

# Theo Chocolate: Ethical Supply Chains

## INTRODUCTION

Seattle-based coffee chain Theo Chocolate has struck the right chord between giving back to communities and developing a product that resonates with customers. Theo Chocolate is a bean-to-bar chocolate company, meaning that the chocolate is developed completely in-house. It is also one of a growing number of companies incorporating strategic philanthropy into its business model. Strategic philanthropy is the synergistic use of the organization's resources to achieve positive change. Rather than simply acting as a cause-related marketing initiative, strategic philanthropy is incorporated into the business model from its inception. In the case of Theo Chocolate, founder Joe Whinney decided he not only wanted to develop a product that would bring joy to people, but that in the process his firm would create more economic opportunities for the farmers that grow the cocoa beans.

Joe Whinney was first inspired to create a company like Theo Chocolate as he travelled through Central America and Africa over two decades ago. Whinney witnessed a number of local cocoa farmers struggling to survive on low wages and saw they were being exploited by multinational companies. He spent the next few decades forming relationships with these cocoa growers with the intent to one day produce chocolate himself, making a positive difference in the lives of cocoa suppliers.

## COCOA FARMERS

The wages for farmers in developing countries has not improved much in the two decades since then. In 2014, global demand for chocolate was at an all-time high. The laws of supply and demand should dictate that cocoa farmers earn better wages, but this is not always the case. In Ghana, for instance, the government sets the prices for how much farmers are paid. One cocoa farmer earned the equivalent of \$3 a day to support his family of ten. West African countries such as Ghana produce 70 percent of the world's cocoa beans.

In response to the great income disparities, some multinational companies including Nestle, Hershey, and Mars have banded together to create a sustainability strategy for West Africa leading to greater educational opportunities. The intent is to teach local farmers about sustainable methods of farming that will increase their crop yields. However, a major issue with large scale projects such as this is that they take a long time to implement. Joe Whinney believed he could help farmers directly by paying them higher wages. In 2006 he founded Theo Chocolate with his ex-wife and current chief marketing officer Debra Music in Seattle, Washington. Whinney's vision was to produce a high-quality chocolate product that would benefit everyone—consumers, his business, and the suppliers of the cocoa. The company adopted the following mission: "We're passionate about chocolate. And changing the world." With this in mind, Whinney decided that the chocolate

*This case was prepared by Jennifer Sawayda for and under the direction of Harry Van Buren and John Reed. It was prepared for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative, ethical, or legal decision by management. All sources used for this case were obtained through publicly available material ©2016*

would be organic and Fair Trade certified. Theo became one of the first organic Fair Trade certified chocolate producers in the nation.

## STARTING THE COMPANY

To Theo Chocolate quality is everything. Whinney quickly realized that although many people would be attracted to it because of its ethical conduct, the company's success depended on how consumers liked its products. In order to ensure it could oversee every step of the process, Theo Chocolate makes the chocolate bars completely in-house (known as bean-to-bar). All beans are roasted with a German ball roaster from the 1930s, and the majority of the machines in the factory have been recycled from European artisan factories. This allows employees to exert complete control over the supply chain so that customers receive products that meet the firm's high-quality standards. Even the packaging is recycled from reclaimed materials, helping Theo Chocolate reduce its environmental footprint.

Theo Chocolate also values creativity. The company wanted to create something truly unique that could not be found at other chocolate manufacturers. When it first started, it produced unique chocolate combinations such as coconut curry. Its initial target markets were consumers concerned about sustainability and foodies. While its high-quality chocolate concoctions received accolades from food critics, Whinney and Music discovered the company needed to broaden its target market. To be truly successful, it needed to attract the mainstream consumer. Gathering feedback from consumers, the founders realized that consumers wanted flavors they already liked and could recognize, such as orange and mint. At first the founders were skeptical because these types of products were already out on the market. They did not know if retailers would stock them from yet another chocolate company. However, like any good business, the firm listened to the consumer and began releasing more classic flavors such as raspberry almond, orange, and mint.

Their decision paid off. Demand for its chocolate grew. This, combined with its strong reputation for integrity, convinced retailers to stock Theo Chocolate products on their shelves despite limited space. This in turn caused rapid growth for the company. Today Theo Chocolate has 100 employees and can be found in a select number of stores (including certain Whole Foods locations). Products can also be purchased at the factory or online. Theo Chocolate has developed a number of product lines, including chocolate bars, confections, caramels, and specialty products such as hot chocolate and coconut bites. In addition to its classic chocolate bars, Theo Chocolate continues to exert its creativity and develop products for foodies with its Fantasy line of chocolate bars, which includes flavors like fig, fennel & almond, bread & chocolate, and chai.

High sourcing standards and strong supplier relationships are paramount at Theo Chocolate. For this reason, Theo Chocolate has established partnerships that exemplify its desire to change the world. These "Partner Bars" are priced a dollar higher than its regular chocolate bars; however, the higher costs reflect the higher standards and ingredients that go into the bar. For instance, its quinoa coconut bar is gluten free, soy free, kosher, and vegan. Its World Bicycle Relief Sea Salt chocolate bar is priced higher because proceeds go to support locally assembled bicycles to people in rural Africa. The firm also launched two chocolate bars that adhere to Demeter certification standards. Demeter International is a non-profit organization that promotes biodynamic

agriculture. Biodynamic principles—based on the work of scientist Rudolf Steiner—take organic farming a step further by viewing *all* of nature as an interconnected whole. Biodynamic agriculture practices include steps such as using fermented manure, herbs, and minerals to enhance the quality of the agriculture, as well as the use of cosmic influences. Theo Chocolate developed the first line of chocolate bars in the United States where both its sugar and cocoa are certified according to Demeter standards. Theo Chocolate believes this certification will increase its reputation as a company that cares about the highest standards in sustainable farming.

## EASTERN CONGO INITIATIVE

Finally, Theo Chocolate has developed a series of “Partner Bars” supporting the Eastern Congo Initiative (ECI). This partnership has gained more attention, perhaps as a result of ECI’s founder, actor Ben Affleck. Ben Affleck was inspired to start the initiative after reading about the estimated 5 million people who have died as a result of internal conflicts in the Democratic Republic of the Congo (DRC). This was the first time Affleck had heard of the conflict, and he wanted to create awareness of the conflict and provide a way to help citizens struggling to survive in its war-torn economy. Affleck decided the best way to implement positive economic change was to create investment opportunities in the country. He led a team of philanthropist investors to the DRC to invest in local communities. It is notable that the conflict in the region is so serious that the investors are often accompanied by armed guards for protection.

Affleck recognized that Theo Chocolate’s values of integrity and its desire to make a difference lined up perfectly with ECI’s values. He approached Theo Chocolate and asked it to partner with his initiative. Specifically, Affleck wanted Theo Chocolate’s assistance in improving the lives of cocoa farmers in the region. Theo responded by committing to buy 340 tons of cocoa. By the end of 2015 this number had increased to 1,600 tons of cocoa from DRC farmers. Under Whinney’s leadership the company pays its suppliers in the DRC two to three times the market rate.

In addition to paying farmers higher wages, Theo’s partnership with the ECI is working to achieve what many of the large-scale multinational chocolate firms are doing: providing more education to local farmers to increase crop yields. This is a sustainable solution that will help farmers increase their incomes without outside aid. So far the partnership has led to training programs that have trained 2,000 farmers in sustainable agricultural practices.

## CONCLUSION

Theo Chocolate is proud of its high-integrity culture and ability to make a difference. In its quest to change the world, the firm recognizes it needs consumers to be on board—not just in purchasing products, but in understanding the stories behind cocoa. One of Theo’s most successful marketing tools is the tours of its factory it offers to consumers. For \$10 consumers can tour the facilities and try samples of Theo’s chocolate. During the tour, consumers are told the stories behind cocoa and the farmers that supply it. They gain an appreciation for the value of cocoa and the major role it plays in the life of its suppliers. Through relationship-building, education, and a quality product that

stakeholders love, Theo Chocolate is creating a legacy that redefines the supply chain in a way that all intermediaries benefit.

## DISCUSSION QUESTIONS

1. How has Theo Chocolate incorporated strategic philanthropy into its business model?
2. Describe ways that Theo Chocolate takes into account the needs of different stakeholders?
3. Do you think consumers are willing to pay slightly higher prices for chocolate bars if they know the extra money is going toward a good cause?

### Sources:

- Biodynamic Association, "What Is Biodynamics?" 2016, <https://www.biodynamics.com/what-is-biodynamics> (accessed May 27, 2016).
- CBS News, "Chocolate that Makes a Difference," *YouTube*, December 2, 2012, <https://www.youtube.com/watch?v=5x0PLZ6RzBQ> (accessed May 27, 2016).
- Cengage Learning, "Theo Chocolate," *YouTube*, September 15, 2015, <https://www.youtube.com/watch?v=8hrgQxAqVrM> (accessed May 27, 2016).
- Demeter Dynamic Trade Association, "Biodynamic Agriculture," <http://www.demeterbta.com/biodynamic.html> (accessed May 27, 2016).
- Rebekah Denn, "From Theo, a book of love and chocolate," *Seattle Times*, September 23, 2015, <http://www.seattletimes.com/life/food-drink/from-theo-a-book-of-love-and-chocolate/> (accessed January 11, 2016).
- Glenn Drosendahl, "Seattle's Theo Chocolate teams with Ben Affleck group to help Congolese farmers," *Puget Sound Business Journal*, February 12, 2013, <http://www.bizjournals.com/seattle/blog/2013/02/seattles-theo-chocolate-teams-with.html> (accessed January 11, 2016).
- Eastern Congo Initiative, <http://www.easterncongo.org/about> (accessed January 11, 2016).
- Marc Hamel and Ha Lam, "Theo Chocolate," Whole Story—The Official Whole Foods Blog, <http://www.wholefoodsmarket.com/blog/whole-story/theo-chocolate> (accessed May 27, 2016).
- Janelle Richards, "Chocolate Is a Bittersweet Way of Life in Ghana," *NBC News*, September 29, 2014, <http://www.nbcnews.com/nightly-news/chocolate-bittersweet-way-life-ghana-n212741> (accessed May 27, 2016).
- Theo Chocolate, "Factory Tours," <https://www.theochocolate.com/factory-tours> (accessed May 27, 2016).
- Theo Chocolate, "Our Partners," <https://www.theochocolate.com/our-partners> (accessed May 27, 2016).
- Theo Chocolate, "Our Story," <https://www.theochocolate.com/mission#story> (accessed January 11, 2016).
- Theo Chocolate, "Theo Chocolate Expands Line of Reimagined Classics with New Coconut Bites," July 17, 2015, <https://www.theochocolate.com/news/press-release/theo-chocolate-expands-line-reimagined-classics-new-coconut-bites> (accessed May 27, 2016).
- Theo Chocolate website, <https://www.theochocolate.com/news/press-release/theo-chocolate-expands-line-reimagined-classics-new-coconut-bites> (accessed May 27, 2016).