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A Coffee Connoisseur on a Mission: Buy High and Sell High

By MICHAELE WEISSMAN

GRANADA, Nicaragua — Geoff Watts turned up recently at the ceremony capping Nicaragua's 2006 Cup of Excellence coffee competition in the steamy 500-year-old Convent of San Francisco here. Mr. Watts, 32, is the green coffee buyer for Intelligentsia Coffee, a fast-growing privately owned retail and wholesale company in Chicago.

Coffee, Mr. Watts says, is his life, and he tries to attend most of the competitions in Latin America each year to find the best beans and build lasting relationships with growers.

"Relationship coffee" is one term Mr. Watts uses to describe how he does business — another is "direct trade."

"I find a coffee I love, build a direct relationship with the grower and then pay at least 25 percent above the Fair Trade price," he said in an interview. He also lavishes time and resources on his growers, inviting groups of them to Chicago to learn about the consumer side of the coffee business. Fair Trade certification, which is monitored by an international nonprofit organization, is intended to guarantee fair wages and labor conditions for farmers in developing countries.

Mr. Watts and the founder and chief executive of Intelligentsia, Doug Zell, do not ascribe to the "buy low, sell high" business model. They buy high and sell high. In the coming years, both say they expect to pay 50 percent, 100 percent, even 200 percent above Fair Trade rates for beans so good that customers will pay \$20 and more a pound retail. "On the grower side and the consumer side, we're trying to create a culture of quality," Mr. Watts said.

Mr. Zell underwrites the \$150,000 to \$200,000 annual cost of Mr. Watts's relationship-building and his seven months of travel each year in coffee-growing countries because he expects these investments to pay off as quality increases and customers learn to appreciate artisanal coffees from around the world.

To speed this development, Intelligentsia has devised a plan that offers farmers financial incentives for improving growing methods and producing superior beans. Mr. Watts was in Nicaragua to introduce this new approach, which mandates direct dealings with farmers and limits the role of the cooperatives that currently market most Nicaraguan coffee.

Some in the specialty coffee business have had their doubts about Intelligentsia's business model and its highflying ways. "Intelligentsia was known as this stupid and naïve company that overpaid farmers and carried too much debt," said a coffee buyer, Peter Giuliano, a principal of Counter Culture Coffee in Durham, N.C., one of a handful of top-quality roasters that pay a premium for

quality. Stumptown, based in Portland, Ore., is another.

Mr. Watts acknowledges that in the past the company had sometimes overemphasized altruism and underemphasized business. Recently, however, the tut-tutting has been silenced as Mr. Zell has turned Intelligentsia into a profit-making venture, with 2005 sales of \$9.4 million and a 2006 growth rate of 21 percent, according to company figures.

Coffee matters in Nicaragua, and all the important people were gathered for the Cup of Excellence ceremony: government officials, mill owners, exporters and representatives from the cooperatives that represent the country's 27,000 small coffee growers.

As darkness fell and the speeches dragged on, Mr. Watts, milling about in the relative cool of the church's loggia, greeted a coffee grower, Norman Canales. He is the son of the 2004 Cup of Excellence first-place winner, Daniel Canales, who was the first organic grower to win. Norman and his brothers Milton and Donald also grow organic coffee recognized by Cup of Excellence. Intelligentsia is the sole buyer of the Canales family's coffee.

"My family thanks God for Cup of Excellence," Norman Canales said, giving Mr. Watts an exuberant hug. "Cup of Excellence helped Geoff Watts and Intelligentsia find us. Now we get a high price for our coffee and we consider Geoff to be our guardian angel."

The morning after the Cup of Excellence ceremony, Mr. Watts rose early in preparation for the real business at hand. He was to meet the growers of the Las Brumas coffee cooperative, four hours from Granada in the hills above Matagalpa. In 2003, these farmers walked away with many Cup of Excellence honors. Since then, Mr. Watts has been buying much of their coffee.

As the driver, who had arrived hours late, played pothole hopscotch on the rutted highway, Mr. Watts and his companions — Mr. Giuliano of Counter Culture Coffee and K. C. O'Keefe, an Intelligentsia consultant based in Lima, Peru — talked coffee. Time and again, they returned to the financial differential between ordinary and extraordinary coffee. Farmers growing the best beans earn only pennies more than those whose crop is ordinary, though they work much harder, the men agreed.

While others recognized the problem, Intelligentsia was instituting a policy for changing this. But to do so, it would have to alter the way the cooperative system works, because all coffee growers within the co-op would no longer be paid the same. Like the growers of estate-quality wines, some would be paid a premium for excellence. Mr. Watts was going to Las Brumas to explain the new pricing structure.

A fiesta, paid for by Intelligentsia, was already under way at Las Brumas — 4,400 feet above sea level, with no electricity — when the group arrived. After socializing, 35 coffee growers and their families crowded into an outbuilding to hear Mr. Watts. Speaking in somewhat tortured Spanish, he began his presentation by praising the growers of Las Brumas and offering to underwrite several capital improvements.

With Mr. O'Keefe, the consultant, translating, Mr. Watts then addressed the purpose of the meeting. He told the farmers that from now on he would pay \$1.60 a pound for AA coffee that earned a cupping score of 84 to 87 (on a scale of 100); \$1.85 a pound for AAA coffees that earned scores of 88-93; and an unheard-of \$3 a pound for extraordinary coffee that scored 94 and above. Furthermore, Mr. Watts said, these rates would never decline, they would only increase.

The response was muted, perhaps fearful. Growers in Las Brumas had never before been offered direct payment: in the past, the co-op received payment, and all farmers were paid the same price for their coffee.

The growers wanted to know how much Cecocafen, the huge cooperative that includes the small Las Brumas co-op as a member, would skim off the top.

None, Mr. Watts, answered. "Cecocafen would be paid a separate fee of around 26 cents per pound."

But why should Cecocafen take money, any money from Las Brumas growers? Mr. Watts was asked. Cecocafen, he answered, was paid for performing "essential services," like dry-milling the beans, prefinancing the crop and providing technical assistance.

And then the question that went to the heart of the matter: How could Las Brumas farmers be sure that the judging of their coffees — on which their pay rate would depend — would be fair, impartial and consistent?

Mr. Watts tried to reassure the farmers, telling them that Intelligentsia would build a cupping lab in the village and teach Las Brumas growers to judge their own coffee.

Then the sun began to set and Mr. Watts departed, leaving the mountain cool for the heat and humidity of Managua, where another flight awaited him. Nothing was settled. But Mr. Watts would be back in the fall, and he was relying on the relationship of trust he had established with Las Brumas to persuade farmers to accept his offer for next year's crop.

Mr. Giuliano, who is sometimes a partner with Mr. Watts in buying beans at auction, praised Intelligentsia's direct trade program, calling the promise never to reduce rates "unprecedented." The current Fair Trade price for coffee is \$1.26 a pound for nonorganic beans and \$1.41 for organic. What many do not understand is that Fair Trade relates to working conditions, not the quality of coffee beans.

In the meantime, on June 22, the top 10 Cup of Excellence coffees will be auctioned online. Buyers from the United States, Europe and Japan are expected to bid on this year's top coffees. The winning growers are traveling to Managua to watch the monitor as bids are placed and the prices for their coffees rise. The rates paid for Cup of Excellence coffees have risen wildly in the last few years. Intelligentsia and other buyers have paid \$40 a pound and more for microlots of estate-quality coffees — they incur these costs for their promotional value.

Because chance and the weather play such a role in growing coffee, winners change every year. If they are lucky, this year's auction winners will get a once-in-a-lifetime cash infusion large enough to

buy another piece of land or upgrade equipment. And if they are luckier still, their victory may lead to a visit from Mr. Watts of Intelligentsia or someone like him offering not just a sales agreement, but a relationship.

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