



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

BA BUSINESS MANAGEMENT

Potential differentiation of products derived from Ecuadorian fine cocoa beans

Module: The Global Business Environment

Code: LCBB4005

Lecturer: Dr. Rexon Nting

Name: Anderson Sanaguano Masache

Student ID: 2132325

SUBMITTED ON THE 25 August 2022

Table of contents

1. Introduction	3
2. The environment and the sector's potential	4
2.1. PESTLE analysis	4
2.1.1. POLITICAL	4
2.1.2. ECONOMIC.....	5
2.1.3. SOCIAL.....	5
2.1.4. TECHNOLOGY.....	5
2.1.5. LEGAL.....	5
2.1.6. ENVIROTMENT.....	6
2.2. PORTERS DIAMOND	7
2.2.1. The threat of entry.....	7
2.2.2. The power of buyers	8
2.2.3. The power of suppliers	8
2.2.4. Threat of substitutes	8
2.2.5. Competitors in the industry	8
2.3. SWOT Analysis.....	9
3. Value chain analysis	10
3.1. The Important Stages of the Cocoa Value Chain.....	11
3.2. Primary production	11
3.3. Commercialisation.....	11
3.4. Processing and manufacturing.....	12
3.5. Markets	12
4. CONCLUSION.....	14
5. REFERENCES	15
6. APPENDIX	16
6.1. Academic presentation.....	16

1. Introduction

The globalisation of business will have an impact on you. Not only will you buy things made in other nations, but you will almost certainly encounter and work with people from different countries and cultures as clients, suppliers, colleagues, employees, or employers.

The final truth is that the globalisation of world commerce affects us all. Never before has business reached such a global scale as it does today.

Alfred Ritter GmbH & Co.KG (Limited Liability Company & Limited Partnership Agreement) in Waldenbuch, near Stuttgart, employees over 1600 people and had sales of approximately EUR 490 million in 2019.

Alfred Ritter GmbH & Co. KG (LLC & LPA) is a recognised chocolate maker in Germany. Alfred Ritter's square chocolate bars are well-known: around 95 per cent of Germans are familiar with the Ritter Sport brand. Other European markets where Ritter has a significant presence include Denmark, Italy, Austria, and the Netherlands. Ritter Sport chocolate bars are also available in over 60 countries worldwide. The grandchildren of firm founder Alfred Ritter own and run the business.

This company is considering transferring its production facilities; the corporation intends to succeed in Ecuador by using a differentiation approach.

Ecuador is one of South America's smallest countries but is the leading producer of fine quality chocolate. Cocoa is one of Ecuador's oldest cultivated crops, primarily grown on small-scale farms. Despite having plenty of land and water, agricultural output on small farms is low. The tree stock is frequently elderly, resulting in low yields and income for growers. Many cocoa growing locations in Ecuador have high biodiversity; environmental factors must be considered while increasing agricultural productivity.

2. The environment and the sector's potential

2.1. PESTLE analysis

The PEST analysis determines whether factors have a higher or lesser impact on cocoa exports by conducting environmental research. The forces of change in political, economic, social, and technical settings are used to analyse supply and demand.



Figure 1 PESTLE Analysis

2.1.1. POLITICAL

The political environment in Ecuador is favourable for cacao production and commercialization, primarily because cacao is regarded as a national symbol, requiring caution in beans quality and the development of strategies to improve farm productivity. Ecuador must maintain and establish policy actions in the following areas:

Promote the cultivation of fine and flavour cocoa.

Improving post-crop cacao CCN51 management techniques.

Promoting high-productivity seedling research and accelerating local commercialization.

Establishing fair pricing policies and controls at the national level within the cocoa supply chain.

2.1.2. ECONOMIC

The Ecuadorian economy, which is primarily dependent on petroleum production and exportation, is constantly influenced by international price levels for this product, which in turn affects public investment in agriculture, which has declined as a result of a concentration of state funds in public works projects that are only marginally related to crop productivity improvement and price increases for farmers.

2.1.3. SOCIAL

The adoption of Ecuadorian cacao is related to the demand for unique chocolate, chocolate made with exquisite cacao and aroma, preferably organic, free of child labour, and beneficial to agricultural communities. The national production of cacao fine and flavour in Ecuador is concentrated in small farms, which is cause for concern given the prevalence of cacao CCN51 not only in large farms but also in small farms, which could undermine the ICCO's medium-term target of 75% production of cacao fine and flavour.

2.1.4. TECHNOLOGY

Crop certification is a factor at the national level in a range of crops. Small producers confront significant problems when it comes to financing farm improvements, which needs improved credit availability, interest rates and competitive conditions, government assistance, and other variables that allow farms to boost their productivity through technology.

2.1.5. LEGAL

Ecuador has a comprehensive system to promote commercial activities in an environment of justice and compliance with the law; as a result, the Ecuadorian Constitution recognises private property and the exercise of productive and commercial activities (Constitution of the Republic of Ecuador, 2008). Market-related legislation also attempts to discourage market power and monopoly or oligopoly scenarios (Market Power Control Superintendence, 2013).

According to the statement, Ecuador's present market legislation benefits the fine and aroma cacao-producing industry.

2.1.6. ENVIROTMENT

Ecuador, because of its tropical location and the variety of heights available (presence of the Andes Cordillera, as well as access to Amazonian areas), provides different climatic conditions (such as two states, each with a distinct climate) that are favourable for a wide range of products (Ministry of the Environment, Water and Ecological Transition, 2016). Taking ideal cacao production conditions into account, such as temperatures ranging from 20 to 26 degrees Celsius, relative humidity of 70%, land elevation ranging from 0 to 700 metres above sea level, and so on, it is clear that large areas of Ecuador (primarily along the coast) are suitable for cacao production, which is a positive factor for the industry.

The El Nino phenomenon, which is caused by a warming of the Pacific Ocean's surface and can cause an increase in waves and, in particular, floods and other disasters, is among the threats and vulnerabilities to natural disasters that most affect the areas where cacao fino de aroma is produced in Ecuador (Coordinating Ministry of Security, 2016).

The Ministry of the Environment controls environmental issues. It has jurisdiction over the system in Ecuador, and its functions are decentralised through numerous secretariats and local departments (Ministry of the Environment, Water and Ecological Transition, 2017). Simultaneously, the Ministry works with other organisations (such as national police, decentralised government, local and international non-governmental organisations, etc.) to control the activities that fall within its scope.

The centralisation of environmental management and vigilance in a rectorate organisation like the Ministry of the Environment is a good aspect in establishing activities that may impact the environment, such as cocoa plantations.

2.2. PORTERS DIAMOND

Cacao is a well-known commodity on a global scale, and demand is increasing due to the health benefits connected with the intake of high-quality cacao-based products. The industry has determined the countries that produce the greatest cacao in the world, with Ecuador clearly atop the list, as well as those that consume the best quality. The Porter (1980) model of the five competing forces is used to build economic structure in order to analyse the attractiveness of the cocoa sector in Ecuador.

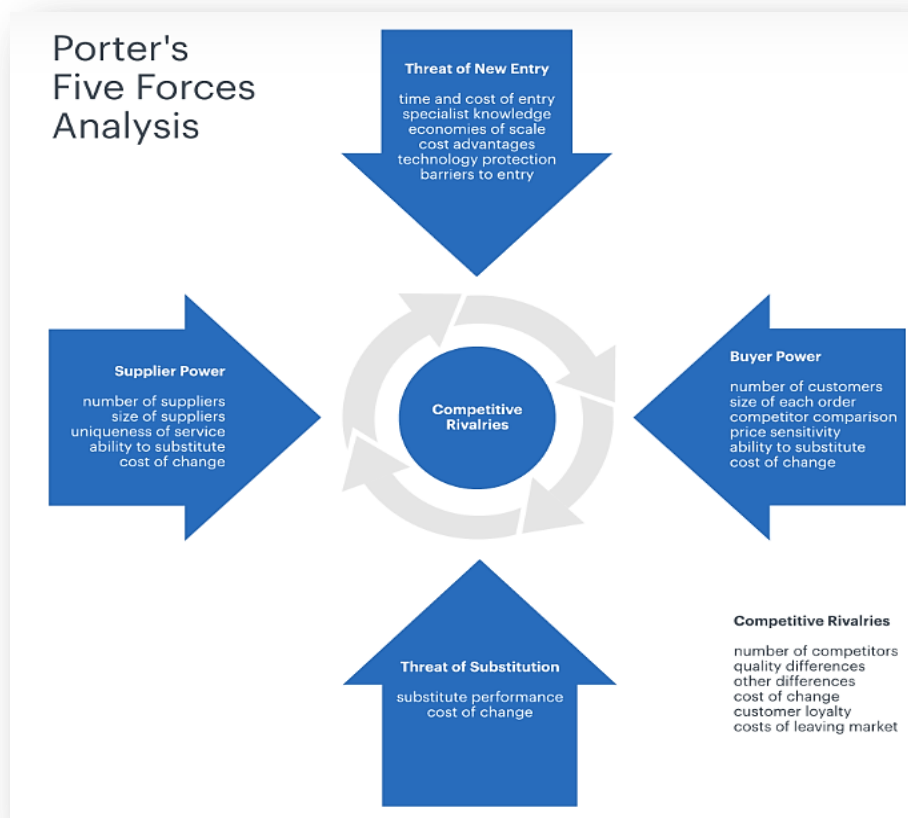


Figure 2 Porter's Five Forces Analysis

2.2.1. The threat of entry

Aroma cacao comprises about 6% to 8% of global production, most concentrated in Latin America. Ecuador makes the most contributions, accounting for 54% of the total in this category (ICCO, 2020).

His primary rivals are far distant. Colombia, Venezuela, and the Dominican Republic, to name a few. Because global production patterns indicate that the major producing

countries will continue to direct their crops toward the cacao Trinitario due to its high production, the danger of new rivals joining the sector is low.

2.2.2. The power of buyers

Because of the world's limited supply of fine and aroma cacao, demand is high, and its export price reflects this. The base price, on the other hand, is influenced by price changes in worldwide primary demands, which vary according to the position of Africa's leading chocolate producers.

2.2.3. The power of suppliers

The cacao market is altering as a result of the circumstances in the major producing countries, particularly Costa Rica and Ghana, whose production levels exceed 50% of global output. The influence that these countries hold in primary international markets has a direct impact on international price indices and, as a result, on producer pricing in each country. Cacao suppliers have enormous power as a result of this circumstance.

2.2.4. Threat of substitutes

The threat of alternatives is limited because cacao's features are unique, and no other product is known to be capable of entirely satisfying them.

Cacao is mostly used to make chocolate, which can be sweet or bitter depending on quality and demand. Chocolate, for example, can be replaced with candy store products that suit the consumer's needs in this regard.

There is, however, no exact equivalent to the desire for dark chocolate.

2.2.5. Competitors in the industry

The cacao market is very competitive because demand for the commodity exceeds supply and just 5% of global production is considered fine and flavour cacao, according

to the ICCO. As a result, the cacao sector must work closely with exporters from each producing country and be aware of product-related, quality-related, and price-related issues in order to reach timely agreements.

2.3. SWOT Analysis



Figure 3 SWOT Analysis

The SWOT analysis investigates the internal capacities of Ecuadorian cacao production in order to create opportunities in its offer-demand, starting with aspects to be aware of its weaknesses (internal) and threats (external); about the crop, production, beans commercialization, and primary material processing with the best quality controls in the world. With this analysis, the following is added to the matrix:

Table: SWOT matrix of Ecuadorian Cocoa

WEAKNESSES	THREATS
- The growing usage of traditional cacao production, which usually substitutes cacao fines or flavour farms. - Small farm modernisation - Commercially available high-quality	- Countries in Central and South America are interested in boosting the production of fine and flavourful cocoa. - Base pricing is determined by external factors rather than product

vegetative material. • Productivity in cacao fine and flavour farms is low. • Decreased the number of farms that specialise in organic farming. • International demand for fine chocolate does not drive local production. • Quality improvement is hindered because the commercialisation cycle benefits the producer.	quality. • The absence of genuine government measures encouraging the planting of good and aromatic cocoa. • Mixing of qualities puts at risk the ICCO's review of 75% production of fine cocoa. • Climatic phenomena that have an impact on agriculture.
---	--

STRENGTHS	OPPORTUNITIES
• The Ecuador chocolate brand is well-known around the world. • 75% of the production is classified as fine and flavourful (although, in reality, lower percentages are palpable). • Given the great demand for cocoa, producers have a vested interest in growing it.	• Agrotourism development initiatives in Ecuador can help to strengthen the country's brand and product position in international markets. • A positive trend in the consumption of fine chocolates in European emerging markets.

3. Value chain analysis

Value chain analysis, at its core, describes the journey of chocolate from bean to bar. It reaches from pre-farm input providers to end consumers, connecting various actors along the process and showing where there are both challenges and opportunities.

A value chain map typically summarises the essential portions of a value chain. This map is transformed into a graphical depiction of the value chain, highlighting stakeholders' functions, interactions, and agents who support the process. The following is a simplified value chain map for cocoa:



Figure 4 Cocoa Value Chain

3.1. The Important Stages of the Cocoa Value Chain

A typical cocoa bean value chain includes four essential segments: primary production, commercialization, processing and manufacturing, and marketing.

3.2. Primary production

Farmers are at the start of the cocoa supply chain. In Ecuador, this category includes approximately 100,000 cocoa smallholders. While the area planted by farmers varies by location, a typical cocoa farm in Ecuador is grown on an average plot size of fewer than three hectares. Farmers at the primary production stage might be classified in a variety of ways, including:

- ✓ Farm management techniques (e.g. diversification of production).
- ✓ Shade cover percentage.
- ✓ Whether or whether they are certified.
- ✓ Whether their manufacturing processes are conventional or highly technological.

3.3. Commercialisation

Individual purchasers, producer associations such as our local partner, the National Federation of Cocoa Growers, and purchasing agents for large corporations can participate in commercialisation. This stage usually comprises transportation, quality control, fermenting, drying, and differentiation (e.g. certification of producers that have met the criteria of an independent evaluating entity). Some agents involved in cocoa commercialisation, including our partner National Federation of Cocoa Growers, provide technical assistance and distribute farming inputs such as fertiliser.

3.4. Processing and manufacturing

Cocoa travels from commercialisation to enterprises active in cocoa transformation and producing cocoa-based products at this stage (e.g. chocolate bars and cosmetics). Ecuador's cocoa processing and manufacturing are dominated by two significant domestic enterprises, Pakari and COFINA. They collectively buy 80-90% of Ecuador's cocoa crop. Most Ecuadorian central cocoa traders have commercial links with one of these two leading chocolate corporations.

3.5. Markets

Ecuador **exported** \$823 million in cocoa beans in 2020, making it the world's third-highest exporter of cocoa beans. The same year, cocoa beans were Ecuador's sixth most exported product. Ecuador's primary export destinations for cocoa beans are the United States (\$197 million), Indonesia (\$193 million), Malaysia (\$125 million), the Netherlands (\$68 million), and Germany (\$38 million).

Between 2019 and 2020, the fastest growing export markets for Ecuadorian cocoa beans were the United States (\$82.4 million), Malaysia (\$53 million), and Indonesia (\$24.7 million).

Ecuador **imported** \$113k in Cocoa Beans in 2020, making it the world's 76th highest importer of Cocoa Beans. Cocoa Beans were the 977th most imported product in Ecuador in the same year. Ecuador mainly imports cocoa beans from Italy (\$72.9k) and the Dominican Republic (\$39.8k).

Italy (\$72.9k) was Ecuador's fastest-increasing cocoa bean import market during 2019 and 2020.

In 2018, Ecuador's average tariff on cocoa beans was 16.5%. Cuba (Most Favoured Nation duty rate treatment, 25%), Angola (Most Favoured Nation duty rate treatment, 18.8%), Burundi (Most Favoured Nation duty rate treatment, 18.8%), Benin (Most Favoured Nation duty rate treatment, 18.8%), and Burkina Faso (Most Favoured Nation duty rate treatment, 18.8%) had the highest import tariffs for cocoa beans. (The Observatory of Economic Complexity, 2020).

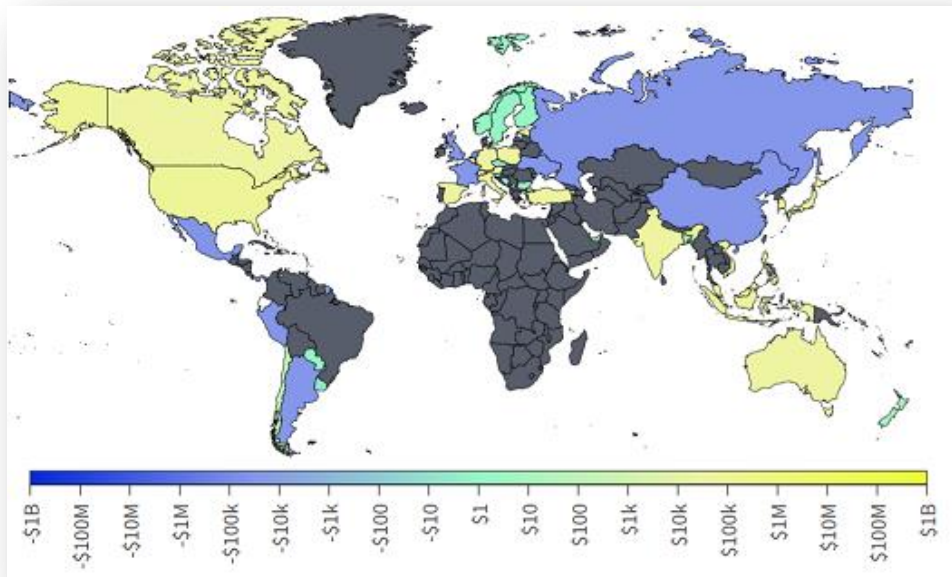


Figure 5 Market Change in Exports (2019 - 2020)

4. CONCLUSION

This paper argues that by investing in developing countries the international investment community would be able to achieve an optimum risk-return combination, meet their important moral objective of promoting global development and effectively contribute to eliminating world poverty. In other words, investing in developing countries would be good for investors' financial health, would meet investors' moral concerns and would benefit developing countries.

The Fairtrade Premium has primarily been used to fund cocoa production, infrastructure and credit, health, training, education, infrastructure development, and environmental operations.

The Premium is also used by one of the Fairtrade organisations for administration, organisational strengthening, and social security for members and staff. The utilisation of the Premium in production benefited 98% of Fairtrade certified farmers, while at least 80% benefited from other uses. Because the monies are primarily channelled to members, there is little value to the larger community. The awareness about the Premium and its application among certified producers might be raised.

The certified producer organisations appear to be performing effectively in their broader market advocacy role and are capable of providing improved financial services to members.

The certified organic business is expanding, and sales are increasing. Cocoa organisations are rapidly gaining more clout in Ecuador, bolstering the voice of small growers locally and nationally. This greater visibility has helped to attract public development funding, particularly investments in cocoa-related projects. Nonetheless, there is room to boost farmer members' internal participation and provide more critical information on the organisation's economic dealings.

5. REFERENCES

- 5.1. Padilla Perez, R., & Alvarado Vargas, J. (2014). The resurgence of industrial policy. In *Strengthening value chains as an instrument of industrial policy: methodology and experience of ECLAC in Central America* (pp. 34–76). Economic Commission for Latin America and the Caribbean ECLAC.
- 5.2. National Secretary of Planning and Development. (2012). *Transformation of the productive matrix: productive revolution through knowledge and human talent*.
- 5.3. Ministry of industries and Productivity. (2016). *Ecuador's Industrial Policy 2016-2025: more industries, greater development*.
- 5.4. Telegrafo newspaper. (2014). *Chocolatiers want to create their country brand*. <https://www.eltelegrafo.com.ec/noticias/masqmenos-2/1/chocolateros-quieren-crear-sumarca-pais>
- 5.5. Martin, Carla D. "MesoAmerica and the « food of gods »", Harvard University, AAAS E-119, 2018
- 5.6. Raquel Alejandra Garcia Ortega (2018). *Analysis of the current commercial situation and perspectives of fine aroma cocoa in the Ecuadorian market*.
- 5.7. The Observatory of Economic Complexity Report 2018/2020. *Cocoa beans in Ecuador*. Available online: <https://oec.world/en/profile/bilateral-product/cocoa-beans/reporter/ecu> (accessed on 24 August 2022).
- 5.8. ICCO—International Cocoa Organization Annual Report 2018/2019. Available online: <https://www.icco.org/statistics/#production> (accessed on 23 August 2022).

6. APPENDIX

6.1. Academic presentation



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David



200
1822 - 2022

Potential differentiation of products derived from Ecuadorian fine cocoa beans

Module: The Global Business Environment
Code: LCBB4005
Lecturer: Dr. Rexon Nting
Name: Anderson Sanaguano Masache
Student ID: 2132325

Man Geni Addysg Uwch yng Nghymru
Where Higher Education Began in Wales
www.uwtsd.ac.uk



Alfred Ritter LLC & LPA

Alfred Ritter GmbH & Co. KG (LLC & LPA) is a recognised chocolate maker in Germany. Alfred Ritter's square chocolate bars are well-known: around 95 per cent of Germans are familiar with the Ritter Sport brand. Other European markets where Ritter has a significant presence include Denmark, Italy, Austria, and the Netherlands. Ritter Sport chocolate bars are also available in over 60 countries worldwide.



Ecuador, the cocoa birthplace

The origin – 3300BC

According to Harvard University Professor Martin, Carla D., the cacao tree (*Theobroma cacao* L.) is native to the Amazonian basin on the foothills of the northern Andes.



A 3300BC ceramic pottery discovered in Ecuador's southern Amazonian district of Zamora Chinchipe included minuscule traces of cocoa, indicating that cocoa beans were farmed and consumed there more than 5,000 years ago.

Producer of fine quality chocolate

- Ecuador is one of South America's smallest countries but is the leading producer of fine quality chocolate.
- Cocoa is one of Ecuador's oldest cultivated crops, primarily grown on small-scale farms.
- Plenty of land and water, agricultural output on small farms is low.
- The tree stock is frequently elderly, resulting in low yields and income for growers.
- High biodiversity; environmental factors must be considered while increasing agricultural productivity.

What is Fine or Flavour Cocoa?

Fine cocoa

- ✓ Free defect of flavour
- ✓ Important genetic diversity
- ✓ Historical and cultural

Flavour cocoa

- ✓ Little or not defect in flavour
- ✓ Provides valuable aromatic



Opportunities and challenges to set up the factory at Ecuador

- According to the guidelines outlined in the Competitive Improvement Plan (PMC) for the cocoa and cocoa derivatives chain, Ecuador intends to be a global benchmark for cocoa and its derivatives by 2030 for sustainability, traceability, and fair international prices. According to cross-checked statistics data from the Ministry of Agriculture (MAG) and the Production, Foreign Trade, Investment, and Fisheries Ministry (MPCEI), from 2016 to 2019, progress has been favourable from the standpoint of the perspective of output growth and Foreign Direct Investment (FDI).

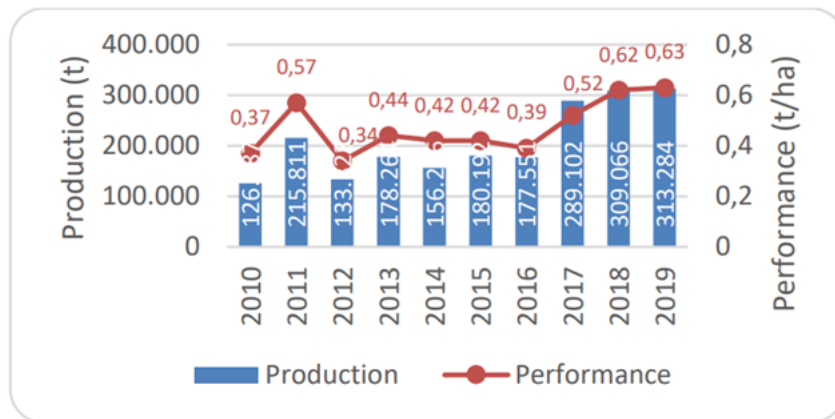
Ecuador and European Commission

Proposed to articulate this plan on the basis of strategic axes:

1. Improving quality
2. Increasing productivity
3. Attract investment to add value
4. Strengthen public-private institutions
5. Position Ecuadorian cocoa and chocolate in the International market

Impact on productivity

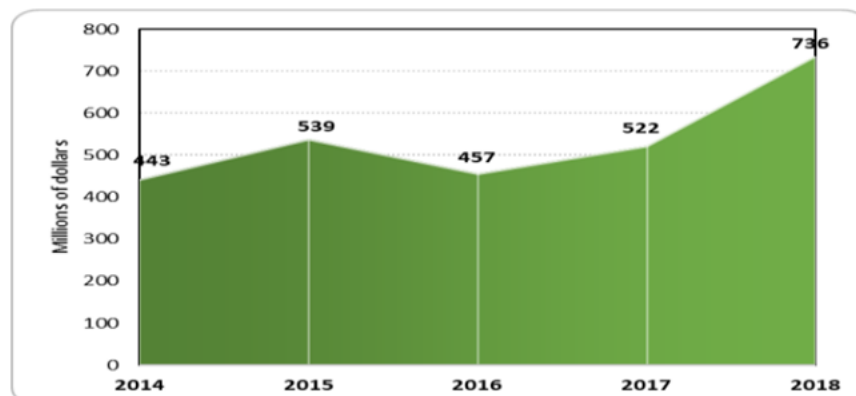
Plantation regeneration, rehabilitation, and maintenance articulate what Loet Leydesdorff and Henry Etzkowitz refer to as the triple helix, which in innovation policy provides a trio between business, university, and government.



Production and yield of Theobroma cacao L 2010-2019. Information extracted from the Report of the Ministry of Agriculture of Ecuador

Attracted to generate added value

The trend in the cocoa agro-industry and its derivatives is toward functional, value-added, environmentally friendly products that encourage a healthy lifestyle, sustainable and socially responsible brands with innovative/ecological packaging, and support decent work and fair compensation for their employees.



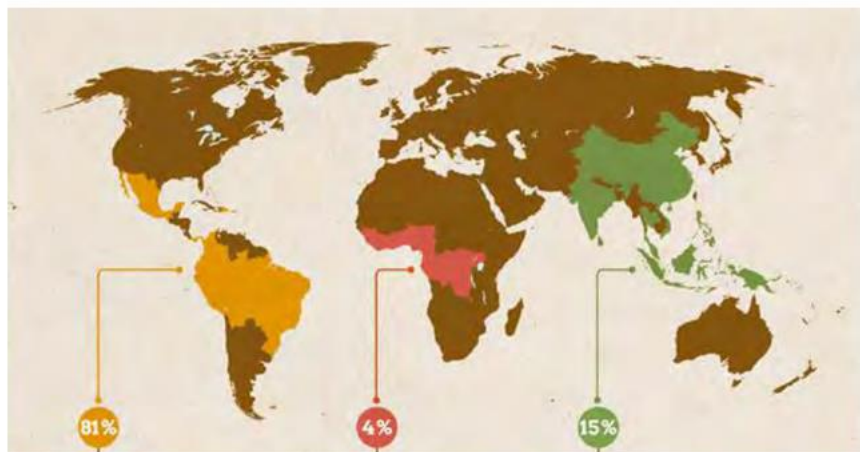
Foreign direct investment (FDI) or Public Private Partnership 2014-2018. Information extracted from the Ministry of Production, Foreign Trade, Investment and Fisheries

International market

- International demand for cocoa and its derivatives in the medium term 2025 will be based on traceability, quality and differentiation.
- Strategic objectives:
 - National promotion plan
 - National and International chocolate campaign
 - Promote the new policy of quality and excellence in the chain

Export of fine cocoa and flavour

average 2011 | 2014



Source: ICCO

conclusions

The recent increasing demand for high-quality chocolate gave the fine or flavour cocoa market a new lease of life. Indeed, most major chocolate manufacturers have included premium quality chocolate products in their range. These require fine or flavoured cocoa from specific origins in their recipes to achieve the distinctive taste or colour of the chocolate. The growing success of fine or flavour cocoa has a direct positive impact on the sustainability of the farming cocoa sector through significantly higher farm gate prices paid to the producer.

References

1. Padilla Perez, R., & Alvarado Vargas, J. (2014). The resurgence of industrial policy. *In Strengthening value chains as an instrument of industrial policy: methodology and experience of ECLAC in Central America* (pp. 34–76). Economic Commission for Latin America and the Caribbean ECLAC.
2. National Secretary of Planning and Development. (2012). *Transformation of the productive matrix: productive revolution through knowledge and human talent*.
3. Ministry of industries and Productivity. (2016). *Ecuador's Industrial Policy 2016-2025: more industries, greater development*.
4. Telegrafo newspaper. (2014). *Chocolatiers want to create their country brand*. <https://www.eltelegrafo.com.ec/noticias/masqmenos-2/1/chocolateros-quieren-crear-sumarca-pais>
5. Martin, Carla D. "MesoAmerica and the « food of gods »", Harvard University, AAASE-119, 2018
6. Alfred Ritter GmbH & Co.KG Progress Report 2019/2020