# WORKING PAPER 2

# Coffee Supply Chain

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A supply chain involves a series of activities and organizations while moving materials from early suppliers to final consumers (waters, 2003). The supply chain describes the total journey of materials as they move from upstream to downstream (Stadtler and Kilger, 2005). Along this journey, materials may move through raw-materials suppliers, manufacturers, finishing operations, logistics centers, warehouses, third party operators, transport companies, wholesalers, retailers, and a whole range of other operations (Stadtler and Kilger, 2005; Waters, 2003).

Supply chains have an important function of surmounting gaps, which is often quite far, between suppliers and consumers (Waters, 2003). In other words, the supply chains allow of a creation of networks among parties involved in global trade, albeit the actors are separated by geographically distant areas of the world. For example, coffee beans grow in South Asia, but the main customers are in Europe and North America. Without supply chain, both producers and customers would not enjoy their current positions. Customers can hardly have the coffee in their jars by the time they want it because scarcity of the products in local markets; and direct purchase to coffee farmers in Brazil, Indonesia or Vietnam is likely unbearable for most consumers. At the flip side, the coffee growers - minus supply chain- will possibly face great challenges to enter into international markets as they have to overcome transport fares and a lot of procedures and regulations.

Every product has its own unique supply chain which can be both long and complicated (Waters, 2003). One supply chain is probably different from others in terms of lengths, sequences and final destinations. For example, while the supply chain for Levi jeans starts with cotton growing in a field and ends when a customer buys the jeans in a shop,  the supply chain for Starbuck coffee starts with coffee beans growing on farms and ends with the delivery of cups of coffee to thirsty customers.

In global marketing system, consumers seem to have growing influences on producers' product supply chain. A buyer-driven regulation of environmental practices perhaps one of familiar examples by which consumers have restructured the supply chain in coffee-producing countries (Arifin, 2010). However, while the issues of consumer-driven requirements have raised difficulties for coffee famers in international market, in domestic market the farmers are still engaging in struggle with other challenges in the product supply chain. For years, at local levels, the farmers have to deal with an inefficient supply chain (Wahyudi and Jati, 2012).  Further, a common example of coffee supply chains in Sumatera can be seen in figure 1.

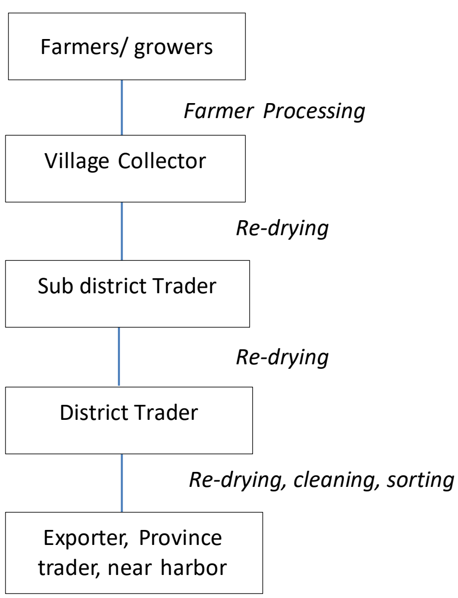


Figure 1. Supply chain of coffee in Sumatera, Indonesia (Wahjudi an Jati, 2012)

In the world of coffee, majority of growers are smallholder farmers who work on a very small plot of land of just one or two hectares (Wahjudi and Jati, 20120). Many of them do some primary processing (i.e., drying or hulling by themselves) before selling the beans to village collectors. In a traditional supply chain, intermediaries are commonly involved in many stages of the supply chain. They exist from a level of villages, which is the closest to farmers, to a level of provinces. In Figure 1, the intermediate actors are village traders, sub district and district agents. The first intermediaries are usually the village traders. They buy coffee, at any phase between coffee cherries and green beans, directly from the farmers. Then they transport or sell the commodities to another intermediary or to a dealer. The village traders may do some further basic processing such as re-drying the coffee beans. The next the bigger agents in the chains are sub district merchants. These traders receive sufficient quantities of coffee from village traders and occasionally from individual farmers. The district agents usually also do a simple processing (e.g., re-drying) before they transporting the beans to larger dealers in a district level.

The district traders are commonly big agents conducting several further processes such as re-drying, cleaning and sorting the coffee beans. The agents usually have relationships with coffee exporters, companies or agents of buyers from abroad. These export actors commonly have expert know-ledge of the local area and producers enabling them to guarantee the quality of the shipment. Some national companies (e.g., Mayora Indah, Indocafe, Santos Jaya Abadi) also take part in the supply chain as buyers that turning the coffee beans into products people enjoy drinking. The companies also add value to the products via marketing, branding and packaging so that they are deserving of high price from the activities.

However, it is important to note that in the supply chain which is typically long and complex, farmers as producers frequently receive a significant-smaller portion of profit than those parties at end of supply chain. Farmers will stay as the way they are: subsistence, small and poor. If this practical system continues, farmers will constantly be subject to the cyclical problems of commodity production in agricultural areas (TCC, 2012). Then, the problems will stand as barriers to poverty reduction and sustainable development in the coffee sectors.

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