

# Stanford SOCIAL INNOVATION REVIEW

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## **More than Beans** By Brandon Keim

Stanford Social Innovation Review  
Spring 2011

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## More than Beans

Sustainable Harvest grows a new supply chain **BY BRANDON KEIM**

UNTIL SEVERAL YEARS AGO, the experience of Tanzania's Kanyovu farming collective was typical of most developing world coffee growers. They took samples of their harvests to a regional buyer, who offered the farmers a price after tasting and grading their beans. If the coffee's quality was poor—as often was claimed—the farmers had no way of knowing why, or even if that was true. Buyers didn't need to explain. Nor did farmers know what price their beans fetched from larger buyers or coffee roasting companies. Despite representing the primary link in the global coffee supply chain, Kanyovu's farmers were effectively isolated and powerless.

Two decades ago, a young business student named David Griswold witnessed a similar phenomenon in Mexico, as a volunteer at the National Coordinating Body for Coffee Farmer Cooperatives. He saw that after this government office, which provided agronomical training and price stability for Mexico's 250,000 coffee farmers, was eliminated as part of a push to deregulate coffee and other industries, farmers were plunged unprepared into global competition. They became subject to commodity market swings and a food industry that annually produced 400 billion cups of coffee while paying pauper's wages to the people growing the beans.

Other industry reformers founded nonprofits to help farmers, or devised consumer-targeted certification systems—fair trade, organic, Rainforest Alliance—to be overlaid on the existing industry. Griswold decided to join the industry. In 1997, he founded Sustainable Harvest Coffee Importers, in Portland, Ore. "We're analogous to the multinational traders. We do everything they do—and we're profitable," says Griswold. "But we use our profits to improve the livelihood of our farmers."

As of 2010, Sustainable Harvest had worked with nearly 200,000 farmers in 14 countries. The company enables farmers and roasters to negotiate directly; once the roasters agree to purchase beans and the contracts are finalized, Sustainable Harvest helps farmers secure financing through nonprofit social investment funds. When the crop is ready, Sustainable Harvest also handles logistics and international shipments, ultimately charging roasters between 7 percent and 8 percent of purchase price. Last year the company oversaw \$34 million in sales to roasters in North America, Europe, and South Africa, of which \$31.5 million went straight to growers. Of

Sustainable Harvest's \$2.5 million share, the company spent more than half on development-related projects and overhead: nine employees in Portland and 21 at four field offices in Latin America and East Africa, who train farmers in sustainable—and profitable—agronomic techniques. The remaining share went to support Sustainable Harvest's six-person staff in Portland and to rent warehouse space in Oakland, Calif., and Kearny, N.J.

Such a business model may seem more charitable than profitable, but it's proved a bottom-line success: Sales are expected to reach \$40 million in 2011 and \$100 million by 2014. And in Tanzania, where Sustainable Harvest started working in 2007, the Kanyovu collective no longer depends on arbitrary local buyers for their income. They grade their own coffee. Last year, the collective won the prestigious African Taste of Harvest competition. Farmers received \$1.80 per pound, three times what they were paid before.

### A TRANSPARENT SUPPLY CHAIN

Business was not always bountiful for Sustainable Harvest. When Griswold started the company, he was confronted by the race-to-the-bottom logic of commodity markets, which made only rough distinctions between coffee grades. Good arabica beans were generally lumped with the bad, and all prices were pulled down by competition with low-grade robusto beans grown in deforested fields and doused with pesticides and herbicides. So long as farmers' earnings were linked to these markets, they'd be stuck.

Sustainable coffee activists believed that a new market needed to

*Christy Thorns, green coffee buyer for Allegro Coffee Co./Whole Foods, examines beans with an Ecuadorian producer.*



be created, one in which origin and quality would be used to differentiate beans. In the traditional supply chain, roasters are ignorant of coffee's origins; that is sometimes true of fair trade or organic coffees, which can be sold by importers who promise sustainability but provide only general information about geographic origin. Griswold's vision was to enable buyers to reward quality and to know exactly where coffee came from. It was an innovative, idealistic plan—except Griswold promptly took the company into bankruptcy.

Banking on the burgeoning appeal of shade-grown coffee, he bought 50 tons at \$2 per pound. Before he could find a roaster to purchase it, the price dropped by half. Griswold became victim to the market volatility he hoped to fix. He spent the next two years working 15-hour days, clawing the company back to solvency. "It was a lonely time," he says. "When I started working with farmers in 2000 and 2001, when prices had gone down to 50 cents [per pound], I would say, 'I know what it feels like to be bankrupt, to not want to face your parents or your wife.' We had a connection over that."

Those farmers also had a message for Griswold, who hid his problems. "They said: 'You should have told us. We could have helped out.' It occurred to me that maybe I wasn't alone. Maybe I could collaborate," says Griswold. "So I started being more transparent about what was going on, what I was trying, and what the prices were. And once I employed transparency, I found out that the business accelerated because of it."

Transparency is now part of a suite of practices that Sustainable Harvest calls its Relationship Coffee model. An alliterative list of mandates, the model includes training, trade credit, traceability, and technology, but transparency is the unifying theme. Sustainable Harvest's books are always open, as are the relationships it forges among farmers and roasters. The company introduces the two parties and then largely removes itself from negotiations. "Most of the intermediaries in coffee want to keep that wall between grower and buyer," says Laura Tilghman, Sustainable Harvest's communications director, because keeping those parties in the dark helps buyers maximize their own profits. "Our model says: Take the wall out of the way, and put everyone at the table."

Tilghman is not speaking figuratively. Since 2002, Sustainable Harvest has held annual conferences, called "Let's Talk Coffee," at which roasters and farmers talk shop and do business. New deals are struck and existing partnerships strengthened, making the events—one annual global meeting, held in Central or South America, and thrice-yearly regional gatherings held in those regions or in East Africa—essential to establishing prices through direct roaster-farmer dialogues, rather than through commodity market calculations.

"There are long-term relationships," says Rick Peyser, director of social advocacy and coffee community outreach at Green Mountain Coffee Roasters, a publicly traded company that purchases much of its organic and fair trade beans from Sustainable Harvest. "It's not just buying coffee because the price is best from this group in one year, and a different group the next."

### CREATING RESPONSIBLE SUPPLY CHAINS

Forge lasting relationships among parties

Enable transparency in all prices and business relationships

Use profits to further your mission

Though buyers pay above-commodity prices, they recover the costs in various ways, from the ethical rewards of participating in a decent system to bean quality to efficiencies introduced by product stability and transparency. Green Mountain's partnership with a Vera Cruz, Mexico, farmer cooperative has lasted 14 years; over that time, says Peyser, the cooperative tailored its beans to the company's specifications, enabling them to charge more while providing Green Mountain with a consistency difficult to find elsewhere.

Personal relationships also provide buffers against price fluctuation, preventing farmers from abandoning sustainable practices to take advantage of coffee price spikes. Farmers directly engaged with roasters that want chemical-free coffee are reluctant to jeopardize that relationship, says Griswold. Instead, farmers can raise their prices—and roasters are willing to accede. Other farmers might sell cheaper beans, but roasters would need to spend more to ensure a consistent supply. Trust has value.

### EXPANSION DURING GLOBAL RECESSION

Even as the global economy dipped and stagnated, the fortunes of Sustainable Harvest and its partners rose. For the last five years, sales grew by an average of 30 percent annually; from \$25 million in 2009, sales are expected to hit \$40 million in 2011 and account for approximately one-eighth of all fair trade coffee imported into the United States. Expansion to Indonesia is planned, and a Colombian office may follow. Griswold has succeeded in his original mission.

It remains to be seen, however, whether Sustainable Harvest's model can scale up. Global coffee demand is booming, as developing countries—especially China—adopt Western habits of coffee consumption. Unless Sustainable Harvest's model can serve the market's vast middle, and not just its high end, its effectiveness will be limited.

According to coffee expert Daniele Giovannucci, a World Bank consultant and founder of the Committee on Sustainability Assessment, the model's prospects are good. Corporate behemoths like Walmart, Sara Lee, and Kraft are demanding responsibly sourced coffee, and direct negotiations with Sustainable Harvest's 200,000 farmers could benefit them no less than they have benefited Green Mountain. Sustainable Harvest will never serve the market's bottom, as those coffees are priced below the point where economic sufficiency and environmental safety are possible. But the middle is a reasonable target.

Giovannucci believes Sustainable Harvest's model would work even if replicated by other, more profit-focused entrepreneurs. Griswold's company has shown that transparency and farmer development are not charity, but long-term investments. "The work they do is by definition applicable in other areas. It works through a business model, and clearly the business model is successful," he says.

Tilghman named cocoa, salt, and flour as commodities where the Sustainable Harvest model could create new markets. Peyser mentioned cocoa and bananas. "Everyone is at the table and connected," says Griswold. "I believe we're creating the future of global supply chains." ■