

Social enterprise study of divine chocolate co



**ASSIGN
BUSTER**

I. Introduction

At the request of the Board of Directors, this presentation will examine the “social enterprise” organisation from several perspectives. First, the social enterprise form of organisation will be defined, with a focus on the social enterprise sector in the UK, and other data specific to social enterprise organisations operating in the UK. A description of the social enterprises currently operating in the UK will be presented. The presentation will then discuss the concept of “social firms” and how they fit in to the business environment of social enterprises previously examined. This will be followed by a discussion of several aspects of our social enterprise, the Day Chocolate Company (Divine Chocolate), beginning with its origins and mission, and concluding with recommendations on how our social enterprise can formulate an effective long-term strategy for success.

II. What is Social Enterprise?

A social enterprise can be defined as an organisation that is driven by motives that are not exclusive to earning a profit from its operations (Pepin, 2010). As of 2010 there were at least 62, 000 organisations that could be defined, to some extent as social enterprises operating within the UK (Pepin, 2010). The aggregate turnover generated by these social enterprises exceeded £32 billion per year (Pepin, 2010). The additional, non-profit measures that social enterprises are measured by include various social, cultural, environmental, and other measures (Fichtl, 2007). For social enterprises, these additional non-profit measures can be viewed as being of greater significance to the organisation than the profit motive, given that social enterprises are more likely to direct surpluses generated via

operations to meet certain social objectives, as compared to utilising such surpluses to increase shareholder wealth through activities such as dividend payments (Berardi, 2013).

Social enterprises operate in several sectors of the economy, but are most numerous in the training, housing, education, and retail/wholesale sectors (Berardi, 2013). The main source of income for social enterprises is the general public, which accounts for 37% of income generated by social enterprises in the UK (Berardi, 2013). The public and private sectors contribute 18% and 13% respectively, and grants and donations contribute 14% to the income generated by social enterprises in the UK (Berardi, 2013).

III. What do Social Enterprises do?

Social enterprises are established in order to address certain environmental and/or social needs through the operation of their business (Berardi, 2013).

The most frequent objective of social enterprises in the UK is to improve a particular community, with a quarter of all social enterprises falling in this category (Berardi, 2013). Another frequently occurring objective of social enterprises, accounting of 24% of social enterprises in the UK, is the goal of addressing social exclusion in society in general, a community in particular, and/or a sector of the economy specifically (Berardi, 2013). Additional goals common in many social enterprises are the goals of improving the health and wellbeing of a community, and helping protect the environment (Berardi, 2013). Social enterprises need not devote all of their resources to address one particular objective (Berardi, 2013). Some social enterprises attempt to achieve several goals, which in addition to those already described above, including goals such as promoting literacy, supporting vulnerable individuals

in society, assisting in providing affordable housing, and helping to increase employment (Berardi, 2013).

IV. Are any Social Enterprises Successful?

There are many successful social enterprises operating in the UK (RBS, 2013). One such successful enterprise is the Green Machine organisation (RBS, 2013). Green Machine reuses paint supplies in an effort to address the estimated 56 million litres of paint wasted each year in the UK (The Green Machine, 2014). The Green Machine's labour force consists of 40% of individuals who can be categorised as disabled or disadvantaged, thus demonstrating a social enterprise attempting to address more than one social and/or environmental goal (The Green Machine, 2014).

A social firm is a type of social enterprise that attempts to create quality jobs for individuals who are disadvantaged in the labour market (Social Firms UK, n. d.). The criteria required in order for an organisation to be considered a social firm is as follows: 1) " Social Firms are businesses that combine a market orientation and a social mission" ; 2) " More than 25% of employees will be disadvantaged people" ; and 3) " Social Firms are committed to the social and economic integration of disadvantaged people through employment" (Social Firms UK, n. d.). Thus, the Green Machine organisation, in addition to being a social enterprise, can also be considered a social firm, given its commitment to finding employment for disabled and disadvantaged individuals (The Green Machine, 2014).

V. What kind of Social Enterprise is Day Chocolate Company (Divine Chocolate)?

As discussed above, social enterprises do not necessarily conform to any one particular type. (Berardi, 2013). The Day Chocolate Company is partly owned by the farmers who supply the cocoa used in the production of Day Chocolate Company's chocolate products (Social Enterprise Academy, n. d.). The cocoa farmers are located in Ghana, West Africa, and own 45% of Day Chocolate Company's shares (Social Enterprise Academy, n. d.). The cocoa farmers are organised as a co-operative called Kuapa Kokoo, made up of 45, 000 members across 1, 000 villages in Ghana, West Africa (Doherty and Tranchell, 2005). The chocolate is purchased from the farmers on a fair trade basis, in order to achieve better trade conditions for the farmers and promote the sustainable farming of cocoa in Ghana, West Africa (Social Enterprise Academy, n. d.). Thus, Day Chocolate Company can be viewed as a social enterprise of the type that attempts to improve a particular community and by creating employment opportunities (Berardi, 2013). Secondary effects of these goals, such as promoting education and literacy are also achieved (Divine Chocolate, n. d.).

When establishing a social enterprise in the UK, the organisation must be established as one of the following business structures: limited company; charity; charitable incorporated organisation; co-operative; industrial and provident society; community interest company; sole trader; or business partnership (Gov. UK, 2013). There are benefits and drawbacks to each of the aforementioned business structures, and an organisation will choose which of the business structures is most appropriate in its particular circumstance.

VI. Motivations and Expectations of the Day Chocolate Company (Divine Chocolate)

In the early part of the 1990s the cocoa production in Ghana was privatised, and the government of Ghana controlled the export of cocoa out of the country (Social Enterprise Academy, n. d.). However, when state support of the cocoa industry in Ghana collapsed the livelihoods of thousands of cocoa farmers in Ghana were put at risk (Social Enterprise Academy, n. d.). It was at this time that the idea for the Day Chocolate Company was created (Social Enterprise Academy, n. d.). The mission of the Day Chocolate Company is to improve the livelihoods of cocoa farmers in West Africa by putting them higher up the value chain (Divine Chocolate, 2012). Day Chocolate Company attempts to achieve this objective by sourcing the cocoa necessary in the production of its chocolate goods from the farmers of Ghana, West Africa according to fair trade standards (Divine Chocolate, 2012). Rather than being motivated by a goal of increasing shareholder wealth, the Day Chocolate Company emphasises a significant return of its profits from the sales of chocolate, in markets where such products are in high demand, in particular the UK and America, back to the cocoa farmers in Ghana, West Africa (Divine Chocolate, 2012).

The Day Chocolate Company was encouraged by the success of fair trade marked organisations such as the coffee company Cafedirect (Doherty and Tranchell, 2005). Cafedirect began in 1993, and by 2005 had succeeded in becoming the 6th largest coffee company in the UK (Doherty and Tranchell, 2005). The success of Cafedirect had a direct impact on the livelihoods of coffee farmers in Latin America, Africa, and Asia (Doherty and Tranchell, 2005).

VII. The Day Chocolate Company (Divine Chocolate) Organisation

The Day Chocolate Company was established in the UK in 1998 as a private company limited by shares (Doherty and Tranchell, 2005; Usa, n. d.). When it was established in 1998, Day Chocolate Company's shares were owned by the fair trade organisation Twin Trading (52%), the cosmetics company The Body Shop (12%), and the Ghana cocoa farmer co-operative Kuapa Kokoo (33%) (Social Enterprise Academy, n. d.). The cocoa farmers' share was financed by a £400, 000 loan from the Department for International Trade & Development (Social Enterprise Academy, n. d.). In 2006 the Body Shop decided to donate its shares in the Day Chocolate Company to the Kuapa Kokoo co-operative (Divine Chocolate, 2011). In January 2007 Day Chocolate Company changed its name to Divine Chocolate Ltd in order to “ more closely align the company with [its] flagship brand...” (Divine Chocolate, 2011, p. 1).

Day Chocolate Company has a significant presence in several countries, most notably in the UK, Canada, and the United States (Divine Chocolate, 2012). In the UK, supermarkets Waitrose and Sainsbury's expanded their Day Chocolate Company offerings in 2012, and there is now a Day Chocolate Company 45 gram chocolate bar onboard Virgin Airlines flights (Divine Chocolate, 2012). As a result of the “ demise” of the company's Irish distributor, availability of the products in the Irish market decreased (Divine Chocolate, 2012). However, exports to Scandinavian countries, including Sweden and Norway increased, which served to partially offset the decline in the Irish market for the company's products (Divine Chocolate, 2012).

VIII. Day Chocolate Company's (Divine Chocolate's) Business Activity

Between the years 1998 and 1999 the Day Chocolate Company recorded sales of £103, 500 (Doherty and Tranchell, 2005). By 2004 its annual sales had grown to £5. 5 million (Doherty and Tranchell, 2005). For the most recent year with available financial data, the year ended 30 September 2012, the company's sales stood at £7. 5 million (Divine Chocolate, 2012). However, between the years 2011 and 2012 the Day Chocolate Company's profit on ordinary activities after taxation declined significantly, from £59, 000 in 2011 down to £27, 000 in 2012 (Divine Chocolate, 2012). The decline in profit between 2011 and 2012 was attributed primarily to an increase in administrative expenses (Divine Chocolate, 2012).

The cocoa farmed by the Kuapa Kokoo co-operative is shipped to Germany, where an independent chocolate manufacturer combines the cocoa and other ingredients into an edible chocolate product (Social Enterprise Academy, n. d.). The German facility ships the chocolate to a warehouse in Hull, from where it is distributed to wholesalers and the retailers (Social Enterprise Academy, n. d.).

IX. Profits/Surpluses at Day Chocolate Company (Divine Chocolate)

The Day Chocolate Company has used profits from its operations to expand within the UK and beyond its core UK market, in particular the United States (Divine Chocolate, 2012). The Day Chocolate Company has also remained true to its core mission, in that it has continued to utilise profits from its operations to improve the lives of the cocoa farmers of the Kuapa Kokoo co-operative in Ghana (Divine Chocolate, 2012). However, the benefits derived from the profits generated by the Day Chocolate Company are not limited to

the cocoa farmers (Doherty and Tranchell, 2005). According to Doherty and Tranchell (2005), over 100, 000 Ghanaians living in communities with Kuapa Kokoo societies have benefited from necessities such as medical care and medications. Several schools have been constructed, and each school serves an area covering a 4 km radius (Doherty and Tranchell, 2005). The fair trade agreement premiums that accumulated through the year 2005 were sufficient to cover the schooling costs of an estimated 250, 000 Ghanaians for an entire school year (Doherty and Tranchell, 2005). A leading cause of death in many parts of Africa, water borne disease, has been reduced significantly, in significant part due to the increased availability of clean water supplies (Doherty and Tranchell, 2005).

X. Strategy of Day Chocolate Company (Divine Chocolate)

An important aspect of the Day Chocolate Company's strategy has been its concerted effort to convey to the chocolate consumer market the level of misfortune that has plagued the lives of many of the farmers responsible for the cocoa used in the manufacture of all varieties of chocolate products (Social Enterprise Academy, n. d.). Through its website, and through its direct encounters with supermarkets and other potential sellers of its products, the Day Chocolate Company has attempted to show that society can help change the lives of the Ghanaians for the better by purchasing their product (Golding, 2006; Social Enterprise Academy, n. d.). The Day Chocolate Company has also enlisted the help of organisations such as Christian Aid, in efforts to bring their products to the shelves of an increasing number of outlets (Turner, 2013). For instance, Christian Aid ran a campaign called, " Stock the Choc," in an effort to have the Day Chocolate Company's products carried at Tesco (Christian Aid, 2009). A similar campaign by

Christian Aid succeeded in getting Sainsbury' to carry the Day Chocolate Company's products in its many stores across the UK (Lamb, 2008).

The Day Chocolate Company recognises that appealing to consumers based on its mission alone will not be sufficient to sustain its organisation (Social Enterprise Academy, n. d.). The emphasis on the quality of the product itself can also be seen at the level of the Ghanaian cocoa farmers (and co-owners) themselves, as demonstrated by one farmer's statement in 2008, that " we [the Kuapa Kokoo co-operative] want people to feel good about our chocolate, not guilty about the poor farmer in the Third World" (Vidal, 1999).

XI. Challenges of the Day Chocolate Company (Divine Chocolate)

The most significant hurdle for a company such as Day Chocolate Company has been establishing itself in the market. When it first entered the market in the late 1990s, the UK chocolate market was dominated by the companies Cadbury, Nestle, Masterfoods, and Kraft Jacob Suchard (Johnson, Scholes, and Whittington, 2005). The " highly competitive" UK confectionary market did not experience any significant changes in the handful of years subsequent to the entry of the Day Chocolate Company either (Johnson, Scholes, and Whittington, 2005, p. 757). The difficulty in making an impact in the market can further be seen by comparing the sales teams at the UK confectionary leader, Cadbury, and the Day Chocolate Company (Social Enterprise Academy, n. d.). Whereas Cadbury has approximately 150 members on its sales team, the Day Chocolate Company has but three (Social Enterprise Academy, n. d.). The economies of scale of the larger firms are formidable (Doherty and Tranchell, 2005). For instance, in the late 1990s

Nestle UK expended £9 million on the promotion of a single product within its vast portfolio, the Kit Kat Chunky (Doherty and Tranchell, 2005).

Other challenges that the Day Chocolate Company must confront are not unique to the organisation. Most significantly, macroeconomic factors, such as a stagnant economy may impact demand, leading to another decline in sales, such as that experienced for the year ended 30 September 2012 (Divine Chocolate, 2012).

In addition, an increasing number of retailers are beginning to compete in the fair trade chocolate market, which may have an impact on the Day Chocolate Company's market share of what is already a small segment of the total chocolate market (Reed, 2009; McGrath, 2012).

XII. Recommendations and Conclusion

The Day Chocolate Company has succeeded in carving out a niche for itself in the chocolate market. However, it must continue to expand into new markets, given that other organisations, including some of the large chocolate companies are beginning to compete in the fair trade chocolate market. The company should seek to leverage its experience in the fair trade chocolate market as best it can. The company may need to divert a greater amount of its profits to this growth strategy, and this may impact the amount that it uses in meeting its mission of improving the livelihood of the cocoa farmers in Ghana. Although the company may temporarily fall short of this mission, at least it will provide an opportunity to create a more stable and potentially long-lived social enterprise.

REFERENCES

Berardi, A. (2013) *What does social enterprise offer the third sector in the UK, and how can academic research contribute to the emergence of social enterprise within the research context?* Accessed on 5 May 2014 from: <http://www.sosyalinovasyonmerkezi.com.tr/yayin/2020130001.pdf>.

Christian Aid (2009) *Stock the Choc* . Accessed on 8 May 2014 from: <http://www.christianaid.org.uk/images/stock-the-choc-postcard.pdf>.

Divine Chocolate (n. d.) *Education Matters* . Accessed on 6 May 2014 from: <http://www.divinechocolate.com/us/good-stuff/news/2013/4/education-matters>.

Divine Chocolate (2011) *Divine Story* . Accessed on 7 May 2014 from: <http://www.divinechocolate.com/us/about-us/divine-story>.

Divine Chocolate (2012) *Annual Report 2011-2012* . Accessed on 6 May 2014 from: <http://www.divinechocolate.com/uk/sites/default/files/img/pages.pdf>.

Doherty, B. and Tranchell, S. (2005) New Thinking In International Trade? A Case Study Of The Day Chocolate Company. *Sustainable Development* , 13(3), pp. 166-176.

Fichtl, E. (2007) *The Fair Trade Movement in Historical Perspective* . Accessed on 6 May 2014 from: http://www.ericfichtl.org/images/uploads/Fichtl_FairTradeMovementHistoricalPerspective.pdf.

Golding, K. (2006) *The Challenges of Mainstreaming Fair Trade: A Case Study of the Day Chocolate Company* . Accessed on 7 May 2014 from: <http://www>.

<https://assignbuster.com/social-enterprise-study-of-divine-chocolate-co/>

crsdd. uqam.

ca/Pages/docs/pdfColloques/colloque_international/Seance_1/GOLDING
%202006. pdf.

Gov. UK (2013) *Setting up a social enterprise* . Accessed on 5 May 2014
from: <https://www.gov.uk/set-up-a-social-enterprise>.

Johnson, G., Scholes, K. and Whittington, R. (2005) *Exploring Corporate
Strategy* . Prentice Hall: Saddle River, NJ.

Lamb, H. (2008) *Fighting the Banana Wars and Other Fairtrade Battles* .
Random House: New York.

McGrath, C. (2012) *Why Kraft Foods Cares About Fair Trade Chocolate* .
Accessed on 8 May 2014 from: [http://sloanreview.mit.edu/article/why-kraft-
foods-cares-about-fair-trade-chocolate/](http://sloanreview.mit.edu/article/why-kraft-foods-cares-about-fair-trade-chocolate/).

Pepin, J. (2010) *Social Enterprise and The Social Investment Market in the UK*
. JPA Europe. Accessed on 5 May 2014 from: [http://evpa.eu.com/wp-
content/uploads/2010/10/Social-Enterprise-and-the-Social-Investment-
Market-in-the-UK-An-Initial-Overview.pdf](http://evpa.eu.com/wp-content/uploads/2010/10/Social-Enterprise-and-the-Social-Investment-Market-in-the-UK-An-Initial-Overview.pdf).

RBS (2013) *Shortlist for RBS SE100 2013 awards announced!* Accessed on 6
May 2014 from: [https://se100.net/news/shortlist-rbs-se100-2013-awards-
announced](https://se100.net/news/shortlist-rbs-se100-2013-awards-announced).

Reed, D. (2009) What do Corporations have to do with Fair Trade? Positive
and Normative Analysis from a Value Chain Perspective. *Journal of Business
Ethics* , 86(1), pp. 3-26.

<https://assignbuster.com/social-enterprise-study-of-divine-chocolate-co/>

Social Enterprise Academy (n. d.) *Divine Chocolate Case Study* . Accessed on 7 May 2014 from: http://www.theacademy-ssea.org/assets/0000/2881/Divine_Chocolate_Case_Study.pdf

Social Firms UK (n. d.) *What is a Social Firm?* Accessed on 6 May 2014 from: <http://www.socialfirmsuk.co.uk/about-social-firms/what-social-firm>

The Green Machine (2014) *Green Machine (enterprise) CIC – reusing paint supplies in Bracknell* . Accessed on 7 May 2014 from: <http://www.greenmachinecommunityrepaint.co.uk/>

Turner, S. (2013) *A fairer chocolate* . Accessed on 8 May 2014 from: <http://www.christiantoday.com/article/a.fairer.chocolate/31748.htm>.

Usa, I. (n. d.) *UK Starting Business (Incorporating) in the UK Guide Volume 1 Strategic, Practical Information and Basic Regulations* . International Business Publications: Washington D. C.

Vidal, J. (1999) *If you eat chocolate then you can make a difference* . The Guardian 6 December 1999. Accessed on 8 May 2014 from: <http://www.theguardian.com/uk/1999/dec/07/christmasappeal2006.johnvidal>.