

# CONFIDENTIAL

**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:**

- HOW TO MAKE YOUR "COFFEE ID" REACH THE FINAL CONSUMER? (PAGE 3)
- A SIZE (AND SHAPE) GRADER FOR EACH ORIGIN? (PAGE 4)

## **FROST ALERT IN BRAZILIAN COFFEE REGIONS**

Major Brazilian coffee growing regions were hit by a moderate to low frost in late June. Damages occurred in north Paraná and southwest São Paulo regions, especially in lowlands. Some crops located in South Minas Gerais and São Paulo's Mogiana region also reported minor damages in low lying areas. According to experts, growers must be alert for new frosts during July, with special attention to be paid at new plantations.

Sources: Iapar, Estado de São Paulo and P&A



## **MAN AND TECHNOLOGY TOGETHER AT EXPOCAFÉ TRADE FAIR 2011**

The largest Brazilian coffee technology fair, held annually in the municipality of Três Pontas, Minas Gerais, attracted more than 20,000 visitors this year. Business transactions reached R\$ 228 million (US\$ 150 million), an increase of 145% in comparison to 2010. This year's main theme was "man and machine in the generation of national wealth". Different types of machinery, like harvesters and post-harvest processing equipment were presented at the event. Growers had the opportunity to watch equipment working in more than 20 field tests that took place during the event.

Sources: CNC and Polo de Excelência de Café



## **PINHALENSE EXPECTS RECORD SALES FROM EXPOCAFÉ**

Pinhalense had a large booth at Expocafé where it exhibited a wide array of machinery ranging from brush cutters to coffee processing equipment. Pinhalense sales associated with its participation in the event should exceed US\$ 15 million, a greater amount than in previous Expocafés. Technological innovation coupled with high coffee prices are pushing Pinhalense sales to unprecedented levels.

Source: P&A

## **OUT-OF-HOME CONSUMPTION ON THE RISE IN BRAZIL**

ABIC's latest survey about coffee consumption trends in Brazil reveals that more and more people are drinking coffee on the streets. Out-of-home consumption has grown from 14% in 2003 to 57% in 2010. The habit of drinking coffee in bakeries has increased more than 300% over the last eight years. The survey also shows that 90% of youngsters place coffee among their favorite beverages; young consumers in larger cities like to have both hot and cold coffee drinks, preferably in coffee shops.

Sources: Peabirus and Portal Espresso

## **COSMETIC BRAND KAPEH TO OPEN STORES**

Kapeh, the Brazilian line of cosmetics made from coffee, plans to open exclusive stores in 2012, starting in Minas Gerais. Today, the company's portfolio includes 50 types of products among soaps, lotions and shampoo sold in 16 Brazilian states, and in its virtual store.

Source: Brasil Econômico

## **BRAZIL DOUBLES EXPORTS OF HIGH QUALITY COFFEES**

Brazilian exports of high quality coffees have doubled over the past four years, going from 1.9 million bags in 2006 to 3.9 million bags in 2010, according to CeCafé. Cafés de Brasil are used in sophisticated blends worldwide, with Brazil being the main supplier to top-quality roasting companies such as Illycaffè.

Source: Folha de São Paulo

## **GROWING MARKETS FOR BRAZILIAN ROBUSTA**

Brazil seems to be the main candidate to supply the growing market for Robusta coffee worldwide. Even though the area planted with Conilon has remained stable in the country, yields have grown considerably in recent years due to higher investments on research, technology and irrigation. Robusta production in Brazil may rise to 17 million bags from the current 11 to 12 million bags. Vietnam, the largest Robusta producing country today, is showing signs of stability, with the need to renovate plantations.

Source: 4th Brazilian Coffee Dinner and Forum

## **COFFEE GROWERS INVEST ON QUALITY AND YIELDS**

Coffee growers in different regions of Brazil are benefiting from high coffee prices to invest on technology to improve quality and yields. According to CEPEA, a research institute linked to the University of São Paulo (USP), the bulk of new investment is going into technology with growers in only a few areas, e.g., in Minas Gerais' Cerrado, investing on new coffee growing areas.

Source: CEPEA

## **LABOR SCARCITY REACHES ESPÍRITO SANTO STATE**

Once restricted to São Paulo and Minas Gerais states, the lack of labor to harvest coffee has reached the Robusta growing state of Espírito Santo. According to local cooperatives, the problem is caused by competition from mining and urban jobs. In Minas Gerais, workers are earning 46% more per working day than in the 2010 harvesting season.

Source: Folha de São Paulo

## **NEW GENERATION OF COFFEE GROWERS**

A group of young entrepreneurs in Brazil is reinventing the ways of doing business in coffee. Sons and daughters of traditional coffee growers, they have grown up in big cities, gone to college and come back to start their own businesses in the countryside. This new generation is successfully managing coffee roasting and trading companies; even a virtual store that sells coffee and accessories. These youngsters have found a way to add value to coffee produced by their parents and grandparents and once sold as green coffee.

Source: Isto É Dinheiro Rural and P&A



## **POÇOS DE CALDAS REGION HAS IDEAL CLIMATE FOR BOURBON VARIETY**

During a recent event in Brazil, Nespresso's Latin American director said that the region around the municipality of Poços de Caldas, Minas Gerais, is the best in the world for the production of coffee of the Bourbon variety. Volcanic soils and high altitudes are the main reasons, but growers' commitment and know-how are also very important. As part of the event, "Fazenda Recreio", a estate in the neighboring municipality of São Sebastião da Gramma, São Paulo state, received visitors in its centennial coffee plantation.

Source: Hoje em Dia

## **BRAZIL HAS THE LOWEST INCREASE IN PESTICIDE CONSUMPTION**

In the five years from 2004 to 2009, Brazil was the country that registered the higher increase in food production, 44.5%, while pesticide consumption grew only 1.5%. Russia took the 2nd place, increasing production by more than 22%, but with an increase of 28% in pesticide usage. The advances in Brazilian food production occurred because of higher yields, since the cultivated area grew only 4% in the period.

Source: Folha de São Paulo



## **Pictures of the Month**

### **JUNE 28TH FROST DAMAGE IN BRAZIL**



Source: Cafépoint. Photos by Marco Antonio Jacob. Campestre - Minas Gerais.

## HOW TO MAKE YOUR "COFFEE ID" REACH THE FINAL CONSUMER?

Creating a marketing strategy for a single estate, a single origin coffee, or even for a whole coffee producing region is not an easy task. One of the most common mistakes is to treat marketing strategy as just advertising. The other is to use strategies that are only applicable to intermediate industrial products. The difference is that your brand, your "coffee ID", will have to go through a long chain to reach the cups and the taste buds of final consumers.

It is also common to see cooperatives, associations and farms trying to communicate with final consumers. This seems a good initiative at first sights but it is often naïve, expensive and not efficient enough to capture the attention of consumers who are ever busier. A much better approach is to communicate with your real client, be it the coffee shop, the roaster, the importer or the exporter/trader, keeping in mind that the further down the chain you reach, the better your message will be transmitted and the greater the price premium is likely to be.

Messages get stuck in the middle of the chain because participants cannot see how your essential values, i.e., your coffee ID, can help them add value to their own marketing strategy. Of course, everyone agrees that specialty coffees, with history, shared values and quality, should command a premium price. But the premium price is the final result that can only be realized when your clients clearly perceive your values, your coffee ID.

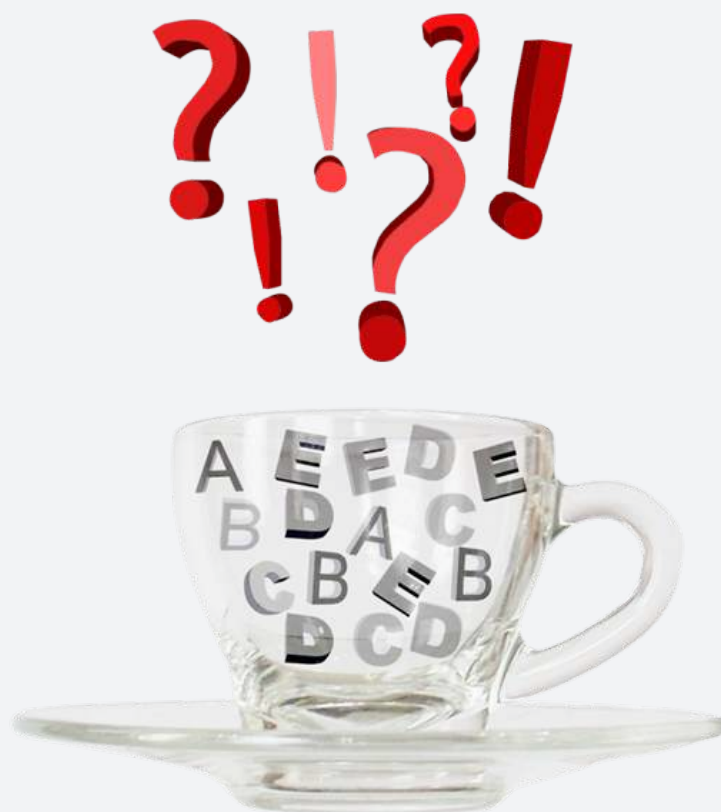
The first step to communicate with your market is to understand what your clients really want. This is a matter of positioning yourself as the best option to respond to their demands. Do they need coffee for a blend? Do they need a sustainable/certified coffee to show commitment to consumers? Do they need a rare specialty option?

The second step is to adjust your production in order not to miss the point in the essential aspects of quality and supply: (1) stability of cup profile; (2) consistency in quality and volumes of each type of coffee produced; and (3) regularity of delivery, year after year.

The third step is to show to your clients that besides quality your coffee has values. It is important to have quality, but it is also important to "sell" quality, i.e., to communicate it properly to the client. It is also important to understand that once you start selling your coffee, you are already marketing your product and communicating with your business partner. So it is better to do it in the correct way from the beginning.

Consumers perceive quality differences in the cup and will always tend to associate these attributes with the origin of the product, e.g. *French wines, Cuban cigars, Dutch beer*, etc. If your marketing strategy is successful enough to have your origin (estate, association or region) identified in the coffee package, the consumer will be able to associate the brand and origin concepts with quality attributes. There is a willingness to pay for a differentiated coffee, and when consumers clearly identify your "coffee ID" in the package, you will be able to receive a premium price.

So, let's leave a question for reflection: what are your essential values, your coffee ID? If you do not know them yet, it is time for you to start your homework...



### Brazilian Prices

June 30, 2011

#### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	485,00 ↓
Mogiana-SP fair average quality T.6	480,00 ↓
South Minas fair average quality T.6	480,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	535,00 ↓
South Minas	530,00 ↓

+ 10.3%

#### Conilon/ Robusta (R\$/ 60 kg bag)

Colatina-ES fair average quality	215,00 ↓
BM&F (US\$/ 60 kg)	
Jul 2011	337.20 ↓
Sep 2011	336.55 ↓
Dec 2011	335.60 ↓
Real R\$/ Dolar US\$	
June 30	1,56 ↓

Source: [www.qualicafex.com.br](http://www.qualicafex.com.br)

## A SIZE (AND SHAPE) GRADER FOR EACH ORIGIN?

Pinhalense has not gone so far as to offer a specific grader type for each producing country but it has indeed customized grading to respond to coffee producing and marketing conditions around the world.

The way coffees are marketed, specially, but also size distribution, density and defect content all affect grading and the type of grader to be used. This is why Pinhalense has over the decades improved its lines of size and shape graders, from the introduction of new machines to new features added to existing machines. Pinhalense's sales and exposure in over 80 countries in the 5 continents and the thorough "insider" knowledge of coffee processing that it has acquired in these origins have been essential for this continued development process.



Pinhalense today offers lines of graders with either downward or upward flow, single or double box for single, double or quadruple load, 3 to 8 grading screens (round, slotted or special) arranged in a multitude of ways, and capacities ranging from 0.3 to 14 tons/hour. From capacity to grading precision to solutions for specific problems, Pinhalense offers graders that fit all clients' needs.

Please contact the Pinhalense expert nearest to you if you are confused by the multitude of options above. The Pinhalense representative will analyze your own coffee grading needs and, together with Pinhalense's Technical Department, provide the best solution and recommend the right Pinhalense grader for your specific conditions and challenges.

Pinhalense experts will also show to you how the use of the right Pinhalense grader can help you improve the efficiency of densimetric separation and color sorting in order to remove defects and to further grade your coffee according to quality. Your investment on color sorters – the single most expensive machine in the coffee processing chain – can be reduced dramatically with the use of the Pinhalense grader chosen for the specific conditions of your country and your coffees and the requirements of your markets. The correct choice of graders can make a major impression on your clients and reduce the risks of refusal of coffee lots by them.

The coffees of Africa, Asia, Latin America and elsewhere have specific grading challenges. The coffees of most if not all countries have grading requirements that are unique. Destination markets, in turn, have their own grading specifications. Combine all these needs and each case is one case: Pinhalense is ready to address your own case!

More information about Pinhalense machines on the website: [www.pinhalense.com.br](http://www.pinhalense.com.br)