



USAID
FROM THE AMERICAN PEOPLE

BUILDING VALUE CHAIN EFFICIENCY WITH A GLOBAL COMPANY

The Case of STARBUCKS *Shade Grown* Mexico Coffee

Edward Millard
Senior Advisor, Sustainable Landscapes
Conservation International

January 19, 2006

PRESENTATION OVERVIEW

1. The Partnership between Starbucks, Conservation International and Chiapas Coffee Farmers
2. Value Chain Analysis
3. Interventions and Results
4. Impacts
 - Power
 - Learning
 - Benefits
 - Scaling Up



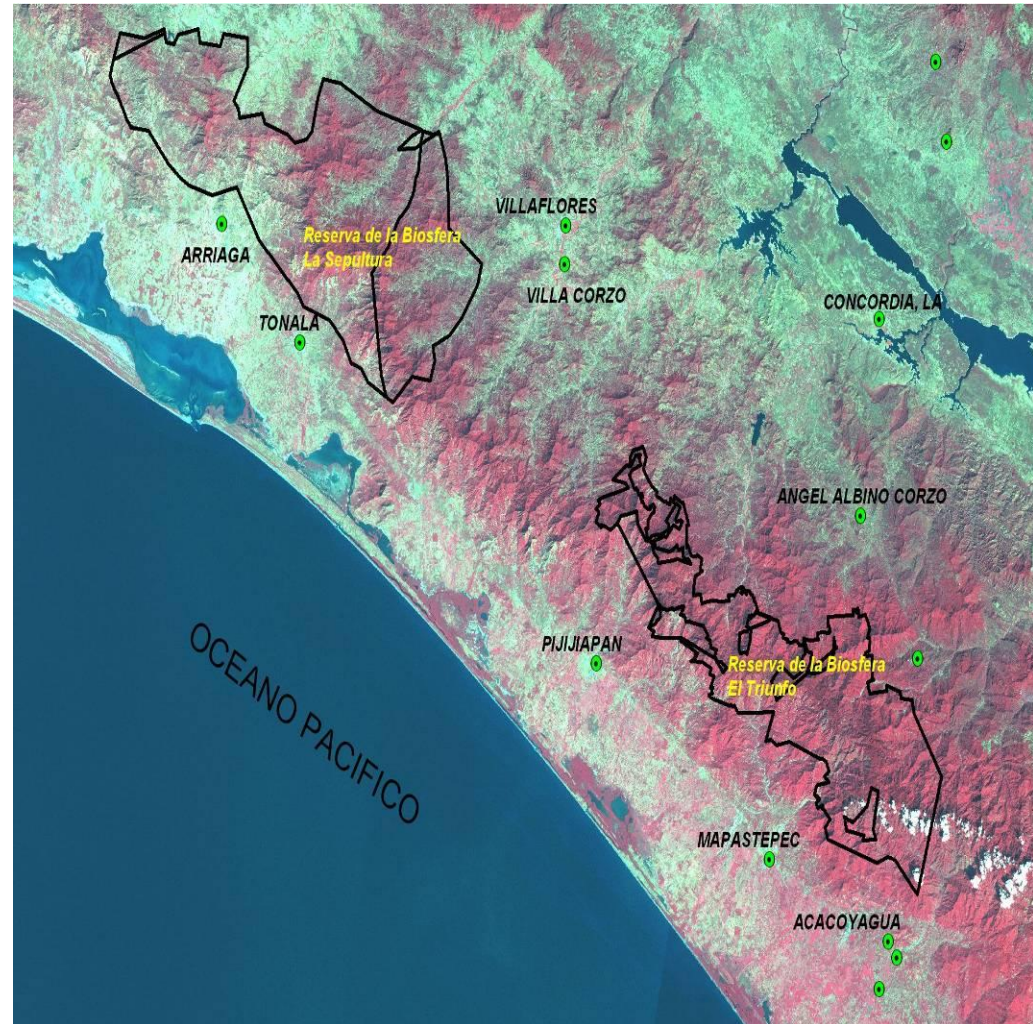
I. THE PARTNERSHIP: OBJECTIVES

- Create social and environmental sustainability in Starbucks supply chain
- Improve benefits for Chiapas coffee farmers
- Conserve natural resources
- Learn what works and apply learning to other regions



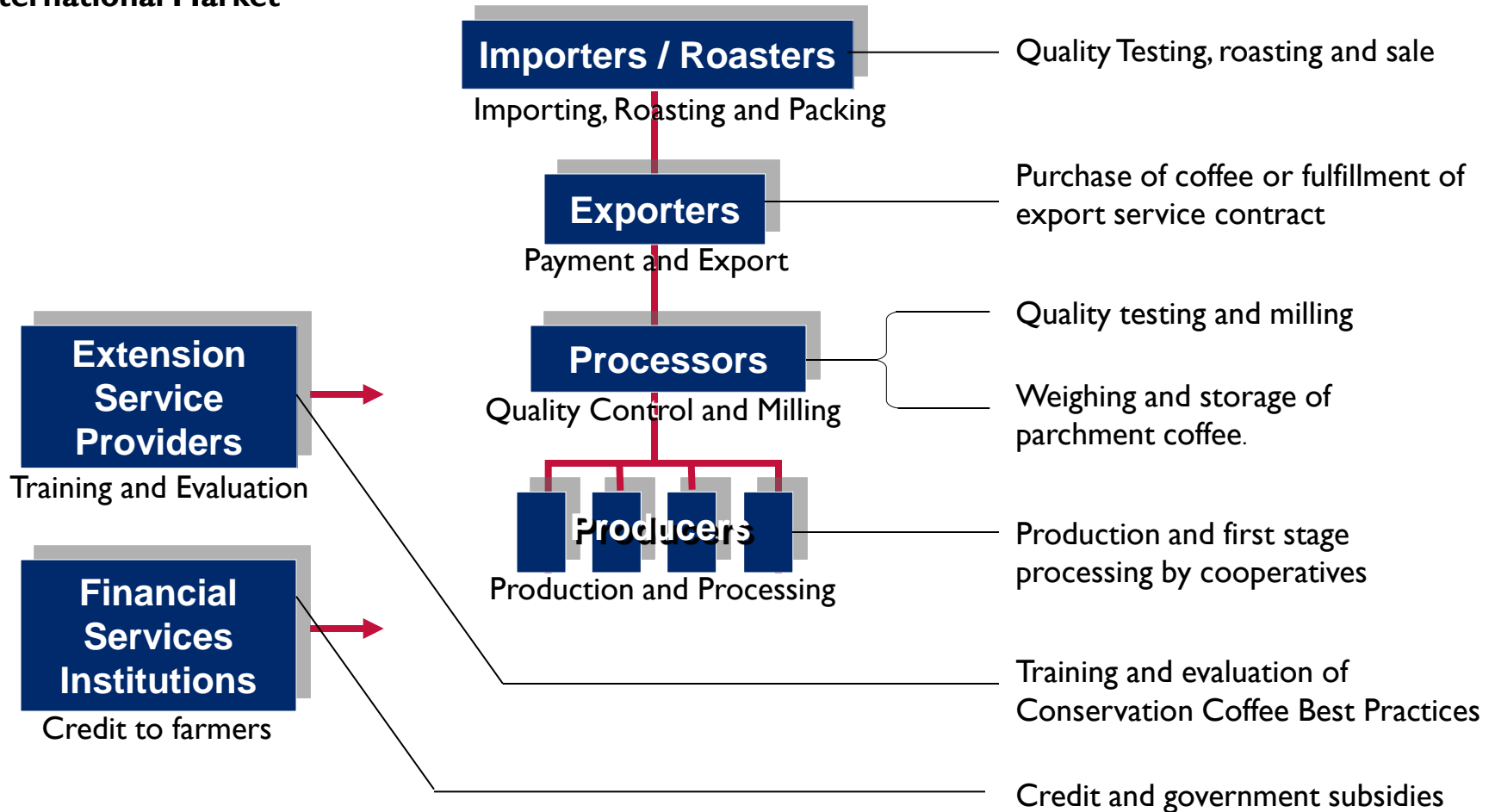
I.THE PARTNERSHIP: CONTEXT

- 73,000 smallholders producing one third of Mexico's coffee
- Live close to poverty line
- Coffee only source of cash income
- Project focused on farms located near to protected areas



2.VALUE CHAIN ANALYSIS: INDUSTRY STRUCTURE

International Market



2. VALUE CHAIN ANALYSIS

CONSTRAINTS

End Markets	Low price; no market presence
Enabling Environment	Entrepreneurial under-development
Horizontal Linkages	Cooperatives lack buying capacity
Vertical Linkages	Mistrust between cooperatives and traders
Supporting Markets	Few service providers
Firm Level Upgrading	Farmers inexperienced in business

<u>P</u> ower	Farmers unable to control main factors affecting their income
<u>L</u> earning	Concept of <i>Conservation Coffee</i> new
<u>B</u> enefits	Low price + little power = low income

2. VALUE CHAIN ANALYSIS

OPPORTUNITIES

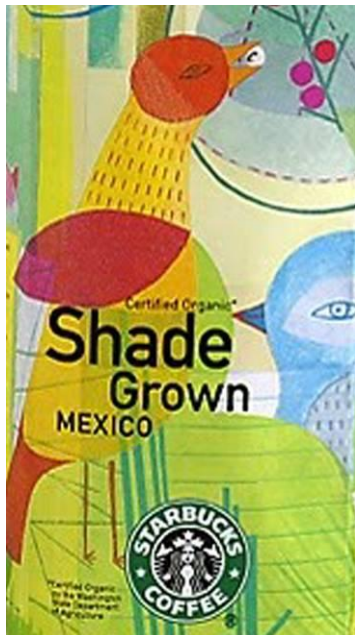
End Markets	Growth of specialty coffee market
Enabling Environment	Interest of reserve authorities
Horizontal Linkages	Investment to strengthen cooperatives
Vertical Linkages	Market power of lead firm
Supporting Markets	
Firm Level Upgrading	
<u>P</u> ower	
<u>L</u> earning	Partners committed to sharing learning
<u>B</u> enefits	

3. INTERVENTIONS AND RESULTS

End Markets



- Brand growth: 1998 2 containers
 2000 14 containers
 2002 44 containers



- Starbucks designed sustainability program to leverage impact in its supply chain
- Starbucks committed to buy 60% of all its coffee under C.A.F.E. Practices by 2007

3. INTERVENTIONS AND RESULTS

Inter-firm cooperation- Horizontal Linkages

- Tradition of cooperatives in Chiapas
- Cooperatives inefficient: members dispersed, officers rotated
- CI unable to strengthen cooperatives sufficiently



3. INTERVENTIONS AND RESULTS

Inter-firm cooperation- Vertical Linkages

- 2003: Starbucks asked cooperatives to export through AMSA
- Purchasing contracts stated prices paid throughout value chain
- In 2003/4 harvest, farmers earned more selling through AMSA

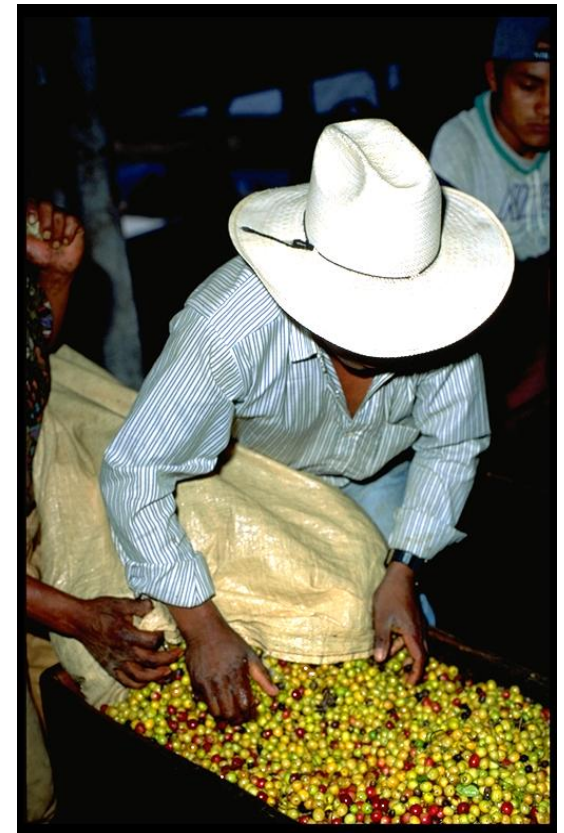
Extract from Purchasing Contract ...

Precio de compraventa	EX Works Tuxtla certificado orgánico	
Venta Starbucks (cts/lb)	A	143
Costo Amsa (usd/qq)	B	25,25
Costo Amsa (cts/lb)	C	24,90
Precio Compra (cts/lb)	D= A-C	118,10
Precio Compra (usd/kg)	E	2,60

3. INTERVENTIONS AND RESULTS

Supporting Markets – Sector Specific BDS

- Independent extension agents certified by Secretary of Education
- Fee paying system introduced for technical assistance
- Starbucks opened Farmer Support Center 2003



3. INTERVENTIONS AND RESULTS

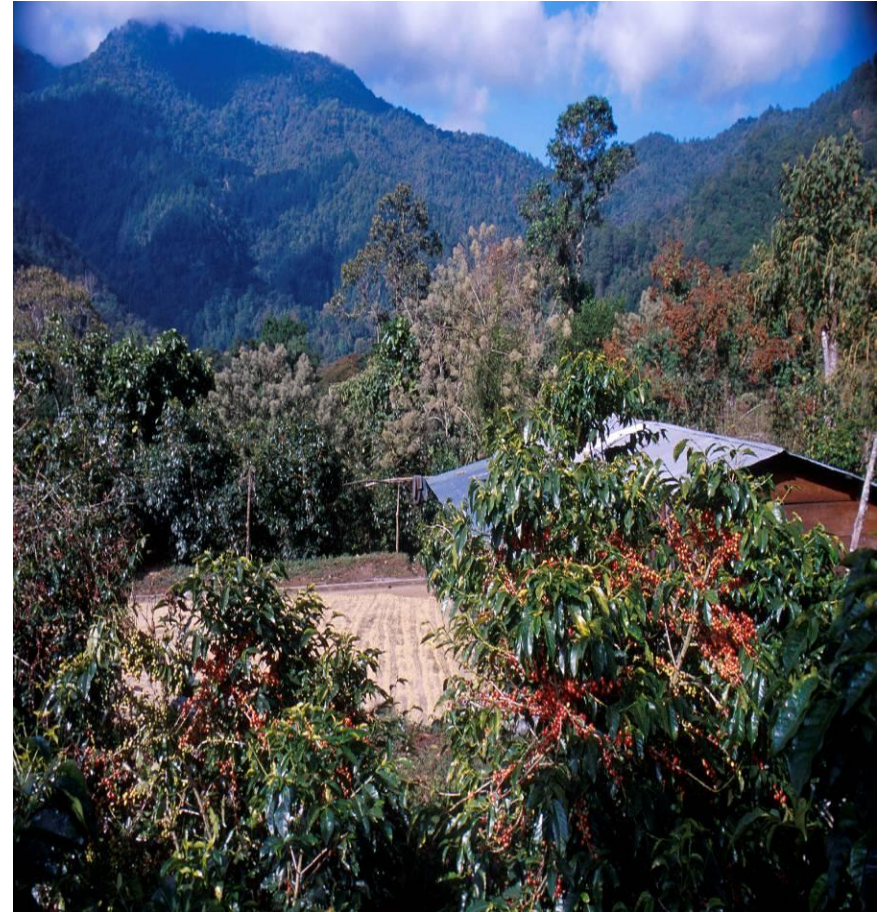
Supporting Markets- Financial Services

- CI partnered with Ecologic 2001 to begin credit fund
- Starbucks invested \$2.5 million for coffee credit
- US\$2 million invested - 99% repaid



4. IMPACTS: POWER

- Transparency: introduced in value chain by lead firm
- Trust: built by inter-firm linkages
- Innovation: farmers owned product attributes



4. IMPACTS: LEARNING

- Farmers gained access to information, technology and capital from Starbucks, CI and local partners
- Starbucks provided market, support services and knowledge for upgrading
- CI provided technical innovation and trained partner firms
- End market growth enabled Starbucks to drive incentives through value chain



4. IMPACTS: BENEFITS

- Household indicators improved
- Local service providers entered market
- Environmental management practiced
- Natural resources conserved



4. IMPACTS: SCALING UP

- 5,000 farmers in six countries
- Reaching new markets
- Strengthening USAID partnership



CONCLUSION

THANK YOU!

**Please visit www.microlinks.org/breakfast
for seminar presentations and papers**