



Revista de Administração de Empresas

ISSN: 0034-7590

ISSN: 2178-938X

Fundação Getúlio Vargas, Escola de Administração de
Empresas de S.Paulo

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Revista de Administração de Empresas, vol. 58, no. 3, 2018, May-June, pp. 254-266

Fundação Getúlio Vargas, Escola de Administração de Empresas de S.Paulo

DOI: <https://doi.org/10.1590/S0034-759020180306>

Available in: <https://www.redalyc.org/articulo.oa?id=155158452006>

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FORUM

Submitted 07.31.2017. Approved 12.26.2017

Evaluated through a double-blind review process. Guest Scientific Editors: Marina Heck, Jeffrey Pilcher, Krishnendu Ray, and Eliane Brito

Original version

DOI: <http://dx.doi.org/10.1590/S0034-759020180306>

VALUE CO-CREATION IN THE SPECIALTY COFFEE VALUE CHAIN: THE THIRD-WAVE COFFEE MOVEMENT

Cocriação de valor na cadeia do café especial: O movimento da terceira onda do café

Cocreación de valor en la cadena del café especial: El movimiento de la tercera ola del café

ABSTRACT

Brazil represents approximately 29% of the world's coffee exports, with 15% of that being "specialty coffee." Most Brazilian coffee exports are composed of commoditized green beans, influencing the value chain to be grounded on an exchange paradigm. This scenario started to change with the introduction of specialized coffee shops, coffee capsules for home consumption, and demand for a more artisanal product. A paradigm of value creation along the chain drives production processes that aim to differentiate products through superior coffee beans and unique experiences. This study was developed through content analysis of 15 years of news collected from two Brazilian newspapers. Additionally, we interviewed owners of coffee shops, coffee producers, cooperatives, intermediaries, and regulators. We concluded that the value chain faces challenges in reaching higher value-in-use creation for all involved actors.

KEYWORDS | Specialty coffees, co-creation, value chain, value-in-use, relational value.

RESUMO

O Brasil participa em aproximadamente 29% da exportação mundial de café, sendo 15% de "café especial". A maior parte da exportação é composta por café commodity, influenciando a orientação da cadeia de valor por um paradigma de troca. Esse cenário tem mudado com a introdução de cafeterias especializadas, cápsulas para consumo domiciliar e demanda por um produto mais artesanal. Um paradigma de criação de valor ao longo da cadeia passa a impulsionar processos de produção, com objetivo não apenas de diferenciação por meio de grãos e processos superiores, mas também experiências únicas construídas. Este artigo foi desenvolvido por meio de análise de conteúdo de 15 anos de notícias de dois jornais brasileiros. Além disso, foram entrevistados proprietários de cafeterias, produtores de café, cooperativas, intermediários e reguladores. Concluímos que a cadeia de valor passa por desafios para atingir uma mudança com objetivo de maior geração de valor em uso para todos os envolvidos.

PALAVRAS-CHAVE | Cafés especiais, cocriação, cadeia de valor, valor em uso, valor de relacionamento.

RESUMEN

Brasil participa con aproximadamente 29% en las exportaciones mundiales de café, y 15% es de "café especial". La mayor parte de la exportación se compone de café commodity, lo que influencia la orientación de la cadena de valor por el paradigma del cambio. Este escenario empezó a cambiar con la introducción de cafeterías especializadas, cápsulas para consumo doméstico y demanda por un producto artesanal. Un paradigma de creación de valor a lo largo de la cadena pasa a impulsar procesos de producción, con el objetivo no sólo de diferenciación a través de granos y procesos superiores, sino también de experiencias únicas construídas. Este artículo se desarrolló con análisis de contenido. Se recolectaron datos de 15 años de dos periódicos brasileños. Además, se entrevistaron propietarios de cafeterías, productores de café, cooperativas, intermediarios y reguladores. Concluimos que la cadena de valor enfrenta desafíos para obtener un cambio con vistas a una mayor generación de valor en uso para todos los implicados.

PALABRAS CLAVE | Cafés especiales, cocreación, cadena de valor, valor en uso, valor de relación.

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INTRODUCTION

The origins of coffee as a drink are not clear. It is known that it was originally consumed with butter in Ethiopia. By the end of the XVth century, it was consumed as a drink by Middle Eastern countries – Saudi Arabia and Yemen. This use arrived in Europe in the XVIIth century and caused a relevant increase in consumption and demand for coffee. Alternative sources of coffee bean production became an interesting business opportunity, and most of the production came from African colonies that became coffee producers. By the end of the XVIIIth century, 50% of the world's coffee bean production came from places other than the Middle East and Africa (Lemps, 1998).

By 1720, the first seeds and seedlings arrived in Pará, Brazil. The habit of drinking coffee reached the northern area of Brazil, and coffee started to be produced in the Amazon (north) area for local consumption. This internal consumption followed the international trend and evolved. By 1770, coffee started to be produced around the city of Rio de Janeiro, which targeted the internal consumer market. The southeast region was soon recognized as having appropriate conditions for efficient coffee production. Fifty years later, Brazil had already become responsible for 20% of the world's coffee exports (de Siqueira, 2006). With the exponential growth in global consumption and ability to produce at high volumes, Brazil became the world's largest coffee bean exporter, a position that it holds until today, as Brazil is responsible for approximately 29% of the world's coffee exports. This equates to more than 34,000 bags, which corresponds to 5.4 billion US\$ of income, and 15% of this volume is "specialty coffee" (Conselho dos Exportadores de Café do Brasil [Cecafé], 2017). The United States and Germany are the main importers. They typically import green coffee beans and process them for local use or export the refined products at higher added value. This positioning and coffee value chain process affects the Brazilian economy, politics, and productive organizations.

The coffee value chain starts from the production of coffee beans to the ways of preparing and consuming of this popular drink. Coffee consumption started as ingestion of a simple and exotic stimulant drink; however, over the decades, coffee has become a much more complex drink that should be appreciated with attention to all its details. New behaviors related to food consumption also had a significant influence on changes in the Brazilian agricultural sector. The world began to demand greater quantity and quality of food. Around the 1990s, coffee producers founded the Brazilian Specialty Coffee Association (BSCA), which was aimed at new business opportunities

through investment in coffee quality. In 2002, to describe the evolution of coffee consumption, barista Trish Skeie named the movement "consumption waves" in "The Flamekeeper," a guide of the Specialty Coffee Association of America (Guimarães, de Castro Júnior, & de Andrade, 2016). The coexisting waves have different philosophies and priorities as well as offer different consumption experiences to distinct target consumers. The first wave is characterized by poorer quality coffee, which is the result of exponential increase in consumption associated with commoditized production processes and commercialization focused on large-scale distribution. The second wave is characterized by the introduction of higher quality coffees, such as specialty coffees, and coffees of controlled production origins. There was dissemination of coffee consumption in specialized coffee shops. Starbucks became the icon of this movement in the United States, and Fran's Café can be considered similarly in São Paulo, Brazil. Both offer quality service and products in an enjoyable, standardized environment. At home, customers started to drink coffee from coffee capsules with a significant increase in quality. Nespresso started this movement, and, when the patent expired, there was a propagation of producers focused on better quality coffee. The third wave represents a revolution in specialty coffee consumption through changes in product differentiation and consumption experience. In the third wave, coffee is considered an artisanal product as complex as wine. Coffee became differentiated by numerous attributes. In the value chain, there is an observed attempt toward approximation between producers and end-consumers. The differentiation goes beyond a superior quality coffee bean and includes limited availability ("microlotes"), specialty varieties, coffee origin and growers' historical methods of harvest and preparation, and environmental and social concerns (Guimarães et al., 2016; Zylbersztajn & Farina, 2001).

In Brazil, the third wave is evolving with the aim to become established. Some producers have already realized that specialty coffee beans can assure higher margins, leading them to become independent of the international commodity prices. They started to target direct negotiations and international participation without dependence on traditional trade intermediaries (Chade, 2012; Guimarães et al., 2016). On the consumption side, there is an expansion of cafeterias in metropolitan areas claiming the uniqueness of "microlotes," varieties, and expertise in the coffee preparation process.

This movement in the coffee industry represents a shift from an exchange paradigm to a value co-creation perspective, through which consumers adopt a more active/participatory role in the production and consumption process (Prahallad & Ramaswamy,

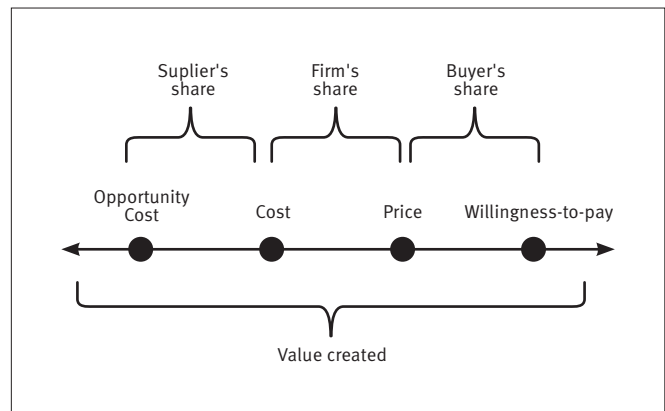
2000; Ritzer & Jurgenson, 2010; Vargo & Lusch, 2008). Products are no longer appreciated only because of their intrinsic properties but also because of the experiences they promote. Customers are resource integrators promoting value co-creation with providers (Vargo & Lusch, 2008; Vargo & Lusch, 2017). Products embedded with utilities and traded based on their value-in-exchange give rise to experiences and individual perceptions that lead to value appropriation during product use (value-in-use; Sheth & Uslay, 2007; Vargo, Maglio, & Akaka, 2008). Café Britt in Costa Rica is an example of value co-creation through unique experiences. It adopted a Coffee Tour experience for tourists that played a key role in the development and promotion of Café Britt's national and international images (Brenes, Bolanos, Burciaga, Jimeno, & Salas, 1997). BSCA also agrees that internal market quality affects the Brazilian coffee's image internationally.

In the third wave, cafeterias and producers adopt a closer relationship aimed at promoting differentiation in the value proposition for end-consumers. For example, the history of coffee production becomes part of this proposition. This article aims to identify how actors involved in the third wave of coffee are organizing themselves to create more value along the value chain to establish a sustainable business in Brazil. The study will discuss how the specialty coffee value chain evolved, considering a service-dominant logic perspective of how value can be created.

LITERATURE REVIEW

Along the value chain, each actor contributing to the chain creates and appropriates the value differently. In addition, different types of values are developed. Considering an economic perspective, the company creates economic value and the customer appropriates it during the exchange process (Ballantyne & Varey, 2006; Sheth & Uslay, 2007). A firm sells its products for a price and incurs economic costs, capturing the value created by the difference between the prices and costs (Brandenburger & Stuart, 1996; see Figure 1). A customer's willingness to pay indicates the price the customer is prepared to pay for a product or service considering all perceived benefits at the moment of exchange (Miguel Brito, Fernandes, Tescari, & Martins, 2014). A supplier decides to transact with a firm because it perceives benefits compared with other alternatives. The difference between the costs charged to the buyer and the second-best alternative (opportunity costs) for the supplier is the value captured by the supplier (Miguel et al., 2014). According to the economic perspective, value is exchanged between buyers and suppliers, also called value-in-exchange.

Figure 1. Value creation: An economic perspective



Source: Brandenburger and Stuart (1996)

In 1988, value was defined as the “consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given,” and it depends on the context and individual needs (Zeithmal, 1988, p. 14). This definition already considered varying value perceptions based on the consumer’s own experiences and context, and thus value depends more on the customer’s perception than on the supplier’s determination (Woodruff, 1997). Yet, based on an economic perspective, value was still considered to be determined at the exchange transaction. Some years later, Vargo and Lusch (2006) brought a new perspective, emphasizing that companies or suppliers can only offer value propositions during the exchange process, and value can only be realized by customers or buyers during the product/service use. A new perspective evolved in parallel to the economic one. The view that products have embedded value and customers pay a price for this value at the moment of exchange started to change (Vargo et al., 2008).

The term value-in-use started to be used to define perceived value during product/service use. In other words, customers perceived consequences arising from a product or service that was supposed to facilitate the achievement of their goals (Macdonald, Kleinaltenkamp, & Wilson, 2016). The value-in-use concept considers that a customer’s own skills during the usage experience affect the perceived value and that value-in-use can be different for each customer (Chan, Yim, & Lam, 2010). On the other hand, value-in-exchange, defined at the point of exchange, represents the transfer of value from suppliers to buyers, and they can realize this value depending on the product/service use. Value-in-exchange considers only the perspective of the exchange occurring between the buyer and supplier and does not evaluate the usage of that product/service (Sheth,

Newman, & Gross, 1991). The exchange paradigm is focused on the transfer of ownership, implying that increasing the number of transactions would represent customers' satisfaction and preferences (Sheth & Uslay, 2007), and value creation could only be increased by increasing customers' willingness to pay or opportunity costs (Miguel et al., 2014). For example, in a service economy in which customers value experiences and not possession, and producers aim for a win-win situation and not a win-loss strategy based on individual benefits, value creation and value appropriation may occur even after the exchange transaction and during the product/service use (Sheth & Uslay, 2007; Vargo & Lusch, 2006).

In addition, in a value-chain, buyers and suppliers capture value from their relationships, and the relationship is a source of value creation that will affect value appropriation (Miguel et al., 2014; Tescari & Brito, 2016). Relational value is another value category that can be considered when analyzing production and consumption processes. Relational value considers trust and cooperation among buyers, suppliers, and end-consumers that can contribute to an increase in customers' willingness to pay (Tescari & Brito, 2016). Considering a service-dominant logic perspective, value creation has a more holistic perspective and is achieved not only during transaction but also through collaboration within the experiences pre- and post-transaction (Prahalad & Ramaswamy, 2000).

Value creation is fundamental for companies to achieve customers' loyalty and satisfaction and to create a competitive advantage along the value chain. When considering a business-to-business (B2B) relationship, value can be co-created within buyer-supplier relationships with the intention to promote a higher value proposition to end-consumers (Lindgreen & Wynstra, 2005; Vargo & Lusch, 2006). Value-in-use may be appropriated at a different time and be affected by other individuals and contextual circumstances. In the coffee production process, the value chain is composed of coffee bean producers; intermediaries that store, select, and export the beans; and roasting companies that are crucial in defining the end-consumers' value proposition (which depends on the product's final quality and to whom they intend to distribute this product). The process of value creation along the supply chain defines the value proposition to end-consumers and consequently value appropriation for all involved stakeholders.

Intermediaries in the chain, such as cooperatives and roasting companies, define value proposition to end-consumers, deciding if the best-quality coffee beans will be exported instead of being consumed domestically. Then, they are able to appropriate a great part of the economic value created without

necessarily generating more value-in-use for producers and end-consumers. When exporting better quality coffee, intermediaries do not promote the possibility of an increase in value-in-use for domestic end-consumers or tourists that may travel to production regions and may end up consuming lower quality coffee (Brenes et al., 1997). Roasting companies that act as intermediaries select the beans from producers, define the blend (percentage of different quality coffee beans in the final coffee), control the roasting process, and determine the distribution to retailers so that the coffee can become available to end-consumers (Claro & Claro, 2004). Economic value is distributed along this chain. However, actors in the chain may obtain lower value depending on their position. Small producers that have low opportunity costs may transfer their products to intermediaries at a reduced price. Likewise, these producers do not obtain high value-in-use because they do not always develop knowledge about the origin of their coffee beans, which could become a source of differentiation during the consumption experience. Currently, the majority of small producers sell their beans to be processed by intermediaries (such as roasting companies) that retain the knowledge about quality assurance. However, if producers are able to get closer to end-consumers, by acquiring expertise in producing and identifying better quality beans, these producers may be able to increase both their end-customers' willingness to pay by offering better value propositions and their own appropriation of economic value. In terms of value-in-use, approximation of producers to end-consumers may promote valuable contextual experiences for them during the whole process, and these experiences may even affect future transactions.

In B2B, sellers may direct marketing activities straight at buyers and also at subsequent market stages. The goal should be to transform market relationships between the stages into a more collaborative form. Multistage marketing should especially be considered when properties of the primary products are of significance in the use and market success of the goods/services produced from them (Kleinaltenkamp, Rudolph & Classen, 2012). In the case of coffee production, the best-quality beans can lead to different prices and value propositions, and the final product is completely dependent on bean quality and the production and distribution processes.

The development of a multistage marketing strategy would help producers to develop an unenforced cooperative relationship with buyers, helping to consolidate the niche of specialty coffee. If coffee bean producers employed a pull strategy toward distributors, they would support their distribution strategy (Kleinaltenkamp et al., 2012). The relational value would increase

through a cooperative relationship among producers and other stakeholders, but we are unsure if this is occurring in Brazil.

A market in which access to the product is limited and depends on a long-term relationship between producers and roasting companies is an organic coffee market (Claro & Claro, 2004). The value appropriation of high-quality organic coffee depends on both a premium product and the willingness of buyers to focus on a win-win situation (Claro & Claro, 2004). There are other initiatives in the main coffee-producing countries that especially benefit small producers by generating more value-in-use for them through more economic and social benefits allied to a collaborative environment. In developing countries, incentives for producers that participate in the fair-trade coffee market illustrate how producers can achieve higher income and better quality of life through more economic value and consequently more value-in-use (Arnould, Platina & Ball, 2009; Brenes et al., 1997). Similar to this initiative, organizations encourage the certification process with the aim to develop local communities economically, helping them realize more value-in-use from their best-quality beans. On the other hand, production of the best-quality beans represents higher production costs. Producers need to acquire equipment for pulping and drying the beans and also develop new distribution strategies, because these beans are sold in smaller lots (Guimarães et al., 2016). Then, sometimes, the premium price obtained does not seem to compensate for transactions from cooperatives that offer tax advantages or for situations when coffee prices are high. Developing more long-term strategies should be a focus of specialty coffee producers. Unfortunately, not all of them have a background that favors the abilities needed to develop long-term strategies, as most of them focus on short-term results that can guarantee their subsistence. The above-mentioned initiatives seem to look for an increase in the producers' capacity to develop strategies based on both the bean price in the commodity market and the long-term market position for which they aim.

Producers will probably face resistance to the adoption of multistage marketing, but they can benefit from the fact that their primary product does not “disappear” in the processing chain, since the coffee's origin is usually identified in specialty coffees (Kleinaltenkamp et al., 2012). Thus, we must ask whether these producers are ready to develop a multistage marketing strategy.

Many producers are organized in cooperatives that support them in product distribution and price negotiations. Brazil has the largest number of self-service cafeterias in the world, most of them independent cafeterias (Euromonitor, 2017).

Moreover, in the third wave, some cafeterias have already started a movement of getting closer to producers, and they aim to guarantee both best-quality coffee (Guimarães et al., 2016) and an experience that is individually valued. However, to improve economic value and value-in-use in the coffee value chain, it is also important that these producers are both technically prepared to adapt their production to guarantee the best-quality coffee and are able to develop relationships with other enterprises of the chain, including end-consumers. For example, Café Britt was founded to produce high-quality coffee for the domestic Costa Rica market, which had been disregarded by local companies focused on exporting the best-quality beans. The company opened the export market based on domestic recognition of the brand and an excellent relationship with value chain stakeholders; through the touristic experience, it developed a mail-order business targeted at people who had visited Costa Rica (Brenes et al., 1997). This strategy led to more economic value appropriation and value-in-use generation for the organization and end-consumers. Small producers will be able to generate and appropriate more value when they develop better long-term strategies. Even if they are not able to eliminate the intermediaries, they may be more prepared to address them in a cooperative manner.

METHODS

To understand how actors involved in the third wave of coffee are organizing to create more value along the value chain and establish a more sustainable business in Brazil, the researchers employed content analysis of historical documents (Humphreys & Latour, 2013).

Analysis of historical documents is generally used to understand the evolution of a market. This analysis helps researchers understand the construction and modifications in a marketplace. The researchers selected longitudinal data from the last 15 years from two main Brazilian newspapers, *Folha de São Paulo* and *Estado de S. Paulo*. The data were collected using the keywords described in Exhibit 1. The keywords were selected based on a previous interview with an expert in the coffee market. This expert worked with coffee producers, the industry, and retailers over the last 20 years and has deep knowledge of the coffee market. After the keywords were selected, the researchers submitted the list to be analyzed by another expert who has a doctorate in food marketing and works at EMBRAPA (Brazilian Agricultural Research Corporation [Empresa Brasileira de Pesquisa Agropecuária]) in projects about the Brazilian coffee market. This expert validated the keywords.

Exhibit 1. Keywords used to collect data

Keyword	Translation	Motivation to use the keyword
<i>café + gourmet</i>	gourmet coffee	Other nomination of specialty coffees
<i>café + especial</i>	specialty coffee	Object of this research
Associação brasileira de cafés especiais	Brazilian Specialty Coffee Association	Association of producers of specialty coffee
<i>Barista</i>	Barista	Person preparing coffee in a coffee shop
<i>café + expresso</i>	espresso coffee	A common type of specialty coffee preparation
<i>cápsulas + café</i>	coffee capsules	Introduced in the market by Nespresso, popularized the consumption of specialty coffee at home
<i>mercado + café</i>	coffee market	General news about the coffee market
<i>varejo + café</i>	coffee retail	General news about the coffee retail market
Café + Illy	Illy coffee	Italian coffee brand that is important in the production of specialty coffee
Café + Melitta	Melitta coffee	Large coffee producer in Brazil
Café + Pilão	Pilão coffee	Large coffee producer in Brazil
ABIC	Brazilian Coffee Industry Association	Association of the producers and industry of regular coffee
Fran's café	Fran's coffee	First large coffee shop chain in São Paulo, Brazil
Starbucks + <i>mercado + café</i>	Starbucks + coffee market	Main coffee shop chain of the world, with several stores in Brazil
Starbucks + <i>lançamento</i>	Starbucks + entry	
Starbucks + <i>franquia</i>	Starbucks + franchising	

The authors collected 1,397 articles from *Estado de S. Paulo* and 2,043 articles from *Folha de São Paulo*. The news articles from which quotations were used in the data analysis are listed in Exhibit 2.

Exhibit 2. News articles used for quotations

Code	Newspaper	Title	Link
N1	<i>O Estado de S. Paulo</i>	10 anos de produtos nacionais	http://paladar.estadao.com.br/noticias/comida,10-anos-de-produtos-nacionais,10000007577
N2	<i>Folha de São Paulo</i>	Grãos especiais refinam o “cafezinho”	http://www1.folha.uol.com.br/folha/equilibrio/noticias/ult263u3652.shtml
N3	<i>Folha de São Paulo</i>	Exportar café em cápsula é exemplo para agregar valor e manter lucros	http://www1.folha.uol.com.br/mercado/2015/07/1661857-exportar-cafe-em-capsula-e-exemplo-para-agregar-valor-e-manter-lucros.shtml
N4	<i>O Estado de S. Paulo</i>	A hora da torra: o novo sabor do café	http://paladar.estadao.com.br/noticias/bebida,a-hora-da-torra,10000052100
N5	<i>Folha de São Paulo</i>	Parceria entre produtores e iniciativa privada proporciona ganhos coletivos	http://www1.folha.uol.com.br/fsp/mercado/me2809201019.htm
N6	<i>Folha de São Paulo</i>	Produtores brasileiros investem em café gourmet para fugir de oscilações	http://www1.folha.uol.com.br/bbc/2015/10/1693140-produtores-brasileiros-investem-em-cafe-gourmet-para-fugir-de-oscilacoes.shtml
N7	<i>Folha de São Paulo</i>	Após dois anos com preço em alta, produtor investe em café especial	http://www1.folha.uol.com.br/fsp/ribeirao/202009-apos-dois-anos-com-preco-em-alta-produtor-investe-em-cafe-especial.shtml
N8	<i>O Estado de S. Paulo</i>	Café especial: um mercado para todos	http://www.estadao.com.br/noticias/geral,cafes-especiais-um-mercado-para-todos,218376
N9	<i>O Estado de S. Paulo</i>	Café especial	http://opinioao.estadao.com.br/noticias/geral,cafe-especial-imp-,832401
N10	<i>O Estado de S. Paulo</i>	Tendências	http://paladar.estadao.com.br/blogs/de-grao-em-grao/tendencias/
N11	<i>O Estado de S. Paulo</i>	Da Pedra Azul para o mundo	http://www.estadao.com.br/noticias/geral,da-pedra-azul-para-o-mundo-imp-,1148826
N12	<i>Folha de São Paulo</i>	Café ganha status de bebida para degustar.	http://www1.folha.uol.com.br/fsp/equilibrio/eq1912200207.htm
N13	<i>O Estado de S. Paulo</i>	Tudo o que cabe na xícara	http://www.estadao.com.br/noticias/geral,tudo-o-que-cabe-na-xicara-imp-,4939

To triangulate the data, the authors interviewed five owners of third-wave coffee shops; five managers of cooperatives of coffee producers; one director of BSCA; one manager of a public agency of protected designation of origin; one owner and an employee of an intermediary responsible for providing supplies, equipment, and training to baristas of coffee shops; three producers and owners of a specialty coffee brand; one small coffee producer; and one medium producer. All interviewees were from São Paulo or Minas Gerais. The interviews are described in Exhibit 3.

Exhibit 3. Interviewee descriptions

Code	Interviewee description
E1	Owner of third-wave coffee shop in the Pinheiros neighborhood, São Paulo, in 2014
E2	Partner of a third-wave coffee shop in the Vila Buarque neighborhood, São Paulo
E3	Owner of a third-wave coffee shop in downtown Rio de Janeiro
E4	Owner of a third-wave coffee shop in the Pinheiros neighborhood, São Paulo
E5a	One of the owners of a medium Brazilian specialty coffee brand that works in the whole coffee process
E5b	One of the owners of a specialty coffee brand, responsible for distribution and marketing
E5c	One of the owners of a specialty coffee brand, responsible for marketing
E6	Owner of a cafeteria located at a municipal market in Uberlândia, Minas Gerais
E7	Manager at a cooperative of producers in Monte Carmelo
E8a	Manager at the largest cooperative in Minas Gerais
E8b	Relationship and commercial agent at the largest cooperative in Minas Gerais
E8c	Manager of logistics at the largest cooperative in Minas Gerais
E8d	Manager of coffee acquisition at the largest cooperative in Minas Gerais
E9	Entity that governs, controls, and promotes the designation of origin of the Cerrado, as well as congregates warehouses, certifiers, cooperatives, producers, and others
E10a	Employee at an intermediary in the value chain that provides supplies for coffee shops, has a barista school, consults in roasting, and provides equipment
E10b	Barista/owner at an intermediary in value chain
E11	Small coffee producer that started to produce coffee in 1987 in Minas Gerais (10 hectares)
E12	Medium coffee producer in Monte Carmelo - Cerrado Mineiro for 25 years (180 hectares)
E13	Director of Brazil Specialty Coffee Association

The researchers analyzed the data from each journal and the interviews separately using open codification (Corbin & Strauss, 2008). In the second phase of the analysis, the four researchers discussed the codes, crosschecked the data with the theoretical background, and normalized the codes in an intercoder. In case of divergences in codification, the four authors discussed them until reaching a total convergence of the codes. The results are described in the next section.

RESULTS

In Brazil, the traditional coffee value chain (first wave) started to change with the increase in higher quality coffee consumption during the second wave, leveraged by the consumption of coffee capsules at home. With the third wave of the coffee chain, this scenario is being reinforced through increased demand for specialty coffee coming from specialized coffee shops and consumers who are more particular.

Brazil is one of the largest coffee producers today ... But it has only been in the last decade that quality ... spread to the country. More carefully managed productions ... became more common. Trained baristas are starting to be recognized. (N1)

In the 1980s, Brazilian coffee was associated with an adulterated product.

... green beans were mixed with inferior and deteriorated beans ... but in the 90's, with the opening of the market and the creation of certifications and associations, the consumption of gourmet and certified coffees increased significantly. (N2)

Some producers are developing a long-term strategy based on the perceived possibility of increased value along the chain, that is, whether they will sell the high-quality beans or extract this value by selling roasted coffee in capsules instead of green beans.

We already had a coffee with 92/100 quality points. It can be sold for almost R\$30,000 a sack, while today, a commodity coffee is R\$500. Can you imagine how difficult it is to get a coffee like this? (E5b)

... the sector will be forced to add more value to production.... The same coffee that leaves Brazil as green beans to Europe often returns in coffee capsules, with a much higher value, which is appropriated by the foreign industries. (N3)

During the development of the first wave, in which coffee had the role of a commodity, roasting companies were settled as important intermediaries. They usually had greater control of the value chain, since they usually define the bean quality and price of the product. This model has predominated until now.

... what they [roasting companies] do is to identify this producer, ... , they evaluate the [coffee] classification through an official classifier and, from that ... they decide whether to buy or not buy and what the value is. (E3)

I always have the same coffee beans because the provider [intermediary – roasting company] will search himself/herself for them at the farms and bring to me [coffee shop]. (E1)

It does not matter in which fancy cafeteria of São Paulo you decide to take your coffee. There are good chances that the beans have been roasted by one of the three more famous micro-rosters at the moment. (N4).

Cooperatives are another example of an entity that works as an intermediary during transactions by buying coffee from producers to export or sell to large retailers. Sometimes coffee producers are paid fixed prices in these transactions, despite the fact that they could add more value to their products if they could identify bean quality.

So you have to work and take notice of what you produce. Today, you produce the coffee in sacks and the cooperative goes there and R\$450 the sack and that's it Sometimes your coffee is worth R\$ 1,000/sack. (E11)

It is important that producers identify their better-quality beans or opportunities to produce better quality beans since there is a market that values it accordingly.

... in addition to the technical support given at all processes in the production of specialty coffee The disclosure of the quality characteristics of different regional types of Brazilian coffees is also one of its priorities. (N14)

The market today that we call the third-wave coffee mainly values this type of coffee. (E9)

I [producer] fight today. If my coffee is good, you will not arrive and get my coffee [at any price]. ... you [cooperative] will have to pay for my coffee accordingly. (E11)

In the traditional coffee value chain, there is a large distance between producers and end-consumers, and the process from “bean to cup” is multilayered (Kolk, 2014). It was after the development of the second and third waves in which the coffee consumption experience occurred and demand for better quality beans increased that some producers started to work to reduce the value chain levels. These producers started to roast and sell their coffee beans themselves, obtaining higher prices for their products and getting higher value-in-use and relational value along the chain. Additionally, by adopting what seems to be close to multistage marketing, producers have developed a more cooperative relationship with value chain actors and entities, such as the BSCA. They support the producers in the process of identifying their best coffee and selling this premium product at higher prices.

In the last 20 years, the quality of Brazilian coffee has improved significantly. The dissemination of good practices in harvesting and drying is the main component ... training provided the necessary tools for business management, bringing together specialized research companies. (N5)

FAF [Fazenda Ambiental Fortaleza] it was [represented by] Isabela [Rapouseiras]. She sold the coffee from FAF. She used to buy green coffee, roast and sell it Afterwards, people from FAF ... began their own roasting. (E4)

[The producers] are ... producing their own specialty coffee brands Farmers ... are acting together to increase the quality of their products ... he [producer] uses his abilities of taster Q-grade

to advise all neighbors about how to increase the quality of their products.... (N6)

I realized that by improving the separation and drying of the grains, I could get a higher quality production. For the next year, we also invest in better fertilization and salinization at the plant. (N7)

Partnership and loyalty are essential in the specialty coffee value chain. (E13).

Despite the large number of cafeterias in Brazil (Euromonitor, 2017), cafeterias in Minas Gerais, an important production region in Brazil, recognize that the market still needs to be developed. There is a need to get producers closer to end-consumers and vice-versa, with the objective to reduce the power distance in this value chain through the increase of knowledge about coffee, production, and consumers preferences.

... every person who comes here [at the cafeteria], we ... try to insert into the universe of special coffee I believe that this interaction is important to develop the market, ... the [local] market is still not very developed (E6)

... in the decision process we have a much smaller voice Despite working directly with ... the public that actually drinks coffee, ... we end up not having so much at hand. (E6)

In *Cerrado Mineiro*, Minas Gerais, some initiatives were implemented to reduce these layers, leading producers to identify potential value increases in their chains. Likewise, the initiatives educate end-consumers on better quality coffee and show them the differences in the process and history of that coffee. The relational value increases when actors understand each other's processes and collaborate to develop the market. *Projeto Integra* is an initiative in *Cerrado* that promoted an experience wherein cafeterias could feel the difference after cultivating and using better quality coffee beans

With *Projeto Integra* in the *Cerrado Mineiro*, they went from farm to farm, bringing to the producers the denomination of origin, generating this belonging. (E9)

... and we invited some customers, not necessarily just coffee shops, ... to go there to do the process of harvesting, separate the coffee ... so the end-consumer himself could understand what is a quality coffee and what is a specialty coffee. (E10a)

Initiatives such as *Projeto Integra* in Brazil started to change Brazilian coffee production. Such initiatives encourage the proximity of cafeterias and end-consumers to producers, and there is also a tendency to value the producer's history through coffee origin certification.

His story is not lost. That coffee is not the same as another coffee. It's my coffee, it's the coffee of that producer And the originator brings a tool, this producer of origin has added value to his product. (E9)

This scenario helps producers understand how economic value is created along the chain and how value-in-use can be appropriated through individual and contextual experiences in the market, which allows them to offer better value propositions. Producers need to develop capabilities that help them to achieve their new goals. Agricultural cooperatives, local universities, and the BSCA have important roles in this process by working with these producers to improve their technical and managerial knowledge.

The job of cooperatives is important They have a very interesting work of going to the farms in the region and showing and teaching the producers to taste their coffees and not to be deceived. (E1)

The Coffee Producers Association of Alta Mogiana has tripled the number of members this year. ... the region ... favors the production of specialty coffees because of the climate. But, most importantly, it is the handling of the grains in the post-harvest. (N7)

The small and medium producers of the region have the support of the University of Viçosa and producers' associations to disseminate information and sell the specialty [coffee] lots. (N8)

In the third wave of coffee, baristas and coffee shops are getting closer to producers, looking for the best coffee selection to

offer their customers and to improve production techniques that can be shared. This movement contributes to the development of a more collaborative relationship among intermediaries along the chain, consequently increasing the value appropriation for the producers. When producers are able to decide what percentage of production they will dedicate to higher quality beans, based on the market demand, they realize higher value because they may obtain the best possible value from their land.

It was getting [the coffee shop] closer to the production. It was an inverse movement, but nowadays, at the same time, it enabled other producers to reach the market without relying on commodity sales. (E3)

[About Isabela Raposeiras, barista and owner of an important third-wave coffee shop in Brazil] ... [she] shows the small producer that if he invests in quality he will have a better return. It is a value chain. (E4)

Negotiating directly with the coffee producer helps me to have a greater understanding of coffee. (N9)

... the involvement of this professional [barista] gets stronger. There is a closer contact with the producer. They visit the farm, see the grain from growth and to harvest, and try to understand if the processes are sustainable. (N10)

This increase in value appropriation is likely occurring because these producers are closer to end-consumers, and identifying their consumption preferences may lead to stronger pull strategy when offering specialty coffee (Kleinaltenkamp et al., 2012). Obtaining knowledge about how their production processes can be improved and how they can offer better value propositions to customers is crucial for producers to appropriate more exchange-value and value-in-use.

Nowadays, several producers have invested in the roasting process. They have invested in trying to find out how the consumer drinks that coffee and aims to get the roasting process suitable to the product [the end-consumer] wants at the end. (E3)

[The producer] participates in the whole process, from cultivation to tasting, ending by concluding with the methods of drink extraction – always brewed. (N11)

All these changes may lead to opportunities for new professionals. Producers are currently much more concerned with learning about the production process as well as the sector and its evolution.

The new world ... will require new professionals. ... If we [producers] are not prepared, we will be devoured. ... We left [Master's Degree in Coffee Sciences] with the knowledge about the entire coffee sector and not only of production process. (N13)

FINAL DISCUSSION

The coffee market and its respective value chain have experienced many changes derived from new consumer behavior trends and production techniques responding to that demand. The changes in the production process have been aimed at offering a better quality drink and are allied with a change in the market proposition and relationship with consumers that guided the development of new waves of coffee.

In the first wave, coffee was considered a commodity, and producers were not concerned with product quality, differentiation, or understanding of how consumers appropriated value-in-use during their consumption experiences. The first wave's focus was value-in-exchange. The producers were interested in volume. They utilized international prices and very basic quality requirements, which resulted in high volumes and low-quality product. During the second and third waves, the new consumption and production processes left behind a commoditized product and experience. Producers, boosted by roasters and retail coffee shops, started to investigate how consumers appropriated value during the whole experience of coffee consumption.

The second wave, defined by Starbucks' market entry and Nespresso's coffee capsule distribution, was a milestone in coffee's history. The new consumption habits demanded new products and experiences that required producers to develop capabilities they did not have when their focus was on coffee as a commodity. Quality became an assumption, and value chain actors focused on increasing value-in-use to all stakeholders through a pull strategy in which retail coffee shops (such as Starbucks and intermediaries such as Illy Coffee) transmitted end-consumers' needs to producers.

The third wave could occur because of the knowledge and relationships some producers developed during the second wave. Producers are now able to get closer to end-consumers, identifying their needs and opportunities so they can be more active during the experience. Producers have been developing capabilities to co-create valuable experiences with intermediaries and end-consumers during the specialty coffee production and consumption processes. Some producers seem to adopt a strategy closer to multistage marketing in which the goal is not to understand the end-consumers' needs but to develop cooperative relationships along the whole value chain (Kleinaltenkamp et al., 2012). Coffee bean quality is not sufficient anymore: Uniqueness and sensorial and emotional experiences that involve customers as active value co-creators are necessary. Producers aim for more cooperation along the value chain by nurturing relationships with other actors in the chain and utilizing the pull drive strategy so they can provide more valuable experiences to end-consumers. The data showed producers getting closer to end-consumers through the reduction in value chain layers. This leads them to appropriate more value-in-use for themselves and allows them to co-create more opportunities to increase value-in-use for end-consumers. Intermediaries are necessary, especially for distributive and cost efficiency; nevertheless, a more collaborative relationship can be achieved when producers are more knowledgeable about their products and the market is functioning properly.

However, there are still difficulties in small producers achieving capabilities that lead them to develop a more symmetrical power relationship with intermediaries. Small producers do not have the volume to export directly, and it is important that they be prepared to evaluate their product quality and have the tools to promote their product, so that the product does not "disappear" along the chain. The origin and history of specialty coffee may promote unique experiences and value for end-consumers. Producers that cooperate and are active in this process can appropriate more value.

This research investigated the coffee value chain during the development of the third wave. We observe a similar flow as in other agribusiness chains, such as those of cheese, cocoa and chocolate, honey, beer, and wine. It is clear that end-consumers are interested in both higher quality products and unique experiences. Therefore, value chain actors need to focus on developing cooperative relationships along the chain to provide opportunities to increase value-in-use.

The third-wave movement may also represent an opportunity for small and medium producers that do not produce on a large scale and find it difficult to compete in the first and

second waves. The increase of cooperative relationship efforts among the chain actors that are looking to offer exclusive experiences is an opportunity to support loyalty among chain actors. Finally, the increase of value-in-use among the value chain may consequently lead to an increase in value-in-exchange, permitting higher prices and margins for the involved actors that provide valuable experiences to end-consumers.

Additionally, all this evolution in the market promotes opportunities for the three waves to coexist. Consumers can decide to participate in different waves depending on the experience they desire at that time and context of the moment. This phenomenon is an interesting topic for future investigation.

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