

# How Fine and Flavour Cocoa can increase farmer Income, Productivity and Profitability

# XOCO

— GOURMET COCOA —

EST. 2007

WCC, April 2018

[www.xocogourmet.com](http://www.xocogourmet.com)



# XOCO

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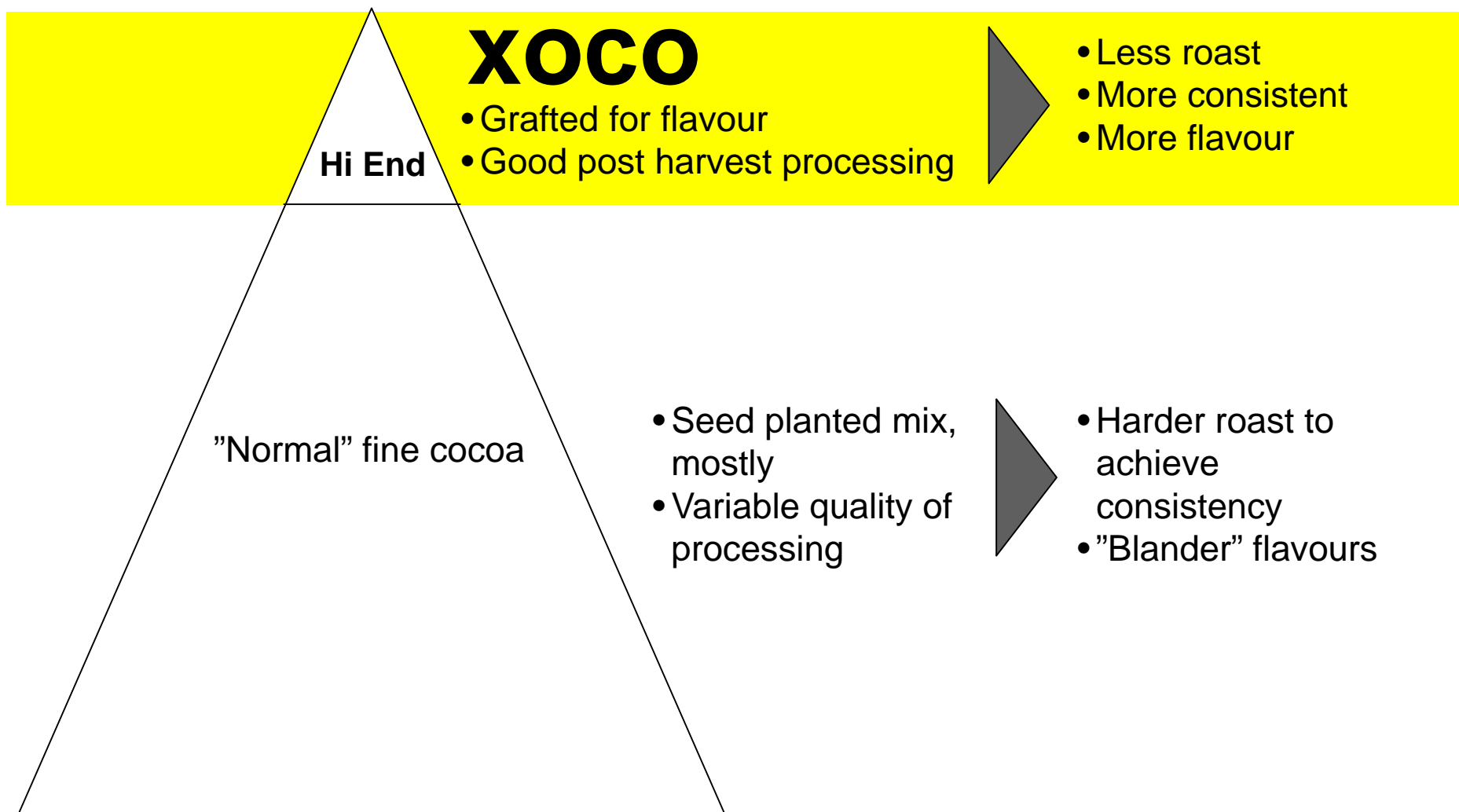


- Private company founded 2007 focused on fine cocoa
- Honduras, Nicaragua, Guatemala, Belize
- Selected cocoa varieties for flavour
- Planted 1.25m+ trees with 600 outgrower farmers and on own farms
- Expanding with own high yielding farms



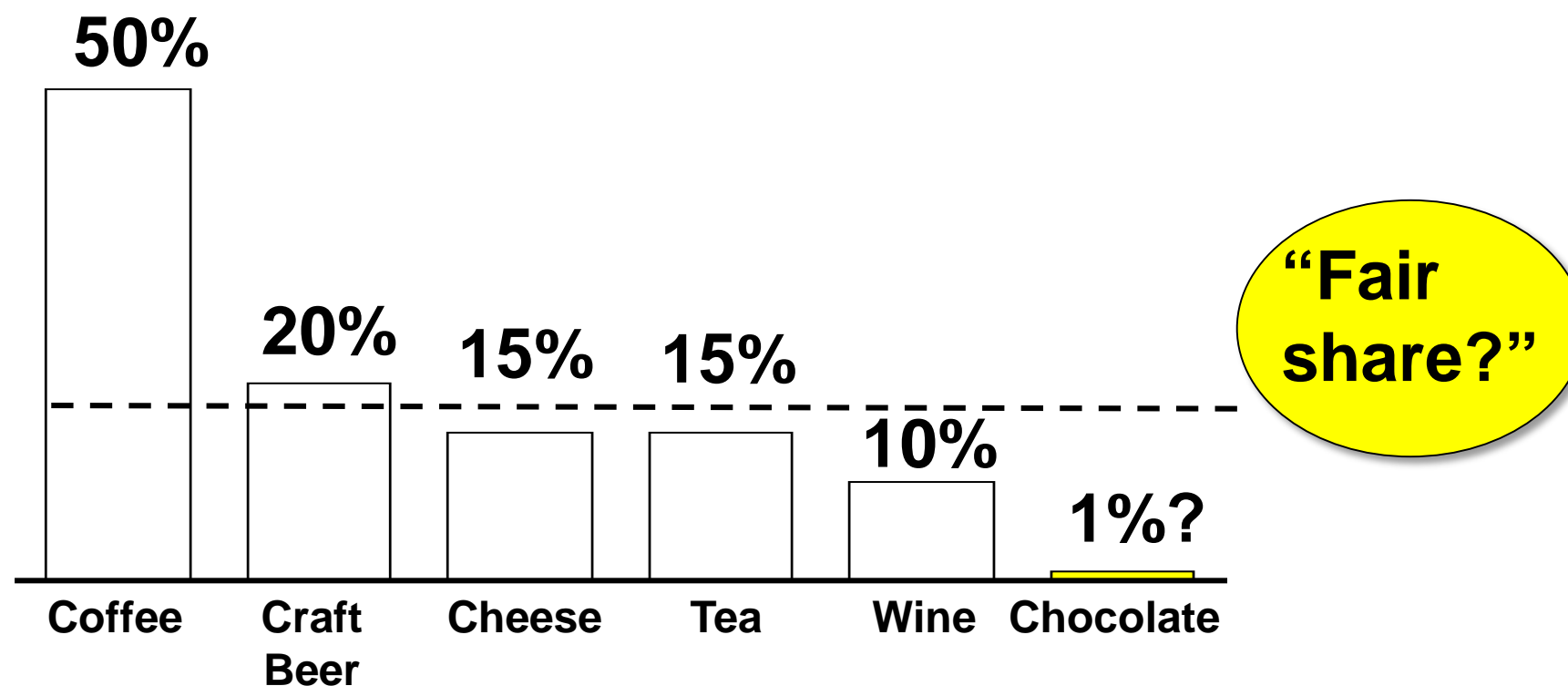
# XOCO BEANS FOCUSED ON HIGH END FLAVOUR EXPERIENCE

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## CONSIDERABLE OPPORTUNITY

Percentage specialty market of total market  
Value

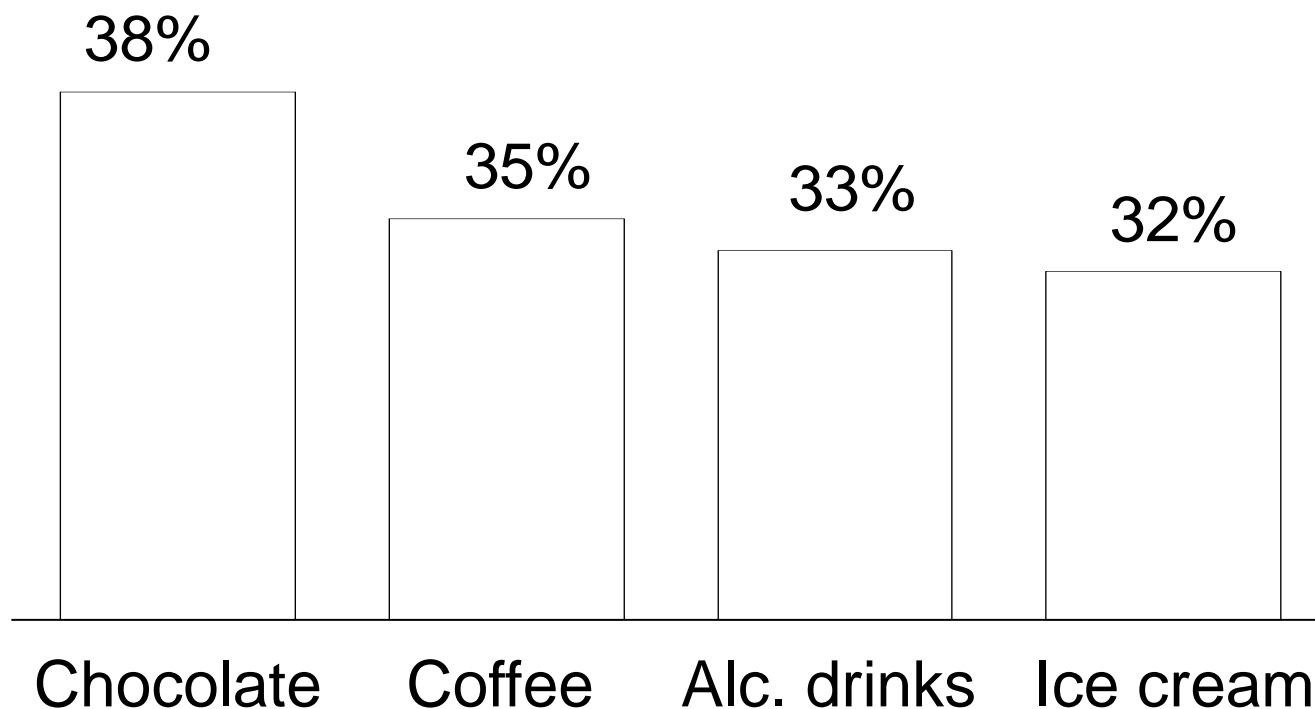


Sources: Specialty Coffee Association (2012, US); Brewers' Association (2015, US); SFSU; USDA Dairy products 2000, CBS-Global (2010, US); Market Realist 2014 US tea market; Statista (2013), wine selling for more than \$15 a bottle). Note that the very high end coffee market is estimated at 7% of total. Specialty or gourmet chocolate market estimated based on consumption of fine beans.

## 2017 CONSUMERS LOOK FOR PREMIUM CHOCOLATE

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Do you look for specialty or normal products? % of consumers responding “specialty” ...



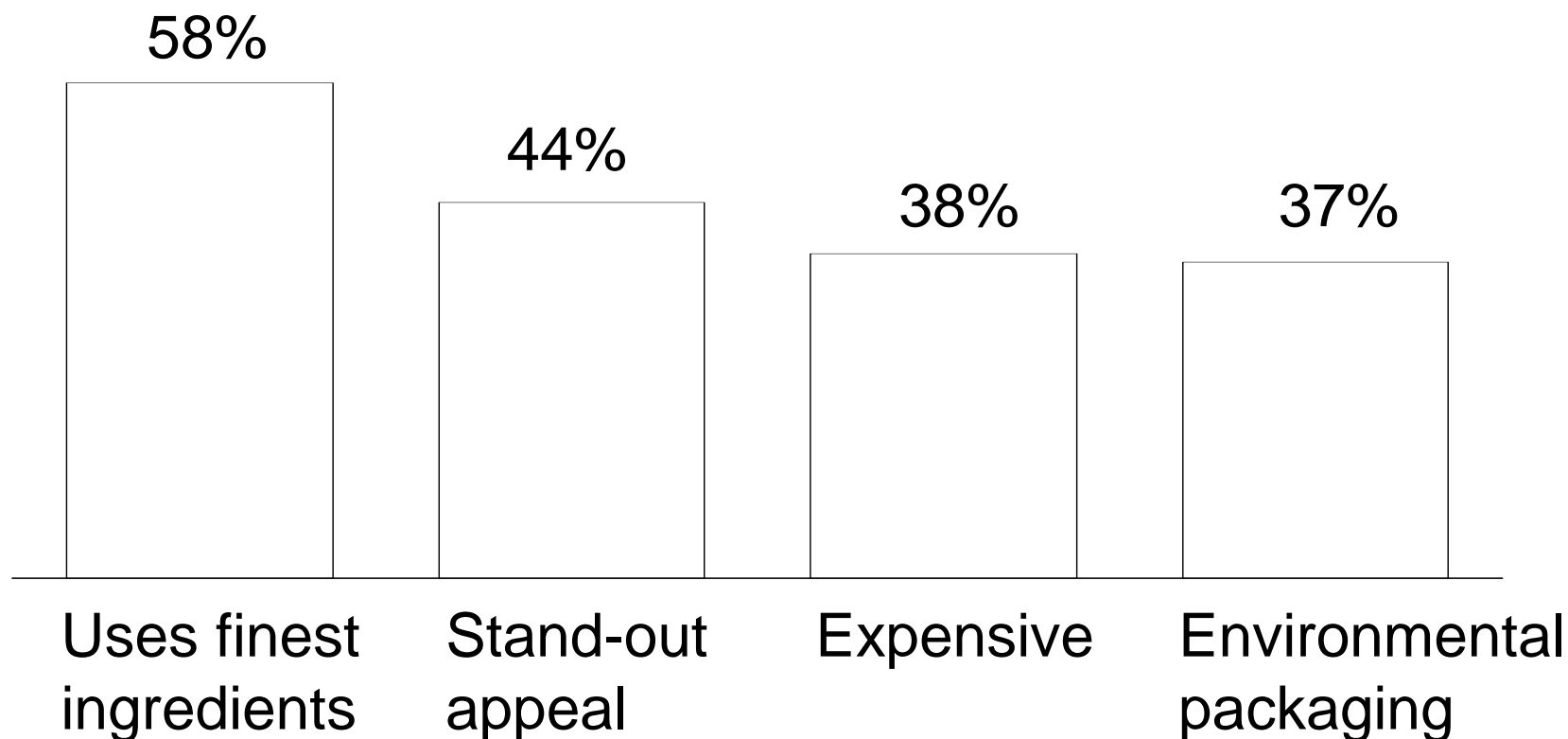
Source: 2017 Canadean research. <http://rare-design.com/new-trends-in-the-chocolate-industry/>

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## AND THEY LOOK FOR FINE INGREDIENTS (BEANS?)...

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What defines a “premium product”?...top answers from consumers interviewed...

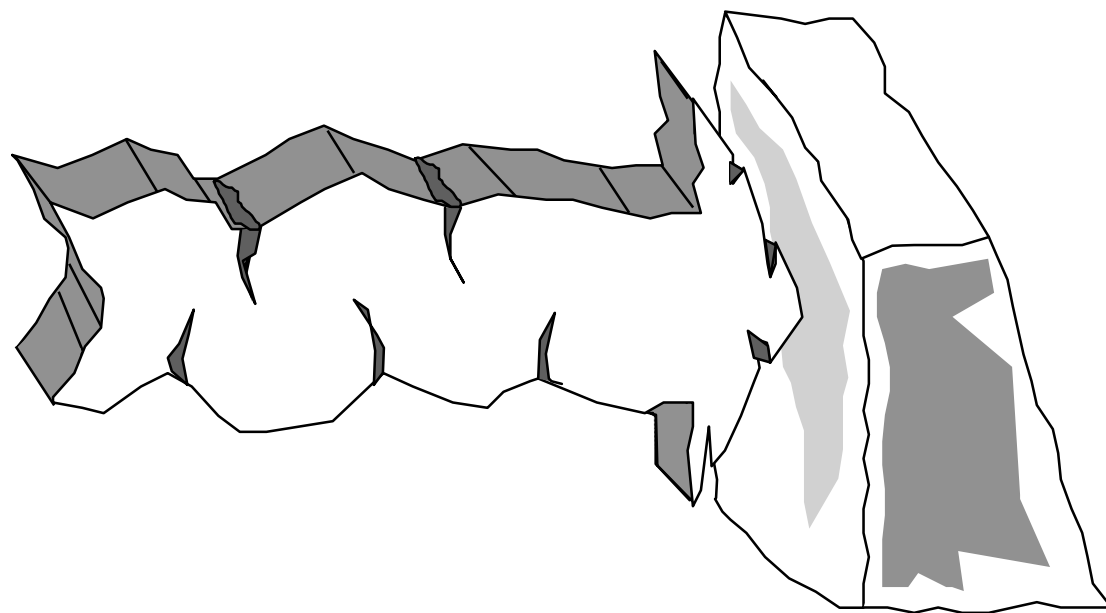


Source: Canadean research. <http://rare-design.com/new-trends-in-the-chocolate-industry/>

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## ...BUT MANY OBSTACLES

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- **Little supply and little consistency of supply** makes fine flavour not viable for large companies and mainstream public
- **Craft cannot drive the market**
- **Consumers not educated** and very confused
- **High costs to produce**

## ...CHICKEN OR EGG DILEMMA

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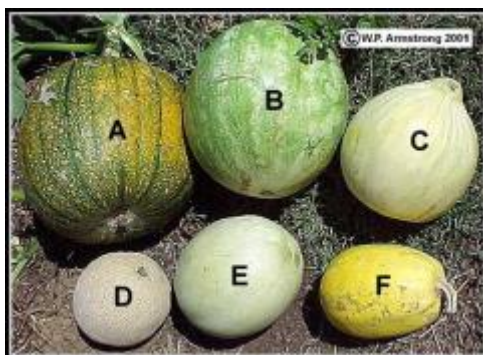


- No consistent supply leads to no “market maker” entering
- No consistent demand and transparent pricing makes it very risky for suppliers (farmers) to enter



# COCOA NOT GRAFTED FOR FLAVOUR => TENS OF THOUSANDS OF VARIETIES MIXED

Crops grafted for flavour



Arabica vs. Robusta

...not so in cocoa



# MIX OF BEANS MEANS IN-CONSISTENCIES AND LOSS OF QUALITY

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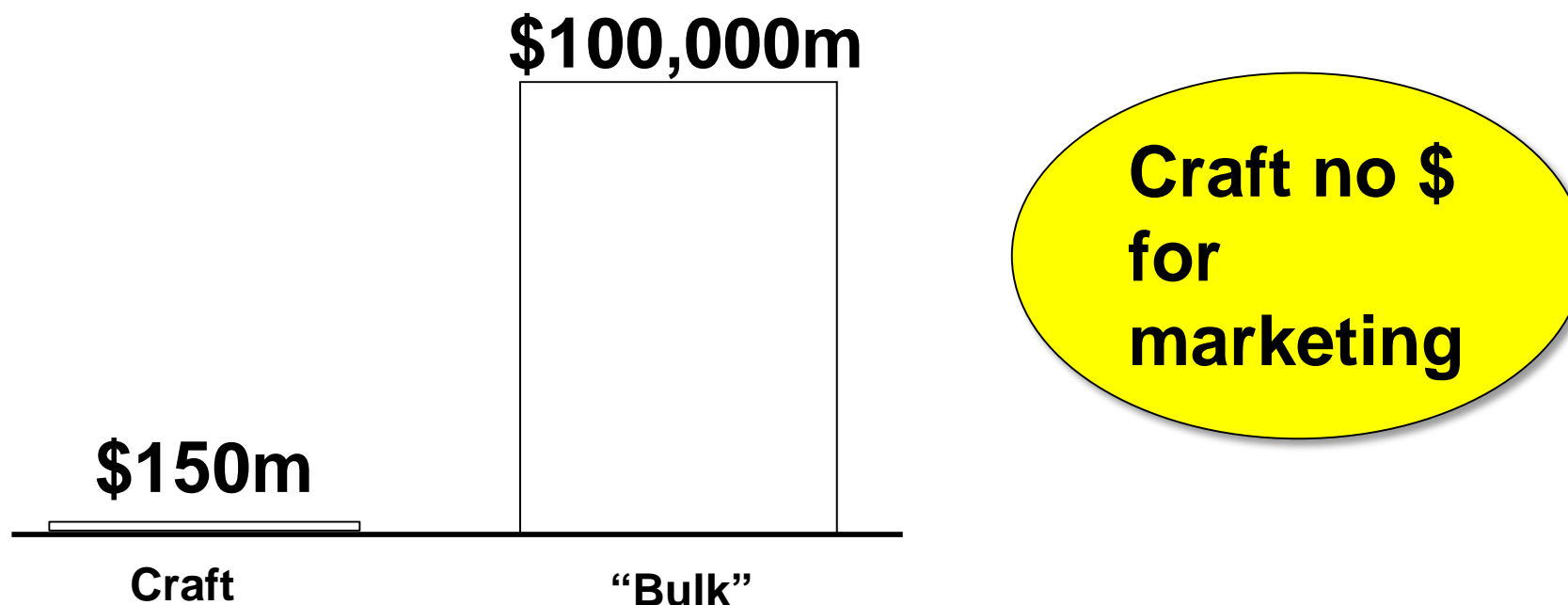


- Fermentation and drying protocols are not optimized
- Huge variability from batch to batch
- Chocolate maker has to over-roast to make a consistent chocolate
- When over-roasting less important if chocolate maker uses cheap “bulk” beans or more expensive “fine” beans => fine beans under-valued
- Also, grinding/conch not optimized for one variety and will vary from batch to batch

# CRAFT CHOCOLATE VERY SMALL COMPARED TO BULK => NO MARKET POWER

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Craft chocolate (app. 500 small companies) vs. Bulk industry  
USD



Sources: Martin, Carla, "Sizing the craft chocolate market," *Fine Cacao and Chocolate Institute*(blog), August 31, 2017, <https://chocolateinstitute.org/blog/sizing-the-craft-chocolate-market/>.



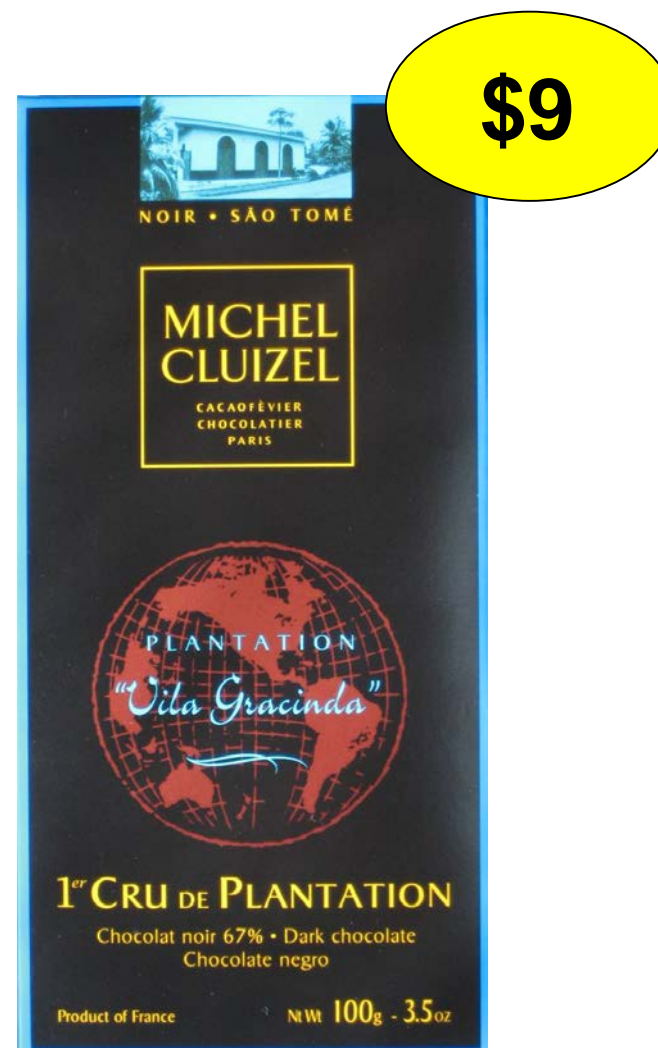
# CONSUMER CONFUSED: WHICH CHOCOLATE TO BUY?

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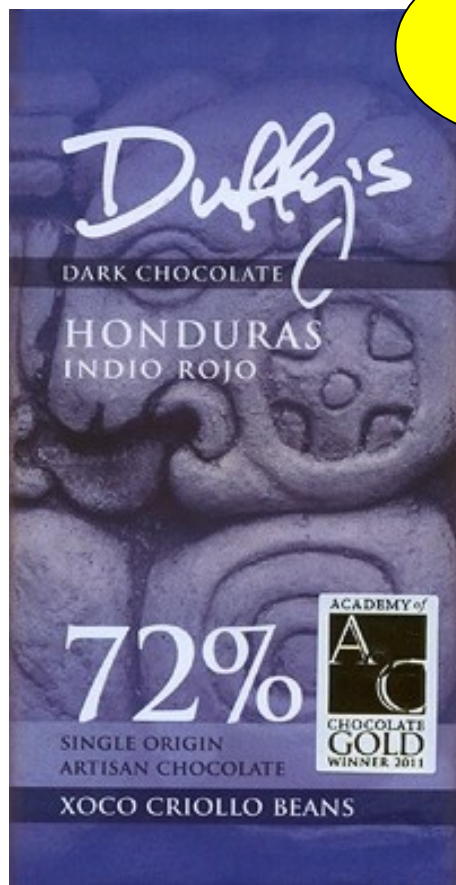
# WHICH ONE?

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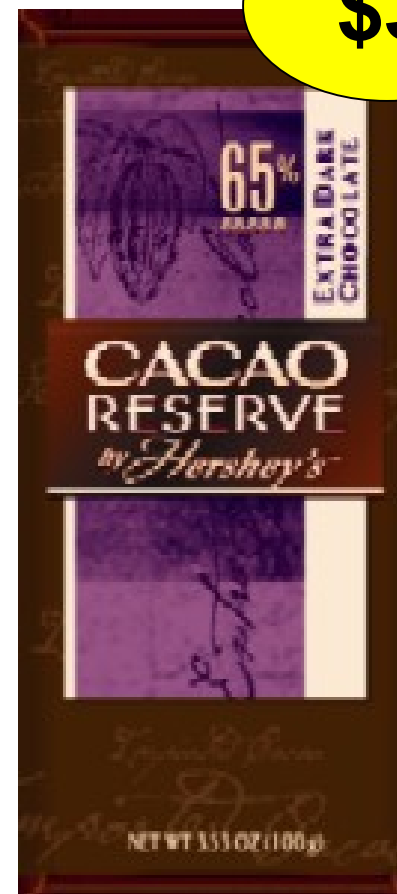


# WHICH ONE?

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**\$10**

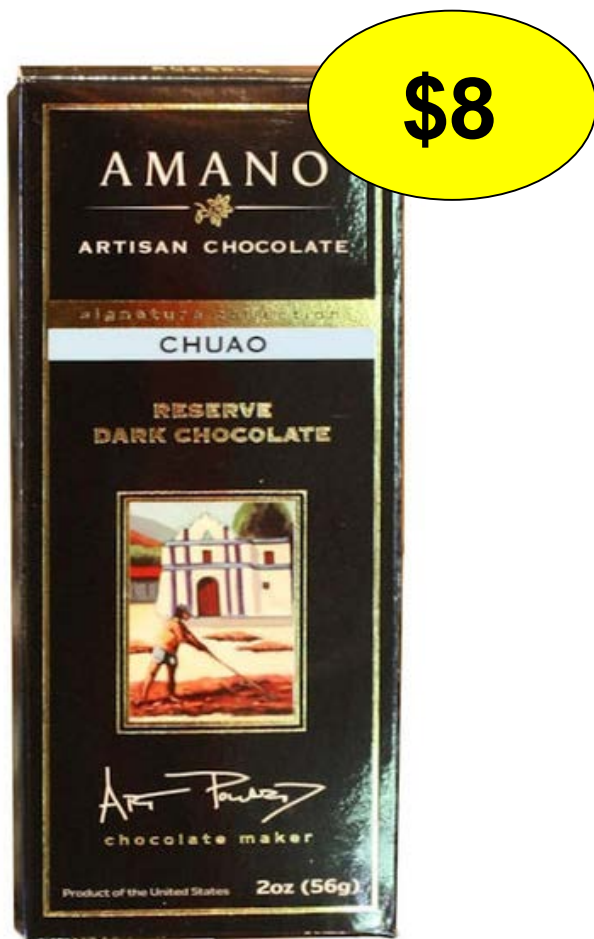


**\$3**



# WHICH ONE?

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# THIS ONE?

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**\$2.99**

100g/Retail

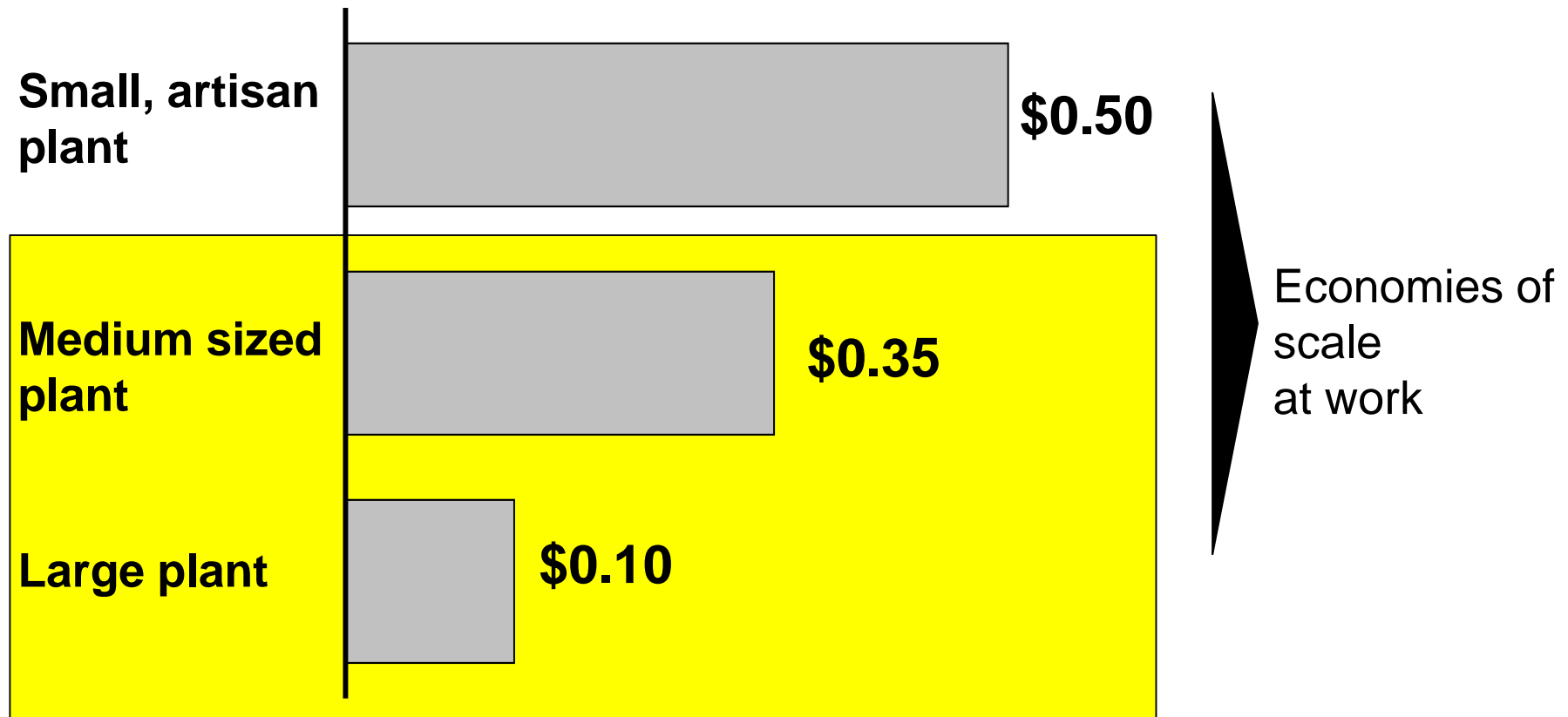
“Choosing our chocolate is one way you can honor farmers and support **sustainable farming** practices. **We pay a social premium** for our ingredients to ensure that **farmers are supported** and species are protected. **Please take a look at our certifications** by clicking on the logos below”



# CHOCOLATE MAKERS NEED TO BE PRODUCTIVE

Cost of manufacturing 100g bar – cocoa beans NOT included  
USD

ESTIMATE



Source: Team analysis. Hershey, Nestlé and Lindt&Sprungli annual reports, 2014 and 2015.

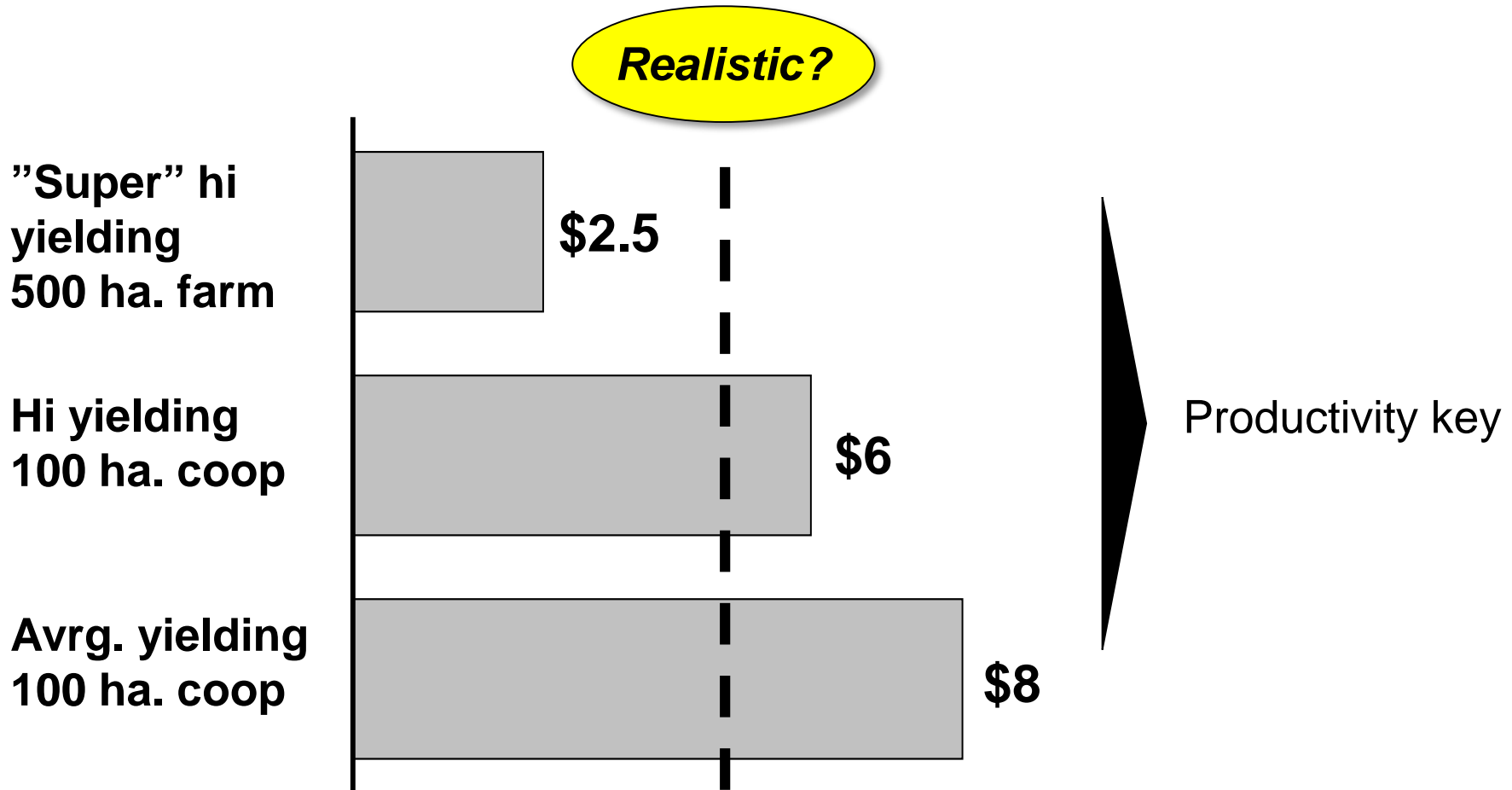
Note: Numbers are estimated based on interviews and, for medium and bulk players, ratios from Annual Reports, and are therefore indicative rather than exact. Each chocolate maker will have a unique situation, especially in manufacturing and distribution.

# FARMERS ALSO NEED TO INCREASE PRODUCTIVITY AND PROFITABILITY

Price per kilo dry for new project NPV = 0

FOB bean producer price, USD

ESTIMATE



Source: Team analysis

Note 1: Super high=1.6/kg. Per tree, 1,300 trees per ha.; hi yielding=1.2 kg/tree, 1000 trees per ha.; avrg. Yielding=0.5 kgs. Per tree, 800 trees per ha.

Note 2: Discount rate: 16.6%. Labor rate USD 9 per day

## CONCLUSIONS

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Growers should **only enter market if they have high productivity** => small farmers with fine cocoa probably Value Destruction.

Growers should consider **only entering if partnering with market maker** company that can buy the production at fixed prices.

**Don't get fooled** into this by **NGOs/politicians** with no "skin in the game".

