When you’ve been doing something for a while (and you’re constantly wired on caffeine), you become compelled to step back and take a look to make sure that what you’re doing is worthwhile and that you’re doing it the right way. After all, life is short and you don’t want to spend your time going backward or even just hanging out complacently—even if you can do it with a beautiful cup of coffee in your hand.

Two major activities fill my time as a coffee trader these days—managing “direct” business (i.e., direct trade, direct source and direct relationships) and cupping. And, both of these, in my caffeine-invigorated mind, seem like they could use a good hard look to identify what’s working and what’s not, and to reflect on where I believe we need to go as an industry to make these systems more effective. In a two-part series, I’m going to take a reflective look at both direct business and cupping, beginning with a scrutiny of direct business.
In an irony of the definition of “direct”—which includes “having the characteristics of accuracy and precision” and “easy to understand” (Encarta Dictionary)—“direct” business is anything but precise and easy to understand. One of the most significant challenges with the state of direct business is that there is no clear, single definition of what it means to participate in it. Yet in the coffee industry, one sees the phrases “direct trade,” “direct source” and “direct relationships” bandied about without consensus about what they mean. From a consumer perspective, this creates confusion in an already confusing marketplace. On the other hand, as a non-formal certification it allows roasters the flexibility to promote their unique buying programs in their own way. More dangerously, however, the lack of clarity often leads to roasters and producers jumping into the business without understanding the nuances and risks of their commitments.

Definitions from various players in the direct model include the following:

“A [business where] roasters and producers agree to the terms of sale/purchase directly.” —Phil Makovsky, vice president of Atlantic Specialty Coffee, Hayward, Calif.

“Direct Trade means nothing to me. Direct Relationship means the roaster owns the coffee before it ships [and there is] a shared responsibility, communication and defined risk from all parties involved.” —Byron Holcomb, buyer at Dallis Bros. Coffee, Ozone Park, N.Y.

For Aida Batlle, a producer in El Salvador, it means “full transparency” and business where “the producer/exporter has communication directly with the roaster.”

And for Lucia Ortiz, producer, Ortiz Barriere S.A. de C.V., El Salvador, it requires “constant communication” with their roaster customer, where they can “share worries about the crop and create a friendship and relationship apart from the business one.”

One of the more precise definitions comes from PT’s Coffee Roasting Co. in Topeka, Kan. PT’s actively promotes “direct trade” and publishes a clear set of criteria (see www.ptscoffee.com) to define the model. Jeff Taylor, co-owner of PT’s, is careful to credit Intelligentsia with the foundation of their definition, which, in their unique interpretation, includes a commitment to exceptional quality, fair pricing, sustainability, transparency and a minimum of one visit per harvest season. Shannon Neffendorf, owner of Oak Cliff Coffee Roasters in Dallas, Texas, is similarly detailed. He says, “It means that we have a personal relationship with the producer, that we have transparency into the financial transaction, that we have visited or are planning to visit the farm, and that the coffee quality meets exceptionally high standards.”

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Are We Headed in the Right Direction? (continued)

For my own clarity, I have started referring to the business as my company participates in it as “direct source” versus the more common “direct trade.” The former comes closer to embodying how we participate in this business model. This most simply means that the roaster has been directly involved in sourcing the green coffee from the producer in the country of origin, which includes negotiating the quality and price. It doesn’t mean much else beyond that, however. It doesn’t, for example, dictate how many people are involved in the supply chain or who specifically lays out the cash, and it definitely doesn’t demand that producers export the coffee on their own or that the roasters import the coffee on their own. For the record, it rarely happens that exporters and importers are removed from the green coffee equation. As Holcomb maintains, “Roasters are ill equipped to manage the logistics and financing that happen in green coffee.” He, like most roasters, regularly “engages exporters and importers in direct-trade relationships.” (For the record, Dallis is actually unique in the fact that it does act as an importer with some coffees from its sister company in Brazil, Nossa Senhora Aparecida, as well as with coffees from the Dominican Republic.)

PROPOSED WORKING DEFINITIONS FOR DIRECT BUSINESS TERMINOLOGY

- **Direct Trade:** The roaster negotiates with cooperative or producer and pays the FOB (Free on Board) or FCA (Free Carrier) price directly. The roaster is responsible for quality. The exporter and importer, if any, is a service provider only.

- **Direct Sourcing:** The roaster has regular communication with the cooperative/producer, is responsible for quality, and negotiates the FOB/FCA price. The roaster secures an importer to pay for the coffee FOB, to manage export and import logistics, and to provide financing.

- **Direct Relationship:** The roaster has regular communication with the cooperative/producer, which may include quality and pricing discussions. However, the roaster buys the coffee from an importer as part of a standard supply chain, and the roaster retains the right to reject (or just not buy) coffee that does not fit their cupping profile.

WHAT’S WORKING

Even though we don’t have a unilateral definition of direct business, we can assume that we understand the general business model we’re discussing, and we can explore what’s working.

Why roaster-buyers like direct sourcing

For roasters, a principal advantage of direct sourcing is the opportunity to develop a strong connection with their suppliers (cooperatives and producers), in turn granting them competitive advantage on both the buying and selling side. On the buying side in particular, direct business affords roasters the opportunity to secure consistent quality supply from year to year (barring weather conditions or other uncontrollable factors that impact a coffee harvest each year, regardless of producer intentions), to control pricing variance, and potentially the unique opportunity to control pricing variance, and potentially the unique opportunity...
to experiment with processing and land and varietal variation.

Here are some specific examples of roasters benefiting from their direct-sourcing efforts:

PT’s has been buying coffee through direct relationships in many countries since 2005, and when the markets spiked significantly in 2011, Taylor was grateful to have a long-term established relationship with his partners in El Salvador at Ortiz Barriere (Taylor has the same benefit with many of his long-term direct partner producers). Although Ortiz would have been able to sell their coffee at nearly double the price, they honored their long-standing tradition to keep PT’s first in line for their supply and ultimately came to an agreement with PT’s to maintain a price level in between the high open market and the fair price paid in prior years. Taylor obviously benefited from his relationship and long-standing commitment to paying fair money for good quality. Ortiz benefited in all the years prior when PT’s paid a price notably above the market at that time. Many other roasters in direct-source business over recent years have experienced similar supply and price security.

Denver’s Novo Coffee and Calgary’s Phil & Sebastian Coffee Roasters benefit from direct buying by capitalizing on a rare opportunity to play in the fields, so to speak. In a long-term relationship with Ratibor Hartmann of Panama, they have participated over the years in unique experiments in processing and, this year, are testing the effectiveness of various forms of post-harvesting climate control. Similarly, Holcomb of Dallis Bros. has requested an entirely unique processing method from Ratibor in El Salvador. In these and many other cases, because the roasters are visiting and communicating closely with the producers, they are rewarded with this rare opportunity to create the exact cup quality they seek. (It’s important to understand that if a roaster asks a producer to experiment, if the experiment fails and the coffee is disappointing or even awful, the roaster is still obligated to purchase the coffee at the originally agreed upon price.)

For all, “quality is the cornerstone of direct trade,” says David Johnson, head roaster/green coffee buyer at San Jose, Calif.-based Barefoot Coffee. By participating in a direct communication with producers over the course of many years, “consistent quality becomes less of an issue” as a roaster can “work hand-in-hand with the producer to raise the overall quality of the coffee,” Johnson says. Some assert that a roaster doesn’t have the knowledge to dictate quality decisions on the farm or in the mill, but because quality is ultimately defined by the roaster...
and what they’re willing to buy, it’s in the best interest of the sellers to work closely with roasters to produce the coffee they are willing to buy year after year. Furthermore, as Ortiz points out, while roasters may not be farmers, “they have experience in buying coffee from other parts of the world and can give ideas and tips that work with other farmers that may help you and work for you.”

**Competitive Advantage**

Although every roaster interviewed emphasized the buying-side benefits of direct sourcing, the benefits can translate into competitive advantage on the selling side as well. The personal relationships and regular farm visits create a story that roasters can use as unique selling points. For example, although Neffendorf emphasizes that his decision to purchase directly is built upon his value of the personal relationships, he acknowledges that those direct relationships also allow him to compete for preference within the growing slow-food movement, which drives consumers to “connect themselves with their food sources.” Similarly, the exclusivity and promotion of experimental offerings can help set a roaster apart from his neighbor down the street. And, of course, a buyer’s photos and on-the-ground experience create marketing fodder for websites, Facebook pages and Twitter feeds.

**What’s in it for the Sellers**

For producers, the advantages of the direct-business model are similar to those of the roaster, but also unique. A producer with a loyal buyer is often guaranteed a market for their coffee each year and, likely, at a good price. Neffendorf, for example, has built a loyal customer base of specialty and gourmet roasters. According to Ortiz, while roasters may not be farmers, “they have experience in buying coffee from other parts of the world and can give ideas and tips that work with other farmers that may help you and work for you.”

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**What You Need to Confirm with Your Producer Partner**

If you decide you want to jump into the direct-source game, it’s helpful to keep a short list of information that you’re going to need. As a first step, familiarize yourself with the GCA contract to ensure understanding and agreement of contract terminology.

- Seller/farmer name and contact information
- Mill name and location
- Total number of bags of each coffee type
- Bag/box type – GrainPro, traditional jute, vacuum, etc.
- Bag size/weight
- Location and time of weight for final invoice
- Exact description of coffee (take good notes at the cupping table on lot names, codes, etc.)
- Certifications (if any)
- FOB price
- Sample approval terms
- Estimated date ready for shipment
- How to resolve complaints or claims for quantity, quality or delay
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**The new patented technology for controlling and profiling the brewing temperature**

The X Celsius system enables the temperature of the brew water to be set dynamically, with an increase or decrease of up to 10°F (6°C) during the 25-30 seconds it takes for each individual delivery. This technology brings out distinctive flavor characteristics of each blend or single origin. Qualifyed by World Coffee Events WCE, 2011.
price regardless of external market pricing. In some rare cases, this guaranteed market price is especially meaningful because coffee trading houses are prohibited by banks from offering these non-secured loans, whereas roasters, operating on a much smaller financial scale, are willing and able to commit personal resources to assist their long-term coffee friends. For Batlle, a scrupulous producer with a passion for ensuring her coffee reaches the final drinker at its absolute best potential, her participation in the model stems from an interest in knowing the buyer so she can have confidence “that they will take care of her coffee.” Batlle ensures this by spending extensive time talking directly with her buyers, traveling to visit them in consuming countries, and offering training and support all the way to the barista level. “This commitment clearly lends added benefit to her roaster-buyers as well.”

Ortiz finds greatest value in the friendships created and the subsequent opportunities to develop projects with [roaster buyers] that benefit the community and the farm.” Although direct business is principally driven by the interests of roasters and producers, importers find advantage in participating as well. Direct business allows importers to meet and work with producers who they otherwise might not have—and, in turn, deliver those coffees to roasters not participating in direct-source buying. Though importers specialize in sourcing and promoting their own rare finds, importers also benefit from the on-the-ground work of passionate producers.

WHAT’S NOT WORKING

With so much working in the direct model, it’s not a surprise that everyone I spoke with predicts that the model will continue to grow. Nonetheless, nearly everyone—particularly the small lot buyers—experienced challenges and expressed some frustration with the model. One of the primary challenges stems back to our opening discussion of the lack of definition and subsequent misunderstanding of where the risks and commitments lie. According to Maloney, “it’s not uncommon for our office to receive a phone call from a roaster who has bought coffee directly from the producer while traveling and suddenly realizes that they have no idea how to get the coffee to them.” Some roasters are more experienced in the model and already has an exporter (or is one) and can recommend an importer, but sometimes they are also without an understanding of the trade. This can (and should) put fear into a roaster, who has committed to buying coffee halfway around the world without the necessary resources or experience to bring it in.

At best, a roaster in this situation is left making frantic phone calls to find an importer when they return home and, if they’re lucky, they find one to eventually move their coffee. But they still face potential long waits before shipment and still have to negotiate payment terms, delivery spreds, and other state-side logistics. At worst, they may find that no one has a container leaving for months—yes, months. Obviously, with quality as one of the primary motivators for participation in direct-source business, waiting months for coffee to leave the country of origin is extremely stressful. As a producer with a deep commitment to the final quality of her product, Batlle has found this particular issue one of her most particular challenges over the years. Unique among many of her fellow direct-source producers, Batlle has simply selected her own exporter and importers and requires that her buyers work with them. Even when an importer and exporter are in the picture with ample notice, there are significant challenges. For example, this year Neffendorf prepared his importer (me) more than six months in advance of his anticipated purchases, and he still finds himself waiting for confirmation on timing and contracts. This common frustration among roasters is simply because the model doesn’t lend itself to streamlined logistics. At least, not yet. Most typically, roasters sourcing directly are buying small lots from various farms. A standard 20-foot ocean freight container holds on average 37,500 pounds of coffee and often closer to 43,000 pounds. A roaster buying 10 bags of a special process coffee from a specific small farm, for example, needs to move

1,300 pounds of coffee—less than a percent of the weight needed to fill a container. This means that an importer has to have many different roasters all trying to ship coffee from the same country, all willing to ship coffee from the same mill, and at the same time. With the popularity of the direct-sourcing model, it’s not impossible to find enough roasters and growers to fill the bill, but it still requires an enormous amount of creativity to match everyone together, followed by a significant amount of time to prepare purchase and sales contracts for each and every lot. Even a midsize-volume roaster like PT’s—which can bring in full containers on its own or in partnership with long-term industry friends—may find itself waiting for many weeks as multiple lots are cupped, considered, committed to, and

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finally contracted. Furthermore, final quantities are often different from those projected, which then requires a round of contract amendments and consolidation adjustments. This extensive time required for coordinating many changing small quantities is not only frustrating, but potentially highly detrimental. Coffee is a perishable product; quality only deteriorates from one stage to the next, and time is one of its worst enemies.

Another common challenge of direct business is the tendency for roasters to over-buy, particularly when they make their commitments at origin. Because roasters love the coffees and because they love their producer partners, they often commit to buying everything available to them. Frequently, this romantic buying in the fields (and away from the books) lands roasters with far more coffee than they can use in a reasonable amount of time. This, in turn, results in past-crop expensive coffee with deteriorating quality and, due to carrying charges (the standard fees charged by importers for the storage and financing of green coffee), this lower-quality coffee now costs more.

One of the most potentially devastating problems in direct business is the one most often ignored by roasters—until it happens to them. A roaster participating in direct buying must understand that the quality risk is theirs. This is true not only when special experimentations are requested, but every time a roaster contracts directly or through their importer to buy coffee. In a traditional green-buying relationship, a green coffee importer has the responsibility for delivering the agreed-upon quality. Unless a contract specifically states no arrival sample approval (rare), the importer is accountable for arrival quality problems, which may mean discounting poor-quality arrival coffee, replacing it, or even simply canceling the contract. None of these is an option in a direct-buying scenario.

In direct business, roasters have agreed to purchase the coffee based on their approval of a pre-shipment sample only—i.e., no arrival sample approval. If the coffee arrives at a lesser quality than that agreed to for any reason, the roaster must accept the coffee and pay the importer at the originally agreed-upon price. (One exception may be for quality problems obviously caused during ocean freight or other transit from port to warehouse. In this case, the importer will have insurance to cover proven value loss.) Depending upon the nature of the problem, roasters may have the opportunity (though probably not contractual recourse) to go back to the producers to negotiate a price reduction, but replacement and contract cancellations are almost never options.

WHY DIRECT BUSINESS FLOURISHES

Despite substantial challenges, everyone I spoke with predicts growth for direct-source business. The benefits of unique quality, availability and pricing security, and long-term close relationships clearly outweigh the risks. Note I choose the word “risk” in this last sentence carefully. I encourage everyone participating in or thinking about engaging in direct business to do their homework and ask a lot of questions before they make commitments. And, if you’ve already started a direct-source program, it’s never too late to ask more questions.

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