

Pan-American Agricultural School, Zamorano

Agribusiness Department

Agribusiness Engineering



Special Graduation Project

Case Study: Catracha Coffee, a Replicable Business Model?

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Abstract

The emergence of income- generating activities for nonprofit organizations has created a new approach to the operating business model concept. This approach entails the combination of characteristics and values that focus on the bottom line of making a business model income-generating, while still integrating the three pillars of sustainability within its core.

The purpose of this document is to create a case study as a teaching tool of the Department of Agribusiness Administration of Zamorano and for other business schools in the region, in the discipline of social enterprise. A case study is based on real-life management issues. The intention is to put the learner in the shoes of the decision maker by placing them in the chronological context of the business so that learner may make a judgment based on the facts it has and the uncertainties that exist within the business. The present case study was created based on the analysis of a business model operating in Santa Elena, La Paz dedicated to the international commercialization of specialty coffee with focus on community development and sustainability.

It was developed based on a mixed analysis of quantitative and qualitative data of the business model to have a better understanding of the operations of this business model, and thus be able to make a deductive inference of what are the advantages and limitations of operating a similar business model. On the other hand, this analysis has the purpose of demonstrating with the collected data whether the business model is replicable or not through the writing of the case study along with its teaching note.

Keywords: Coffee, sustainability, social enterprise, social impact, community outreach, business model, market price, quality.

Resumen

La aparición de actividades generadoras de ingresos para organizaciones sin fines de lucro ha creado un nuevo enfoque para el concepto de modelo de negocio operativo. Este enfoque implica la combinación de características y valores que se centran en el resultado final de hacer que un modelo de negocio genere ingresos, al tiempo que integra los tres pilares de la sostenibilidad dentro de su núcleo.

El propósito de este documento es crear un estudio de caso para el uso de una herramienta de enseñanza para los estudiantes del Departamento de Administración de Agronegocios de Zamorano y para otras escuelas de negocios de la región, en la disciplina de la empresa social. Un estudio de caso se basa en cuestiones de gestión de la vida real, poniendo al usuario en los zapatos del tomador de decisiones y colocándolo en el contexto cronológico de la situación para que a su vez pueda hacer un juicio basado en los hechos que tiene accesibles y con base a las incertidumbres que existen en los negocios. El presente estudio de caso fue creado a partir del análisis de un modelo de negocio que opera en Santa Elena, La Paz, dedicado a la comercialización internacional de café de especialidad con enfoque en el desarrollo comunitario y la sostenibilidad.

Se desarrolló a partir de un análisis mixto de datos cuantitativos y cualitativos del modelo de negocio con el fin de tener una mejor comprensión de las operaciones de este modelo de negocio y así poder hacer una inferencia deductiva de cuáles son las ventajas y limitaciones de operar un modelo de negocio similar. Por otro lado, este análisis tiene la finalidad de demostrar con los datos recogidos si el modelo de negocio es replicable o no, a través de la redacción del estudio de caso junto con su nota de enseñanza.

Palabras clave: Café, sostenibilidad, emprendimiento social, impacto social, alcance comunitario, modelo de negocio, precio de mercado, calidad.

Introduction

The economic and social development of rural communities can be attributed to the input of organizations and business models dedicated to the development of programs that can create a sustainable approach to improving livelihoods through income generating activities. Small and medium-sized businesses (SMEs) are crucial to a country's wealth production, job creation, and economic growth. Researchers have increasingly stressed the need of business model innovation to assist SMEs compete effectively in a fast-changing economy (Ibarra et al., 2020). In communities where agricultural products are the basis for income generation, there are many limitations that hinders producers from acquiring the necessary resources to improve productivity which in turns limits the possibility of increasing profits from their production and ultimately impacting their ability to improve their livelihoods (Fernández Martínez et al., 2020).

New business models that focus on innovation and social development are becoming more predominant in society, causing a shift from the traditional business model to a more sustainable model with social impact (Dean & McMullen, 2007). When discussing sustainability in relation to value creation, it is important to notice that value creation is not only about economic value, but also about social and environmental value which leaves enough space for the emergence of social enterprises (Yunus et al., 2010). On a study conducted to evaluate consumers' willingness to pay for sustainable products, researchers found that the willingness to pay for sustainable products was positively impacted by environmental concern, social value, functional value, and generativity (Zaidi et al., 2022). This has led to the blossoming of new businesses oriented towards sustainability, globally (Bologna Business School [BBS], 2018).

A social Enterprise is a fast-emerging entity that generates social impact through an entrepreneurial approach (Jilenga, 2017). It can also be defined as a private organization explicitly and primarily working towards one or more social welfare goals while participating in the marketplace. It attempts to create and legitimize new institutional forms by combining market and social values (McInerney, 2012). Furthermore, they have also been described as organizations that mix elements

such as value systems and action logics of various sectors of society into their business models' (Lüdeke-Freund et al., 2022).

A SE is designed and operated just like a 'regular' business enterprise, with products, services, customers, markets, expenses, and revenues. It is a no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor (Yunus et al., 2010).

The purpose of this document is to create a case study for the use of a teaching instrument for the students of the Department of Agribusiness Administration of Zamorano and for other business schools in the region, in the discipline of social enterprise.

The case study approach allows in-depth, multi-faceted explorations of complex issues in real-life settings (Crowe et al., 2011). It puts the user in the perspective of the decision maker and places them in the chronological context of the choice so that they can make a judgment based on the facts possessed, and the uncertainties that exist in business.

The present case study was created based on the analysis of a business model operating in Santa Elena, La Paz dedicated to the international commercialization of specialty coffee with focus on community development and sustainability, taking into consideration the producer's and proprietors' perspective, to have a more holistic comprehension of how the business model operates.

A teaching case reflects the ambiguity of the situation and need not have a single outcome, as the intent is to create a dialogue with students, encourage critical thinking and research, and evaluate recommendations (Golich et al., 2000).

The case method bridges theory to practice, and promotes the development of skills including communication, active listening, critical thinking, decision-making, and metacognitive skills, as students apply course content knowledge, reflect on what they know and their approach to analyzing, and make sense of a case. Cases do not give simple or explicit answers; (Dowd & Davidhizar, 1999). The features of case studies are as follows: cases are based on real life scenarios, they provide supporting data and documents to be analyzed, and an open-ended question or problem is presented

for possible solution. By using cases and solving practical problems, students learn how to apply theoretical concepts (Dowd & Davidhizar, 1999). Cases present situations that make students think, ask questions, and use their knowledge to answer those questions; thus, they elicit critical thinking. The case study method provides students opportunities to relate critical thinking to situations that they might encounter in practice (Baumberger-Henry, 2003).

The use of the case study will allow students from the Department of Agribusiness Administration at Zamorano to comprehend the different factors that are necessary to consider in order to determine if the business model is functional and replicable in other areas.

The proposed methodology for the business model analysis is based on the convergent mixed method that integrates both quantitative and qualitative data to make a more comprehensive analysis of the business model (Creswell & Creswell, 2018). In this methodology, data is collected in both forms at roughly the same time and then the information gathered is integrated when interpreting the results (Creswell & Creswell, 2018).

Methodology

Writing of the Case Study

The case study was written under NASA's methodology, adapted to the publication guidelines of Ivey Business School. Writing a case is a methodical procedure that follows predetermined criteria and timelines. A case study combines field experience, human and technical elements. The process of developing case studies is outlined below using NASA'S methodology (National Aeronautics and Space Administration [NASA], 2008).

Pick a Target

The topic on which this case was written was initially defined with prior scrutiny. Additionally, the major components that would form part of the basis upon which the case was developed was also defined prior to data collection. The focus of writing this case study was to find the viability and replicability of this business model on other communities and industries. The point of view of the key stakeholders regarding the dynamics of the business model were taken into consideration. Furthermore, this case study explores the needed components when deciding to engage in a social enterprise, and how these aspects can limit the scalability and replicability of the business model on other communities.

Define the Parameters of the Case

The learning objectives were centered on the manager's definition of the business model, and then comparing the information with quantitative and qualitative data recollected during the investigation. This approach allowed a more holistic understanding of how the business model operates, analyzing the different components that surround the model, the different challenges it faces in the industry, what stakeholders perceive from the model, and the benefits that can be obtained while engaging in a similar business model.

Background Research

Drafting a case study includes in-depth research of the background behind the organization being studied. This step is fundamental, since it allows us to gather information that will be crucial to the overall development of the case study. In this step is necessary to seek as much information as possible to have a solid case study.

This research is aimed at describing Catracha Coffee's business model in Santa Elena, La Paz, Honduras, and understanding how the business model functions, stakeholders perceived value of being part of the business model, and the components that make the business model replicable and desirable in other communities.

Interviewing Stakeholders

A total of 40 stakeholders participated in the four focus group sessions with 10 participants per each session. The focus group sessions allowed access to the producer's point of view on the value they perceive from Catracha Coffee and understand their perception regarding Catracha's business model when compared to other entities that operate in the same area. On the other hand, an interview was held with the proprietor of Catracha Coffee to contextualize the models' objectives, and to understand what are the constraints and limitations that Catracha faces as a business. These focus group sessions and interview were conducted personally and under a confidential agreement previously informed to participants and accepted by them.

Evaluate Story Line for learning points

When conducting the research for this case study, there was a rich amount of information obtained, however, considering that the main objective of this study was to develop a case study that evaluated the business model replicability based on its framework operation, it was necessary to keep focus on details pertaining only to the objective of finding out through the analysis of the data provided if the business model was replicable on other scales. On the other hand, the accessibility to the wide range of information pertaining to the business model and coffee industry, enabled a more comprehensive approach at the moment the case study and teaching note were made.

Draft the case into a Narrative

The first draft of the case study was completed, which included all the information gathered thus far. It is fundamental to remember that the case study must have a structure that incorporates the key character who performs the role of the institution's decision maker. This criterion was followed to assure that whoever uses the case and evaluates the project can place himself/herself in the shoes of the protagonist of the actual experience, and from there deduce what are the necessary steps to take before planning.

The plot of the tale must be included to sustain the reader's attention and assure the hooking factor by introducing an element of suspense. So that the reader may examine the case from a personal perspective, following the case's thread line, which is bolstered by the tension element, to answer the central issue within a set time frame.

The beginning of the case study narrative comprises the development of the case's main problem and a clear definition of the decision question.

The story's body is made up of events that place the reader chronologically at the start of the dilemma. Technical and financial data were also supplied, enhancing the stress factor by assisting in the resolution of the problem.

The last section aimed to return to the dilemma posed in the first section, but this time with all the facts and perspectives of the important actors included. The case was finalized with a summary of the circumstances finishing with the important questions that the user must answer in the study of the material, which was necessary to be able to carry out an analysis of the case.

Following the completion of the draft, formatting changes were made and designated as internal use material for evaluation before being incorporated in the test stage. The draft was subjected to two reviews including one of the thesis advisors and an English professor at Zamorano.

Circulate Draft

The draft was presented for two revisions by: the advisors to the writing process, and by an editor. The reviews were conducted remotely. It is essential to consider this document was socialized in confidential format.

Test the Case with a Local Audience

A test was conducted with a group of fourth year students majoring in Agribusiness, Environment and Development, and Science and Production from the Pan American Agricultural School Zamorano. Students were asked to read and solve the case based on the teaching note questions with the supervision of the author. There were a total of 6 participating students in the pilotage of the case.

Teaching Note

As a supplement to the case study, the teaching note is essential. This serves as a guide for the instructor as he or she resolves the case study. The teaching sheet was created parallelly with the writing of the entire case, and it includes a synopsis of the case, teaching objectives, the objective audience, and the case's position in the course, literature related to the theme developed, assignment questions, the teaching plan, the case's resolution, and the epilogue.

The case was authorized by the special graduation project advisers from the Pan American Agricultural School Zamorano's agribusiness department.

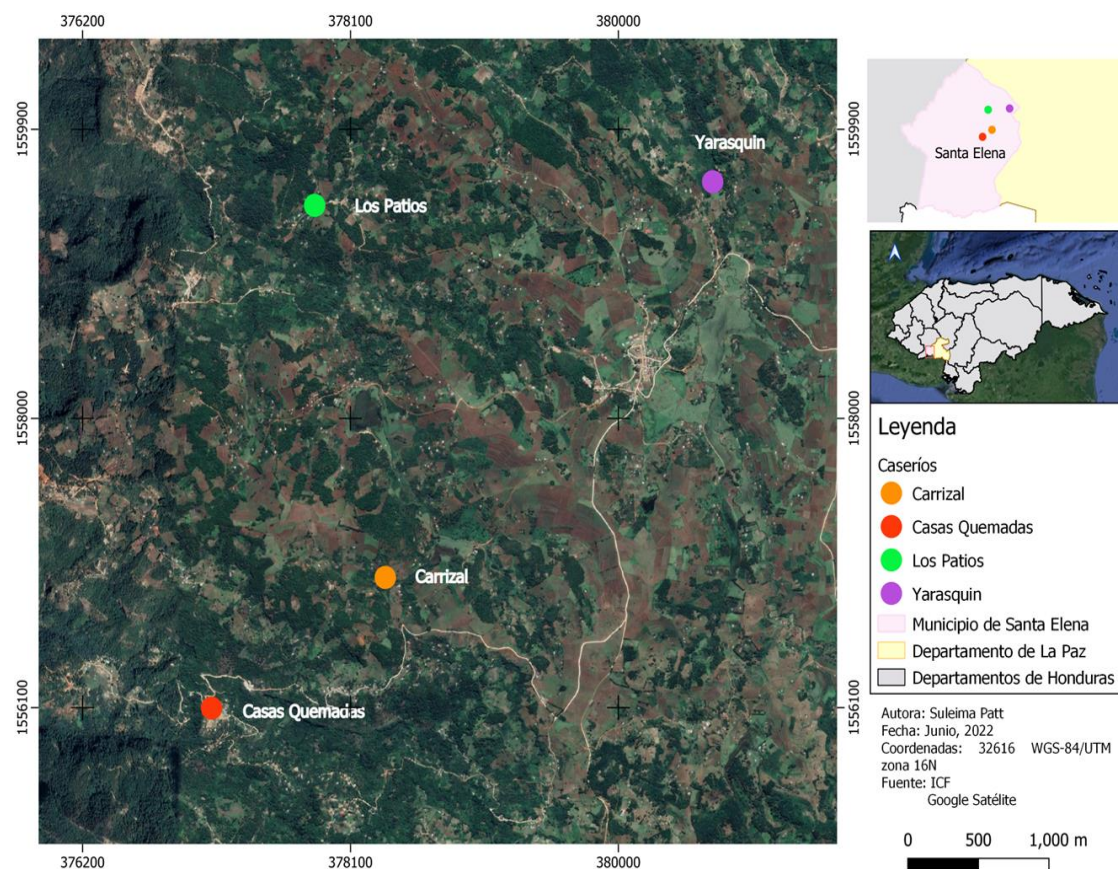
Data Collection Procedures

Research Site

The research site was located in the municipality of Santa Elena, La Paz, Honduras. Specifically in the communities of Los Patios, Yarasquin, El Carrizal, and Casas Quemadas where the majority of the farmers are found.

Figure 1

Map showing the different Communities Where the Focus Group Sessions Were Held



Type of Study

The study consists of a convergent mixed-type approach, since both qualitative and quantitative variables were evaluated, so as to have access to the information required to develop the case study and make an inferred comparison.

The quantitative data being the sales and revenues sheets, the list of producers, amount of coffee sold per each producer, as well as the list of buyers to whom the coffee is sold. This was facilitated by the proprietor of Catracha Coffee, which in turn allowed us to make a comparison with the qualitative data collected.

A purposive sample of producers were included to collect data using a qualitative research method to understand the problem and research question. All of the participants that were involved in the focus group were producers, members of Catracha Coffee.

Data triangulation was used to establish the trustworthiness, in order to strengthen the analysis and authenticating of the study. Descriptions were facilitated to enhance the transferability of the data (Creswell & Creswell, 2018). The focus groups were a fundamental tool to support and deepen the bases of the perceptions of producers towards Catracha's business model. Transversally, a triangulation analysis was carried out between the information obtained in the focus groups, the review of existing literature that validates the information gathered, and the historical data of Catracha made available through the proprietor.

Focus Group

Focus groups are methodological approaches used in the social sciences. In addition, they help to deepen and describe a phenomenon or problem with practicality and discussion approaches. Regarding the study, this methodology basically helped to deepen and contextualize the perceptions of producers towards the benefits perceived from Catracha since their integration to the model. The duration of the focus group sessions varied between 40 to 50 minutes per session. These focus groups provided local experiences had by producers, while being part of Catracha regarding the main variables in discussion, which in turn allowed the identification of certain qualitative data associated with these.

Data Analysis

For the qualitative data processing, transcript-based analysis was employed to extract the data from the audio recordings. This transcribed data was analyzed alongside field notes made by the

moderator. Regarding the analyses of the data, Keywords-in-context was used to identify the themes that emerged, since there were four focus groups with the same range of questions being asked to each. It should be noted that this data analyses methodology allows the focus group researcher to assess saturation in general and across-group saturation in particular.

The purpose of keywords-in-context is to determine how words are used in context with other words. More specifically, keywords-in-context represents an analysis of the culture of the use of the word (Fielding & Lee, 1998). As noted by Fielding and Lee, the major assumption underlying keywords-in-context is that people use the same words differently, necessitating the examination of how words are used in context. Furthermore, the contexts within words are especially important in focus groups because of the interactive nature of focus groups. Thus, each word uttered by a focus group member not only should be interpreted as a function of all the other words uttered during the focus group, but it should be interpreted with respect to the words uttered by all other members of the focus group. As is the case for classical content analysis, keywords-in-context can be used across focus groups, within one focus group, or for an individual in a focus group. Keywords-in-context involves a contextualization of words that are considered central to the development of themes and theory by analyzing words that appear before and after each keyword, leading to an analysis of the culture of the use of the word (Fielding & Lee, 1998).

Results and Discussion

This document was written according to the National Aeronautics and Space Administration's (NASA) Case Study Methodology, which will then be converted to the Richard Ivey Business School's case publishing standards. Participants will have the opportunity to apply what they have learned in this scenario through in-depth analysis of the different components needed to be considered when establishing a social enterprise. It also will allow the reader to comprehend how the specialty coffee market operates, and the impact it can have on the livelihood of small farmers that depend on coffee. Moreover, it will allow the reader to place him/herself in the owner's shoes and from there make choices that safeguard the objectives of the enterprise but does affect its path to sustainability.

The case structure considers the main components to the model, and what makes it unique in the view of the producers, given that they can understand the correlation between being part of a structure like that employed by Catracha in comparison to them being part of another group. It is important to note that the within the case structure there is a systematic methodology being utilized to highlight the key components that make the producers partake in this organization. Moreover, there is also enough information that provides an insight to the fundamentals of sustainability and the benefits that can be associated with it in the specialty coffee industry integrated in the case study structure.

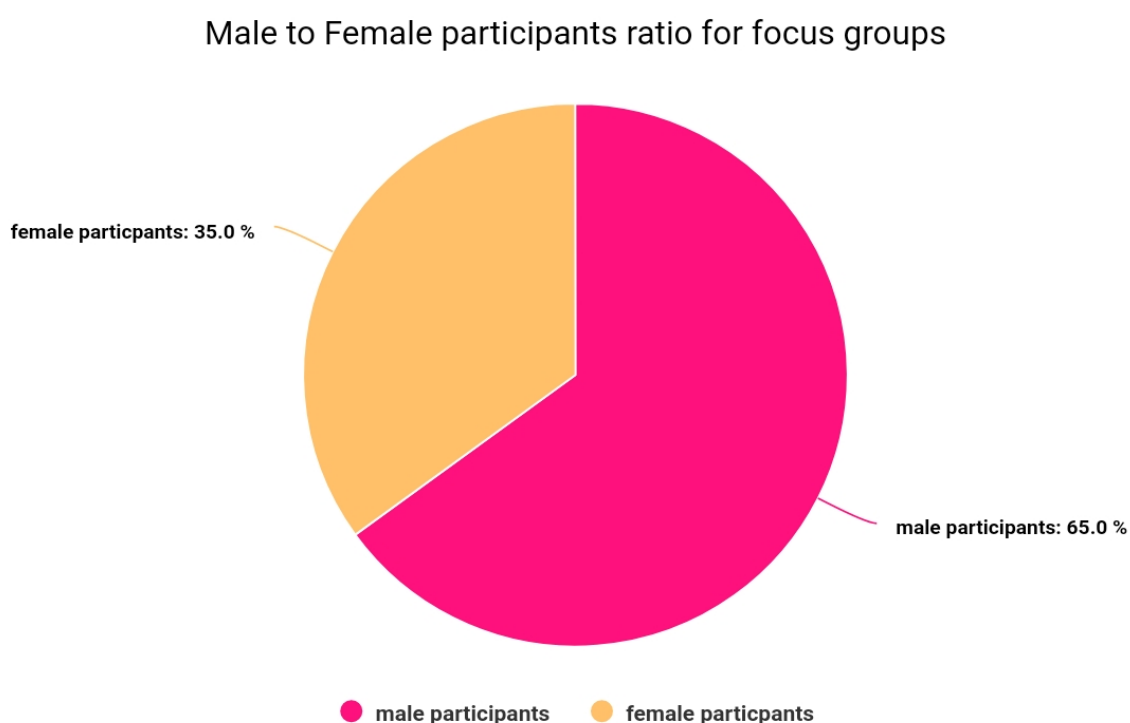
The case resolution allows students to conduct decisions based on their understanding of the complexity associated with operating a social enterprise in the field of coffee. Furthermore, the case resolution allows the development of critical thinking skills on what are some of the challenges that can be faced within the industry and business model. It was structured as a teaching tool to make students understand that there are several business models out there that are operating focused on social impact, and that it is necessary to have a comprehension of what are the best business strategies to employ to be successful.

Focus Group Sessions Results

There were a total of forty producers that participated in the four focus group sessions of whom which 14 were women with ages ranging from 28 to 78 years. The other remaining participants were men with age range from 27 to 68 years old. Below is a pie chart showing the ratio distribution for male and female participation in the focus groups

Figure 2

Pie Chart Showing Male to Female Participants Ratio for Focus Groups



This representation of women participating in focus group sessions is an indicator that goes in correlation with the finding of the European Commission on a research conducted in 2018 on women involvement in the coffee value chain in Honduras. According to this research, women's participation in decision-making, leadership, and empowerment has improved in recent years. However, there is still room for improvement, since women's engagement in coffee activities is underrepresented, and they have challenges in finding employment opportunities.

It is particularly important to highlight the involvement of females in these focus sessions, because part of the essence of Catracha Coffee lays within the need to empower women. Additionally, it goes in line with the name of the company which represents the Honduran woman. In the context of the validity of the data collected through the focus group sessions, the involvement of women demonstrates what studies already mention regarding the importance of women in the coffee value chain. About 95% of export transactions in coffee in Honduras are overseen by women (preparation of documents, correspondence, permits, sample shipping, and payments), and they do a very precise and important job. In that context, some of the key findings in the focus sessions were mentioned by female participants.

Focus Group Findings

The four focus groups conducted were aimed at gathering perspectives from producer members of Catracha Coffee to have a better understanding of the multiple realities that are socially constructed based on these perceptions could be achieved. Perceptions are interpretations, and for most individuals, interpretations become their truth. Thus, perceptions are extremely powerful and influential in human thought and behaviour (Given, 2008). The preliminary findings obtained from the focus group pertaining to what Catracha Coffee offers as an enterprise in comparison to other entities were all linked to the word “accessibility” in several ways. See Fig 2.

Accessibility can be defined as a fundamental feature of the built environment; it is the condition that allows people to enter, depart, and utilize residences, stores, theatres, parks, and workplaces (Wijk, 1996), as well as engage in the social and economic activities for which they were constructed. It follows that if there is a lack of accessibility, such as physical obstacles, people might experience marginalization and, therefore, a loss of quality of life in comparison to those who do not (Wijk, 1996).

Within the scope of the definition of the word accessibility, certain keywords and phrases were predominant throughout the four sessions. These being: finance, service delivery, capacitation, international coffee market, better prices, and work force.

Definition of Keywords and Phrases

Service Delivery.

Is a business framework that supplies services from a provider to a client. It also includes the constant interaction between the two parties during the duration of the time in which the provider supplies the service and the customer purchases it.

Finance.

Is defined as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, and forecasting (Oxford Dictionary).

Capacity Building.

Is the process of developing and strengthening the skills, instincts, abilities, processes, and resources that organizations and communities need to survive, adapt, and thrive in a fast-changing world. (Oxford Dictionary)

International Coffee Market.

Can be defined as the global market where coffee from different geographical areas is sold and bought. The coffee market is a highly competitive market, which is dominated by players like Nestle, JM Smucker Company, The Kraft Heinz Company, and Starbucks Coffee Company (Mordor Intelligence, 2022).

Better Prices.

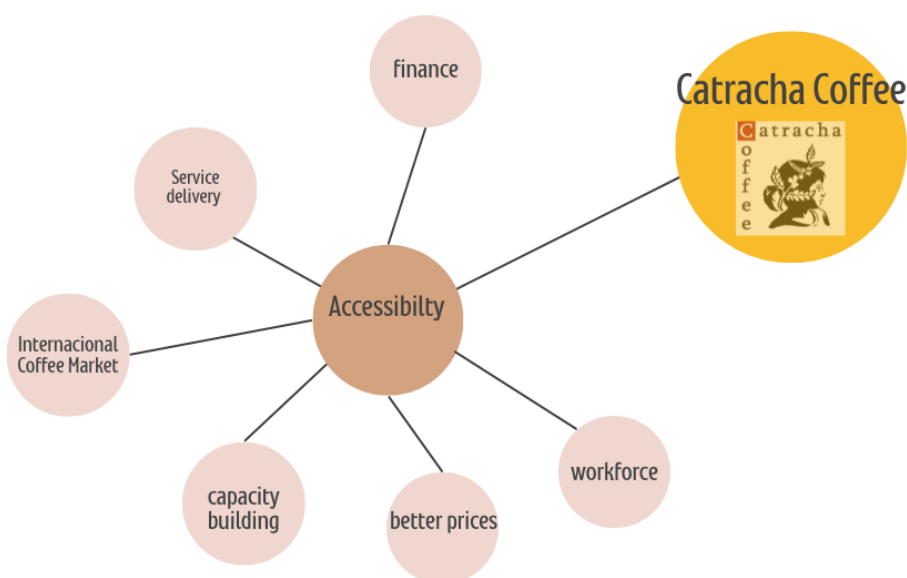
Means, in respect of a particular security: a price lower than the best ask price, in the case of a purchase; and (b) a price higher than the best bid price, in the case of a sale (Law Insider, 2022).

Work Force.

The people engaged in or available for work, either in a country or area or in a particular firm or industry. (Oxford Dictionary)

Figure 3

Diagram showing the relationship of accessibility and the key components mentioned in the focus group sessions



Perceptions Obtained

According to the information obtained through the participants, there is a link between Catracha Coffee and the access to several other components that are important for the local socio-economic development of the producers and their families. Socio economic development in simple terms refers to the development attributed to the relationship between economics and society (Law Insider, 2022). As it was mentioned before, Catracha Coffee is a social enterprise business model, who's primary objective is to create value for its members, as well promote the socio-economic development of the community of Santa Elena. It has been found that social entrepreneurship encourages community building and cultivates a culture of creative problem-solving in the community that facilitates economic development (Nega & Schneider, 2014).

The perceptions of the producer members of Catracha Coffee suggest that there is an intrinsic relationship between the socio-economic development of Santa Elena and the presence of Catracha in the community. In their view, since Catracha has been present in the community, there has been significant changes for them as producers, as well as for the community as a whole. A perfect example

of this significant change are the social programs that provide trainings to farmers and their family members to learn different income generating activities such as and embroidery and pastry making. As it was mentioned in a research carried out in the Cape Town Metropolitan Municipality, South Africa, social entrepreneurs positively impact communities' development in several ways: improvements through training, educating, and facilitating communities' engagement in different activities such as home-based care and developing children's mentality and creating space for people to develop their needs (Nega & Schneider, 2014). This can be represented in the keywords mentioned above, but also on the overall observation brought across by the producers during the focus group sessions. Each of the keywords mentioned, have key components related to the benefits perceived by producers from Catracha that translates to accessibility. Below is a diagram and table that resumes the relationship between accessibility and the keywords.

Figure 4

Relationship between accessibility, key words, and components

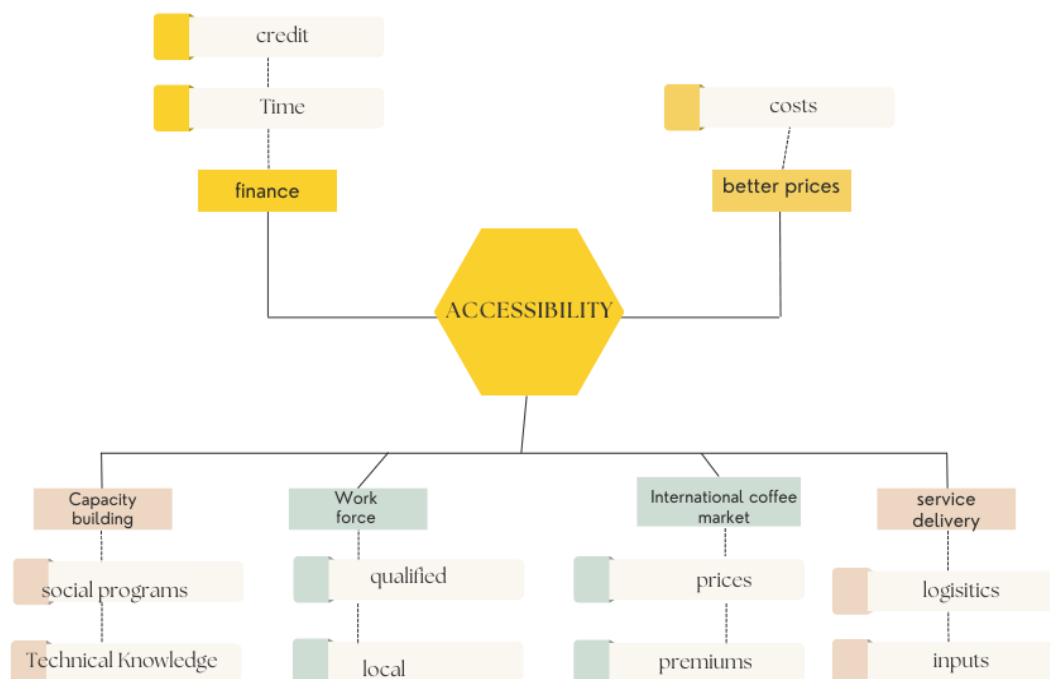


Table 1

Relationship between keywords and its components relating to their perception of the word accessibility.

| Keywords | Relationship with keyword | Producers' perception |
|-----------------------------|---------------------------|--|
| International coffee market | Prices | <ul style="list-style-type: none"> Producers consider that because Catracha has opened access to the international coffee market, they are being paid fair prices for their coffee in comparison to what they were being paid before. <i>"Since we are with Catracha, we get paid higher prices for our coffee since the quality of the cup is now important in the payment."</i> |
| | Premiums | <p>Because of the Access to the International Coffee Market, producers have the benefit of obtaining premium payment on top of the market price paid for their coffee.</p> <ul style="list-style-type: none"> <i>"To me, the most important part about being in Catracha is the extra money we get on top of our regular coffee payment. We get paid a premium that incentivizes us to produce good coffee."</i> |
| Better prices | costs | <p>The producers perceive that since they are integrated to Catracha, they have access to better prices in inputs since the proprietors of Catracha buy in bulk, reducing costs.</p> <ul style="list-style-type: none"> <i>"Catracha offers us fertilizers and other inputs that are cheap in comparison to us buying it on our own. I think it has a lot to do with the fact that Catracha buys in bulk, it does not matter how, but it helps us to reduce cost."</i> |
| Service delivery | logistics | <p>Most of Catracha's members are small producers where the farm size ranges from 1 manzana to 3 manzanas, therefore, many of them do not own vehicles to transport the inputs to the farms. In this case, to facilitate access to producers, Catracha offers the transportation services for producers so that they can have the inputs and services needed for the farm on time.</p> <ul style="list-style-type: none"> <i>"As you can see, most of us are low-income farmers, therefore we don't have trucks and cars to transport let's say like fertilizers or our coffee. Catracha provides transportation for us in this aspects, that really reduces our stress."</i> |
| | Inputs | <p>Most of the inputs used for the production of coffee is organic, however, producers don't always have access to quality organic products. In this case, what Catracha does is to produce most of the inputs needed for the organic production and sell it to farmers at a low price so that farmers do not have trouble accessing such inputs.</p> <ul style="list-style-type: none"> <i>"For me, it is so wonderful that though Catracha demands organic production, the proprietor makes sure to make the different organic inputs in the case we cannot make it and sell it to us at a cheap price. Its like there is no excuse to produce organic."</i> |

| Keywords | Relationship with keyword | Producers' perception |
|-------------------|---------------------------|---|
| Work force | qualified | <p>The workforce in rural communities are scarce in the agricultural sector since workers are migrating to the urban areas. Catracha provides a group young workers that are qualified to do farm activities ranging from fumigation to harvesting.</p> <ul style="list-style-type: none"> - <i>"The proprietor of Catracha makes it so easy on us, since when we have scarcity of labor, he organizes a group of young people to do the different activities in which we may require help during our production and harvesting process."</i> |
| | Local | <p>Since coffee picking is part of the tradition in rural communities in Santa Elena, local workers are highly desired. Producers agree that by Catracha getting the workforce for these farm tasks locally, the harvest is better. The same applies to the fumigating process.</p> <ul style="list-style-type: none"> - <i>"For us, it is important to employ local labor, since the people from these communities know how to work in the coffee farms, especially in picking ripe coffee, and Catracha provides this for us. We are happy with that."</i> |
| Capacity building | Social Programs | <p>In addition to providing local services, Catracha funds several social program, ranging from art to horticulture to promote the generation of alternative sources of income. Producers consider that the social programs enables them to improve their life, and of those of the community members. "</p> <ul style="list-style-type: none"> - <i>Catracha offers a number of social program that consider different areas. For instance, there are the trainings for cake decorating, art making, and embroidery. But it doesn't stop there because Catracha also assists the local schools like in Palo Blanco High School where they are financing the construction of a tree nursery. To us, having access to these program improves our lives in so many ways."</i> |
| | Technical knowledge | <p>Most of the technical assistance to farmers regarding their farms, is provide by extension services offered by different organizations through Catracha. However, the proprietors of Catracha also provide technical assistance as part of the services offered to producers at no cost at all. this extension Services provide to farmers allow farmers to access technical knowledge for better management practices in their coffee farms.</p> <ul style="list-style-type: none"> - <i>"Catracha provides a lot of technical trainings for us in the production side too, I mean, most of us have improved our productivity because of the different trainings Catracha hosts to improve our coffee quality."</i> |
| Finance | Credit | <p>Catracha has founded a rural box where the producers can save money, buy shares, and make credit loans. the mechanism behind this rural box is to provide funding for the coffee producers to enhance production, buy inputs, and to expand their business. For producers this is a big step because they have access to funding that was otherwise unavailable to them while there were in other coffee cooperatives. producers believe that this rural box helps them to have facility to credit loans that goes according to the amount of shares they have in the rural box.</p> <ul style="list-style-type: none"> - <i>"The rural box is of great importance for us because it provides access to credit without so much hassle. What is more, with the access to this rural box we can invest in our farms more easily at a very low interest rate. I like it because it is our money in there."</i> |

| Keywords | Relationship with keyword | Producers' perception |
|----------|---------------------------|---|
| | Time | <p>for many farmers, time is a valuable asset, especially when you consider the distance these rural communities are from the towns. When the Catracha rural box facilitates loans to producers, they are saving time and money. producers often complain that the banking system in Honduras is not made to help small producers, therefore, they do not like working with banks, because they believe that by going to the banks and doing all the paperwork does not guarantee them a loan. By having access to the rural box, the producers perceive that they save a lot of time that they can use doing other activities like taking care of their farms.</p> <p><i>"As you have noticed, Santa Elena is far from Marcala, and most commercial banks are in Marcala. Going to Marcala implicates you spending a whole day's work in just passage, not forgetting the time it takes to come and go. By having access to this rural box, we save time and money since we just have to go to Catracha and ask for a small loan, and that you can do even walking. It is fast."</i></p> |

As it can be noted in the table above, the perceptions that farmers have towards Catracha is intrinsically related to accessibility. Producers consider that Catracha has provided accessibility to them in a number of ways that would otherwise be non-existent if they were in another association or cooperative. They mention that before their integration to Catracha, many of them were having a "difficult time" in meeting expenses. On the other hand, they are also aware that through the access to the international coffee market there are several other benefits that are linked to this access. For instance, getting paid a fair price, gives them incentives to produce better coffee since this in turn makes them eligible to getting premiums paid on top of the market price. According to Mann (2014), socially-responsible certified coffee type businesses provides a price premium to producers. The premium can be transferred in cash directly to growers, to support a public project in the community, or a combination of both. These premiums paid to Catracha producers are later used to for investments in their farms, or in other priorities that improves their lives. Additionally, Catracha negotiates a 25 cents contribution from roasters per pound of coffee sold to have funds to run the social projects in the community. Moreover, premium payments are just a part of the financial benefit tied to Catracha because in the view of the producers, this is just one of the financial benefits.

For many producers, access to financial services, information and markets are the key challenges faced when trying to expand or innovate their farms (United Nations Capital Development Fund [UNCDF], 2020) and this no different for Catracha producers. In an effort to facilitate the access to credit for their members, Catracha founded a rural box, that works similarly like credits union but on a smaller scale. A Rural Savings and Credit Fund (CRAC) is a system of rural self-financing, which allows an organized community, access to economic resources, and solidarity savings, which facilitates in a timely manner, cover credit needs in areas far from urban centers, and attend to a sector that does not have access to financial services (Instituto Interamericano de Cooperación para la Agricultura [IICA], 2011).

The access to financial assistance in turn allows a higher buying power that allows producers to invest in the farm, family, and other needs. According to a research carried out in 2013 by the United States Agency for International Development (USAID), it was found that in order to sustain and expand their operations, micro, small, and medium-sized agricultural producers, processors, and traders require a range of financial services. Therefore, the access to this financial system enables producers to grow as producers and allows them to give their families a better life. In this sense Catracha canalizes these benefits through the farmers affiliation with the business model and Catracha's link to the international coffee market, and producers perceive these benefits.

Data Triangulation

After, the perception of producers were analyzed, alongside with the interview with the proprietor from Catracha Coffee, the findings were verified with the financial data available, and a correlation was established via literature review. The key findings include:

Increased access to the international market translates into increased money availability that in turn has a positive impact in the producers' lives. Access to finance can drive food security, improve the lives of farmers, who depend on the agricultural sector for their livelihoods; (Dean & McMullen, 2007). It is a potent tool for poverty reduction, enabling poorer households to build assets, increase incomes and reduce their vulnerability to economic stress and external shocks. (UNCDF, 2020).

On the other hand, the key objective of Catracha is being met, and farmers are perceiving it. The idea of value creation is well mentioned in the focus group sessions as well as in the interview with the proprietor. This feedback can be noted in the different sessions where the feedback was similar across for all the four groups. One particular producer mentions *“when we enter Catracha we are all, so it is a struggle that goes in a single direction of many producers of Santa Elena. This motivates me. If we are improving at the land level, then this makes us stronger. For example, in the production of coffee, we have better quality, better land. Now, it is easier with Catracha because Lowell is there with us to guide us to do what we have to do.”* This demonstrates social unification through Catracha, (a key component in the development of the case) since as a group they can share assets, information, and risk, as well as obtain easier access to a variety of services and inputs. (Food and Agriculture Organization of the United Nations [FAO], 2005).

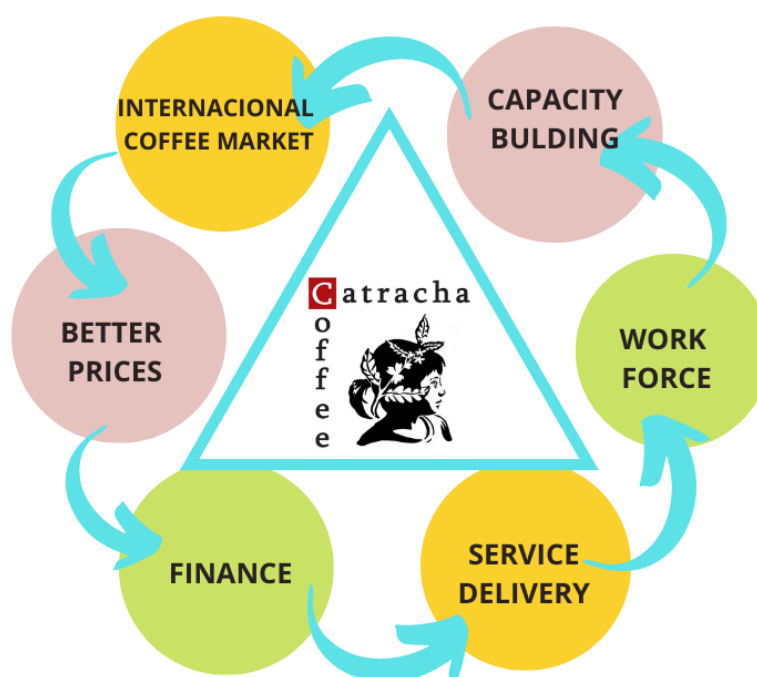
Another producer mentioned, *“Mayra and Lowell are very involved in the coffee business internationally, Lowell is an American person, he knows his contacts a lot. Because the reality is that in communities, we say like Yarula, they would like to have Lowell there, but we have Lowell in Santa Elena. For me it is like having a window near the United States to sell coffee. On the other hand, in CC the surpluses go to the social part, what goes to the producer is distributed among us. For example, in another cooperative that we were, there you had to pay the management and so on and here you don't. So, the money we earn does come back to us.”* This indicates that the business model is functioning for the producers, and it also goes in hand with one of the things that the proprietor indicated in the interview, and that is demonstrated in the framework of the case study.

“So Catracha's kind of foundation is simply to give people more money for their coffee. But there's a whole bunch of different things that have to happen in order to get people more money for their coffee. But that's the base get people more money for their coffee. But in order to do that, you must create connections between producers and Roasters. You have to create that trust. You have to be that bridge. So, we spend a lot of time being that bridge between producers and Roasters. We try to create a model that functions for both producers and roasters.” This goes in hand with what Ngatse-

Ipangui and Dassah (2019) mentioned in similar research made in South Africa “companies are conscious that success will no longer be measured with profit and operational metrics alone. To rebound to sustainable growth, companies need to reframe the strategic agenda as a new platform from which to create and protect value.” This is what Catracha’s business model is about. Below is a diagram that demonstrates the integration of the key components that makes Catracha a model that creates value for producers.

Figure 5

Results of the findings that demonstrates the integration of the key components into Catracha’s Framework of the data gathered from the focus groups



Conclusions

The writing of the case study “Catracha Coffee, a replicable business model?” was made possible as a result of the in-depth investigation carried out to understand Catracha’s business model and the modus operandi of the enterprise and the environment on which it operates.

The main objective of writing the case study was met through the interpretation and integration of the data obtained during the research, necessary for the development of the narrative. This was crucial for the use of the case study as a teaching tool since it provided the necessary insights for the reader to develop critical thinking skills essential for the resolution of the case.

The teaching note was drafted as a result of the information obtained during the research that further explained the business model and its components which allowed a smoother transition from the case to the resolution.

Recommendations

The proprietors of Catracha Coffee should consider having traceability of the outreach of the different social programs they promote, since this could be an opportunity for them to garner a bigger piece of the specialty coffee market. The need to have accountability for different activities involved in the coffee value chain is becoming increasingly important for the sale of specialty coffee, since the consumers are becoming more aware of the origins of the products they buy, and the process involved for the creation of these products.

It is important that Catracha Coffee has a detailed and organized description of its financial accounts, since this can facilitate a lot of the paperwork that might be needed in the case the company wishes to get financing to expand, or if they wish to penetrate other markets that are more demanding with traceability.

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Annex

Annex A

Structure of questions for focus group (perception of Catracha Coffee producers)

Descripción del grupo focal

Hola, me llamo Suleima Patt y estoy cursando mi Licenciatura en Agronegocios en la Escuela Agrícola Panamericana, El Zamorano, Honduras. Como parte de mi tesis de Licenciatura, estoy llevando a cabo un estudio para conocer el impacto de Catracha Coffee en los productores con quienes trabaja (Santa Elena, La Paz). Este grupo focal tiene como objetivo obtener una mejor comprensión de la percepción de los productores hacia Catracha y el modelo de negocio que esta emplea.

Como actor principal de la industria, su opinión es valiosa y está invitado a participar de este grupo focal para ayudar a tener un mejor entendimiento de la percepción que tiene usted de Catracha Coffee. Este grupo focal no debería tomar más de una hora para llevar a cabo. Es anónimo y voluntario. Si en algún momento se les hace una pregunta el cual no quieren contestar pueden abstenerse y no hacerlo. De la misma manera, si en algún momento sienten que se quieren retirar porque algo de la entrevista no les parece; pueden hacerlo. No se prevé ningún riesgo de su participación en este grupo focal.

Este estudio es asesorado por los profesores Julio Rendón y Luis Sandoval, del departamento de Agronegocios de Zamorano, pueden comunicarse con ellos si tuviesen alguna duda o comentarios a los correos jrendon@zamorano.edu y lsandoval@zamorano.edu

Gracias por su colaboración, vamos a comenzar.

Structure of questions for focus group (perception of Catracha Coffee producers)

Transport:

Labor

1. when it comes to managing the transfer of labor to the farms, how is it with Catracha compared to being alone or with other entities?
2. Is the cost higher, lower or the same being with Catracha as if they were with other entities or alone?
3. Is the labor that is achieved with Catracha for the production / cutting of coffee, is it trained? Is Catracha's workforce different from that of other entities? Why?

Inputs

1. Are the inputs you use in the production of your coffee that are managed and transported by Catracha, delivered on time at an adequate cost? How is this different from other entities or if you had to do it on your own?

Marketing service:

Percentage

2. What percentage of your coffee do you sell to Catracha?
3. Why that percentage? How does this percentage of sales differ for the other entities?

Reasons: quality, price, location, variety?

Logistics

1. Regarding how they marketed coffee before, were you looking for a buyer, were you part of an association, or was the buyer looking for you? How did Catracha change this? Is it different from other entities?
2. Can a comparison be made between the Catracha service and other entities? How?

Distribution of inputs:

Fertilizers/agrochemical substitutes

1. What are the inputs that Catracha requires to be used at the time of coffee production? Why? How is this different from working with other associations, people or alone?
2. How is the quality of these inputs? Is it different from other inputs required by other entities? Wherein? Production, quality, price?
3. What is the difference in price with respect to the alternatives?

Whenever you need these supplies, does Catracha have them available? Did this happen with other entities? **Yes/no? Why?**

Social programs

Courses/ services/ trainings/workshops

1. What are the community, social or professional development programs that you know Catracha is carrying out? **Educational, Financial, skills development.**
2. Are these programs different from those carried out by other entities? How do you compare it with the programs of other entities/organizations?
3. What do they do in these programs? Do you provide courses, trainings, services? Have you participated in any?
4. What is your perception of these programs?

Financial support for public goods

1. Do you know of any programs in which Catracha supports the development of schools, public/community infrastructure?
2. Which?
3. Is this support different from that of other entities that carry out similar projects? Why?

Rural box

1. Did you know that Catracha has a rural box that you can participate in?
2. Do you participate in the rural fund offered by Catracha?
3. Why not/yes?
4. Does it belong or did it belong to another rural fund?
5. How can you compare these to Catracha?

Price:

1. What is the average price you receive from Catracha?
2. How much more or less does this differ from other customers for your coffee?
3. That price, what does it depend on?

Feedback:

Do you have any comments about your experience with Catracha that you would like to share with me?

Annex B

Questionnaire for Catracha Proprietor

Questions for Catracha Owner

1. How does Catracha Coffee differ from other entities that are dedicated to the purchase and sale of coffee?
- 2.
3. What is the primary objective that encourages you to launch into this area of business?
4. What are the services that Catracha offers to the producers with whom it works? Enumerate. As are these different from other entities.
5. How is the marketing service offered by Catracha to producers?
6. How is the purchase price of coffee determined? Influencing factors?
7. Since its inception, has there been an increase in the number of coffee growers who are part of Catracha Coffee?
8. Does Catracha offer support for public goods? Schools, public/community infrastructure? Which? *Mention examples of some projects.*
9. What are some Courses/ services/ trainings/workshops that Catracha offers to its producers/community?
10. What are some limitations that you perceive when using this business model? Social approach....
11. Approximately how much is the budget allocated to these projects?
12. Educational, social, workshops. Is there is a list of expenses associated with these activities?
13. Is there is a quantified number of how many people have benefited from these project?

Annex C

Financial Report for Catracha Coffee for the Year 2019-2020

| Expenses - 2019-2020 | | | |
|--|---------|---------------|-------------|
| DESCRIPCION | INGRESO | EGRESO | USD |
| COMPRA DE CAFÉ 1047 QQ ORO | | L2,257,069.50 | \$94,044.56 |
| 1046 QQ CAFÉ COMPRADO 714.4 QQ CAFÉ | | | |
| EXPORTABLE NUMERO DE BOLSAS EXPORTABLE | | | |
| = 470 BAGS | | | |
| Export | | | |
| Pago sobre compras o fidecomiso IHCAFE | | | \$9,414.00 |
| (\$9.00) 1046 X \$9.00 | | | |
| Permiso de Exportación de IHCAFE (\$4.25) 1046 | | | \$4,445.50 |
| X \$4.25 | | | |
| Pago de trilla 714 QQ X \$14.00 | | L | \$10,117.00 |
| | | 244,260.00 | |
| reproceso 76.68qq | | L | \$480.00 |
| | | 11,502.00 | |
| Bolsas grainpro (750 BAGS x 2.90) | | | \$2,175.00 |
| Bolsas Jute 500 | | | \$825.00 |
| transporte a Puerto | | \$36,000.00 | \$1,500.00 |
| Triminio y aduana, y THC | | | \$1,500.00 |
| | | 36,001.00 | |
| Selección | | | |
| | | 116,085.00 | 4,836.00 |
| OTROS GASTOS | | | |
| Cataciones | | | \$1,000.00 |
| envio de muestras | 0 | | \$1,030.00 |
| Mejoramientos de bodega | | | \$1,000.00 |
| wet mill repair and replacement/ transport | | | \$5,000.00 |
| abono, bomba de fumigar | | 120,000.00 | |
| otras gastos, ofacina, empaque... | | | |
| | | 54,601.00 | 2,275.04 |
| Licencia de Intermediario 100.00 | | \$2,470.00 | |
| | | | 102.92 |

| | | |
|---------------------------------|-----------|---------------------|
| Honorarios a EVA G. VASQUEZ | | \$8,500.00 |
| Denominacion de Origen | | \$500.00 |
| | 11,766.00 | |
| PLANILLA | 150265 | \$6,261.04 |
| TOTAL EXPENSES 2019-2020 | | \$155,006.06 |

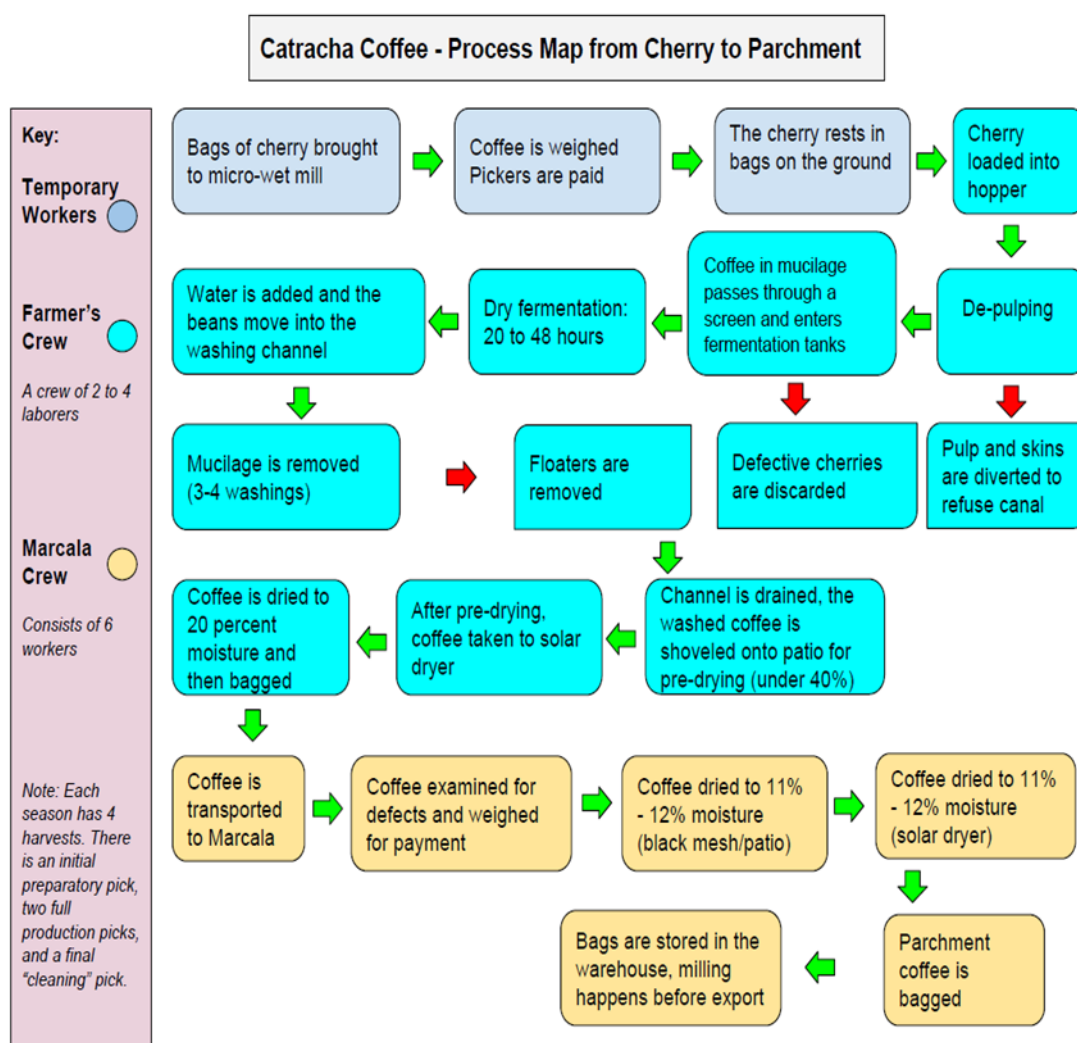
Annex D

Expenses and Sales for Catracha Coffee for the Year 2019 - 2020

| DESCRIPTION | EXPENSES | SALES | |
|-----------------------|-------------------|----------------------|--------------------|
| Green coffee expenses | \$ | | |
| | 155,006.00 | | |
| profit share | \$ | | |
| | 83,360.00 | | |
| Royal sale | | \$ | |
| | | 264,262.00 | |
| Catracha Community | \$ | | |
| Contribution | 13,120.00 | | |
| Eva green coffee sale | | \$ | |
| | | 4,000.00 | |
| TOTAL | \$ | \$ 268,262.00 | \$16,776.00 |
| | 251,486.00 | | |

Annex E

Catracha Coffee Process Map for Coffee



Annex F

Case study: Catracha Coffee, a Replicable Business Model?



Departamento de
Agronegocios

Department of Agribusiness Administration

Pan- American Agricultural School

Case Study: Catracha Coffee, a Replicable Business Model?

Mayra and Lowell were contemplating the horizon beyond the corridor of the house of culture of Santa Elena, when in the distance they could see a group of coffee producers approaching. Never would they have thought that the producers were heading towards them. The farmers were anxious about knowing more about the new local coffee company that was buying coffee from small producers under fair payments never seen before. How was it that this company was offering more than other buyers? It intrigued them so much, leading them to question if there existed the possibility of becoming part of Catracha Coffee. The question here was, Would Lowell and Mayra want to work with them?

At the time, Mayra and Lowell were a little skeptical of integrating new farmers to the business model, since the integration of new members implicated several challenges that were not to be easily disregarded. Moreover, the more the idea seemed to take shape, the more they grew excited. Could this be the turning point to making a life changing decision? They had always contemplated on returning to Santa Elena and making a life there, however, given that both Mayra and Lowell had their job places in the U.S.A., the idea seemed too far away a dream to make reality. Now, with this new approach from the group of farmers, the idea that lingered came back again. Could Mayra and Lowell move to Santa Elena, expanding Catracha towards sustainability and leaving their lives in California? To what extent does the attitude and long-term vision of its owners contribute to being an agent of change for the progress of Santa Elena. After reflecting for a while, they stopped the producers to talk about their doubts while they enjoyed a warm and delicious cup of coffee.

Catracha Coffee: Origin

The story behind Catracha goes back to 2010, when Lowell and Mayra decided to start exporting coffee from Santa Elena Community, a municipality located in the department of La Paz, Honduras. The major goal of initiating this enterprise was to have a socioeconomic and cultural influence that incentivized a source of bonding that encourages communal coexistence and changes families' lives through the coffee bean.

“The Catracha project is the brainchild of Mayra Orellana Powell a coffee trader who was born in Santa Elena to a coffee producing family. The idea behind her project is to improve the livelihoods of very small producers in her hometown of Santa Elena, and to support them with information, education, and infrastructure so that they can make better coffee that sells for a higher price in the Specialty Coffee markets of North America and Europe.”- Black sheep coffee roasters

“Catracha Coffee” was the name Mayra gave to the company, since the word “Catracha” is an adjective that describes Honduran women; its purpose is to fight against prejudices about women and the violence to which they are exposed throughout the world.

In the first year of operation, back in 2010, Mayra imported 50 bags of her communities’ coffee, entirely on her own, from Honduras to Oakland, making this the first instance that Catracha “exported” coffee to the United States. This first instance posed a challenge for Mayra, since she had to pay around 50 cents per pound to get the coffee imported into the country which added an additional cost to the overall price of the coffee. However, this fee was entirely covered by Mayra since she had a positive outlook associated with the sale of this coffee.

This initiative of hers opened the way to Catracha Coffee, giving birth to a social enterprise that gave farmers from this community, access to international markets with fair payments for their coffee. On the other hand, entering the international market for specialty coffee enabled producers to have more control over the price they were to be paid for their coffee once exported, which in turn translated to higher earnings, and lead to other producers to become interested in forming part of the business model; the results being: the sale of coffee in the specialty market through Catracha Coffee from sixty producers in the year 2016.

In 2017, Mayra and her husband Lowell Powell, decided that to have more control of the business it would be ideal to move and live in Santa Elena so that they could look for new alternatives and ideas that contributed either in the short, medium, or long term, to the development of their community through their business model; the results were incredible.

Today, Catracha Coffee caters to more than 80 small producers who decided to partner with them after they realized that working with Catracha enabled them to access markets and other incentives that were otherwise nonexistent prior to their affiliation to this business enterprise.

The specialty coffee market

Specialty coffee is defined by high quality, differentiated coffee products that may come in a wide array of presentations. It is a sector characterized by distinct approaches to sourcing, processing, brewing, and serving coffee, creating the capacity for a unique and variable product, and differentiated coffee shop experience. It is a sector populated by businesses that have evolved product and service differentiation through stronger association between the taste of coffee and the origin and variety of beans. It uses high grade coffee to deliver tastes that reflect the 'terroir' of the coffee. It is also known colloquially as the 'third wave'; this term refers to the evolving nature of quality, both in terms of intrinsic product attributes and the coffee shop experience.

The production and marketing of specialty coffee has been a growing global trend that has exploded in demand in recent years. Additionally, increasing consumer awareness regarding issues of quality, taste, health, and environment have created a growing demand for specialty coffee on a global scale. Consequently, the increasing international urban population, price, suitability & appropriate brewing processes, and increasing purchase-ability in developing countries are propelling the growth of the specialty coffee market.

Market Growth & Trends

Growth of the specialty coffee market is driven by the rising potential for agri-tourism, ready-to-drink coffee ready to grow, and the specialty coffees increasingly special. Furthermore, while most customers still purchase mainstream coffee blends, there is increasing demand for high-quality coffee among cupping scores over 80 points. Moreover, the aligning with news on socially aware customers looking for an authentic experience, where customers are willing to pay for coffee with a good story related to its social & environmental facets. Furthermore, the coffee brewers and other related enterprises looking to tap this market will do well to concentrate on labels based on high-scoring drinks with eco-conscious solid roots.

According to its 2022 report, the U.S. National Coffee Association expressed that coffee beverages represent 62% of all cups consumed in the past-day, rising from 56% observed in January 2021. Furthermore, it also states that the consumption of specialty coffee has been growing in 2022 in comparison to the 2021 consumption report.

The European market on the other hand, has been defined by waves starting in the 1960s. The first wave marked the popularization of coffee consumption in Europe, lasting through the 1970s, 1980s and into the 1990s. The second wave entailed a shift to higher-quality coffee and the development of coffee corner locations, marked by the advent of chains, such as Starbucks and Costa Coffee, beginning in the mid-1990s in Europe. The third wave has been noted since the mid-2010s, marked by the growing demand for high-quality coffees that focus on taste attributes — a 'coffee-like-wine' consumer attitude — and direct sourcing, usually traceable to farm level.

The high-end segment of the European coffee market is currently experiencing a fourth wave, characterized by what is called the science of coffee. In this context, it has become crucial to

understand the intrinsic characteristics of the coffee bean and the influence of its preparation on the taste. During the third and fourth waves, consumers have also taken interest in the origin of coffee and understanding the story behind the product as well as the impact of their consumption at origin.

Meanwhile, there is an upcoming fifth wave in the global coffee industry, which is aimed at achieving a highly successful, high-quality, customer-centric, and sustained coffee business that meets the desires and needs of today's demanding and knowledgeable coffee drinker.

Catracha Coffee has put these trends in its lines of action and has considered them key for the development of the community, taking advantage of the opportunities that have risen because of these changing trends.

Emphasis is made on the unit of analysis being the municipality of Santa Elena in all the socioeconomic and cultural dimensions that characterize its development, and how the penetration of the international specialty coffee market through Catracha has influenced the way of life of producers and community members. One producer mentioned *"For me, it's like I have a window near the United States market to sell my coffee, because Lowell acts as a mediator between us and coffee roasters in the U.S.A., ensuring that we get the right payment for our coffee."*

Catracha's Business Model

Catracha's business model is based on a social enterprise model where the main objective is to create value for its members based on the three pillars of sustainability. Catracha Coffee buys green coffee from small producers and gives the profits back to the people who grew and processed it. These households may lack the acreage or facilities to grow big quantities of coffee, but by improving the quality of their coffee, they may increase their revenues per pound.

So, for me, there's two kinds of coffee producers. There are big coffee producers, and there's small coffee producers, people who have small amounts of land and people who have large amounts of land. If you have large amounts of land, you can create your own private business and sell your coffee directly, maybe a container or two or three or four, because you have hundreds of Manzanas or hundreds of Hectares. But if you have just a few manzanas, your choice generally is to work with a cooperative, because you're not going to sell directly five or ten bags to a roaster in the United States. So, you must have a cooperative. And so Catracha kind of fits in between those two models that are the two extremes. You're either small and you work in a cooperative or you're large and you work on your own. Catracha is a private company, and as a private company, we operate more like the big single farm, but at the same time, we've got 80 producers. So, in a lot of ways, I think of us more as the big estate with 300 ha of land. But instead of having 80 employees, we have 80 business partners. And so that makes us different than a cooperative and different than an estate.

On a regular day, Lowell will find himself moving around the different surrounding communities to provide support to the farmers. The activities may range from distributing organic fertilizer like "bocachi" or transporting the group of young men that go and fumigate the different farms that require it. Everything is integrated and part of something bigger. For instance, when farmers follow the protocol established by Catracha regarding the different cultural practices that are required from them to have better production, there is an equivalent to that effort represented in earnings.

Production

On an average, Catracha exports around 70,000 pounds of green coffee annually to different roasters in the United States including roasters like Blue Bottle and Back Porch Coffee Roasters. The whole process starts in the farm where coffee is grown in farms between 1500 and 1800 meters above sea level. This factor of altitude and cool climate has a positive impact on the texture and taste of the local bean and helps protect coffee a lot from common diseases such as rust. However, even though these factors play an important role in the quality, productivity is influenced by other factors.

Catracha promotes organic sustainable coffee that is produced in harmony with nature. So, to get that relationship to be functional, Lowell Powell incentivizes producers to use organic fertilizers to reduce the environmental impact of growing coffee but also to enhance productivity through the addition of organic material that to otherwise depleted soils. It is important to make emphasis that to make these organic products accessible to the producers, Lowell elaborates them and sells them to the producers at a cheap price so that there is no excuse for not using these inputs. Additionally, he also goes the extra mile in going and delivering these inputs to the different farms with his personal vehicle regardless of how far the farm might be from his home. Lowell believes that part of the quality of the coffee is a result of how you treat your farm.

“You cannot expect to have a great coffee score if you are not treating your farm well. I mean the thing here is that people expect to have a good score in the cup but when you look back at their farms and the way they manage it and the different stuff they use to gain productivity, you cannot expect that to result in great coffee. At the end of the day what is reflected on the cup is not just one component of the coffee value chain but every single process that the coffee goes through, and from my experience, everything starts in the farm.”-Lowell Powell

Quality Assurance

Santa Elena's coffee is characterized by being very bodily and with flavors of chocolate or fruits in its great majority. The coffee received by Catracha come from more than 25 villages in the region. The mountain's mostly chilly climate has a positive impact. In 2014, one of Catracha Coffee's small partner producers, Lucinda Vásquez, won the national excellence rate with a score of 92.15%. This demonstrates Santa Elena's natural ability to produce high-quality coffees. This factor intrinsic to the area, mixed with the commitment of small producers to improve their production processes, makes the coffee bean made in this place, a wonder. Catracha Coffee knows how to perfectly combine these two factors to achieve the highest quality of this coffee bean.

To be a Catracha member, the small producer needs to register one year in advance. This makes it easier for the company to carry out quality control and monitoring over its production processes. For the same reason, Catracha Coffee exports specialty coffees, that is, coffee with a score greater than or equal to 85 in a cup. Coffee that does not qualify for export is distributed locally at a more affordable price.

One producer mentions *“Sometimes it is a hard process to do because Catracha only buys green washed coffee, in comparison to buyers that buy coffee in grapes, but the catch here is that we know that when we do all this process with our coffee, there is a benefit tied to the effort. What is more, we*

know that if we work hard enough to enhance our coffee quality through good agricultural practices, we will get fair payment with an additional profit added to our revenue for each point we score above the 85-point margin. For us, that is a huge incentive to work on our quality of coffee and sell it to Catracha because before, when we used to sell our coffee to other buyers, they paid you what they wanted regardless of the quality of your coffee, and now we have the power of increasing our earnings through quality assurance. At the end of the day, we are aware that our coffee is crossing borders, and if we intend on continuing like that, we need to make sure we produce quality coffee.”

Towards Sustainability

The principles of sustainability refer to the three core concepts of environmental, social, and economic sustainability—sometimes broken down as "people, planet, and profits." This means that in order to be considered sustainable, a business must be able to conserve natural resources, support a healthy community and workforce, and earn enough revenue to remain financially viable for the long-term.

For Catracha Coffee, sustainability is the driving force behind all the initiatives being taken around the commercialization of coffee from Santa Elena. The sources of income of small coffee producers are very little diversified. For the same reason, the risk associated with their future is very high. There was a drop of 10.6% between the prices of the 2020- 2021 harvests according to "Daily Coffee News".

The road to sustainability is very difficult, including social, economic, and environmental factors. Like a table, if a pillar is missing or shorter, it is very problematic. A production system that does not consider these three pillars is not sustainable and will eventually end up collapsing. For small producers, the economic pillar is the most complicated to stabilize. For the same reason, Mayra and Lowell strive to do everything within their reach to create access for small producers that guides them towards the path of sustainability. Like Lowell mentioned in an interview “*in Catracha Coffee, it is not about selling coffee; it is about the people.*”

Within the spectrum of activities aimed at promoting this approach are the following:

Environmental

Organic fertilizer: The global demand is constantly increasing; farmers have been very dependent on the use of chemicals whose prices increase from time to time and whose volatility is very high because they have compounds derived from petroleum in most cases. Faced this situation, Catracha Coffee has not closed its eyes. Small producers are in this transition from the use of chemical inputs to organic inputs. According with results of four focus group sessions comprising of 10 Catracha producers each, about 90% of them use some form of organic fertilizer. Since 2017, Lowell built a building to produce three of the main organic fertilizers: Bokashi, MM and Calcium Sulfide. Since then, more than a thousand 100-pound sacks have been crafted. Recently, together with the two workers of his farm, he received a training given in El Salvador by Jairo Restrepo Rivera, an expert and scientist with many years of experience and well known in the subject of organic agriculture. This acquired knowledge is currently being used to improve the quality of organic fertilizers used by small producers in the area.

- **Wet benefit:** According to the international coffee organization, ICO, one of the biggest problems generated by this crop is the contamination of water due to the wet benefit process. To counteract this problem, the owners of Catracha have supported the construction of a single wet mill per area to facilitate the management of wastewater derived from the coffee washing process and the

pulping process where it is used to facilitate the separation of the cherry into pulp and grain. In addition, another strategy adopted is the reuse of honey waters in coffee pulp fertilizers to accelerate the multiplication of beneficial microorganisms that, in turn, help provide a more efficient decomposition of organic fertilizer and a better quality of it.

Economic

As explained above, it is extremely important to avoid the exploitation of small producers. Subsidy programs and access to credit at relatively low rates are two ways to help them and should be part of state policies to support local production. However, paying them a fair price is the most efficient method because it is the only way they can progress and have a dignified life for the hard work they do. Low-income farmers around the world are expected to grow coffee so that rich people can market and enjoy it, as perfectly explained by the "Daily Coffee News" magazine. In the case of Catracha Coffee, the small producer receives an average of \$2.50 for a pound of green coffee when the middleman pays him just a dollar. The problem here is that the intermediary does not focus on quality, so there is no distinction for the quality of the coffee you buy. Catracha Coffee rewards small producers and gives them a bonus depending on the score obtained in the cup after the coffee cupping. Therefore, he who tries harder will earn more. It is an excellent way to encourage them to improve the quality of their coffee and feel proud of their work. The work of Catracha Coffee, as a result, is not easy. Finding roasters in the United States who are willing to pay fair prices for quality coffee and recognize the efforts made along the entire production chain is not easy when they have bargaining power and can get it cheaper because of the high supply of this crop in the market. In short, Catracha Coffee does not sell coffee, it sells the commitment of small producers to offer a quality cup highly valued in the international market.

Social

As mentioned above, the word Catracha refers to the Honduran woman. For this reason, at Catracha Coffee, the issue of women's empowerment is taken very seriously, mainly from Santa Elena. Since women's participation is a key factor for the development of any community, empowering them is crucial to eradicate all types of discrimination that may negatively affect their social inclusion. As Michelle Obama put it, "No country can truly flourish if it stifles the potential of its women and deprives itself of the contributions of half of its citizens." Through multiple weekly workshops, primarily arts and crafts, Mayra is helping women in the area become more productive and forge a path to self-reliance. Additionally, the percentage of women members of Catracha Coffee is above 20%, a percentage that is increasing every year. Through the talks received, the women have begun to realize their importance to their community and have begun to participate actively and proactively in the development of this.

Cultural

The trainings given to women in the area are carried out through multiple workshops throughout the year, two days a week. The most key, are art and craftsmanship. Beyond teaching participants how to create value for economic gain, the main purpose of these workshops, attended primarily by teenagers, is to increase the creativity and critical thinking of people in the community. Mayra believes that in giving young people the opportunity to express their abilities and interest in art and craftsmanship, there

is a direct benefit linked to the improvement of their lives and the community. What is even more fascinating about this component, is the fact that you can see that the youth in the community feel comfortable enough to reach out to “**Catracha Community**” and become part of the group, and after they learn what is necessary, they are keen to teach other young people in the community what they have learnt. In the end everything is a chain reaction. You see the producers getting involved in Catracha through their affiliation to sell their coffee, but it doesn’t just stay there because through the sale of this coffee, Lowell can negotiate with buyers to get an additional 25 cents per pound of coffee to fund these types of projects. So, in an essence to say, everything within the framework of Catracha Coffee is integrated into something much bigger than just the sale of coffee.

As Lowell would put it “*with a budget of about \$15000 to \$20,000 a year that comes directly from the sale of Catracha producers’ coffee that is not linked with fundraising or money gotten through other entities, we can invest in projects that go into contract for community projects that pays for things like working with the high school in Palo Blanca that's doing reforestation projects, it pays for doing art workshops and art collective. It pays for trainings, for cooking classes, it pays for things that are of help to the overall community development.*”

The distribution of profits in the marketing chain

One of the most characteristic problems of most production chains is the number of intermediaries that exist between the producer and the final consumer. From time to time, the producer earns less and the middleman more. With a perishable product in the case of grape coffee that is usually sold to the intermediary, the small producer is forced to be more flexible in terms of prices at the risk of losing all his production if he does not manage to sell it on time. In the case of coffee, one of the strategies used by producers to increase their profits is the reduction of the moisture of the bean through patio drying and the sale of dry parchment. Unfortunately, the only experience of small coffee producers in Santa Elena before Catracha Coffee was to sell their cherry coffee at an undifferentiated price to the intermediary who would pay the best price. Consequently, they earned very little money. As a result, the economic stability of the municipality gets weakened because producers are not getting paid enough for their coffee, they cannot pay adequate wages to the farm workers or harvesters, and then there is not enough money circulating within the community. This often translates to poverty, and economic stagnation that results in the loss of many opportunities for the people of the community because of this economic effect.

So, seeing this situation, Catracha decided that the best way to improve the income of the producers, it was necessary to employ a model that exploits the quality power of the coffees in the area and allows them to sell the coffee at a differentiated price; the result being profit sharing.

The strategy that guides this company to achieve credibility before the entire value chain, is to harmonize and demonstrate to the productive base the great benefits associated with a true production of cup quality, that is, to show with numbers the importance of achieving cup ratings that can meet the demands of the specialty coffee markets. Once this potential for higher income has been demonstrated, the company supports to improve the productive capacities of its production base, through training at the level of pruning techniques, fertilization, plant nutrition, post-harvest management methods and benefited from the grain and thus achieve excellent coffee producers that can be part of the benefits of specialty coffee prices.

All this is possible because the company recognizes all this effort through the return of its profits to the individual producers who have grown and processed their coffee. So even though there are producers or families who do not own their land, they can still increase their income per pound produced with a better quality of coffee.

In practical terms, the system works through two payments for coffee, a first payment that happens when the coffee is delivered on parchment to the company which is normally from January to March and a second payment when the coffee has been placed and sold on the market, which normally occurs in the month of July. Through this model it is possible to truly give the value to the producer for the risk assumed and for the market to which it has supplied, since in the case of a coffee with a fair trade seal it has a guaranteed price of US \$ 1.40 / Lb. FOB (plus a prize of US \$ 0.20 / Lb. additional), that is, approximately US\$ 1.05 that can be paid to the producer having deducted the costs incurred for taking the product to a certain port. In this case the Catracha coffee producer is paid US\$ 1.00 at the beginning and US\$ 1.50/Lb. later, totaling US\$ 2.50/Lb. for his/her quality coffee. In addition to this, Lowell tries to negotiate on the cupping score of the coffee. That is for every point scored above the 85-cup score minimum, the producer gets 25 cents more per Lb. of coffee sold. Producers of Catracha coffee get paid twice. First, when the dried coffee parchment is sent to Catracha Coffee (between January and March), and then when the coffee is sold in the specialty coffee market (July). So, let's say that a certain producer got a cupping score of 88, then he/ she will be paid an additional 75 cents more per Lb. of coffee.

The virtuous circle of this model is that it has been shown that, at that level of producers with the permanent monitoring of the exporter, with this additional income it allows them to reinvest in their farms, improving their nutrition practices and even allows them to hire labor for the farm or improve the conditions of benefiting from the grain and improve the quality. Making that year after year the productivity improves, and therefore, this additional income also improves the quality of life for producers, because there is more money for better family food, education and even to invest in another type of business that allows producers to diversify the risk.

In short, the transparency of a commercial intermediation model in products such as coffee without a third party can be achieved when the intermediation link of the chain can really transmit the needs of both the market and the producer and can also fairly remunerate the real value of the product.

Final Considerations

Producing special and high-quality coffees is not an easy task to achieve, since it requires a lot of work and time at a productive level. Catracha Coffee's business model is mainly based on three main pillars: motivation, leadership, and consistency. It is something that was born from the owners, however, for the permanence and growth of the business in the long term, it requires shared leadership and the commitment of all partners to continue producing high quality coffee.

While it is true that the economic incentive is one of the factors that drive the self-motivation of each Catracha Coffee partner, the pride of one day winning the cup of excellence is a dream that everyone strives to make a reality because it is synonymous with prestige and value. In addition, knowing how to take advantage of the conditions of factors such as the natural resources of a region is the best way to exploit its development potential. Santa Elena has a very high capacity to produce quality coffees, therefore, the owners of Catracha focus on quality. However, given the changing pattern in the global

supply and demand trends of specialty coffee, there is uncertainty faced by Catracha and its producers, yet Mayra and Lowell remain positive.

Replicating this business model by exploiting the characteristics intrinsic to a place requires a high level of commitment and a long-term vision. The success of Catracha Coffee is more than a goal, it is a path, a lifestyle that requires a lot of collaboration so that the results have a positive impact on the entire community. However, despite this, there is still a relatively slow growth for Catracha which is not entirely criticized by the owners for two reasons.

The first relates to quality; many times, in the eagerness to produce massively, accompanied by the desire to exceed the limits, quantity begins to prioritize quality. Producers see that there is a window to enhance their earnings if they produce more, but the thing here is that high production is not synonymous to high quality productivity. Therefore, the goals of this company are not to exceed the number of bags that were sold in previous years but to achieve higher scores in cup over time.

The second reason is based on the efficiency of the use of resources. Overinvestment often results in mismanagement when it is beyond the reach of both available labor and available resources. On one hand, investing in infrastructure is expensive, and on the other hand, getting the benefits from this action is usually not immediately seen. Therefore, operating at low cost has become a necessity for the company, since most of the earnings left after the producers are paid their share of the earnings, usually goes to the costs associated with the commercialization of the coffee with very little room for profit left to expand the business.

At the end of the day for Lowell and Mayra this business model gives them an opportunity to promote the socioeconomic growth of Santa Elena as a community but also it gives them the advantage of living within the community of Santa Elena.

The questions that remained for them here were: What should the company's growth strategy be? How can they measure the real impact of their intervention on the community? Is the business model replicable, if so, under what aspects or considerations? These and many other doubts appeared when the dense fog of the afternoon formed a curtain over the corn fields depicted in one of the many murals that had been elaborated through the "Catracha Collective Art group" in several structures of the town. The evening had fallen upon them, but there was always a tomorrow to look forward to.

Annex G

Teaching note for Catracha Coffee Case Study

Case Study: Catracha Coffee, a Replicable Business Model?

Synopsis.

Catracha Coffee was having issues regarding the sustainability of the business model that they had been employing since 2017. The situation here was that with the volatility of the coffee market prices, and the fact that there was very little money left as profit after all the expenses were paid, placed Catracha in a delicate situation. On the other hand, since Catracha provides the different inputs to the producers on credit many times and even transports these to the farm, the financial situation was not looking favorable to maintain. Lowell and Mayra contemplated on what was the best alternative to take since they wanted to keep the business going but it was obvious the business needed a different strategy to operate in more cost-effective way. Added to this was the fact that the business model operated with a very deep focus on the socio-economic development of the community of Santa Elena. If the wrong choices were made, there could be serious repercussions on the overall economic stability of the community since many producers depended now on the business model Catracha employed, and wherever that you looked, there was something that Catracha formed part of.

On the other hand, the fact that Catracha operates as a hybrid of an NGO and a cooperative, placed them in a position where certain limitations need to be considered before deciding whether the business model could be expanded to include other communities or not. The results of being part of Catracha as a producer or member of the community was perceived by other producers in other communities, however, it was more easily imagined than done to see Catracha expanding its business model to other communities or replicating it. The outreach of Catracha had reached a point where it was necessary to consider keenly which direction was the best to head on.

Important points to consider

The presence of social enterprises are key to the socio- economic development of many rural communities, globally. Catracha Coffee business model offers producers an opportunity to access a different market for their coffee that translates to higher earnings for the producers and their families.

On the other hand, these model offer producers advantages that is not always present in organizations like cooperatives.

The functionality of the business model is possible because of the integrated framework it possesses, since it combines the three pillars of sustainability to differentiate itself from other coffee exporters in the area, which in turn creates value for the producers in a number of ways. The producers perceive that they get several benefits by being integrated to the model, and this in turns guarantees membership with a possibility of expansion.

The global tendencies for the demand of sustainable coffee is increasing, therefore, there exists a great opportunity for Catracha and its members to become more competitive in the global market. Furthermore, the fact that Catracha offers producers trainings in areas other than production, promotes diversity, which can become another important opportunity for the business to enter other markets, since there can be other products that can become of economic value as a results of these trainings.

Potential use of the case

This case can be used to understand the complexity of operating a social enterprise in the field of coffee and what are some of the challenges that can be faced within the industry and model. It was structured as a teaching tool to make students understand that there are several business models out there that are operating focused on social impact, and that it is necessary to have a comprehension of what business strategies to employ to be successful.

It can also be used as a guide for those wanting to venture in the coffee business but do not necessarily know what business model to employ to be a cause impact in rural communities. It allows you to see firsthand what to expect while running a business, and what to do or not to guarantee the sustainability of the business.

Key Words

Coffee, sustainability, social enterprise, social impact, community outreach, business model, market price, quality.

Teaching Objectives

This case would provide students with the opportunity to:

1. Understand how social enterprises operate
2. Evaluate potential options to promote sustainability
3. Apply business strategies that will enable the business model to be successful
4. Evaluate the qualitative variables of an organic agricultural project in tropical regions and the influence of these on rural, social, and economic development of a community

Suggested additional reading

The following reading is recommended for the resolution of the case study, with the aim of improving the comprehension of how a social enterprise work, and the different aspects that comprises the commercialization of coffee.

- i. *Muhammad Yunus (2010). Building Social Business Models: Lessons from the Grameen Experience.*
- ii. *Álvarez, Miguel Ángel (2018.) Análisis de la Cadena de Valor del Café en Honduras. 1ª edición. Tegucigalpa, Honduras: Heifer Internacional, 40 páginas.*

Suggested Assignment Questions

Q1. Based on the information provided by the case, decide what possible changes does Catracha need to do make to its structure to keep being sustainable.

Q2. Based on the information provided by the case, consider what is necessary for the implementation of social projects like those of Catracha, taking into consideration the challenges of the industry.

Q3. If you were in the position of Lowell and Mayra, would you establish a business model like Catracha, or would you employ something different? Why or why not? And if so, what would be the changes?

Q7. How can they measure the real impact of their intervention on the community?

Q8. Is the business model replicable, if so, under what aspects or considerations?

Case discussion Analysis

The case can be used in any elective MBA or upper-level undergraduate course, as well as executive programs focused on the challenges of sustainability within a complex environment responsible business and social impact companies. It covers a broad range of issues, including sustainability and operations management, strategic management, social awareness entrepreneurship, and complex industry dynamics.

The case is best presented in a double (180 minute) session to allow for several discussion and breakout sessions. For courses with short time (90 minutes), the preliminary multimedia and PowerPoint content can be delivered ahead of time, allowing the class discussion to focus on the issues of interest (as listed above).

Materials

Depending on the materials used, the case can be taught both in-class and online, with different levels of interaction. The supplement offers an overview of the case bundle.

Multimedia

The teacher has the option to use several different video excerpts of various lengths to introduce the company. They can be shown in-class or watched pre-class.

Links : <https://www.kickstarter.com/projects/803550123/the-way-back-to-yarasquin-a-coffee-pilgrimage>
<https://sweatpantsandcoffee.com/the-catracha-coffee-story-one-small-sip-can-change-the-world/>
<https://vimeo.com/ondemand/waybacktoyarasquin>
<https://www.catrachacoffee.com/>

Instructions to Solve Board Plan

- i. Students will need to brainstorm on possible solutions posed on the problematic of the case.
- ii. The first step includes describing Catracha and what makes it ideal as a social enterprise model. Students should review the case and additional media provided for board one and two.
- iii. On board four and five, students will take a look at the challenges and opportunities that Catracha's has to find a solution to the problem. In these two boards, students can work on a SWOT & PESTLE analysis of Catracha's model to solve the last board.
- iv. Board three will be the wrap of the possible solutions found by the students and also contain the final considerations before a feasible solution to the case study is made.

**** Ideally board one and two should go together, and board four and five on the other side, having board three in the middle of the four boards as the final resolution. Board three should also be the last board to be solved as a wrap up of the four boards questions before it.*

Board Plan

Board 1

What makes Catracha an ideal social enterprise model?

The social programs

The premiums payment to farmers

The value creation for the partners (producers), including environmental, economic, and social aspects.

Board 2

From your perspective, does Catracha offer a differentiated product? If so, how?

Yes, it does.

It offers a specialty coffee produced in an organic way, and which caters to improving the livelihood of local farmers through the sale of their coffee to the international market. It pays the producers premiums on top of the market price paid to them for the coffee sold, which

Board 3

What opportunities do you see for Catracha in the longer run?

Some opportunities include:

- Branding under socially responsible business labels.
- Expansion to selling other products in the foreign market as result of the different training sessions given to the local people.
- Increase payments if certain certifications are acquired.
- New alliances with NGO's that have the same social and economic interest as Catracha.

Board 4

What are challenges you identify the business model can face in the longer run?

The business model is made to create value for its partners (producers), however, the fact that there is no written contract to make the producers honor their word of selling coffee to Catracha, makes challenging to have constant supply of coffee when market prices go up. This can make Catracha stand in a delicate position with roasters, since this could reduce the supply making it hard for them to the clients demand in the long run.

Board 3

What are some considerations that Catracha's proprietors need to keep in mind in order to see if the business model is replicable in other communities?

Some of the considerations that the owners of Catracha need to consider before deciding to expand, include the financial, social, cultural, and environmental conditions of the other communities. The model of Catracha is unique in the sense that it caters to the community of Santa Elena only, but there are several factors that have maintained it successful thus far.