

How to respond to COVID-19 in the cacao sector?

The global outbreak of the COVID-19 virus is having a major impact on international trade. This study presents a quick overview of what is happening in the cacao (cocoa) market and the supply chain. It offers practical steps for small- and medium-sized enterprises (SMEs), such as farmer groups and exporters, in cacao producing countries, to deal with the immediate effects of COVID-19 on the sector. It also provides steps to take to prepare for successfully doing business in the sector after the crisis is over.

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Effect on the market

Large companies are forecasting a reduction in grind of -5% for the second quarter of 2020 and -3% in the third quarter. Because of this, the supply of cacao will become higher than the demand. This could result in an excess of cacao, a so-called surplus, in warehouses. Surpluses will rise if lockdown continues. This will put pressure on quality differentials and certification premiums, such as organic or fair trade, thus affecting the price.

Confectionary demand is down. Easter saw reduced consumption and forecasts for Halloween are down as well due to lockdown. However, now that most European countries are easing their lockdown measures, the sector hopes to be back to normal by Christmas.

A hopeful sign has been the post-lockdown cocoa powder demand in China, which increased by 25%. The sector hopes this trend will continue around the world as the lockdown eases. When the worst of the coronavirus crisis is over, for example in one year, with businesses operating, possibly still with some form of social distancing, we may see a return to consumption. We can assume that consumer behaviour will return to normal post-lockdown.

However, it will take time for the surplus left in the market to be used up. At the moment, despite cocoa powder demand still being strong, cocoa butter demand is extremely weak. For this reason, the market is seeing butter stock build-up. If this continues, it will force grinders to slow down bean purchases until butter stocks are back at manageable levels.

The top segment, craft chocolatiers, speciality chocolate shops, and so on, has been hugely affected. Sales in small shops have reduced or even stopped as a result of the lockdown or social distancing measures. As indicated in our April 2020 publication on the [bittersweet impact of COVID-19 on the cacao and chocolate market](#), 70% of small chocolate businesses saw 50% fewer sales and 20% might not survive.

However, online sales are up, and initiatives have been launched, and articles published to stimulate consumers to support small chocolate makers. Good examples of these are the [Stay Home With Chocolate](#) initiative, Moving Cocoa's article on [why you should buy a lot of good chocolate \(but not in the supermarket\)](#) and the fundraiser [chocolate for doctors and elderly during COVID-19](#).

In the longer term, Corporate Social Responsibility (CSR) will probably become an even more important market demand. More people are becoming aware that virus contamination risks increase due to the cutting down of forests and trafficking of exotic animals. Avoiding a climate crisis is also becoming more urgent. Realising that such a crisis will be much worse than the coronavirus crisis may result in a change in behaviour. This could be less flying to eating less meat, installing solar panels, or choosing a sustainably produced chocolate bar.

However, to raise enough environmental awareness to change cacao/chocolate consumption behaviour, the major confectioners really need to take the lead in increasing their sustainable offering. Until now, the best-selling products in western supermarkets are often at the cheaper end of the sector. Also, a continued recession worldwide may lead more consumers to move to lower-end products.

The health benefits of cocoa powder's anti-influenza properties and assistance in boosting the effect of vaccines offer an opportunity. However, we have not seen confectioners use this yet with COVID-19.

Effect on the supply chain

The European cacao actors we interviewed for this study feel that local governments in producing countries and the supply chains have been extremely resilient to date, action has been swift. They think that with shrinking demand, major grinders, like Olam, Barry Callebaut, Cargill and Ecom, with large in-country operations running the supply chain, will go back to their usual channels. These are suppliers that have proven to be able to provide the quality and price these companies look for. This will make it harder for new players to sell to these companies.

Other than a short two-week period, where some ports adjusted to lockdown, the cacao sector has not had any supply chain issues in West Africa due to COVID-19. However, forwarders are sailing less frequently or excluding ports due to reduced demand for goods; this is called blank sailing. No scarcity of containers has been reported.

Flights are heavily affected, with substantial capacity problems, for example, to and from Amsterdam, Latam, Oceania and the Far East. Export to China is at a normal level, as well as import from Africa. As most cacao exports are full container load (FCL) ocean shipments, flights are not used much.

Travel restrictions to producer countries and trade fairs are making new business challenging. A lot of trust is built during face-to-face interaction. It is always beneficial when exporters visit supply chain operations, and producers visit grinders and chocolate processing facilities. When that is not possible, sampling and analysis are a good alternative. Trade fairs are a great way to introduce new staff and share information more informally. Many clients are now contacting their suppliers more regularly on the phone to discuss matters.

The following first 6 steps focus on immediate actions that your cacao company can take in the short-term to ensure its survival in the present situation.

1. Keep your farmers and workers healthy

Health experts agree the best way to avoid getting infected is by social distancing and maintaining proper hygiene. Implementing this in your cacao business will reduce the risk of your farmers, workers, trainers and office staff getting sick. This would affect not only their health but also your company's productivity and its ability to meet your buyers' expectations and legal obligations.

Tips:

Implement social distancing protocols, especially where crowding may occur. For example, during the delivery of wet cacao by farmers, or group work such as fermenting, drying, selection, bagging and warehousing.

Buy soap, masks and disinfectants and support access to clean drinking water. Also, provide

information and tips about hygiene.

Think of ways to support farmers with home education if schools are closed.

See if your clients have digital applications to help monitor the spread. For example, [Cargill is using its digital farming tool to reach farmers and communities and raise local awareness of COVID-19](#). This app is normally used for farm mapping, cooperative management systems and traceability.

If you are Fairtrade certified, contact the Fairtrade Labelling Organisation (FLO) to see if you qualify for funding from their [Fairtrade Producer Relief Fund](#) for the immediate needs of farmers, workers and their communities.

2. Increase your quality control

Cacao shipments may be delayed as a result of slower cacao evacuation, port logistics or delayed contracts from buyers and/or their clients. This may cause cacao to deteriorate either at your warehouse, in transit or in your client's facilities. Optimally warehouse the cacao and stuff your containers to prevent losing all the work you have put into the quality.

Tips:

Keep your cacao in the best state while warehoused for a longer time.

If needed, invest in good ventilation for your warehouse.

Keep cacao pallets at a distance from the walls, and look into proper insect management.

Reduce moisture to 7% at most.

Use double corrugated cardboard lining and appropriate desiccants, dry bags.

3. Start working on long-term contracts

Establishing a long-term contract has to be done cautiously, price-wise, see Step 11 below, but it will secure your operations more efficiently. If you only buy from farmers based on incidental, outright priced contracts, you run the risk that during a crisis like this, those contracts will not be coming in. If you do not have enough activity, you will not be able to cover your running costs or the investments you have made in the processing infrastructure, warehouses, and so on.

Tips:

Implement frame contracts per season that you, as an exporter, can help secure throughout a season.

You can also look into cross-season contracts, but this will depend on the length of your relationship. This type of contract may not be a good idea if your quality is improving, and you are expecting a higher price in the future because of that.

4. Make sure you have sufficient working capital

Buyers may be slower in making payments, shipping, or even sending you the contract for the cacao you have bought from farmers. Also, their inventory, surplus, is growing. This puts pressure on their working capital. Making sure you have enough credit lines in place will thus be important. Working capital will become increasingly scarcer if there is a continued recession in Europe/the world, so the sooner you act, the better.

Tips:

Contact local banks to secure existing or new lines of credit.

Contact international social lenders to provide trade finance. Social lenders, such as Alterfin, Root Capital and Shared Interest, will be able to do pre-selections now. If you qualify, they will conduct due diligence on-site as soon as airports open. Find out if there are social lenders in your country that can visit you already.

Make sure you meet the requirements for social lenders. Get your financial statements audited and update your CSR, business and export marketing plans.

5. Improve your marketing

The current lockdown situation allows you to update your marketing tools and reach out to current and new clients. This could compensate for postponed trade fair participation. It could also mean you establish an attractive presence with importers, who are currently spending more time on their computers.

This may also be the time to construct a cacao lab, where you can evaluate your product properly. Samples are a great way of showing the quality you can offer. Send many samples to new clients to increase your network of potential buyers. Patience and perseverance are required. If you keep sending new samples to stay in contact with the buyer, sooner or later they may order a container.

Tips:

Update your website and social media platforms. Inform the world about what is going on at your company and show farmers' activities.

Keep records of quality from past seasons to show your production track record to clients and potential clients.

Improve your sample presentation. A good sample is packed in a neatly sealed plastic bag. It is preferably vacuum-packed, with a neatly applied label which has easy to read ink and high-resolution company logo. The label should include at least the following information: type of cacao; the process of fermentation and drying; origin, such as farm, province, country; altitude & climatic conditions; harvesting time; certification, if any; volume available and when and contact information. Send samples with a courier. This is relatively expensive, so budget for these necessary marketing costs.

Contact buyers and potential buyers by email or call them to introduce yourself and ask if they have an interest in cupping your sample. Simply ask their feedback, do not pressure them to buy your cacao. Then, follow up with the buyer about their feedback. Take note of possible improvements you can make and do the above steps again.

Know the food safety of your product. Have your products evaluated regularly at a European Union-accredited lab for mycotoxins, pathogens, like salmonella, moulds, plate count and minimum residue/cadmium levels. Also, know the sensory quality of your product. Have your products evaluated

regularly in a flavour lab, for example, cacao liquor tasting. Or work on establishing your own cacao lab, where you do proper cut-tests, and can convert cacao to liquor and/or chocolate for sensory evaluation.

6. Be even more client-oriented

Try to understand what your client is going through, so you can anticipate their demands. Even if your buyer's request is to the opposite of your wishes, for example, on price or shipments, try to accommodate them as much as possible. They will appreciate you for this, solidifying your position as a valued supplier in the long term.

Tips:

Talk to your clients and check their websites to understand their situation. Be highly communicative and open, sharing problems as they arise.

Be price competitive and flexible when complying with various contract terms, delaying shipping, negotiating contracts and understanding the situation in European markets.

Be clear with the contractual terms, payment, and pricing needed, as well as any restrictions.

Help your client by shipping on time.

Reach out to buyers to have a conference call. Plan regular calls, for example, once a month, with current clients.

After these immediate actions, we now turn to the short- to medium-term actions you can take. Health experts are increasingly predicting that humanity will have to live with recurrences of the same, mutated or entirely new coronaviruses for the foreseeable future. This is despite vaccines and medicines such as virus inhibitors.

The first way to respond to this is on a personal level: increasing your immune system through a healthy lifestyle. Second, the governmental response will be important: investing in health care and helping companies economically to survive this new situation. Third, companies also have to take action. The following recommendations are sector-specific steps to prepare your company for doing business successfully after the worst of crisis is over.

7. Make sustainability an integral part of your company

Companies that invest in education, good agricultural practices, and responsible and accountable financial management are stronger during crises. The quality of your staff, the education level of your farmers and the financial reserves of your company will enable you to respond more effectively to unexpected situations.

If coronaviruses continue to be present in the years to come, you will have to stay alert at the production level. Social distancing towards clients, including limited or no trade fairs, will require you to have excellent marketing. For this, you need quality staff. You will need to have your finances in order, to make these investments or cope with economic losses.

Tips:

Invest in farmer training on issues such as health, productivity and food gardens. Empower your farmers: look for solutions together with your farmers. Listen to them to decide on what the most important activities are to benefit the company.

Stimulate climate-smart agriculture, including shade trees. For small-size farms, in particular, organic composting is recommended. Organic compost is a great way to reduce climate-change risks. It also increases quality and yield. Farmers can do this independently. Contact experts in your country to train them.

Establish a Child Labour and Monitoring System (CLMRS). According to the International Cocoa Initiative, [the COVID-19 crisis could lead to growth in child labour in cocoa-producing countries in West Africa](#). Invest in the education of your farmers' children in case school access remains limited due to social distancing.

Get extra certification. Make calculations to ensure you have enough production volume and clients to cover the investment needed for certification. If you are still working on clients, do preliminary audits to have certification on stand-by. This way, you can get a certification as soon as your buyers demand it.

Professionalise your way of working. Establish or strengthen your supervisory board to reduce the risk of corruption. Also, establish a professional inventory and financial data-systems to avoid mismanagement with paper- or Excel-based reporting. Set up a professional Client Relation Management (CRM) system to administrate and follow-up in an organised way.

8. Innovate - diversify your offer

Improving your quality will set you apart from the competition. This is particularly the case if you can supply your new products with consistent quality. If you only supply fine flavour cacao and you wish to increase volume, look into developing more mainstream cacao as an extra product. This can be a lower quality at a more reasonable price. This could be a wise move, as a continued recession worldwide could lead to more consumers moving to lower-end products.

Tips:

Develop new fermentation protocols, thus creating new flavour recipes for cacao that you can offer to your clients.

Improve your quality to reach sales channels that pay better and are interested in more direct/personal relationships with your producer group. Improving quality means giving your farmers all the [Good Agricultural Practices \(GAP\)](#) training possible. This includes the application of organic composting, as well as ensuring fermentation is followed strictly and drying facilities are appropriate.

Again, do not forget warehousing and logistics. These essential aspects of quality are often overlooked, see Step 2.

Get extra certification to increase sales options with clients and potential clients. Look for certification agencies that operate in your country, so there are fewer international travel restrictions.

If you are Fairtrade certified, contact FLO to see if you qualify for funding from their [Fairtrade Producer Relief Fund](#) for long-term initiatives for recovery.

9. Invest in taking control of more of the supply chain

The further you are involved in the supply chain as a group, and the more knowledge you have of your product and the market you want to sell it in, the greater the value you control and retain. By increasing the quantities on offer, you increase the possible competition on price.

Tips:

Know how to export. Get physically closer to the port. For example, establish an office for export, quality control, and so on.

Know your clients. Get connected to a chocolatier with a fine flavour profile or differentiated fermentation technique.

Know your market. When it is allowed again, invest in regular visits to international trade fairs to meet buyers face to face.

Explore the possibility of introducing digital recordings of chains of custody, so that there is non-paper traceability. Various cacao buyers already use apps, Olam has two. In Costa Rica, Nahua Chocolate uses blockchain to transparently record prices and volumes when buying from buyers that can be viewed by clients as well. This differentiates the company as one that works transparently and fairly. You can also use digital platforms for matchmaking, such as Beyco, currently for coffee, but soon to be for cacao.

10. Understand international market prices better

Understanding international market prices and how these prices are behaving can help you decide how to price at what moment. Smaller producer groups and exporters, in particular, are not very familiar with price mechanisms, such as how contracts are drafted. Contracts should reference the world market price at a future date plus a differential or premium. Understanding international pricing and hedging mechanisms will allow you to protect yourself and trade more volume than if you were to just trade cacao at outright prices.

Tips:

Study price mechanisms via online research, such as YouTube tutorials.

Talk to your colleagues or international support organisations to provide training.

Contact your international network of potential buyers. Many buyers are happy to explain the mechanisms behind the international prices and how you and your buyer can best benefit from them.

11. Diversify the income of your company and farmers

[The World Bank warns that COVID-19 will push Sub-Saharan Africa into recession](#), “increasing pressure on government budgets, and their spending on essential services and social protection. At a household level, farmer illness, higher food prices, lack of access to school feeding for children, and possible disruptions to the supply of fertilisers and pesticides will all place increasing pressure on farmer incomes.”

Diversification of your farm to create multiple streams of income or food sources reduces these risks.

Diversification into cash crops, as well as subsistence crops, is recommended.

Tips:

Grow other cash crops, such as nuts, fruits or peppers.

Look into mushroom cultivation and beekeeping.

Stimulate home gardens for farmer families' food security.

Make sure there are enough shade trees to deal with the expected increase in droughts and as anti-erosion measures.

Apply organic compost, which farmers can produce with household waste, decomposed by effective micro-organisms. Adding worms can provide even higher quality compost.

12. Improve your country's or region's marketing

Your country or region will be more likely to hold on to its buyers if it establishes online and trade fair visibility, works on common standard-setting and thus differentiates itself from its competitors.

Tips:

Approach your colleagues and your country's Business Support Organisations (BSOs) to present your country or region to the international cacao community in an attractive way.

Create a national quality standard, including a solid internal control system (ICS), to improve the international stature of your country.

Create an attractive national sector-wide logo, slogan and website, as well as social media tools.


Look into living income differentials, non-deforestation cacao or other ways of raising your national cacao sector's social and ecological Unique Selling Points (USPs).


For a good example of regional marketing, check out the branding and standard-setting of Central American cacao through their platform [CunaKAKAW](#) and the national branding of Ecuador's [Arriba Nacional](#).


This study has been carried out on behalf of CBI by [Jeroen Krufft of Amigos International Consultancy](#).

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