



The traditional Lebanese Coffee is part of the life of Lebanese and Arab coffee drinkers. Sharing it is synonymous to quality time with family or loved ones, to make friends, to be hospitable, to welcome tourists, to show courtesy, and to break the ice when meeting new people.

The production of 'Lebanese Coffee' is attached to every producer's heritage. The roasting, grinding, packaging, and distribution techniques distinguish one brand of Lebanese Coffee from the other.

'Lebanese Coffee' is an ethnic food. Lebanon exports 'Lebanese Coffee' to more than 40 countries around the world.

However, today, different categories of coffee are gaining market share because people's lifestyles are changing. Less time is being spent at home, homes are becoming smaller, and the preferences of coffee consumers are moving towards on-the-go, quick, and easy to prepare coffee drinks.

Instant coffee may become a risk for the local market and Lebanese coffee producers. Do market players believe the Espresso coffee may also gain market share?

Coffee is an international drink and coffee beans are sourced from different parts of the world, including Latin America and Africa. Is there a difference in the quality of coffee produced?

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Overview: Coffee Beans' Supply & Demand

Brazil alone catches 36% of the total coffee production by the world's exporting countries. According to the International Coffee Organization (ICO) data (updated July 2017), the world's total coffee production by exporting countries stood at 153,869 thousand of 60kg bags (or 9.2M tons) in 2016, up 1.5% from 2015's production levels. In terms of volume of exported coffee, Brazil is by far the largest, followed by Vietnam, Colombia, and Indonesia which grasp the respective stakes of 17%, 9%, and 7% of total exported coffee crops.

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The figures partly explain why the top Lebanese coffee producers highlighted in this report import between 80% to 95% of green coffee beans from Brazil. However, Arabica beans from Brazil are also the taste of coffee that most Lebanese have ‘acquired’, so any change in the sourcing of beans (which are locally roasted, ground, packed and distributed and/or exported) may result in Lebanese consumers disliking the end-product offered in the Lebanese retail market.

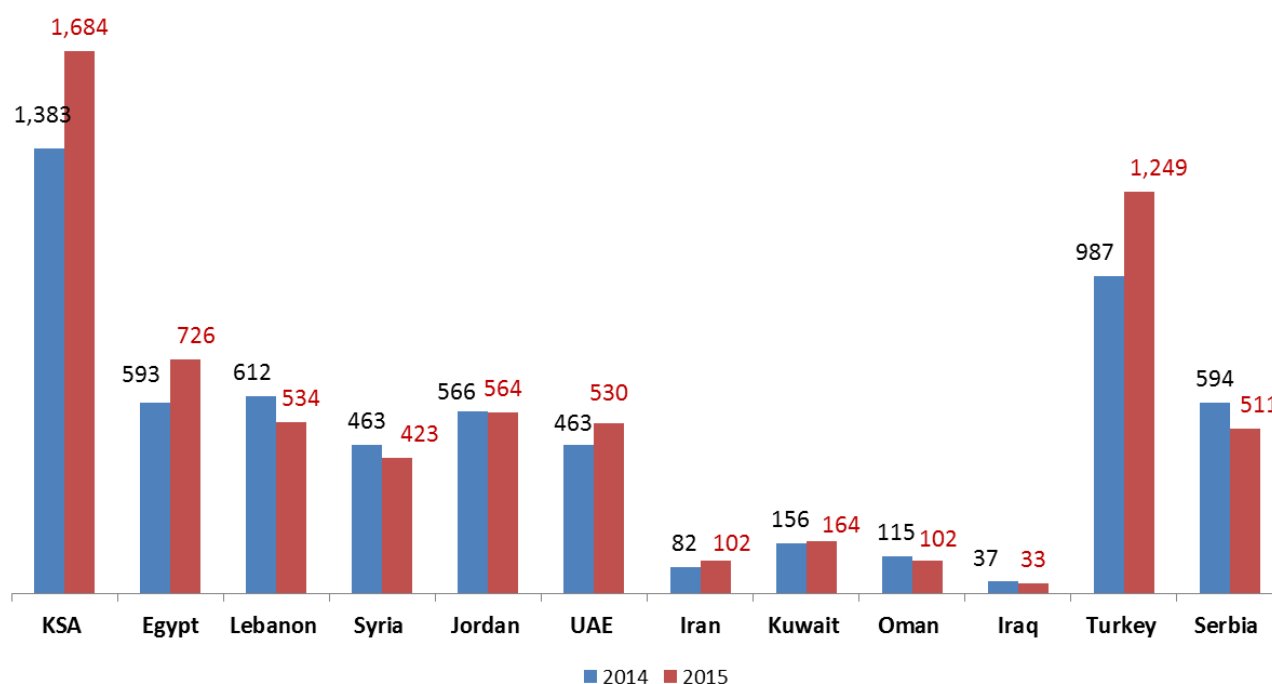
Lebanon primarily imports Brazil’s green Arabica coffee beans, alongside a minor portion from other countries. In its production of “Lebanese coffee”, 5 out of 5 of the key market players confirmed they import their raw coffee beans from Brazil. Coffee beans are of two types, Robusta and Arabica, and the latter are used in the production of “Lebanese Coffee” (also known as Turkish coffee to non-Arabs). It is interesting to note that the management of all five players acknowledge Brazilian seeds are not necessarily the ‘finest’ or the top quality beans. In fact, the finest crops are sourced from Ethiopia, followed by the Colombian, Vietnamese coffee beans, few premium Indian farms’ crops, in addition to beans from Guatemala and Tanzania. Globally, Ethiopia only exports 4% of its crops and it seems its share of exports dwindled by 1.7% year-on-year (y-o-y) according to the ICO, while India also exports only 3%, down by 8.1% compared to its 2015 levels.

Coffee consumers in modern states are developing an appreciation for “good quality” coffee. The sourcing of the coffee beans is one of the main factors that defines the coffee’s end-taste, texture, and aroma, while storing conditions and the coffee-making process that follows affect the end-result. Some parts of the world are becoming more aware of the importance of premium quality sourcing; however, in Lebanon, consumers are yet to acquire that sophistication in their ‘Lebanese Coffee’. Mr. Jarakji, General Manager at *Café Maatouk*, explains that the “modern economies today are starting to appreciate good quality coffee origins”. So when asked about the potential market for, “specialty (good quality) coffees”, Mr. Jarakji noted that coffee drinkers in Europe and North America are a step ahead of those in the Arab countries. In Italy, *Illy Café* is recognized as the finest quality espresso coffee. In the USA and Canada, the sophistication of coffee consumers is also growing; they have begun to realize that Tim Hortons and others do not impose sourcing of crops from premium origins in their coffee products.

Drinking “Lebanese Coffee” is a shared custom and culture among Lebanon and several Arab and non-Arab countries. According to internal sources at *Café Najjar*, the Lebanese, Saudis, Jordanians, Iraqis, as well as Turks, and Serbians are ‘Lebanese Coffee’ drinkers. The preparation of the hot drink is identical, yet, it is the acquired, delicate taste of the coffee that differs among the consumers of neighboring countries. For instance, Lebanese prefer the dark roast coffee; Jordanians and Iraqis have an affiliation for medium-roast beans, while Turks opt for the light roast. Moreover, Lebanon is the third largest consumer of coffee among the Arab countries.

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Regional Comparison: Coffee Imports (in thousand 60kg bags)



Source: BLOM Invest Bank; The International Coffee Organization (ICO), 2017.

Lebanon's Coffee Market: Size, Structure, and Consumption

Lebanon consumes various categories of coffee:

- ❖ “Lebanese coffee”, which is the most demanded (sold) by 5 top market players;
- ❖ Espresso products;
- ❖ Filtered coffee (also known as American coffee);
- ❖ In addition, a ‘new’ type of coffee that is not locally produced but has recorded exponential growth in consumption within the Lebanese market is “Instant Coffee”, characterized by a strong taste, dry texture, and high solubility.

Instant (or soluble) coffee is entirely imported due to its complicated commercial production process, which entails spray-drying or freeze-drying brewed coffee beans turning them into dehydrated crystals/powder that becomes coffee by adding water. Multiple soluble coffee brands are available like Folgers, Maxwell House, Lio (by *Café Super Brasil*), etc., but *Nescafé* supplied by *Nestlé* remains the popular choice in Lebanon.

Lebanon consumed approximately 26,417 tons of coffee in 2016. In fact, “Lebanese Coffee” to-date remains the leading category of coffee. It constitutes 65% of the total consumption, while Instant Coffee, and Espresso grasp 35% and 0.34% of total coffee consumed, respectively. The share of filter coffee is almost nil. The provided figures are based on total coffee import figures provided by the Lebanese Customs, but some players in the local coffee market estimate consumption is lower, based on the sell-out figures of competitors.

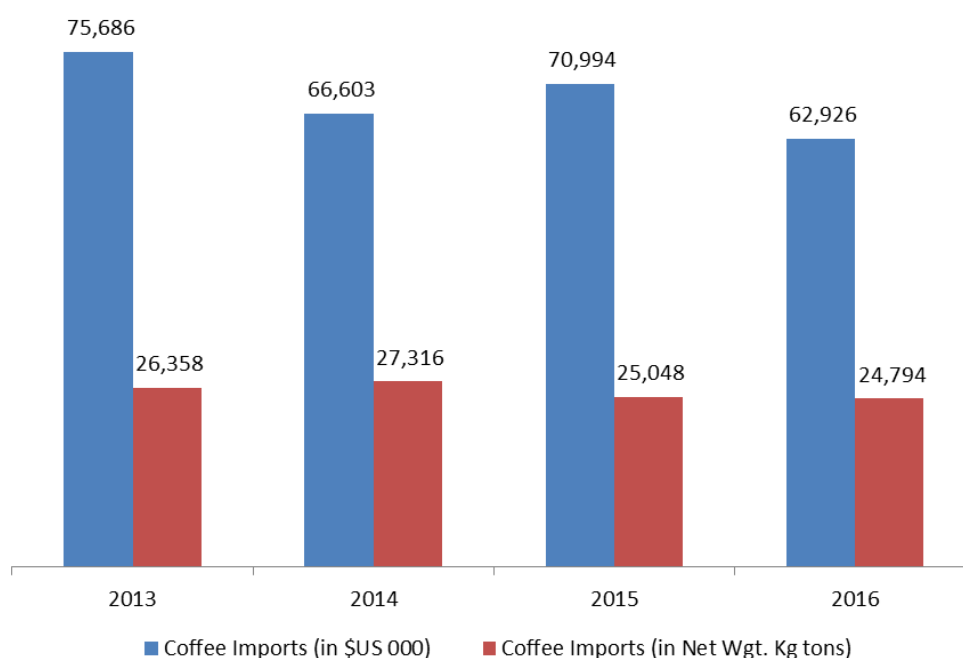
Lebanon's coffee imports include the espresso coffee and instant coffee imports. The espresso market players import around 91tons of coffee for their operations, considering the espresso market is still

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relatively small vis-a-vis the 'Lebanese Coffee' consumption. As for instant coffee, imports reached 9,092 tons in 2016 according to the Lebanese Customs.

However, Lebanon's largest coffee imports are green coffee beans used for the production of 'Lebanese Coffee' consumed locally and exported. In details, Lebanon imported 24,794 tons of green coffee beans, of which 99.1% are "non-roasted" and 0.9% are "roasted" beans. However, in practice, the top five Lebanese Coffee producers utilize 19,835 tons of non-roasted coffee beans because 20% of the imported green beans go to waste prior to the start of any production. With the remaining raw coffee beans, the local producers embark on their journey to produce the finest yet affordable Lebanese coffee. Nonetheless, not all the coffee produced is destined for local consumption. Top market players exported 2,601 tons of Lebanese Coffee in 2016.

Total Volume and Value of Coffee Imports in Lebanon

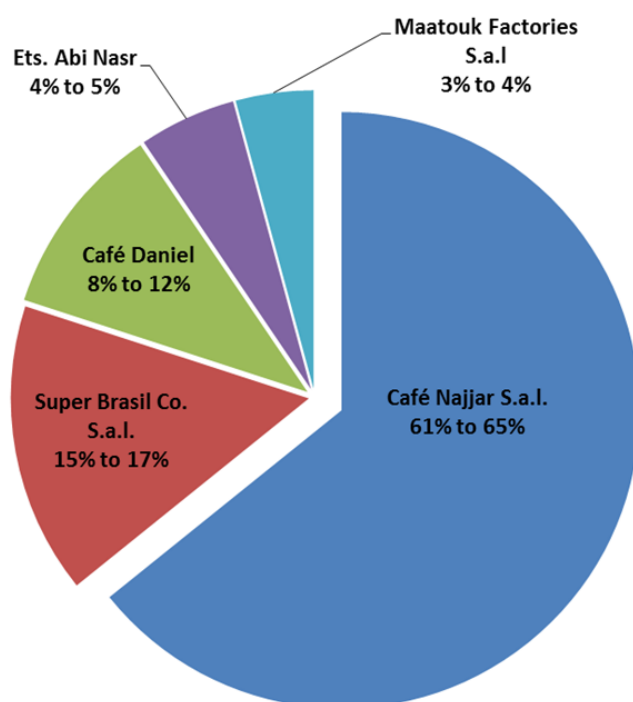


Source: BLOM Invest Bank; Lebanese Customs

The market for Lebanese Coffee entails five major (top) players and smaller producers referred to as unaudited roasteries. Every producer uses its unique warehouse environment, factory equipment, and its coffee-making skills and experience. The journey of the local producer begins from the sourcing of its preferred coffee beans, to storing its imported crops in dry, climate-controlled facilities, to its unique roasting, grinding, packaging, and distributing to clients and/or exporting.

Lebanon's Top 5 market players classified in terms of sell-out to supermarkets and groceries rank as follows:

*Players' Shares of the Total 'Lebanese Coffee' Production**



Notes:

- * The above excludes the share of the players from coffee Exports. A discussion on the players' contribution to coffee Exports follows in the report.
- The estimations presented are based on data provided by 3/5 market players. So each figure was reflected in a range adjusting the different inputs accordingly.

Source: BLOM Invest Bank Market Survey , October 2017.

It is important to note that size and sophistication of the distribution channels of the respective market players also play a crucial role in the market stake they grasp.

The production of 'Lebanese Coffee' is attached to every producer's heritage. Producers of Lebanese Coffee generally strive to maintain a consistent taste in their end-product to retain the customers who have 'acquired' the particular flavor and aroma of the brand offered in retail. Among the top 5 Lebanese Coffee producers, *Café Daniel* seems to be "the most recent", yet it has been in the market since 1977! It follows that *Café Super Brasil*, *Maatouk*, *Café Najjar*, and *Café Abi Nasr* were founded in 1970, 1960, 1957, and 1956, respectively. The traditional know-how is unique to every player and it influences every stage of production, from the farm where the coffee beans are grown (personally or via brokers), to the roasting techniques which vary among players, to the distribution and marketing of the end products.

The roasting, grinding, packaging, and distribution techniques distinguish one brand of Lebanese Coffee from the other. According to Mr. Jarakji, General Manager at Maatouk Factories, the taste and flavor of the coffee is affected by two factors: the sourcing of the coffee bean, but also its roasting, grinding, and packaging for distribution. Every coffee brand in the market reflects its producer's perception of the "perfect roast". Over the years, every brand of Lebanese Coffee became associated with a particular taste that clients prefer. In fact, the difference between brands can be partly attributed to some producers' preference to roast the beans on high temperatures; others believe in 'giving the

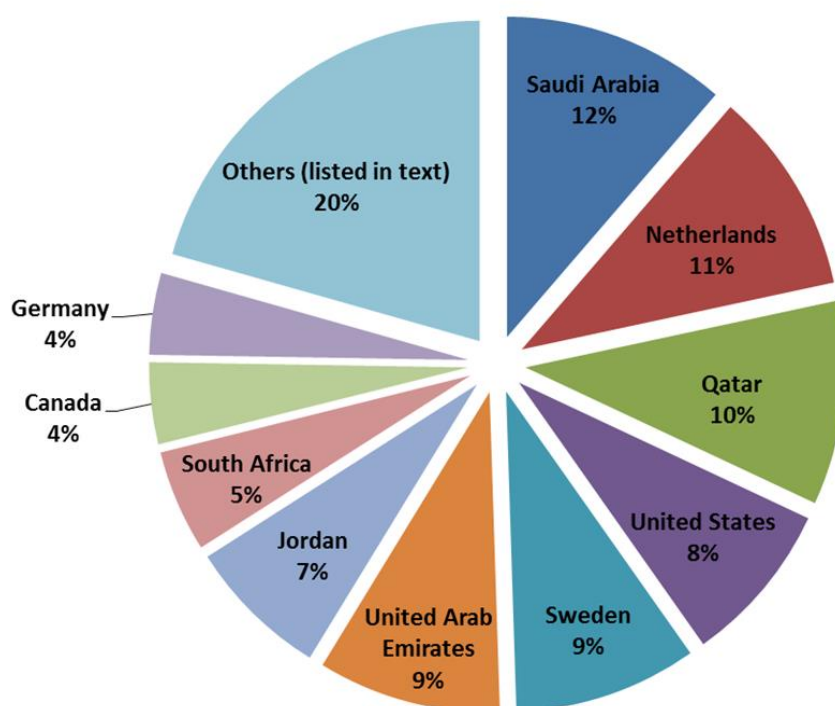
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bean all the time it needs”, and some alternate between higher and lower temperatures to produce “the perfect roast”. The same applies to grinding techniques, as some prefer “cold” over “hot” grinding or vice versa to preserve the aroma and texture that represent their unique coffee brand.

No accurate statistics are available on the roasteries’ operations or their number. In their turn, a number of unaudited roasteries also supply the market with “Lebanese coffee” on a smaller scale. According to the 5 top players surveyed, it is difficult to capture the exact percentage of contribution of these roasteries to the local Lebanese coffee market because they are spread out across Lebanon and each grasps a very small share of the market. Moreover, it is tricky to measure the roasteries’ consumption of total imported coffee beans, for they can either import their own ‘roasted’ beans to grind and sell “freshly” to customers in traditional paper bags, or buy roasted coffee beans from some of the top 5 producers and grind them for clientele.

Lebanon exports ‘Lebanese Coffee’ to more than 40 countries around the world. Total exports of Lebanese Coffee according to the Lebanese Customs amounted to 2,601 tons of coffee in 2016, and on average, stood at 2,575tons in the past 4 years. It is important to note that the top product (most demanded) among the five market players is: “Lebanese Coffee”, which also generates approximately 80% of total revenues of each market player, while the remaining 20% is generated mainly from Espresso and much less from filter coffee.

'Lebanese Coffee' Exports by Destination (in % of total coffee exports)



Source: BLOM Invest Market Research, Survey Oct. 2017; Lebanese Customs

‘Lebanese Coffee’ is an ethnic food. It is therefore demanded and made available wherever Lebanese communities settle. The main destinations for the Lebanese Coffee are: the GCCs, North Africa,

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Northern Europe, Australia, USA, Canada, and Jordan. In addition to those, “Other” destinations that make up less than 1%.

Three out of 5 top players in the industry export their Lebanese Coffee brands. According to the BLOM Invest market research and an internal source from *Café Najjar*, *Café Najjar* is the leader in Lebanese Coffee exports. By being so, its market share of the total Lebanese coffee production for local consumption and export climbs up from 65% to 70%. *Najjar* is then followed by exports of *Maatouk*, after which *Café Super Brasil* exports are ranked.

Lebanese Coffee: Local and Foreign Competition

Competition in the coffee market is of three types, two local and one foreign. For instance, there is a strong competition among the categories of consumed coffees in Lebanon. In fact, an internal source at *Café Najjar* confirms that instant coffee is gaining faster market share, as instant coffee consumption has climbed by an estimated 39% year-on-year, while Lebanese coffee consumption rose by 6.7% y-o-y from October 2015- Sept. 2016 to Oct. 2016- Sept. 2017.

Price wars and the brand name characterize the second type of local competition. Within the Lebanese Coffees supplied by the different players: *Café Najjar*, *Café Super Brasil*, *Café Daniel*, *Abi Nasr*, and *Maatouk*, all brands are active commercially which leads up to a live competitive market characterized by price wars. Brand name also represents a source of consistent quality and trusted end product to clients.

“Al Hamawi” is also a recent foreign threat to the local coffee industry. The Syrian player has entered the Lebanese Coffee Market without official representation to-date, selling Lebanese coffee at lower prices. To-date however, its products are still concentrated in the areas of the Bekaa, yet some market players explain that the supplier is gaining market share fast, given the declining disposable incomes of the Lebanese population strains their spending habits.

Major Trends

Lebanese Coffee remains in the lead in the local market, but the espresso and instant coffees seem to have a promising future. The coffee landscape has developed a lot in the past 10 years on multiple fronts according to the 5 market players:

- ❖ The worldwide consumption of coffee increased, as populations grew and some tea-drinking countries joined the popular coffee trend.
- ❖ The number of coffee outlets such as Starbucks, Dunkin Donuts, grew substantially; so did their introduction of the trend of cold coffee drinks.
- ❖ Coffee consumption became synonymous to “on-the-go” lifestyle of the majority of people who now seek speed and convenience in their choice of drinks.

The Lebanese Espresso Market

The size of the espresso market in Lebanon is based on estimated figures. The espresso market entails the following key, local players (distributors and producers) who were also surveyed in this study: *Ily*, *Lavazza*, *Nespresso* (imported brands), in addition to *Barista* (nationally produced and distributed by

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Café Daniel), *Gia & Il Gustino* (both *Café Najjar* brands), *Corso* (by *Café Super Brasil*), and a number of smaller providers including *Kimbo*, *Vergnano*, and *Café Abi Nasr's* locally-produced espresso capsules. However, there are no accurate figures to depict the market shares of the respective players. Based on market research, only estimations can be made, one of which is that *Nespresso* controls around 50% of the espresso market.

Most consumers of espresso are part of a “hidden market”. The main clientele are home-users and/or restaurants, hotels, and cafes (HORECA) whose consumption cannot be easily tracked. Also, some distributors like *Nespresso* only sell their products in their boutiques; some are also not authorized to disclose data on their sales, which renders the estimation of the market size and shares challenging.

BLOM Invest's market survey concludes that espresso coffee is price and quality driven, so it further appeals to connoisseurs of coffee. The espresso market offers both, foreign and local brands of espresso. Moreover, the brands usually aim to satisfy one or more of the three client needs: an espresso (coffee or capsules) available in the supermarket (for convenience), a high-end espresso coffee (more quality oriented), and an 'at-home' espresso coffee (for clients seeking ease of preparation). Therefore, the espresso market may capture both, general coffee drinkers and coffee consumers who have a refined taste.

“Illy is the leader in high-end espresso coffee in Lebanon [...] and offers one blend of 100% Arabica beans sourced from nine origins”, shares Mr. Marc Naman, General Manager of Green & Co s.a.l – the official distributor of *Illy Café* in Lebanon. He adds that, *“20% of Illy's clients are in retail, while the other 80% are constituted of hotels, restaurants, and cafes”*.

“Espresso coffee is still in its infancy stage in Lebanon, making up less than 1% of the coffee consumed in the market”, explains Mr. Naman.

The competition among the different brands is not as aggressive because each adopts its own differentiation strategy. While *Nespresso* does not disclose any information on its market in Lebanon, other players explain that the brand draws strength from marketing campaigns that appeal to international audiences, like the George Clooney ad. In turn, *Illy* is synonymous to quality standards; it distinguishes itself by its (equipment) maintenance team and training of “baristas”, with whom Mr. Naman shares the know-how of preparing “the perfect espresso cup”.

Moreover, Peter Daniel, managing partner at *Café Daniel* which locally produces the *Barista* espresso coffee among its line of products, explains how *Barista* has managed to secure a large client base (inclusive of public entities like Beirut international airport, the national security forces, the army..) and to compete by creating capsules that offer competitive prices, new espresso flavours (like cardamon espresso), and compatibility with the *Nespresso* machines.

According to an internal managerial source at *Lavazza*, the company's espresso and filter coffee products are strongly present in supermarkets. Five to six months ago, *Lavazza* also marketed its new “instant coffee sticks” product (distributed in a box of 300 sticks) exclusively offered to HORECA, not intended for home use. This may help bring the distributor a step closer to compete on the expanding market for instant coffee.

Instant (Soluble) Coffee: Why this Exponential Growth?

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According to the Lebanese Customs, approximately 9,092 tons of Instant coffee was imported to Lebanon in 2016. Therefore, an estimate of the domestic consumption of instant coffee can be inferred from the customs figures, whereby the consumption grew by 27% from 2013 to 2016. Some market players also estimate that Instant coffee consumption measured in terms of sell out in modern trade (supermarkets/minimarkets) and traditional trade (groceries) stood at around 6,700 tons in the period of Oct.2016 to Sept.2017.

Instant coffee may become a risk for the local market and Lebanese coffee producers. The traditional Lebanese Coffee is part of the life of Lebanese and Arab drinkers. Sharing it is synonymous to quality time with family or loved ones, to make friends, to be hospitable, to welcome tourists, to show courtesy, and to break the ice when meeting new people. Today, instant coffee is gaining share because of the changing lifestyle. Less time is being spent at home; homes are becoming smaller, and this product is competing with all coffee categories on the key dimensions:

a) The taste barrier

Coffee by nature has a bitter taste, which makes it particularly difficult for youngsters or new coffee-drinkers to “like” it. Yet, the mix of ingredients introduced by instant coffee products, adding creamers, and/or sugars into ready-to-prepare instant coffee packets allows youth to overcome the bitter taste. It recruits the new generations to be new customers.

b) Convenience

The modern lifestyle consists of preferring long coffee drinks, easy to prepare and to carry on the way to work, school.. This ‘on-the-go’ lifestyle of customers is demanding a drink that is available, can be quickly gulped, anytime, and in different places as the day goes by. Instant coffee sachets seem to do the trick.

c) Massive Advertisement

The major Instant coffee providers invest substantially in advertisement through which they teach young consumers what to pick and what lifestyle they want to associate themselves with.

Lebanese Coffee Producers: Unique Selling Points (USPs) and Differentiation Strategies

According to BLOM Invest’s market research (survey), not all local coffee producers are fully equipped nor fully matured yet to export their products; however, almost all of them have pushed for developmental plans which are well underway as of Oct. 2017’s market survey.

By market consensus, Café Najjar is the leader in the local production and export of Lebanese Coffee. To-date, *Najjar’s* volume of local production and Lebanese coffee exports make up 70% of the Lebanese Coffee market. A managerial source at *Café Najjar* explains how the firm emphasizes: *“Perfection and quality from the bean to the final product, sophistication in marketing to the final consumer, excellence in commercial policy and partnership with customers, and employee-development and retention.”*

Café Najjar already has in place several differentiations strategies. For instance, the market player is the official supplier for the multinational firms McDonalds and Coca Cola in the region, knowing that blue chip companies require strict compliance criteria. It also has launched *“Najjar Raqwa”*, an innovation in the preparation of Lebanese Coffee that provides: consistency and convenience in

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preparation, and the freshness of coffee. The market player also has big plans to venture with his *Raqwa* patent into the Arab world.

Other top market players like *Café Maatouk* opted to re-engineer operations and grow their exports of Lebanese Coffee. Back in 2010, *Café Maatouk* re-engineered its brand and invested in R&D to explore the changing tastes of the Lebanese and expatriates' changing tastes, as well as researching brand personality. One of the unique features of *Café Maatouk* is being the only brand on the local market with a "matt" packaging. *Café Maatouk* has been exporting quality Lebanese Coffee to ethnic markets in more than 26 countries, with exports constituting approximately 35% of its total Lebanese coffee production. Main future plans entail enforcing its distribution channels locally, and exporting into new markets of which: Africa and some Eastern European states where the culture appreciates "traditional" preparation of quality coffee.

In his turn, Mr. Peter Daniel, managing partner at *Café Daniel*, speaks of plans to boost the local production of Lebanese coffee. Daniel explains the firm's plan to expand and strengthen their coffee distribution channels, as they plan to utilize and enhance the already in-place-infrastructure of their Castania Nuts. This will help strengthen the presence of *Café Daniel* Lebanese coffee brands across all of Lebanon and abroad. Meanwhile, *Café Daniel's* "Barista" espresso coffee continues to invade the offices of key public entities and clientele with one key strength: the availability and ease of follow-up & after-sales services for customers, as the coffee and machines are all locally produced, marketed, and distributed. Plans are also in place for new espresso flavours and venturing into the Arab market.

Some market players like *Café Super Brasil* distinguish themselves by the specific configuration their coffee brand stands for. Mr. Dahan, General Manager of the firm puts it best when he explains *Café Super Brasil* offers, "*a passionate product [...] best described as a dark, strong coffee preferred by our clients [...].*" He further elaborates on the importance of sourcing their coffee beans directly from the farms in the countries of origin. *Café Super Brasil* maintains and grows its contribution in the coffee market today by, "*meeting the consumer wherever he is to serve him coffee [...]*", according to Mr. Dahan.

The Potential of the Industry and the National Economy: A Call on the Government

Against this backdrop, the government can assist such promising local producers on different aspects. Besides the infrastructure (electricity namely), credit facilities, loans with reduced interest rates, tax exemptions, and the basic support for any national industry, the government may help protect local producers and coffee market players from foreign products invading the market, especially from neighboring Syria. With some government support, production costs of local market players would decline, leaving room for their investment in new factories and equipment. Ultimately, by growing their business, they employ a larger number of people in the country, help reduce unemployment, and enhance the export activity of Lebanon.

Coffee is a product very much attached to the daily life of almost every Lebanese and his/her family. Supporting this local industry is also preserving a big part of the Lebanese and Arab cultures.

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