

DSOF CASE STUDY

THE COCOA EXCHANGE: A SWEET SPOT IN THE SUPPLY CHAIN



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THE COCOA EXCHANGE

In May of 2017, Mars, Incorporated, the world's largest chocolate company, announced the launch of a new stand-alone subsidiary called The Cocoa Exchange. While Mars focuses on mass producing products like Snickers and M&M'S that are available in all distribution channels, The Cocoa Exchange aims to sell exclusive and premium chocolate products directly to consumers through a commission-based sales force under three product lines: Pod & Bean, Dove Signature, and Pure Dark. The Cocoa Exchange's mission is to create incremental, non-cannibalizing growth for Mars through niche products targeting individual consumers rather than the mass market. The company accomplishes this by creating supply-chain efficiencies, thanks to its parent company, and using the direct selling business model.

Direct selling is the marketing and selling of products to consumers through direct sales contact locations like homes, workplaces, or online other than retail store locations. Direct sellers are not actually employees of the companies they are working for, but instead they are independent

contractors selling the company's products. Individuals are interested in becoming direct sellers for many reasons, some of which include the perks, flexibility, and a passion for the products they are selling. It can be a more relational, customized form of selling and allows for even greater market reach and segmentation. Direct selling is also a great part-time job opportunity.

Procurement is one of the most important, mutually beneficial aspects of the Mars and The Cocoa Exchange relationship. Chocolate is made from cocoa, which can only be grown in very few places around the world. The Cocoa Exchange sources most of their cocoa from farmers in developing countries like the Ivory Coast and Ghana in West Africa. Most of these farms are family run with the women of the family doing most of the work. Harvesting cocoa begins by removing ripened pods from the trunk and branches of a cocoa tree. Next, the pods are opened and cocoa beans are removed. Afterwards, beans are fermented and dried before they can be processed into chocolate. The Cocoa Exchange has the benefit of using





Mars' robust supply chain. The Cocoa Exchange is able to source their cocoa beans directly from farmers, just like Mars. The direct selling model that The Cocoa Exchange uses is different from Mars, which uses marketing intermediaries like wholesalers and retailers. The Cocoa Exchange's goal is to make specialty chocolate products, such as Pod & Bean Cappuccino Carmel S'mores or Dove Signature Sea Salt Carmel Collection that appeal to a much more targeted slice of the market. Having less intense market coverage adds to the exclusivity of the company's premium products and adds more allure to the luxury brand.

The Cocoa Exchange has created a commission-based independent contractor labor force called "curators" to sell its products through in-house parties. Party attendees can sample a range of exclusive products from The Cocoa Exchange and purchase the products they like through their curator's online store. Curators receive a 25 to 40 percent commission on products sold from their individual online store and gain access to exclusive discounts up to 50 percent depending on performance. The Cocoa Exchange provides starter kits which cost curators \$129. Within 1-2 parties, the curators can expect to recoup the cost of the starter kit. Curators provide free shipping on the items ordered. Additionally, as curators sales grow, they earn credits they can use to shop. The company also

ships products directly to the consumer, so curators are not burdened with inventory management. Premium chocolates and other Cocoa Exchange products are carefully handled so that they arrive fresh and in 'mint' condition. Direct selling encourages an entrepreneurial spirit in their chocolate sellers, allows The Cocoa Exchange to find new customers, and helps the company maintain a robust and efficient supply chain.

Businesses are continually putting more emphasis on environmental issues, and The Cocoa Exchange is no exception. The company believes that sustainability has to be at the heart of everything they do, especially since they are invested in the agricultural industry. Demand continues to grow for chocolate, especially in developing parts of the world like India. However, sourcing cocoa sustainably is limited since the crop can only grow in certain areas near the equator. Because of these challenges, The Cocoa Exchange aims to improve conditions for farmers so that they can create a larger supply of cocoa.

Cocoa certification has become an important process since 2010. An organization called UTZ investigates cocoa farms to ensure that they are being run in a sustainable way. Mars and The Cocoa Exchange have committed to certifying 100% of their cocoa by 2020 and currently certify over 50%. Due to the large amount of cocoa that Mars and The Cocoa Exchange buys, the certification standards can make a big environmental difference.



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Mars has also established a research center called the Mars Center for Cocoa Science to study how to increase yields and sustainability. Cacao farmers only produce 10% of the output that they could under perfect conditions, so Mars has made efforts to increase yields through their research and by helping individual farms. The research facility located in Bahia, Brazil has created a genome project to better understand cocoa and to develop new techniques that would increase yields. Another part of the sustainability effort was to create the Sustainable Cocoa Initiative (SCI). This program aims to raise productivity and improve farming communities in their main production areas like West Africa and Asia. Part of this process is to empower women financially and socially.

Mars and The Cocoa Exchange put an emphasis on empowering women in all steps of the cocoa production process. Women make up around 45% of the labor force in the cocoa supply chain. However, women are not given access to the same level of training and resources, and women on family farms are often paid substantially less or not at all. Mars and The Cocoa Exchange have created a demonstration project that they call Vision for Change (V4C) to help train women in farming practices, financial literacy, and leadership skills.

As part of the V4C program, Mars has set up Cocoa Development Centers that are used as distribution and training hubs. These hubs train





workers in agricultural practices and provide supplies like fertilizers and pesticides. Research by Farming First has shown that women farmers' yields are 20-30% lower than men due to a lack of access to resources like fertilizers and plants. The V4C program's goal is to reduce this gap. Training centers are built to accommodate hundreds of women where they are taught important financial literacy skills like signing up for a savings and loan organization, planning and marketing, and basic accounting skills.

Through a partnership with the CARE organization, Village Savings and Loans Associations have been established in 25 cocoa communities to provide funding for women to grow their cocoa production. Mars and The Cocoa Exchange have also partnered with the International Center for Research on Women (ICRW) which studies what helps to empower women economically, mainly in

agricultural supply chains. ICRW helps establish methods to empower women cocoa farmers as well as monitoring progress on women's empowerment in the program.

By partnering with the humanitarian group, CARE whose goal is to end global poverty, The Cocoa Exchange aims to establish Savings & Loan Associations in West African villages to give farmers more access to capital and the ability to improve their business skills. Additionally, Mars has made a commitment to only using certified sources of cocoa. By investing in the suppliers from which The Cocoa Exchange sources and purchases its chocolate, the company has greater influence over the sustainability of its supply chain. The direct selling channel provides the opportunity for consumers to learn about the Cocoa Exchange, its high quality products and its commitment to social responsibility.



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