

oikos Case Writing Competition 2013

Social Entrepreneurship Track

1st Place

Madécasse: Competing with a 4x Fairtrade business model

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Lisa Johnson, Recent MBA graduate, New York City:

Amazing! I've been craving some really good chocolate and there are so many wonderful choices. Here's one that's clearly committed to endangered species. And here's one that seems to focus on the working conditions of cocoa bean farmers. And here's another that appears to be actually owned by farmers in Ghana. This one with the cool packaging says it's bean-to-bar, shade grown in Madagascar ... Hmmm ... Which one should I get to satisfy my craving? Well, and, be a responsible consumer?

Brett Beach, Co-Founder of Madécasse, San Francisco:

Forty-two! Wow! Unbelievable. Brett Beach, co-founder of Madécasse, counted forty-two different brands of gourmet chocolate bars arranged on the shelves of the Whole Foods Market in San Francisco. It felt great that five different types of Madécasse bars were among them. But he also couldn't help but think how difficult it is for his company's bars to stand out in that crowd.

Fast Company:

In March 2011, we named Madécasse one of the 50 Most Innovative Companies in the World for "building a chocolate company in one of the poorest countries in the world."

After his visit to Whole Foods Market, Brett Beach returned to his office and sat down at his desk. Staring at his computer screen, he watched as a series of photos appeared and disappeared. Two young boys smiling, one sporting a Spider-Man t-shirt. A group of barefoot men pushing an overloaded pick-up truck out of a hole on a muddy and rutted road. A grinning farmer in a dirty, white shirt biting into a fresh cocoa bean pod. As he watched these Malagasy faces go by, he pondered the options for his business, the business that supported these people. A fair amount of his time and attention had been spent on selecting and pursuing certifications. Certifications seemed to represent minimum requirements to play in the specialty chocolate consumer marketplace. Organic and Fair for Life certifications had been obtained. Other options included Fair Trade International and Rainforest Alliance. But the bigger concern was how to distinguish Madécasse; how to set Madécasse apart from the crowded field of gourmet chocolate bars. How was he going to convey the true value of Madécasse to consumers? Brett knew this question was at the heart of his ability to use Madécasse to help Madagascar and the Malagasy people.

Madécasse Background

Lisa Johnson:

I'm really intrigued with this Madécasse brand. 'Bean-to-bar' – what exactly does that mean? On the website it describes how the company works

directly with the farmers and actually makes the chocolate and packaging in Madagascar. But there's no certifications ... Hmmm ... It seems like certifications are doing some good but they also seem to be 'single-issue' – just organic or just fair trade.

Brett Beach:

Madécasse is one of the only chocolates produced bean to bar on the island of Madagascar. We start with great cocoa and end with a bar that rivals the best European chocolates. Along the way, our revolutionary approach creates 4x the economic impact of purchasing fair trade cocoa.

Good Magazine:

"Madagascar can make high-quality goods ... don't count Africa out."

Off the southeast coast of Africa, in the Indian Ocean, is the beautiful island of Madagascar. The world's fourth largest island, Madagascar is home to a wide range of flora and fauna, approximately seventy percent of which are found nowhere else on Earth.¹ The Republic of Madagascar (see map in Exhibit 1) is an agricultural powerhouse producing coffee, vanilla, sugar, cotton, cloth, pepper, cinnamon, chili, cloves as well as high quality cocoa. Despite this agricultural bounty, Madagascar is one of the poorest and least developed countries in the world. Seventy percent of the total population is rural, two thirds of the Malagasy people live below the international poverty line (\$1.25 a day), and 90% live on less than \$2 a day.²

This widespread poverty and competition for agricultural land result in tremendous pressures on the environment. These pressures include slash-and-burn land clearing, illegal logging for precious woods or construction materials, widespread wood collection for fuel, and land clearing for mining. Deforestation and hunting have threatened many of Madagascar's endemic species, driving a number to extinction in recent decades.³

It was on Madagascar that Brett Beach and Tim McCollum spent two memorable years as Peace Corps volunteers. During that time, they fell in love with the country and its people. After the Peace Corps, Brett stayed in Madagascar for another four years working on development projects and a seaweed plantation. Upon returning to the United States, Brett reconnected with Tim, who was then working for American Express in sales and marketing. Recognizing the need of the local Malagasy for stable jobs and fair wages and the connection between poverty and environmental destruction, Brett and Tim discussed possibilities for creating meaningful employment for Malagasy locals and environmental, social, and economic benefits for their country. Tim recalled his Peace Corps experience:

¹Wild Madagascar.(2011). Retrieved from <http://www.wildmadagascar.org/home.html>.

²The World Bank.(2011). *World Development Indicators 2011*.Washington, DC.

³Mittermeier, R.A.; Konstant, W.R.; Hawkins, F.; Louis, E.E.; Langrand, O.; Ratsimbazafy, J.; Rasoloarison, R.; Ganzhorn, J.U. et al. (2006). "Chapter 4: Conservation of Lemurs". *Lemurs of Madagascar*. Illustrated by S.D. Nash (2nd ed.). Conservation International. pp. 52–84.

"I left with a feeling that this [Peace Corps] is a long lasting experience that taught me a lot but I think my impact locally in Madagascar was not that great. I went from there and worked at the American Express Company for six years in sales and marketing. I got much better experience in the private sector and started to understand fundamentals of marketing and sales. As I developed that experience, I never stopped thinking about my Peace Corps experience in Madagascar and thinking 'Wouldn't it be great if I can combine these two experiences? One being grassroots rural development in Madagascar, the other being commercial enterprise that's a market-driven, market-based, for-profit sort of thing?' There's tremendous value in both of those approaches but the ideal job didn't exist, meaning that there wasn't any company out there that had such an employment offer. We had to create it for ourselves, I guess you can say."

Brett and Tim considered a number of options for a local Madagascar business before settling on a chocolate company. They saw three major factors to support starting the business. First, Madagascar produces some of the best cocoa in the world. They could leverage the high quality cocoa to make high quality chocolate, crucial to selling the product in the gourmet chocolate market. Second, while over 65% of the world's cocoa comes from Africa less than 1% of chocolate is made in Africa. They believed making chocolate there would create a positive social impact on local people's lives. In Brett's own words, "We provide jobs and fair wages. We help stabilize the cocoa price by partnering with the cocoa farmers. This way we keep more economic benefits within the island and create a win-win situation." The third reason was to rebuild Malagasy people's pride. The country was under French colonial rule for more than 60 years in the 20th century and a pattern of rules and behavior peculiar to the colonial system remained on the island. The Malagasy people have gone through continual political turmoil since Madagascar gained its independence from France. "By producing a branded, high-end product in Madagascar, we hope to help them regain their pride," Brett stated. With that inspiration, Brett and Tim started a small company in 2006. Brett started with Tim's support during nights and weekends until he joined the company full-time in 2008.

Headquartered in Brooklyn, New York, Madécasse strategically partners with four farmer cooperatives and a chocolate factory in Madagascar to make single-origin, tree-to-bar⁴ chocolates for sale in high-end groceries and chocolate boutiques internationally. Through this partnership, the company creates benefits to locals well in excess of exporting fair trade cocoa, the typical model of 'fair trade' chocolate. Since its inception, the company and its founders have received considerable attention and recognition by the media and the food industry. Exhibit 2 lists the awards and recognition received by Madécasse.

⁴ The World Street Journal. (2011). *Small Factories Take Root in Africa*. Retrieved from <http://online.wsj.com/article/SB10001424053111904060604576570541250028496.html?KEYWORDS=madagascar+Madécasse>

Dark Side of the Chocolate Industry

Lisa Johnson:

Maybe I'll do a little research to learn more about the industry. I love my chocolate but I didn't realize there were so many problems with it. ... Wow. Yikes. This 2012 documentary⁵ shows how child labor fuels the global cocoa industry and how these kids are handling pesticides and heavy bags of beans instead of going to school. The New York Times has reported on studies that show cocoa farmers live in poverty because they get only about 3 cents out of a \$3.49 chocolate bar purchase at a U.S. grocery store.⁶ And according to the World Wildlife Fund, cocoa farming is a source of deforestation in countries like Brazil.⁷

Brett Beach

Madécasse can fundamentally change how consumption of chocolate in one place creates new economic opportunities for the people of Madagascar. Long-term farmer partnerships, in-country manufacture, and shade grown techniques support the people and the environment in a comprehensive way.

Food & Wine:

In 2010 we named Madécasse to the 40 Under 40 list of people "changing the way Americans eat and drink".

The chocolate industry has been plagued by numerous issues including endemic poverty for cocoa farmers, child and forced labor in cocoa growing communities, and environmental degradation.

Farmer Poverty

In the world market, cocoa is treated as a commodity and is therefore subject to considerable price fluctuations. In addition, the concentration of buyers in a few very dominant organizations gives them virtually oligopolistic power in cocoa purchasing, both at the farm and at the international level. As a result, farmers often find themselves at the mercy of the buyers and suffer from price instability.

Cocoa bean price instability, in the long term, induces periods of either under- or over-supply. As a result, farmers' decisions to invest in cocoa production depend largely on the

⁵ "Child Labour: The Dark Side of Chocolate", published August 13, 2012 by 16 x 9.

⁶ Alsever, Jennifer. (2006). "Fair Prices for Farmers: Simple Idea, Complex Reality", New York Times, March 19.

⁷ Edwards, Mark. "Environmental Problems in Brazil: Losing Nature at its most Extraordinary." WWF. WWF.Panda.Org. Retrieved 19 April 2012.

price level prevailing in the market. A low price leads to underinvestment and, therefore, to a supply deficit in the medium term, and vice versa. Over the short term, price volatility affects farmers' husbandry patterns, such as the use of workers to harvest the beans and the use of fertilizers and pesticides. More generally, price instability is a factor that aggravates the poverty of cocoa farmers. In West Africa alone, cocoa is grown by some two million farmers, and for most of them, it remains a critical source of cash income. Worldwide, more than three million farmers depend on cocoa for a major part of their income. At times, low cocoa prices may not even cover the cost of production and thus increase farmer's poverty.

Child Labor

Child labor has been a major social issue in the chocolate industry for many years. Low cocoa prices and the desire for lower labor costs drive farmers to employ children as a means to survive. Côte D'Ivoire, the leading supplier of cocoa, accounting for more than 40 percent of global production, is home to some of the worst offenders of child labor practices. Slave traders traffic boys ranging from the ages of 12 to 16 from their home countries and sell them to cocoa farmers, where they work on small farms across the country, harvesting cocoa beans day and night under inhumane conditions. Many use dangerous tools, face frequent exposure to dangerous pesticides, and travel great distances in grueling heat. Those who labor as slaves also suffer frequent beatings and other cruel treatment.⁸

In 2001, under international pressure, chocolate companies signed the Harkin-Engel protocol, an international effort to stop the practice of dangerous child labor. The protocol brought together Western governments, NGOs, the chocolate industry, and the government of Cote d'Ivoire. It called for the establishment of a child-free certification system, child labor monitoring, independent verification, and programs to improve conditions. The cocoa industry missed the July 1, 2005 deadline for achieving these goals. By 2011, all eight of the major cocoa processors and chocolate manufacturers had become members of the International Cocoa Initiative, a non-profit foundation whose aim is to combat the worst forms of child labor and forced adult labor in cocoa farms. However, a recent report commissioned by the US government found that more than 1.8 million children in West Africa were involved in growing cocoa. Many continue to be victims of human trafficking or enslavement and are at risk of being injured by hazards such as machetes or pesticides.⁹

Environment Destruction

For poor cocoa farmers, making a living is more important than and seems incompatible with environmental preservation. The need for short-term economic returns leads to environmentally damaging behaviors such as overharvesting economic timber species, clearing overstory in cocoa plantations, and intensive use of pesticides and fertilizer. In many countries, intensive farming of single-crop cocoa is widespread. Naturally occurring

⁸ International Labor Rights Forum. (2011). *Cocoa Campaign*. Retrieved from <http://www.ilrf.org/stop-child-labor/cocoa-campaign>

⁹ BBC. (2011). *Ivory Coast cocoa farms child labour: Little change*. Retrieved from <http://www.bbc.co.uk/news/world-africa-15681986>

forests with a mix of cocoa and other species are cleared, resulting in unshaded farms that, while more productive, lack the shade that protects the trees and reduces the impacts of pests. In some producing countries, such as Ghana, government initiated disease and pest control programs led cocoa farms across the country to be sprayed with insecticides and fungicides. While the cocoa production was increased, the use of pesticides on the farms caused the destruction of the soil flora and fauna through both physical and chemical deterioration.¹⁰

Global Chocolate Industry

Lisa Johnson:

It's really quite something that so many bars are available dealing with a variety of social and environmental issues. All the issues seem important: endangered animals, farmers' rights, local ownership. It makes me wonder what the difference is between how all the usual chocolate goodies are made compared to these brands here. And, what the real difference is between all of these, seemingly, more enlightened brands.

Brett Beach:

We're disrupting the global industry. The concentration of large corporations in the entire value chain has created a power imbalance between growers and buyers, has moved the value created by chocolate out of the grower nations, and has put profits ahead of preserving uniquely biodiverse locales.

Good Food Awards 2011:

"Madécasse is redefining chocolate production...creating a real Madagascar chocolate and a sustainable chocolate industry in Africa."

Value Chain Structure

The cocoa to chocolate supply chain consists of eight participants: growers, buyers, processors, manufacturers, importers, distributors, retailers, and consumers. Consolidation, mergers, and vertical integration have sometimes blurred the lines between steps in the supply chain, but all these processes occur.

¹⁰ A. Ntiamoah, G. Afrane. (2008). Environmental impacts of cocoa production and processing in Ghana: life cycle assessment approach. *Journal of Cleaner Production*, 16, 1735-1740. Retrieved from <http://orton.catie.ac.cr/repdoc/A3660I/A3660I.PDF>

Growers

Cocoa is grown in equatorial regions of Africa, Latin America, and Asia. Production is geographically concentrated, with almost 90% of the global supply coming from 8 countries – Côte d'Ivoire, Ghana, Indonesia, Nigeria, Cameroon, Brazil, Ecuador, and Papua New Guinea. Exhibit 3 shows cocoa bean production by country and region from 2007 to 2010.¹¹ Most cocoa is grown on small, family run farms; small holdings of 1-3 hectares (2.5-7.4 acres) produce 95% of world cocoa beans.¹² The cacao tree fruits throughout the year and is generally harvested twice a year, before and after the rainy season. It takes about 6 months from pollination for a tree to produce ripe fruit. After harvest, growers open the cocoa pods and remove and clean the fresh beans (uncured). The beans ferment for 5-7 days and are then sun-dried.¹³ Growers sometimes outsource the fermenting and drying to an in-country third-party, however growers with the necessary equipment and adequate training to perform these steps receive a higher price for their beans. A cocoa pod needs to be cracked open within eight hours of harvesting or it will start to spoil. As the end of the eight hour window approaches, farmers selling fresh cocoa are at the mercy of buyers to sell at whatever price they offer that day or they cannot sell at all. (Three kilograms of fresh cocoa produces approximately one kilogram of fermented and dried cocoa.)

Yields of dry cocoa vary considerably, based on the farming techniques and the productivity of the land. In Côte d'Ivoire the average per hectare per year is over 500 kilograms while in Nigeria and Ghana it is less than 300 kilograms.¹⁴ A healthy cocoa tree produces 25 pods per year that result in approximately one kilogram of dry cocoa.¹⁵

A frequent problem in the cocoa growing sector is the low quality¹⁶ of the cocoa delivered by farmers. Due to the many layers of middlemen between cocoa farmers and consumers, most farmers are often not aware of what quality attributes are required. They often do not know how to control, or if necessary eliminate, the development of specific characteristics; some attributes, such as flavor, are difficult or even impossible to measure on-farm. In early 2009, the International Cocoa Organization (ICCO) prepared guidelines on "Best Known Practices in the Cocoa Value Chain"¹⁷ to guide farmers to reach the highest physical quality. Focusing at first on cocoa production, the scope of the guidelines was later widened to include trade, transport, warehousing, processing, and manufacturing requirements.

¹¹ICCO (2011). The ICCO Annual Report for 2009-2010.

¹² ICCO, Sustainable Cocoa economy: A Comprehensive and Participatory Approach, June 2007.

¹³ The Cocoa Study: Industry Structures and Competition : Study. Geneva: UNCTAD Secretariat, 2008.

¹⁴ *Trends in Global Supply and Demand for Cocoa*. International Cocoa Organization, (EX/116/7), 20 February 2003.

¹⁵ Food and Agriculture Organization of the United Nations (2007). *Organic Cocoa Production: A guide for Farmer Field Schools in Sierra Leone*.

¹⁶ According to the second Roundtable for a Sustainable Cocoa Economy (RSCE2) Working Group, "quality" is used in the broadest sense to include not just the all-important aspects of flavor and purity, but also the physical characteristics that have a direct bearing on manufacturing performance, especially yield of the cocoa nib (Biscuit, Cake, Chocolate and Confectionery Alliance (BCCCA), 1996). The different aspects or specifications of quality in cocoa therefore include: Flavor, Purity or wholesomeness, Consistency, Yield of edible material and Cocoa butter yield and characteristics. These are the key criteria affecting a manufacturer's assessment of "value" of a particular parcel of beans and the price it is willing to pay for it.

¹⁷ UNCTAD. (2011). *The ICCO at Work under the 2011 Agreement*. Retrieved from <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=5390&lang=1>

Another factor affecting cocoa quality relates to the transportation of cocoa beans. Due to the predominantly small size of farms, the cocoa output of a single farmer alone cannot meet the optimal quantity for shipping in an export container. To minimize shipping costs, cocoa beans collected from different farmers are loaded in the same container; thus, beans of different quality and characteristics mixed together. This makes it difficult or impossible to differentiate high quality beans from low quality beans. The contamination of high quality beans with low quality beans results in the entire batch being considered low quality.

Buyers

Cocoa bean buyers generally purchase from farmers either in their villages or after transportation to port. Most bean purchasing and exporting companies are subsidiaries or partners of processors; independent players in this sector are rare. The international cocoa market price is the dominant influence on actual prices paid to farmers.¹⁸ The global market price for cocoa is set on two commodity exchanges, the London International Financial Futures and Options Exchange and the New York Board of Trade.

Processors

Cocoa processing consists of roasting the beans, grinding them to make cocoa liquor, and pressing the liquor to extract cocoa butter and produce cocoa powder. It takes 75 cocoa beans (two pods of beans) to make one 2.64 oz chocolate bar. The beans arrive at the processor or factory fermented and dried. At the factory, the workers first sort and clean the cured beans and then roast them. After roasting, the beans are put in a winnower where the shells are removed and the beans are chopped to small pieces, called nibs, the essence of the cocoa bean that is full of cocoa solids and cocoa butter. The nibs are then ground to a thick, rich paste called chocolate liquor, the foundation for all chocolate products. It takes two days of processing for nibs to turn to chocolate liquor. The chocolate liquor is then mixed with other ingredients such as sugar, vanilla, and milk in a conching machine. The speed, temperature, and length of the conching determine the final texture and flavor of the chocolate. Conching smoothes the chocolate and mellows any remaining acidic tones. After the final texture and flavor are achieved, the chocolate is calibrated to a precise temperature to ensure the formation of small, stable fat crystals in the finished product. Finally the chocolate is poured into molds, conveyed in a cooling tunnel to return the chocolate to a solid state and wrapped for shipment.

Most cocoa grinding installations are located in consuming nations with 54% of global grinding done in the United States and Europe.¹⁹ Processing is highly concentrated in three dominant companies, Cargill, Archer Daniels Midland, and Barry Callebaut, which combined grind close to 40% of global cocoa.²⁰ The concentration is driven by new processing

¹⁸Capelle, J. (2008). *Towards a Sustainable Cocoa Chain: Power and possibilities within the cocoa and chocolate sector*, Oxfam International Research Report, available at <http://www.oxfam.org/en/policy>. (Accessed August 10, 2011), 36pp.

¹⁹ICCO (2009). International Cocoa Organization Annual Report 2008/09. ICCO, London. Available at www.icco.org.

²⁰*ibid*

technologies, economies of scale in purchasing, and the benefits of bulk shipping and just-in-time delivery to chocolate manufacturers.²¹

Manufacturers

Most chocolate manufacturers are located in consuming nations. Similar to processing, chocolate manufacturing is geographically concentrated, with 47% in the United States and Germany.²² Additionally, chocolate manufacturing is concentrated in a small number of firms, with five companies, Mars, Nestle, Kraft-Cadbury, Hershey, and Ferrero, responsible for 60% of the world's chocolate products.²³ The capital demands of branding and marketing drive this concentration.²⁴ Large resources are required to establish and maintain a strong consumer facing brand, particularly on a global scale.

Among large players in the sector, a few focus primarily on chocolate (e.g. Ferrero), but most are diversified across packaged foods (e.g. Nestle, Kraft-Cadbury). Most firms are vertically integrated and process raw cocoa to create some of their own bulk chocolate. Chocolate manufacturers add ingredients and further blend and process bulk chocolate to create consumer products. The marketplace contains a huge variety of finished products with a wide range of chocolate content.

Retailers

Chocolate goes to retail through a broad network of distribution centers, warehouses, and retail outlets. The majority of chocolate products are sold in grocery stores. In the US, the food, drug, and mass merchant (FDMM) channel accounts for about 40% of retail sales.²⁵ Other sales occur through non-traditional channels including specialty markets, direct sale by chocolatiers, the internet, and non-food retailers from bookstores to electronics merchants. Premium chocolate sales follow a similar pattern with about 35% occurring through FDMM locations.²⁶

End Consumers

Global chocolate consumption grew an average of 2.5% annually from the early 1990s and into the middle of the next decade.²⁷ Chocolate consumption continues to be low in the

²¹Kaplinsky, R. (2004) *Competitions Policy and the Global Coffee and Cocoa Value Chains*, Institute of Development Studies University of Sussex, and Centre for Research in Innovation Management, University of Brighton.

²²The Cocoa Study: Industry Structures and Competition : Study. Geneva: UNCTAD Secretariat, 2008.

²³Capelle, J. (2008). *Towards a Sustainable Cocoa Chain: Power and possibilities within the cocoa and chocolate sector*, Oxfam International Research Report, available at <http://www.oxfam.org/en/policy>. (Accessed August 10, 2011), 36pp.

²⁴Kaplinsky, R. (2004) *Competitions Policy and the Global Coffee and Cocoa Value Chains*, Institute of Development Studies University of Sussex, and Centre for Research in Innovation Management, University of Brighton.

²⁵Mintel. "Chocolate Confectionary – US." July 2008. Mintel Reports. 10 Oct 2011.

²⁶Mintel. "Premium Chocolate Confectionary – US." March 2007. Mintel Reports. 10 Oct. 2011.

²⁷ICCO, Sustainable Cocoa economy: A Comprehensive and Participatory Approach, June 2007.

relatively poor growing nations, while two-thirds of chocolate consumption occurs in Western Europe and North America²⁸. Exhibit 4 shows worldwide per capita chocolate consumption by country from 2000 to 2008. Although the volume of chocolate consumed has increased at only at a slow pace, the volume of cocoa produced has increased more rapidly.

The new trend in chocolate consumption has been characterized by the increasing appeal of premium chocolates and, in particular, of high cocoa content dark chocolate. Chocolate manufacturers have noticed the changing tastes and even companies traditionally known for milk chocolate products have been introducing new dark and high cocoa content products. The growth has been mainly driven by single-origin chocolate which grew by over 20% per annum as well as by organic certified chocolate (up by almost 20%) and dark chocolate (up by over 15%).

While consumer trends indicate a heightened interest in having food produced in a socially acceptable way, consumer quality perceptions of chocolate seem to be more strongly linked to the location of manufacturing (e.g. Swiss and Belgian chocolate) than to the producer nations where the cocoa beans are grown.²⁹ Chocolate consumers are generally considered variety-seeking and brand switching between products is relatively high. Furthermore, because the amount spent on chocolate is usually low, it can often involve impulse purchasing and spontaneity. On the other hand, if a consumer is satisfied with the chocolate brand she is likely to simply continue to make repurchases within that brand.

Global and Niche Competitors and Their Sustainability Efforts

The global chocolate industry is characterized by major international firms with very strong product portfolios containing most of the world's best known brands. These companies use massive advertising budgets to aggressively promote their products and they benefit from significant efficiencies provided by economies of scale and scope. Lower per unit costs of production, varied product lines, high levels of investment in technology and equipment and favorable contracts with grocery stores and supermarkets create significant barriers to entry³⁰. Nevertheless, new entrants have established themselves within the industry, with a mix of gourmet and specialty products as well as low-priced, non-branded products. Other smaller players have managed to carve out regional market niches, thereby reducing the directness of competition from the major players.

With the extensive coverage of the child and forced labor issues in cocoa farming, many of both the large and small players in the industry have adopted practices to address both social and environmental issues in their value chains. In 2009, three percent of the global cocoa volume was certified by one or more standard-setting organization. Sourcing cocoa certified to environmental and social standards has generally been restricted to niche competitors, whose target consumer markets are socially- and environmentally-conscious (see Exhibit 5

²⁸ *ibid*

²⁹ The Cocoa Study: Industry Structures and Competition Study. Geneva: UNCTAD Secretariat, 2008.

³⁰ IBISWorld Industry Report C1113-GL. Global Candy and Chocolate Manufacturing. June 2012.

for descriptions of the major certifications and initiatives in the cocoa sector). However, mainstream competition is increasingly sourcing certified cocoa. Some of the major certifications in the cocoa sector include Fair Trade, Organic, Rainforest Alliance, UTZ and Fair for Life. In addition to the various certification systems, the World Cocoa Foundation and International Cocoa Initiative play important roles in advocating for change in the production, sourcing and distribution of cocoa.

Kraft-Cadbury³¹

Cadbury was founded in the 1800s by a tea dealer and grocer shop owner, turned manufacturer in 1831. In the midcentury the firm expanded adding manufacturing capabilities and capacity and new products. In the twentieth century, the company continued to grow, merged with Schweppes in 1969, and became the world's leading confectionary company in 2003 through a merger with gum manufacturer Adams (maker of Trident and Stride chewing gums). However, in 2008, Cadbury and Schweppes demerged; in effect, this split apart the confectionary and drinks businesses. In 2010, Cadbury was purchased by American food conglomerate Kraft Foods.

Cadbury sources its cocoa from Ghana, West Africa and does not own or control any cocoa farms. The company was the largest buyer of certified Fairtrade or Rainforest Alliance beans in 2010. Prior to the merger with Kraft, Cadbury processed and produced its chocolate in the UK. A portion of Kraft's sustainability initiatives are focused on improving the lives of cocoa farmers in its supply chain. In addition to its internal programs, Kraft participates in World Cocoa Foundation initiatives, the UN Cocoa Partnership, and other multi-organization efforts. Kraft-Cadbury owns the Green and Black's brand, known for producing premium organic chocolate bars, including Fair trade certified products.

Mars³²

Founded in 1911 as a butter cream candy maker, Mars expanded to chocolate in 1923. Diversification into non-confectionary products such as pet food and convenient meals started in the 1930s and 40s. The Mars company is privately held and operates globally in pet care, confectionary, food, and health and life sciences.

Mars began efforts to change the chocolate supply chain in 1982 when it established the Mars Center for Cocoa Science to research more sustainable farming techniques. Continued efforts included preliminary research into sequencing the cocoa genome in 2010. On the purchasing side, Mars obtained 5% of its 2010 cocoa supply from Rainforest Alliance certified farms and publically committed to sourcing 100% of the chocolate for its Dove Dark Chocolate product from certified farms by 2012.

³¹ *Kraft Foods Corporate Home*. Web. 20 Oct 2011. <<http://www.kraftfoodscompany.com/>>.

Cadbury Chocolate. Web. 20 Oct 2011. <<http://www.cadbury.co.uk/>>.

³² *Mars*. Web. 20 Oct. 2011. <<http://www.mars.com/>>.

Nestlé³³

Founded in 1866 in Switzerland, Nestlé's first products were baby cereal and condensed milk. Chocolate joined the firm's portfolio with the 1929 purchase of fellow Swiss company Peter, Cailler, Kohler Chocolats. Today Nestlé operates 443 factories worldwide to produce food products of different types, as well as pet care and nutritional items.

Nestlé produces chocolate in 52 factories worldwide and offers a mix of global and regional brands. It purchases cocoa from Cote d'Ivoire, Ecuador, and Venezuela. Nestlé has an internal project called the Cocoa Plan dedicated, in part, to sustainable cocoa production. Additionally, Nestlé is part of World Cocoa Foundation programs and the International Cocoa Initiative. In 2010, its KitKat bars sold in the UK and Ireland became Fairtrade certified.

Ferrero³⁴

Ferrero was founded as an Italian confectionary manufacturer after World War II. It is still family owned and managed. Unlike the other big players, Ferrero produces only confectionery and beverages. Ferrero sources its cocoa from the Ivory Coast, Ghana, and Ecuador. It is a member of the International Cocoa Initiative, works with the World Cocoa Foundation, and has an internal corporate social responsibility program. The company has set a goal of 100% certified sustainable cocoa by 2020. Ferrero works directly with local cocoa farmers in an effort to improve the prices they receive.

Hershey³⁵

Hershey started as a caramel candy business in 1876 and added chocolate in 1894. Hershey introduced the iconic Hershey bar in 1900. A public company, its largest shareholder is the Hershey Trust Company, which administers the Milton Hershey School. The Milton Hershey School was funded as a school for orphans in 1909 and today focuses on providing education and social services to children in need.

Hershey sources its cocoa on the global market and produces chocolate at factories in North America (plus some joint ventures in Asia and Brazil). Like Ferrero, Hershey is less diversified than the three biggest players and sells confectionary, snack, and beverage products. It has owned Dagoba, a maker of organic, premium chocolate bars, since 2006. Hershey runs internal programs to support healthy cocoa communities and collaborates with the World Cocoa Foundation, the International Cocoa Initiative, and other inter-organization groups.

Competition – Niche

³³ Nestle Global. Web. 20 Oct 2011. <<http://www.nestle.com/>>.

³⁴ Ferrero. Web. 20 Oct 2011. <<http://www.ferrero.com/>>.

³⁵ Hershey's – The Hershey Company. Web. 20 Oct 2011. <<http://www.thehersheycompany.com/>>

The chocolate industry is filled with niche competitors. Retail chocolate display fixtures are teeming with small producers attempting to differentiate their chocolate bars. Companies tout their chocolate as: organic, shade grown, heirloom cocoa varieties, single origin, fair trade, direct trade, artisanal, and so on. There are even other companies that, like Madécasse, use an in-country manufacturing set-up that goes from bean to packaged bar within a grower nation. Five of these companies are profiled below.

Omanhene³⁶

Produced entirely in Ghana, Omanhene was started by an American who spent time in Ghana through an American Field Service (AFS) exchange program. Since the co-operative structure is not culturally understood in Ghana, they work outside of the fair trade system. The company uses a beyond fair trade philosophy that addresses not just the price paid, but also environmental effects, value-added manufacture, child labor, and corruption. Omanhene's approach provides higher wages for chocolate factory workers and for farmers and is concerned with the entire value chain, not just farmer payments.

Claudio Corallo³⁷

Run by an Italian agronomist and his family, Claudio Corallo operates on the African islands of São Tomé and Príncipe. The cocoa is grown and dried on Príncipe, then transported by boat to São Tomé for processing. The family employs local residents to assist in transport, quality checking, and production. The company focuses on chocolate quality and innovation in growing and processing more than on the benefits they might be providing to their host nation.

The Grenada Chocolate Company³⁸

Founded in 1999, the Grenada Chocolate company has co-op farms, fermentation equipment, and a factory in the Caribbean island nation. The co-op includes 150 acres of organic farms and the production facility received organic certification in 2004. In addition to organic certification, the operation uses solar energy and sources ingredients from like-minded outfits (e.g. organic sugar from a Paraguay grower's co-op and biodynamic vanilla from Costa Rica). The company's goal is to have cocoa growers benefit as much as chocolate makers.

³⁶*Omanhene - The Cocoa Bean Company*. Web. 28 July 2011. <<http://omanhenecocoa.com/>>.

³⁷*Claudio Corallo*. Web. 28 July 2011. <<http://www.claudiocorallo.com>>.

³⁸*Grenada Chocolate - Organic Dark Chocolate*. Web. 11 Aug. 2011. <<http://www.grenadachocolate.com>>.

Pacari³⁹

Made entirely in Ecuador, Pacari produces organic, single-source chocolate. The source farms are 100% organic certified and some are Fair Trade certified. Long-term commitments and relationships with growers have preserved traditional farming methods. Founded in 2002 by an Ecuadorian couple, Pacari employs small batch production, supports sustainability programs in grower communities, and cuts out the middlemen so that farmers receive a significant premium over market prices.

Kallari⁴⁰

Located in the Ecuadorian Amazon, Kallari produces organic, shade-grown cocoa and chocolate. The growers' association was established in 1997 and bar production was started in the 2000. Growers receive prices that are 20-60% higher than the market average and the cooperative sponsors social initiatives in farmer communities. Like Madécasse, Kallari targets customers who wish to combine an opportunity for social good (benefiting the host nation through purchase) with a high quality product.

Competing with a “4 X” Model: The Madécasse Difference

Brett and Tim built the Madécasse model to maximize the amount of value added to the final product in Madagascar. This business model includes strong and enduring relationships with the cocoa farmers, partnering with a chocolate factory in Antananarivo (the capital city of Madagascar), sourcing ingredients and packaging from around Madagascar, and exporting the final, fully packaged product to overseas markets. It is through this holistic approach to sourcing and manufacturing in Madagascar that Brett and Tim created a business model that offers more than four times the social and economic benefit to Madagascar when compared to the standard Fair Trade model. Exhibit 6 illustrates the structure of Madecasse's value chain activities, highlighting the extent of the value chain activities that Brett and Tim have developed in Madagascar.

³⁹Pacari Ecuadorian organic Chocolate.Web. 28 July 2011. <<http://pacarichocolate.com>>.

⁴⁰Kallari - A Cooperative of Kichwa Organic Artists, Cacao Growers&Gourmet Chocolate Makers.Web. 28 July 2011. <<http://www.kallari.com/>>.

Cocoa Farmers

Madécasse partners with 70 cocoa farmers in the Sambirano Valley of Madagascar. These farmers belong to four different cooperatives. In selecting the farmer groups, Brett and Tim considered the possibility of building long-term relationships that benefit both the farmers and Madécasse. Creating these relationships required them to invest considerable money and time. Through these relationships Madécasse provides farmers training on fermentation and drying of cocoa beans, access to cocoa curing facilities, higher cocoa prices, and a stable market for the crop. Because Madécasse finances the fermenting and drying equipment and teaches growers how to dramatically increase the quality of their cocoa beans, the farmers are able to increase the value of cocoa beans they are selling.

In addition, Madécasse offers farmers a price that is 20% higher than the market price for the cured cocoa beans. According to Brett, 10% of this premium is a reward for working together with Madécasse and the other 10% is for the high quality of the crop. The Madécasse partnership does not prevent farmers from selling to other channels. However, farmers generally choose not to sell to collectors or other middleman because in the past they were cheated, charged an unfavorable exchange rate, or suffered from fluctuating market prices. The partnership ensures farmers a stable market for their crops and the ability to earn an income that covers sustainable farming costs, supports their families, and improves their living standards.

The Chocolate Factory

Madécasse partners with a chocolate factory where the chocolate makers bring together the high quality Madagascar cocoa with craft chocolate making. Brett and Tim work with the chocolate makers to discover the perfect roast for each Madécasse chocolate. The chocolate factory employs 40 Malagasy people: 20 women and 20 men. In addition, Madécasse employs a full-time project manager to work with the chocolate factory and other supply partners in the capital city.

Fermented and dried beans are transported from farms to the factory by oxcart and truck. At the factory, the beans are roasted in 500kg batches. The ingredients added to the chocolate liquor to create the different flavored bars are all from Madagascar and include sugar, vanilla, nuts, and spices. Madécasse chocolate sits in the conching machine for 2 days to achieve the desired texture and flavor. When the chocolate is finished, workers wrap the chocolate in aluminum foil, insert the foil wrapped bar into a wrapper, tie the wrapper with raffia, and pack 12 bars into a display box that goes to an outer carton ready for shipping.

These packaging steps are all done by hand in the chocolate factory. The raffia and boxes are manufactured in Madagascar. Although the wrapper paper is imported from France, the color printing is done in another factory in Madagascar where workers hole punch, fold, and glue the printed wrapper into an envelope that holds the finished chocolate bars. Thus, Madécasse's production of chocolate in Madagascar has resulted in the development of secondary industries such as packaging and utilities and creates a lot of additional employment in Madagascar. Exhibit 7 shows how much labor is engaged in the Madécasse business model, from cocoa bean growing to final export-ready chocolate bar. Exhibit 8 provides a further analysis of the time (in minutes) needed to complete each stage of the

process in '1 KG chocolate bar equivalents'. This analysis is at the core of the '4x Fairtrade' approach. The growth of Madécasse leads to the growth of these businesses and a more stable market for other agricultural products that are used for flavoring the chocolate. In this sense, along with the benefits to the farmers, Madécasse generates much greater social impact than exporting Fair trade cocoa alone.

Distribution

Finished chocolates packaged in boxes are transported in a refrigerated truck owned by the chocolate factory to meet the customs broker. After inspection and customs clearance, the product is ready to be shipped out of the country. Madécasse chocolates are shipped to international markets, mainly the US and Europe, by two routes. Most of the chocolate is shipped by boat from Madagascar to New York. Air shipment is sometimes used for new products in which case the chocolates flies to Paris first and then to New York. Upon arrival in the US, orders are inspected by customs and rushed to a cool room to await a refrigerated truck which takes them to a warehouse in Brooklyn, NY. From Brooklyn, the chocolate is sent to distributors and retailers around the country.

Madécasse sells the majority of its products through distributors who then sell to retailers and boutique stores. In the US, Madécasse also sells directly to some specialty retailers and high-end grocers. As of July 2012, there were more than 1,250 stores in the US carrying Madécasse chocolate, including 300 Whole Foods stores. A small percentage of Madécasse sales occur in other geographies through exporters and online sales.

Marketing

Madécasse focuses on the story behind the bars in marketing its chocolate products. Brett and Tim take an active role in attending a wide range of industry trade shows to showcase their products and tell the story themselves. The Madécasse story has been covered in several major newspapers and magazines including the Wall Street Journal⁴¹ and the New York Times Style Magazine. Madécasse also uses its packaging to talk about the bean-to-bar story and the environmental, economic and social impact in Madagascar. Exhibit 9 shows eight different varieties of 75 gram Madécasse chocolate bars and how a holistic story of Madécasse is conveyed through the different messages on the packaging. Furthermore, Madecasse uses a variety of social media to communicate its impact, providing a comprehensive message as shown in Exhibit 10.

In addition to consumer chocolates, Madécasse also sells baking chocolate and vanilla. The product diversification provides a means for increasing its market reach and telling its story to a broader consumer market.

⁴¹ The most recent coverage in Wall Street Journal is titled Small Factories Take Root in Africa published Sept 24, 2011.

Social & Environmental Impact

Referring back to Exhibits 7 and 8, Madécasse provides a 'bar-based' assessment of the social and environmental impacts and benefits to Madagascar of the Madécasse business model. According to this analysis, it takes an estimated 17.87 minutes of total actual labor to make a 75g Madécasse bar. Farm labor accounts for 42% (or 7.51 minutes) of the total work time. This shows that employment is more than doubled by making finished chocolate in Madagascar versus exporting raw cocoa. According to Brett, minimum revenue of \$14,000 is generated in Madagascar through the processing of 1 ton of cocoa, translating into a minimum of \$0.88 left in country per 75g chocolate bar.⁴² When comparing \$0.88 per bar with the \$0.13 per bar kept in country when exporting fair trade cocoa at the price of \$2,000/metric ton,⁴³ there is a minimum of seven times more money that stays in Madagascar. This means that every time someone buys a Madécasse bar, seven times more money is going back to the country of cocoa origin.

By combining the information from employment (2x) and profit (7x), it becomes clear that the creation of finished products is 4x more beneficial for the people of Madagascar than selling fair trade, and more than 14x better than selling commodity cocoa. This higher return is at the heart of the Madécasse mission: finished products are vastly more beneficial to the cocoa-growing country than raw materials.

Madécasse not only strives to maximize the in-country social benefits but also helps preserve the natural environment. In Madagascar, cocoa grows under shade trees which creates a bio-diverse environment with fruit trees and other edible plants such as banana, apple, papaya, pepper, and vanilla alongside the cocoa. Native species of birds and lemurs are also commonly seen in a typical cocoa forest. In regions in Madagascar where cocoa farmers cannot sustain their farming due to the exploitation of middlemen and the fluctuation of the cocoa market, they cut down these diverse cocoa forests in favor of other edible crops, such as rice. Sadly, as the cocoa forest is destroyed so is the ecology.

When they partner with Madécasse, farmers can continue cocoa farming and therefore preserve the natural and bio-diverse environment in the region. Madécasse works with farmers to increase crop yield without planting additional cocoa at the expenses of other tree species. When Madécasse grows and has greater demand for cocoa, it will increase its cocoa supply by partnering with additional farmers with existing cocoa farms. In the summer of 2012, Madécasse initiated organic certification to train farmers about environmental stewardship.

Ethical and Organic Certification

As a specialty chocolate brand, Madécasse not only competes with other specialty brands, but also numerous conventional brands. In order to catch consumers' attention and communicate with them about the company's products in a matter of seconds, the founders

⁴² This number represents only part of the production costs.

⁴³ Confectionery News (2010). *New minimum price for Fair trade organic cocoa will offset volatility, claims FLO*. Retrieved from <http://www.confectionerynews.com/Markets/New-minimum-price-for-Fair-trade-organic-cocoa-will-offset-volatility-claims-FLO>

tried different methods and came to the conclusion that certifications will help to validate the brand in the eyes of conscious consumers. The company recently garnered the Fair For Life Social & Fairtrade ("Fair For Life")⁴⁴ and Organic certifications.

Madécasse chocolates are created using organic cocoa and exceed Fair Trade in terms of the company's relationships with farmers and the chocolate manufacturer. However, the company cannot take for granted that consumers know the story. Tim expressed the challenge the company is facing in communicating with consumers: "The biggest challenge is distilling the story down to something that fits the attention span of an average consumer which is a few seconds. The Fair Trade label is very effective in a matter of a few seconds to tell if our product is an ethical product although it cannot tell our story. It increases product sales."

The Future

Through their unique business model, Brett and Tim are confident they can compete with the global chocolate industry. The "4 X FairTrade" business model provides a consumer choice criterion and appeals to a market that is looking for something that builds on fair trade. Brett and Tim's connection to Madagascar allows them to network and navigate the culture in a way the five big manufacturers cannot. However, Madécasse is not unique in focusing on differentiating based on single origin specialty chocolate. And, the Fair for Life and Organic certifications are becoming more common in both the specialty and mass markets for chocolate products.

To achieve continued success, Madécasse needs to obtain high levels of customer engagement and loyalty. Survival depends on Madécasse's ability to leverage its "4 X" impact. How does Madécasse create an enduring connection between developed country consumers and the people and natural beauty of Madagascar? Given the competitive dynamics in the chocolate industry, what should Madécasse do to ensure it maintains distinct brand positioning and product differentiation? Ultimately, how do Brett and Tim make sure that the value proposition of Madécasse is clearly aligned with current and emerging customer needs?

The laptop chirped as a new email arrived – it was a reminder to register for the Winter Fancy Food Show. Brett was ready to register to ensure Madécasse was well represented at this premier specialty foods exhibition; but he also knew that at least two other chocolate companies with claims to being 'direct to source' and organically certified would be there. Here was another great opportunity to tell the Madécasse story and connect consumers with the Malagasy people and the unique natural beauty of Madagascar. He began the online registration process.

⁴⁴ IMO (2011). *Fair For All. World Wide – Social Responsibility & Fair trade*. Retrieved from http://www.fairforlife.net/logicio/pmws/indexDOM.php?client_id=fairforlife&page_id=home

Exhibit 1: Map of Madagascar



Exhibit 2: Awards and Recognition



Named one of the 50 Most Innovative Companies in the World for "building a chocolate company in one of the poorest countries in the world."

March, 2011 - 50 Most Innovative Companies



"Madécasse is redefining chocolate production ... creating a real Madagascar chocolate and a sustainable chocolate industry in Africa"

Good Food Awards 2011



Named to 40 Under 40 list of people "changing the way Americans eat and drink ..."

Magazine - November, 2010 - 40 Big Thinkers, 40 & Under



"...the chocolate was so good. I put the quality of all (bars) very, very high. Madagascar is one of those places where myth and reality merge."

Magazine - May 31, 2010 - Made in Madagascar



"I'm awestruck. The 70% is smooth and chocolaty with a sweet-and-sour dried cherry finish. The 63% is noticeably sweeter, buttery and rich."

Online Edition - July 2009 - Tasteful Company



"(Madécasse vanilla powder is) more flavorful than vanilla extract and less expensive than whole beans."

Magazine - December 2008 - Holiday Gifts \$30 and Under



"(Madécasse) hold the title of "exclusive U.S. importer of Madagascar chocolate." ...the island's aromatic cocoa is considered to yield the world's best dark chocolate."

Online edition - November 2008 - Bringing Madagascar to the United States



"The unanimous favorite Madécasse Triple Vanilla Extract offered what was deemed to be the ideal vanilla flavor."

Online edition - November 2008 - The Best Vanilla Extract

Exhibit 3: World Cocoa Beans Production by Country

(thousand tonnes)

	2007/08		2008/09		2009/10	
	Amount	%	Amount	%	Amount	%
Africa						
Cameroon	185	4.9%	227	6.3%	190	5.3%
Côte d'Ivoire	1382	36.8%	1222	33.9%	1242	34.4%
Ghana	729	19.4%	662	18.4%	632	17.5%
Nigeria	230	6.1%	250	6.9%	240	6.6%
Others	166	4.4%	158	4.4%	154	4.3%
Total Africa	2692	71.7%	2519	69.9%	2458	68.0%
America						
Brazil	171	4.6%	157	4.4%	161	4.5%
Ecuador	118	3.1%	134	3.7%	160	4.4%
Others	180	4.8%	197	5.5%	201	5.6%
Total America	469	12.5%	488	13.5%	522	14.4%
Asia & Oceania						
Indonesia	485	12.9%	490	13.6%	535	14.8%
Papua New Guinea	52	1.4%	59	1.6%	50	1.4%
Others	55	1.5%	50	1.4%	48	1.3%
Total Asia & Oceania	592	15.8%	599	16.6%	633	17.5%
World Total	3753	100%	3606	100%	3613	100%

Source: ICCO Quarterly Bulletin of Cocoa Statistics, Vol. XXXVI, No. 4, Cocoa year 2009/2010

Exhibit 4: Per capita Chocolate Consumption in Selected Countries

Countries/Region	2000	2001	2002	2003	2004	2005	2006	2007	2008
Selected EU Countries	(Kilograms)								
Germany	9.97	10.00	10.32	10.50	11.13	10.85	11.16	11.42	11.39
UK	9.41	9.17	10.02	10.12	10.25	10.22	10.29	10.40	10.31
Denmark	8.22	8.62	9.25	8.66	8.72	7.74	7.65	8.07	8.57
Austria	7.37	8.70	7.99	7.53	8.96	9.43	8.19	8.22	7.90
Estonia	n.a.	n.a.	n.a.	3.21	3.60	14.19	2.69	8.07	7.85
France	6.97	6.81	6.96	6.91	7.33	7.04	6.55	7.04	7.39
Finland	6.02	6.49	6.53	6.69	6.92	6.77	6.92	7.56	6.97
Belgium	8.05	7.22	8.88	8.46	9.22	10.18	8.60	9.05	6.80
Sweden	7.61	6.06	5.98	5.98	6.16	6.38	6.40	6.75	6.59
Lithuania	n.a.	n.a.	n.a.	2.06	2.78	3.80	5.70	6.34	6.08
Netherlands	4.79	4.68	4.60	4.51	4.51	2.94	n.a.	n.a.	n.a.
Poland	n.a.	n.a.	3.30	3.98	4.04	3.67	3.62	3.62	4.52
Greece	2.83	2.66	2.90	2.99	3.13	3.15	3.29	3.29	4.50
Portugal	3.62	1.57	1.67	1.85	1.52	1.18	1.32	1.32	4.45
Hungary	n.a.	n.a.	n.a.	3.05	3.15	3.21	3.72	3.72	3.47
Spain	3.93	3.77	3.67	3.43	3.47	3.22	3.27	3.27	3.30
Italy	3.62	3.67	3.94	4.00	4.17	4.26	3.37	3.37	3.26
Bulgaria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.99	2.99	2.23
Other Countries									
Switzerland	10.75	11.20	10.92	10.25	10.80	10.74	10.05	10.47	10.77
Norway	8.13	8.61	8.27	8.66	9.19	9.19	8.76	9.70	9.80
Australia	5.79	5.95	4.35	4.38	4.77	4.77	5.72	5.81	5.96
USA	5.32	5.06	5.36	5.36	5.31	5.31	5.45	5.18	5.09
Brazil	1.84	1.72	1.77	1.69	2.07	2.07	2.16	2.47	2.48
Japan	2.18	2.21	2.14	2.22	2.22	2.22	2.23	2.18	2.15

Note: Data provided included consumption of white chocolate (HS17049030).

Source: International Cocoa Organization. (July 30, 2010) The World Cocoa Economy: Past and Present.

Exhibit 5: Environmental and Social Certifications and Initiatives

Fair Trade

Fair trade practices attempt to provide a level of stability to the growers by insulating them somewhat from the vagaries of a commodity marketplace and providing an assurance of a fair price for their products. Fairtrade Labeling Organizations International (FLO) sets a minimum price for cocoa. By setting a minimum price, FLO stabilizes prices and ensures that the price paid covers the costs of production. In 2010, the FLO price was US\$1,600 per ton, including a fair trade premium of US\$ 150 per ton. When the world cocoa price exceeds US\$1,600 per ton, the FLO price is the world price plus the US\$150/ton premium.⁴⁵ In addition to stable prices, fair trade empowers farmers and workers. For instance, small farmer groups must have a democratic structure and transparent administration in order to be certified under the FLO standards.⁴⁶

Organic

Organic production focuses on environmental stewardship. Organic standards and certification systems are well established around the world and are now commonly regulated by national governments. However, the International Federation of Agricultural Movements (IFOAM) still plays an important role in the organic sector by representing consumer and producer groups. Organic certification applies to the land under cultivation and there are no specifications on the size of farms. Organic standards focus primarily on eliminating the use of chemical fertilizers and pesticides, using natural methods to enhance soil fertility and foster plant resistance to disease and ensuring products are not genetically modified.

Rainforest Alliance

Rainforest Alliance focuses on how farms are managed, with the goal of preventing deforestation. It has a civil society based coordinating organization, the Sustainable Agriculture Network (SAN), with members from North and South America. Rainforest Alliance certifies farm units of varying size and is oriented towards large producers, though small-scale farmer certification is increasing, especially as it has moved into cocoa. Its environmental standards are the broadest of these initiatives, focusing on a wide range of farm management issues, including the protection of biodiversity and prohibition of genetically-modified organisms (GMOs), but with weaker standards than organic on the use of agrochemical inputs. Its social standards focus on compliance with existing labor and safety laws and prioritize worker protection on farms.

⁴⁵Fair trade Foundation. *The Cocoa Market 1994 - 2008: Comparison of Fair trade & New York Exchange Prices*. Retrieved from http://www.Fairtrade.net/fileadmin/user_upload/content/2009/products/Cocoa_Price_Chart_94-08.pdf

⁴⁶ "The Benefits of Fairtrade: A Monitoring and Evaluation Report of Fairtrade Certified Producer Organizations for 2007." Fairtrade Labeling Organizations International (FLO).

UTZ Certified

UTZ Certified (Utz Kapeh) was founded in 1997 by Guatemalan coffee producers and the Ahold Coffee Company to certify coffee; the word “utz” means “good” in the Mayan language. UTZ originally focused on coffee; in 2009 the certification protocol was expanded to include cocoa and tea. UTZ Certified *Good Inside* is based on the International Labor Organization’s Conventions and prohibits forced labor, child labor, and discrimination and protects the right to organize and bargain collectively. UTZ requires cooperatives to separate and appropriately label UTZ certified cocoa beans to ensure transparency. Paying the legal minimum wage is required only after the first year of certification. In terms of pricing, UTZ states that premiums are paid to farmers for their certified products, but the price is solely based on negotiations between the buyers and farmers. Currently, certified cocoa cooperatives are in Costa Rica, Côte d’Ivoire, Dominican Republic, Ecuador, Ghana, and Peru. In 2011, the UTZ label began to appear on chocolate products in Germany; but, as of yet, there are not any chocolate products with the UTZ label in the United States.

Fair for Life

The Fair for Life (FfL) Social and FairTrade Certification Programme was created in 2006 by the Institute for Marketecology (IMO) and the Swiss Bio-Foundation. FfL came in response to increasing criticism from consumers, producers, processors, retailers and their global suppliers that existing certification schemes did not cover the entire range of products, production situations and trade relations. The terminology “Programme” instead of “standard” reflects that FfL is based on widely acknowledged baseline standards such as the International Labour Organization (ILO), SA 8000, FLO and IFOAM Social Chapter. Fair for Life certified cocoa producers are in Brazil, Congo, Tanzania, Uganda, Peru and Madagascar and certified processors are in Switzerland and Germany.

World Cocoa Foundation

The World Cocoa Foundation (WCF) is an international membership organization established in 2000 in Washington, D.C. The WCF partners include governments of cocoa-producing countries, the U.S. government, the EU Parliament, research institutes, non-governmental organizations, philanthropic foundations and international development and multilateral organizations. The WCF supports programs that work directly with cocoa farmers at the farm level, prior to commercialization of their cocoa. The intent of WCF programs is to build the capacity of cocoa farmers to increase yields, improve quality, and enhance environmentally sustainable practices. It supports cocoa farmers in Africa, Southeast Asia and the Americas.

International Cocoa Initiative

The International Cocoa Initiative (ICI) was founded in 2002 as a response to rising public opinion that the chocolate industry needed to ensure child and forced labor was not used in the production of its products. The Board is the governing body of the ICI, providing oversight and funding. There are fifteen members of the Board, comprised of representatives of major chocolate brands, such as Archer Daniel Midlands, Hershey Foods and Nestle, and civil society organizations, such as Education International, Free the Slaves, and Global March Against Child Labour. The ICI is based in Geneva, Switzerland, and has local offices in Ivory Coast and Ghana. The major activities of the ICI fall into five categories: evidence-

building and research; supporting social change; knowledge management; advocacy; and partnership and capacity-building.

Inspection Copy

Exhibit 6: Madagascar-based Value Chain Activities of Madécasse

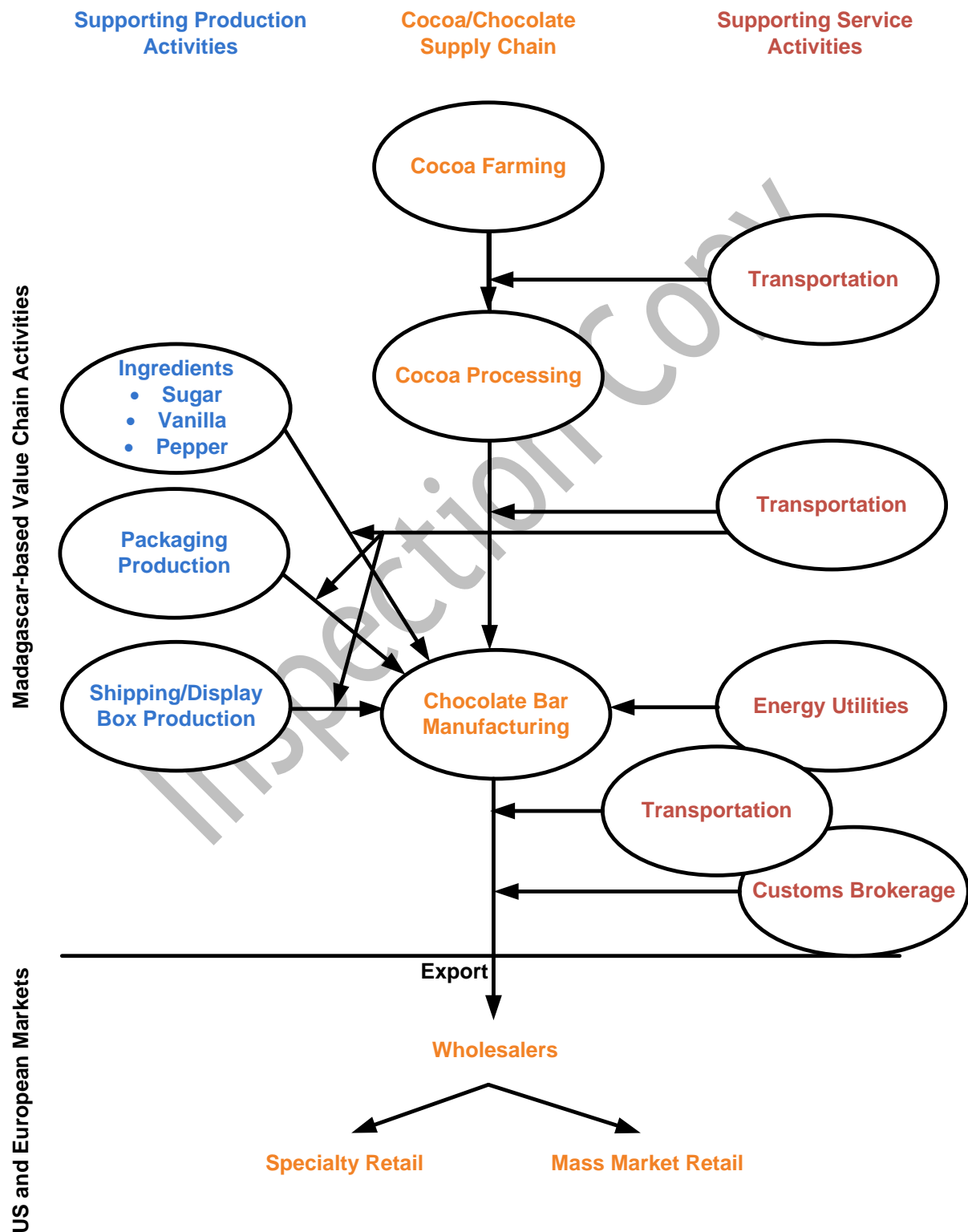


Exhibit 7: Labor Analysis of Madecasse Business Model – From Cocoa to Export-Ready Chocolate Bar

Activity	KG of Cocoa	KG of Chocolate	# of 75g Bars	# of People	Hrs/Person	Total Hours
Cocoa Farm						
Dry Cocoa Production	81		1,293	1	160	160
Transport Farm	2,000		31,746	3	6	18
Transport Ambanja	5,000		79,358	3	24	72
Madecasse Cocoa						
Cocoa Technicians	2,500		2,507	1	160	160
Madagascar Manager	2,520		39,999	1	160	160
Cultivation	1,000		15,866	4	20	80
Harvest	1,000		15,866	1	8	8
Processing	1,000		15,866	4	8	31
Transport	5,000		79,358	3	48	144
Print Factory						
File & Plate preparation			10,000	2	3	6
Printing			10,000	3	4	12
Cutting			10,000	1	4	4
Hole Punching			10,000	1	2	2
Gluing & Folding			10,000	20	13	260
Quality Control			10,000	1	2	2
Box Maker						
Production - Case box			6,000	3	1	3
Production - Master			14,400	3	1	3
Transport to Chocolate Factory			26,666	2	4	7
Chocolate Factory						
Sorting Cocoa		77	1,027	1	8	8
Roasting		77	1,027	2	1	2
Winnowing		77	1,027	2	1	2
Conching (grinding)		655	8,733	1	5	5
Tempering & Molding		870	11,600	5	24	120
Packaging		360	4,800	20	10	200
Export						
Chocolate Production			266,666	4	4	16
Customs Broker Team			266,666	2	6	12
Madecasse Support			266,666	2	6	12
Labor breakdown for each stage of the process, from growing beans to exporting chocolate bars.						
The labor hours relate to the production quantities in each row. All labor is shown in 75-gram bar equivalents.						
Where the labor is directly related to cocoa or chocolate, the relevant quantities are shown.						

Exhibit 8: Labor Analysis as 1 KG Chocolate Bar Equivalents Bars

Activity	# of 75g Bars	Total Hours	Hours/Bar	Minutes/Bar
Cocoa Farm				
Dry Cocoa Production	1,293	160	0.1237	
Transport Farm	31,746	18	0.0006	
Transport Ambanja	79,358	72	0.0009	
Subtotal			0.1252	7.5131
Madecasse Cocoa				
Cocoa Technicians	2,507	160	0.0638	
Madagascar Manager	39,999	160	0.0040	
Cultivation	15,866	80	0.0050	
Harvest	15,866	8	0.0005	
Processing	15,866	31	0.0020	
Transport	79,358	144	0.0018	
Subtotal			0.0771	4.6282
Print Factory				
File & Plate preparation	10,000	6	0.0006	
Printing	10,000	12	0.0012	
Cutting	10,000	4	0.0004	
Hole Punching	10,000	2	0.0002	
Gluing & Folding	10,000	260	0.0260	
Quality Control	10,000	2	0.0002	
Subtotal			0.0286	1.7160
Box Maker				
Production - Case box	6,000	3	0.0005	
Production - Master	14,400	3	0.0002	
Transport to Chocolate Factory	26,666	7	0.0003	
Subtotal			0.0010	0.0583
Chocolate Factory				
Sorting Cocoa	1,027	8	0.0078	
Roasting	1,027	2	0.0019	
Winnowing	1,027	2	0.0019	
Conching (grinding)	8,733	5	0.0006	
Tempering & Molding	11,600	120	0.0103	
Packaging	4,800	200	0.0417	
Subtotal			0.0643	3.8561
Export				
Chocolate Production	266,666	16	0.0001	
Customs Broker Team	266,666	12	0.0000	
Madecasse Support	266,666	12	0.0000	
			0.0002	0.0090
Total			0.2963	17.7806
Labor breakdown for each stage of the process, from growing beans to exporting chocolate bars. The first two columns have been take from Exhibit 7. All labor times are shown in 75-gram bar equivalents.				

Exhibit 9: Packaging and Story-Telling on Madécasse 75g Chocolate Bars



Exhibit 10: The Madécasse Story: “What We Do For the Planet” and “Beyond Fair Trade”

