Action Recommendation Report and Executive Summary 1

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**Executive Summary**

Havard case brings up inequities in the cocoa supply chain and many other related challenges. While cocoa is one of the most favorable foods and is being consumed by millions of consumers, farmers are trapped in a cycle of poverty. In addition, West African farmers’ average wage is only $1 which also causes extreme poverty. Low wages can also potentially drive illegal activity such as child labor since farming cocoa is already one of the main sources of income. Furthermore, market concentration is at alert level since a few large corporations’ control most of the cocoa pressing and the chocolate production. These companies gain all the benefits as well as profits while farmers struggle to earn a living. As a result, due to the lack of bargaining power, smallholder farmers are unable to negotiate pricing, which also makes them depend more on these companies. Moreover, poverty is also the reason that causes deforestation. Farmers tend to migrate to illegal plots for fertile soil. The case highlights that if the company wants to meet consumer demand for ethical products as well as contributing to the global SDG, the company needs to take action to prevent financial risk and maintain its reputation.

The recommended action is to have a comprehensive fair-trade model and ensure that products are sustainable and original as certified as possible. Then, the implementation phase also needs to ensure equities in the cocoa supply chain. For instance, sharing more values to key regions such as Ghana, or Cote D’loivre. We want to make sure that farmers receive more so that it would improve their livelihood and contribute to environmental preservation.

Additionally, the action has several positive impacts to the company. Firstly, the brand reputation will significantly increase as this action attracts more conscious and loyal consumers who source products ethically and share equal values. Next, as consumers start to favor sustainable products, there will be an increase in revenue and market share. Then, by addressing and improving the living quality of cocoa farmers, we can contribute to stabilizing the key production and processing regions in the long term. Finally, we can contribute to preserving the environment by indirectly reducing deforestation.

The implementation plan will be carried out over 15 months. The first phase is considered as testing phase, 4 months. Then the second phase will be implemented for 5 months. This phase, we will adjust and make necessary changes. Finally, the last phase will last for 6 months. During this phase, we want to make sure that the company is fully committed and familiar with the changes.

I strongly urge the SLT team to take immediate action to secure competitive advantage, enhance brand reputation, and align with global sustainability goals.

**Issue/ Problems:**

According to the Havard case study, farmers low income is considered as a critical issue that need urgent attention. Cocoa farmers, especially in West Africa, earn only a small share of the overall revenue generated from the chocolate industry. The study states that they only earn $1 per day on average, while 75% of West-African farmers relied heavily on cocoa as their main income. Therefore, this is also one of the factors that lead to poverty; low income also holds farmers back from investing in better farming practices, or farmers might struggle to sustain their livelihoods. Additionally, skewed value distribution is also needed to be considered since only 6% of the value by chocolate production reaches back to the farmers. While a significant portion of the value goes to manufacturers and retailers, farmers earn little to no benefit. Farmers are the one who directly produce raw materials, and inputting direct manpower, but they only share 6% of the value. Furthermore, it affects the environment by indirectly causing deforestation. The low income of farmers leads to unstainable practices; as poverty-stricken farmers seek to increase cocoa income by raising the quantity, they tend to migrate to preserved rainforest areas for fertile soil. More importantly, low wages not only exacerbate poverty but also drives illegal activities like child labor. Another significant issue is the lack of transparency. Nowadays consumers do want to know where their food is made and how it is made. The cocoa supply chain is currently limited as producers focus more on balancing volumes rather than dividing different types of cocoa. The case study shows that mass balancing for cocoa is more beneficial because it accommodates economies of scale and requires less supervision. On the other hand, differentiating cocoa by types is harder to implement and requires more control over mass balancing. It will be difficult for consumers to ethically verify whether the chocolate they purchase is ethically source or not.

**Recommendations:**

As a result, to address the challenges caused by the cocoa supply chain, I recommend our company to begin with fair-trade certification. Comprehensive fair-trade certification plays a significant role in improving cocoa farmers’ standard of living and encouraging sustainable farming practices. This would solve low wages issue as well as reducing poverty in key regions such as Ghana, or Cote D’loivre. As indicated in the case study, Cote D'loivre and Ghana was in the first and second place for cocoa bean production worldwide during 2018 to 2020. Cote D’lvoire was in first place with 2180 thousand metric tons in production (Exhibit 2a, p.73). Fair-trade certification also ensures that all farmers are treated equally so that child labor does not occur. Furthermore, a reduction in unsustainable farming practices will cause a reduction in environmental damage. Additionally, companies can directly partner with cocoa farmers because the middleman fee is unnecessary. Middleman often takes a significant share of profits while those shares should be earned by farmers instead. This also contributed to improving low income bettering the community. Moreover, direct partnership can lead to an increase in cocoa quality as well as improving the efficiency of supply chain operations. Finally, to address transparency, implementing blockchain technology will be beneficial because it allows companies to track and verify the source of the cocoa. Blockchain technology will give the company full control and the ability to trace down anything in the entire process from farming cocoa to producing chocolate bar. Company can gain trust from conscious and loyal consumers through ethically sourced products. Not only did it satisfy the consumers, but it also differentiated the company from its competitors.

**Justification:**

Although these are my recommendations, there are still other alternatives to consider. Other certification schemes, such as UTZ and Rainforest Alliance, focus more on protecting nature, enhancing the forest communities as well as farmers’ lives’ quality. This certification focuses more on productivity rather than financial stability. Fair-trading will be more beneficial as its goal is to promote a fairer trading condition as well as supporting farmers to fight off poverty, as rainforest-alliance.org stated. Besides, if the company does not want to partner with farmers directly, collaborating through a big trader is also an option; it is even more convenient. However, farmers’ poverty circle will continue as they receive less profit again. The company will lose control over farming practices. Finally, if the company wants to follow the traditional method of tracking the supply chain, the addressed issued, lack of transparency, will remain.

**Expected Benefits:**

As mentioned, multiple times above, by ensuring that cocoa is sourced ethically and sustainably, the company will attract more consumers who are interested in the origin of the products. This progress will improve the company image, as well as differentiating it from competitors. Moreover, the company can potentially increase customer satisfaction and loyalty. Consumers tend to remain loyal to the brand that algin with their value and satisfies them. The company has the potential to tap into a growing market of conscious consumers who also prioritize sustainability. Benefits that can be seen easily based on choosing fair-trade certification and direct partnerships are impacts on social and the environment. Not only these two methods can help improve the living quality of cocoa farmers, but they also help reduce the environmental impact of unsustainable farming practices.

**Implementation Plan:**

Ultimately, the implementation plan starts from phase one, which will be completed within 4 months. We will be sourcing cocoa from the fair-trade certified farmers and establish initial direct partnerships with smallholder farmers. Sourcing 26% of cocoa at first and trying out the blockchain technology to test its effectiveness as well as its scalability. A short amount of time and lowering the supply will give the company the opportunity to determine and test more effectively. Next, in phase two, if the company finds it is beneficial, we will push to progress faster. On the second phase, we will need to increase the supply quantity to 60% as well as expanding the blockchain technology to other key regions. On stage two, we need to focus on strengthening the direct relationships with smallholder farmers, improving quality control and cocoa yields. After five months from phase two, the final stage will be completed within six months. By the final stage, the company will be able to source 100% of fair-trade certified cocoa and be able to implement full transparency across the entire cocoa supply chain by using blockchain technology. However, as the company grows, we still need to remain and continue to improve partnerships with farmers to ensure long-term benefits for both parties.

In conclusion, I strongly ask the Senior Leadership Team for approval to start implementing my recommendations on the current issues. If the Senior Leadership Team approves my recommendation, I guarantee that our company will meet consumers demand sourced ethically, as well as contributing to improving the living quality of farmers. Furthermore, we will have full control on the process of producing chocolate bar if we start using the blockchain technology now. We want to secure a competitive advantage, enhance brand reputation, and align with the UN Sustainable Development Goals (SDG).

References

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