How Ethiopian Commodity Exchange Reduces Marketing Problems for Coffee Products

Philipos Lamore Bambore
(PhD fellow in Punjabi university Patiala)
Bahir Dar university College of Business and Economics
Department of marketing management

Background
Before ECX was established agricultural markets in Ethiopia had been characterized by high costs and high risks of transacting, forcing much of Ethiopia into global isolation. Land scarcity, coffee diseases, lack of pesticides, poor market information, inadequate credit services, poor infrastructure, lack of drying and packing materials, presences of illegal traders, poor quality coffee, lack of government support, market instability, tax burden, truck delay at the auction market, shortage of spare parts, inadequate supply of fuel and electric power and technical knowhow of machine operator. With only one third of output reaching the market, commodity buyers and sellers tended to trade only with those they knew, to avoid the risk of being cheated or default. Trade is done on the basis of visual inspection because there was no assurance of product quality or quantity, this drove up market costs, leading to high consumer prices. For their part, small-scale farmers, who produce 95 percent of Ethiopia’s output, came to market with little information and are at the mercy of merchants in the nearest and only market they, know, unable to negotiate better prices or reduce their market risk.

Ethiopia Commodity Exchange (ECX) is a commodities exchange established April 2008 in Ethiopia. In Proclamation 2007-551, which created the ECX, its stated objective was "to ensure the development of an efficient modern trading system" that would "protect the rights and benefits of sellers, buyers, intermediaries, and the general public. ECX has invited membership of the agricultural and trade industry. The mission is to connect all buyers and sellers in an efficient, reliable, and transparent market by harnessing innovation and technology and based on continuous learning, fairness, and commitment to excellence. ECX assures all commodity market players the security they need in the market through providing a secure and reliable End-to-End system for handling, grading, and storing commodities, matching offers and bids for commodity transactions, and a risk-free payment and goods delivery system to settle transactions, while serving all fairly and efficiently. ECX creates trust and transparency through aggressive market data dissemination to all market actors, through clearly defined rules of trading, warehousing, payments and delivery and business conduct, and through an internal dispute settlement mechanism. ECX provides market integrity at three important levels: the integrity of the product itself, the integrity of the transaction, and the integrity of the market actors. In addition to this the commodity exchange play significant role in arranging marketing strategy of the coffee products in Ethiopia. They are

1. Coffee Production
Coffee is a beverage obtained from coffee plant’s fruit called cherry. The coffee plant refers to any type of tree in the genus madder family which is actually a tropical evergreen shrub that has the potential to grow 100 feet tall. Coffea arabica and Coffea robusta are the two most commonly cultivated species of coffee plant having economic significance. Arabica accounts for about 70 percent of the world's coffee production. Robusta coffee trees represent about 30 percent of the world's market.

Domestic Scenario: Ethiopia is known to be the birth place for coffee. Coffee is the major export commodity cultivated in Ethiopia. Coffee grown in Ethiopia is known all over the world for its excellent quality and flavor. Today, Ethiopia stands as the biggest coffee producer and exporter in
Coffee Varieties: The type and grade of coffee is highly diverse in Ethiopia. Ethiopia is the producer for the several renowned varieties of coffee including Sidama, Yirgacheffe, jimma and Harar. Apart from these, there are several other famous varieties that Ethiopia produces. The Ethiopian coffee is processed in two ways, washed processing and the sundried processing. Currently Ethiopian commodity exchanges improving different types of coffee varieties based on international as well as domestic market demands.

Commercialization: The crop of coffee is the major earner of foreign exchange for the country. It is the primary exportable commodity that earns the valuable foreign exchange for the country. However, coffee is also having a vibrant domestic market.

2. Pricing strategy
Prices are determined solely by supply and demand conditions (price discovery). That means the Ethiopian commodity exchange do not fix the price for the coffee. If there are more buyers than sellers, prices will be forced up. If there are more sellers than buyers, prices will be forced down. Thus, buy and sell orders, which are channelled to the exchange floor for execution, are what actually determine prices. Coffee prices exhibited high inter year variations from season to season. These variations are a combined effect of the factors reflecting domestic supply and the periodic trends of the global coffee demand and supply situations. Also the variation can be seen between different varieties and grades of the coffee also. Some varieties like the yeirgacheffe and sidama command considerable premium in the International markets.

3. Promotional strategy
The ECX Market Data strategy involves harnessing the power of modern information and communication technologies (ICTs) to empower all market actors, including smallholder farmers to access markets more efficiently and profitably. The key market dissemination channels at ECX are rural based Market Information Tickers, mobile phone Short Messaging Service (SMS), Interactive Voice Response (IVR) service, Mass media (TV, Radio, News paper) and Website. ECX collects, processes, updates and disseminates market information in real-time to all market actors and other market intermediaries through the MIS. Market information includes prices of commodities in different markets, and commodity offers to sell and bids to buy, as well as short extension messages.

4. Placement.
Ethiopian commodity exchange don’t provide free and direct distribution service for their customers rather it play significant role by reducing the logistics cost by facilitating direct marketing by avoiding non value adding intermediary from the process. During logistic process the main problem of clients is warehouse issue. Currently the Ethiopian commodity exchange working aggressively with stake holders by opening its warehouse near to the core Ethiopian coffee production centre.

Major success
When Ethiopia set up its now famous commodity exchange in 2008, few foresaw the ripple effect it would generate – least of all its founders. But in five years, the Ethiopian Commodity Exchange (ECX) has convinced stakeholders that bourses can improve food security in Africa, and has catalysed global dialogue about the development of agricultural marketplaces across the continent. Other countries are now looking to set up their own exchanges. The ECX, whose trading volumes hit $1.4bn in 2012, up from $1bn in 2011, has given farmers access to real time pricing information, improved profits and productivity, reduced market segmentation and boosted export quality. Ethiopian coffee exports increased to $797m in 2011/12 from $529m in 2007/8, when the exchange was established, according to the International Coffee Organisation (ICO).

As of July 2011, the physical presence of the ECX consists of 55 warehouses in 17 regional locations. It has grown from trading 138,000 ton in its first year to 508,000 tons in its third year, with nearly
equal shares of coffee and oilseeds and pulses. The value of the ECX rose 368 percent between 2010 and 2011 to reach US$1.1 billion. It was assessed in July 2011 that total membership equaled 243 with total clients, who trade through members, numbered about 7,800. Farmer Cooperatives represented 2.4 millions smallholder farmers, which make up 12 percent of the membership.


In order to eliminate risks of contract defaults, all payments have been cleared and settled in the market through ECX internal clearing house. This is to mean that it takes the role of receiving payments for all transactions from buyers and transferring these funds to all sellers of commodities, and receiving all Warehouse Receipts from all sellers of commodities and transferring them to all buyers. Now Ethiopia is fifth largest coffee producing country in world by producing 6798, 8100, 6600 from 2011 to 2013 (in 1,000 units). http://www.statista.com/statistics/29/10/2014

Teachers note

To use this case as a teaching material teachers expected to know who are the customers or students, he/she expected to read about agricultural marketing (agricultural products, services, cooperatives, union, their roles, and some background of Ethiopian agricultural products.

Reviewing different researches on agricultural Marketing, Agricultural economics, knowing the role of Ethiopian commodity exchange, identifying the strength, weakness, opportunity and challenges of it give better understanding of the cases. Reading the other commodity like sesame, wheat, maize, haircoat bean and their production volume in domestic as well as international market in Ethiopia is very good for teachers to teach students by comparing coffee product market performance with other commodity. Understanding current coffee producer’s problems and forecast for the future challenges also recommended.

References
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