Equal Exchange: On a Mission to End Poverty Through Economic Empowerment

"Fair Trade is for small farmers and small producers who are democratically organized. If you take the democracy out you have traditional aid or world bank development or what the TransFair USA and the European certifiers are now trying to call Fair Trade...If you want the fastest supply chain that produces the most tea or coffee or bananas at commercial terms you have entered into some socially responsible product world of which there are many examples. It just ain’t Fair Trade, and it won’t have the same positive benefits."

-Rink Dickinson, Equal Exchange Co-Founder, and Co-Director, during a speech given at a conference of the InterReligious Task Force on Central America, on Oct. 22 in Cleveland, Ohio ("Fair Trade").

A Co-op to Co-op Value Chain

In 1986, three men founded Equal Exchange with several goals: “to challenge the existing trade model, which favors large plantations, agri-business, and multi-national corporations; support small farmers; and connect consumers and producers through information, education, and the exchange of products in the marketplace” ("Fair Trade"). They were interested in more than just organic production. They cared about the conditions of the farmers who produced the food and started looking at how they could benefit farmers through trade in various parts of the world. To begin, they chose to focus on coffee, a widely-traded commodity. It also holds the highest dollar value related to farming, rather than other steps in the process.

They began by trading with a co-operative in Nicaragua, and over the course of the 80s and 90s, they started finding and trading with more co-ops in coffee and even tea. After a few years, they became a co-op themselves, adding more members beyond the three founders. Equal Exchange felt it was important to structure themselves as a worker-owned co-op with every worker having one voting share. As a for-profit organization, the Board of Directors exercises the full power to issue stock. Outside members hold two-thirds of the power to vote and must have worked no less that one full year
as a full time or part time worker for consideration to join the board. Going into their thirtieth year of operation, they are now one of the largest worker-owned co-ops in the United States with over 150 employees.

“Underlying our work is the belief that only through organization, can small farmers survive and thrive. The co-operative model has been essential for building this model of change” (“Fair Trade”).

As one employee describes it, “We feel that if we are going to be working with small farmer co-ops, we’re trying to build a co-op to co-op value chain, so we better be a worker-owned co-op ourselves. Ideally, the world we would like to see is small-scale farmer co-ops (growers) selling to company co-ops (importer/roaster) that sell to co-op grocery stores (seller).” (Buck, 2017).

**How Fair Trade Evolved in the United States**

Fair Trade is a social innovation movement, designed to create new access to the global market for the world’s poor. In 2011, after years of debate, a split occurred in the Fair Trade movement after debate over how the certification process could benefit the largest amount of people around the globe. According to their President and CEO Paul Rice, “Fair Trade USA has boldly questioned the status quo and is moving in a new direction to significantly increase the effectiveness and reach of the Fair Trade model. At the beginning of this New Year, we couldn’t be more hopeful about what lies ahead, knowing that as a result of these innovations, we could double our impact in just three years” (“Fair Trade USA”).

Two main factors informed the group's decision to split off into its own entity. Up until that point, Fairtrade International's governance had been restricting the growth of one of the largest consumer markets in the world. The structure was set up so that each office paid fees based on the volume of sales at a national level. The US office had the second-largest volume in the world and was growing significantly. However, the US had only one vote in the General Assembly to decide how the pot of funds was used. For years, they advocated for more money to be spent on marketing in the US, where consumer recognition of Fair Trade was at only 30%. The vote consistently went to European markets, which naturally had a larger share of the vote.

In addition to the governing structure, Fair Trade USA wanted the certification to benefit as many people as possible. Instead of limiting Fair Trade to small-scale farmers, the new organization aims to grow and innovate the principles of Fair Trade to benefit as many people as possible. By partnering with financial institutions, NGOs, social entrepreneurs, and
more, the organization believes they can scale up the work and impact of certification. Finally, Fair Trade USA aims to invest in consumer engagement and marketing to drive up knowledge and sales of Fair Trade in the US.

A True Partnership: Small-Scale Farmers and Equal Exchange

Equal Exchange felt it was vital to stay true to the origins of Fair Trade by working only with small-scale farmers, in contrast with Fair Trade USA’s operations. Farmer co-ops are the key to Equal Exchange’s Fair Trade business. Without them, Equal Exchange would have no products to sell. Without Equal Exchange, the farmers would likely not have fair wages and community development projects. The true beneficiaries, in the sense of the word, are the children of the farmers, who benefit directly from their parents’ increased incomes as a result of Fair Trade practices. Spouses of the farmers, if they are not also farmers, also benefit from Equal Exchange-funded projects.

Equal Exchange trades with close to 30 small farmer coffee co-ops, 5 co-ops of both cacao and tea, as well as others with products like mangoes and cashews. Coffee accounts for 70% of their product line-up, and cacao represents 15%. They work with farmers from various regions of Central and Latin America to Indonesia, India, Sri Lanka, the Congo, Ethiopia, and South Africa (Buck 2017). In most cases, Equal Exchange is not the only buyer of the co-op’s products, which is ideal as it ensures that the farmers are not dependent on Equal Exchange (Buck, 2017).

One such farmer co-op is CESMACH ("The Organization of Ecological Farmers of the Sierra Madre Region in Chiapas, Mexico"). Their farms are situated around a UN-protected biosphere, acting as a buffer zone between the biosphere and the rest of the world (Robinson, Reid and Larsson, 33). As such, they can only farm a few crops and must keep everything organic. The farmers must also take care to watch for soil erosion and other environmental dangers to the biosphere. They were approached by a large US coffee company, which agreed to buy their entire crops. However, as Sixto Bonilla, the export manager for CESMACH, said, "We agreed to sell them our coffee, to deliver only the highest quality, and to protect the biosphere, but soon they began telling us how to run our business, where to store our coffee, and where to process it" (Robinson, "David and Goliath"). Clearly, just as Equal Exchange avoids being the only purchaser, the effects of this large company on the co-op became negative very quickly.

CESMACH joined Equal Exchange in early 2005, in time to receive aid from Equal Exchange’s Interfaith partners after Hurricane Stan hit the Central American region (Robinson, “David and Goliath”). As of 2008, CESMACH had
helped several local development projects. The Women’s Project teaches co-op management and leadership development. The women diversify their families’ incomes and nutrition by working with domestic animals and gardens. Through the Equal Exchange-funded project, these women have 167 organic gardens, 40 native crop nurseries, 30 chicken coops, and over 200 fruit-tree gardens in their local community (Robinson, “Women”). These projects encourage native biodiversity, family nutrition, and women’s development, all in one. Equal Exchange funded the project by taking twenty cents off of every bag sold of a select coffee (Robinson, “Women”). Too often, farmers do not grow sustenance crops for their families because it does not make as much money as growing cash crops like coffee. Thus by funding opportunities for the farmer families to improve their own nutrition, Equal Exchange further benefits their farmer partners. Their Fair Trade model goes beyond paying fair amounts for the labor and food products.

Beyond farmer co-ops across the world, Equal Exchange is also attempting to start Fair Trade in the US. They purchase almonds, peppermint, cranberries, and pecans from California and Georgia, by working with the Domestic Fair Trade Association. While it is not Equal Exchange’s main goal to expand Fair Trade to the US, they do believe there is an alternative format for it to work, and that people are working towards it (Buck, 2017). For now, their focus is on global farmers.

**Winning Hearts and Minds: Customers and Distribution**

Originally, Equal Exchange aimed to sell their products at food co-ops. They also made a deal with the National Grocers Association to enter every food co-op in the US (Fireside, 2017). Over time, they expanded to some regional grocery store chains and two national chains - Trader Joe's and Target. They even reach some coffee customers through Amazon (Buck, 2017). Their co-op roots show everywhere in their business strategy, and their website still targets faith groups of all kinds to get involved with Fair Trade. While those choices present a clear thought process to remain engaged in workers' co-ops at every level, the amount of people they can reach through food co-ops is limited. Meanwhile, while Trader Joe's and Target may provide large-scale opportunities to reach customers, customers there have many choices and may end up deciding to purchase based on price, rather than for the values associated with Fair Trade. Equal Exchange's products reach Whole Foods and other store locations by the United Natural Foods Industries delivery system. "Natural Foods" is the category of Fair Trade, Organic, and another similar labeling. (Fireside, 2017).

To reach key market segments, Equal Exchange has supported congregational fundraising for many years. Local congregations either sell
Equal Exchange products, after buying them at wholesale price or serve them at fellowship hours. In addition, Equal Exchange would give them promotional materials specific to the congregation, and donate a portion of sales to a particular religious charity in the US, depending on the congregation's faith. At their height, congregational sales accounted for a third of Equal Exchange's total sales and reached 10,000 congregations across the country. As church populations decline, these engagements have declined, and Equal Exchange has made attempts to enter school fundraising and other similar spaces (Fireside, 2017). This strategy not only fueled sales but increased Equal Exchange's charitable giving.

A Social Way to Drive Sustainable Growth

On May 1\textsuperscript{st}, 1986, Equal Exchange’s first container of coffee cleared customs. Over 30 years of business, Equal Exchange has steadily grown from a small operation to a key global player in the Fair Trade space. It took just five years for the company to reach $1 million in sales. By 2002, Equal Exchange eclipsed $10 million in sales (See Figure 1). The next large financial milestone came 10 years later in 2012 when Equal Exchange reached $50 million. The most recent annual report - 30 years after the founding - showed over $70 million in annual revenue.

Equal Exchange has 560 investors with over $16 million in class B preferred stock. In addition to these investors, farmer-owners of Equal Exchange have over $2 million invested in the company. Unlike many for-profit companies where founders and CEOs receive pay and bonuses worth much more than average employee salaries, Equal Exchange is proud that the ratio of owner’s salaries to employees' is only 3.8-1. Having lower owner salaries allows the company to heavily reinvest in their own business. In 2016 alone, $701,000 was reinvested, after taxes. ("Annual Report 2016"). The business itself is highly profitable and grew 10% in the number of Equal Exchange branded servings over the last year alone. In 2016, Equal Exchange showed a 6.8% pre-tax profit and the company had over $1.5 million in liquid cash. Large amounts of liquid cash show confidence to both investors and employees that the business is strong. (ibid).

Equal Exchange has greatly diversified its products since 1986. In 2016, their coffee sales made up $42.7 million. Cocoa and chocolate were the next biggest revenue source at $13.4 million. Bananas and avocados together sold $7.4 million. Bananas alone have paid out over $19 million to the farmers in Equal Exchange’s co-op partners. Food and snacks totaled $3.4 million and tea made $2.2 million in sales. These all add up to $69 million in revenue with an additional $1 million listed as "other", composed of products that are new to the market.
Telling the Story of Impact: A Marketing Strategy

The Fairtrade Foundation from the United Kingdom (Fairtrade Foundation) is known for their strategic international growth in the Fairtrade industry. The Fairtrade Foundation’s model can be used to analyze Equal Exchange’s growth opportunities. Fairtrade Foundation received the prestigious Award for Excellence in 2013 from The Marketing Society. The Marketing Society is an "exclusive global network of senior marketers" known as one of the most "influential drivers of marketing in the business community" (“Marketing Excellence: The Fairtrade Foundation” 2013, 2). Equal Exchange does similar work in the US as Fairtrade Foundation does in the UK and, therefore, can learn from and implement their own growth strategy.

Equal Exchange’s 2016 annual report details the marketing growth strategy that the Fairtrade Foundation used. The Fairtrade Foundation has achieved high recognition, meeting standards determined by the Marketing Society. The Marketing Society requires “outstanding” marketing “in comparison with marketing in all industries not just their own particular sector” (“Marketing Excellence: The Fairtrade Foundation” 2013, 8). The following analyzes and compares the growth of Equal Exchange in comparison to Fairtrade Foundation through leveraging networks and the using local issues to grow sales.

According to their annual report, in late 2016 the company launched the Equal Exchange Action Forum as a strategy to engage their customers because they had “neglected” them. They felt that their consumers were disorganized and disconnected. According to the Fairtrade Foundation Marketing Strategy, leveraging a network is the backbone of the Fair Trade movement, stating that word-of-mouth is a key asset. The Fairtrade Foundation found that 32% of people learn about Fair Trade through family, friends, and colleagues (“Marketing Excellence: The Fairtrade Foundation” 2013, 8). Moreover, 16% hear about it through education, community, and faith groups. Finally, the Fairtrade Foundation recognizes that movements must reinvigorate their supporters when supporters start feeling that the job is done and no longer campaign with passion. The Foundation strengthens their network through the following strategy: improving the tools campaigners had to reach mainstream consumers; investing in those campaigning groups where the energy was high, such as schools; and linking Fair Trade to related issues, such as the plight of farmers in the developing world to domestic farmers.

Equal Exchange is on their way to implementing a similar strategy to strengthen their network through the Action Forum. They are focused on
creating a culture of engaging supporters not as consumers but as citizen-consumers. They will "serve as a vehicle of empowerment to facilitate the organization of the food system" by being more open and regularly sharing successes and failures with consumers who join the forum (Equal Exchange Annual Report 2016, 11). By allowing consumers to become the backbone of their movement, they will be able to grow their network as the Fairtrade Foundation did.

One strategy that both the Fairtrade Foundation and Fair Trade USA - a competitor of Equal Exchange - utilize is appealing to customers through emotional connection by using local issues. To grow their digital presence with the rise of social media, the Fairtrade Foundation invested time and money in campaigns aimed at increasing consumer engagement by connecting them to local issues. For example, in 2013, the Ask Malawi project “allowed consumers to connect directly with a community in Malawi to better understand them, their challenges and the impact of Fairtrade” (“Marketing Excellence: The Fairtrade Foundation” 2013, 8). The outcomes of this digital presence included annual budget growth and commercial license growth (ibid, 8). In April 2017, according to an NPR report by Nick Romeo, Fair Trade USA certified Wholesum - the first certified US farm - in Nogales, Arizona. Although Romeo notes that the US has strong labor and environmental laws, “conditions for many agricultural workers are still far below Fair Trade USA’s standards.”

The certification process resulted in Wholesum establishing a permanent non-developmental zone to protect an endangered species of cactus. In addition, Wholesum spent dozens of hours interviewing workers about their needs and educating them about their rights. These workers formed a committee to research and analyze the projects to finance with their fair-trade premiums. Using fair-trade premiums, farm workers have been able to finance community projects like purchasing “school buses to help their children get to school; built a soccer field and a tortilla factory that sells its tortillas back to the community at cost; and subsidized medical vouchers for dental and vision care. After hurricanes devastated parts of central Mexico a few years ago, the workers voted to send a sizable check to the Red Cross to help recovery in the region” (Romeo 2017).

Equal Exchange takes a different approach. They do not use traditional advertising for their products. Instead, they use the insides of their wrappers to tell the stories of their products to their customers. Equal Exchange mainly sells through co-ops, and at some larger retail chains, and they use the full space of their packaging in order to drive trust and returning customers (Fireside, 2017). Equal Exchange does not use any Fair Trade label on their products anymore. The "Equal Exchange" label contains the
words "fairly traded," but the only labels are "worker-owned co-operative" and "Kosher Pareve Certified in Switzerland." They have a level of trust with their customers that allows them to save money by not having the certification. (See Figure 2).

A Democratic Structure

Through a democratically governed structure, Equal Exchange empowers employees with the right to serve as worker-owners. As stated in their Constitution and Bylaws, worker-owner are individuals entitled to numerous benefits such as voting and amendment rights, purchasing power of one equal share, and eligibility to receive a portion from yearly earnings. Financial participation is an important part of serving as a worker-owner. Data from their 2016 Financial Report shows $2 million being invested by worker-owners. Although Equal Exchange's business model does not accumulate wealth, Equal Exchange ensures every worker-owner experiences equality. Each worker-owner has the right to vote, the right to serve as a leader on the board, and the right to information. Worker-owners also have the power to elect Board of Directors who are responsible for hiring and supervising management. Board of Directors exercises all power of the corporation.

Measuring the Social Impact of Fair Trade

For movements like Fair Trade companies, the primary goal is to impact. It is imperative for organizations to continuously measure data to evaluate their impact. Fair Trade has adopted a programme of Monitoring, Evaluating, and Learning (MEL). By monitoring product and distribution data, Fair Trade has access to data showing the products being sold in the Fair Trade market, producing organizations, and countries where Fair Trade is present. Fair Trade utilizes the MEL programming to support internal learning and improve with Fair Trade systems while supporting the development of sustainable goals ("Fairtrade International Monitoring Evaluation"). Through MEL, Fair Trade has fully committed to funding outcomes and measuring impact.

Peter Buck, the Senior Interfaith Representative at Equal Exchange, shared that their metrics for impact included the number of farmers who are organized in democratically run co-ops and receive a fair price for their products. In addition, they are keen on seeing farmers developing their communities and economies by sending their children to school and having clinics in their communities, for example (Buck, 2017). However, after interviewing Dan Fireside, a member of the Board of Directors, he does not see a clear metric system which properly captures their impact. While data collections require high costs, metric systems do not always capture the
transformative change. Equal Exchange is pleased with internal operations as they have increased both in worker-owner representation and financially.

Equal Exchange has used measurements to track their organizational health. Through Fair Trade pricing and direct relationship to small farmers, Equal Exchange has pushed their efforts towards Authentic Fair Trade. Authentic Fair Trade introduces new food categories and encourages participation and support from farmer-led certification systems. By providing this alternative trading system, Equal Exchange provides farmers with market access and provides the education to build co-op supply chains.

According to their 2016 Annual Report, Equal Exchange curated a progress report which matched their efforts to succeed. Through this report, Equal Exchange tracked their leverage and control of their alternative trading system and examined their control on coffee, tea, chocolate, cocoa, fresh fruit, and other branded fruits. The 2016 metrics were based on producers, impact on the supply chain, and impact within the US. Although Equal Exchange was not necessarily pleased with the ratings of their measurements, Equal Exchange is "particularly concerned about the over-centralization of the food industry and the gobbling up of companies at both ends of the value chain - the large plantations and the big processors in producing companies countries and the monopolizing of the purchasing in consumer countries” (Buck, 2017).

Looking to the Future: Opportunities for Equal Exchange

The real challenge for Equal Exchange will be to expand their market in order to leverage partner opportunities with more farmer co-ops across the world. In addition, they will have to leverage their specific branding of Fair Trade against competitors in Target, for example. Potential customers may not understand the differences between Equal Exchange’s idea of Fair Trade as compared to another brand’s Fair Trade labeling. Furthermore, as Equal Exchange considers working with farmers in the US, leveraging the “buy local” movement - or at least domestic - with Fair Trade, there may be potential to gain more customers who prefer to shop locally.

Appealing to customers using local issues has demonstrated an increase in marketing growth in the UK as customers feel a deeper emotional connection. For this reason, Equal Exchange should explore the strategy of connecting to US customers emotionally using local issues. By leveraging their network and improving their new members-only online tool - which allows people to connect and actively campaign for Equal Exchange - the company has potential to grow.
Figures

Figure 1.


Figure 2.

The inside of an “Organic Very Dark Chocolate” wrapper (scan).
Figure 3.

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