SWOT analysis of Vietnam and Brazil coffee industry

Author name

Affiliations

**Introduction**

Coffee is among the most traded commodity that is produced in nearly 55 countries. World coffee production for 2018-19 was nearly 174.5 million bags(Foreign, Agricultural, & Service, 2018). World coffee consumption is nearly 7 million tons of green coffee (Pelupessy, 2007). Since the 19th century, there had been significant changes in the international coffee market. The changes alsoknown as wavers are related to the types of production, the quality of products and differentiation criteria (Guimarães, Leme, De Rezende, Pereira, & Dos Santos, 2019). Currently, in this international market, main producers of coffee are; Brazil, Vietnam and Colombia. These are meeting their domestic demands as well as exporting their products. World coffee export was increased by 31 per cent during the period of 2000-2015(Rosiana, Nurmalina, Winandi, &Rifin, 2017).In 2010, the production of coffee in Brazil was 48.1 million 60-kilo bags and in Vietnam, it was 18.5 million bags(Gonzalez-Perez & Gutierrez-Viana, 2012). Vietnam is the most competitive coffee producer that has a relatively low cost of production and the highest quality yields. It has a well-managed supply chain and is able to compete with locally-owned and multinational exporters(Wood, Dibben, &Meira, 2016). Quality of the coffee gives it a competitive advantage in the coffee world. On the other hand, coffee in Brazil was introduced during the early eighteenth century. It was planted only for domestic use. Then its export was started and it became the major export item due tohigh prices all over the world in the late 1820s. This paper will conduct the SWOT analysis of Vietnam and Brazil coffee industry and will give some recommendations to flourish their industries.

**SWOT analysis of Vietnam coffee industry**

Vietnam being an agricultural country is the producer of rice, coffee, tea and pepper. Coffee has become the main economic production in Vietnam. Coffee in Vietnam has been known since 1857 and was firstly implanted in places of worship in different localities. Most of the coffee trees are Robusta and Arabica coffee that is grown in the southern part and northern part respectively(Malaquias, Celestino, & Xavier, 2018). Then towards the start of the twentieth century, coffee production started expanding. Vietnam in 1975 was producing nearly 5000 to 7000 tons of green coffee by utilizing an area of 13,000 ha (T. H. N. Nguyen, 2016). This can be attributed to support that the Soviet Union, Hungary as well as Poland provided to Vietnam government. In the 1990s, coffee production in the country grew by 20 to 30 per cent every year, witnessing the transformation of the economy of Vietnam. Production will further increase by 1.1 million bags due to weather effects(Foreign et al., 2018).

Coffee has now become the major agricultural export of Vietnam(Doutriaux, Geisler, & Shively, 2008). Moreover, the country is also considered as a world leader in the production of Robusta coffee after Brazil since 2000(Tucker, 2017). However, to sustain its position it has to overcome numerous challenges. The competitiveness of Vietnamese coffee is in danger now as global market requirements are increasing(G. N. Nguyen &Sarker, 2018).

**Strengths**

* Vietnam has a promising coffee industry that also provides a livelihood to approximately 2.6 million people (T. V. Nguyen, Nguyen, & Bosch, 2017). The country is a leader in world coffee production. It is the second largest exporter of coffee and is supplying its coffee in EU and US markets. In 2014, the export value of coffee was nearly 3% of national GDP (G. N. Nguyen &Sarker, 2018).
* The plantation area has increased from 134,000 ha to 513,000 ha during the period of 1975 -2010.
* Coffee is produced for the domestic market as well as for export purpose.
* There is great awareness among coffee cultivators about capacity and quality of the coffee.
* Farmers are able to easily understand new techniques in production as well as they are experienced(Luna, Klein, &Summerhill, 2016).
* Main producers are; Dunkin Donuts, Starbucks, Gloria Jeans, McCafe, Coffee Bean, My Life Coffee, the Coffee House and Trung Nguyen.
* The main product of the coffee industry is Coffee Robusta. Vietnam provides 95 per cent of this coffee to the world(T. H. N. Nguyen, 2016).
* Vietnamese coffee has the highest quality and the industry set competitive prices while operating internationally.
* Vietnamese coffee has a specific style that is due to the preparation process and blending of beans in a specific way(Alves, Rodrigues, Nunes, Vinha, & Oliveira, 2017).
* Traditional coffee is a small and highly concentrated having strong and bitter taste(Carvalho& Spence, 2018).
* Vietnamese coffee has a remarkably unique flavour as it is grown in the tropical belt of the Northern Hemisphere(Toledo, Pezza, Pezza, &Toci, 2016). The climate of this area is suitable for coffee growth specifically for Arabica growth.
* Coffee as a product is safe and has no health risks. Studies have shown the benefits of consuming coffee in different diseases such as cancer and high blood pressure.
* The product is also eco-friendly as there is a use of the highest quality beans(Kerr, 2015).
* Use of technology is not only decreasing the production costs but also enhancing the quality(Oliveira & Franca, 2015).

**Weaknesses**

* The production and consumption are linked with the economy. During the time of downturn, consumers spend less on coffee.
* Purchasecontracts are not always followed.
* Coffee business has short-term investment plans.
* Farmers are not well and have small and fragmented farms.
* Farmers cannot get the economy of scale and specialization.
* Farmers do not get high prices for their coffee beans.
* There is less growth in the domestic market due to the competition. International brands are entering Vietnam such as Starbucks and Coffee bean. They offer to severe competition to the domestic market.
* There is also less production during the economic downturn due to the rising prices of coffee and dairy products.
* Farmers lack strategic visions for product branding.
* There are not many brands in the coffee industry due to the limited marketing budget.
* Low-quality products affect the entire industry.
* There is little investment in technological innovation.
* The industry has to bear the cost of exporting.
* There are only a few suppliers that supply the highest quality Arabica beans.

**Opportunities**

* The coffee industry has a potential of growth all over the world and Vietnam coffee demand is increasing day by day.
* Vietnam’s coffee is considered as sustainably certified coffee.
* Local and central both governments support coffee production.
* European people demand diverse categories of coffee.
* Profit margins can be increased with the use of technology.
* There is an increasing trend of drive-thru, kiosks as well as carts that are also increasing the demand for coffee.
* Café chains are increasing by major coffee deals such as the Coffee Bean and tea Leaf, Starbuck.
* Domestic consumption of Vietnamese is increasing as a result of cafe culture and retail coffee shops.
* Promotional efforts can increase the demand for coffee.
* Digital technology is offering the industry different ways of marketing(Souto et al., 2015). It will offer low-cost marketing that will also make connections with the customers strong.
* Managing the supply chain effectively in the context of global operational strategy can make the industry more competitive (T. V. Nguyen, Nguyen, & Bosch, 2017).
* Opportunities to use modern technology such as biotechnology, manufacturing technology and automation.
* Coffee-based agroforestry systems (AFS) systems can be used for environmental resources conservation. These can also be used for requiring fewer inputs(Millard, 2017).
* End users prefer safe products, providing an opportunity to the industry.
* Thus, the industry can increase product lines to remain competitive(de Almeida &Zylbersztajn, 2017).
* Support of Japanese partners.
* Vietnam is following a Social-Economic Development Strategy (2011- 2020) that will make it industrialized economy.
* Vietnam is an established player in the world coffee market and can take advantage of acquisitions and partnership strategies.

**Threats**

* Farming methods such as monocultures and poor fertility management are resulting in deforestation and soil degradation. This is a potential threat to decrease coffee production(G. N. Nguyen &Sarker, 2018).
* Private sector owns most of the farms.
* Local companies run discriminating competition against each other.
* Environmentalists have warned about the shortage of land available for coffee cultivation.
* The production of coffee and its specific taste is linked with growing conditions such as weather. Any change in weather can disturb the coffee production in the long run.
* An economic recession is a common threat in this industry.
* Foodservice chain is a threat to the coffee industry.
* There are fake brands in the market that affect the quality of products.
* Strong competitors.
* Coffee prices volatility
* Increasing cost due to international trade.
* Companies are facing regulatory pressures while operating internationally. There are strict rules to comply with local and international laws.

**SWOT analysis of Brazil coffee industry**

Coffee has been an indispensableproduct in Brazilian history. Its cultivation in Brazil started in the north then spread all over the country.French settlers first time brought the plant from Ethiopia and implanted it in the state of Pará. At that time sugar cane plantations were common and people had no taste of the coffee. During the 19th century, it was among the most exported product. In the 1960s, the government tried to reduce high costs by implementing the Brazilian soluble coffee industry. The other aim of this measure was also to meet external demand. However, in the early 1990s, Brazil reduced its input in the world market of soluble coffee, (Nishijima&Saes, 2010). Brazil has 43.2 million 60-kg bags of green coffee produced in 2015; 32 million of Arabica coffee and 11.2 million of a Conilon species (de Almeida &Zylbersztajn, 2017). In 2016, the quality of coffee that was being traded in Brazil surpassed 1.7 billion and in 2017, the production of coffee in Brazil was more than 8.4 million bags(Foreign et al., 2018). Brazil is implantingcoffee over 2,223,464.1 ha (Paseto, de Alcantara, Paseto, &Patino, 2018).

In addition, the country has favourable climate conditions that are making the future of the coffee market pricy. The trend is continued to grow as quantity is attributed to the biennial production cycle. Brazil mainly produces two types of coffee; arabica and robusta. Both these types differ in taste, growing conditions, as well as in price. Moreover, robusta production is expected to increase more due to favourable weather condition(Guimarães et al., 2019). Currently, Brazil is mainly exporting its coffee to the United States and Germany. United States has the North American coffee market, thus, it is the world's largest single buyer of coffee(McCook, 2017). However, the quality of Brazilian coffee is not much good(Reichman, 2018).

**Strengths**

* Brazil culture has a prominent position for coffee(Acchar&Dultra, 2015).
* Brazil people consider it as a vehicle for antioxidants, lawful drugs as well as sweeteners in the diet (Sousa & da Costa, 2015).
* Brazilian coffee is famous worldwide for its aroma and flavour. Customers like this and this has helped in increasing the customer base(Guimarães et al., 2019).
* Natural methods of coffee processing give the coffee a special flavour.
* Brazil is the largest exporter of coffee in the world(Samper &Quiñones-Ruiz, 2017).
* It is harvesting 30% of the world’s coffee; 130 million bags (Arzabe, Macieira, Menezes, Baliza, &Mourão, 2018).
* Brazil has segmented its market for the coffee based on ingredient type, sales channels as well as geography. Among the distribution networks, convenience stores and supermarkets have major shares.
* The burgeoning market is the specialty coffee in Brazil(Guimarães et al., 2019).
* Bourbon Santos is Brazil's best coffee bean that is used in the production of coffee for export (Guimarães et al., 2019).
* Brazil exports; green coffee; soluble coffee, roasted and ground coffee, concentrated and essential extracts as well as coffee residues(Castro et al., 2018).
* All these are soft and have low acidity having a bittersweet chocolate taste.
* The coffee production costs in Brazil are relatively low that give it comparative advantages as compared to other countries.
* International buyers of coffee are; Germany, Japan, the United States in addition to Belgium.

**Weaknesses**

* The quality of Brazilian coffee is not much good (Reichman, 2018).
* The industry has faced numerous economic crisis resulted in stark losses(Paseto, de Alcantara, Paseto, &Patino, n.d.)(Neto et al., 2016).
* The industry is still facing the residual effects of the worst economic crises.
* Coffee trees require two to four seasons to supply optimum productivity (Reichman, 2018).
* Supply coffee to only a few countries in the world and have only a few stores in each country.
* Brazil has overdependence in the United States market that is limiting its scope.
* The products are expensive and not available to all classes. Moreover, during the recession consumers may switch to other brands or alternatives.
* International buyers are also coming to the country after considering the leading position of Brazil in the coffee world. They have joined the Brazil market with a hope to get the best business deals.
* The industry has to compete internationally with low-cost coffee sellers. For instance, Starbucks competes while operating internally with many local low-cost coffee sellers. These competitors offer products at low prices and reduce the industry’s market share.
* There is constant production of green Robusta beans that have inferior quality.
* People are health conscious and they evade from caffeine-containing drinks.
* They have less understating about the advantages of coffee adoption.
* Not many products can be offered due to low quality.
* Raw materials are costly and their non-availability in case of harsh weather conditions that make them more expensive.
* The cultivation of coffee is also carried out at faraway places in Brazil. It requires construction and management of infrastructure for their transport such as railroads.
* Farmers have to give different treatments against rust that increase production costs.
* Increased production costs due to any reason make exporters to less focus on marketing. When they spend less on advertising and promotions, they do not get able to face the competition effectively.

**Opportunities**

* In 2014, the Brazilian government granted Certified Denomination of Origin (CDO) status to the CerradoMineiro(Reichman, 2018).
* Consumer consumption patterns are changing internationally and they are moving towards instant standard coffee. This is due to their busy lifestyles and longer working hours that are offering the coffee industry an opportunity to target more and more consumers.
* Currently, there are 20 instant coffee processing plants across the country.
* Companies can invest more in soluble coffee products.
* Companies can also expand into emerging markets as they will not be saturated like the US market currently. This will reduce competition and offer more profits.
* Partnership opportunities can also increase profits in emerging markets.
* The largest emerging market can be an Asian market that can get the nation traditional coffee products such as green tea flavoured coffee drinks.
* With the well-managed supply chain, different risks can be made less such as competition, higher prices and low quality.

**Threats**

* Climate has an effect over the production of coffee and it is considering changing with time (Chalfoun, Angelico, & de Resende, n.d.).
* The climate is bringing resilient pests and plant diseases as increased temperatures bring more pests(de Fátima Souza, dos Santos, Inoue, Tinôco, & Ferreira, 2018).
* Arabica coffee requires a moderate temperature for its growth as increased temperature make coffee beans to ripen too rapidly that affects the taste and quality of the beans (Clontz, 2018).
* A competition involving low-cost coffee sellers is present at both local and international levels(Caporaso, Whitworth, Cui, & Fisk, 2018).
* Imitators are present in the market that reduces profits.
* Local cultures, political situations and policies also affect the coffee business. For example, in some counties, there are independent coffeehouse movements. They favour the operations of local coffeehouses and compete with the growth of multinational coffeehouse chains(Baqueta, Coqueiro, Março, &Valderrama, 2019).
* During the sociocultural trends, consumer perception and purchasing behaviours also change.
* This requires the marketing and branding strategies that call for more investments.
* Increasing prices of raw material such as dairy products.
* Supply disruptions can occur in international dealings.
* Main competitors are; Golden Brazil, Comexim, and Nicchio Cafe.
* International prices of Arabica are declining that will decrease the profits.

**Recommendations**

Currently, Vietnam is the second largest exporter of coffee. It has an objective to increase its exports as well as improve the quality of its product's further. There are many strategies that are needed to be changed under the results of this SWOT analysis. The industry is very promising locally and can be made strong with the use of more and more technology. This will not only improve the production capacity, remove the effects of climate but will also enhance the quality of its product's. Moreover, there is a need to increase the plantation area by making more investments in this sector. Objectives must be set for export and import. Farmers are knowledgeable and can easily learn new techniques. They are required to undergo training regarding the new methods of cultivation and processing.

In addition, the industry should conduct research about the addition of more products and deepen the product line. This will also increase the number of producers in the market when there will be more opportunities in the market. Companies should advertise about the health benefits of coffee products to increase consumer awareness. There must be the development of strategic relationships with buyers as well as sellers as it will bring loyalty. This will be an effective's strategy in facing the competition both at local and international level.

Conversely, Brazil is the largest exporter in the coffee industry among international players but does not have the high-quality coffee. Coffee is the social and cultural component of Brazil culture. It is the major export of the country and requires the improvement of coffee and other weaknesses to further increase its demand all over the world. After the quality improvement, there must be more stores in different countries to increase sales. Moreover, the United States market must not be the only market for the export of the coffee. Other options such as Asian markets are needed to be considered. All the international players that come to Brazil must get the necessary arrangements so they can support the industry. Farmers must also get finances and other facilities to improve their production.

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