Case Study: Value Chain Strategies for Market Repositioning—Rwandan Coffee

Introduction

Before 2001, Rwanda was an unknown in the specialty/high-value coffee sector. Today, it is a sought-after supplier of specialty coffees to Europe and the United States.

Factors to Consider

When reviewing this case it is important to keep these questions in mind:

- Where is Rwandan coffee positioned currently, and what factors influence that position?
- Where does the industry want to go, and what are the quality, service, and other requirements to make it competitive in that positioning?
- Who are the best global performers, and what puts them in this position?
- What price points and profit margins exist in the various quadrants?

Figure 46: Rwanda Coffee Product Position 1990-2000

Source: J.E. Austin Associates

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Background (1904–2001)

Coffee was introduced in Rwanda in 1904 and was first exported in 1917; it was quickly seen as a major source of income for the country. In 1933, the cultivation of coffee was made compulsory, and, in 1963, the Government of Rwanda (GoR) passed laws making it illegal to uproot coffee trees.

Because of coffee’s historical role as a principal source of foreign exchange for the country (averaging 56.7 percent of all exports in the 1990s) and its broad political support, the state was heavily involved in all stages of production, including marketing and dry milling. Nearly all production of coffee ceased, however, during the genocide of 1994. Regionally, Rwanda competed with its southern neighbor Burundi, yet Burundi’s coffee was considered to be slightly better in quality than that of Rwanda. Neither country produced coffee that was considered specialty grade, as did in Ethiopia and Kenya. Despite the fact that some of the coffee grown in Rwanda, such as the Bourbon varietal, had specialty-grade potential, all of Rwanda’s coffee was considered below commodity-grade, and, when exported, was only used by roasters in blends of low-end, mass-produced coffee destined for Europe and the United States.

Within the value chain, the GoR supported the coffee industry by establishing OCIR-CAFÉ (Office Nationale de Cultures Industrielles-Café) and through it, distributed seedlings, fertilizer, phytosanitary products, and other inputs to growers for free, or at dramatically reduced prices. Growers would apply the inputs to their crops, harvest, and sell semi-washed beans to RWANDEX, the monopoly responsible for dry milling and exporting coffee. The GoR was a majority owner of RWANDEX, and set the prices that growers received from their coffee sales. In fact, the GoR continued to set prices for coffee up until 1998. Though coffee producer associations existed in Rwanda, they were agents of the state that distributed inputs and did little else.

Global Fluctuations Drive Down Prices and Production

Coffee’s contribution to Rwanda’s foreign exchange declined as the 1990s came to a close. In 1992, production peaked at 39,000 mt but fell by more than half in the years following the 1994 genocide. While production declined, the middle of the decade saw worldwide prices at near record highs. In response to this higher demand, Vietnam and Brazil took advantage of the market opportunity by planting, growing, and flooding the market with commodity-grade coffee. Beginning in 1997, this influx of supply dropped worldwide prices to historic lows. By 2001, average coffee global prices were USD 0.52/lb. Rwanda received USD 0.40/kg (USD 0.18/lb.), which, on average, was below the price of production. With prices this low, each actor in the Rwandan coffee value chain lost money: small growers, processors, exporters, and even the banks that provided lending.2

Table 19: Rwandan Coffee Production

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</thead>
<tbody>
<tr>
<td>Production (Tons)</td>
<td>35,424</td>
<td>43,026</td>
<td>43,026</td>
<td>39,091</td>
<td>39,575</td>
<td>38,970</td>
<td>28,495</td>
<td>21,829</td>
<td>15,239</td>
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<tr>
<td>Standard Coffee Percentage</td>
<td>48.18</td>
<td>30.8</td>
<td>19.4</td>
<td>2</td>
<td>7</td>
<td>0.32</td>
<td>4.25</td>
<td>2.4</td>
<td>0.25</td>
</tr>
<tr>
<td>Ordinary Coffee Percentage</td>
<td>38.59</td>
<td>60.2</td>
<td>75.7</td>
<td>94.7</td>
<td>86.9</td>
<td>93</td>
<td>88.7</td>
<td>92.7</td>
<td>82.9</td>
</tr>
</tbody>
</table>

Source: OCIR-CAFÉ

2 Rob Henning, OTF Group.
* Ordinary coffee is non-export grade, while standard coffee is exportable, commodity-grade coffee. Neither is considered specialty-grade.3

Rwanda's In-Country Constraints

World coffee prices were not the only determining factor for Rwanda’s coffee-price reduction; the country’s coffee production never recovered to 1992 production volumes because its existing production process was inefficient. This resulted from Rwanda's disparate methods of coffee farming, the poor health of its coffee trees, the lack of wet-milling stations, and the absence of incentives for re-investment. Growers were not offered higher prices for better-quality beans, so they had little reason to invest in more sophisticated processes of production, harvesting, cleaning, or separation of their bean harvests. Low coffee yields coupled with poor price points influenced farmers to focus on other, higher-margin crops, further diminishing Rwandan coffee’s competitiveness in world markets.

Despite the constraints that led Rwanda to produce low-quality, low-quantity, commodity-grade coffee, the GoR and donor partners believed that Rwanda possessed the capacity, environmental conditions (elevation, climate, soil quality, Bourbon trees, etc.) and political will to improve its coffee position in world markets. What Rwanda lacked was technical capacity, market information, and a coherent strategy.

Repositioning the Offer for Rwandan Coffee

In response to the steady declines in production, quality, and export revenue, the GoR and its donor partners began strategy sessions aimed at improving Rwandan coffee’s positioning in world markets. These sessions resulted in coffee-sector liberalization strategies which, when implemented, began the task of improving Rwandan coffee. Armed with market information, the private sector learned that higher-value coffee was very attractive to global markets, that cupping/taste results indicated Rwanda had significant potential to produce specialty coffee, and that Rwanda could compete with higher-end producers such as Guatemala, Ethiopia, and Kenya. The Rwandan repositioning strategy is illustrated in Figure 47.

Source: J.E. Austin Associates

Contributing to Rwandan Coffee Repositioning

In order for Rwanda to move from being considered a commodity-grade to a specialty-grade coffee producer, its coffee-producing sector needed to address three key areas:

3 OCIR-CAFE
• **Increase production, since production levels were insufficient to attract global demand.** Activities included distributing improved inputs, supporting growing associations, replanting coffee trees, and constructing wet-mill stations in Rwanda’s top 50 coffee-producing districts.

• **Improve quality.** Activities included educating producers on quality and cupping, establishing quality-control mechanisms, investing and technical assistance in wet-mill techniques and operational and financial management, improving infrastructure, strengthening cooperative and association management, strengthening existing institutions (like OCIR-CAFÉ), and providing financial mechanisms throughout the coffee value chain.

• **Promote the Rwandan brand.** Activities included establishing and improving market linkages through trade-show visits, sharing information on the local and global coffee markets with the private sector, and instituting other innovative promotional activities.

These activities were carried out through a variety of implementing partners and sponsored by various donor partners.

**Implementation and Outcomes**

Through these interventions, Rwanda was effectively able to reposition its coffee and compete in higher-grade/higher-priced sectors. July 2002 saw the country’s first sales of commercial volumes of specialty coffee, including a sale of 33 mt to Community Coffee in the U.S. By March of the following year, privately financed and operated wet-mill facilities produced fully washed coffee. Production and quality continued to increase, and after visits to and from trade-show buyers, Rwandan specialty coffee made its first sale to Starbucks Coffee Corporation in June 2004. In November 2005, Starbucks selected two privately owned wet-milling facilities for an exclusive distribution program which provided coffee to 5,000 Starbucks retail outlets.

Figure 48: Generic Coffee Value Chain

In 1990, Rwanda’s commodity-grade coffee fetched USD 1.18/kg (0.54/lb.), but by 2001 its price had decreased to USD 0.40/kg (USD 0.18/lb.). However, through the above interventions, which were implemented by the Partnership to Enhance Agriculture in Rwanda Through Linkages (PEARL) and Agribusiness Development Activity in Rwanda (ADAR) projects funded by USAID, specialty-coffee production and its subsequent price both increased. Without the wet-milling interventions, Rwanda’s ability to improve the quality of its beans from ordinary to standard and specialty would have been impossible. Also, if Rwanda had only tried to maximize profits and decrease costs within its value chain without attempting a repositioning strategy, it would have been more difficult to obtain the same results.

Source: J.E. Austin Associates, Inc.
Rwandan Coffee Today and into the Future

Figure 49: Results of Rwandan Coffee's Positions Efforts, 2005

In addition to the increased production and price/kg that Rwandan specialty coffee realized, the new wet-milling stations created 4,000 new jobs, and 5,000 rural households saw their income more than double.4

Table 20: Recent Rwandan Coffee Production and Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Metric Tons Produced</th>
<th>Price/Kg (USD)</th>
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<tbody>
<tr>
<td>2003</td>
<td>162</td>
<td>1.56</td>
</tr>
<tr>
<td>2004</td>
<td>747</td>
<td>2.40</td>
</tr>
<tr>
<td>2005</td>
<td>1,190</td>
<td>3.10</td>
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</tbody>
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Source: OCIR-CAFE

Initial success from these interventions has sparked further donor interest in supporting Rwanda’s specialty-coffee sector. Partnerships with the GoR have spawned plans to continue increasing production through the construction of an additional 164 wet-milling facilities. Continued investment in the existing wet-mill facilities is required to make better use of water sources and to equip them with water-recycling pumps. These, and other interventions, will allow Rwanda to continue to support its growing specialty-coffee industry.

As Rwanda gets closer to 2010, continued product positioning will be required to help chart new strategies for the Rwandan coffee market. OCIR-CAFÉ has developed a plan to move away from standard coffee altogether and focus only on specialty varieties by 2008. However, Rwandans could also choose to diversify their product offerings by seeking broader markets for standard coffee while simultaneously maintaining focus on higher prices for specialty coffee. This would leverage the Rwandan coffee sector’s increased capacity and maturing coffee acumen and could enable Rwanda to broaden its coffee production to more diverse markets.

In fact, this latter case is ongoing, and Rwanda is more than midway into its positioning strategy. However, it will most likely have future opportunities to re-visit its strategy and take advantage of future market opportunities.

**Figure 50: Rwanda Coffee Positioning 2010 and Beyond**

Source: J.E. Austin Associates, Inc.

Has Rwanda been successful in repositioning its coffee industry? In many aspects, yes; by understanding its position in world coffee markets, and then implementing a strategy to repositioning itself, Rwanda’s coffee industry has revitalized itself and has improved the earning potential of many small growers.