Kape, Kultura

at ang Pilipino

(Coffee, Culture and the Filipino)

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EXECUTIVE SUMMARY

This business plan was created to give a concise account of the plausibility of creating a coffee business in the Philippines devoted to indigenous development. We have analyzed key challenges and suggested strategies to make the coffee business profitable and sustainable in its global trade. Our model is similar to that of Fairtrade. However, we intend to move beyond just providing fair prices to coffee producers. At the heart of our business model is our intention to develop indigenous groups and enliven their cultures. We will also act on behalf of all Philippine indigenous producers in the global market.

BUSINESS OVERVIEW

The Philippine Coffee and Culture Organisation (Organisasyon para sa Pangangalakal ng Kape at Kultura) is a wholesaler-exporter of coffee beans that will initially be produced in the Cordillera Administrative Region, Northern Luzon, Philippines. PCCA will buy sorted coffee beans, at 85% of the global price, from indigenous groups who will use their land as coffee plantations. PCCA will then process, grade, and export the coffee beans. These beans can be sold from $0.79-$1.96 per pound depending on species (Robusta-Arabica). From the net profit, we will then allot at least 25% for conducting programmes for indigenous development. These make PCCA an advocate of increased coffee production in the Philippines and of indigenous development.

OBJECTIVES and GOALS

The Philippine Coffee and Culture Organization’s main objective is to support indigenous groups by training them how to produce coffee and providing them with a stable income and livelihood. Our next biggest tasks are to ensure high-quality of coffee beans produced, to sell beans at a competitive price in the global market, and to use percentage of the profit to enliven culture development in the country by funding programmes for indigenous peoples. By doing this, we will create growth in two areas: (1) coffee production in the Philippines and (2) diversity and culture.

Empowering the Indigenous Peoples (Social Goals)

(1) To lower the unemployment rate of indigenous peoples in the Philippines. Our goal is to get at least 25% of the indigenous peoples within the initial targeted area into the organization in the first 5 years, with bulk of their active procurement happening in the first 3 years.

(2) To provide the indigenous peoples with stable income (above minimum wage) and livelihood. We will measure this after 5 years by the following:
   a. Their state of livelihood prior to joining the PCCA;
   b. Their minimum income prior to joining the PCCA and after they joined PCCA.

(3) To significantly increase the amount of coffee produced and exported by the Philippines. In 2010, it only exported 0.004% of the world's coffee. We will measure the amount made by the country every year and our contribution to that amount.

Culture Development Goals

Different programmes will commence on the company’s 5th year, with 25% of the profit going towards a number of programmes to make the country more conducive to diversity and the representation of indigenous culture. The percentage will increase 1.0% every year then after, levelling off at 50% after 25 years. The programmes suggested are as follow:

(1) Funding tourism in the area;
(2) Providing academic scholarship to indigenous peoples;
(3) Mobile health clinics;
(4) Anthropological research into the cultures.

This will be measured by compiling the programmes we have held every year; they should increase over time.
Business Goals

(1) To create a return on investment in the shortest amount of time. We will focus on paying back our investors while still maintaining a reasonable profit for ourselves. We will keep the ratio at 2:1; for every profit that we obtain, twice that amount should have been paid back to our investors.

(2) To become a sustainable business. The continued operation of the business is paramount. We will measure our yearly profit after we have paid out all liabilities — including buying coffee fruits from indigenous producers and maintaining our coffee plantations.

(3) To expand over time and to become the Philippines’s biggest coffee-producing company. This will be measured by the increase in coffee plantations and increase in indigenous producer members over time.

THE PRODUCT: COFFEE

Coffee beans are processed and exported green; the price is dependent on the grade it obtains. They are the seeds of the coffee “cherry”; two can be found in each. Their production requires complex growing environments and harvest conditions, arduous crop management and tedious work in its harvesting and processing — the cherries are hand picked. Plantations are established in magnificent tropical forests and on rugged mountain highlands. Coffee is grown in just about every country between the Tropic of Cancer and the Tropic of Capricorn. On mountains and high plains, it grows. It needs a lot of rain.

These are the conditions that without doubt can be met by the Philippines. It is a tropical country in the right location with a high number of labour force ideal for the harvesting of the coffee plant.

In their processed and roasted state, they are used to create beverages of many kinds, either hot or cold ones. Coffee is processed and then mixed with milk, water, or ice cream to create several alternatives. “Coffee is thus a multifaceted beverage.” Around 400 billion cups are drunk every year.

Coffee has become a staple commodity in the lives of human beings. Albeit its health impact is currently debated and argued, its social impact and popularity cannot be questioned and will only ever gain momentum in the coming years. It is a most valuable commodity of the world, only oil surpasses it in terms of international trade.

We will acquire and maintain coffee plantations and purchase sorted cherries from independent producers. We will undertake the grading and processing of fruits to ensure that only high-quality beans are produced and exported.

THE PCCA COFFEE PRODUCTION – EXPORT DIAGRAM

<table>
<thead>
<tr>
<th>Harvesting</th>
<th>Sorting</th>
<th>Processing</th>
<th>Grading</th>
<th>Tasting</th>
<th>Exporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indigenous Producers: groups who decide to use their own land to plant coffee trees and harvest their own crops</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>• Indigenous Producers: they do their own sorting to remove impurities in the beans and to remove defective cherries</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• PCCA Plantations: our plantations will be equipped with high technology WET processing machinery to ensure that all beans can be sold at optimal price.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• PCCA Plantations: grading and tasting of processed coffee will be done on-site</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• The coffee grader: a sample of the beans will be roasted and tasted through a process called “cupping”</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• CUPPING: similar to wine-tasting. The coffee is sampled for its AROMA, ACIDITY, BODY, and FLAVOUR and accordingly graded</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Once graded, beans are put in 60kg bags to be exported worldwide</td>
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<td></td>
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</tr>
</tbody>
</table>

MARKET ANALYSIS: THE PHILIPPINES

The Philippines is a strategic location for a coffee business because it has the environmental conditions conducive to this venture and its location at the crossroads of the East and West makes it a strategic international shipping and air route. Accounting for 15% of the Association of Southeast Asian Nations’ population, it has the manpower required for the tedious harvesting and processing of coffee beans. It also has one of the cheapest labour forces in the world. It is a spot-on target for PCCA for indigenous development for its diversity and richness as a country and also because of its insufficiently tapped capability as a coffee producing country.
This country is a member of international economic organizations and has become a home to several multinational companies attesting to its safety and security as a business location. Organizations which the country is a member of include United Nations (UN), United Nations Conference on Trade and Development (UNCTAD), Asia-Pacific Economic Cooperation (APEC), Assoc. of Southeast Asian Nations (ASEAN), International Chamber of Commerce (ICC), International Development Association (IDA), and the Asian Development Bank (ADB).

The steps that should be undertaken to build this new firm are straightforward and laid out efficiently by the Philippine Business Registry (http://www.business.gov.ph).

Target Market

The Philippines is a vast, fragmented country composed of different indigenous groups. The organization will first establish itself in Northern Luzon, where there are areas lying in high altitudes making them likely producers of more expensive, Arabica beans. The target market are the indigenous groups found in the Cordillera Administrative Region. It has 1,829,368.00 ha of land. It is composed of 6 provinces and 1 chartered city (Baguio). Collectively, the people residing here are called Igorot although there are various sub-tribes with their own languages and sub-cultures.

This region is blessed with different mineral and natural resources and agriculture is one of the main industries of its inhabitants making it easier for PCCA to train them in the production of coffee. The main challenges will come from language barriers and the potency required in convincing them to be trained and to convert their land into coffee plantations.

PCCA in action:

- PCCA will provide them with the tools and the initial crops they need to plant coffee. The amount will depend on the amount of land they wish to use for coffee production.
- PCCA will train them in how to raise coffee plants and how and what types of cherries to harvest.
- Each indigenous group will appoint their supervisor for their land. He/She will then be given extra training in land management and will be responsible for ensuring proper coffee production in their areas.
- In addition to this, PCCA staff will be employed to supervise and monitor these groups and how well they are coping with coffee production.

Competitors

**Figaro Coffee Company**
Philippines
Retailer
Figaro sells coffee products made from beans bought off from Philippine communities

**The Philippine Liberica Coffee Company**
Philippines
Manufacturer, Exporter
This firm is a wholesaler of Liberica coffee, another lesser known type of coffee bean.

**Philippine Coffee Company**
Philippines
Exporter
The Philippine Coffee Company sells Philippine coffee globally through an e-commerce site. It exports beans entirely produced from the Philippines.

Despite competition from local firms that also sell/export coffee beans of Philippine origin, the country still contributes to only 0.004% of the global coffee supply. If PCCA could emerge as an exporter of high-quality coffee and be known in the world, our competitors will easily be surpassed and may become our partners in the future.

Competitive Advantage

We will not buy land and will not need to procure our own manpower at a large-scale. PCCA will mainly act as a global supplier of coffee beans. We will be focused mainly on buying coffee beans from indigenous groups and processing them to sell the coffee in the global market. Most of our local competitors are operating for profit and without giving back to the community.
We will be role models and advocates for indigenous support and development which could increase the well-being of the nation and which will set as apart from other exporters. Indigenous development will be part of our mandate.

Moreover, our competitors might be buying the beans at a local price which may not be up to international standards. PCCA will use price indexes as set by the International Coffee Organization (http://www.ico.org/). Coffee producers who wish to sell their coffee to us will get more value for their product and thus will profit more.

**Risk and Barriers**

The biggest risk that PCCA can encounter is on convincing indigenous groups to convert their land into coffee plantations. Hence we plan to build a staff of local people who will work with us into persuading the local indigenous groups. Also already said, part of our investment is to train them for free and to provide initial crops and tools for them to use so that they would not be burdened with the costs of producing coffee.

PCCA recognizes the risk of running into some of the local competitors in this region and competing for indigenous groups’ commitment to produce coffee beans to sell to us. Hence we intend to address this risk by stressing that we are mainly for indigenous development more than we are for profit and we will outline to them the programs we will conduct for indigenous development.

**BUSINESS STRATEGY**

Our overall business strategy is to train indigenous people and to convince them of the economic benefits of coffee production and to promote ourselves as an advocate of indigenous development. Without stressing the latter, we will just be another coffee exporting firm. Despite the similarities, we are moving beyond Fairtrade International’s (http://www.fairtrade.net/) efforts. As opposed to just setting a minimum price to ensure that all producers are fairly paid, we are also allotting part of our profit for the development of indigenous coffee producers.

**Marketing**

Our biggest challenge is to get indigenous groups to convert their land into coffee plantations. Our first task however is not to immerse ourselves in the culture but to know more about the cultures as much as possible. There are cultural systems in place in these areas that may be disrupted if we show up ignorantly. This could alienate our target market and dissuade them to do business with us without knowing that our intentions are good for them. We will talk to local governments and local academics about the culture of the people and educate ourselves with best strategies to use in our first interactions with these indigenous groups. This is a step away from a strict business-only approach. We recognize the importance of showing respect to cultural systems to building a foundation of steady long-term business relationships.

The next task would be to use someone from KAMP (Federation of Indigenous People in the Philippines). These are local people who could help us convince indigenous groups of the advantage of producing coffee, of selling the beans to us, and of our indigenous development goals. Since they will be respected leaders from different tribes, their approval would have great impact on others perception of PCCA’s goals.

Once indigenous groups have decided to turn their land into coffee fields, they will then be screened and assessed whether they meet the following general criteria: (1) they should be recognized as an indigenous group of the area; (2) they should be composed of at least 30 tribe members, with more than 50% legally and physically able to work in the fields; and (3) they should have at least 100 hectares (1 sq.km.) to be converted into coffee plants.

**Sales**

It is the PCCA’s task to get the beans flowing into the global market. For this, we will seek advice from the Department of Trade and Industry and the International Coffee Organization about how best to mainstream the coffee beans we produce. The global prices of Arabica and Robusta coffee beans have increased at rates of 71% and 55% from 2005 to 2010. Arabica bean prices increased from US$1.1440 per pound to US$1.9596 per pound. Robusta beans increased from US$0.5055 per pound to US$0.7874 per pound. With consumption rate increases projected at 0.4% annually, there is a need to increase supply to cushion significant increases in coffee bean prices.

It is the risk of global short supply and increased worldwide demand that gives PCCA confidence that it will not have difficulty selling its beans in the market as long as it sets a high standard in assuring the high-quality of the coffee beans.
Training

PCCA will provide all the necessary training so that indigenous groups are well-equipped with the knowledge needed to produce high-quality coffee beans. There will be seminars that will be run by PCCA to train prospective producers in the following:

- The history of coffee
- Where coffee plants are best planted
- Coffee production
- Agricultural strategies to maximize production
- Practical Training in Harvesting
- Coffee processing
- What happens after export: Roasting, Blending, Consumption

All trainees should have completed this course before being awarded with the materials and tools for coffee production. They will also be provided with written materials and checklists that could guide them once they are on the field.

We will get local and international expert coffee producers to run the courses. A member of the indigenous group with the most yields during harvest time will undergo further training so that in time, he/she will become the head trainer of PCCA.

Investment Security

To secure the investment of PCCA which will now lie in the hands of the indigenous groups, an agreement needs to be signed by the producer and PCCA indicating that (1) the amount of coffee beans that should be sold to PCCA should be around a projected range depending on the amount of crops provided (to prevent wastage or underselling); (2) that all coffee beans yielded should be sold to PCCA exclusively; (3) the first yield of coffee beans to be sold to PCCA will be bought at 1/3 of the actual price (to ensure a return on investment) and the next yields will be bought at 85% of the global price; and (4) in case the producer wishes to expand their plantation, further crops and materials needed should be bought from PCCA exclusively. This is not an exhaustive list of what will be laid out in the agreement but these points are important parts of it. This will be translated and conveyed by local staff to the people to ensure that they understand the terms of our agreement.

Financials

The financials for the next six years, starting January 2012, are characterized by (1) no income and full outflow of money during the first three years (because plants start to yield only after three years); (2) a torrent of income in the following years exponentially higher than the initial capital. Our goal is to provide a stable source of income to indigenous groups and to use part of the profit for initiatives to develop their culture. Bulk of the outflow of capital will happen only once as coffee trees, despite the slow start in production, will continue to yield for up to 50 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Hectares of land allotted for coffee production</th>
<th>Expenses (incl. procurement of PCCA land, machinery, seeds for planting, tools)</th>
<th>Price given to producer per pound of coffee sold to PCCA</th>
<th>Total Expenses</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0</td>
<td>1,000</td>
<td>-US$600,000.00</td>
<td>-</td>
<td>-</td>
<td>-US$600,000.00</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>1,000</td>
<td>-US$450,000.00</td>
<td>-</td>
<td>-</td>
<td>-US$450,000.00</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
<td>1,000</td>
<td>-US$450,000.00</td>
<td>-</td>
<td>-</td>
<td>-US$450,000.00</td>
</tr>
<tr>
<td>2015</td>
<td>US$3,520,000.00</td>
<td>1,000</td>
<td>-US$30.00</td>
<td>US$0.30</td>
<td>-US$1,056,000.00</td>
<td>US$2,464,000.00</td>
</tr>
<tr>
<td>2016</td>
<td>US$7,040,000.00</td>
<td>2,000</td>
<td>-US$30.00</td>
<td>US$0.85</td>
<td>-US$1,056,000.00</td>
<td>US$2,992,000.00</td>
</tr>
<tr>
<td>2017</td>
<td>US$10,560,000.00</td>
<td>3,000</td>
<td>-US$30.00</td>
<td>US$0.85</td>
<td>-US$5,984,000.00</td>
<td>US$3,520,000.00</td>
</tr>
</tbody>
</table>

- Cost of coffee seeds per hectare (1600 seeds/ha): US$400.00
- Coffee seed cost per 1000 ha: US$400,000.00
- Price allotted for fluctuating costs: US$50,000.00
- Yield per hectare (minimum estimate: 1 kg / tree): 1600 kg / 3,520 lbs.
- Estimated global price of coffee: US$1.00 / lb
- Income per lb of coffee bean: US$0.70 (first yield) / US$0.15 (next yields)
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