



TPSA | CANADA-INDONESIA TRADE AND PRIVATE SECTOR ASSISTANCE PROJECT



SUCCESS STORY

Supporting Sustainable Economic Growth Through the Expansion of Indonesian Coffee Exports to Canada

HIGHLIGHTS

- The TPSA project worked with a select group of Indonesian coffee producers to increase their export capacity.
- This involved a combination of workshops, face-to-face and online coaching, promotion of Indonesian SME exporters and their products to Canadian buyers, arrangement of business matchmaking events and company visits during SMEs' participation in international trade shows, and buyer missions to Indonesia.
- The SMEs needed help developing an effective marketing approach to export their products to Canada. They all produced new or improved promotional materials, including websites, fact sheets, posters, slide shows, and promotional videos.
- The strategy paid off: As of March 2019, total sales by the five SMEs attributable to TPSA interventions amounts to C\$4.8 million.



Picking coffee cherries.

Canada

Program undertaken with the financial support of the Government of Canada provided through Global Affairs Canada

IN PARTNERSHIP WITH





THE SMES

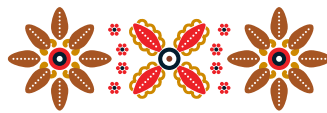
The TPSA project's work supporting Indonesian small and medium-sized coffee producers began with the identification of potential producers in two geographic areas: Aceh and South Sulawesi. From a group of 34 producers, five were chosen based on coffee quality, attractiveness of the SME's story to the Canadian market, and a selected set of business practices indicative of export proficiency. All are located in Aceh province on the island of Sumatra. Two of the producers are women-led or managed.

- **Arinagata Cooperative** is a Gayo Arabica coffee producer and exporter specializing in organic coffee. The cooperative has 2,582 coffee farmers in 39 villages.
- **Kokowagayo** is a women-owned and managed Gayo Arabica coffee cooperative founded in 2014. The cooperative focuses on processing and trading organic and fully washed coffee. They work with 567 farmers from seven villages.
- **Meukat Komuditi Gayo** is a Gayo Arabica coffee-trading company founded in 2013. The company's primary activities are in high-quality, fully washed coffee processing, local trading, and exporting.
- **Orang Utan Coffee Lestari** is a women-led SME that helps coffee farmers manage their plantations in an ecological and sustainable way to ensure the protection of the rainforest. Coffee sales support the Sumatran Orangutan Conservation Program, which protects one of the last remaining ecosystems where orangutans, rhinoceros, elephants, and tigers can still be found. The project works with 300 Gayo Arabica coffee farmers in Aceh province.
- **Redelong Organic Cooperative** was created by a group of Gayo Arabica coffee farmers in 2014 in the Gayo highlands. The cooperative has 703 members from four villages.

THE CHALLENGES: UNDER-OPTIMIZED MARKET OPPORTUNITIES

TPSA assessed the five selected coffee producers and found several gaps in their knowledge or practice that needed to be addressed to ensure the SMEs were equipped to export their products to Canada:

- **No solid understanding of the markets in which they operate.** The SMEs can do business and potentially even expand their business, but are ill-equipped to optimize market opportunities. Coffee's market price can be up to four times its value compared with depreciated local markets. Finding the optimal price means understanding the special attributes of one's own coffee and being able to identify which segment of the market would provide the best rewards.
- **Little understanding of financial tools for risk management:** Many features of the coffee trade render it a risky business, including the remoteness of production areas, the volatile prices, and the amount of capital required. All of these are exacerbated by the fact that coffee is produced in countries with poor-to-average infrastructure. To mitigate the impact of issues that arise, financial tools have been developed to "insure" coffee prices; however, their level of sophistication renders them underused, and many Aceh coffee producers lack access to capital.



- **Processing practices impact coffee quality:** The local processing habits (wet hulling, open-air drying) negatively affect coffee quality, and processing equipment is unsophisticated and in poor condition. None of the participating SMEs report using electronic sorting machines, relying on one to three cycles of hand-picking, and most of the SMEs do not perform the final stage of processing.
- **Little or no experience with international trade shows:** Few firms have experience attending a trade show and are unaware of the need for English-language proficiency or of business etiquette at North American shows.
- **Marketing and branding are inadequate:** The SMEs do not have adequate marketing materials for international trade shows. They lack English marketing materials and need to create and maintain appropriate company websites. They also have no real branding beyond the Gayo appellation and the most widely recognized certifications (such as Fairtrade and Organic).

THE STRATEGY: IMPROVE CAPACITY TO EXPORT

To strengthen the SMEs' ability to export to Canada, a strategy to address the export-readiness gaps identified above was designed and implemented. This involved a combination of workshops, face-to-face and online coaching, promotion of Indonesian SME exporters and their products to Canadian buyers, arrangement of business matchmaking events and company visits during SMEs' participation in international trade shows, and buyer missions to Indonesia.

Product

One-on-one training was provided to each SME to give them a better understanding of their product. Critical cupping sessions and analysis of the results with buyers were held during buyer missions. Independent quality tests were commissioned from Coffee Lab International and the results discussed. The coffee SMEs were exposed to best-practice processing methods to limit process-specific quality loss.

Marketing

The SMEs needed help developing an effective marketing approach to export their products to Canada. TPSA provided training on consumer trends and niche markets in Canada and North America, and demonstrated how to successfully deliver sales pitches and hold cupping sessions to showcase their coffee to potential buyers. They also helped the SMEs develop a buyer database.

The SMEs received technical assistance to produce or improve their promotional materials, including fact sheets, posters, slide shows, and promotional videos. They all received training on niche and specialty market approaches in North America, as well as on exclusive marketing arrangements (do's and don'ts) and a one-on-one analysis of each SME's marketing and promotional tools. They gained a better understanding of the information sought by North American buyers and of Western business norms such as prompt communication.

TPSA also offered support with website development. Foreign buyers demand that SMEs have a functioning and informative website to support exporting. The TPSA communications specialist provided guidelines for what to include on a website to best meet foreign buyers' needs and offered best practice examples.



Training for coffee SMEs on how to export to Canada held in Takengon in March 2017.



Other training topics included environmental technical assistance available from TPSA, how to track and monitor communications with foreign buyers, and how to track sales after trade fairs. Following the training, the TPSA coffee expert provided remote coaching via the websites developed by each coffee SME.

Branding and Labelling

Through the TPSA project intervention, the companies gained a better understanding of the kind of branding information that is desired by North American buyers. The branding and labelling strategy included one-on-one assistance with using brand names, developing an English website, obtaining sustainability certifications, and understanding climate change and carbon credits. The SMEs also received help with the design and layout of their booths, banners, and table displays for participation in trade shows.

SMEs also learned to tell their individual stories as part of their branding efforts. Orang Utan in particular began to use their scientific data, mission, and story as a resource for sales pitches, while Kokowagayo augmented its woman-oriented marketing strategy.



Exporting

The strategy to help SMEs become export-ready involved improving their understanding of how to prepare for pre-shipment samples, negotiate contracts, and use production planning tools. They also received training in risk management against price fluctuations (forward contracts, hedging mechanisms, and insurance) and futures exchanges (NYKC, LIFFE, BM&F, SGX, and VNX).

Market and Export Information

A series of how-to guides and reports were prepared and shared with the target SMEs, coffee associations, and a wide range of other coffee producers:

- *A Step-by-Step Guide for Indonesian Coffee SMEs to Export to Canada*
- *Guide to Attending and Benefiting From International Trade Shows*
- *How to Prepare Market Intelligence Reports*
- *An Analysis of the Global Value Chain for Indonesian Coffee Exports*
- *Market Research Report: Coffee*

OUTCOMES: EXPORT SUCCESS AND CULTURAL AWARENESS

Through TPSA, the SMEs had the opportunity to participate in both international trade shows and buyer missions to Indonesia. As a result, companies had 95 meetings during trade shows and identified 81 leads through coffee buyer missions.

The SMEs successfully participated in two Specialty Coffee Association (SCA) trade shows in 2017 and 2018, where they promoted their specialty products to potential buyers, importers, and roasters from Canada and the United States. The SCA trade show is the largest specialty coffee expo in the world; participating in the 2018 show helped to further boost the confidence and skills of the coffee producers, while technical assistance from TPSA and TFO consultants contributed to improved booth management, product presentation, business negotiation and promotional materials.



Overseas buyer missions to Indonesia were organized in 2017 and 2018, during which Canadian importers had the opportunity to visit coffee producers. These missions allowed buyers to gain a better understanding of the significance of coffee production to the livelihood of farmers and of the culture of the people.

One of the producers, Arinagata, was able to obtain their export licence and benefit from direct sales with international buyers. Redelong Organik Cooperative was also able to export using Arinagata's licence by paying shipping fees to the other co-op.

The total sales by the five SMEs attributable to TPSA interventions amounts to C\$4,775,000. Of that amount, C\$1,348,000 came from Canadian buyers and the remainder from U.S. buyers. Another C\$811,000 in product was sold to Canadian buyers by non-targeted coffee producers introduced to the buyers by TPSA during the 2018 buyer mission.



TPSA-supported coffee producers at their first international trade show.

“Our dream to promote our coffee in Canada came true at the Vancouver event. We are very proud and grateful for the opportunity to partner with TPSA so that we can be more professional in running our business and promoting Gayo coffee. Starting from zero, I have now learned how to be a professional in promoting my coffee, how to communicate with buyers, and how to exhibit at an international trade show. Arinagata is becoming known by buyers, and these buyers now feel more confident with our coffee quality. Institutionally, Arinagata has become more professional as a coffee producer as well as in our new role as a coffee exporter.”

—Mahyana Sari, Secretary of Arinagata Cooperative

Participating SMEs have proven their ability to follow up with potential buyers. The high demand for Gayo coffee on the international market will increase demand from existing and new buyers. At present, three of the targeted SMEs have the capacity to increase their output by one or two containers annually, adding about C\$650,000 per year to their present revenues.



Each SMEs also had its own individual successes:

Arinagata

Obtained its export license.
 Learned to do its own final processing.
 Gained a better understanding of the real price potential for its product.
 Started to offer village-based lots and split containers.

Redelong

Increased its perception of the risks associated with fixed-price contracts.
 Now uses its agricultural best practices as a marketing feature.

Orang Utan

Learned how to use the right human resources for sales pitches.
 Learned about the challenges imposed on price (and sales) by their oversized premium system. Started to evaluate the potential positive outcome of selling more coffee at a lower premium.

Kokowagayo

Increased its partnership with another co-op (Permata Gayo) for the creation of a co-owned processing facility.
 Increased its woman-oriented marketing strategy by presenting women's empowerment stories and activities.
 Increased its awareness of the risks associated with fixed-price contracts.
 Started to offer village-based lots and split containers.

Meukat

Increased cooperation with its parent co-op (Baburrayan) for specialized-product processing and marketing.
 Learned to process international payments originating from North America.
 Learned about needed improvements to the auction system to cater to international buyers.
 Learned how to better present the company and its auction process to buyers.
 Started to offer village-based lots and split containers.

Increased relations with their only North American business partners.
 Gained a better understanding of the restrictive effects of their distribution scheme.
 Now makes better use of scientific data and CSR in promotion strategies.



North American coffee buyers visit coffee producers in Aceh, Indonesia.

The TPSA buyer missions also produced some unforeseen positive results. During both missions, time was set aside to educate Canadian participants on Indonesia's coffee trading system, resulting in a better understanding and an increased comfort level with importing coffee from Indonesia. Buyers were also exposed to the cultural aspects of the Gayo region, which is important because the coffee trade relies, in part, on the specificities of the land and the people cultivating it.

In addition to producing coffee, Orang Utan is a mission-driven company dedicated to protecting the last of the wild orangutans. The business case of this organization aims to provide premiums to farmers and to a foundation dedicated to achieving this goal. Any promotion of this coffee has to explain the plight of the animals and the strategies intended to save them. The many sales pitches



given by Orang Utan over two years helped raise awareness of this important issue. During both buyer missions, time was set aside to explain the protection work done by the foundation and provide some scientific background on these animals. During the 2017 buyer mission, part of the group was brought to meet the animals in the wild, a life-changing experience for most participants. One of the biggest threats to the survival of orangutans is habitat loss due to the growth of palm oil plantations. This issue was raised while promoting Orang Utan's coffee and demonstrated clearly during the first buyer mission, when the group travelled many hours through palm oil plantations. A discussion was also organized with an expert on sustainable palm oil.

SIGNS OF SUSTAINABILITY

Three TPSA-supported Indonesian coffee producers, Arinagata Cooperative, Meukat Komuditi Gayo, and Orang Utan Coffee Lestari, attended the Specialty Coffee Expo in Boston in April 2019. This year, the producers independently financed all costs related to the show. The fact that the SMEs decided to attend another international trade show and finance it themselves is proof of how much they have learned and grown by participating in the TPSA program.

“ We were able to secure one additional buyer outside of the TPSA project's assistance and have confirmed export of one container of coffee. The promotional and other skills we learned from TPSA led to this transaction. ”

—Ara Siberani, Chairperson, Arinagata Cooperative

TPSA project coffee expert Said Fauzan Baabud travelled to Boston with the producers to observe their progress. He reported that they were more confident, using the knowledge and experience gained from attending two previous trade shows under TPSA guidance. The producers reconnected with existing buyers and met potential new ones. They held cupping sessions with other specialty coffee producers from Indonesia and handed out green bean samples to interested participants.

ENSURING SUSTAINABLE RESULTS: ONGOING SUPPORT NEEDED

Most Indonesian SMEs have had little exposure to the global marketplace. The TPSA training and technical assistance is just the first step to ensuring sustainable results. Here are some ways that Indonesian governments and business organizations can continue to support exporting success among coffee SMEs:

- **Continuous training and support.** TPSA project materials for training and support programs have been transferred to government and business associations to be further disseminated and to replicate the benefits with other SMEs.
- **Marketing strategies.** Coffee is a highly competitive market where a large part of the product's value is not related to its intrinsic qualities. Some of its value comes from branding built around the country's reputation, as many people choose their coffee based on their feelings toward the country of origin. Marketing strategies can be used to reinforce that positive feeling.
- **Cooperation among SMEs builds sustainability.** Through participating in the project's activities, SMEs learned about one another's strengths and specialties to the point of beginning to collaborate.



Ara Siberani from Arinagata Cooperative shared his successful experiences and strategies for participating in and benefiting from coffee trade fairs at Trade Expo Indonesia 2018.



These new alliances could become a major asset in the face of an extremely challenging marketplace. TPSA supported coffee producers to attend Trade Expo Indonesia in 2017 and 2018 to share their experiences exporting coffee to Indonesia.

- **Canadian buyer database.** In preparation for the 2017 trade show in Seattle, an extensive database of Canadian coffee buyers was created in order to reach out to coffee producers, roasters, and brands, enhance the profiles of participating SMEs, and arrange B2B meetings. This database, which has been left with the SMEs, will allow them to keep in contact with potential Canadian buyers. This tool could also be made available to the Ministry of Trade and to other SMEs.
- **Shared containers with other SMEs.** One way to optimize revenue from coffee trading is to cater to special niche markets. Small micro-lots of a few hundred kilograms can be sold at a 600 to 700 per cent premium. The challenge lies in shipping micro-lots, because the usual trading unit, a container, holds over 18,000 kilograms of coffee. A solution to expand this market would be to implement a system facilitating shared containers between exporters, shipping their coffee to different clients at the same ports.
- **Modernization of processing.** One of the greatest weaknesses of Gayo coffee lies in inefficient processing procedures. Increased awareness, training, and subsidy programs to modernize equipment and procedures would have enormous positive effects on production costs and quality control.

ABOUT TPSA'S WORK SUPPORTING TRADE

The ultimate objective of the Canada–Indonesia Trade and Private Sector Assistance (TPSA) project is to reduce poverty in Indonesia by contributing to sustainable economic growth through the expansion of Indonesian trade with Canada and the encouragement of Canadian investment in Indonesia. The relationships between increased trade, sustainable economic growth, and poverty reduction are complex. Nevertheless, there is an emerging consensus in the literature that, in the current context of integrative trade and globalization, increased trade raises the incomes of the poor, and the transition costs to a more open economy are generally small, relative to the overall benefits.



To maximize the poverty-reduction impact of increased trade and investment between Canada and Indonesia, the TPSA project focuses on small- and medium-sized enterprises (SMEs), including those owned or operated by women. After extensive analysis, TPSA chose to focus on three commodities that have a good chance of success in the Canadian market: coffee, footwear, and apparel. The choice was framed by the following criteria: the global and Canadian market-growth potential for that commodity, existing trade barriers, Indonesian sectoral policies, the extent to which project activities in the commodity group will have an impact on poverty reduction, the extent to which the commodity group will generate stable jobs that pay fair wages, the extent to which the project can improve gender outcomes in the commodity group, and the extent to which the common economic practices in the commodity group generate significant adverse environmental effects.