



## PLC Internationalisation strategies

### Title: Case of Equal Exchange

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#### 1. Background: Social and Solidarity Economy sector, institutions and policy framework in the region/State/country where the organisation is located

The social and solidarity economy ecosystem is poorly developed as a conceptual framework in the United States. Nevertheless, many of the features of the SSE exists in the US context, albeit in disconnected ways without an overarching vision uniting their work as a system for creating abundance that exists parallel to traditional profit-driven models.

The most developed sectors of SSE-type entities in the US include cooperatives, mutuals, social enterprises, foundations, and nonprofit corporations. A summary of these entities as they exist in the US is provided below.

There are many **cooperative** forms with varying legal definitions. However, most can be categorized as one of the following types:

- Worker cooperatives: membership is based on labor.
  - Consumer cooperatives: membership is based on the use of services.
  - Purchasing cooperatives: members aggregate demand to lower prices.
  - Producer cooperatives: membership is based on contribution of shared goods or services.
- All of these forms are regulated at the federal level for taxation purposes.

**Mutuals** that exist today are primarily financial institutions, particularly some insurance companies, mutual savings banks, and credit unions.

**Social Enterprise** is a broad concept that encompasses a wide variety of businesses. There is no official legal definition of a social enterprise in the US. Two resources explaining the complexity of the Social Enterprises and the law are here and here.

The US has two types of **foundations**, private foundations (usually funded by an individual, family, or corporation with an aim that may promote social good or the interests of the founders) and public charities (community foundations and other nonprofit groups that raise money from the general public).

Lastly, the US has **public-benefit nonprofit corporations**, which are chartered by a state governments, and organized primarily or exclusively for social, educational, recreational or charitable purposes by like-minded citizens.

Because there is no recognition of SSE actors as a group, there are no policies or initiatives focusing on their internationalization. There are few initiatives promoting internationalization even for profit-driven organizations due to the vast size of the US economy. Nevertheless, some development programs support the expansion of proven models for economic growth, like cooperative businesses.

## 2. Summary of main characteristics of good practice approach

Equal Exchange (EE) is a workers' cooperative that supports a constellation of independent sister companies. Together, they work in the fair trade sector and ensure the promotion of a democratic model of corporate governance, fostering engagement and fairness among workers throughout the food system.

EE provides leadership and support to the companies within its constellation of partners (La Siembra, Equal Exchange Wholesale UK, and Oke USA). As a group, these companies employ nearly 180 people, generate an annual turnover of 79M\$, and supports nearly 100,000 families and small producers in more than 20 countries.

EE was founded as a “born global” organization. The idea for EE came about in Massachusetts, USA in 1983 when the three co-founders had a meeting about how to make food supply chains more just. The three had worked together in a food coop in New England as part of a movement to transform the relationship between the public and food producers within the US. For the next three years, these co-founders met weekly to discuss how best to transform the way food is grown, bought, and sold around the world. The founding principals mandated that EE be:

- A social change organization that would help farmers and their families gain more control over their economic futures.
- A group that would educate consumers about trade issues affecting farmers.
- A provider of high-quality foods that would nourish the body and the soul.
- A company that would be controlled by the people who did the actual work.
- A community of dedicated individuals who believed that honesty, respect, and mutual benefit are integral to any worthwhile endeavor.

After doing market analyses for products that would best fit with their vision to raise producers out of poverty, EE chose to start facilitating the importation of coffee, the second most traded commodity on earth at the time. The venture opened operation in 1986, importing coffee under the label Cafe Nica. They chose to work with farmers in Nicaragua in an act of solidarity after the Reagan administration had imposed an embargo against the Sandinista government. EE circumvented the embargo by partnering with a Dutch alternative trade organization that organized the brokering and roasting of the coffee beans.

Moving forward, EE located farmer groups and added coffees from cooperatives in Latin America and Africa. By 1991 Equal Exchange had become part of the European Fair Trade network — aligning with groups that were at least a decade ahead of what was happening in the U.S. That movement



in Europe was growing rapidly and counterparts there helped the company establish links with farmer cooperatives worldwide.

In 1991, Equal Exchange established itself as a Fair Trade specialty coffee company and the end of the year EE reached \$1 million in sales.

By 1994, EE was a worker-owned cooperative with 20 members—with production departments, managers, and a growing number of outside investors. In 1996, EE joined with Lutheran World Relief to launch what became its Interfaith Program, a major initiative that helped EE create partnerships with communities of faith throughout the U.S. Over the next seven years more than 10,000 congregations across the U.S. began using our Fair Trade coffee. This program was integral in raising capital that could be given as loan assistance to the farmer-producers at the beginning of the growing cycle.

In 1998, a system of Fair Trade product certification was launched in the U.S. In 2002, after global coffee prices had plummeted during the previous year, EE expanded its product line to include hot cocoa mixes with great success. During the following decade, it expanded further with sugar, other chocolate products, teas, nuts, and berries from farmer coops around the world.

Since the early 1990s, EE had accepted money from outside investors who had no say in the organization's governance. 2003 marked a turning point in its positive cyclical flows; one of its successful farmer coop partners in Mexico became the first beneficiary that used its proceeds to make financial investment in the EE company. Since then, more and more farmer coops have used their earnings to provide capital investment for EE's growth. 2003 was also the year that EE was first able to provide 1M\$ in low interest pre-harvest credit to producer coops.

In 2012, EE sales hit 50M\$. EE helped small farmers organize to launch the Small Producers Symbol (SPP), the first label defined by farmers. During next years, EE made international investments in sister organizations (Equal Exchange Wholesale UK, founded independently from EE, and La Siembra in Canada). These outside investments allowed EE to seamlessly expand their consumer markets into both countries, while simultaneously helping those organizations stay afloat with cash assistance and sharing expertise in management/business profitability.

The details of EE's relationship to La Siembra are worth examining as a model for internationalization. The two organizations had developed a strategic cooperation agreement that was in effect from 2002 to 2009. During this period, La Siembra withdrew its flagship chocolate brand (Cacao Camino) from the US market in exchange for a contract to manufacture EE's niche cocoa label. The agreement, based on a risk-sharing strategy, generated over 2M\$ in sales per year. Following the 2008 financial crisis, a drastic change in exchange rates and a change of leadership at La Siembra led to the end of this partnership. In 2014, La Siembra suffered losses of over 1M\$ Canadian due to an unsuccessful expansion venture. The loss meant that La Siembra might have been forced to relinquish some aspects of cooperative structure in order to court private investment and avoid bankruptcy. La Siembra's solidarity investors alerted the EE directors of the situation, and EE decided to invest its own funds to preserve the worker cooperative model and prevent disruption of cash flows to the farmer producers, acting on the "coop to coop" principle of support. The



decision to invest prioritized solidarity over pure profit, yet the situation has nonetheless yielded positive financial results for everyone involved.

Similarly, EE owns 91% of Equal Exchange Wholesale UK, a fair trade coffee distribution company in the United Kingdom that fell on hard times and had to restructure from a cooperative to a private company. EE is helping Equal Exchange Wholesale UK relaunch in the form of a workers' cooperative. Currently, Equal Exchange Wholesale UK employs two people, generates a turnover of 900K\$ with a net profit of 141K\$ per year. EE also owns 90% of the shares of Oke USA, a private company that has enshrined social values into its structure. Oke USA is operated by 14 women, has 9.9M\$ in organic fruit sales, and supports more than 1,500 farms in Ecuador, Peru, and Mexico.

#### Public support of EE's further internationalization

The United States Agency for International Development (USAID)'s Cooperative Development Program (CDP) is a global initiative that focuses on building capacity of cooperative businesses and cooperative systems for self-reliance, local ownership, and sustainability. As per their literature, the CPD "is designed to advance locally-owned development and enhance the Agency's ability to empower local actors to take the lead in identifying and addressing development challenges. To make development programs more locally-owned and sustainable, the CDP provides USAID Missions with resources, tools, and opportunities to better engage and empower local cooperatives and credit unions."

In 2010, Equal Exchange was awarded a five year, 3.5M\$ CDP grant. This grant was extended to continue through 2019, and it reached over 19,000 cooperative members across four countries. Project activities in Ecuador, Dominican Republic, and Peru helped to strengthen cacao and coffee value chains by improving organizational structure, productivity, product quality, and capitalization. Following the success of this CDP, USAID and EE partnered on a second 5-year grant scheme to improve outcomes for cooperatives in developing economies.



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### 3. Evidence/Justification for Good Practice

#### Hard evidence:

It was not possible to interview any current members of EE or obtain the last two years of EE’s data for this case study. However, the pronounced growth in impact and profitability over the previous 30 years provide evidence that the good practices implemented by EE have produced a positive impact in line with the organization’s founding principles.

The USAID Cooperative Development Program measured the results of its work, yielding strikingly positive outcomes of the technical assistance conducted by EE.

First, it measured quality indicators of for the food products produced by the target worker farmer cooperatives, comparing what changes in quality control took place between the program launch in 2010 and its end in 2019.

Indicator	2010	2019
Cooperatives practicing sensory analysis	no	yes
Number of quality exchanges	0	11
Number of Flavor Labs	3	35+
Number of Liquor samples analyzed	25	3,237
Quality premiums paid to coops in USD\$	\$0	\$5,001,599
Number of cooperatives producing semi finished products	1	5

The evaluation of the overall program noted that, “significant changes have been demonstrated across cooperatives and throughout project areas, which have contributed to building more consolidated, competitive cooperatives for specialty markets.”

The overall program indicators also show improvement in the well-being/resilience of target cooperatives.

Indicator	Number
Number of Producers Reached	19,026
Average increase in membership at cooperatives	23%
Average Productivity increase on Model Farms	204%
Average Productivity Increase at Cooperatives	85%
Average increase in cooperative revenue	41%
Total Quality Premiums generated at cooperatives	\$5,001,599
Member equity and savings generated at cooperatives	\$4,824,409



#### 4. Context and history of how it developed

As outlined above, EE was *born global*, to use the scoping document’s terminology. The philosophical basis for this approach was grounded in the organization’s founding principles. As EE grew, it changed and expanded the range of particular internationalization strategies that it implemented.

The initial strategy was to facilitate *internal flow* of goods, and the *external flow* of capital to farmer producer cooperatives. In order to bring its first product, Cafe Nica, to market, EE also used the *collaboration via multinational networks* approach to internationalization, working with a Dutch partner to circumvent the US embargo that had devastating effects on the Nicaraguan economy. As EE grew to partner with more producers and build the market awareness of fair trade as a concept, it contributed to the *creation of shared certification system* for the Fair Trade seal for the US market. Throughout its lifespan, EE has worked with farmer producer coops to improve the quality of their products, using *knowledge and best practice dissemination* alongside *managerial education*. Lastly, EE has used *foreign direct investment* to improve the profitability and preserve the SSE structure of its sister organizations.

#### 5. Outcomes (for different stakeholders)

There are several categories of stakeholders that have benefited from the EE internationalization model.

Worker owners of the EE cooperative: The number of worker owners had expanded from 3 to more than 130 since the company’s founding in 1986. Worker owners enjoy fair wages and good working conditions as the business continues to grow. ~~They~~<sup>The</sup> are also entitled to patronage dividends.

Worker owners of farmer producer cooperatives: Farmers from over 20 countries have been able to rise out of poverty by collaborating with EE. They have built viable, sustainable businesses with quality controls in place that benefit the economies of their home communities.

Worker owners of sister organizations: Sister organizations that were at the brink of collapse have been able to maintain their SSE values/functions while simultaneously achieving financial sustainability.

Consumers: Consumers of cash crops are able to access sustainably produced foodstuffs and have learned how to recognize labeling that will help them choose to spend money on products that fit with their social values.

#### 6. Drivers and Barriers

Drivers	Barriers
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Value of helping poor farmers gain fair market access	US embargo on the Nicaraguan Sandinista government
Support for (future) sister organizations that had financial difficulties	Sourcing high quality products from small producers, further quality control
Finding small farms that could reliably provide raw products (value goal)	Finding small farms that could reliably provide raw products (difficult without assistance from EE)
Market opportunities	Maintaining relationships only with partners that uphold cooperative management structures
Attracting investors who are connected to small-farmer stakeholders	Market competition from profit-driven organizations also offering fair trade products (Whole Foods, Starbucks, etc.)
USAID CDP	
Expansion of produce line	
Building the broader international fair trade ecosystem	

Although not specifically related to internationalization, the intentional management and legal investment structures have effectively slowed EE’s growth. This has been both a driver and barrier to the business’s expansion. The cooperative governance model adopted by EE ensures that there is a slow year-long onboarding process before a new hire is allowed to become a worker-owner. This can be seen as a barrier to fast expansion because the organization may not be able to react as quickly as non-SSE actors to market opportunities. On the other hand, the process ensures that all individuals who do eventually become worker-owners have a deep commitment to the success of EE, and measure success in long-term outcomes rather than short-term returns. Similarly, EE structures its investment opportunities as preferred B Stock, with a 5% return goal but no guarantees for investors. Investors also are required to have some sort of demonstrated connection to EE’s worker-owners or mission. By declining to guarantee ROI and restricting their potential investor pool EE limits the speed at which it can grow, while also supporting long-term sustainability for all stakeholders.



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## 7. Overall assessment

A primary reason for EE's success in internationalization has been the fact that it was born global and that international strategies were developed over the three years of planning before the venture launched. Similar to the UN's drive to mainstream gender equality into all of its programs and practices following the Fourth World Conference on Women held in Beijing in 1995, EE considers internationalization in all of its decision-making processes. The internationalization has been "baked into" the organization even before approaches and strategies were considered.

SSE networks, public authorities, and other SSE organizations all have the ability to reorient themselves to design workflows and processes so that international perspectives are normalized and expected.

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