



The Body Shop and Community Trade: 22 years of trading fairly with smallholders

This case study provides an example of a retailer adapting procurement and production strategies to include capacity building for smallholders. It focuses on the example of ethanol production from sugar cane in Ecuador.

Background

The Body Shop was set up in the UK in 1976 by Anita Roddick (later Dame Anita, who died in 2007) and her husband Gordon. In 2006, its 30th year, the company became part of the L'Oréal Group, but it has retained and re-emphasised its focus on ethical values and community trade, and still regards itself as the original ethical cosmetics company. Its products use a lot of natural ingredients, some of which originate from marginalised communities or environments and are purchased through its Community Trade programme. Some of these are key strategic ingredients by volume (e.g. shea and cocoa butters, soya and babassu oils, ethanol, cotton), while others form the basis of the claimed benefit of a product range (e.g. aloe, seaweed).

The company launched its 'Trade Not Aid' programme in 1987 in order to help 'alleviate suffering and poverty around the world,'¹ adapting its sourcing strategy with the ambition that one day all its products would be sourced directly from producers. In those early days, products were included in the Trade Not Aid programme on more of an ad hoc basis when Anita Roddick met producer groups on her travels, rather than being chosen in a more systematic or strategic way. Over time, the Trade Not Aid programme matured and became the Community Trade programme, which today sources over 1,000 tonnes of ingredients and 60 different types of accessories from producer groups in 22 countries. In 2008 more than 15 per cent of accessories in stores come from a Community Trade supplier, and 65 per cent of The Body Shop products contain a Community Trade ingredient – the company's target is to increase this to 80 per cent in the coming years.

The Body Shop business model for Community Trade reflects the need for full traceability and guaranteed quality required to build a global cosmetic brand. The brand adds value to the human and environmental stories from within the supply chain where smallholder or community harvesting can deliver high levels of quality control for delicate, often wild harvested crops. Failure to meet company environmental and social sustainability standards would create a risk for the entire The Body Shop brand.

However, one of the product lines into which it has found it very difficult to incorporate Community Trade ingredients has been its fragrance category, due to the complex nature of perfume blending and manufacture. Essential oils are used to create a perfume but denatured ethanol (ethyl alcohol) forms the base of the product, and is the most significant ingredient in terms of overall volume (accounting typically for 70 per cent).

Since 2000 The Body Shop has not manufactured any of its products; instead it contracts production to commercial cosmetic contract manufacturers, who are required to meet its strict ethical codes of conduct. All Community Trade ingredients used are traceable, as the contract manufacturers can only purchase them from Body Shop-nominated producer

¹ 'Body and Soul', Anita Roddick, 2008

groups via its closely supervised supply chains. For example, in the case of ethanol, The Body Shop has begun buying the product directly from a smallholder producer group in Ecuador, called CADO (Consortio Agroartesanal Dulce Organico) which gives it complete visibility of the product from cane field, to production of the perfume, to delivery in-store. The company is more confident that the production methods used for this Community Trade alcohol are more environmentally friendly and sustainable than many commercial equivalents, and are benefiting smaller producer groups rather than large commercial producers – the former being one objective of the Community Trade programme.

Key champions

Within The Body Shop, the initial champions were the Community Trade team and Anita Roddick herself, who was passionate about social justice in the commercial environment. Now all departments are supporting the Community Trade programme and there are champions across the whole organisation. Essentially this support is driven from the top.

For the alcohol supply chain, the CADO rural co-operative – which consists of more than 130 smallholders from seven communities in the foothills of the Andes – is subcontracting the process of ethanol rectification to a commercial refiner, Soderal (Sociedad de Destilacion de Alcoholes S.A.). CADO is based in one of the poorest provinces in Ecuador, where sugar cane farming and distilling alcohol has been practiced for generations. Formed ten years ago through a World Bank-funded project, the co-operative specialises in organic sugar cane production. CADO is headed by women, as are two of its seven member groups, and over 40 per cent of the member households are also headed by women.

CADO retains the responsibility of delivering the final product – denatured ethanol – to the nominated export company. It subcontracts the refining process to Soderal, which is one of Latin America's largest sugar companies and refiners. Soderal has been very supportive in the set-up of this complex supply chain, and has provided capacity development and support to CADO to improve quality and technical efficiency in the production of ethanol. Soderal's chief executive is a leading businesswoman in Ecuador, with a reputation for philanthropic contributions.

Once the alcohol has been rectified to the specific grade required, and denatured, CADO can sell it FOB to the commercial intermediary nominated by The Body Shop. The intermediary buys the alcohol from CADO and is responsible for shipping, storage, and distribution to the factories manufacturing The Body Shop perfumes.

How it works

To introduce a producer group into the Community Trade programme, The Body Shop staff visit the supplier and assess its 'fit' to the five core criteria of the programme:

- Community organisation: are the groups socially responsible and working for the benefit of their members and community?
- Community in need: are socially, economically, etc. disadvantaged groups being included?
- Direct benefits: will the fair price actually bring additional benefits?
- Commercial viability: can the group meet volume and quality standards?
- Environmental sustainability: there is no negative environmental impact from production methods.

Part of the process that decides whether a new supplier group can become part of the Community Trade programme is a discussion about needs and anticipated benefits. The Body Shop has expectations that its trade through the programme will benefit the suppliers' community at large over time. This consultative process engages a variety of stakeholders, of which The Body Shop is only one. In Ecuador a national child labour reduction programme funded by the US Department of Labor (DOL) and involving

agencies such as Save the Children, UNICEF, the ILO, and local NGOs has developed a replicable methodology for identifying and eliminating harmful child labour practices in the banana and flower export industry. CADO highlighted the potential to replicate this model in the local sugar cane and alcohol industry. Local NGO DYA (Desarollo y Autogestion) is a key actor in this programme, and will be working with CADO to map hazardous activities that children are engaged in and to start community-based work to eliminate these. The Body Shop is supporting this initiative (and has made it a precondition of the trade) by ensuring that the fair price includes adult labour daily wage rates.

Once a producer group is integrated into the programme, a fair price is worked out jointly with The Body Shop and, where required, a commercial intermediary is appointed to import and refine the ingredient. If a Community Trade ingredient is included in a formulation, contract manufacturers are obliged to use the appointed intermediary and to buy it at the determined fair price. This is a significant departure from the normal contracting process, where contract manufacturers are free to choose their suppliers of ingredients that make up a particular formulation.

Historically, ethanol has been purchased from commercial suppliers, who are able to source the ingredient very cheaply (at approximately £1.00 per kg) from the huge grain and/or sugar cane producers of Europe, Brazil, and the USA. Although commercial suppliers can guarantee supplies and consistency of quality, they are not always able to trace the product to its source, limiting the extent to which negative or hazardous social, environmental, or labour impacts can be identified or managed.

Aware of the potential sustainability and environmental issues associated with the production of commercial ethanol, The Body Shop started to look for alternative sources of the product, with the above key criteria in mind. The Body Shop identified and began to discuss the potential of sourcing ethanol directly from a CADO in 2007. The attraction to the region came from the high-quality sugar cane alcohol that is produced there, often employing organic production methods. In the past two years the company's Community Trade team has visited the producer group twice in order to assess its eligibility for the programme, understand the production process, and jointly establish a fair price for the product. This 'fair price' takes into account labour and the material inputs required for production. The Body Shop has set up the supply chain so that CADO retains ownership of the product and value added through processing. The benefit for the farmer groups includes predictability, sustainability, and consistency of prices – and most importantly, access to an international market for a product that is difficult to sell.

The Body Shop encourages its Community Trade producers to diversify their client base in order to avoid excessive dependency, but in some cases, especially when starting to buy from newer organisations, the trade does form a significant proportion of the producer group's sales. During the first few years of trade it is likely that The Body Shop will purchase 100 per cent of the ethanol produced by CADO, but it is hoped that new clients will be found once the group has established itself and can gear up marketing and production.

As with other Community Trade ingredients in other products, The Body Shop fragrance formulations stipulate the use of Community Trade alcohol from the company's nominated importer, at the fair price determined between The Body Shop and CADO. In this case the fair price is higher than that of other commercially available alcohols, a cost that is reflected in the price paid by The Body Shop to the contract manufacturer of fragrances with the new Community Trade base.

Post-intervention/innovation situation

Worldwide, about 25,000 people currently work directly in The Body Shop Community Trade supply chains, and the company purchases over 1,000 tonnes of raw materials and

more than 60 different accessory items each year. This represents direct benefits to producers and their families in terms of additional income and community fund projects implemented.

In the alcohol production project in Ecuador, benefits at the producer level have just started to become visible:

- Increased incomes are resulting in benefits being reported in terms of co-operative members being able to afford better-quality food, farming implements, schooling materials, etc. They also report feeling more empowered and less dependent on traders than they were before.
- In the coming years it is expected that benefits will be seen in terms of reducing hazardous child labour practices in producer group families. The Body Shop also expects increased environmental benefits as more organic farmers join the producer group.

Trade with The Body Shop has helped CADO to leverage additional funding, including business development loans (from Root Capital, a social fund) and NGO support (DYA and the child labour project) and is increasing its business capacity through staff development. Additional costs for running the business (i.e. the costs of the loan) are fully covered by the 'fair price' agreement made through The Body Shop.

More time is needed to assess the full impact of the alcohol project, but farmers have now received their first payments and The Body Shop will start selling products containing Community Trade alcohol in this calendar year.

For The Body Shop, this case provides the company with complete visibility of the product from cane field to perfume bottle in-store. The company can guarantee that the production methods are being managed to ensure they are ethically and sustainably produced on a major ingredient within multiple current and potential products.

Business costs and returns

Through Community Trade, a 'three-way win' is effected by The Body Shop: suppliers benefit from the fair deal offered by the company (fair pricing, forecasting, and predictable demand); The Body Shop brand benefits from sustainable, traceable access to agricultural expertise and quality ingredients; and customers benefit from products that meet their expectations of ethical sourcing and demanding quality standards.

The Body Shop considers the total costs of ingredients in the pricing of its products. This includes the premium of fairly-priced ethanol, as well as the indirect costs of setting up the value chain, including staff time spent in supporting the producer group, as well as internal and external marketing, advertising, and communications required to inform consumers that the company is now using organically-sourced, fairly-traded alcohol in its fragrances. The Body Shop brings long-term commitment to rural business development. This project has taken two years to develop, and ongoing support is provided to secure logistical arrangements for a volatile substance.

The Body Shop believes that its entire perfume range should contain Community Trade ingredients in order to meet customer expectations. However, as explained above, this comes at an additional cost to the business, which has to be offset by increased sales of the range. Once The Body Shop has communicated to its customers that it is now using Community Trade alcohol, the returns are expected to be increased sales for the fragrance lines containing the fairly-traded alcohol, as well as a strengthening of the wider brand, creating a 'halo effect' that should improve general market perception of the company and increase sales. In turn this leads to increased demand for the alcohol from CADO, and increased income for the farmers producing it.

A recent customer store survey indicated that 70 per cent of customers said that Community Trade positively influenced their purchasing. This is one of the five core values the company works towards, and is something tangible that customers are increasingly recognising and are able to relate to.

Social costs and benefits and sustainability

The Body Shop estimates that benefits for CADO far exceed the additional 30+ per cent increase in value producers are able to capture through the fair pricing mechanism. The child labour programme, in combination with the fair pricing mechanism, should ensure that child labour is reduced. Re-engineering the supply chain means that CADO is the primary trade broker, ensuring that its members have the confidence and skills to form other business relationships in the future. With a secure market and known volumes, they can invest in future production to meet the demand of The Body Shop, and potentially grow their business to meet new market demands. There is arable land which can be brought into organic alcohol production, and Soderal has substantially more capacity to process higher volumes. The challenge is in reaching new markets with the limited current business capacity within the co-operative. Strengthening the co-operative reduces this risk, which the trading relationship is helping to address.

How replicable is the innovation?

Community Trade involves committing substantial resources, especially staff time, to support a relatively small number of producers. The Body Shop has evolved its business model to enable value to be generated to enable the resources required to develop individual component or final products. For another company to replicate a Community Trade programme might require transformation of communication of the brand to create the value, to cover the costs of dedicated resources to manage the close relationships with producer groups and product development.

A number of prerequisites for implementing the sub-contracting model were in place for the ethanol case, including the willingness of the processing company to adapt its normal business model. This included rewarding management teams for decision-making based on both financial and ethical purchasing criteria to drive product and purchasing innovation.

Lessons for businesses

- Success in developing new business models requires senior management and intermediaries who are willing to adapt their business models.
- Long-term trading relationships and contracts can leverage investment in social development to support the supply chain
- Creating a generic procurement framework, such as Community Trade, supports replication across supply chains and enables the setting of contractual expectations with new suppliers.
- Building traceability to primary producers creates business value in terms of quality control, together with brand value by having access to social and environmental impact information to support communications.
- Measuring purchasing team performance on both ethical and financial criteria enables innovation in creating value through smallholder inclusion.
- Understanding how such business models complement the overall business strategy, or business case, is key.

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