: A Comparative Study of Colombia and Vietnam, 43.)

Processing companies also carry out roasting and grinding on a small portion of robusta coffee (3-6 %). Then they will sell the finished product on domestic market. (Coffee, Cooperation and Competition: A Comparative Study of Colombia and Vietnam, 44.)

A majority of Green coffee beans Robusta is bought by Importers in the foreign countries, or directly by the roasters, who sell either to retailers in the domestic market or re-export to middlemen abroad.

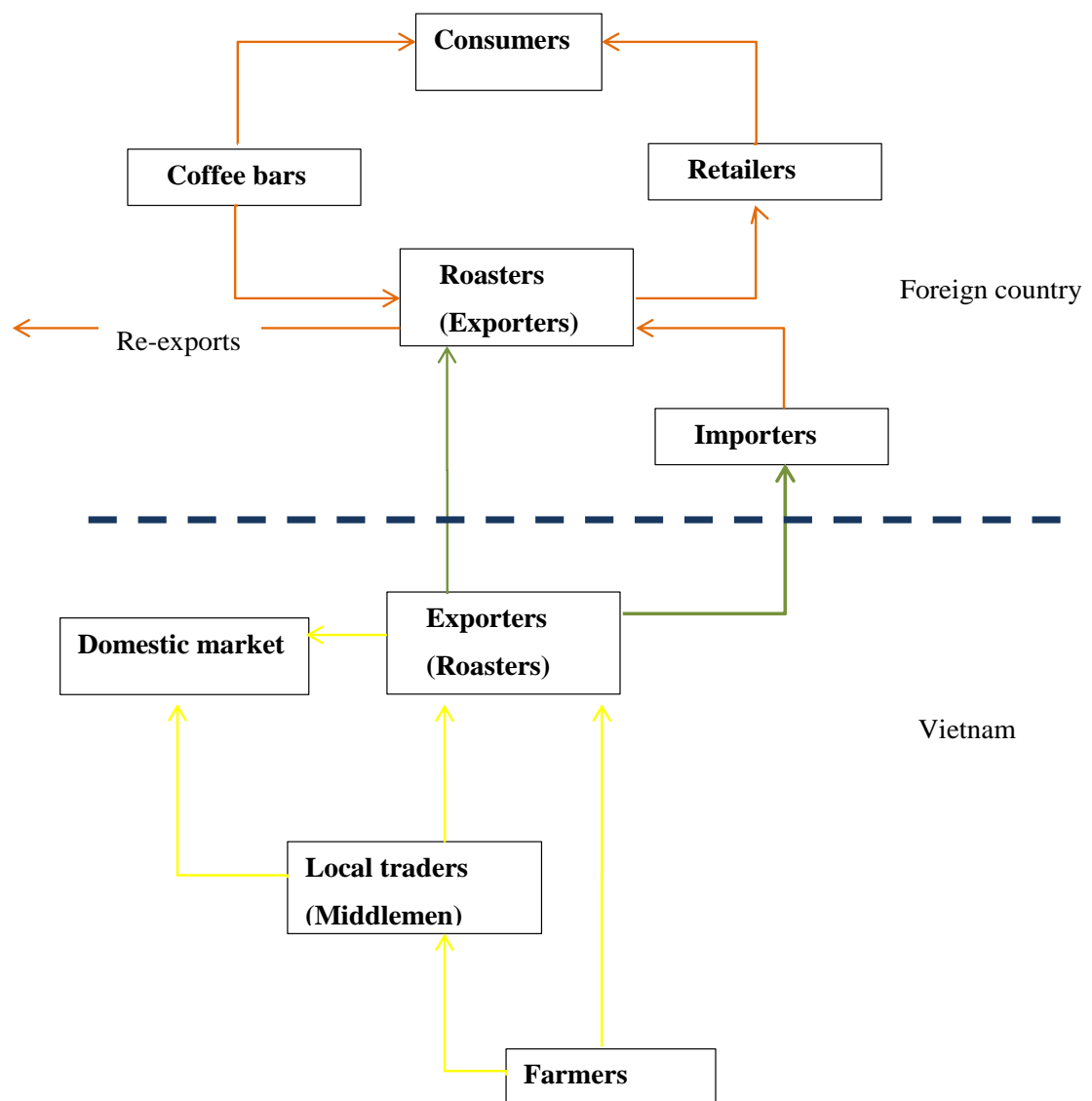


FIGURE 12. Vietnam's participation in the GVC of coffee

8 MODELLING THE BASIC STRUCTURE OF COFFEE PRICE

The purpose of this section is to form the price structure of importing Robusta coffee from Vietnam to Scandinavian markets, in order to compare price levels for roasted coffee Arabia and Robusta in their national markets. Therein, we can observe whether it has any cost advantage for Vietnamese Robusta if compare to Arabica coffee. Will the price be comparable to the world's market and their national market in order to stimulate or attract local customers to get closer to Robusta?

Obviously, the quality is the first criteria when importing to Nordic countries which always is a high premium coffee market. However, I will not discuss about the quality here, but only mention and capture the possible estimated cost view for the importers or the roasters to see whether there could be more profitable to import Vietnamese Robusta.

8.1 Price strategy

In order to optimize the profitability of a small Vietnamese Coffee in this market, I summarise data from different sources and some previous empirical research to provide a picture of the past few years' price level for supporting the price analysis and comparison among variety products in the market. The trusting sources were taken from various national statistics collected by International Coffee Organization (ICO) and Economist Intelligence Unit (EIU), Oxfam-International commodity Research – Coffee and the other comparative study cases which listed under the references.

8.1.1 Prices and markets

There are big differences in the price level of individual products, which is directly affected firstly by the current feature of Oligopoly competitive market. Secondly, it is attributed by geographical positions transferring to transportation cost since many coffee producing areas are far away from international ports. The profile or roles of the retailers or supermarkets have a certain influence on determining the price.

On the other hand, Robusta accounts for only 3 and 2 per cent of the Swedish and Finnish coffee imports respectively, it accounts for over 16 per cent of Danish coffee imports (Dick Durevall, 10). Perhaps, because of the small Robusta market, there is no any empirical study for Nordic's Robusta market yet. We do not know exactly how much Robusta that is actually consumed and how much the average price is; so that I will compare to the Arabica type to see how much the difference between two types approximately based on the per cent different prices of the general current market.

To describe the national coffee markets and compare price levels for roasted coffee, I use data from ICO recording sources to demonstrate existing variations. Then, I compare prices after adjusting for import cost and indirect taxes.

Table 14 shows the average per kilogram of coffee at the retailer's price for the 2007-2011 period based on the ICO's historical data.

TABLE 14. Average prices per kilogram coffee (EUR/kg)

<i>Year</i>	<i>Denmark</i>	<i>Finland</i>	<i>Sweden</i>	<i>Norway</i>	<i>Germany</i>
<i>2007</i>	8.08	5.45	5.91	7.49	7.86
<i>2008</i>	9.05	6.23	6.30	7.86	8.60
<i>2009</i>	8.86	5.88	5.95	6.74	7.96
<i>2010</i>	9.11	6.18	6.69	7.51	7.98
<i>2011</i>	11.59	8.98	9.37	9.68	8.53
<i>Change 2011/07</i>	44%	65%	58%	29%	9%
<i>Change 2011/10</i>	27%	45%	40%	29%	7%

Source: ICO 2012

Notes: 1EUR = 1.31579 \$US (Average rate in April, 2012)

During last five years, the coffee prices in Finland and Sweden have a tendency to raise up 60 % more. Denmark and Norway have pretty higher prices more than the other countries, possibly owing to the different indirect taxes. In Denmark, Value Added Tax (VAT) is 25 per cent and there is an excise tax of 6.54 DKK (Danish Krone) per kg of roasted coffee. In Finland the VAT is 13 per cent and in Sweden it is 12 per cent, as reduced tax. In general, comparing to Germany, which is picked as a popular and biggest country imported coffee beans in EU, the average Nordic price is 1.2 times more than coffee's price in Germany. But the VAT is only 7 per cent in Germany.

The high prices in Scandinavian market are due to tax, the number of roasters on the market and the high quality sold on the market, with a focus on more expensive coffee blending.

8.1.2 Mark-up price

Mark-up price is defined by the difference between the lowest current offering price among dealers and the higher price that a dealer charges to a customer. (Investor Words, 2012.)

Herein, I would like to apply the spirit of the mark-up theory to calculate the per cent mark-up price excluded tax, which is estimated as $(P - \text{Cost})/P$. Wherein, P is dedicated in Price of retailers and Costs include Import cost. The price levels of coffee relative to import costs of coffee beans would help us to see the actual mark-ups from the importing points to the supermarkets or retailers excluding the VAT and Tax.

TABLE 15. Prices in relation to certain costs (EUR/kg)

<i>Country</i>	<i>Retail price</i>	<i>Import cost</i>	<i>VAT</i>	<i>Excise tax</i>	<i>Mark-up</i>
<i>Finland</i>	6.18	2.91	0.71	0	41%
<i>Sweden</i>	6.69	2.83	0.72	0	47%
<i>Denmark</i>	9.11	2.97	1.82	0.73	43%

Source: Consumer prices, Import prices are based on ICO data

Note: Certain costs include Import cost, VAT and excise tax.

1EUR = 1.31579 \$US (Average rate in April, 2012)

In Denmark, markup per cent is calculated on the retail price excluding excise tax.

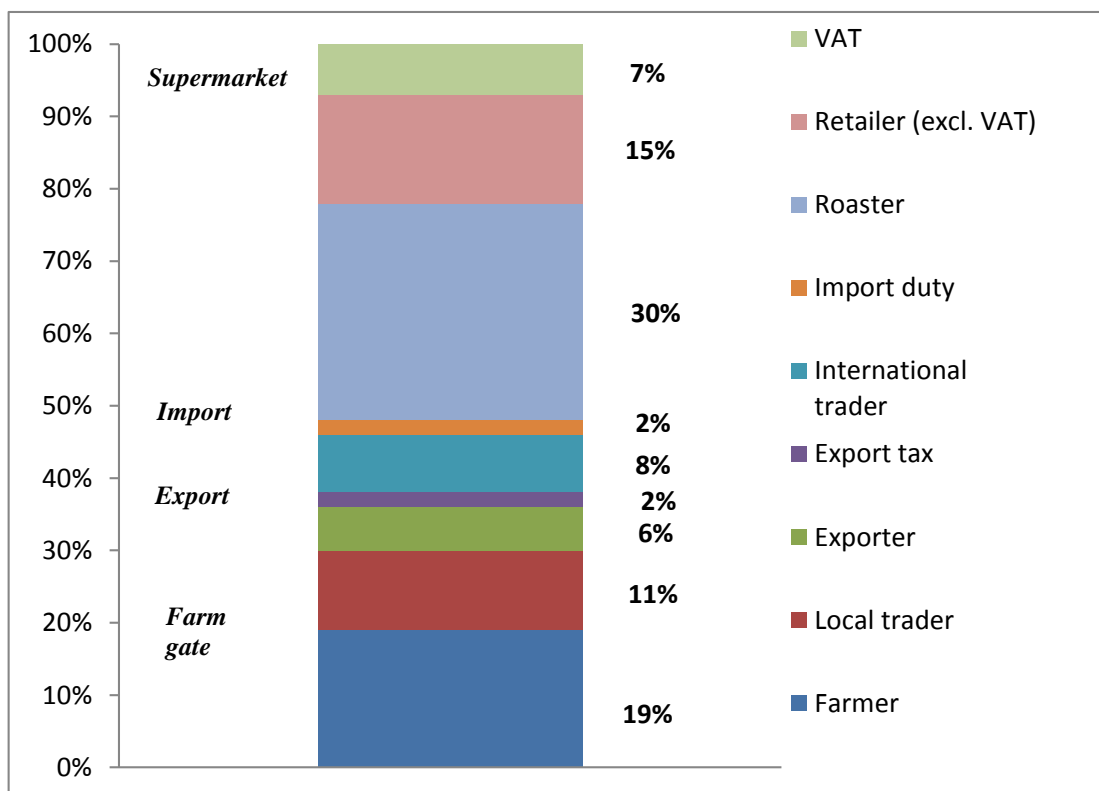
8.2 A buyer-driven supply chain

Before modelling the price structure, I would like to provide a brief overview of the value chain indication from the supply chain, which was investigated from the Economist Intelligence Unit.

This pattern illustrates the approximate proportion which is given to each player in the whole international trade. On the other hand, it reflects the situation of the fair profit of each player in order to balance the supply and demand, which will affect greatly to the price of world's coffee.

As the illustration of the international coffee supply chain (figure 13), composed of importers, roasters and retailers, these market players have little to do with the actual production of coffee, their buying power has an enormous impact on international coffee prices as well as buying practices, both of which determine most coffee farmers' livelihoods. Most of the wealth, 70 per cent generated by world coffee sales, is captured by intermediaries outside of the producing countries. (Oxfam: international Commodity Research – Coffee)

The interesting has been found in the value chain is the attributes of the growing gap between producers and consumers price. The increasing is justified a part of manufacturing due to the blended coffee process from various countries, substantial transportation costs owing to geographical position, and partially trade barriers. Crucially, the main reason is the upshot of the market structure, dominated by a handful of multinationals, who mainly take over the production of coffee from the farm gate to the retailers. Moreover, the behaviour of consumers in OECD countries enables big multinational roasting companies to heighten their share of coffee profits. The fact that because of the high income in developed countries, the consumers are willing to pay higher prices for coffee in exchange for the “image” sold together with the physical product by major coffee brands through massive investments in branding and advertising, for e.g. Nestlé, Kraft...



Source: Adapted from the Economist Intelligence Unit, Coffee to 2000

Oxfam International Commodity Research – Coffee

FIGURE 13. Indicate value chain from farm gate to supermarket shelf

The percentages along the supply chain are derived from the indicated data gathered by EIU and seem to roughly represent what happens in reality, keeping in mind that percentages, at least up to the export point, might vary significantly from country to country, depending on taxation, regulations and market conditions.

Although multinational companies may have market power as buyers of green coffee, as Ponte (2002) argues, the large price spreads seem to occur between import prices and prices of processed coffee, not between farm gate and world market prices (Daviron and Ponte, 2005, Chap. 6).

8.3 Modelling the structure of imported Vietnamese coffee price

From the spirit of the value capture which is built based on the empirical research from the market, I would like to give rough estimates of the average value structure of im-

porting Vietnamese coffee to Sweden, Finland, and Denmark (table 16). It would be preferable to use detailed firm-level data that allow modelling dynamic firm interaction, but these are not available due to confidential information. Nevertheless, the approach is transparent, compared to estimating a structural oligopoly model for Nordic market in some existed research when there is a paucity of data on cost.

The number will be calculated which importantly relying on the percentage value capture in the above figure 13. The import cost and the other expenses transportation, insurance, etc. are remaining equal values among Nordic areas. Significantly, they are different in Value Added Tax and some other import duty if any. Consequently, the prices obviously are different from each other in specific countries and perhaps, the profit of retailers or wholesalers.

TABLE 16. Price structure of coffee exports from Vietnam to Nordic countries

	FINLAND		SWEDEN		DENMARK	
	EUR/kg	% retail price	EUR/kg	% retail price	EUR/kg	% retail price
<i>F.O.B Vietnam port</i>	1.63	28%	1.63	28%	1.63	21%
<i>Freight, Insurance, Commissions etc.</i>	0.26	4%	0.26	4%	0.26	3%
<i>C.I.F Destination</i>	1.89		1.89		1.89	
<i>Excise tax</i>	-		-		0.73	9%
<i>Roasting process (include transportation)</i>	2	34%	2	34%	2	26%
<i>Price at the roasting plant</i>	3.89		3.89		4.62	
<i>Mark-up price</i>	0.19	3%	0.27	5%	0.14	2%
<i>Profit of wholesaler</i>	0.25	4%	0.25	4%	0.3	4%
<i>Whole sale price</i>	4.33		4.41		5.06	
<i>Profit of retailer</i>	0.85	15%	0.85	14%	1.1	14%
<i>Retail price (excl. TAX)</i>	5.18		5.26		6.16	
<i>VAT</i>	0.67	12%	0.63	11%	1.54	20%
<i>Retail price</i>	5.86	100%	5.89	100%	7.70	100%

Source: Author

Note: Import cost is estimated equally to each country and based on the price of Vietnamese coffee export price averagely in 2011 (2.15 USD/kg)

1EUR = 1.31579 \$US (Average exchange rate in April, 2012)

The markup per cent of Vietnamese coffee on the general market structure is presented in the market as follows:

TABLE 17. Markup per cent for Vietnamese coffee

Unit: EUR/kg

<i>Country</i>	<i>Retail price</i>	<i>Import cost</i>	<i>VAT</i>	<i>Excise tax</i>	<i>Mark-up</i>
<i>Finland</i>	5.86	1.89	0.67		56%
<i>Sweden</i>	5.89	1.89	0.63		57%
<i>Denmark</i>	7.70	1.89	1.54	0.73	51%

Source: Authors

Note: 1EUR = 1.31579 \$US (Average exchange rate in April, 2012)

The comparison between the average price and Robusta price estimation (table 16) will be shown in table 18.

TABLE 18. Retail Price comparison between Vietnamese Robusta and average price based on ICO (EUR/kg)

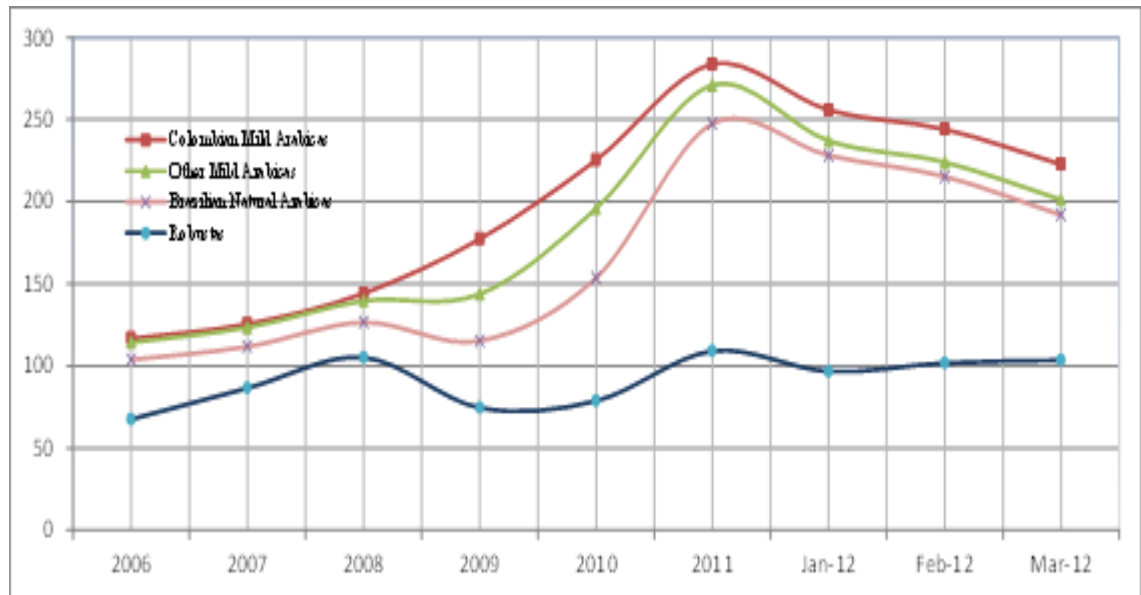
	<i>Denmark</i>	<i>Finland</i>	<i>Sweden</i>
<i>Average price (2011)</i>	11.59	8.98	9.37
<i>Vietnam coffee price estimation</i>	7.70	5.86	5.89
<i>Robusta/Average price</i>	66%	65%	63%

As the price of Robusta beans is twice less than the Arabica, so that the price of Robusta is obviously lower than Arabica. The result gives us the Robusta estimated price is lower 40 to 50 per cent than the average coffee, which should be presented as Arabica type.

8.4 Recent price of Robusta

The main quality difference stems from the beans used, Arabica and Robusta, which have been differentiate in prices in a big gap from 50 per cent up.

As the trends in the composite coffee price mask significant differences among the various coffee types, this is shown in Figure 14. Nevertheless, the price of Arabica beans has been dropped by 17 % in the first three months 2012, while Robusta price has increased slightly 7 %, according to the ICO monthly report.



Source: ICO

FIGURE 14. Recent Prices of Robusta compared to Arabica from 2006 to Mar-2012 (US cents/lb.)

9 CONCLUSION AND SUGGESTION

9.1 Conclusion

The purpose of this paper was to study the market structure and prices in Nordic coffee market in order to see whether how the potential of Vietnamese Robusta coffee in this uneasy-served market with mostly 95 % Arabica has been preferred. Apparently, some conclusions on the value chain the process from the coffee growers to the consumers were captured to be shown by the per cent value each player took. It was important to notice the Nordic market characteristics. The demand has been constantly growing, and thus it was necessary to do research the demand of market and observe the potential of it.

There were fairly different prices of roasted coffee across Nordic countries. The concentration was high in all national markets due to the oligopoly structure, thus it was believed that leading players have had the market power. Nonetheless, beside market power, the price was also impacted by the quality of imported beans and large variations in indirect taxes. On the other hand, Robusta beans had not been imported a big amount, except in Denmark growing recently with 10 per cent, while only 2 per cent in Sweden and Finland.

The value chain was divided into small portions from the coffee sales, about 12-20 per cent of the profits go to growers; 10 per cent to exporters, 30-35 per cent to shippers and roasters and 15 per cent to retailers. In early 1990s, people in the coffee-producing countries earned about 40 cents on every dollar spent on coffee. In recent decade, they only earned about 8 to 13 cents. The difference was attributed mainly to low coffee prices paid to farmers and the high prices paid by consumers (Antiny Wild, 2005). As a result, the consumer paid 300 per cent more than the amount the farmer received.

In perspective of Robusta Vietnamese, the price was still low because of the quality and it has been less preferable than well-known Arabica type. Practically, Vietnam rose from being a minor player in the world coffee market to a major player, and overtook Columbia the second position of the world's producer. It caused the oversupply and declining prices in the world.

9.2 Future prospect and suggestion

In the near future, Vietnam should establish cooperation between coffee growers and producers to control the quality and update technology, as well as, prices for the growers, especially individual farmers.

Vietnam is competing with the others big producers from Brazil, Colombia, Indonesia, and some African countries in the EU market. For that reason, Vietnam should pay more attention to the quality more than quantity. Moreover, Vietnam has been known at a certain level of coffee quality, so that they should have their national trademark to substantiate its position in the world's market. Nowadays, Vietnam is changing gradually to grow more Arabicas to meet the demand in the world but it is not really appropriate under Vietnamese weather conditions. In my opinion, they rather do build and improve their own Robusta specialties. The coffee favour of young people would change in the future for more variable products, and it would be an opportunity for Vietnam market entrance to Nordic markets. Not only the added value will be enhanced but also the market competitiveness is not harsh since avoiding the competitions with other exporters.

Thirdly, even though the labour cost in Vietnam is lower than in Colombia or Brazil but the transportation cost from Vietnam is further than from them. It causes a consideration for the importers from Scandinavian markets.

Taken together, there is a chance for Vietnamese coffee in expanding international trade to Nordic markets if Vietnam knows how to turn their comparative advantage into market competitiveness. In the other words, to achieve global competitiveness requires improvements in three areas: efficiency manufacturing, product differentiation in quality and flavour, and last but not least research of specialized market demand.

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