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How Tony's Chocolonely Created a Purpose-Driven (and Profitable) Supply Chain

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Summary. Supply chains in commodity industries are often characterized by social and environmental abuse. In the cocoa industry, for example, the average farmer cultivates between three and five hectares to earn less than two dollars a day. It is an environment rife with social and environmental abuse. In this article, the authors look at the experience of Tony's Chocolonely, a Dutch chocolate brand founded in 2005, which set itself a mission to sell 100% slavery-free chocolate. They show how Tony's brought its supply chain partners together to create an

altogether new paradigm in which all actors take responsibility for social impact. And it really works: Tony's profitably sells around $130 million worth of slavery-free chocolate bars in Western Europe and the U.S. **close**

Supply chains for many commodity products — such as cocoa, cotton, and sugar — are highly fragmented. In the case of cocoa, for example, most of which comes from West Africa, the raw product is produced by more than two million farmers, who supply a complex network of middlemen. With an average farm size of three to five hectares and an estimated income of less than two dollars a day, nearly all of these farmers live below the poverty line. It is an environment rife with social and environmental abuse.

Players in the cocoa business — and industries like it — are aware of the negative impacts but find it hard to respond, especially when under pressure to deliver cost-driven performance. Nobody wants child labor, for example, but everyone is locked into capturing value within the existing system. In this paradigm, actors are *alienated* from each other in that they have no control over and take little interest in what other actors are doing — just so long as the price is right for them.

Taking a moral high ground — for example, by refusing to deal with supply chain counterparties who exploit children — risks their own livelihoods while achieving no improvement for the children, as there are always less-principled competitors ready to do business with the exploiters. Nor are the issues black-and-white; rural families on the poverty line with lots of children often have little choice but to put them to work or send them to work on plantations where they are highly likely to be exploited, even enslaved.

There are no easy answers to problems like this, but a business ecosystem will only produce positive social and environmental outcomes if the players involved can reinvent their supply chains so that individual actors in the system are no longer alienated from each other. In these new *resonating* supply chains, as we call them, profit and social goals are closely intertwined and aligned rather than in conflict with one another.

But how can this kind of change be brought about if the players are alienated in the first place? To answer this question, we'll look at the experience of Tony's Chocolonely, a Dutch chocolate brand founded in 2005, which set itself a mission to sell 100% slavery-free chocolate. We'll show how Tony's brought its supply chain partners together to create an altogether new paradigm in which all actors take responsibility for social impact. And it really works: Tony's profitably sells around $130 million worth of slavery-free chocolate bars in Western Europe and the U.S.

Turn counterparties into partners

There are economic advantages to supply chains that are fragmented and transactional as suppliers along the chain compete on price, quality, and availability. The consumer here is the prime beneficiary. But if social and environmental value are also required, players need to know and understand what the other players are doing. Without connections between players that provide each with an overall view of the value created by the system, social impact results are impossible to prove.

The first step in shifting the paradigm, therefore, is to invest time in getting to know all actors in the end-to-end supply chain, from market proposition to sourcing raw materials. Tony's quickly realized that many actors — notably the managers of farming co-ops in West Africa — did not feel part of the cocoa supply chain. After loading a truck at the collection point with bags full of cocoa beans, their involvement was over. They had no idea where the beans were going.

Tony's started including co-op managers in the oversight of their supply chain. They agreed upon annual planned production volumes with the co-ops and gave managers access to a shared digital open information platform tracking bean shipments and deliveries. Tony's also hosts a kick-off event for the annual supply cycle, which brings together farming co-ops, NGOs, and certification bodies along with representatives of other supply chain players including Tony's main chocolate producer, Swiss-based Barry Callebaut, and leading cocoa bean traders. The group reviews the previous season, aligns plans for the upcoming season, and discusses market risks and opportunities. These events serve to make the various stakeholders feel like partners in a system rather than anonymous counterparties.

This approach has made Tony's an attractive partner for co-ops in West Africa. In 2016, the company successfully onboarded ECAM, a reputed cooperative in Ivory Coast that had been supplying big chocolate companies for years. When Tony's shared its standard annual plan agreement with the co-op manager, she told them that she had never had a contract with, or received official commitments from, a cocoa buyer before.

Companies starting on this path have to expect road bumps. In 2020, Tony's encountered a case of structural fraud at one of its partner co-ops. The company took serious measures: It suspended purchases from the co-op for a year and required a change of the co-op management team. But they continued investing in the co-op and supported it in its attempt to regain the Fairtrade certification it had lost. Tony's communicated transparently about the situation online and in its annual reports, and in the following year it resumed buying from the co-op.

Agree on responsible business practices

In transactional supply chains like the cocoa business, value creation may not necessarily receive financial reward. The quality and quantity of beans produced by West African farmers has not changed significantly in the past 30 years, yet the earnings of farmers have declined steadily, because a few dominant chocolate producers with market power have been able to capture much of the value of the beans from the farmers in order to lower the price of goods to the end users and increase profits for themselves.

Once a company has successfully fostered relationships across and between its supply chain partners, the anonymity between players has been removed, making it possible for the company to create consensus around responsible business practices. Tony's developed and committed itself to what it calls Five Sourcing Principles aimed at helping cocoa farmers out of poverty and eliminating child labor.

The implementation of each principle is clearly defined and, where appropriate, supported by tools. For example, one of the principles is that Tony's develops long-term relationships with the co-ops it purchases from. This is specifically embodied in a five-year Memorandum of Understanding between the company and the co-op, which is agreed to after a one-year trial relationship based on an initial one-year agreement. Another principle is that all beans traded in the supply chain should be traceable, and to support that, Tony's has developed a tracking platform that its supply chain partners can use.

Tony's principles have had tangible — and dramatic — results. In 2020–2021, the International Cocoa Initiative detected cases of child labor at just 4.4% of Tony's co-ops' member farms, compared to instances at 52.8% of member farms in co-ops not partnering with Tony's, while the average income for farmers that have been in Tony's co-ops for three years more than doubled.

Tony's has taken its initiative a step further with Open Chain, a collaboration platform bringing together industry players from the chocolate and other confectionery businesses. Companies participating in the initiative have to sign up to the Five Principles and must share knowledge, tooling, partners, infrastructure, and communications at cost price. Companies that have signed up include the ice cream maker Ben and Jerry's, which joined the platform in August 2022.

Share the data

When a company's communications on purpose and impact do not match operating realities, the credibility of the company is at stake. It might at first be given the benefit of the doubt, but eventually it must provide proof of impact, otherwise it will face accusations of greenwashing or its social impact equivalent. At the same time, many companies' marketing communications fail to recognize what the companies may actually be doing in terms of impact, which means they miss out on opportunities for obtaining impact price premiums.

Sharing data and examples with both internal and external stakeholders reduces both these risks. Together, they help the different supply chain players efficiently work together and feel connected to Tony's, to each other, and to the shared goal of eradicating child labor and reducing poverty.

Tony's invested early on in its information platform. Several years of development and testing different tools, including a blockchain pilot, were needed to build the "Beantracker" we alluded to earlier, which organizes and tracks physical flows between supply chain actors and records farmer membership data, GPS farm size data, beans output, and productivity. These data are input for farmer coaching and other agronomic improvement programs. The tracker also holds the data triggering the issue of premium invoices from partner co-ops to Tony's. In addition, there is an Impact Dashboard that shares information about the social impact the new approach has on participating farmers. What comes back to Tony's are examples of children who are doing well at school and families who are now able to install basic sanitation in their homes.

Collaborate to achieve the common good

Traditionally, business prospers when companies compete — and businesses aren't sustainable unless they can compete effectively. But competition doesn't work so well for challenges like child labor or CO2 reduction.

Cocoa provides a case in point. During trips to Ghana and Ivory Coast, Tony's teams often encountered kids on plantations and on the dirt roads around villages. When asked where they had been, they always gave the same answer: "school," even when the circumstances, location, or time and day of the week would make that highly unlikely.

The kids' answers are the result of a decades-long ritual dance between cocoa buyers and cocoa-producing communities. Cocoa buyers don't want child labor in their chain, so when they find cases, the easiest way is to stop buying cocoa from those communities, thereby protecting their certifications. But the result is that cocoa-producing communities instruct their children to avoid answers that may lead to losing a buyer, thereby making the problem invisible.

This perverse outcome is precisely why competition fails in the face of challenges like child labor, which are by their nature common problems, requiring collaborative responses in which companies work together with competitors, suppliers, NGOs, and governments to educate consumers about social issues in product supply chains. Created in 2015, the International Cocoa Initiative's Child Labor Monitoring and Remediation System

(CLMRS) provides a good example of what this can achieve. The ICI is a cocoa-industry-focused NGO initially set up by the Swiss food giant Nestlé, and since 2015, its CLMRS has been adopted by many chocolate companies as the standard child labor monitoring tool.

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This Tony's Chocolonely case shows that a even a relatively small brand operating in a commodity industry that produces negative social and environmental effects can successfully build an alternative ecosystem that lifts people out of poverty and the social injustices that accompany it. Tony's experience also shows that the resonant supply chain paradigm offers a basic framework for engaging with these issues. It can help managers transition their company and implement an impact-led supply chain that aligns business results with impact results. And, as other authors have demonstrated, the experience of the cocoa business is mirrored in many other industries as well.

FP

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