

trade secrets

At Equal Exchange, fair-trade coffee succeeds on its merits, not just its meritoriousness.

BY LUCAS CONLEY

WHEN MIKE GALLAGHER TOOK OVER JAVA MONKEY in Decatur, Georgia, three years ago, he admits he didn't know much about coffee shops. But as the owner of a successful local pub, he was sure of two things: He knew how to run a profitable business, and he knew a mean espresso when he tasted one. His first step was to dump Java Monkey's coffee supplier, Seattle's Best,

and head out in search of a better bean. After requesting samples from nearly two dozen different labels, he dismissed all but five, and invited the contenders to a showdown in Georgia. The winner? Equal Exchange, a small company whose coffee beans are all "fair trade."

At first glance, that might seem like an odd choice. After all, there's a fundamentally uneconomical—or at least extra-economical—aura to fair trade. In the interest of "fairness," first-world companies voluntarily pay third-world farmers more than twice the market price for a crop like coffee and then pass on much of the higher price to cafés, grocery stores, and individual customers. The extra money consumers are willing to pony up out of a sense of social conscience helps raise living standards and build clinics, schools, and roads in impoverished regions.

Or so the theory goes. But at Equal Exchange, fair trade isn't just about good intentions. Besides paying farmers more, Equal Exchange works with them to help them grow and process better beans. The result is a tastier product that commands a higher price on its merits, not just its meritoriousness. It's a refreshing exception to the hard-nosed, Wal-Martesque way many companies treat their suppliers these days: Instead of dropping vendors for the slightest infraction, or pressuring them to offer lower and lower prices, Equal Exchange forges closer, more-forgiving relationships with its farmers in the interest of providing better products. Customers love it. Farmers love it. And Equal Exchange's competitors are catching on.

Of course, coffee isn't bicycle tires or masking tape. Thanks to the \$4 latte, java has become a premium product that can command a premium price,



➤➤ Mocha tours: Equal Exchange staffers visit coffee growers, and growers visit the company's Massachusetts labs, all in the interest of a better brew.

and that opens a window for fair traders such as Equal Exchange, which often matches or beats the prices of non-fair-trade rivals. And it's no longer a fringe business. Americans drank \$9 billion in gourmet coffee last year—amounting to 535 million pounds of beans—nearly 20% of the U.S. coffee market, according to the Specialty Coffee Association of America and TransFair USA, the governing body that certifies fair-trade companies in the United States. Sales at Equal Exchange have grown at an average of 30% a year. This year, the company expects to top \$15.5 million—more than 4 million pounds of coffee, up from 25,000 in 1986. And growth like Equal Exchange's can come only from providing good coffee. "The product can carry the message but not the other way around," says sales rep Meghan Hubbs. "People may try your coffee on the basis of the social message, but they won't keep coming back if it's no good."

The goodness of Equal Exchange's coffee rests in the hands of Beth Ann Caspersen, the company's quality-control guru. In Caspersen's cupping lab, newly imported beans are put through a barrage of tests that examine everything from humidity to color, shape, and size. And, of course, there's the taste. "Coffee is a lot like wine," she says. "There's a real art and skill in handling the beans." Caspersen is quick to point out that not all fair-trade coffee is perfect: Some 10% to 15% of the coffee she samples in her lab is rejected. "We're brothers and sisters," she says, "but we're doing business here."

Those rejection rates used to be much higher, but the company has brought them down by working directly with farmers. In August, for example, six Nicaraguan farmers spent a week at the company's Canton, Massachusetts, headquarters, learning "flavor profiles" under Caspersen's tutelage. Each month, she or other Equal Exchange employees will visit some of the company's 19 farmer co-ops, often bringing along customers and café owners. (Each new employee is required to make a trip to a farmer co-op within his or her first 30 months at the company.) As shipments reach Canton, Caspersen writes out detailed reports in Spanish and emails them to co-op managers. "With this feedback," she says, "farmers are able to provide a better bean."

One such farmer is Arnaldo Neyra Camizan, 47, the general manager of a small 200-farmer co-op in northern Peru. In most countries, independent farmers must often settle for a 30-cent-per-pound "farm-gate price." Camizan sells his beans to Equal Exchange for \$1.41 (TransFair sets the rate). With the proceeds, co-op farmers such as Camizan are not only able to improve their communities and feed their families but also can buy better seeds, fertilize their next crop, and build infrastructure such as mills, cupping labs, and optic sorters that check

beans before export. Such improvements allow them to sell the beans directly to Equal Exchange at full price, rather than outsourcing to a middleman with a roaster or mill. On grocery shelves in the United States, Camizan's beans, marketed by Equal Exchange under names such as "Organic Mind, Body and Soul," fetch \$8.49 a pound (less than some major labels). "Through Equal Exchange's help," says Camizan, "our members are converting from small-scale farmers to small-scale businesspeople."

Equal Exchange also offers preharvest loans so farmers don't have to trade against their crops during the season. Last year, director of purchasing Todd Caspersen lent \$1 million to farmer co-ops. He says it's not charity, it's competitive thinking. With fair-trade prices set by TransFair, everyone's paying the same price. So who gets the good stuff? "Well," he shrugs, "if you happen to have a quarter-million-dollar loan out to them, you will." Equal Exchange helps its farmers ride out problems too. A few years back, for example, Beth Ann Caspersen sensed a decline in quality from one of its co-ops. Instead of dropping the co-op altogether, she sent a message by cutting the contract 20%. The co-op improved its sorting and processing, and today Equal Exchange imports more of its coffee than ever before.

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COMPETITORS HAVE BEEN TAKING NOTE. Since 1999, Green Mountain, Starbucks, and Procter & Gamble have all dipped their toes in the fair-trade market. Green Mountain does nearly 20% fair trade, the most of the three. This spring, Dunkin' Donuts introduced 100% fair-trade espresso beans. In response to its new competitors, Equal Exchange has offered the same goodwill it extends to its farmer co-ops, promoting their efforts and urging them to do more. When P&G entered the fair-trade market, Equal Exchange challenged its new rival to match its own yearly volume. It's altruistic, but it's also self-interested. Equal Exchange figures its rivals will expand the market for fair-trade coffee.

In the end, the proof is in the cup. Back at Java Monkey, Equal Exchange's largest café client, Gallagher says fair trade wasn't the deciding factor in his decision to carry Equal Exchange; Decatur is far from liberal stomping grounds like Berkeley or Ann Arbor, where fair trade is a natural fit. While Gallagher says the mission behind fair trade is important to him personally—he even joined Equal Exchange for a 12-day trip to Nicaragua a couple of years back—to the customer, the coffee is usually all that matters. "More than half of our clientele have no idea they're drinking fair-trade coffee," says Gallagher. "For them, it's just about quality." ☐

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