

# **Closing the gap between the current and potential conditions in the cocoa (production) industry – comparing Colombia and Mexico –**

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## **ABSTRACT**

This thesis aims to identify business strategies to close the gap between the current and the potential conditions in the cocoa production industry, comparing the situations in Colombia and Mexico.

On the basis of meaningful background information of the countries and their cocoa industry, potential business strategies to improve the farmer's negotiation power as well as B2B Marketing strategies to ensure a fair and sustainable cocoa business were examined. In addition, drivers and barriers that support or hinder fair and sustainable cocoa production were considered, to have a greater picture beyond the borders of the cocoa industry. To make the analysis complete, the local experts and cocoa producers from both countries were invited to share their impressions, opinions and ideas by answering two surveys, which were tailored appropriately to the purpose of this paper.

Overall, in Colombia, the most significant business strategy is the establishment of Strategic Alliances. Nonetheless, also Diversification, Horizontal Integration, Vertical Integration, In-House Production and Niche Market Targeting play an important role, while Local Exchange and Trading Systems (LETS) and Share Acquisition are currently not being commonly in Colombia. In terms of B2B Marketing Strategies, Certification Schemes and Buyer-Supplier Relationship-Building are most important, although also Joint Ventures and Co-Creation play a significant role in Colombia.

In Mexico, the most important Business Strategies are Diversification, Strategic Alliances and Niche Market Targeting. However, also Horizontal Integration, In-House Production and Barter Economy are important strategies in Mexico, while Vertical Integration, LETS and Share Acquisition are currently not being applied in the country. In terms of B2B Marketing Strategies, Joint Ventures and Joint Ventures are of most significant importance in Mexico. Nonetheless, also the usage of Certification Schemes and Co-Creation is considered to be essential.

In addition to all Business Strategies and B2B Marketing Strategies, Drivers, such as Business Ethics, Governmental, Economic and Regulatory Interventions as well as an Increase in Partnerships and Associations, and Barriers, like Food Speculation, Governmental, Economic and Regulatory Interventions, Customer Expectations, Infrastructural issues and the Concentration of Buyers have great effects on sustainability and fairness within the cocoa industry.

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## **Keywords**

Cocoa – Colombia – Mexico – Business Strategy – B2B Marketing Strategy – Driver – Barrier

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*I'm starting with the man in the mirror  
I'm asking him to change his ways  
And no message could have been any clearer  
If you want to make the world a better place  
Take a look at yourself and then make a change*

*- Michael Jackson -*

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## 1. INTRODUCTION

Cocoa – the food offering several purposes is commonly known for its contribution to a wide product range and its delicious flavor, which enjoys incredible popularity worldwide. Most people associate the thought of cocoa with chocolate. However, next to its nutritional value and special taste, cocoa can be seen as so much more than just a semi luxury food. Viewed from another perspective, cocoa and its production can raise concerns about fair trade, labor conditions and sustainable cultivation.

According to the National Confectioners Association's Chocolate Council (NCA chocolate council, 2014), the cocoa bean is a fruit harvested from the cocoa tree, which is called *Theobroma Cacao*. The tree typically grows in tropical areas like West Africa, South-East Asia and Central – and South-America. Cocoa trees need hot and rainy climates around the equator to flourish properly. The conditions for planting and growing cocoa trees require precise weather conditions and care, which makes the growing of cocoa trees a task that has to be handled with precision and expert knowledge.

People have been enjoying cocoa already for four thousand years (NCA chocolate council, 2014). Before it turned into an agricultural commodity, cocoa has grown wildly in the areas of today's southern Mexico and Central America. The ancestors have used cocoa beans as currency and have enjoyed it as a chocolate beverage for everyday usage and in rituals. Next to that, chocolate has cultural value with its special characteristics.

In addition, Dillinger et al. (2000) state that chocolate has been used for medicinal treatments throughout history, initially by the Olmecs, Mayans and Aztecs. These practices have widespread to Europe in the mid 1500s. Chocolate can be utilized as a primary form of medication or as a vehicle to consume other medications.

Today, forty- to fifty million people depend on cocoa as a basis of life (NCA chocolate council, 2014). With the advancement of economy and technology, the product range based on cocoa beans has widely increased. According to ICCO (2014), almost every part of the cocoa bean can be utilized to produce goods. The husks of the cocoa pods and the pulp which surrounds the beans as well as the shell of the cocoa bean can be used to produce animal feed, soft drinks and alcohol, soft soap, jam and marmalade, mulch and fertilizer for cocoa, vegetables and food crops. Dried and fermented cocoa beans serve as basis for cocoa butter, cocoa powder and cocoa liquor, all of which are used for manufacturing chocolate. Cosmetics can be derived from cocoa butter, while cocoa powder serves as raw material for chocolate flavored drinks, desserts like ice cream, cakes, biscuits, sauces and chocolate spreads.

As mentioned before (NCA chocolate council, 2014), the trees are nowadays also grown in West-Africa and South-

East Asia, not only in Central- and South-America. However, in this thesis, the focus lies primarily on two countries located in Central- and South-America; namely Colombia and Mexico. The reason why these two countries were selected is based on the active communication and cooperation between the University of Twente and stakeholders in the cocoa industries from those countries.

Since cocoa represents one of the most important and most demanded commodities around the globe, cocoa and its cultivation, processing and consumption are topics of great importance concerning modern economy, society, technology, sustainability and environment. The world market shows an excessively high demand for cocoa beans. And since the world's population grows and becomes more demanding for popular commodities, the demand for cocoa is increasing constantly. However, it is necessary to consider how the life standards and the labor conditions of cocoa producers and their employees develop in relation to the high demand of cocoa and the wealth of the end consumer in first world countries. The demand for sustainability in the cocoa supply chain is increasing as well; as a critical focus has been developed lately to uncover unacceptable working conditions and to highlight the lack of appreciation for the people involved in the cocoa business in third-world countries. Fair trade organizations are concerned about fair treatment of cocoa producers in terms of human rights, appropriate rewarding schemes for the cocoa harvest and all work related to it. Certification labels are supposed to point out which organizations are committed to fair trading conditions among their supply chain. But still, fair trade labels can be misused as a kind of disguise, to ensure good reputation among the end-customers. So in a world of standards, globalization and a common understanding of human rights, the emerging topic of cocoa is of high importance to establish the true meaning of fair trade conditions in supply chains.

Therefore, this research is dedicated to answer research questions related to the strategies used in a business environment to strengthen the position of cocoa farmers vis a vis their clients and competitors in order to enable them to improve their operations and living conditions. Following to profound background information about Colombia and Mexico, the problem statement will reveal the difficulties currently characterizing the local cocoa industries; which will lead to the research questions on which this thesis is focused on.

## 2. BACKGROUND INFORMATION ABOUT COLOMBIA AND MEXICO

In addition to a deeper understanding about cocoa itself, it is important to consider other conditions that surround the cocoa production and the farmers involved in it. Several aspects, like the geographic location; politics; economics; culture and the purpose of cocoa production of the three countries of observation, play an important role in the value, trading conditions and appreciation of

cocoa. Therefore, this section aims to deliver more detailed information about the unique circumstances of cocoa production in Colombia and Mexico.

## 2.1 Geographical Comparison

Chocolate originates from the areas of today's Central and South-America, where a tropical climate is prevailing. Nowadays, cocoa is also grown in West-Africa and South-East Asia, as the culture of cocoa-planting has spread for various reasons. The location of the countries of observation in this thesis; namely Colombia and Mexico, align well with the regions of the origins of the cocoa trees.

While Mexico is located in the south of North-America, Colombia lies in the north of South-America. Therefore, both countries are positioned in close distance to the equator line. The tropical climate and the close proximity to the equator line are necessary pre-conditions for the successful flourishing of the cocoa trees (NCA chocolate council, 2014). Both countries have areas of tropical climate (World Travel Guide, 2014), in which there are relatively constant high temperatures in each month of the year. Colombia has an annual average temperature of 23,4 degrees, while the average temperature lies at 20,6 degrees in Mexico (Weatherbase, 2014), which indicates that there are pleasantly warm temperatures in both countries. According to CIA – The World Factbook (2014), Mexico has tropical climate as well as desert climate. In Colombia, the climate varies depending on the area within the country, so that it is tropical along the coast and the plains in the east of the country. However, the temperature is cooler in the Colombian highlands. Since the best conditions for cocoa cultivation lies in zones of tropical climate, it is no surprise that cocoa originates from the area that is nowadays covered by countries like Colombia and Mexico.

## 2.2 Political and Economic Situation

Before it is possible to deliver any suggestion or to form a statement concerning the cocoa industry in Colombia and Mexico, it is necessary to present relevant information about the countries' political background and their economic situation and circumstances relevant to the topic.

CIA – The World Factbook (2014) informs about the Colombian politics led by a president in a democratic political environment. The government of Colombia is concentrating on the reduction of unemployment and decreasing the dependence on profit based on exports. Also, the focus lies on improving Colombia's infrastructure for the purpose of economic expansion and on the improvement of the uncertain security conditions in the country. The legal system in Colombia is based on civil law, influenced by the Spanish and French civil codes.

The economy of Colombia has been quite stable during the last two years. Even though the GDP growth has

dropped from 6,6% in 2011 to 4,2% in 2012, it has remained stable with 4,2% in 2013. The results of a measurement in 2012 have shown that 32,7% of the Colombian population live below the poverty line in terms of food-based poverty. There is no statement given about the situation of asset-based poverty. Colombia is active in producing and exporting goods (CIA – The World Factbook 2014). It is operating in industries like textiles, clothing and footwear, oil, chemicals, cement, coal, emeralds, coal, food processing and beverages. Colombia most common export goods are petroleum, coal, nickel, emeralds, cut flowers, apparel, bananas and coffee. It exports 36,6% of goods to the US market, 5,5% to China, 4,8% to Spain, 4,7 to Panama, 4,4% to Venezuela and 4,1% of goods to the Netherlands. In terms of agriculture, Colombia produces mostly cocoa beans, coffee, bananas, cut flowers, rice, corn, sugarcane, oilseed, vegetables, tobacco and forest products. However, even though cocoa is commonly produced in Colombia, it is not listed as one of the greatest export commodities that Colombia provides.

Continuing with Mexico's politics, it is important to point out that this country is a federal democratic republic with a presidential leadership (CIA – The World Factbook, 2014). The Mexican government currently aims for improvement in competitiveness and economic growth in the Mexican economy. The same source reveals that Mexico has a civil law system, which is influenced by the United States' constitutional law system. In terms of economic information about Mexico it is of interest to mention that Mexico's GDP growth has decreased to 1,2% in 2013 from 3,6% in 2012 and 4% in 2011! The same source of information reveals that the distribution of income is very unequal in Mexico. It has been measured that in 2012, in the food-based definition of poverty, 52,3% of the Mexican population lives in standards below the poverty line, while in the asset-based measure, 47% of the Mexican people lives below the poverty line. According to CIA – The World Factbook (2014), Mexico is operating in industries like food and beverages, textiles, clothing, tobacco, chemicals, iron and steel, mining, petroleum, consumer durables and tourism. Furthermore, Mexico mainly exports oil and oil-based products, manufactured goods, cotton, silver, vegetables, fruits and coffee to other countries. The United States of America seem to be the biggest purchaser of all imported Mexican goods, since they account for 78% of all Mexican exports in 2012 (CIA – The World Factbook 2014). Concerning the agricultural sector, Mexico produces coffee, rice, corn, wheat, soybeans, cotton, fruit, tomatoes, beef, poultry, wood products and dairy products. According to the given data, cocoa is not explicitly mentioned as one of the biggest commodities produced or exported.

## 2.3 Demographic Information

Before assessing or making recommendations, it is highly important to have a general impression of the country, its people and their demographical background. Each country has its special characteristics, which will be revealed shortly in this section.

According to the CIA – The World Factbook (2014), Colombia currently has a population of 46,245,297 people, as estimated in July 2014. Of this population, 75,3% live in urban areas, while the residual 24,7% live in Colombia's rural areas. Nonetheless, during the recent years, the urbanization rate grows by 1,65% annually. The official language in Colombia is Spanish. In terms of literacy, the ability to read and write at the age of 15 and above, is at 93,6% in Colombia as estimated in 2011. On average, Colombian children and youth are provided an average of 13 years of education, ranging from primary to tertiary education, which varies depending on the person and the area.

In Mexico, the population currently consists of 120,286,655 people, as estimated in July 2014 (CIA – The World Factbook, 2014). 78,1% of the Mexican population live in urban areas and 21,9% apparently live in rural conditions. However, Mexico has an urbanization rate of 1,49% annually during the past few years. The official language, Spanish, is spoken by most Mexicans. Nonetheless, various indigenous languages are spoken in Mexico as well. Among a variety of regional languages and accents, these indigenous languages include the Mayan language and Nahuatl, which is the Aztec language. Regarding literacy, which is defined as the ability to read and write at the age of 15 and above, the rate is 93,5% in Colombia, estimated in 2011. Depending on the background of the pupil and the area, on average, Mexican children and youth enjoy 13 years education, ranging from primary to tertiary education.

## 2.4 Information about Cocoa Production in Colombia and Mexico

From all the countries in the world, Colombia and Mexico are among those that produce cocoa for the purpose of worldwide processing and consumption. The figure below, provided by FAOSTAT – the Food and Agricultural Organization of the United Nations (2014), shows the countries that have cultivated cocoa in 2012 and the percentage of much each country has contributed. Apparently, Colombia and Mexico are not the highest-producing, but also not the lowest-producing countries in the world. In comparison to the other cocoa-producing countries, Colombia has produced 1% of all cocoa, while Mexico produced 1,68% of all cocoa worldwide.

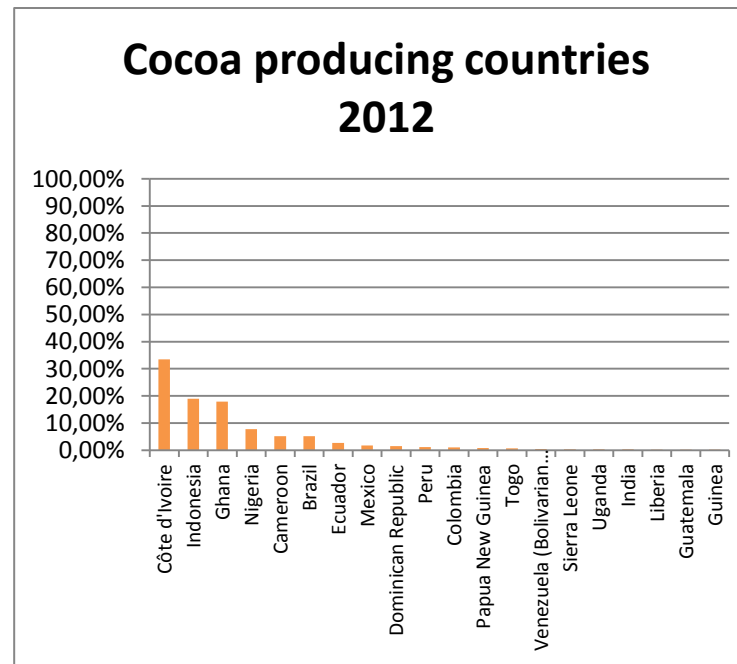


Figure 2.4.1: Cocoa producing countries and the amount they have produced (%) in 2012 (FAOSTAT, 2014)

However, it is interesting to see how the amount of cocoa produced has developed during the recent years, each in Colombia and Mexico.

According to FAOSTAT (2014), the cocoa production in Colombia has had some ups and downs during the past few years. Nonetheless, the production rate is increasing slowly, but steadily since 2010 and 2012, which is the latest year of measurement. In 2012, the amount of cocoa beans produced was 49,508 tons, as it has increased from 39,904 tons in 2007.

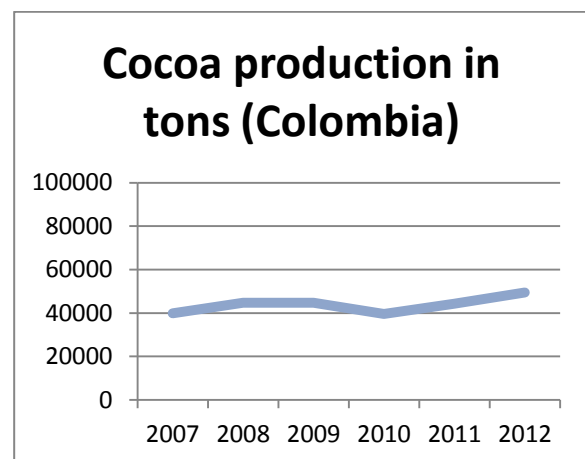


Figure 2.4.2: Cocoa production in tones from 2007 until 2012 in Colombia (FAOSTAT, 2014)

On the other hand, the Mexican cocoa production has experienced an immense growth during the past years. Apparently, the amount of cocoa produced in the country has more than doubled since 2007, which indicates very promising conditions for cocoa cultivation recently. From a production volume of 40,000 tons in 2007, the Mexican

cocoa industry has increased its production to an output of 83,000 tons of cocoa beans in 2012.

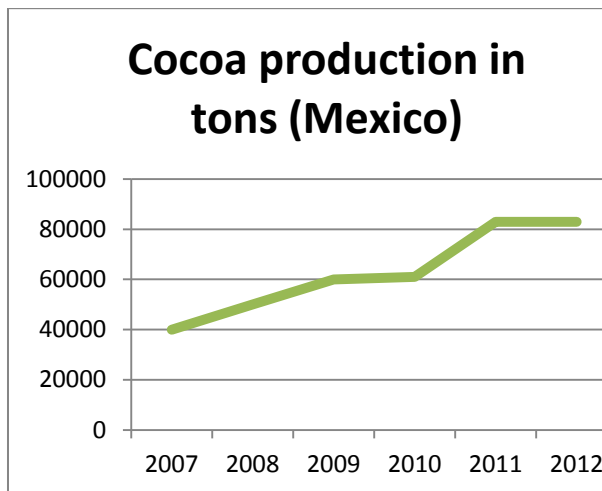


Figure 2.4.3: Cocoa production in tones from 2007 until 2012 in Mexico (FAOSTAT, 2014)

Only the developments in the cocoa bean cultivation of the recent years have been observed for this particular matter. Therefore, older facts in the growth of production are not directly being considered here. However, this section aims to provide profound background information only about the current developments and conditions in the cocoa industries of Colombia and Mexico.

### 3. PROBLEM STATEMENT AND RESEARCH QUESTIONS

#### 3.1 Problem Statement

Mainly two sources of struggle within the cocoa industry can be identified. On the one side it emerges from the industrialized countries and the other side it originates in the producing countries in the developing world. First of all, the increasing demand for cocoa and chocolate-related products in Western countries and the first world is significantly increasing, while the adaption of adequate prices for cocoa is not very welcome approach. The industrialized world expects commodities in exchange for an attractive price, which middlemen and chocolate producing companies aim to offer, in order to keep their competitive advantage.

It is the pressure from the competition and also from consumers, that makes companies and middlemen source cocoa for too low of a price. It is a big problem that industrial countries exploit poorer countries for their own benefit.

This issue has gained plenty of attention recently from the media and organizations related to human-rights or development. Due to that, many companies have introduced renewed company codes and ethical guidelines in their business strategies. Companies also do not hesitate to make their business ethics visible for their consumers, since many people are becoming aware of the unfair conditions for farmers in the cocoa industry.

However, investigation of big players within the cocoa industry often leads to unclear results and hidden facts, which does not deliver reliable impressions. It commonly seems that nobody within the supply chain is completely responsible for the bad situations in cocoa-delivering countries. Alternative, responsible persons claim that they were not aware of the actual bad situation after the media or development-organizations have uncovered facts that were hidden from the public.

This leads to the conclusion that in many cases, business ethics of chocolate companies are used for window-dressing. Because it is the trend in modern markets that companies act ethically correct throughout their entire supply chain, it is often misused by companies to maintain a good image and to improve their reputation. The problems in the cocoa industry originating in the developing and cocoa-producing countries are numerous. First of all, the lack of knowledge and transparency about the upward stream of the supply chain makes it unable for farmers to have strong negotiation power. The farmers have not have great access to extensive information and therefore do not have a full understanding about the supply chain. Additionally, the fact that the farmers do not have the means to develop a sophisticated business strategy to be an equal opponent with big chocolate companies and middlemen makes it very difficult for them to achieve fair business conditions.

Secondly, the protection from exploitation is insufficient in many developing countries. The legal systems and infrastructures of such countries are often unstable and are being overruled by corruptive conditions. This also results in a lack of trust toward other stakeholders in the industry. Therefore, it is likely that bad conditions are being accepted to ensure survival anyway. The government and other instances like legal institutions do not show enough appreciation for the cocoa commodity and the work related to it to protect farmers adequately from exploitation.

Thirdly, competition amongst farmers is a big barrier to fair conditions in the cocoa industry. The pressure from rivalry can be a struggle for farmers. Here, the lack of communication and trust plays an important role, because it is not easy to coordinate collective protection against exploitation if farmers do not dare to rely on each other. If a farmer denies a purchase because the offer is too low, there is the risk that that the buyer will switch easily and source its cocoa elsewhere, while the farmer may have difficulties to switch and find another buyer in time. The farmer would then face difficulties to maintain its family, which should be prevented.

The fourth problem from the side of the cocoa producing countries is that it is difficult to obtain fair trade certificates that will ensure stable and fair working conditions. There are many different labels that promise fair trade products or organic products. However, it is not always easy for farmers to be considered as potential

suppliers for these kinds of products, depending on the extent of harvest they can provide, their product range, their location or the quality of products offered.

### 3.2 Research Questions

It is obvious that the prevailing problems in the cocoa industry can and should be tackled from two sides, namely from the buyer's side as well as from the supplier's side. Each side has emergent points of potential improvement and development. For that reason, an investigation into the Business-to-Business relationship of both sides of the supply chain is important. It is obvious that cocoa producers in the developing world are in a weaker position and have less means to protect themselves from exploitation from industrialized countries.

Therefore, this thesis aims to answer the following research questions to develop clear and new strategies for the improvement of living conditions and greater negotiation power of cocoa producers in Colombia and Mexico:

**How could the gap between current and potential conditions in the cocoa industry be closed to enable fair and sustainable cocoa production in Colombia and Mexico?**

- **Which business strategies can empower the negotiation position of the Colombian and Mexican cocoa producers?**
- **What are the B2B Marketing strategies that the cocoa producers in Colombia and Mexico could use to achieve fair and sustainable conditions in cocoa production?**
- **What are the most significant drivers and barriers supporting and/or hindering fair and sustainable conditions in the Colombian and Mexican cocoa industries?**

## 4. RESEARCH METHODOLOGY

The research conducted to answer the above mentioned research questions relies on various sources and ways of gathering appropriate data. Existing empirical data and literature is being reviewed and analyzed to deliver profound and scientific evidence and findings in relation to research questions. Also trustworthy online sources, statistics and governmental information are being considered to contribute to this research. As far as it is available, documents and information provided by organizations, as in this case documents provided by ICCO, are being used to contribute to answering the research questions.

Two sorts of surveys deliver country-specific information about the conditions in the cocoa industry in Colombia and Mexico. The first survey was addressed to local

experts in Colombia and Mexico, who advise and support the cocoa producers in their region. In this approach, two experts from Colombia and one expert from Mexico have responded to the survey.

The second survey was addressed to the cocoa producers themselves, so that they can share their point of view for the purpose of this research. In Colombia, two cocoa producers responded to the survey, while in Mexico seven responses were gathered.

All surveys that were sent, to experts as well as to cocoa producers in both countries, aimed to receive as many answers as possible. Because the participation in the surveys is voluntary, an imbalanced amount of answers was being achieved.

Both surveys were available in English and Spanish language, enabling participation for any target respondent, which resulted in multilingual answers. To keep consistency and to adapt to the language of this thesis, all survey results have been translated to English. Both surveys contain questions and topics aiming to solve the above mentioned research questions relating to the cocoa industry. While some of the questions request clear information, other questions leave room for individual opinions and ideas of the respondents.

The analysis of the surveys depends on the response rate and the nature of each particular question. Since only two experts from Colombia and one expert from Mexico have answered the experts' survey, it is not appropriate to present the findings in a graphical way or as percentages. Therefore, the outcomes of the surveys are being qualitatively formulated. The producers' survey responses were more extensive, which enables transformation in percentage values and graphical display of the findings.

In addition to the surveys, a Skype-interview was conducted with a Colombian expert, who has revealed more detailed information about many areas; specifically about the Colombian Cocoa industry.

The table below reveals the detailed approach of data gathering, the target group addressed for each particular matter, the relevant findings and the time frame in which the research has been conducted.



Research Question	Research Methods	Target Group	Outcomes/Findings
1. How could the gap between the current and potential conditions in the cocoa industry be closed to sustain cocoa production in Colombia and Mexico?	<ul style="list-style-type: none"> <li>- Literature Review</li> <li>- Reliable online sources</li> <li>- Survey experts</li> <li>- Survey cocoa producers</li> <li>- Interview with anonymous expert from Colombia: Personal advice and recommendations</li> </ul>	<ul style="list-style-type: none"> <li>- Cocoa producers</li> <li>- Experts</li> <li>- Potentially for future research: intermediaries and other stakeholders, NGO's, consultants and organizations that support improvements in the cocoa industry, big players in the cocoa industry could be involved</li> </ul>	<ul style="list-style-type: none"> <li>- Business - and B2B Marketing strategies (tailored to the needs and circumstances of the local cocoa producers)</li> <li>- Long-term support from many stakeholders</li> <li>- Financial support</li> </ul>
1.1 Which business strategies can empower the negotiation position of Colombian and Mexican cocoa producers?	<ul style="list-style-type: none"> <li>- Literature Review</li> <li>- Reliable online sources</li> <li>- Survey experts</li> <li>- Survey cocoa producers</li> <li>- Interview with anonymous expert from Colombia: Personal advice and recommendations</li> </ul>	<ul style="list-style-type: none"> <li>- Cocoa producers</li> <li>- Experts</li> <li>- Potentially for future research: intermediaries and other stakeholders, NGO's, consultants and organizations that support improvements in the cocoa industry</li> </ul>	<ul style="list-style-type: none"> <li>- Diversification</li> <li>- Horizontal Integration</li> <li>- Vertical Integration</li> <li>- In-House Production</li> <li>- Strategic Alliances</li> <li>- LETS</li> <li>- Share Acquisition</li> <li>- Niche Market Targeting</li> </ul>
1.2 What are the B2B Marketing strategies that cocoa producers in Colombia and Mexico could use to achieve fair and sustainable conditions in cocoa production?	<ul style="list-style-type: none"> <li>- Literature Review</li> <li>- Reliable online sources</li> <li>- Survey experts</li> <li>- Survey cocoa producers</li> <li>- Interview with anonymous expert from Colombia: Personal advice and recommendations</li> </ul>	<ul style="list-style-type: none"> <li>- Cocoa producers</li> <li>- Experts</li> <li>- Potentially for future research: intermediaries and other stakeholders, NGO's, consultants and organizations that support improvements in the cocoa industry</li> </ul>	<ul style="list-style-type: none"> <li>- Certification Schemes</li> <li>- Buyer-Supplier-Relationship-Building</li> <li>- Joint Ventures</li> <li>- Co-Creation</li> </ul>
1.3 What are the most significant drivers and barriers supporting and/or hindering fair and sustainable conditions in the Colombian and Mexican cocoa industries?	<ul style="list-style-type: none"> <li>- Literature review</li> <li>- Reliable online sources</li> <li>- Survey experts</li> <li>- Survey cocoa producers</li> <li>- Interview with anonymous expert from Colombia: Personal advice and recommendations</li> </ul>	<ul style="list-style-type: none"> <li>- Cocoa producers</li> <li>- Experts</li> <li>- Global players like governments, banks, businesses and especially big chocolate manufacturers</li> <li>- Might play a role: NGO's, consultants and organizations that support improvements in the cocoa industry</li> </ul>	<ul style="list-style-type: none"> <li>- Drivers: Business Ethics, Governmental, Economic and Regulatory interventions, Increase in Partnerships and Associations</li> <li>- Barriers: Food Speculation, Governmental, Economic and Regulatory Interventions, Infrastructure and Rural Areas, Concentration of Buyers</li> </ul>

Table 4.1: Overview of the research methods, target group and outcomes of the research

## **5. MEANINGFUL BUSINESS STRATEGIES WHICH IMPROVE THE NEGOTIATION POSITION OF COCOA FARMERS**

Each party that is involved in transactions can, in a range of possibilities, apply business strategies for its own advantage. This is done to gain independence and competitive advantage. Therefore, a range of business strategies, applicable in the cocoa industry, will be presented as potential new courses of action.

### **5.1 Diversification**

With a high potential for innovation and for receiving customer attention, diversification is a great strategy to apply in any business. This creative strategy reduces the risk of buyers' switching and is applicable in many different ways.

According to Johnson et al. (2011), diversification is defined as the expansion of the current range of products and services. The cocoa producers could expand within the field of agriculture, as to cultivate not only cocoa, but also commodities like coffee, potatoes, tomatoes or other fruits and vegetables.

Donovan (2006) claims that in Central America, diversification has become an emerging trend, based on the need to respond to changes in consumer demand. Many consumers are very concerned about health, environmental conservation and socio-economic welfare. Therefore, cocoa producers could produce various kinds of cocoa beans, which are in particular demand by consumers. Through provision of cocoa beans that are the base for special kinds of chocolate or cocoa beans that are organic and come from sustainable agricultural processes, it is more likely to match the high demands of consumers. Therefore, cocoa producers can charge higher prices for different kinds of cocoa, which potentially has a positive effect on their overall income.

According to Brainard and Cooper (1968), diversification is a common goal for many businesses in developing countries because it reduces the dependency on one commodity. In the case of cocoa production, diversification helps to escape the dependence on cocoa as the only source of income. If the cocoa producers would also produce other fruits or vegetables, they could sell these, in addition to cocoa, for the best price possible, locally as well as globally. Therefore, they would spread the risk and the level of income among various commodities. Furthermore, this would imply that the cocoa producers do not have to agree urgently to the next possible deal, but rather, that they can wait for a more prosperous offer to come. As a side effect, the cocoa producers could even live self-sufficient to some extent, if they could keep a part of these vegetables like potatoes or corn for their own household. This would support the idea of making the cocoa producers less dependent on monetary income by export.

However, diversification does not necessarily have to stay in the range of nutritious commodities only. The cocoa producers can expand their business model and relate cocoa to local tourism or entertainment industry. Potentially, many parties within the local community can benefit from this the connection of different sectors. For example, cocoa producers could diversify and work together with local restaurants, which could focus on unique chocolate-based meals. Also, cocoa producers could expand into cultural areas by supporting a local chocolate museum or by encouraging chocolate art. Chocolate art can be made from cocoa-based colors or by shaping chocolate into decorated forms and figures. Depending on the area, cocoa producers could participate in setting up tourism events like for example Mayan- or Aztec-related cultural tours. They could show and tell tourists about the roots of the regional chocolate traditions. Also, cocoa producers could cooperate with tourism branches to organize a kind of chocolate-weekend, where tourists can produce their own tailor-made chocolate within one weekend. This weekend could be designed to be very creative and educational in relation to chocolate production.

This kind of diversification can potentially support the community by attracting tourists and visitors to the region. In addition, it would greatly help to raise awareness about local conditions and traditions.

The expert's survey results show that in Colombia, diversification takes place in the regions of observation. Both experts from Colombia state that the cocoa producers' knowledge level about diversification is good. Based on that, the Colombian experts have not specifically mentioned that further training about diversification is necessary.

However, in the case of Mexico, apparently no use is made of diversification in the local cocoa industry. The Mexican expert thus indicates that the knowledge level about diversification is not sufficient. Therefore, the expert stresses that the regional cocoa producers would appreciate to receive training in this specific matter.

The survey answered by the cocoa producers, yielded results that are clearly in favor of diversification. From the Colombian cocoa producers, 25% have diversification established within their business strategy. In Mexico, 37,5% of the respondents stated that they currently use diversification as one of their business strategies.

In the interview with the anonymous Colombian expert, it has been confirmed that diversification is widely used in Colombia. Cocoa producers do not only cultivate cocoa, but also coffee and other vegetables and fruits. Additionally, in the coastal regions, cocoa producers engage in the practice of fishing.

### **5.2 Horizontal Integration**

As one organization might not be powerful enough to establish their interests within a particular industry, collaborating with like-minded organizations could potentially enable a stronger negotiation position.

When different organizations that are operating in the same stage of production or sales join together, it is called horizontal integration (Johnson et al., 2011). The joining parties may be active in similar or different industries. The advantage of this strategy is that resources

and knowledge can be shared easily, which can strengthen the business enormously. More concretely, for the cocoa producers, this means that they potentially save money since they would share resources such as tools, financial or human resources. The profit that they gain from sharing knowledge can be even greater because it enables new views on operations and the industry. This might be crucial, especially when the producers aim to use innovation as a tool to improve their negotiation position within the cocoa industry.

Horizontal integration is being commonly used in Colombia, according to the survey input of both experts. Due to that, the knowledge level about this strategic move is good, so that there is no further training required at the moment.

In Mexico, the situation seems to be somewhat different. According to the Mexican expert, horizontal integration is not clearly being applied in the Mexican cocoa industry. The cocoa producers' knowledge level about horizontal integration is not good. Hence, the Mexican expert has suggested that training could be appreciated.

According to the producer's survey results, 25% of the cocoa producers in Colombia integrate their operations horizontally. In Mexico, 12,5% of the interviewed cocoa producers use horizontal integration as a common business practice.

### **5.3 Vertical Integration**

Depending on their position in a production chain, players have different access to tools, knowledge and financial resources. The means of a buyer might bring great advantages if they would be shared with the supplier, therefore, vertical integration is a very prosperous strategic move for any supplier that wishes to improve its performance and corporate well-being. The acquisition of different steps of the production chain by a company is called vertical integration (Johnson et al., 2011). By entering these stages, the organization becomes its own supplier or customer, depending on the extent of the vertical integration; therefore, it is more self-sufficient.

According to Johnson, a great advantage of this strategy is that the company gains the profit of other production steps, like for example the retailer profit, as well. If the cocoa producers would engage in vertical integration, they would gain more control about the production and additionally capture the income that would otherwise be earned by the intermediaries or buyers further up the production chain.

ICCO (2014) show how much stake can be gained by moving up the production chain by showing the distribution of intermediaries in the Ecuadorian cocoa industry. 10% of the production activity is executed by collecting intermediaries, while 22% of the production is being done by communal intermediaries who gather the

various cocoa harvests within multiple close locations and villages. Further, 54% of the production is being taken over by regional intermediaries, who collect cocoa harvests on a regional basis. The residual 14% of work is being executed by further intermediaries who will forward the cocoa beans to exporters. Based on this example, cocoa producers could gain inspiration on how the entire process could be spitted in their region. The literature suggests that farmers' associations could be formed to collectively take over some steps of the production chain, such as collecting the cocoa.

Additionally to that, Monteverde and Teece (1982) reveal that the more steps of production are being taken over, the less dependence on buyers and suppliers there is. In that way, opportunism can be avoided and the risk of exploitation is decreased for the company engaging in vertical integration. A certain degree of expertise might even be developed within the scope of vertical integration, which could potentially make the company stand out from its competitors in a positive way. The cocoa producers could use this strategy to escape dependence on big chocolate factories if they would acquire some or many steps of the vertical production chain. By operating on the same level as powerful intermediaries, the negotiation power of cocoa producers would become much greater as they are not anymore at the bottom of the supply chain. The increased expertise resulting from vertical integration can be used by the cocoa producers to stand out from other players at the same level, and to offer a diversified product.

The survey results show that only one of the two Colombian experts chose vertical integration as a strategy that is currently considered by local cocoa producers. The same expert that claimed vertical integration to be in use in Colombia has claimed that the producers' knowledge level about this strategy is good. The other Colombian expert is not sure about the cocoa producers' awareness of vertical integration. However, both Colombian experts think that the cocoa producers would not benefit much from training about vertical integration.

According to the Mexican expert, vertical integration is currently not used as a business strategy in the local cocoa industry. This could be due to the fact the producers' knowledge level about this strategy is only on a medium level. The Mexican expert sees potential positive effects of this strategy and recommends this as educational input for local cocoa producers.

The survey with the cocoa producers' shows, that vertical integration is not used in both countries of observation. None of the producers in Colombia and Mexico have claimed to use vertical integration as a current business strategy.

### **5.4 In-House Production**

Being able to track the entire production chain – from the cocoa tree to the chocolate bar - can be a characteristic

that is very appreciated in the area of diversification and innovation.

As the name suggests, the entire production chain takes place in one house, which is the production site of the producer (Slack et al. 2010). The 'Do it yourself' approach has to be evaluated closely in relation to the organizations capabilities, to make the most profitable and beneficial decision that fits the organization and industry best.

Several advantages stem from in-house production, like for example the increased independence from intermediaries, as the product might be given directly to exporters. Cocoa producers can skip middlemen and operate on a much higher level, which will increase their negotiation power. However, cocoa producers have to cooperate with retailers to distribute and export their product to various markets.

In addition, the profit that would otherwise be gained by a contributor higher in the production chain can now be gained by the producer. For the cocoa producers, this implies a likely increase in income, which can substantially improve their livelihood.

Also, the increased control that comes with in-house production might be beneficial, since it allows a greater overview and more responsibility. This leads to a more profound learning experience for farmers and improves their negotiation position, as they can present their product with thorough transparency to potential buyers.

The survey with the experts showed that only one of both Colombian experts confirms that In-house production is considered in the local cocoa industry. The expert that confirmed the strategy also stated that the cocoa producers' knowledge about in-house production is good, while the other expert claims that it is not sure to what extent the knowledge about in-house production is spread in the local cocoa industry. Nonetheless, both Colombian experts agree that no training about in-house production is needed.

In the Mexican cocoa industry, in-house production is not currently being used, according to the survey outcomes. Not applying this strategy is likely to be a result of the insufficient knowledge of Mexican cocoa producers about in-house production. However, training about this particular strategy would be highly appreciated.

In Colombia, a business strategy aiming for in-house production is apparently not common, since none of the cocoa producers has informed to use this strategy in the survey. However, in Mexico, 6,25% of the respondents confirm to currently use in-house production as their strategic approach.

## 5.5 Strategic Alliances

One organization might not have the capacities, resources and expertise to influence the environment of local intermediaries and international buyers. This can be the result of lacking organizational resources, instable financial security, tradition or competitive pressure. Through strategic alliances, single organizations can overcome these difficulties and use their combined capacities and influence to foster development and change in their favor.

A strategic alliance occurs when organizations work together to obtain benefits or to work jointly towards a particular purpose (Johnson et al., 2011). Strategic alliances for cocoa producers could be beneficial for knowledge-sharing and training, economies of scale, access to information or simply to collectively tackle changes within their industry. As they usually last for a long time, strategic alliances require co-evolution and trust. Also, the business partners themselves, strategies, capabilities and the environment are changing over time; therefore, flexibility is necessary to cope with change. Especially among cocoa producers, trust and integrity in strategic alliance and cooperating instances is important, as many regions in Colombia and Mexico suffer from corruptive pressure and occasionally have a rather instable security system.

Johnson et al. (2011) further suggests that cooperation can imply allying and forming partnerships with like-minded organizations of all kinds to gain competitive advantage over various stakeholders, such as suppliers, buyers, rivals, entrants, substitutes or non-governmental organizations (NGO's) and other developmental agencies. Cocoa producers could greatly cooperate with rivals, since that would increase their power as suppliers. As a result, it would be harder for buyers to shop around, so they have no choice but to accept the trading conditions and requirements set by the cocoa producers. This could significantly improve the negotiation position of cocoa producers.

As a side effect, cocoa producers who are not partnering with other cocoa producers would suffer the benefit that the cooperation provides. In that way, more and more cocoa producers would be driven to join, which is in their benefit.

Moreover, as a consequence of cooperation, cocoa producers could have improved cost patterns, efficient operations and higher quality cocoa harvests. Intermediaries and buyers are likely to appreciate these results very much, that they would no longer look for substitutes, but rather they have a great incentive to buy from the cooperating cocoa producers.

According to the survey results, both Colombian experts confirm that strategic alliances are successfully established in Colombia. Obviously, the knowledge level

about the advantages of strategic alliances is good, so that no further training is necessary.

In Mexico, strategic alliances are obviously not commonly established. The information given by the expert reveals that the knowledge level about strategic alliances is not good in Mexico. This is why more detailed explanations about this strategy would be helpful in the Mexican cocoa industry.

In the survey with the cocoa producers, it becomes clear that strategic alliances are a widely used strategy in both countries of observation. 50% of the Colombian cocoa producers state to make use of strategic alliances to promote and develop their cocoa business, while in Mexico, 31,25% of the interviewees confirmed their engagement in strategic alliances.

## **5.6 Local Exchange and Trading Systems (LETS)**

Many countries vary in their economic characteristics, progresses, development, culture and wealth. Yet every country has to adapt to prices that are set based on global standards. The development status and stability of infrastructure of the buyers and the suppliers may be completely different in many ways. It seems that expectations about monetary value could differ and that it might have an effect on the regional welfare. What means only a little bit to one party, might have a great effect on another party.

To avoid inappropriate distribution of money, but instead to improve the local economy, a system could be implemented to set different buying conditions for locals and for external buyers.

The solution for this particular situation is a Local Economy and Trade System, short LETS (Williams, 1996). LETS enables people to come together as an association in a certain locality for the purpose of trade, without having to use the national currency. Rather, this association creates their own internal unit of exchange. The goods and services exchanged within that association will then be priced in the local unit of exchange. The value of the units depends on the goods and the characteristics of the locality. LETS can therefore be identified as a kind of internal economy. In addition, an important characteristic about LETS is that no cash issued in these transactions and no interest is being charged or paid. Through LETS, cocoa producers could gain an internal economic- and trading-system, adapted to their local economic and social conditions. This exposes cocoa producers to very different buying conditions than anyone buying as an external candidate, such as chocolate companies from the developed world, who have much greater financial resources than the local instances. It allows even less wealthy people to participate in trading and gain access to commodities that they would otherwise perhaps be too costly. Especially for those cocoa producers that have low financial

resources, the barrier to engage in local trade is much lower which might result in an improved quality of life. Williams further points out that a treasurer within the association has to keep proper records of all transactions within LETS, to avoid corruption and black market operations. In areas of vulnerable security conditions, it is very encouraging for local traders to know that there is strict supervision and record of everyone and everything involved in trade.

LETS has two main objectives. The first goal is to improve social and economic benefits by and for the members as well as for the local people. Secondly, it is aimed to develop and encourage the community-building in the local area and especially within the association, through the establishment of this local exchange trading system. In relation to the first goal, not only cocoa producers would profit from LETS, but the entire community could benefit from participating in this internal trading network. In accordance to the second goal, LETS especially strengthens the bond among participating cocoa producers and other members. Besides that, LETS sustains the local economy. Pacione (1997) sees LETS as a way to challenge the uneven development of countries and regions caused by globalization. Since the pursuit of profit creates inequalities, especially in the developing world, LETS is potentially a way to resist the adverse effects of globalization. According to the outcomes of the author's research, if implemented successfully, LETS facilitates local empowerment, both economically and socially. LETS can provide a substitute form of society as it forms an enabling network while it improves the experience of community. These findings also relate to the main objective of LETS, described above.

In another article, Williams et al. (2001) state that LETS has grown very much in the UK, due to its popularity in society. Since the establishment of the first LETS in the UK in the beginnings of 1990, where only 5 LETS have been officially registered, the amount has grown to more than 300 LETS in 1999.

In a previous article, Williams (1996) assesses that also other countries like New Zealand, Australia, Canada and the USA are developing a growing LETS network in their local communities. The growing trend shows that LETS is indeed offering a reliable way to avoid the consequences of inflation and economic difficulties. As LETS becomes more popular in the developed world, it shows potential to be useful in the developing world, where cocoa producers look for a way to be independent from financial resources to gain greater negotiation power. Being independent might result in less pressure for cocoa producers to urgently accept the next-best deal, but provides them a rather tranquil approach to agree to deals, which will in turn put international buyers of cocoa beans under pressure.

According to the expert's survey results, LETS is not used in any of the two countries of observation. However, one of the Colombian experts claims that the knowledge level of local cocoa producers about LETS is not easily assessable, while the other expert reports that their knowledge level about this concept is good. Only one of the two Colombian experts believes that further education about LETS would be appreciated.

The Mexican expert evaluates the local cocoa producers' knowledge level about LETS as not good. Therefore, the expert believes that training about this strategic concept would be appreciated.

The findings from the cocoa producers' survey are aligned with the results of the experts' survey. None of the experts in Colombia have stated to participate in LETS. Also in Mexico, LETS is currently not used as a strategic move by any of the respondents.

## 5.7 Barter Economy

As money is a central characteristic of business and exchange, it causes dependencies for various parties contributing to an economy and therefore determines the negotiation power of each player. However, weaker parties might experience barriers to purchase certain goods due to too high price levels. To increase the independence from monetary instances in exchange, the principle of barter economy is a good solution to increase the independence on money.

Begg and Ward (2009) define barter economy as a form of exchange that does not involve money, therefore an exchange of goods and services. People might swap goods for other goods. The authors highlight that it is a pre-condition that both parties are interested in each other's product to realize successful barter of goods. This is called the 'double coincidence of wants'. Furthermore, the quality of goods and the quantity in which they are being exchanged are crucial factors to enable this kind of trade. In the regions of cocoa production, barter economies will only work if there is a mutual interest in the regional production range and its quality and quantity. Besides the strict pre-conditions necessary to enable barter of goods, barter economy stands out by its strong positive aspects. First of all, the fact that barter economy enables independence on money and still allows the participation in trading is potentially very beneficial. Cocoa producers could be less dependent on direct income; therefore they might not be urged to agree to the next possible deal, which increases their negotiation power. Another advantage of trade within a barter economy is that the goods are very likely to be of high quality. Poser (1998) outlines that barter is a good way to reveal information about the quality of the goods to be traded. With open access to product information, the product range is very transparent, and users might switch more easily to another product. As a result of that, products have to be of high quality for the trader to stay competitive. Cocoa producers would not only receive

appreciation for their harvest, but also, they would receive high quality products in exchange, which contributes to a better quality of life.

Marin et al (2000) found out that there are several advantages in barter economy. Goods in stock can be used, which is very easy and does not require any extra effort. The focus can stay on the production and business itself, and less on marketing and sales. As cocoa beans need some time to be dried and processed, they can be prepared beforehand so that they can instantly be used when there is a possibility in to participate in barter economy.

The author also states that barter economy opens a path to get around governmental bureaucracy and tax-related payments. Cocoa producers can thus save some money by reducing the tax-burden and governmental charges. Even though this is not a permanent solution, barter of goods could give cocoa producers more time to pressure their buyers or negotiate a better offer. This will in turn greatly improve their negotiation position in international trade.

The survey results show that barter economy is currently not being applied in Colombia. One of the experts claims that it is difficult to assess the knowledge level about barter economy, while the other expert informs that the knowledge level is medium. However, the results show that none of the Colombian experts believe that training about barter economies is required in the region. The findings from the Mexican side are very similar to the statements from the Colombians. According to the Mexican expert, barter economy is not being applied in Mexico at the moment. The knowledge level about this strategy is not good in the local regions. Also, the expert sees no potential in offering training about barter economy in Mexico.

The cocoa producers in Colombia are currently not participating in a barter economy, since none of them has chosen this strategy in the survey. However, in Mexico, 12,5% of the cocoa producers confirmed to actively make use of barter of goods.

## 5.8 Share Acquisition

Sometimes it seems that big organizations are the powerful instances that get to influence the society and environment due to their decisions and practices. However, if individuals or groups could gain a share of organizations, they could participate in the decision making.

One of the most powerful strategic moves to influence another company and participate in its decision-making is the acquisition of shares. According to Hillier et al. (2011), shares, and therefore (part of) ownership, of a company can be acquired in exchange for money if the company is publicly listed on a stock exchange. Buying a voting share enables the buyer to participate the selection

of the board and decision-making of the company that issued the shares. For cocoa producers themselves it might be difficult to acquire enough shares to make a change. However, if a big association or developmental agency like for example the UN, would raise fund on a big scale and purchase a high amount of shares, they could act in charge of cocoa producers and change the big chocolate companies in terms of their codes, strategies and purchasing behavior. Also an extended network of cocoa producers, and perhaps other participants, could grow powerful and raise funds to initiate share acquisition.

More specifically, Thomson and Conyon (2012) explain that the owners, which are for publicly listed firms the shareholders, elect the board members of the company. The board, which is responsible for major decisions in the company, in turn elects the managers, who will decide and guide the strategic day-to-day direction that the company is targeting. If the cocoa producers, or a big association in charge of them, would buy shares, they would get to elect the board members among the owners. Thus members of the cocoa producers' association might even have a chance to become board members, or to be considered as speakers at annual meetings. Anyways, as shareholder, members of the association could vote for board members that have the least harmful objectives for the cocoa producers and their communities and environment. In turn, these 'good-minded' board members will, through the managers, be able to establish more ethical sourcing strategies or company codes that protect the suppliers and their environment.

The above mentioned arguments are being supported by Crane and Matten (2010), who describe the purpose of share acquisition as a way to ensure that the shareholder's company is run according to their vision. The authors further point out that by owning part of the company in form of shares; they have the possibility to get involved in processes of goal definition, control, supervision and importantly and sanctioning. The cocoa producers, or the association in charge of them, could therefore change the way a big chocolate company operates by influencing its ultimate objectives.

The important effect of this particular strategy can be clarified by an example of the animal rights organization PETA and the chain of marine mammal park SeaWorld, which has recently offered 20 million shares in an initial public offer. In 2013, PETA has become part owner of SeaWorld by purchasing the smallest possible amount of shares necessary to attend annual meetings and elect the board of directors. At these meetings, PETA now has the right to speak about their concerns and ideas, to submit shareholder resolutions, as well as asking for policy changes in favor of the animals and their concern of animal protection. Also, PETA uses their involvement in this company to teach about the actual treatment of marine animals within SeaWorld and encourages for

improvement for the sake of ethical treatment of animals (PETA, 2013).

It is likely that with a large-scale support in form of a network or association, cocoa producers can achieve the same successes by using share acquisition. They can gain incredible power by influencing their own buyers to act in a way that matches their interest. As a side effect, cocoa producers can raise awareness about the impact of unethical sourcing methods and educate other stakeholders of the chocolate company.

However, it has to be considered that the cocoa producers, or the association acting in charge of them, are not likely to gain income from dividend payments. As more ethical sourcing strategies would imply greater income for cocoa producers, it results in less profit for the chocolate company on the other hand. This causes in an decrease of the share price, which would cause a decrease in dividend yield.

Hence, when considering share acquisition in favor of cocoa producers, it is important to understand that the goal of that strategy is not the gain the dividend yield which occurs through selling shares, but to keep the shares to stay in the ownership and influence the chocolate company in favor of the cocoa producers.

Both Colombian experts assert that share acquisition is not being applied in the cocoa industry of their country. One of the experts explains that it is difficult to assess the knowledge level about this strategy, and that therefore no training is being appreciated. However, the other expert refers to a medium knowledge level and claims that training about share acquisition would be useful in Colombia.

According to the Mexican expert, share acquisition is also not currently used in Mexico. The expert cannot estimate the knowledge level of Mexican cocoa producers about this strategy. It is no statement given whether training about share acquisition would be appreciated in Mexico or not.

In Colombia as well as in Mexico, the practice of share acquisition is currently not used, as the cocoa producers' survey results show. None of the cocoa producers in each of the countries has chosen the acquisition of shares as their strategic approach to improve their business.

## **5.9 Niche Market Targeting**

In a mature market like the cocoa industry, it can be difficult to benefit from alternative ways of doing business. However, niche market targeting might have great potential for cocoa producers to find great demand for their cocoa output in exchange for an appropriate financial reward.

Niche market targeting implies concentrating on only a small number customer segments, which has special needs or requirements (Brennan et al., 2011). The

supplier mostly has a special capability to meet exactly those demands. Therefore, the supplier is targeting a specific niche, which no other supplier can fill or approach easily. The requirements of the buyer might be about the product itself, the production process or another significant characteristic of the product. The potential impact of niche market targeting on cocoa producers' livelihood might imply on one hand the delivery of a special and diversified product, depending on the niche, and on the other hand, an increased price in exchange for the product. The increase in income can strongly influence the cocoa producers' life quality and the quality of the product, as they are more likely to reinvest their income into improvements of their production process. Additionally, cocoa producers will be treated with more consideration, as their product is unique and switching suppliers might be difficult or impossible. As a result of this, cocoa producers have much greater negotiation power.

Niche Market Targeting was not specifically considered as a possible business strategy during the time that the experts' and producers' surveys were distributed. However, it was recommended by the Mexican expert as a potential addition.

The expert sees great potential in the expansion to praline-production through combining chocolate with distinct flavors and ingredients. The expert confirms that a diversified niche product like for example a praline can gain more overall income because of the variation of ingredients. Every market needs innovation to some degree, and its variability and combinability help chocolate to be an innovative food that has high capabilities in niche markets.

Also one of the Colombian experts have suggested niche market targeting as a business strategy with great potential. Therefore, it strengthens the before mentioned recommendation of the Mexican expert.

### 5.10 Highlights of this Chapter

All business strategies mentioned in this chapter have important strengths and characteristics that can potentially improve the conditions in the cocoa industry and increase the negotiation power of the cocoa producers in Colombia and Mexico. The table below shows the business strategies currently used in Colombia and Mexico, according to the experts that participated in the survey.

Currently, the most applied business strategies in Colombia are Diversification, Horizontal Integration and Strategic Alliances. Less strongly utilized, but still common strategies in Colombia are Vertical Integration, In-House Production and Niche Market Targeting. However, according to the experts, Barter Economy, LETS and Share acquisition are currently not being used.

In Mexico, none of the given business strategies are currently being applied (according to the expert that participated in the survey). However, the expert strongly recommended niche market targeting as a useful strategy that is being applied.

	Business Strategies			
Do cocoa producers in your region use these Business strategies?		COL 1	COL 2	MEX
	Diversification	yes	yes	
	Horizontal integration	yes	yes	
	Vertical integration		yes	
	In-House Production		yes	
	Strategic Alliances	yes	yes	
	Barter Economy			
	LETS			
	Share Acquisition			
				Other: Management of government funds, niche market targeting

Table 5.10.1: Currently used business strategies in Colombia and Mexico (Experts' Anonymous Survey, 2014)

In Colombia, the most widely used business strategy among cocoa producers is Strategic Alliances. Diversification and Horizontal Integration are also commonly used, but not as strongly distributed. The other strategies mentioned in the survey, excluding niche market targeting, were not chosen by Colombian cocoa producers to be in current application. However, they might have potential for future application.



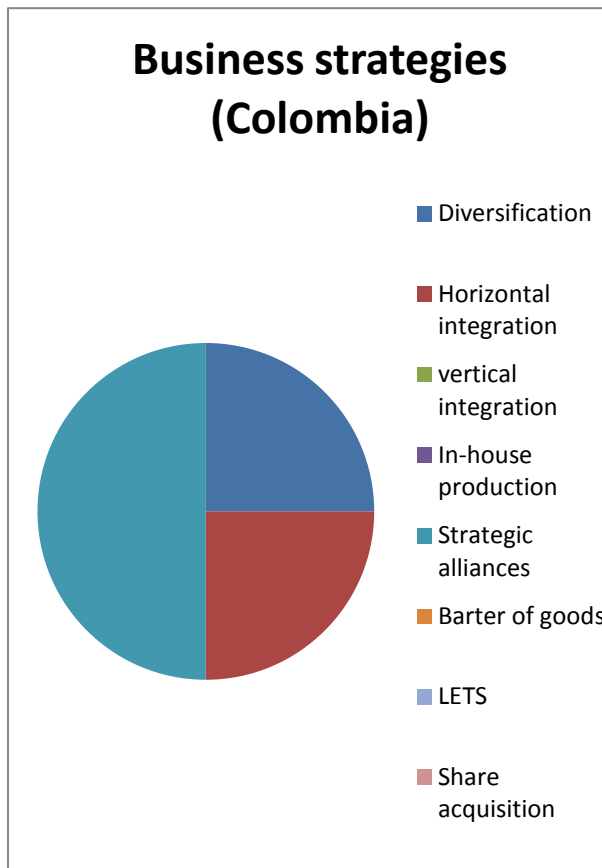


Figure 5.10.1: Currently used business strategies in Colombia (Producers' Anonymous Survey, 2014)

In Mexico, the mostly used business strategies are Diversification and Strategic Alliances, according to the local cocoa producers. Also Barter of Goods, Horizontal Integration and In-House Production are being utilized among Mexican cocoa producers. The remaining business strategies mentioned in the survey, excluding niche market targeting, were not chosen by Mexican cocoa producers. However, they might be considered as potential future business strategies.

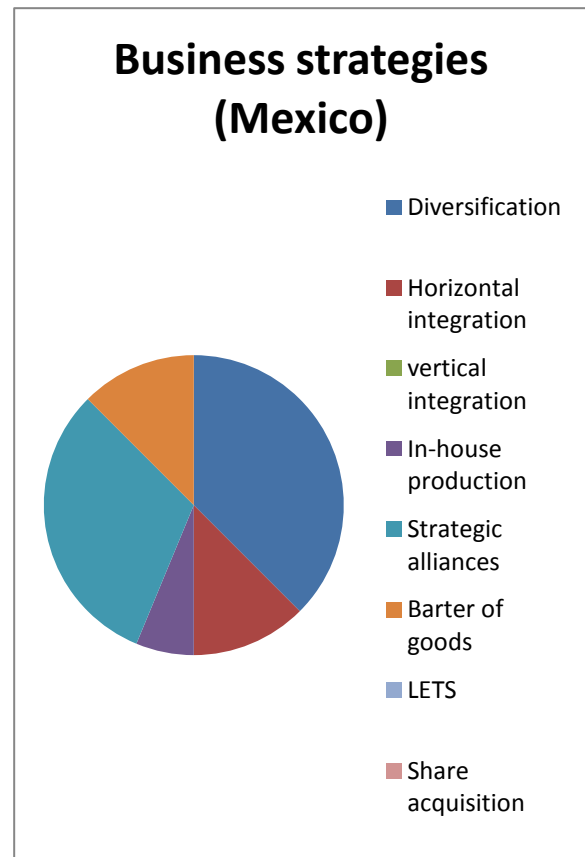


Figure 5.10.2: Currently used business strategies in Mexico (Producers' Anonymous Survey, 2014)

In general, the business strategies considered in this research can also be utilized in form of strategic combinations or as a pre-conditional strategy (basis for other strategic moves).

To give an example about strategic combinations, Diversification can be combined with Strategic Alliances, as a more diversified alliance might be stronger and have more access and knowledge in many areas.

An example of a pre-conditional strategy could be in the case that Diversification enables Niche Market Targeting.

During the personal interview with the Colombian expert, it was suggested that training about English, Global Businesses and Business Culture would be useful for the application of any business strategy available.

## 6. B2B MARKETING STRATEGIES THAT ENABLE FAIR AND SUSTAINABLE CONDITIONS FOR THE COCOA PRODUCERS.

### 6.1 Certification Schemes

The international awareness of the need for transparency in the cocoa industry is constantly increasing. For that reason, the various players in the chocolate production chain can gain a certification for their product, so that the degree of ethical sourcing behavior can be traced back and be visible to every stakeholder involved in the chocolate.

Desai and Potter (2008) describe certification schemes as a response to inequalities of trade, payment and life quality standards of producers in the field of agriculture in developing countries. The purpose of fair trade certification is to set international standards and to guarantee that agricultural producers receive fair terms of trade and fair prices in exchange for their goods. Also, in the scope of fair trade, extra resources can be brought to invest in social, economic and environmental improvements in the specific region of fair trade.

In relation to certification schemes, ICCO, The International Cocoa Organization, has provided documents, specifically for the purpose of this thesis. Their documents from 2012 and 2013 provide specific information and details about the availability and the effectiveness of certification schemes in favor of the cocoa producers.

The report of ICCO in cooperation with KPMG about cocoa certification (2012) points out that generally, the different certification schemes in the cocoa industry aim for improvements in farmer's livelihoods and concentrate on the development of good agricultural practices and capacity building. Certification is considered a suitable way to promote sustainability in the cocoa value chain. However, various certification schemes exist, each with their individual objectives and purposes.

To give a short but comprehensive overview, the four most significant certification schemes to promote international agricultural trade will be introduced. *Fairtrade* seeks better trading conditions and aims to empower producers. In 2010, *Fairtrade* promoted 39% of all certified cocoa worldwide. Therefore, *Fairtrade* accounts as the most influential certification organization. The organization with the second-highest share of certified cocoa is *UTZ certified* by enabling an amount of 25% of certified cocoa in 2010. The focus of this organization lies in the professionalization of agricultural practices as well as in the improvement of operational management. *Rainforest Alliance*, concentrates on the conservation of biodiversity and sustainable livelihoods of producers. With a share of 20% of all certified cocoa, *Rainforest Alliance* is the third-largest certifying organization of cocoa in 2010. The fourth organization

within this comparison is *Organic*. With their focus on sustainable production excluding the use of chemical fertilizers and inputs, *Organic* has managed to deliver 15% of all certified cocoa in 2010. However, since *Organic* rather addresses the product itself and its production, it is most recommendable to cooperate with the three largest organizations that certify cocoa, which are *Fairtrade*, *Rainforest Alliance* and *UTZ certified*. Obtaining a certificate requires a few steps, depending on the scheme that is to be gained. Also, each scheme has its specific requirements in relation to environmental, social and economic areas. The cocoa producers have to comply with the given requirements, while compliance is regularly being verified by independent auditors that work in charge of the certification scheme. The regularity of these audits varies depending on the scheme and its expectations. The changes necessary for each farm to conform to the requirements happen at farm level. The responsibilities and costs that occur in relation to the certification is being distributed through the value chain, since also other parties take advantage of the certification and the effort around it.

Certification can have a great impact on the entire value chain of the product. The advantages become visible at the farmer level, the cooperative level and as well at the community level. The figure below shows a comprehensive overview of the areas in which certification schemes have a positive or negative influence.

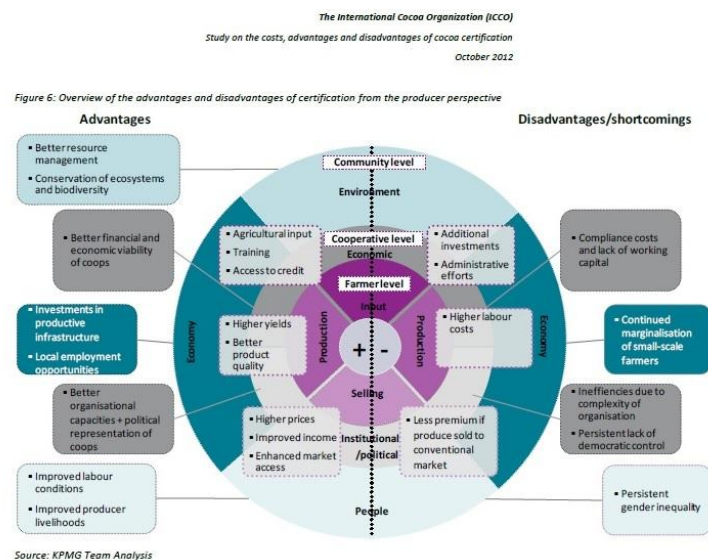
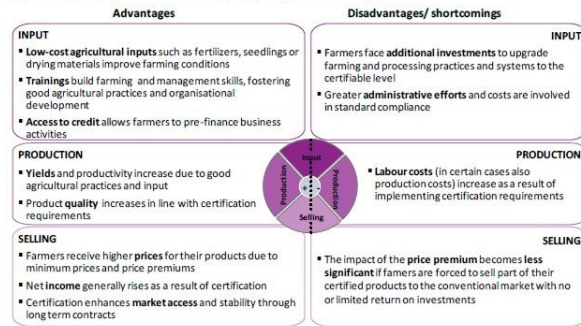


Figure 6.1.1: An overview of the advantages and disadvantages of certification from the producer perspective (ICCO, 2012)

However, for the purpose of this research, the focus lies mostly on the farm level. For the cocoa producers, the certification of their cocoa has important advantages and disadvantages in the areas of input, production and selling.

Figure 7: Advantages and disadvantages of certification at the farm level



Source: KPMG Team Analysis

Figure 6.1.2: Advantages and disadvantages of certification a the farm level (ICCO, 2012)

As shown in the figure above, the cocoa producers can experience great advantages in the areas of input, production and selling.

In terms of input, it is an advantage that the producers receive low-cost agricultural inputs, such as fertilizers, seedlings or other material that improve the conditions of farming. Secondly, it is very beneficial that the producers receive training to improve their farming and management skills. Thirdly, the cocoa producers gain access to credit, which the they can use to improve and finance their business activities. When it comes to production, the certification of cocoa supports the increase of yields and productivity because of the improved agricultural practices and input. Next to that, the quality of products increases consistent with certification requirements. About selling, the greatest advantage is that the cocoa producers receive higher prices for their products. As a result of the certification, the net income of cocoa producers increases. Furthermore, the certification of cocoa enables better access to markets and stability due to long term contracts. However, disadvantages in input, production and selling also have to be considered when obtaining a certificate. Concerning input, additional investments for the upgrade of processing practices and systems are required in order to obtain certification for the cocoa. Additionally, more administrative efforts and costs are involved when the agricultural products are to be certified.

In terms of production, labor costs and production costs, which arise naturally as a result of implementing the certification requirements, could cause difficulties for cocoa producers.

For the selling part, it is a disadvantage that the impact of price premiums for products becomes less significant in case that part of the production output has to be sold to convenient markets with low or no return on the previously made investments.

The decision to acquire a certification scheme depends on the outcome after comparing advantages and disadvantages; but certainly also on the cash flow involved, which will ultimately lead to the net benefit that

certification ensures the cocoa producers (ICCO, 2012). Each cash outflow and inflow in relation to cocoa certification is being displayed in the cost-benefit analysis.

ICCO (2012) provides the cost-benefit analysis, per ton of cocoa resulting from the application of certification schemes in the cocoa industry of Ghana and Ivory Coast during the past 6 years from 2012. The values of both countries are being averaged. The calculation simply summarizes the cash inflows and outflows related to the acquisition of the certification scheme in both Ghana and Ivory Coast. The figure below clearly shows that in terms of costs, it would definitely pay off to engage into the business of certified cocoa.

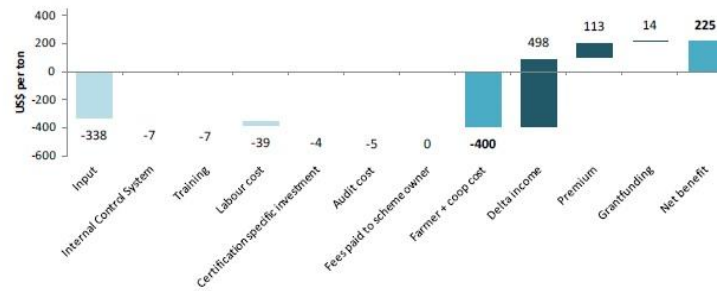


Figure 6.1.3: Net benefit per ton over a 6-year period based on averages of model variables (ICCO, 2012)

Apparently, certification seems to have a positive effect on financial terms of cocoa producers that participate in particular schemes. Still, even though money plays a vital role in the livelihoods and negotiation power of farmers, other areas are also of crucial importance. Another study by ICCO (2013) about the effectiveness of certified coffee, cocoa, and cotton on improving smallholder livelihoods indicates the effect that certification has on other areas related to livelihoods of cocoa producers.

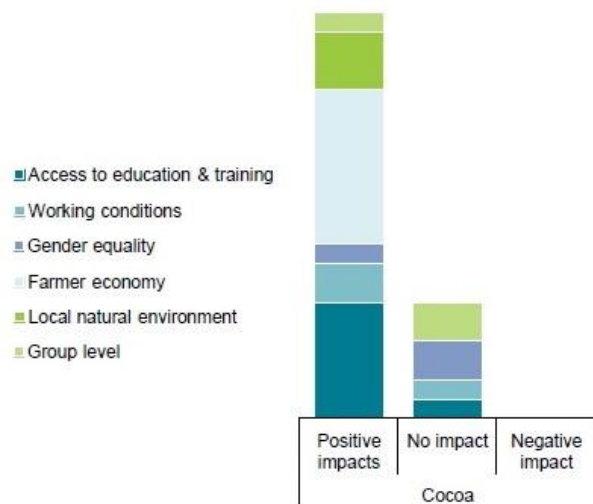


Figure 6.1.4: Quantitative overview of the results of literature study about the effect of certification on smallholder farmer's livelihoods (ICCO, 2013)

Based on the information inferred from figure 6.1.4, certification schemes clearly have a positive impact on the cocoa producer's livelihoods. Especially the areas of education and training, as well as farmer economy, for example their income, have most significantly improved. Furthermore, the cocoa producer's working conditions and the natural environments in the locality have been better developed as a result of the effects of a certification scheme. Only a little amount of positive effects was made on gender equality as well as on the group level, which implies investments and programs to strengthen local communities.

On the other hand, some sources also suggest that certification has no impact on access to education and training, working conditions, gender equality and the natural environment in the locality. The residual areas are not listed within this category.

Certification schemes obviously have no negative impact at all on the livelihood of cocoa producers, since no area is representing this category.

Considering the great amounts of positive impacts in all areas and only a few areas that are sometimes considered not to experience an impact due to certification, it can be concluded that certification schemes are indeed useful not only in financial terms, but also in the improvement of cocoa producer's livelihoods.

Supporting the findings above, which claim that certification has a positive impact on cocoa producer's livelihood in general, Rainforest Alliance (2014) gives an example on their website about the effect of certified cocoa in Ivory Coast. The graphic compares the net income and output of non-certified cocoa farms and those farms certified by the Rainforest Alliance certification scheme. Clearly, the farmers in Ivory Coast that have their cocoa certified by Rainforest Alliance, have a far

greater net income and a much higher output than non-certified farms.

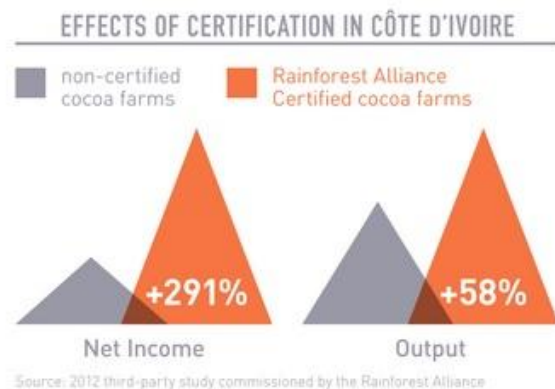


Figure 6.1.5: Effects of certification by Rainforest Alliance in Ivory Coast (Rainforest Alliance, 2012)

Concluding from the information provided by ICCO and the Rainforest Alliance, certifications are very useful for the improvement of cocoa producer's negotiation power and livelihood.

Before applying for certification, it is advisable for cocoa producer to be aware of which certificate is most common or spread in each country that is considered in this particular research, namely Colombia and Mexico. Fairtrade (2011) indicates on its web presence, that it sources cocoa from Colombia, among others. However, Mexico is currently not on the list of Fairtrade's cocoa sources.

Rainforest Alliance (2014) presents a map on its website showing the cocoa-producing countries in which they work. Colombia is being covered by the Rainforest Alliance. Nonetheless, the Rainforest Alliance is currently not certifying cocoa from Mexico.

UTZ (2014) gives detailed information about the countries of which they certify the cocoa, as well as information about the cocoa producers in each country. An interactive map shows that UTZ sources from a variety of countries worldwide; however, the countries of observation in this thesis are not thoroughly covered. No farm in Colombia has their cocoa certified by UTZ and only one farm in Mexico, in the area of Chiapas, is currently receiving the UTZ certification for their cocoa. Based on this information, it can be concluded that certification is spreading in Colombia. Both Fairtrade and Rainforest Alliance certify Colombian cocoa widely, while only UTZ is not yet very present in Colombia's cocoa industry. Unfortunately, only one farm in Mexico is currently producing certified cocoa. It is urgently advisable for Mexican cocoa producer's to become active and organize the involvement of certification schemes.

Despite all the positive findings about certification schemes, ICCO (2013) indicates that certification schemes might exclude certain types of cocoa producers and smallholders, due to insufficient organizational

management and the degree of education and professionalization. Therefore, certification schemes sometimes prefer to engage with organized and more advanced cocoa producers rather than with less developed cocoa producers.

ICCO (2013) suggests an alternative approach to avoid exclusion of smallholder cocoa producers. So-called verification schemes concentrate more on less developed cocoa producers and thus have a lower entry level concerning exclusion criteria. Also, they grant provisions for continuous development and improvement. Verification schemes are like a sub-branch of a certification scheme.

Potentially, a local measurement-system could be implemented for smallholder cocoa producers to elude the high requirements of certification schemes. A system like that could especially address difficulties in rural areas and include smallholder cocoa producers greatly. It can serve as an initiator of development and as a bridge to success, as it certifies locally cultivated cocoa and supports the consideration of the product for other B2B-partners, higher up the production chain.

A local measurement-system could operate on a lower scale to improve operations and output step by step, to then finally promote the harvest to higher certification schemes. This system could help cocoa producers to overcome financial barriers to improvement and enable a chain of custody, which trains them to develop and improve. As a result, smallholder cocoa producers that are not likely to be considered by certification schemes can work their way up with this kind of system to reach a level of profession and skills to be considered by more prosperous and big certification schemes.

According to the survey results, the Colombian cocoa is widely certified. The knowledge about cocoa certification is well, so that no further training is necessary, according to both experts.

In Mexico, certification schemes are not considered a common practice at the moment. The expert claims that the knowledge level about certification and the processes around it are not good among the local cocoa producers. Therefore, training would be highly appreciated to share the information about certification schemes.

The answers stated by the cocoa producers widely support the findings from the experts' surveys. In Colombia, 66,67% of the cocoa producers declare to cooperate with certification schemes. On the other hand, the number of producers of certified cocoa is much lower, as it lies at 10%.

The anonymous Colombian expert confirmed that all cocoa producers in the region where he operates in Colombia have the organizational capacities and fulfill the requirements to acquire a certification scheme. Even though many have successfully engaged with certification

organizations, some are not able to do so because of a lack of expertise to initiate the collaboration with certifying organizations and because it is too costly to cover the expenses for regular audits.

## **6.2 Buyer-Supplier Relationship-Building**

The effect that buyers and suppliers can have on each other within a supply chain can be extremely crucial for the survival and success of both organizations. For that reason, investing in the relationship with the buyer or supplier might turn out to be a very useful strategic move. The cooperation between buyers and suppliers are usually referred to as buyer-supplier relationships (Monzca et al., 2010). Mostly, this form of collaboration is seen by both buyers and suppliers as the most efficient way to improve costs, quality, delivery, time and other performance indicators. The authors highlight that mutual commitment and balanced power are essential requirements for successful buyer-supplier relationship-building, since both parties will have the power to shape the nature and future of the relationship. Cocoa producers could cooperate with various players among the production chain. The mutual learning processes and the commitment might result in better understanding from the buyer's side and can thus be more appreciative and rewarding in terms of training or financial back-up. Furthermore, the authors describe certain characteristics of collaborative buyer-supplier relationship building. Firstly, buyer-supplier relationships are based on long-term contracts which result in mutual benefits and the sharing of rewards of all kinds. Both organizations have to make a joint effort to improve the supplier's performance. Another characteristic is the open exchange of information as a permanent condition for collaboration. In addition to that, both parties are required to be committed to produce high-quality output. A great advantage of buyer-supplier relationship building is also that both parties are committed to work together even in difficult times. That means that the buyer cannot simply switch if there is a better offer somewhere else, but rather, that they concentrate jointly to get over the difficult situations. A long-term contract with buyers would ensure an adequate level of income to cocoa producers and therefore reduce their risk of financial losses. Since the buyer is not able to switch for the duration of the contract, even in difficult times, the buyer will have no choice but to commit to support the cocoa producers, which is in both parties' best interests. The open exchange of information will facilitate learning and improvement on the producers' side, which leads to high quality output. Buyer-supplier relationships are based on trust and good communication, which can be the basis for a collaborative approach to develop more efficient operations that lead to cost savings. Together, the buyer and supplier can improve the cocoa producer's business activities, which will ensure high-quality output, which in turn leads to better turnover for both the buyer and supplier. This loop could turn out to be a win-win

situation for both buyers and suppliers, if it is tackled adequately and with a strong sense of direction.

The survey results show that buyer-supplier relationship-building is a widely used concept in Colombia, as both experts confirm that the cocoa producers in their regions use this strategy. In Colombia, the knowledge level about buyer-supplier relations is good according to one of the experts, medium according to the other. However, both experts agree that further training about this strategy is not necessary at the moment.

In Mexico, the theories of buyer-supplier relationship-building are apparently not widely applied. The Mexican expert states that the knowledge level of Mexican cocoa producers is not good. However, training about this topic would be highly appreciated by local cocoa producers, as the expert states in the survey.

33,33% of the cocoa producers in Colombia are currently engaged in buyer-supplier relationship-building. The percentage of Mexican producers applying this strategy is very similar, as the rate of Mexican cocoa producers participating in buyer-supplier relationship-building is currently 30%.

### **6.3 Joint Ventures**

For one alone, there might be great barriers to start something new, like a more diversified product range or an approach of vertical integration. However, the formation of joint ventures could strongly support the establishments of new ideas.

Johnson et al. (2011) define joint ventures as a new form of business or project that is started and owned by two or more organizations. The participating organizations share their resources as well as the risks in relation to this new venture. However, joint ventures are different from horizontal integration or strategic alliances as both organizations keep their usual business activities while simultaneously establishing the joint venture as a separate collaborative project. Cocoa producers could thus partner up with other agricultural producers or even with organizations from the tourism, entertainment or culinary industry, if a diversified joint venture is planned. By doing so, cocoa producers would spread their risk by expanding their business activities and benefit from the combined knowledge and experience that each participant contributes. It is important to consider that there is high potential for trust to be developed through joint ventures and that the sense of community can be enhanced by initiating this kind of collaboration.

In her article about alternative business strategies in the cocoa industry, Tiffen (2002) points out that in 1998, various organizations, such as Kuapa Kokoo have partnered up with other organizations such as The Body Shop, Twin Trading and other supporters of fair trade to form a joint venture with the aim to connect to chocolate lovers. The joint venture is called 'Day Chocolate

Company' and it was a vehicle for the initiative of transparency of the origin of cocoa. In contrast to big organizations such as Cadbury or Nestle, which often resist to provide clear and specific information about the origins of their cocoa, this joint venture aims to commit to sustainability by making their chocolate products traceable back to their very roots. This includes transparency about every step along the supply chain, with the ultimate objective to ensure terms which reward the cocoa producers in for their effort and their products. This particular example is not about joint ventures among producers, but among buyers and other organizations that commit to sustainable and fair practices in the cocoa industry, which joined together to help the cocoa producers to improve their livelihoods and enhance their negotiation power, while providing wholly sustained chocolate to final consumers. Therefore, this project serves as an example how cocoa farmers could make use of joint ventures by searching for joint ventures higher up in the supply chain. By doing so, they can get acquired by initiatives for sustainability or fair trade. The example above shows that these organizations truly care about the improvement of cocoa producers' living conditions and their gains from their cocoa business. In that way, joint ventures might even provide an alternative to a certification scheme.

The application of joint ventures seems to be variable in Colombia. One of the expert claims that joint ventures are not being used in the local cocoa production industry; but also, the expert is unsure how to assess the cocoa producers' knowledge level concerning joint ventures. The other expert confirms that joint ventures are being applied in Colombia; however the knowledge behind this application is only on a medium level. Both Colombian experts see potential in this strategy and consider training to be a useful addition for the local cocoa producers. In Mexico, joint ventures are not applied, according to the survey results. Also, the knowledge level about this strategy is not good, as stated by the local expert. Nonetheless, the expert states that training would be appreciated.

The cocoa producers' survey results show that in Colombia, joint ventures are currently not being approached as a strategy by local cocoa producers. On the opposite of that, this practice is apparently more common in Mexico, as 50% of the Mexican cocoa producers' state to be engaged in joint ventures.

### **6.4 Co-Creation**

Sales in the cocoa industry are likely to be determined by price, processing status, quality, quantity, origin and the type of the cocoa beans. However, characteristics like for example the quality or the processing status can be changed and therefore, can influence the likeliness and value of trade for cocoa producers.

Prahalad and Ramaswamy (2004) define co-creation as the joint creation of value by the supplier and the customer

by defining and solving problems jointly. Knowledge, experiences and ideas of both parties are being used to develop new ways of production and processing, to come up with innovative ways to enhance quality and to improve productivity. Therefore, a win-win situation will emerge since the suppliers receive support and improve their business operations from their customers and the customers will be more satisfied with the products they receive, which they will ultimately deliver to the final consumers, who might have high and explicit expectations. Different from buyer-supplier relationship-building and joint ventures, co-creation is focused on innovative solutions and is mostly aimed for temporary basis. The cocoa producers primarily have access to one type of customers, namely their direct business partners, the business to business customers who purchase their cocoa harvest. In case the cocoa producers consider co-creation as a possible strategy for themselves, they have to decide, depending on their ability to reach their various customers among the value chain, how far they would like to co-create among the supply chain and which partner is potentially the most important one. This could be a B2B customer as well as final consumers. Cocoa producers could potentially collaborate with their customers to create value and innovative improvements through interactive learning. The approach of co-creation is mainly oriented to the fulfillment of customer desires, which increases the chances of customer satisfaction. Therefore, it is very likely that the buyer will come back to that particular cocoa producer to engage in long-term cooperation after co-creation has taken place. The high potential for the closure of a new contract provides security and stability for cocoa producers and guarantees the survival of their business to some extent.

In Colombia, co-creation is not considered as a common strategy, based on the experts' survey results. According to one of the experts, the knowledge level about this strategic approach is difficult to assess, while the other claims that cocoa producers know about this strategy only on a medium level. Both Colombian experts recommend co-creation to be a topic for training.

According to the Mexican expert, co-creation is not being used in Mexico at this moment. The expert considers the local cocoa producers' knowledge about this strategy to be insufficient. Still, training would be appreciated in the opinion of the expert.

The experts' opinion is supported by the results of the cocoa producers' survey. In Colombia, co-creation is not currently being applied by cocoa producers in the region. In Mexico, 10% of the cocoa producers participating in the survey stated that they are engaged in co-creation.

## 6.5 Highlights of this Chapter

The B2B Marketing strategies highlighted in this thesis have high potential to improve fair and sustainable conditions in the cocoa industries in Colombia and Mexico.

The table below shows the B2B Marketing strategies currently used in Colombia and Mexico, according to the experts that participated in the survey.

At the moment, the most applied B2B Marketing Strategies in Colombia are the usage of Certification Schemes and Buyer-Supplier Relationship-Building. Also Joint Ventures are commonly used in Colombia; however, this strategy is not as widely distributed as the other two. Co-Creation is currently not used according to the Colombian experts.

In Mexico, none of the given B2B Marketing strategies are being used at this moment. Also, no specific suggestions are being made as to potentially being applied B2B Marketing Strategies.

	B2B Marketing Strategies			
Do cocoa producers in your region make use of these B2B strategies?		COL 1	COL 2	MEX
	Certification Scheme	yes	yes	
	Buyer Supplier Rel	yes	yes	
	Joint Venture		yes	
	Co-Creation			
				Other: comercialización individual a un intermediario

Table 6.5.1: Currently used B2B Marketing Strategies in Colombia and Mexico (Experts' Anonymous Survey, 2014)

In Colombia, according to the cocoa producers that participated in the survey, the most widely applied B2B Marketing Strategies among cocoa producers are the usage of Certification Schemes and Buyer-Supplier Relationship-Building. The remaining two B2B Marketing Strategies, namely Joint Ventures and Co-Creation are currently not being applied.

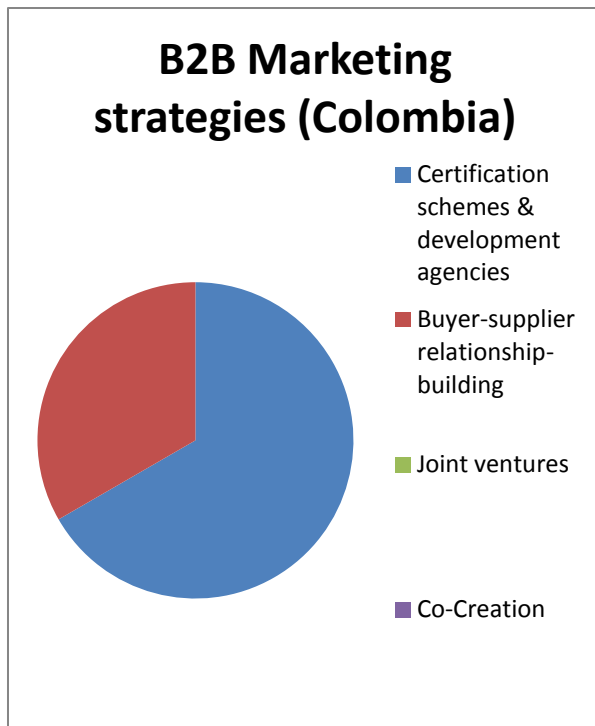


Figure 6.5.1: Currently used business strategies in Colombia (Producers' Anonymous Survey, 2014)

In Mexico, mostly Joint Ventures Buyer-Supplier Relationship-Building are currently in great usage. However, also Certification Schemes and Co-Creation are being applied, but less than the other two B2B Marketing Strategies.

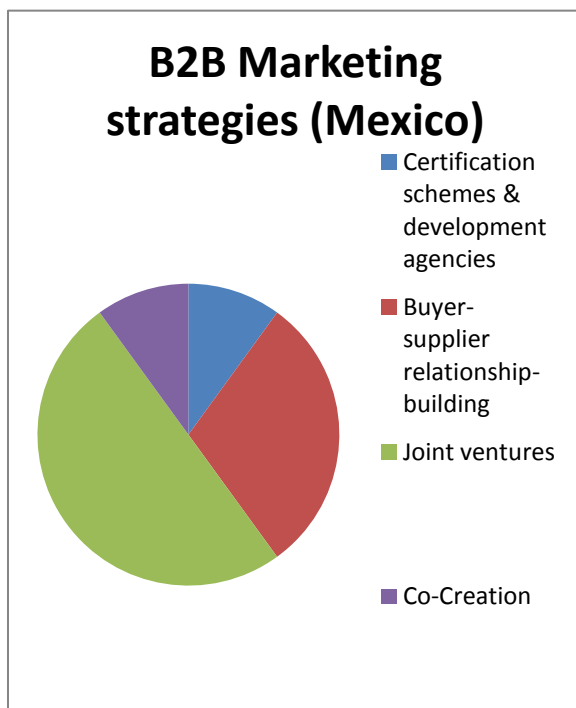


Figure 6.5.2: Currently used business strategies in Mexico (Producers' Anonymous Survey, 2014)

Also the B2B Marketing Strategies mentioned in this research can be used as strategic combinations or as pre-conditional strategies.

An example of a strategic combination would be Buyer-Supplier Relationship-Building and Joint Ventures, as they would enable even greater improvements, operations and sharing of knowledge, risks and mutual commitment. To give an example of a pre-conditional strategy, it is worth mentioning that a Certification Scheme might be a pre-condition to be considered for a Buyer-Supplier Relationship.

During the personal interview with the Colombian expert, it was revealed that there are some public programs in the country that promote the relationship and cooperation between businesses. This expansion would favor the development more sustained conditions for cocoa producers in their industry.

## 7. DRIVERS

Along with the numerous business-related strategies that can potentially improve the cocoa producers' livelihood and therefore, their negotiation power, there are certain drivers that could also have a positive influence.

### 7.1 Increased Focus on Business Ethics

Customers, B2B customers as well as final consumers, have high expectations to a product that they are potentially going to buy. Expectations may occur among a variety of categories, like for example quality or price-related expectations. However, during the recent years, the focus on ethical sourcing methods and corporate social responsibility has increased greatly in terms of customer expectations.

In the coffee, tea and cocoa industry, farmers face poverty everyday and suffer from exploitation, inadequate working conditions and limited health, safety and environmental protection (Davies and Crane, 2003). The authors reveal that international commodity markets cause the producer's poor livelihoods by seeking price competitiveness at the expense of producer's welfare and local environment. Those international commodity markets and the big companies operating in it, should pay attention to its own corporate social responsibilities and apply ethical sourcing methods, as they have an immense extent of influence on livelihoods of producers in the developing world. Based on this, the authors promote the popularity of the idea of fair trade movement, which implies an increased focus on business ethics and corporate social responsibility from every party involved in the production chain and at the consuming end. The increased focus on business ethics from the developing world shapes the improvements on cocoa producers' livelihood and welfare, especially those operating on smallholding farms. This in turn can have a strong positive effect on cocoa producers' negotiation power. Joyner and Payne (2002) argue that there is a change in the way various stakeholders, not just customers, view



business ethics and a company's values. A company's profitability and success is no longer only measured in isolation, instead, the evolution and implementation of business ethics, values and corporate social responsibility plays a big role for all kinds of stakeholders that are involved with the company. Since customers' and stakeholder are increasingly expecting ethical sourcing methods, companies are very likely to adapt their practices and take corporate social responsibility, which might strongly affect cocoa producers in Colombia and Mexico. Also, as more and more companies become ethically, it is a competitive force for other companies to also adapt to business ethics. Next to that, word of mouth plays a big role for companies, so they will want to keep their good image as customers and other stakeholders have increased awareness of the importance of business ethics and corporate social responsibility. Therefore, the ethical attitude of companies is very likely to continue increasing, which in turn creates improvements for cocoa producers.

Creyer and Ross (1997) researched customer's opinions about an organization's ethical sourcing behavior. The results show clear evidence that ethical sourcing behavior is well considered by customers in industrial countries and that business ethics has a positive effect on customer acquisition and retention. According to the authors, customers consider company ethics as a criterion within their purchasing decision. Additionally, customers expect ethical corporate behavior to be a natural prerequisite. The research showed that customers would even be willing to pay a higher price in exchange for an ethically sourced product, as a reward for the business ethics that has been applied. The findings also showed that customers may switch to cheaper and unethical alternatives. However, customers punish unethical sourcing behavior by only paying a low price. As aware customers are willing to purchase ethically sourced cocoa for a higher price, companies can forward their increased financial yield throughout the production chain toward the cocoa producers. They will benefit from the financial boost as it enables them to reinvest and thus improve their business operations or to invest in areas that will improve their life quality.

In the experts' survey, the question was posed whether or not the experts believe that the increased attention to business ethics within companies in the developed world makes a positive influence on the local cocoa industry in Colombia and Mexico. All three experts, both from Colombia as well as the expert from Mexico strongly agree that the focus on business ethics indeed has a positive effect for the cocoa producers in their region. Apparently, the idea of ethical sourcing resonates throughout the entire production chain.

In the chapter about certification, it was mentioned that cocoa producers might like to acquire several certification schemes to spread the risk, in case one scheme might not show high enough demand to buy all

its cocoa. However, ICCO strongly advised that this is not necessary, as the demand for certified and fairly sourced cocoa is constantly rising. The fact that the demand for ethically sourced cocoa is rising, is naturally related to the increasing focus on business ethics from the developing world.

## **7.2 Governmental, Regulatory and Economic Interventions**

Interventions in the area of regulations, government or economy can change the entire landscape of national and international business and trade. Next to that, these kinds of changes would strongly influence the culture, society, security, educational and health-related characteristics of a country.

In the case of cocoa producers, ICCO (2013) provides a variety of possibilities for governments to intervene. Governments could contribute to improvement in the cocoa industry by providing legal frameworks that will enhance the livelihoods and negotiation power of cocoa producers, their families and their communities and protect them from exploitation. In addition to that, governments play a big role in the development of policies that support cocoa producers. In terms of sourcing, the government can even function as an intermediary and ensure adequate and fair trades between cocoa producers and other parties. Next to that, the government can take over an enabling role, as it could provide infrastructure, security and access to financial support for cocoa producers, to facilitate improvement. Furthermore, governments can serve as experts, either by providing knowledge or by offering technical assistance to cocoa producers who are willing to improve. Corruption, as a result of a permeable security system, might occur rather frequently in developing countries. Governments and regulatory instances often react passively to the conditions in their country or are unable to control corruption and their security system in the short-term. Therefore, they might have difficulties to provide appropriate support measures to cocoa producers from a governmental, regulatory or economic view. Interventions from the governmental, regulatory and economic side could set a new base for an improved trading system in Colombia and Mexico. These instances have powerful means to boost the standards of the cocoa industry and to support cocoa producers improve their working environment and output.

Bertrot et al (2010), explain the emerging role that information communication technology (ICT) and social media play in the prevention of corruption and the increase of transparency and security. The transparency about local conditions that is being transferred through communicative media helps local people to recognize and understand weak points in their systems, and therefore, urges governments to act and improve. Also the attention from other countries and international organizations contributes to the improvements of local political, legal and economic issues, as it drives action to adapt standards

and share knowledge. Organizations and governments from abroad might be willing to offer financial or legal support and implement new systems in favor of local improvements. Especially the increased legal attention might encourage locals as well as global stakeholders to act in a more transparent and sustainable way. Therefore, corruption can be limited and improving political, legal and economic steps could be undertaken. With the help of ICT and social media, people worldwide are being reached and educated about occurrences and conditions in the cocoa industry in Colombia and Mexico. The increased global attention will force local sectors to act in a more just way toward the cocoa producers, while international organizations and governments might help and support from abroad by offering financial aid or training from various sectors.

The anonymous Colombian expert has confirmed that the cocoa industry is the agricultural area in Colombia is most likely to be supported, since Colombia's excellent reputation for cocoa attracts and motivates many sponsors from various sectors and countries to provide support. Therefore, the cocoa industry is, in comparison to other industries, most likely to be considered for developmental investments and improvements in many industry-specific areas.

In the interview, the anonymous Colombian expert also states that many international players, like for example the United Nations, foreign governments, international trading organizations and NGO's, aim to develop agricultural areas in Latin and Central America. These instances concentrate on development and support, which increases the likeliness of foreign investment and developmental support.

### **7.3 Increase in Partnerships and Associations**

Collaborative problem-solving and tackling of difficult situations have a great potential influence on the outcome and also on other parties involved in a particular issue. ICCO (2014) has provided an article about background information about the Latin American cocoa industry, in which it is explained that the local cocoa trading system is complex because it is composed of various actors. Generally, the local cocoa trading systems is based on several actors, namely on the cocoa producers, intermediaries, the semi-processing industry, the local processing industry and exporters of cocoa beans. Usually, cocoa producers sell their cocoa harvest directly to cocoa collectors in their community, who will then forward the cocoa beans to the following stations of the production chain. However, according to ICCO, a new trend has emerged among smallholding cocoa producers. They group themselves into farmers' associations. Within these associations, cocoa is being produced, collected and commercialized with intermediaries, the local semi-processing or processing industry and exporters. By doing so, the cocoa producers cut out some of the middlemen and move higher up the production chain,

where they can receive higher income for their harvest. Through an example of the Ecuadorian cocoa industry, ICCO (2014) explains that 10% of the local production is commercialized through collectors that source the cocoa beans directly from the farm to forward it to further intermediaries. Through participation in an association that takes over the step of collecting cocoa beans or even process it partly, cocoa producers can gain the income that a collector or intermediary, that they are then able to skip, would have received. Besides that, they become less dependent and more powerful, firstly through being in an association with a large quantity of members and secondly, because of their advancement in the production chain.

Not only associations and partnerships among cocoa producers are useful to establish, but also other partnerships and groupings, perhaps even between cocoa producers and buyers further up in the production chains. At this point, the potential usefulness of horizontal integration, vertical integration, strategic alliance-forming, buyer supplier-relationship-building and joint ventures should be stressed. Especially the example that was covered in the chapter about joint ventures is meaningful here, as it describes a joint venture in the UK, with the objective to source cocoa ethically, which has partnered up with cocoa producers to support them to improve their income and livelihoods.

The Mexican expert has suggested the increase of partnerships and associations as a driver for better livelihoods and negotiation power for cocoa producers. The expert has in mind partnerships for the purpose of better education and training. Also, the collaborative set-up of technical support would be useful in the expert's opinion.

With the back-up of a partner or an association, cocoa producers might be more likely to dare a new approach of business, such as diversification of products.

Also during the interview with the anonymous Colombian expert, it became apparent that farmers' associations can potentially have great influences in favor of the cocoa producers. However, in his opinion, these associations need to have clear objectives; meaningful back-up from many parties and most of all, a strong representative is needed. Then, the association can act on behalf of many individual cocoa producers and enable new strategic mechanisms, influence policies and make changes in the cocoa industry.

## 8. BARRIERS

Unfortunately, barriers shape the development of improvements in the cocoa industry. However, knowing about the barriers might help to get a better overview and to have a starting point for solutions.

### 8.1 Food Speculation

Many people are not aware of the influence that the world's financial sector has on food price volatility. The price for food inflated globally during the recent years. According to the Guardian (2011), a variety of causes for food price volatility were identified by the United Nations, such as the switch from nutritional crops to the production of bio fuels, droughts linked to climate change or a change in diet in highly consuming countries. However, the Guardian introduces a new explanation, which is emerging currently among traders and economists. A crucial cause seems to be in the hands of banks, hedge funds and financiers worldwide, who speculate on the price of nutritional commodities, which unnecessarily inflates the prices.

The Guardian further explains what food speculation actually is. Each farmer, of various agricultural commodities, has the aim to be protected against climatic or other kinds of risk. Banks and other financial institutions make forecasts and excessively speculate on the outcome and price of the harvests of various nutritional commodities, such as sugar, corn, coffee and cocoa. These banks and financial institutions then guarantee the purchase of the crops already in advance to the harvest, which leads to an agreement of a pre-determined price, independent of the actual quality and quantity of the crop. With a guaranteed buyer, regardless of whether the harvest will be profitable or not, the farmer can plan ahead and has security about the future. If the harvest turns out to be bad, then the farmer might still receive a good return. However, due to the unrealistic and excessive speculations by banks, the price volatility of basic nutritional commodities swings up drastically, while farmers continue to receive the agreed amount of yield. The general level of food prices rises globally, while the farmers' income is not growing accordingly. Because their income is not adapted anymore to the global food prices, farmers have more and more difficulties to afford basic nutritional commodities, which causes hunger for millions of people each year. If the process of this kind of hedging would be well regulated by governments and international laws and policies, it would work well. However, this process has gotten out of hand during the recent years, to a degree where the price of nutritional commodities is not balanced anymore only by natural supply and demand. Whenever banks and financial institutions gain a profit from food speculation, they gain by selling the commodities further to companies that will process them. The Food and Agricultural Organization (FAO) of the United Nations (2012) reports that food price volatility is clearly related to excessive speculation, which increases the prices and the frequency in which the prices rise.

FAO is taking initiative to raise awareness and to encourage change in the matter of food speculation by organizing events and involving several parties and stakeholders. For example, in April 2012, the UN invited leaders of states and governments and international organizations, to discuss food speculation at the political and regulatory level.

Not only the Food and Agricultural Organization of the United Nations is taking actions to raise awareness and fight food speculation. Also other NGOs and organizations take action worldwide, as the World Development Movement (WDM, 2014) claims on their web presence. WDM has established a campaign to fight for transparency and strict limits for the betting of food prices by banks and financial institutions. As the NGO is currently operating in the United Kingdom, it is challenging especially the government and financial institutions within the United Kingdom by pointing out, that the banks' profits seem to be more important than people's right to nutritional commodities. WDM has negotiated tighter controls and more consideration of the developing world. On their website, WDM informs about the progress they recently made in the fight against food speculation, as for example regulative attention that they have received from the EU. Another great achievement for the WDM is that after two years of action, Barclays, the biggest financial institute in the United Kingdom and one of the top three worldwide, have announced to stop their participation in the trade of nutritional commodities for speculative reasons.

For the cocoa producers in Colombia and Mexico, it is strongly advisable to be aware of the risks of food speculation. The great loss for the farmers and the increase in monetary power given to financial institutions can cause a deterioration of the cocoa producers' income, their livelihoods and most of all, their negotiation power. Cocoa producers can protect themselves from being a victim of food speculation by doing research about supply and demand themselves and only cooperating with trustworthy organizations.

As mentioned before, farmers worldwide participate in future agreements with financial institutions to avoid the risk that comes with a bad harvest. However, there are other ways of spreading risk and protecting themselves and their families from the unpredictability of a harvest, like for example diversification or the cooperation with certification schemes. Being aware of the drastic negative consequences of food speculations and keeping in mind alternative ways of dealing with uncertainty, cocoa producers can protect themselves from being abused this way.

## 8.2 Governmental, Regulatory and Economic Interventions

Many countries in the region of Central and Latin America occasionally suffer from inadequate ways of actions in political, regulatory and economic areas and an unstable security system.

This is being supported by Hurrel (1998), who reports that in Latin American and Central American countries, there is an increased tendency for conflicts due to instable governmental, regulatory and economic control. The author also stresses the imbalance of power distribution within these regions as a driver for the somewhat dubious character of how issues are being treated or solved. Cocoa producers are therefore more likely to suffer from a lack of initiative, action and responsibility from legal, governmental and industrial sectors. With more control, back-up and support, cocoa producers could work in a better industrial environment and improve their business operations though improved processes, access to financial aid and better protection.

In the survey, one of the experts from Colombia has pointed out that a lack of information is a barrier for cocoa producers to have greater negotiation power and improved livelihoods. The government and legal instances could potentially play an contributing role by guaranteeing more transparent trade and systems.

During the interview with the anonymous Colombian expert, the topics around corruption and influence of manipulative groups in Colombia were discussed. According to him, cocoa producers in Colombia try to arrange their business and personal lives according to the official rules as possible. However, corrupt groups disrupt the willingness of cocoa producers to act right by pressuring them to act in certain ways or by threatening them in various ways. Therefore, cocoa producers are forced to act in under-the-table approach while simultaneously trying to participate in formal and securely supervised trade and life. However, cocoa producers do not receive support from the governmental or regulatory parties in Colombia, due to the country's unstable security system. Also, the area of legal consequences is often only passively pursued from the governmental side, which leaves plenty of room for corruption, especially in rural areas.

The anonymous Colombian expert also revealed that there is not much financial incentive and economic support for cocoa producers to improve their livelihoods, as the Colombian government is only willing to offer subsidies to suppress riots. Therefore, the most probable way to receive financial support from the Colombian government is to protest and by publishing the urgency of subsidy in the area.

Naturally, this passivity from the governmental, regulatory and economic instances is an enormous barrier to the improvement of cocoa producers negotiation power

and livelihoods. It holds them back in many ways and decreases their motivation and incentives for improvement. Additionally, the fear from being a victim of corruptive action holds them back from opposition.

All in all, many national instances that have the authority to influence change are too passive in their responsibilities, which may results in insufficient support for fair trading conditions and improved livelihoods for cocoa producers. Operating in this rather uncertain environment, cocoa producers might experience some barriers to develop and improve their negotiation power.

The anonymous Colombian expert points out that in many cases, financial support is difficult to obtain. Often, subsidies are only granted as a means to stop riots, protesting and uproar, which local cocoa producers might start in response of their unbeneficial conditions in terms of economy and livelihoods. Therefore, the provision of national subsidies depends on political movement.

Many instances hesitate to intervene in the Colombian cocoa industry, as the results of that investment might be too hard to achieve. The likeliness of investments depends on the return that the investment is able to yield. However, in developmental areas, return on investment might come slowly, and is only poorly monitored as information-, administration- and communication systems are not so easily being maintained. Nonetheless, time and efficiency matter for many investors, so they might hesitate to easily invest in the cocoa industry in rural areas.

## 8.3 Customer Expectations

In the developed world, where it is extremely easy for consumers to switch between products, some consumers choose the price of a product as main criterion. They expect prices to be affordable and might be likely to switch to cheaper alternatives, if the prices make a considerable difference. To stay ahead of competition and meet the expectations of those consumers, big companies might engage in competitive behavior and will try to drive down the price of commodities.

Crane and Matten (2010) also support this thesis, as they describe that big corporations can act aggressively to secure competitive advantage in the global market. By doing so, these corporations might go beyond the boundaries of ethical sourcing. Besides the pressure of competition, another cause could be the risk of substitution from another product that drives big chocolate manufacturers to beat down the price they are willing to pay for cocoa beans. Also a price leadership strategy drives big chocolate manufacturers to urge intermediaries to sell their cocoa at lower rates. This burden is passed on throughout the production chain on the cocoa producers. Also they will experience a risk of substitution, since there certainly is competition among cocoa producers. A result of this pressure of competition might be that cocoa producers feel pressured to agree to

deals below value to ensure sustainability. Interestingly, this statement is clearly proven by the experts that participated in the experts' survey. Both experts from Colombia as well as the expert from Mexico have stated that cocoa producers in Colombia and Mexico feel strong competition within their industry. The experts have distinctly agreed that this makes cocoa producers agree to deals, even if it is below value, to ensure survival.

Apparently, the expectations of final consumers are being perceivable among the entire production chain and can have a strong influence on the reward that cocoa producers receive for their work and their product. Not surprisingly, one Colombian expert and the Mexican expert see consumers as a potential starting point for change. Additionally, the survey reveals that other potential target groups for change are the producers themselves, big cocoa companies and the governments.

#### **8.4 Infrastructure and Rural Areas**

Agricultural businesses, including cocoa farms, are foremost located in rural areas because these areas are most suitable for the cultivation of crops of all kinds. Nonetheless, there might be great distances – and differences – between rural and urban areas in terms of infrastructure and access to various benefits that come with urban life.

Fay and Morrison (2007) highlight that insufficient infrastructure hampers the ability of the local area to grow, compete and reduce poverty. Infrastructure provides reliable access to water, sanitation, electricity, telecommunication, transport and roads. To ensure growth, competitiveness and welfare in both rural and urban areas, these fields of infrastructure have to be established and maintained adequately. According to the authors, the infrastructure in Latin and Central America has been improved modestly during the past decade. However, they criticize that still less money is spent on infrastructural issues than necessary, which slows down the improvement process. In addition to that, the authors point out that governmental and private sectors push the responsibility for investments in infrastructure on each other. As a side effect of this lack of responsibility and initiative, infrastructure deteriorates through neglected maintenance. Cocoa producers in Colombia and Mexico could experience drastic disadvantages due to unmaintained infrastructure, especially in rural areas. Improper access to any of the above mentioned infrastructural areas can be a barrier for the development of improved processes in each cocoa producer's cocoa business.

The results of the experts' survey prove the above mentioned argument, as one of the Colombian experts considers the conditions of infrastructure and the development in rural areas to be poor. The expert states that one of the greatest barriers to better livelihoods and stronger negotiation power of cocoa producers is the geographic isolation. This barrier could be reduced by

improvements in infrastructure within rural areas, with the aim to provide better access to other parts of the country or the international environment. According to the Mexican expert, the local cocoa producers do not have access to internet, which makes it very difficult for them to interact confidently in an international business setting. They cannot directly learn about international market structures, their global opponents and improvement strategies in favor of their own livelihoods and negotiation power.

The anonymous Colombian expert highlights that the wealth and operational abilities of the cocoa producers in Colombia depend on the region in which they operate and how disorganized and chaotic the environment of that particular area is. Better infrastructure, stronger good-minded authority, improved educational opportunities, impermeable security systems and greater financial resources in rural areas can boost the region's developmental potential drastically.

#### **8.5 Concentration of Buyers**

Among the production chain of chocolate products, the cocoa beans change their owners plenty of times, and with that, they change their processing condition. Even though a considerable part of the cocoa is being bought and processed by local companies, the greatest part of the cocoa is being sold and forwarded to big international companies abroad, which will create chocolate products for the markets on other continents.

According to Deardorff and Rajaraman (2009), the concentration of buyers has already played a role in history, when the export of goods were directed by foreign colonial power. However, it plays a role again today as the markets for primary-commodities that are being produced in developing countries become increasingly determined by a small number of international companies. They explain that the trend strongly develops in favor of buyer market power as a consequence of the extensions of operations at the buyer's side. Following to that, a few powerful large-scale operators have emerged. For cocoa producers in Colombia and Mexico this might imply difficulties of switching to another buyer, and therefore dependency in terms of price and conditions under which they have to sell their cocoa.

More specifically, Tiffen (2002) concludes that the number of buyers is limited in the chocolate market. The author states that only a few large companies, five in Europe, two in the USA and three in the UK. Among these companies are Cadbury-Schweppes, Nestle, Mars and Hershey, as well as a few residual players. These few large companies account for 75% of the global chocolate market. Therefore, Tiffen concludes that the chocolate market is clearly dominated by those big brands. She justifies this by the fact that many of the big brands, such as Mars, have been around for many decades already and that they have grown continuously since then.

The facts shared by the experts are in accord to the information retrieved from the literature. In Colombia as well as in Mexico, cocoa is sold to local chocolate brands; however, a great deal of the cocoa is being delivered to big international chocolate brands. Both experts from Colombia state that the regional cocoa is being sold to local Colombian companies, namely Nutresa and Casa Luker. The expert from Mexico says that the local Mexican cocoa is partly sold to local companies, but that it is widely sourced from big international chocolate companies, namely Nestle, Ferrero and Hershey.

## **9. ADDITIONAL ASPECTS SHARED BY COLOMBIAN AND MEXICAN EXPERTS AND COCOA PRODUCERS**

This chapter aims to point out more thoroughly the opinions and ideas of the experts and the producers in the cocoa industries of Colombia and Mexico. Therefore, contributions that have not matched the previous content will be noted and considered in more detail in this part of the thesis.

First of all, the experts' survey reveals that the current price paid for cocoa in Colombia and Mexico is rather unfair. According to the experts in Colombia, the income that cocoa producers' gain for their harvest is in most cases barely enough to ensure adequate living standards. The Mexican expert declares that the income from cocoa cultivation does not ensure adequate living standards. In both countries, cocoa producers feel highly pressured by competitive vibes in the market, which urges them to agree to any possible deals.

One of the Colombian experts explains that the starting point for change in the cocoa industry should be at the level of the cocoa producers, companies, governments, development agencies and research institutions. The second Colombian expert and the Mexican expert share the opinion that the change in the cocoa industry starts with the cocoa producers, companies, consumers and governments.

Furthermore, the experts have been asked to estimate the relationship between the local cocoa producers and their key partners, as the key partners in a production chain play an important role and have great influence on one another. Middlemen, manufacturers, consumers, suppliers, competitors, investors and developmental agencies all have an important stake in the production chains around the cocoa industry. The Colombian experts describe the relationship between the local cocoa producers and their key partners as relatively transparent, however in some cases only moderately transparent, while the Mexican expert assesses this relationship as not transparent in Mexico.

However, it is important to raise awareness about many of the disadvantages that cocoa producers experience in

their daily business. One of the Colombian experts claims that awareness could be raised by showing evidence that the cocoa producer's income is not enough to cover all the expenses in relation to social services that they need to ensure well-being for them and their families. The other Colombian expert states that awareness is not the most important issue to enable change in the structure of the cocoa industry, but rather, that more strategic public investment is needed to influence conditions in the cocoa industry. The Mexican expert would raise awareness by promoting very close relationships with the cocoa producers, in a way that cocoa producers and their key partners meet and actively participate in mutual planning. The expert points out that this is the way to diagnose of the actual needs and concerns of the participating cocoa producers. This way, awareness can directly be initiated at the sources that are most likely to initiate change. Further, in the survey the experts have been asked what they would like to show to their key partners if they had the opportunity. If they could, the experts would send strong messages about the local cocoa industry to the countries where cocoa is processed and consumed. One of the Colombian experts would like to show that around one third of Colombia's cocoa production is fair trade production. In addition, that expert states that Colombia has special, very precious cocoa to offer. The chocolate we get in the stores consists mostly of sugar; it's not real cocoa anymore. The expert strongly recommends that there is plenty of room to explore flavors and products, and that there are certainly more ways to prepare chocolate than we think. The second Colombian expert points out that it would be important to show companies the importance to internalize social and environmental costs, since they are currently considered to be external cost. However, companies have to act in more responsible ways. The expert from Mexico highlights the importance of close relationships between cocoa producers and their partners in the production chains. A stable and close relationship is necessary, so that the demands and needs of the cocoa producers can be recognized and that they can receive better support and financial aid.

Lastly, the experts have been asked what changes they would make in the cocoa industry if they had to the chance. One of the Colombian experts explained that more investment in the capacity and technology is needed to improve crop variety and post-harvest processes. Also, the expert would implement more inclusive policies that link producer organizations to different niches, maybe by using certification schemes. Next to that, the expert would concentrate on developing competitive policies in Colombia, since they strengthen the local differentiated value chains. Additionally, the expert would promote more sustainability-oriented policies to promote potential niches. The second Colombian expert would strengthen the relationship between cocoa producers and the international markets, to avoid the inclusion of intermediaries and local companies. The expert points out that the Colombian market is controlled by two

companies only, so that an oligopoly-oriented ownership constellation exists. Besides that, the Colombian expert would improve the quality of social services in the country, such as the health and education sectors. The Mexican expert would boost the educational input in the area of business for the cocoa producers. Also, the expert strongly recommends to diversify the products produced in each plantation. Most importantly, the Mexican expert would improve the yields for the cocoa producers, by improving the price that buyers pay for cocoa produced in Mexico.

The survey aimed for the cocoa producers themselves yielded very important findings and inspirations too. Due to the high response rate of cocoa producers from both countries, it is possible to use percentage values and therefore, to show the findings in a more graphical way. First of all, the cocoa producers have been asked whether they consider the price currently paid for cocoa in their country as fair. In Colombia, the price is not considered to be fair. 50% estimate it as medium, while the remaining 50% of respondents evaluate the price as unfair.

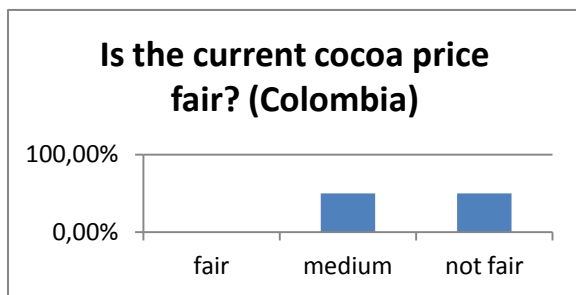


Figure 9.1: Survey question about the fairness of the price currently paid for cocoa in Colombia (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

In Mexico, the price currently paid for cocoa is considered to be rather on a medium level, as 71,43% of the respondents chose. None of the producers have claimed specifically that the price is fair. However, the remaining 28,57% pointed out, that in their opinion, the price currently paid for cocoa in Mexico is unfair.

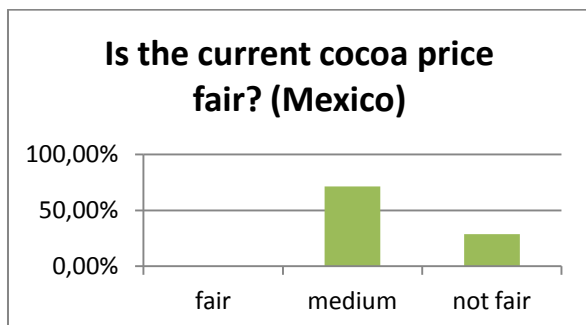


Figure 9.2: Survey question about the fairness of the price currently paid for cocoa in Mexico (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

Following the previous question, the cocoa producers were asked whether the price currently paid for cocoa in their country ensures adequate living standards. Again, the answers from Colombia result in 50% of the respondents evaluating this question as medium, while the residual 50% chooses that the current price for cocoa does not ensure adequate living standards. It is noticeable, that apparently none of the Colombian cocoa producers thinks that the price for cocoa is enough to cover all the expenses necessary to ensure adequate living standards.

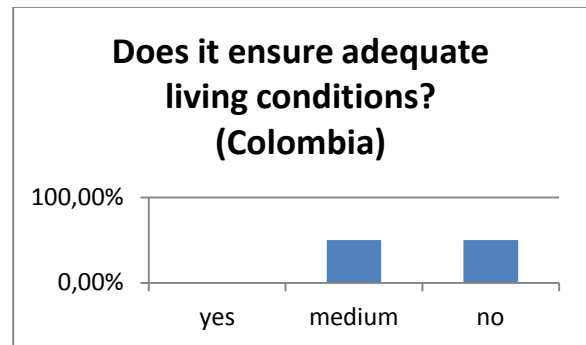


Figure 9.3: Survey question about the price currently paid for cocoa in Colombia ensures adequate living standards (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

While in Mexico, none of the cocoa producers participating in the survey believes that the price currently paid for cocoa ensures adequate living standards, 71,43% of the respondents claim that it does not. The other 28,57% evaluate the ability of the current cocoa price to ensure adequate living standards on a medium level.

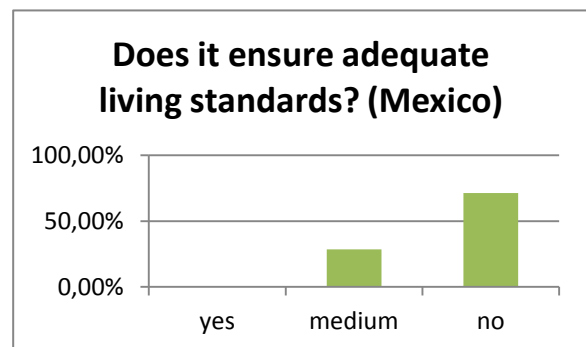


Figure 9.4: Survey question about the price currently paid for cocoa in Mexico ensures adequate living standards (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

Seeing these results, the question arises, what might cause the weak negotiation power of cocoa producers. 50% of the interviewed Colombian cocoa producers believe that the greatest cause lies in the lack of financial means. However, also the educational aspect plays a role, as 25% of the respondents have chosen inadequate education for cocoa producers as a cause for their weak negotiation power. The last 25% claimed that a lack of

knowledge about business administration and strategies might be the cause. Aspects like weak infrastructure, the lack of security, pressure from competition and pressure from corruptive groups and individuals have not been chosen to be a significant cause.

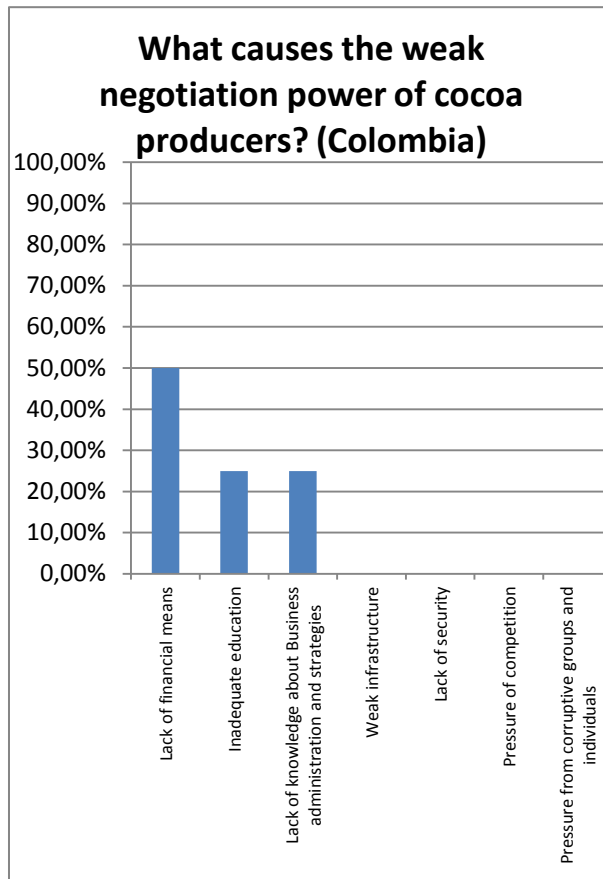


Figure 9.5: Survey question about the causes of weak negotiation power Colombian cocoa producers (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

The results look somewhat different in Mexico. Here, inadequate education seems to be the greatest cause of weak negotiation power, since 26,92% of the Mexican cocoa producers chose it. The second greatest causes are the lack of financial means as well as the pressure from corruptive groups, which each yielded 23,08%. The next cause in the ranking is the weak infrastructure, as 15,38% have chosen this to be a significant issue. 7,69% voted for a lack of knowledge about business administration and strategies, while 3,85% chose the lack of security as the reason for weak negotiation power of cocoa producers. None of the Mexican cocoa producers chose pressure of competition to be a significant cause.

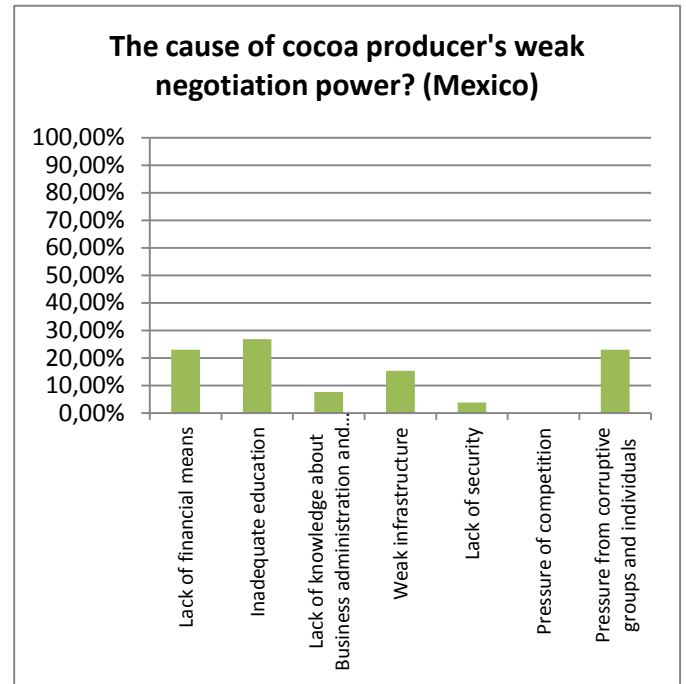


Figure 9.6: Survey question about the causes of weak negotiation power Mexican cocoa producers (Anonymous survey with Cocoa producers from Colombia and Mexico, 2014)

Additionally, the cocoa producers have been asked to tell which changes they could make in their local cocoa industries if they had the opportunity. The cocoa producers in Colombia would develop industrial processing mechanisms so that the value added to the product can benefit the cocoa producers, as the value is more balanced among the actors of the production chain. Adding to that, the production system should be improved, to improve the processes of sowing, fermentation and drying. This could then result in higher quality in the drying quality. The Colombian cocoa producers believe that Colombian cocoa has some special characteristics and that with improved local processes; they could manage the local cocoa industry much better. The Mexican cocoa producers strongly point out, that they would enable better means to achieve high quality plantation management. This might imply improvements in the areas of training, subsidies or cocoa transformation processes. Plantation renewal is of high demand as well among Mexican cocoa producers. Updates and innovative renovations are necessary to adapt to certain standards that are needed to operate the cocoa plantation at peak efficiency and profitability. Next to that, the cocoa producers are hoping for better ways to handle pesticides and diseases among their cocoa plants, to reduce the losses in the harvest and to have higher quantity and quality output to sell. Additionally, to enable higher quantity and quality output, the Mexican cocoa producers would provide more high performance trees and establish training systems to educate cocoa producers about grain quality, and the benefits and effects this might have on the harvest.



## 10. CONCLUSIONS

Considering all possible contributions to the research about cocoa production in Colombia and Mexico, several findings enable conclusions and recommendations. As the research questions have determined the focus of this thesis, each of them will be answered adequately. For the purpose of a thorough conclusion, the findings from the experts' survey will be merged with the findings from the producers' survey. The main research question comprises the findings and recommendations of all three subsequent research questions. Therefore, it can be answered broadly by presenting a roughly summarized reflection of the outcomes of to the sub-questions. Further, the sub-questions are being answered by considering the actual findings of this research.

### **How could the gap between current and potential conditions in the cocoa industry be closed to enable fair and sustainable cocoa production in Colombia and Mexico?**

The gap between current and potential conditions in the cocoa industry in Colombia and Mexico can be closed by adequately applying Business and B2B Marketing strategies, and considering drivers and barriers that enable fair and sustainable cocoa production. Business strategies are an important contributor because they could empower the negotiation position of cocoa producers. B2B Marketing strategies that focus on achieving fair and sustainable conditions can have a great impact on closing the gap. Furthermore, the drivers should be utilized as much as possible, while the barriers should be avoided or, if feasible, bypassed with the help of strategic alternatives.

### **Which business strategies can empower the negotiation position of the Colombian and Mexican cocoa producers?**

The business strategy that empowers the negotiation position of the Colombian cocoa producers most of all is the strategy concerning Strategic Alliances. In addition, Diversification, Horizontal Integration and Niche Market Targeting have an important impact on the negotiation power of cocoa producers. Also Vertical Integration and In-House Production can be considered to contribute to improvement of cocoa producers' negotiation position. Even though LETS, Barter Economy and Share Acquisition are not considered as currently utilized by Colombian experts and cocoa producers, they might potentially be able to influence the cocoa producers' negotiation position in the future under other circumstances. Also, those strategies that are already being applied can be further strengthened and expanded. In Mexico, the experts and cocoa producers agree that Diversification and Strategic Alliances have the most influence on the empowerment of the negotiation position of Mexican cocoa producers. Next to that, Horizontal Integration, In-House Production, Barter Economy and Niche Market Targeting are also strategies that positively

influence the negotiation position of Mexican cocoa producers. Vertical Integration, LETS and Share acquisition are currently not being applied in Mexico. Still, their potential can become beneficial as the environment of business develops and improves. Also, the strategies currently in use can be further promoted.

### **What are the B2B Marketing strategies that the cocoa producers in Colombia and Mexico could use to achieve fair and sustainable conditions in cocoa production?**

To achieve fair and sustainable conditions in the Colombian cocoa industry, the local experts and cocoa producers agree that acquiring a Certification Schemes and Buyer-Supplier Relationship-Building are the most effective B2B Marketing strategies. Also, Joint Ventures are considered to contribute to the improvement of sustainability in the industry, while Co-Creation is currently not being utilized. Nonetheless, this strategy, as well as the remaining ones that are currently being used, can still grow to be more powerful and influential in favor of Colombian cocoa producers.

In Mexico, the strongest B2B Marketing strategies to be used for the purpose of achieving fair and sustainable conditions in the cocoa production are Buyer-Supplier Relationship-Building and Joint Ventures. However, Certification Schemes and Co-Creation are occasionally being used to ensure just and sustained cocoa production. All strategies still have potential to become more effective in the environment of the Mexican cocoa industry.

### **What are the most significant drivers and barriers supporting and/or hindering fair and sustainable conditions in the Colombian and Mexican cocoa industries?**

The drivers that strongly support fair and sustainable conditions in the cocoa industry are Business Ethics, an increase in partnerships and associations, and governmental, economic and regulatory interventions. All the drivers have support from the respondents of the surveys, as well as the interview with the anonymous expert.

On the other hand, barriers such as food speculation, customer expectations, the concentration of buyers, infrastructural issues and governmental, economic and regulatory interventions play a highly important role. Also the barriers can be aligned with some of the answers of the respondents to the surveys and the interview with the anonymous expert.

All of these drivers and barriers are almost equally strong and significant. Therefore, it is difficult to evaluate which has the most influence on fair and sustainable conditions in the cocoa industry. Factors such as specific regional circumstances, the state of development and the general business environment evolving around the cocoa industry

determine the strength and extent of each driver and barrier individually. It has to be considered that drivers and barriers are always likely to be influenced by many instances, but most strongly by governmental and legal bodies as well as policies.

All in all, there are some business strategies and B2B Marketing strategies that seem to be the most applicable according to theoretical findings, even though all of the strategies bring great advantages and improvements.

In terms of business strategies, it seems to be the least complicated, most secure and effective method to apply Diversification as well as Strategic Alliances. These two enable to spread risks and other inconvenient side effects of conducting business, while at the same time enabling growth, increased security and better access to markets to a great extent, which in turn improves the cocoa producers' negotiation position.

Concerning B2B Marketing strategies, Certification of cocoa and Buyer-Supplier Relationships seem to be the most effective way to achieve fair and sustainable conditions in the cocoa industry. Even though a cocoa producer might not produce a high enough output of cocoa beans to benefit from financial advantages, there are also other areas of improvement that come with certification schemes. Buyer-supplier Relationship-Building implies long-term security for cocoa producers and their business, and therefore enables strong support in favor of sustainable conditions in the local cocoa business.

The drivers and barriers can change depending on the environment of the cocoa industry, and should thus always be carefully considered when planning to make strategic moves. For their own advantage, cocoa producers should be aware that there might be ways to specifically utilize certain drivers and to avoid barriers. It becomes clear that the establishment of strategies is always perceived to be positive and highly appreciated. However, these initiatives do not easily achieve a significant change themselves. Adequate funding and long-term support are necessary to realize the desired concepts and ideas.

## **11. DISCUSSION AND LIMITATIONS**

It can be discussed that there are many strategies that have, at least theoretically, high potential to improve conditions in the cocoa industry. Most of these strategies are being appreciated by the survey respondents, which increases their likeliness to drive change. Drivers should be strongly utilized by cocoa producers to support the implementation of strategies and to gain advantages in favor of their business operations. On the other hand, the barriers should be avoided if possible. However, there might be other restrictions that hinder or decelerate the successful implementation of business strategies, such as a lack of expertise, financial abilities and inadequate technical and educational means. To improve these

conditions, the awareness for the necessity for change has to be increased and transparency throughout the entire industry has to be enhanced.

This thesis is characterized by several limitations that influence the depth of the analysis. First of all, the geographical distance to the territories of observation limits the extent to which a thorough understanding of the local conditions can be observed. The impressions of the regional business practices are retrieved from surveys and a personal interview, so the statements and conclusions about the cocoa industry in Colombia and Mexico depend on the experiences and knowledge of the respondents. Also, due to the distance and communicative issues, it was not entirely easy to reach the desired target group. Next to that, also the time frame in which this thesis is to be conducted is restricted, which has an effect on the abilities to expand and the depth of the analysis.

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