Business Case

ICEP – globally enterprising

ICEP was founded in 1996 as a non-political, non-denominational non-profit association headquartered in Vienna, Austria. ICEP is convinced that global development can only be sustained if people in developing countries are integrated into economic cycles and get the opportunity to build their own independent lives based on their own incomes. ICEP regards market dynamics as a key tool in the fight against poverty and believes that all people should benefit from globalisation.

ICEP works with people in developing countries as well as with the private sector in Europe: In developing countries ICEP advises partners on how to build sustainable structures that allow for an integration of poor people into economic cycles. In Europe ICEP informs and counsels businesses on how to put their global responsibility into practice and on how to include poor people from developing countries into their value chains. Furthermore, ICEP supports the development of economic frameworks that benefit poor people by researching the synergies between business and development and mainstreaming the positive effects that a stronger cooperation between businesses and the development cooperation actors have on the societies in emerging and developing countries.

CODESPA

Fundación Codespa is a non-profit-making organisation, which has no political or religious purposes and more than twenty years of experience in the field of international development cooperation. Codespa's mission is, based on the organisation's confidence with regard to the human potential to build a fairer world, to give opportunities to people so that they can, through their work, develop their abilities and play a leading role in their own development. Codespa administers more than 100 projects in 19 countries in Latin America, the Near East, Asia and Africa through nine international delegations. One of its strategic lines is promoting the involvement of the private sector in development as a means to find long-term solutions for poverty alleviation. The honorary chairman of Codespa is the Crown Prince of Spain.

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Carrefour: How to contribute to inclusive supply chains

June 18, 2003, was a sunny Monday in Madrid. Guillermo de Rueda, general manager of the Fundación Solidaridad de Carrefour (Fundación Solidaridad, hereafter), had just entered his office, when his assistant put through a telephone call. Javier Martín Cavanna, the director of Fundación Codespa (a Madrid-based NGO), was on the line and wanted to know whether de Rueda had read the letter he had sent two weeks earlier. In that letter, Cavanna had outlined Codepa's projects in Ecuador that helped to commercialise products from poor peasant farmers. He had also asked whether Fundación Solidaridad was interested in funding one of these projects.

De Rueda had been receiving similar enquiries every week – as word spread that Fundación Solidaridad had been established (in March 2001) by Centros Comerciales Carrefour S.A. (also known as Carrefour España), the Spanish subsidiary of the French retail giant Carrefour S.A. De Rueda had been appointed to lead Fundación Solidaridad after working as the institutional relations and communications manager for Carrefour.

The foundation was expected to bundle together the various social initiatives the company was implementing and to encourage activities that would effectively contribute to socio-economic development in the context of Carrefour España. De Rueda had to thereby thoroughly assess all incoming enquires, many of which he declined. But he thought this enquiry from Fundación Codespa sounded interesting. Why? As the second largest retail group in the world, Carrefour S.A. had supply chains which stretched around the globe. As institutional relations and communications manager, de Rueda had already expressed support for the inclusion of poor population groups from the developing world in these supply chains in order to spark their socio-economic development. Now, as director of the company's foundation, he could make these ideas come true. So instead of simply funding the activities of Fundación Codespa, he thought: Why not set up a pilot project aimed at including Ecuadorian farmers in Carrefour's supply chains?

"Yes, I read your letter. But I am not really interested in simply funding a project", said de Rueda in response to Cavanna's question. "However, I would like to assess a strategic partnership that may include funding. Why don't we go for lunch, so I can tell you what I mean?"

Company profile of Europe's largest retailer

At a glance

In 2006, the Carrefour group was the largest retailer in Europe and the second largest in the world, selling to 25 million customers per day. Its 12,547 stores (which were either directly operated by the group or under franchising agreements) were located in 29 countries spanning four main grocery store formats – hypermarkets, supermarkets, hard discount stores and convenience stores – as well as cash-and-carry and e-commerce.

Growing strongly while shoppers' behaviour becomes more complex

The history of Carrefour is probably best characterized by growth. On June 3, 1957, the Fournier and Defforey families opened the first Carrefour store in Annecy (France) near a "carrefour" (a crossroad). From this first outlet, the group grew into a chain. In the early 1960s, the Fourniers and Defforeys pioneered the idea of integrating supermarkets and department stores under the same roof, and opened the world's first so-called hypermarket in 1963 in Sainte-Geneviève-des-Bois near Paris, with 2,500 square meters floor area, 12 checkouts and 400 parking spaces.

Twelve years after it had been established, Carrefour began its internationalization by expanding into Belgium. Its strategy was based on building group market shares in each country by expanding the type of retailing best suited to the local market and by taking advantage of the way the group's formats complemented one another. Back home, Carrefour launched a highly popular private label line in 1976 (named *produits libres*) consisting of fifty foodstuffs, including oil, biscuits, milk and pasta. These were sold in unbranded white packages at substantially low prices. Company own-brand products were introduced in the mid-1980s, thus emphasising Carrefour's quest for in-store market shares. A series of acquisitions and takeovers in the 1990s culminated with Carrefour's 1999 friendly takeover of Promodès, the group's main competitor in France, thus creating Europe's largest food retailer.

According to Carrefour's 2006 annual report, the company, led by José Luis Duran, chairman of the management board, had revenues of EUR 77.90 billion. This made it Europe's top retailer, outranking the UK's market leader Tesco (EUR 53.72 billion revenues in 2006), and Germany's Metro (EUR 50.46 billion). Nevertheless, the world's largest retailer and company, Wal-Mart, was more than three times the size of Carrefour in terms of revenues in 2006 (USD 351.14 billion) and thus embodied a tremendously challenging industry benchmark.

In their 2004 survey *Deeper Customer Insight: Understanding today's complex shoppers*, Steve Ballou, Julian Chu and Gina Paglucia of the IBM Institute for Business Value stressed five mega-trends for 2010 that challenge retail businesses today:

Five mega-trends that challenged the retail business

- *Customer value drivers will fragment:* Substantial shifts in demographics, attitudes and patterns of behaviour will make customers trade up to premium brands and simultaneously trade down to low-cost providers.
- Gatekeepers will become more guarded: Empowered by new technology and regulation, customers will protect their identities and personal data more aggressively from me-too marketing tactics.

Carrefour: the largest retailer in Europe and the second largest retailer worldwide

- Information will continue to expose everything: Customer choices are and will be shaped through unparalleled access to information – virtually wherever, whenever and however they want it.
- Mega-retailers will continue to break boundaries: The world's top retailers will continue to expand across geographies, retailing formats and product and service categories, blurring market segments and devouring market shares.
- Partnering will become pervasive: Leading companies will continue to create so-called value networks based on strong integration and collaboration with partners (such as manufacturers, suppliers and sub-suppliers). Competitors will be challenged to match the responsiveness and agility of these connected market leaders.

These mega-trends, the authors predicted, will drive the retail industry into a world of extremes – in which customer diversity and individualism are omnipresent and traditional segmentation is rendered inadequate. In the near future, "customers will demand low prices for basic goods, but pay premiums for products that matter more to them personally." The consequence is that "those best positioned to grow and succeed will be huge mega-retailers on one end of the spectrum and targeted retailers on the other, while undifferentiated companies, lost in the middle, risk fading into irrelevance."

Europe's number one retailer in detail

In 2006, Carrefour's 456,295 employees generated revenues of EUR 77.90 billion, EBIT of EUR 3.26 billion and EBITDA of EUR 4.84 billion. Between 2003 and 2008, the group's stock had the following notable highs and lows: It opened at EUR 37.36 on February 3, 2003, dropped to a low of EUR 29.20 on March 12, 2003, and then climbed to reach EUR 55.94 on March 23, 2007. On January 31, 2008, Carrefour's stock closed at EUR 47.01.

On December 31, 2006, shareholders' equity amounted to EUR 10.50 billion and market capitalisation stood at EUR 32.4 billion. EPS were EUR 2.64. A dividend of EUR 1.03 per share was paid out to shareholders.

Ownership of Carrefour S.A. in percent of total stock, Dec. 31, 2006					
Halley family group	13.5				
Employee shareholdings	1.2	Free Float	85.3		

In 2006, the industry's peer was Wal-Mart, showing revenues of USD 344.99 billion, EBIT of USD 11.28 billion, EBITDA of USD 12.17 billion and 1.9 million employees. The US-based company's EPS stood at USD 2.92 in 2006 – meaning that Carrefour's stock was able to outperform Wal-Mart's stock that year.¹

In 2006, Carrefour's 1,040 hypermarkets worldwide contributed to 58.7 percent of the group's sales. The 2,425 supermarkets generated 23.8 percent of sales, followed by the 5,798 hard discount stores (9.5 percent), and the 3,130 convenience stores and 154 cash-and-carries (whose joint sales equalled 8 percent of the group's sales). In terms of breakdown of sales by geographic region, the company's base country

Experts said that retail industry will face a world of extremes

In 2006, Carrefour's 456,295 employees generated revenues of EUR 77.90 billion France represented 47 percent. The rest of Europe (excluding France but including Algeria, Egypt and Saudi Arabia) had 39.8 percent. This was followed by the Americas with 7.3 percent and Asia with 5.8 percent.

Carrefour España: The nation's leader in the grocery retail business

Back in 1973, Carrefour entered the Spanish market by opening the country's first hypermarket in Barcelona. By the end of 2006, Carrefour had a total of 154 hypermarkets in Spain (with sales reaching EUR 9.01 billion that year). Only in France did Carrefour have more hypermarkets (namely 218 with sales totalling EUR 22.27 billion). The regional importance of the Southern European countries within the multinational group was also noticeable when looking at the amount of that year's total sales per country: France was ranked number one (with a total of EUR 41.67 billion), followed by Spain where Carrefour was able to sell goods valuing EUR 13.64 billion.

With its 67,903 employees working in 2,963 stores, Carrefour España was the ninth biggest employer in Spain in 2006 (the eighth biggest being Grupo Ferrovial with 88,902 staff members) and the nation's market leader in the grocery retail business. On average, almost one million customers shopped in one of Carrefour España's stores per day that year.

CSR at Carrefour

According to its 2006 CSR report, CSR at Carrefour primarily meant day-today commitments that were integral parts of their day-to-day business, namely: promoting economic and commercial progress for customers, partners, suppliers and shareholders; promoting social progress – especially for employees, but also for society – by being a committed corporate citizen; and, finally, promoting environmental progress. The various daily activities which manifested these commitments were a "chain of responsibility", as one could read in the aforementioned CSR report, a chain that stretched from "the producer to the customer".

In addition to these efforts, Carrefour decided to implement a large number of activities in 2006 that were meant to be responses to the following six issues, which were of particular interest to the company: nutrition; so-called *responsible products*; the promotion of diversity within the company; socially responsible manufacturing; climate change and the reduction of the environmental impact of the group's stores.

Of these, the group's response to the issue of *responsible products* was a good illustration of how one of the mega-trends identified by IBM's Institute for Business Value – that partnering will become pervasive – had actually become a trend: In 1992, Carrefour launched the first so-called *Quality Lines* for fresh food products (meat, vegetables, cheese, etc.), thus initiating a new type of partnership between retailers and farmers in France. By 2006, Carrefour already had 367 Quality Lines – meaning lasting partnerships all along the value chain – that spanned all over the world. They helped guarantee that products met certain levels of quality and also gave consumers the possibility to re-trace the origin of, for example, half a pound of beef.

To Carrefour, responding to the issue of *responsible products* was the next logical step after having established Quality Lines. Throughout 2006, the group not only increased partnerships all along the value chain to ensure product quality, but also

Carrefour came to Spain in 1973 and was the nation's leading grocery retailer in 2006

> Carrefour focused on six major CSR issues

Responsible products were an important aspect within the company's CSR strategy started to develop social initiatives meant to empower business partners in some of the Quality Lines.

Foundations to promote socio-economic development

In July 2000, Carrefour created the Fondation Internationale Carrefour, which was set up to focus the group's efforts in the areas of humanitarian aid and the fight against social exclusion. In March 2001, Carrefour España established Fundación Solidaridad. Although the Spanish foundation was aligned with the guidelines brought forward by the group's international foundation – especially those regarding quality and environmental issues – it had the autonomy to design its own activities. These revolved around the following guiding principles. The foundation wanted

- to enhance the socio-economic development in the company's social context;
- to increase the quality of people's lives and protect the environment;
- to promote a change of attitude and values so that commitment to society would grow in general.

Fundación Solidaridad was meant to be an integral part of Carrefour's business structure, a channel through which Carrefour España served society with its assets (such as capital, employees, know-how, infrastructure or relationships). Programmes and activities were supposed to be implemented in collaboration with company employees and were to be supported by products and services inherent to the company's business activities. By doing so, the foundation encouraged company identification among employees, and enhanced their social awareness.

De Rueda saw that companies were generally increasing the amount of importance they gave to social problems. This was a natural response, he often said, to the interests and demands of consumers, investors and employees. Was this trend only of temporary importance? "No", thought de Rueda. He believed that the market economy was evolving in this direction – which implied that corporate commitment towards society was not about image generation or marketing, but about long-term competitiveness.

Collaboration between companies and NGOs allowed the former to resolve the lack of knowledge and expertise in this new field of action. These partnerships, de Rueda acknowledged, impelled by the international wave of CSR, were increasingly seen as integral parts of business – rather than only as charitable activities conducted outside of the realm of a company's business activities.

Corporations perceived collaborations between NGOs and companies as part of business

Carrefour's inclusive supply chains

For a number of years, de Rueda's thoughts had been circling around the idea of integrating poor producers in the developing world into Carrefour's supply chains. When he thought of the possible effects of these inclusive supply chains, he pictured content farmers as well as happy families in remote rural areas of the developing world who would not even think of moving into slum-like suburbs due to the enhanced quality of life based on the fruit of their work. To de Rueda, commerce – locally,

Commerce was perceived to be key to social marginalisation regionally, across national borders and global cultures – was the key to alleviating social marginalisation and to making that vision come true. Why?

As soon as people living in relative poverty were enabled to engage in value chains as real business-partners, not only would they be able to transcend their deprived context, but their self-esteem and the perception of their very own dignity would start to grow as their intrinsic capabilities would unfold due to their daily work.

But would it not be sufficient for Fundación Solidaridad to simply fund commercialisation projects that NGOs were already implementing? "No", was de Rueda's answer. There was too much potential lurking within MNCs like Carrefour. If poor producers in the developing world had the capacity to supply products at Carrefour's quality levels (and only a few did at the time), they could substantially widen their access to markets. A company like Carrefour, de Rueda often said, is part of the solution for poor producers in the developing world.

Social Value Networks: Important to customers

Carrefour's aforementioned "chain of responsibility from the producer to the customer" was a praiseworthy, ethical, day-to-day commitment. But it was also a strategic advantage – if one agrees with the aforementioned findings of IBM's Institute for Business Value. Those companies that built up their *value networks* (meaning strong partnerships all along their supply chains) would have a competitive edge, according to the authors of the survey. Why? Because the traceability and the origin of products are of great importance to today's and – even moreso – to tomorrow's customers. By effectively constructing inclusive supply chains (via the foundation) and thus including relatively poor population groups, the company would not only empower producers in the developing world, but also magnify Carrefour España's value network. And that would have an enormously positive impact on customers, many of whom were increasingly sensitive to the private sector's social impact, as well as to where and how the products in their trolleys were made and shipped.

Turning small farmers in Ecuador into Carrefour suppliers

On July 2, 2003, about two weeks after their first telephone conversation, de Rueda, Cavanna and María Jesús Pérez, innovation and studies director of Codespa and the person in charge for the design of development projects in alliance with the private sector, met for lunch. They had a very open discussion on how business can contribute to development in emerging countries. The chemistry seemed to work: All three acknowledged the private sector's enormous potential. But it was equally clear to them that companies could only leverage development effectively, and over a longer period of time, if community oriented activities implied real business opportunities. To de Rueda, who wanted to turn poor Ecuadorian producers into Carrefour suppliers, that meant two things:

- One had to find Ecuadorian producers who were willing (and able) to adapt their products and services to Carrefour's standards of quality.
- One had to ensure large-scale demand for Ecuadorian products in Spain.

Real business opportunities perceived as motor of socioeconomic development Was that possible? De Rueda was interested in hearing the opinion of Codespa and asked Cavanna to present a concept to Fundación Solidaridad's board in mid-September. This job was delegated to Pérez.

On September 17, Pérez and her team presented a concept she called *Comercio Solidario* (Commerce in Solidarity) to de Rueda as well as to Carrefour's merchandising director, Ignacio González.

Economic crisis in Ecuador: The framework of an unfolding project

The presentation started with basic facts about Ecuador: In 1999, Ecuador's oil-driven economy witnessed a severe economic and financial crisis. The country, one of the world's biggest exporters of bananas and shrimps, had been struck by a number of external shocks – such as the El Niño weather phenomenon in 1997 (which had a negative impact on the fishing industry), a sharp drop in global oil prices in 1997 and 1998 (which recovered by 2002, allowing the country's oil exports to account for about one-third of public sector revenue and 40 percent of export earnings; see *Exhibit 1* for more details on Ecuador's exports), the general instability of emerging markets worldwide. These external factors went alongside with the federal government's unstable economic policy mix of large fiscal deficits and expansionary monetary policy. The overall result was a 7.3 percent contraction of the GDP, an annual year-on-year inflation rate of 52.2 percent and, in 1999, a 65 percent devaluation of the national currency.

Buoyed by high oil prices, the Ecuadorian economy experienced a modest recovery in 2000. Its GDP rose by 1.9 percent that year but in 2001, it was estimated that about 70 percent of Ecuadorians were still living below the poverty line, more than double the 1995 rate. One of the main consequences of this was that about two million Ecuadorians – from a total of about 12.2 million – left the countryside (and later the country) in search of better economic opportunities. These were mainly peasants whose scarce economic resources and difficult access to markets forced them to desert their villages and move to the cities – only to then move on to other countries. By the turn of the century, about 400,000 Ecuadorians were formally registered in Spain, not to mention the number of those not registered. This meant that although it was obviously necessary to thoroughly assess the market's demand for Ecuadorian products, the numerous Ecuadorians living in Spain very likely *were* that market.

Enormous capacity within NGOs in Ecuador

Pérez then continued by broaching the issue of the project's supply: In general, she said, farmers in Ecuador struggled with a limited negotiation capacity and little access to market information (such as prices and price fluctuations). They especially struggled with limited market access. Codespa's partner NGOs in Ecuador, Camari and Fundación Maquita Cushunchic Comercializando Como Hermanos MCCH were experts in helping farmers to overcome these pressing problems.

MCCH, Pérez pointed out, was established in 1985 and had one goal: to market the products of small peasant farmers. Based on 2001's numbers, she projected that the organisation would have 175 sub-organisations by 2005, which were believed to benefit about 6,000 people in 14 of the country's provinces. As early as 2006, she said, MCCH's sales would reach more than USD 17 million (cacao sales would account for about USD 14 million), of which around 85 percent will be exported to Europe. Generally, farmers struggled with limited negotiation capacity and market access

Matching supply and demand was an important aspect of the project Two NGOs in Ecuador with the joint aim to market the products of peasant farmers

Carrefour employees could volunteer to help NGOs improve quality of products Camari, Pérez continued, was established in 1981. It was a member-organisation of the Fondo Ecuatoriano Populorum Progressio (FEPP - the Ecuadorian Fund for the Development of People), which was a private social institution funded by Ecuador's Roman Catholic Episcopal Conference, and mainly aimed at supporting small-peasant producers with credit, instructional courses and technical assistance. Pérez pointed out that FEPP was the biggest NGO in the country with more than 70,000 families (or 400,000 people) as beneficiaries, while Camari was the organisation within FEPP that focused on helping poor peasant farmers access markets. In terms of numbers, she said, Camari would manage an estimated 1,500 different products by 2006 and have annual sales of about USD 2,420,000, of which circa 76 percent would be sold within Ecuador and 24 percent outside of the country.

After Pérez had conveyed these facts and projections, she explained the working methods of both Camari and MCCH: Both NGOs had a clear social mission to act as an intermediary between farmers and markets, and worked in similar ways. Both organizations encouraged farmers to group their efforts and create small associations. These were able to reach bigger volumes and receive advanced payments, since individual peasant farmers could not absorb the costs of distributors' deferment payments. Once the farmers set up their associations, Pérez explained, they jointly sold their products to Camari or MCCH, who then either retailed them directly to end-consumers in their own stores or to bigger national retailers, as well as to Fair Trade organisations in the US and Europe (see *Exhibit 2* for an illustration of the commercialization process). Codespa's role within the partnership, she said, was to build an international network and to open new distribution channels. "This is why we are here today", Pérez said. "For although Fair Trade has always been a reliable distribution channel", she continued, "Camari and MCCH know that it is limited in terms of volume, and they are open testing on new grounds to see if that benefits the farmers they represent." Finishing her presentation, Pérez bullet-pointed a way forward: The first step of a possible joint project was a thorough assessment of demand for Ecuadorian products in Spain. If demand is present, she continued, then Camari and MCCH products would have to match Carrefour's quality standards. How could that be made possible?

She proposed a volunteer program she called *Professionales para el Desarrollo* (professionals for development). Its basic idea? During their summer holidays, Carrefour employees could volunteer to help Camari and MCCH improve the quality of their products.

In the meantime, Pérez suggested that while demand was being assessed, de Rueda and a few other staff members could accompany her to Ecuador to jointly analyse the workflow and production quality of MCCH and Camari, in order to see how and where Carrefour employees were most likely to leverage quality standards.

The set-up of Comercio Solidario

At the end of the presentation, de Rueda and González thanked the Codespa representatives and promised to get back to them within a month. They felt they had just heard an in-depth analysis of the situation in Ecuador and were stunned by the capacity that seemed to lie within Camari and MCCH. At the same time, however, they knew they first had to contact Codespa's partner NGOs in Ecuador prior to assessing

Would NGOs partner with a company the size of Carrefour? market demand in Spain. Camari and MCCH had experience in cooperation with European NGOs – but would they also partner with an MNC the size of Carrefour?

By mid-October, de Rueda told Pérez that Fundación Solidaridad was interested in setting up a strategic partnership with Codespa, but that he first wanted to meet with the representatives of Camari and MCCH in Ecuador. Not only did he want to jointly assess their workflow and the quality of their products, but he also wanted to understand first hand, whether they were actually willing to cooperate with Carrefour.

In January 2004, de Rueda accompanied Pérez to Ecuador and met María José Gil, Codespa's delegate in the region, as well as the representatives of MCCH and Camari. Both MCCH and Camari were delighted to take on the challenge of acting as a Carrefour España supplier, even though this would imply a number of changes with regard to packing and design, as well as to logistics and planning. Codespa was willing to coordinate the entire project and act as an intermediary between the Ecuadorian NGOs on one side, and Carrefour España and its foundation on the other. Codespa also confirmed the coordination of the volunteering program within Carrefour, once Codespa analysed how to improve workflow procedures and the quality of production given Camari's and MCCH's aforementioned shortcomings. Things seemed to fit together.

Back in Madrid, de Rueda discussed the project's objectives and outlined the way forward with the foundation's board. Comercio Solidario was aimed at

- commercialising products produced by MCCH and Camari that were to be sold via Carrefour in Spain at a competitive price;
- developing managerial skills within MCCH and Camari to increase their competitiveness;
- matching supply in Ecuador to demand in Spain;
- the project's replicability.

Way forward

The way forward to achieving these objectives, as defined by the board, was:

Step one entailed demand assessment. Fundación Solidaridad wanted to pay the expenses of the market demand assessment. If demand was present, Fundación Solidaridad was willing to initiate and fund Comercio Solidario.

Codespa was responsible for the project's second step, which involved analysing how to leverage production standards and build capacities within MCCH and Camari. Once this had been made clear, Codespa was to set up and coordinate a volunteer program for Carrefour employees who were interested in spending their summer holidays working as volunteers, working on and addressing the identified needs of MCCH and Camari. Apart from that, Codespa had to develop a monitoring system that allowed the retracing of noticeable quality increases and socio-economic impact quickly.

The project's third step focused on commercialisation, pricing and marketing. The products were meant to be shipped to Spain by Carrefour's usual contractors. The question which remained was: Which store format was Carrefour España going to use to distribute the products to end-consumers and at what price? Who was going to pay Could the guiding principles of Comercio Solidario become mainstream within Carrefour?

Steps to implement Comercio Solidario were defined for in-store marketing and shelf allocation? These questions were to be discussed and resolved by Fundación Solidaridad and Carrefour España.

Finally, the fourth step: If a reasonable sum of Ecuadorian products actually made it into the trolleys of Carrefour customers, Fundación Solidaridad would have to consider how to confer Comercio Solidario's guiding principles into the mainstream thinking within Carrefour.

Assessing demand in Spain and raising quality standards in Ecuador

In June 2004, Fundación Solidaridad and Codespa assessed the demand for Ecuadorian foods in collaboration with Accenture, one of the world's largest consulting firms. The results indicated that the immigrant population in Spain was increasing by an average of 34 percent per year, with one million Latin Americans as the predominant group (about 40 per cent of which were Ecuadorians). Their consumption habits? Most Latin Americans were considered to be so-called *nostalgic clients* – consumers who were willing to buy products from their home country. Due to predominantly low incomes, affordable prices were an important factor in the buying decision process.

Apart from Ecuadorians, a growing number of socially aware and eco-conscious Spaniards were also identified as potential customers. They were willing to pay higher prices for *responsible products*, as Carrefour's CSR report mentioned two years later in 2006.

Based on these numbers, Codespa and the foundation projected an initial annual consumption of 100,000 kg, or EUR 200,000 in yearly sales, for Camari and MCCH. Eleven Ecuadorian products were selected that seemed most suitable for the Spanish market: arroz de cebada (barley rice), avena (oats), frijol rojo (red kidney beans), frijol negro (black beans), maíz amarillo (yellow corn), maíz chulpi (yellow corn prepared for toasting), pinol (sugared and toasted corn), maíz mote (dried corn), panela grano fino bio (caramel based on bio sugar cane), quinoa (seeds of the chenopodium plant) and setas deshidratadas (dehydrated mushrooms).

"Fondo de Provedores Sociales" and a volunteering programme

Codespa's next step was to help Camari and MCCH supply products at Carrefour's quality level. De Rueda and Pérez had already assessed the areas where help was needed. These were: packaging and design, as well as logistics and planning. In order to align packaging to Carrefour's standards, as well as to set up a monitoring system, Codespa proposed a EUR 60,000 investment, which was granted by Fundación Solidaridad as the foundation's Fondo de Proveedores Sociales (Fund for Social Suppliers).

Between 2004 and 2006, a total of 24 employee volunteers – especially from the areas of logistics and planning – spent their summer holidays in Ecuador, in order to help rationalise Camari and MCCH's production sequences. The costs of that program, which were paid for by Carrefour España, stood at EUR 30,000 per year. Carrefour España's volunteering programme was highly acknowledged. Santiago Gómez, responsible for MCCH's sales, said: "The support of the volunteers was very valuable as they brought us new techniques and ideas with a lot of interest and enthusiasm."

Choosing distribution channels and selling the products

Carrefour España and Fundación Solidaridad decided to sell the Comercio Solidario products in 50 of the country's 154 hypermarkets. In-store market research had

Ecuadorian NGOs needed help with packaging, design, logistics and planning shown that Ecuadorians frequented this store format more than others, as they appreciated the broadly spread variety of products for sale under one single roof. The Ecuadorian products were to be sold as *Quality Lines* products because consumers already associated Quality Lines to products from around the world.

Carrefour España agreed to increase the products' competitiveness by temporarily absorbing the in-store marketing and shelf allocation expenses, until products reached an adequate level of competitiveness.

After planning, assessing and setting up the project ever since June 2003, the first load of the eleven Comercio Solidario products (valued at USD 61,000) finally arrived in Spain in spring 2006 and were put on the shelves of fifty hypermarkets.

New perspectives for all partners

As of 2006, sales increased the incomes of almost 2,000 peasant families in Ecuador. By October 2007, Carrefour sold EUR 146,000 of Comercio Solidario products and demand was increasing noticeably. Projections in Spain suggested that total sales for Camari and MCCH together would add up to USD 300,000 within the next few years (representing 27 percent of Camari's exports and 28 percent of those of MCCH). Subsequent yearly sales increases of 15 to 25 percent appeared to be possible. A longterm, win-win situation seemed to be surfacing which was especially encouraging for the MCCH and Camari farmers involved in the project. They had seen that the project was able to widen perspectives by unlocking a new distribution channel. Now that farmers felt more competitive through what they had learned during the project, they were full of realistic hope that sales would continue to increase.

Comercio Solidario positively affected Carrefour España as well. The 24 employee volunteers did not only contribute to the success of the project, but also experienced greater motivation to work for the company. This was recognised by staff in Spain and implicitly contributed to the emergence of social commitment as an essential aspect of corporate culture. In terms of external communication, the company was able to link its image with the support it was giving to poor producers in Latin America, while offering new quality products to clients in Europe.

To Fundación Codespa, Comercio Solidario highlighted the private sector's contribution to poverty alleviation. It was clear that public and non-governmental actors would not be able reach the Millennium Development Goals MDGs if they did not strategically engage socially committed companies. Apart from that, the Spanish NGO hoped to have witnessed the beginning of a long-term strategic alliance that would help to expand its network in the private sector.

Scaling up and replicating Comercio Solidario

By late 2007, de Rueda and Pérez were impressed by what had happened since 2003. Turning poor producers into Carrefour suppliers proved to be entirely possible. Now the inherent question was: What's next? During numerous brainstorming sessions, de Rueda and Pérez considered how to scale up the project. They understood that it would be important to continue to improve quality standards in Ecuador as the European market was very demanding. As quantities were expected to grow while prices for agricultural products remained volatile, they knew that MCCH and Camari, as well Comercio Solidario products were to be sold in 154 hypermarkets in Spain

A long term win-win situation seemed to be surfacing

The project's scalability and replicability was at the centre of concerns as Carrefour España, would have to come up with larger investments in order to buy large quantities as long as prices were low. Payment periods thus became critical. They also wanted to diversify Comercio Solidario's range by commercialising other products – such as cacao, fruit and handicraft products. But would these products sell as well?

Apart from its scalability, the project's replicability was at the centre of Pérez's and de Rueda's concerns as they tried to develop a long-term strategy for Carrefour. In doing so, they contributed to the emergence of the group's worldwide efforts to establish inclusive supply chains as a response to the issue of responsible products – a prominent topic that had become group-wide mainstream, as one could see in the Carrefour's 2006 CSR report.

Looking back, Pérez and de Rueda were content with Comercio Solidario. They knew they had contributed to the evolution of Carrefour's business model and to the socio-economic development of the poor.

Note

¹ Given an exchange rate of 1.4810 (on February, 4, 2008) EUR 2.64 equals USD 3.91, meaning that Wal-Marts EPS rate would have had to reach USD 3.91 in order to compete with Carrefour's EPS rate in 2006.

Exhibits

Exhibit 1: Trade statistics of Ecuador

TRADE (USD millions)	1984	1994	2003	2004
Total exports (fob)	2,622	3,843	6,038	7,655
Oil	1,835	1,185	2,372	3,899
Bananas	136	708	1,099	1,023
Manufactures		684	1,584	1,658
Total imports (cif)	1,529	3,622	6,534	7,861
Food				
Fuel and energy	63	104	664	785
Capital goods	555	1,390	1,789	2,054
Export price index (2000 $=$ 100)	101	75	105	118
Import price index (2000 =100)	135	113	99	103
Terms of trade (2000 =100)	75	67	107	115

Source: World Bank

Exhibit 2: Illustration of the commercialisation process set up by MCCH and Camari



Credits

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Teaching Note: Carrefour

Guillermo de Rueda, general director of Fundación Solidaridad de Carrefour (Fundación Solidaridad, hereafter), the foundation of Carrefour España (the Spanish subsidiary of the France-based retail giant Carrefour), is presented in *Carrefour: How to contribute to inclusive supply chains*. The case retraces how Fundación Solildaridad managed to effectively include poor peasant farmers from Ecuador within Carrefour España's supply chains between 2001 and 2007. Instead of arbitrarily funding various NGO projects aimed at commercialising agricultural products, de Rueda strategically cooperated with specific NGOs to set up an innovative joint project called Comercio Solidario: Its objective was to increase the socio-economic development of poor peasant farmers by turning them into Carrefour suppliers.

How did de Rueda and his partners proceed? They assessed demand for Ecuadorian products in Spain and increased the quality of eleven to-be-sold products (rice, corn and oat, among others) to Carrefour quality levels. The first load of goods (valued USD 61,000) arrived in Spain in Spring 2006 after market research had shown that sufficient demand existed, and after Carrefour España employees had volunteered to help optimise production procedures and lift the quality of product packing and design. The goods' competitiveness was increased as Carrefour España assumed both in-store marketing and shelve allocation expenses, so that products reached an adequate level of competitiveness.

Did consumers actually buy the products? By autumn 2007, Carrefour had sold Comercio Solidario goods valuing EUR 146,000 and demand was noticeably increasing.

Tapping consumer markets in the developed world is a way for relatively poor producers in developing countries to surmount poverty. The problem is that these markets are nearly impossible for them to access. Why? One reason is that 70 percent of all the newly marketed fast moving consumer goods never find their way to the trolley, at least according to a 2006-survey conducted jointly by Germany's Markenverband (the country's brand association), the Gesellschaft für Konsumforschung (GfK – the national consumption research society) and Serviceplan, an advertising agency. For companies like Henkel or Unilever, this high quota of new product fall-outs (which is likely to slightly differ from country to country within the developed world) is part of daily business – for producers in the developing world, it is a question of survival as they can't afford to supply goods via method of trial and error. Is the Fair Trade movement the only sensible answer to this deadlock?

Carrefour: How to contribute to inclusive supply chains suggests that there is another way to exit the described dilemma. Provided that demand for products from developing countries exists, retailers can contribute to the socio-economic development of poor producers, if they are willing to invest in the quality and the marketing of these products.

But why should they? Because retailers can do well by doing good, as the case suggests. Not only did Commercio Solidario increase the incomes of 2,000 peasant families in Ecuador as of 2006, but by 2007 demand for Commercio Solidario products was growing noticeably in Spain. One reason for this success could be that these

products were truly new and market focused, instead of being simply copies of already existing products – one of the main reasons for innovation flops in marketing according to the aforementioned survey. \blacklozenge