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# Proceeding

## International Conference Strengthening Indonesian Agribusiness: Rural Development and Global Market Linkages

IPB International Convention Center, Bogor - Indonesia,  
25 - 26 April 2016

Editors :  
**Amzul Rifin**  
**Meine Pieter van Dijk**  
**Diederik P. de Boer**  
**Huub Mudde**  
**Johan van Rooyen**  
**Siti Jahroh**

Organized by  
**Department of Agribusiness, Faculty of Economics and Management,**  
**Bogor Agricultural University - Indonesia**  
in collaboration with  
**NICHE NUFFIC Programme - The Netherlands**

Organized by :



DEPARTMENT OF  
**AGRIBUSINESS**  
BOGOR AGRICULTURAL  
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PROCEEDING

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## PROCEEDING

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## FOREWORD

With deep satisfaction I was writing this foreword to the Proceedings of International Conference with the theme of **Strengthening Indonesian Agribusiness: Rural Development and Global Market Linkages** held in IPB International Convention Center, Bogor Agricultural University, Indonesia, on 25 -26 April 2016. This conference marked the end of the NICHE Project which started in 2011.

Diverse papers and discussion represent the thinking and experiences of mixed and various scholars of their particular interest and fields. Of valuable was the presence of prominent scholars who brought their newest findings out of their research works. Their contributions helped to make the conference as outstanding as it has been.

Special thanks are due to the invited speakers Prof. Meine Pieter van Dijk (Maastricht School of Management (MSM) Netherlands), Dr. Daniel Sherrard (Earth University, Costa Rica), Dr. Nunung Kusnadi (Agribusiness Department, Bogor Agricultural University), Oliver Olson, MBA (Director Global Education Programs at Maastricht School of Management), Huub Mudde, M.Sc (Agricultural Counselor, Embassy of the Kingdom of the Netherlands), Prof. Johan van Rooyen (Agricultural economics at Stellenbosch University, South Africa), Ir. Wildan Mustofa, MM (Hikmah Farm, Pangalengan West Java), Joshua Bray, M.Sc (Sydney University, Australia) and Dr. Nerlita M. Manalili (Managing director NEXUS Agribusiness Solutions, Philippines and SEARCA Consultant Agribusiness). We would like also to thank the editor of the proceeding, Dr. Amzul Rifin, Prof. Meine Pieter van Dijk, Diederik P. de Boer, PhD, Huub Mudde, M.Sc, Prof. Johan van Rooyen, Siti Jahroh. Phd, Triana Gita Dewi, M.Sc, M. Rizqy Mubarak, M.Si, and Hamid Jamaludin, SE for the layout of the proceeding.

It is my hope that this proceeding will contribute to the development of agriculture and rural development in the world and in Indonesia especially.

### **Dr. Dwi Rachmina**

Head of  
Department of Agribusiness  
Faculty of Economics and Management  
Bogor Agricultural University

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# ANALYSIS OF ADDED VALUE OF COFFEE IN LAMPUNG PROVINCE

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## ABSTRACT

*Lampung Province is one of the largest coffee production centers in Indonesia with the total production reaching 131 854 tonnes and the total area of 177 070 ha in 2015. Although the coffee production is high in Lampung Province, its added value is still low as what is reflected in the value of Indonesian coffee exports in which primary products (coffee beans/roasted) show higher amount than the derivatives. Thus, this study aims: 1) to compare the added value of two coffee bean processing types (roasted and powder), 2) to assess the added value of processing coffee into powder in small and large scales. Hayami method is used to analyze the added value. The results showed that the added value in the processing of coffee beans (roasted) is smaller than that of the coffee powder. Another result shows that the added value of processing coffee into powder in a small scale is greater than that in a large scale. Therefore, the added value in a large scale can be increased by improving the yield of coffee quality through selective purchase or through the processing of coffee prior to grinding.*

**Keywords:** Coffee beans (roasted), Coffee Powder, Business Scale

## INTRODUCTION

Coffee is one of the commodities ranked sixth in terms of the largest production volume after oil palm, rubber, coconut, sugarcane and cacao. World coffee consumption in 2012 reached 142.2 million bags of 60 kg/bag. Domestic consumption still reached 0.9 kg/capita in 2013. The world coffee consumption tends to increase and the selling price also increases every year in the international market, which makes coffee an increasingly strategic commodity. The world coffee prices increased because of such factors as declining production of coffee due to bad weather, shortages and rising world demand for coffee (Herlina, 2011).

Indonesia has good coffee varieties of arabica and robusta, which are native to Indonesia. In special types of robusta, Indonesia is one of the largest producers in the world. According to the ICO (2016) Indonesia ranks fourth as a major exporter of coffee in the world after Brazil, Vietnam and Colombia with the export volume reached 5,977,000 bags of 60 kg/bag.

Lampung Province is one of the largest coffee production centers in Indonesia with the total production reaching 131,854 tonnes and an area of 177,070 ha in 2015. Although Lampung province has a high production, the added value

is still low as reflected in the value of Indonesia coffee exports, which are still more dominated by exports of primary products (coffee beans) than those of derivatives. According to the Trade Office of Lampung Province in 2014, of the total volume of coffee exports from Lampung, only three percent was in the form of processed coffee while the rest was still in the form of coffee beans (green beans). Processing ground coffee in Lampung Province is either in a small scale where processing uses a machine with a production capacity of 15 kg and or in a large scale in which processing uses an engine with a capacity of 80 kg. Considering all these conditions, this study aimed at: 1) comparing the added value of coffee bean processing (roasted) and that of coffee powder (processed) 2) to assess the added value of coffee powder processing in both a small and large scale.

## METHODS

### LOCATION, TIME AND RESPONDENT

This research was conducted in the province of Lampung. The research location was determined intentionally (purposive) considering that the province of Lampung is the second largest coffee production center in Indonesia (Ditjenbun, 2014). The study was conducted in

**Table 1. Added Value Calculation Procedures**

Variable		Value
<b>Output, Input, Price</b>		
1	Total output (kg/production)	a
2	Input of raw material (kg/production)	b
3	Labor (hours / production)	c
4	Conversion factor (%) $\rightarrow (1/2)$	$d = a/b$
5	Coefficient of labor (hours / kg) $\rightarrow (3/2)$	$e = c/b$
6	Output prices (Rp/kg)	f
7	Average labor wage (Rp / hour)	g
<b>Reception and Profit (Rp/raw materials)</b>		
8	Prices of raw materials (Rp/kg)	h
9	Donations of other inputs (Rp/kg of raw material)	i
10	Output Value (Rp/kg)	$j = d \times f$
11	a. Added value (Rp/kg)	$k = j - h - i$
	b. Ratio of added value $\rightarrow (11a/10)$	$l(\%) = (k/j) \times 100\%$
12	a. Labor Revenue (Rp/kg) :	$m = e \times g$
	b. Share Labor (%) $\rightarrow (11a/12a)$	$n(\%) = (m/k) \times 100\%$
13	a. Profit (Rp/kg)	$o = k - m$
	b. Profit rate (%) $\rightarrow (13a/10)$	$p(\%) = (o/k) \times 100\%$
<b>Reply Services of Production Factor</b>		
14	a. Margin (Rp/kg)	$q = j - h$
	b. Labor (%) $\rightarrow (12a/14a)$	$r(\%) = (m/q) \times 100\%$
	c. Capital (Donations of other inputs) $\rightarrow (9/14a)$	$s(\%) = (i/q) \times 100\%$
	d. Profit of Processing $\rightarrow (13a/14a)$	$t(\%) = (o/q) \times 100\%$

July-December 2015. The respondents from roaster groups were:

1. Input (Dried Coffee beans), Output (Coffee Powder)
  - a. Large-scale (80 kg engine capacity), Brands "Cap Semut" produced by Kelompok Wanita Tani (KWT) Melati Pekon Tribudi Syukur Kec. Kebun Tebu Kab. Lampung Barat.
  - b. Small-scale (15 kg engine capacity), a) "Harum Sari" Brand produced by Harum Sari Coffee Desa Tugu Sari Kec.Sumberjaya, b) "Macan" Brand Desa Pajar Bulan Kec. Waytenong Kab. Lampung Barat, c) Owner : Mrs. Suryanti  $\rightarrow$  "No Brand"
2. Input (Cherry red Coffee beans), Output (roasted coffee/roasted and ground Coffee), "Harum Sari" Brands produced by Harum Sari Coffee Desa Tugu Sari Kec. Sumberjaya

#### ADDED VALUE ANALYSIS METHOD FOR COFFEE PROCESSING

Analysis of the added value is seen as an attempt to implement the principles of distribution and serves as one indicator of the

success of an activity. The added-value analysis method used is the Hayami method since this is the method frequently used in the processing subsystem in analysis the added value.

In Hayami, et al. (1987) the added value is analyzed using the following steps:

1. Make a commodity flow that expresses different forms of commodity, location, duration of storage and as a treatment ever given to the commodity in question.
2. Identify each transaction according to financial calculation.
3. Choose the calculation basis

The added value is calculated from the processing of coffee into derivatives in one of the coffee processing companies. The procedures of calculating the added value can be seen in Table 1.

## RESULT ANALYSIS

#### CHARACTERISTIC OF POWDERED COFFEE PROCESSORS

Powdered coffee processors in Lampung Province coffee processors consist of small scale and large scale. Small-scale coffee processors have

a production capacity of 15 kg of coffee beans while large coffee processing capacity of 80 kg of beans. Small-scale processing of coffee sold in powder form and roasted with the amount of 250 kg and 60 kg per month. Sales on a large scale only in powder form that is as much as 469 kg per month. Coffee powder which is sold on a small scale, Rp 53,333/kg while on a large scale Rp 50,000/kg. This is because the prices of inputs on a small scale is higher than in a large scale. The purchase price of inputs on a small scale at Rp 11,667/kg dry coffee while on a large scale Rp 7,000/kg.

Marketing of coffee on a small scale carried out at the retailers, stall village level, district level and stall. The coffee sold branded "Harum Sari", "Macan" and "Tanpa Merek". On a large scale, the marketing is done by retailers and stall the village, district, country and partly sold to outside Java. On a large scale is done by processing the coffee brand "Cap Semut"

#### INPUT (DRIED COFFEE BEANS), OUTPUT (COFFEE POWDER)

Added-value analysis was conducted to determine how much value was added from

processing dried coffee beans into coffee powder. Based on Table 2, raw materials as much as 80 kg of dried coffee beans in a small scale produced 60 kg of coffee powder, which means that there was a shrinkage of 25 percent. Using the same amount of raw materials in a large scale produced 56 kg of coffee powder. This means that the small scale conversion factor was higher than the large scale one. This is because the large-scale input is used to dry coffee carelessly resulting in higher shrinkage compared to the small scale.

The coefficient of labor (hours/kg) on a small scale was 1.2, which means it takes 1.2 hours x 80 or 96 hours (4 days) to process 80 kg of raw materials (dried coffee beans), while on a large scale, the labor coefficient was 0.9, which means it only takes 72 hours (3 days) to process the same amount. In terms of time, the large scale is more efficient.

The coffee powder on a small scale was more expensive than that on a large scale because the price of raw materials on a small scale was higher. The output value indicates that 1 kg of raw material being processed produced coffee powder worth Rp 40,000 on a small scale and Rp 35,000 on a large scale.

**Table 2. Comparison of Added Value of Ground Coffee Processing in Small Scale and Large Scale**

Variable	Coffee Powder	
	Small Scale	Large Scale
<b>Output, Input, Price</b>		
1 Total output (kg/production)	60	56
2 Input raw material (dried coffee beans) (kg/production)	80	80
3 Labor (hours / production)	96	72
4 Conversion factor (%) $\rightarrow(1/2)$	75%	70%
5 Coefficient of labor (hours / kg) $\rightarrow (3/2)$	1.2	0.9
6 Output prices (Rp/kg)	53,333	50,000
7 Average labor wage (Rp / hour)	11,875	3,333
<b>Reception and Profit (Rp/raw materials)</b>		
8 Prices of raw materials (dried coffee beans) (Rp/kg)	11,667	7,000
9 Donations of other inputs (Rp/kg of raw material)	7,756	8,103
10 Output Value (Rp/kg)	40,000	35,000
11 a. Added value (Rp/kg)	20,577	19,897
b. Ratio of added value $\rightarrow(11a/10)$	51.44%	56.85%
12 a. Labor Revenue (Rp/kg) :	14,250	3,000
b. Share Labor (%) $\rightarrow (11a/12a)$	1.44	6.63
13 a. Profit (Rp/kg)	6,327	16,897
b. Profit rate (%) $\rightarrow (13a/10)$	15.82%	48.28%
<b>Reply Services of Production Factor</b>		
14 a. Margin (Rp/kg)	28,333	28,000
b. Labor (%) $\rightarrow(12a/14a)$	50.29%	10.71%
c. Capital (Donations of other inputs) $\rightarrow(9/14a)$	27.37%	28.94%
d. Profit of Processing $\rightarrow (13a/14a)$	22.33%	60.35%

The added value analysis using the method of Hayami obtained added value of Rp 20,577 on a small scale and Rp 19,897 on a large scale for every 1 kg of raw material processing. Differences in added value due were due to differences in quality of raw material input and selling price output. The ratio of the added value on a large scale was larger than that on a small scale.

On a small scale, the labor earned as much as Rp 14,250 for each kilo of the raw material processing. Based on the calculation, the benefit on a large scale was greater than that on a small scale with the level of profit of 48.28 percent. The contributing factors of production can be seen through the margin. On a large scale, the margin was distributed to workers (10.71%), as contribution of other inputs (28.94%) and as processing gain (60.35%).

#### **INPUT (CHERRY RED COFFEE BEANS), OUTPUT (ROASTED COFFEE / ROASTED AND GROUND COFFEE)**

The price of roasted coffee reached Rp 30,000/kg while that of the coffee powder reached Rp 60,000/kg. These prices made the output value to be greater than those of either ground or

roasted coffee. So, by processing dried coffee beans into coffee powder, the added value could be up to 78 percent, while processing them into the roasted coffee, the added value was only about 60 percent. The advantage gained by ground coffee processing was about 2.5 times that of roasted coffee processing.

Based on Table 3, the inputs used were 100 kg of red cherry coffee beans, which produced either 85 kg of roasted coffee or 80 kg of coffee powder. The amount of labor and time spent on processing was more for ground coffee than for the roasted coffee since it took 50 hours to roast the coffee beans, which took 96 hours to process them into powder. Comparison of added value in processing coffee beans into roasted coffee/roasted beans and powder on a small scale (with 100 kg of cherry red coffee beans as input) can be seen in Table 3.

## **CONCLUSION AND RECOMMENDATION**

### **CONCLUSION**

1. The value-added processing of coffee powder on a small scale is greater than that on a large

**Table 3. Comparison of Added Value in Processing Coffee Beans into Roasted Coffee / Roasted Beans and Powder on a Small Scale (with 100 kg of Red Cherry Coffee Beans as Input)**

Variable	Roasted Coffee	Coffee Powder
<b>Output, Input, Price</b>		
1 Total output (kg/production)	85	80
2 Input raw material (Red Cherry Coffee Bean) (kg/production)	100	100
3 Labor (hours / production)	50	96
4 Conversion factor (%) $\rightarrow (1/2)$	85%	80%
5 Coefficient of labor (hours / kg) $\rightarrow (3/2)$	0.50	0.96
6 Output prices (Rp/kg)	30,000	60,000
7 Average labor wage (Rp / hour)	9,750	11,875
<b>Reception and Profit (Rp/raw materials)</b>		
8 Prices of raw materials (Red Cherry Coffee Bean) (Rp/kg)	4,000	4,000
9 Donations of other inputs (Rp/kg of raw material)	6,160	6,395
10 Output Value (Rp/kg)	25,500	48,000
11 a. Added value (Rp/kg)	15,340	37,605
b. Ratio of value added $\rightarrow (11a/10)$	60%	78%
12 a. Labor Revenue (Rp/kg) :	4,875	11,400
b. Share Labor (%) $\rightarrow (11a/12a)$	3.15	3.30
13 a. Profit (Rp/kg)	10,465	26,205
b. Profit rate (%) $\rightarrow (13a/10)$	41.04%	54.59%
<b>Reply Services of Production Factor</b>		
14 a. Margin (Rp/kg)	21,500	44,000
b. Labor (%) $\rightarrow (12a/14a)$	22.67%	25.91%
c. Capital (Donations of other inputs) $\rightarrow (9/14a)$	28.65%	14.53%
d. Profit of Processing $\rightarrow (13a/14a)$	48.67%	59.56%

scale. On a small scale, the added value was recorded to be Rp 25,244 / kg while on the large scale it was only Rp 19,897.

2. Processing coffee beans into roasted coffee resulted in smaller added value than processing them into coffee powder. Processors of coffee powder generated a profit of 59.56 percent, while those of ground coffee only gained 48.67 percent.

## RECOMMENDATION

The added value of coffee processing on a large scale can be increased by improving the yield of coffee quality through purchase or through coffee processing before grinding.

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