Two Case Studies of Profit Sharing in Global Supply Chains: Catracha Coffee Company & Thrive Farmers International, Inc.

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The case studies presented here are part of a broader project which aims to understand the benefits and shortcomings of various approaches to distributing value in global supply chains.

This working paper is also available, by request: **Rethinking the "necessary" trade-offs of distributing value to suppliers: An analysis of the profit-sharing model**

Abstract - Far too often, global supply chains distribute value in ways that contribute to income inequality and the uneven accumulation of wealth. Despite a surge of innovations to address this problem—such as fair trade, corporate social responsibility, and creating shared value—the issue of value distribution persists as a pressing priority for the international development and business communities. This article puts forth a first attempt at theorizing profit sharing as a potential mechanism for more equitable value distribution in global value chains. Drawing on two in-depth, multi-method case studies of companies that share profits in the coffee sector, we develop eight theoretical propositions about the applicability and efficacy of profit sharing as a tool for redistribution. Our research suggests that profit sharing can distribute value without requiring suppliers to compromise price stability, profit maximization, value creation, or alternative economic opportunities. This conclusion challenges extant theory which asserts (based on studies of fair trade certification, direct trade, and solidarity trade) that these tradeoffs are often necessary or inevitable. We also extend the literature on profit sharing. Extant literature examines firm-level attempts to maximize productivity and minimize dissent, while we are theorizing profit sharing's fitness for redistributive objectives in the context of value chains. The implication of our findings is that, in some contexts, companies may be able to increase prices and improve income stability without requiring suppliers to compromise other economic priorities.

See, also, **our article in *25 Magazine***, an official publication of the Specialty Coffee Association, coming out in spring 2021.

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I. CASE STUDIES

<u>Case 1: Catracha Coffee Company</u>

Origin - Mayra Orellana-Powell grew up drinking and cultivating coffee in Santa Elena, a community of about 400 small coffee-producing family farms in the mountains of Honduras. Always maintaining a commitment to her home community, Mayra married Lowell, an American Peace Corps volunteer, moved to the United States, and completed a BS degree in business administration and international business. After working in human resources for nearly a decade, she launched Catracha as part of her intention to return home. Her goal is to empower people in Santa Elena to believe in themselves, learn new things, take risks, and work together as a community. Mayra believes that by incentivizing and facilitating quality improvements and access to specialty markets, she will increase farmers' profit per pound of coffee, enhance willingness to learn new things, generate self-worth, build community, and improve the range of choices that families have in their daily lives. Catracha is explicitly focused on improving profits for Santa Elena farmers via quality improvement and market access. Lowell describes Catracha as a "model of rebellion"-- "it would be perfectly normal to take more and give less. But we don't" (Lowell Powell, October 2019, email correspondence).

Development - In 2010, Mayra launched Catracha by importing 500 pounds of coffee from a handful of farms. Mayra's skillset, the company, and the Catracha network grew quickly. In 2011, she imported 9,000 pounds from 13 farms, learned to roast, and began delivering coffee to neighbors in California by bike. In 2012, she invited a documentary filmmaker to capture her story, began attending the annual SCA (then SCAA) Expo, and landed a new job as the Director of Marketing and Outreach for Royal Coffee, Inc., a specialty importer. By 2015, Catracha coffee was featured at Blue Bottle (a very high end chain), Mayra delivered the keynote to coffee executives at SCAA, and her family launched a Catracha coffee cart in Portland, Oregon. Catracha is a for-profit social enterprise that works in tandem with Catracha Community, a 501(c)(3) nonprofit directed by Mayra's husband and governed by a board of family and friends.

Profit-sharing model - Today, Catracha works with 80 Santa Elena farmers. The model, as Mayra describes it, is capitalist yet empowering; profit-driven yet developmental. Every farmer is "for themselves" and is assumed to "always follow the money" (Mayra Orellana-Powell, January 2016 fieldnotes, Santa Elena, Honduras). Each harvest season (January-March), farmers in Santa Elena are invited to sell their high quality coffee to Catracha. To participate, farmers must first attend a year (8-10 meetings) of training, own or have access to a wet mill for processing, and have space dedicated to drying coffee. Catracha occasionally provides loans and technical assistance so infrastructure requirements are not a barrier to entry. Catracha purchases 500 pounds in year one and (if quality is high) more in subsequent years. Farmers who sell to Catracha are considered "members" and must continue attending quality training. However, they are never obligated to sell to Catracha. Catracha is explicitly a "quality project," buying only catuai, bourbon, and tipica varieties scoring 85 or above on a 100-point quality scale. Farmers sell lower quality coffee elsewhere, usually to a less discriminating buyer in town, allowing them to maintain multiple income streams. After paying the highest price that Mayra feels confident she will receive from roasters, Catracha oversees the final stages of drying, contracts the Fairtrade certified cooperative to dry mill the coffee, and exports green beans as distinct microlots. The bags have farmers' names printed on them and some roasters (such as Blue Bottle) feature farmers' names in marketing materials. After the coffee is sold to roasters, typically in July, Mayra distributes additional profits to the farmers, each receiving an amount that reflects the price their microlot received.

Catracha's system of profit sharing emerged organically in 2012, when Mayra made US$10,000 in profit and felt the only appropriate action was to return it to the farmers, as a mid-year "bonus." Since then, Catracha has offered a conservative initial payment at harvest and a second payment once payments from roasters are received. The second payment is the price received from roasters (FOB), minus Catracha's costs (e.g., dry milling, insurance, and transportation, a few part-time employees) and a contribution to the community fund (described below). Catracha's overhead costs are quite low because Mayra and Lowell do not take salaries, but instead are supported by Mayra's employment with another company. The financial benefits have been significant. Currently, the first payment is comparable to the price offered by the local Fairtrade cooperative. The second payment is thus an addition to what the farmer would have otherwise received. Together, the average total price received by farmers ranges from $2.10-2.50 per pound, depending on market prices and quality. The model has not always operated as planned. In some years, not all of the coffee sold before July, when Catracha delivers second payments. Instead of delaying payments or assuming the remaining coffee would be sold at a loss, Mayra made payments based on hopeful estimates and incurred substantial losses, which were covered by her personal savings. Aiming to prevent this from recurring, Catracha began sending samples to roasters immediately following the harvest, which has helped facilitate pre-sale of about 80% of the coffee. Another deviation from the typical model occurred when prices were particularly volatile during the harvest season. Because producers received significantly different initial prices for similar qualities of coffee, the second payment was adjusted to make prices more fair.

Community investment - In 2017, Catracha began adding a 25 cent donation to the FOB price of microlots to support the Community Fund, which is a non-profit that finances several projects for participating farmers and the broader community. For example, the Coffee Quality Project conducts research on variables that impact the quality of Santa Elena's coffee, such as drying temperatures and moisture levels during transport. The results are used to help farmers make their own decisions about which investments of time and/or money make the most sense for them. The goal is to keep quality scores (which range from 1-100, with 80 or above considered "specialty" grade) over 86, get a higher percentage into the 87-89 range, and aim to be over 90, which can substantially increase price premiums. Catracha's annual youth conference trains young people to think about community problems and solutions, builds self-confidence and community, and provides business and entrepreneurship training. The youth drive the agenda by requesting speakers and topics, which have ranged from cell phone repair to horticulture. The food security program helps improve access to nutritious food through agricultural training, access to vegetable seeds, and cooking demonstrations in the Catracha-funded community kitchen. Additionally, micro-businesses are supported through small loans, entrepreneurship training, and opportunities to work with international visitors (e.g., by preparing food and hosting visitors). Finally, Catracha's weekly art workshop, led by two Honduran artists, attracts children aged 7-16 (some walking 40 minutes) to learn about diverse art forms and celebrate cultural identities.

Impact - Catracha's shared profits and community fund have facilitated a number of changes. At the farm level, families have made substantial upgrades to processing equipment and improved processing practices. At the household level, more families have vegetable gardens and micro-businesses that diversify their sources of food and income. One farmer, for example, was finally able to buy equipment to harvest honey from their bees. Families are spending more money on food and education and less on high interest predatory loans for agricultural inputs. Catracha members are solving collective action problems and taking initiative in ways they previously had not. One couple used their bonus, along with loans from other Catracha families, to build a health clinic. Others brought in volunteer Honduran doctors to provide services. The mayor, himself a Catracha farmer, organized a seed bank. Women handicraft makers formed the "Catracha Colectivo" to improve collaboration and support one another. After only a few years, Mayra said she noticed an increased sense of good will, generosity, confidence, pride, trust, and social capital; better treatment of coffee pickers; and the ability and willingness to learn new things and take risks. Mayra and Lowell have been actively pursuing opportunities to have social scientists conduct an impact assessment to evaluate impact and provide verification to external stakeholders.

Scale - For Catracha, "scaling" is about buying greater volumes and increasing prices for farmers in Santa Elena. Mayra would like to add more members and buy more volumes, but hesitates to do so when it is already challenging to sell all of the coffee purchased from existing participants. The greatest challenges to selling more coffee is improving quality and developing consistent relationships with roasters. Lower quality coffee (around 85) is about a third of Catracha's volume and it is challenging to sell. Higher quality coffee (87 or higher) is also about a third of the volume, and those are the lots that seem to attract new roasters. Thus, improving quality is paramount. Since Catracha has helped producers to adopt best practices for processing, quality scores have increased and plateaued. The next step is to train and financially incentivize hired pickers to adopt best harvesting and sorting practices, and help farmers understand how and when to invest in agricultural inputs. Moreover, roasters challenge scalability when they "cup" (coffee lingo for "taste") and select different lots each year, introducing uncertainty about purchasing volumes and prices. When roasters develop relationships with individual producers and purchase their coffee year after year, however, Mayra can focus her outreach on recruiting new buyers. This is critical because Catracha's harvest is later and prices higher than other Honduran communities. Roasters say Catracha's price point requires them to explain (to consumers) the value added at origin. This is easier in cafes and with online consumers, where margins are more flexible and there is space for communication. Although Mayra's savings allowed Catracha to gracefully weather two years of excess volumes and low market prices, the goal is to be consistently profitable. For this reason, Catracha does not identify access to capital as a barrier to scale.

Emergence - Mayra's leadership, vision, business background, cross-cultural communications skills, and long term commitment to Santa Elena were critical. Also essential were her investments in educating herself about the specialty coffee sector, which she did by working at Royal, participating in SCA events, permaculture training, networking, learning to roast, and consuming relevant research. Her charismatic personality facilitated the development of a deep network that provided substantial volunteer support at a low cost (e.g., having a documentary made about Catracha). Purchasing coffee, attending training events, and traveling to/from Honduras required an initial investment, but similar costs are now built into the model. Several contextual factors may have supported Catracha's success, including the emergence of third wave (high end) coffee culture, increased interest in micro lots, and Honduras as SCA Expo's featured country in 2012. Finally, Mayra was able to leverage infrastructure in and around Santa Elena at relatively low costs: she dry milled microlots at the Fairtrade coop, developed a drying and storage space at her mother's home, built a community kitchen at her home, used the IHCAFE (Honduran export support service) coffee lab to calibrate equipment, cup coffee, and host trainings, and earns an income by working for an international coffee importer.

Case 2: Thrive Farmers International Inc.

Origin - Ken Lander's original goal in moving to a coffee farm in Costa Rica was an active retirement from his life as a US trial lawyer. But after the 2008 financial crisis decimated his investments, his income became reliant on his five hectares of coffee. This is when Ken realized how little of the consumer dollar reached coffee farmers. In 2010, Ken and his neighbors founded the San Rafael Sustainable Coffee Initiative, which roasted coffee and sold it in Monteverde's tourist-saturated cafes. Soon, they became the largest mail-order micro-exporter in Costa Rica, sending their coffee all over the world. Today, Thrive sources from eight countries and moves millions of pounds of green coffee into the United States, but its mission has remained the same: to "empower farmers to thrive by taking them to market as partners" (Ken Lander interview in 2019). Thrive operates a demand-driven revenue sharing model that guarantees farmers a long-term, predictable price at the top of the market by connecting them to new sales outlets and sharing the gross revenue with them according to relative risk. As a result, farmers' net profits have increased almost threefold since 2013.

Development - In 2011, Atlanta-based entrepreneur Michael Jones reached out to the San Rafael Sustainable Coffee Initiative to replicate the model. The group decided to take farmer-based vertical integration to scale, and the gross revenue-sharing model of Thrive Farmers was born. While Michael raised capital in the United States, Ken and his neighbors grew their network of contacts in Central America. The goal was to expand the idea of 'farm-to-table' coffee trading by exporting green coffee to the US and roasting it on behalf of farmers, who would maintain ownership of the beans until sold to the consumer. The first six containers of coffee that Thrive exported in 2011 were consignment-based, with farmers only getting paid after the coffee sold. In return, farmers were assured 50% of the final sales price for roasted and 75% for unroasted coffee, minus transportation costs. However, the six to 12 month time lag in payment did not align with farmers' cash flow needs. After Thrive was profiled in a 2013 New York Times article (LaPorte 2013), it came to the attention of Chick-Fil-A (CFA), a major fast food chain. Thrive's quality and reliability quickly enabled it to become a Chick-Fil-A preferred supplier. Thrive and Chick-Fil-A negotiated large-scale, multi-year contracts, which Thrive translated into a revenue-sharing proposition for its farmers that integrated their preferred payment schedules. Today, Thrive sells coffee online to individuals and roasters, has a café in Atlanta, and sells the majority of its volume to Chick-Fil-A and other large buyers.

Profit-sharing model - One of Thrive's central tenets is that farmers are crucial stakeholders in the final sale of their product in the consumer marketplace. This means that Thrive will only enter a new sales agreement if it is clear that they will be able to offer their farmer partners long term, stable prices at the top of regional market peaks. In this way, the model is demand-driven, eliminating the risk of oversupply that could drive prices down. Unlike Catracha, Thrive does not solely operate in the highest-quality segment, but endeavors to match their buyers' specifications with farmers in their networks. This allows for the inclusion of both high-end, single-origin producers of 86-87 point coffee as well as larger quantities of coffee situated in the high 70s and lower 80s. Contracts with farmers that specify final quantities and expected quality are made on a yearly basis. Prices paid to farmers are determined on the basis of the price of roasted coffee, and margins are shared between Thrive and farmers depending on relative risk. In cases where Thrive's buyers agree to fixed contracts (scenario 1), Thrive has low risk and is able to pass down a greater share of the final revenue. When Thrive develops new markets and holds the inventory and supply risks (scenario 2), its margins are slightly higher. To better meet farmers' needs, Thrive began paying out a large share of the final sales price as soon as the green coffee changes hands. Its farmer payment policy specifies that in both scenarios, these first payments always cover production costs and align with regional market prices and local market swings. In scenario 1, a second payment follows at the close of the crop year (which tends to be within the calendar year) to bring the full price paid up to the agreed-upon revenue share. If Thrive's transportation or insurance costs are lower than expected, the savings is passed on to farmers in a third payment. In scenario 2, Thrive calculates a 'margin pool' on a yearly basis by subtracting sales cost from sales revenue. It then redistributes a share of this to producers, weighted by the volumes they had put in, as a second payment. Treating farmers as partners in this way also allows Thrive to balance its own revenue without the need to turn a profit on every single product line.

Community investment - Thrive furthermore aims to use its position as a touchpoint for farmers in producing countries to also address the social and environmental aspects of sustainability. To do this, in 2015 they founded ThriveWorx, a non-profit organization aiming to stabilize and transform communities by bringing additional resources beyond improved farmer prices into the most underprivileged communities Thrive works with. As of 2018, they are present in 14 communities in Costa Rica and Guatemala and reach over 3000 individuals. ThriveWorx aims to be community-driven by relying on local leaders to develop and implement holistic community development plans that leverage the economic impact from Thrive Farmers for the common good. To date, ThriveWorx has helped in developing projects focused on transformational leadership, school infrastructure improvements, financial literacy, health clinic improvements, and clean water access. Projects are funded by their customers, stakeholders, or independent donors. Some are also co-funded with Thrive, which also covers all overhead costs of ThriveWorx.

Impact - In order to measure the impact of their model, Thrive has tracked both the stock market as well as Fairtrade and 'plaza prices' of their coffee partners in Guatemala and Costa Rica (the two origins used in the CFA model) since 2013. 'Plaza prices' are the prices that farmers would be offered in their micro-region according to the best available information, and in general are higher than stock market or Fairtrade prices. Using this measure as a counterfactual adjusts for farmers' higher overall quality and country differential in order to avoid inflating Thrive's impact by introducing sampling bias. Even so, the numbers show that over three years, Thrive prices were on average 20% higher than farmers' next best option. Thrive furthermore sourced from cooperatives (usually made up of smallholder farmers), small farmers (< 15 ha), medium (15-50 ha), and large (> 50 ha) farmers. Cooperatives and small farmers benefit the most in terms of average price improvements, with cooperatives in Costa Rica gaining 49% higher prices than their plaza price at the time of contract, and small farmers in Guatemala gaining price improvements of 18% while the country average was around 16%. Using average estimated production costs[1] and

[1] In order to assess Thrive's impact on participating farmers' net profits in the absence of granular farmer-level production cost data, the team uses per-unit production cost placeholders that are extremely conservative (that is, at the upper end of the country-level range of production costs)

weighing by total sourced volumes, Thrive estimates that over the period of 2013 to 2017, Guatemalan farmers in their model were able to make 94% more profits than if they had sold to plaza prices. Costa Rican farmers, in turn, were able to increase their average profits by over 300%.

Scaling - Thrive has aimed to scale up since its inception and has adjusted its business model to accommodate several phases of growth. Initially, for example, Thrive wanted farmers to maintain *ownership* of their coffee until its final sale. However, coffee exporting often necessitates buy-sell contracts. Thus, although farmers sell their coffee to Thrive, they maintain a *stake* in the final price through profit sharing. This is facilitated through the two-payment system which over time has increasingly relied on the company's improved access to finance, experience, and continued clear communication with farmers. A key challenge to scaling is balancing Thrive's imperative to consistently meet client needs with its mission to scale its impact with small farmers. Thrive works with large and small farmers. When entering a new region, Thrive identifies a 'local hub' from which to expand, such as a skilled coffee exporter, large farm, or NGO, in a relational manner (e.g., word of mouth). Small-scale farmers are then likely to be included through their pre-existing connections with the hub. This illustrates the tension that in this industry "relationships work for those who have the social capital to have and maintain relationships" (Mike Mannina, personal communication, 2019). Also, as Thrive expands in-country volumes, it may have to focus initially on offering portions of larger volume contracts to existing partners to assure a stable and quality supply chain for the contract. Here, "the temptation is to constantly use the guys we really know and we know who can deliver", which tend to be larger producers (Mike Mannina, personal communication, 2019). However, Thrive aims to also provide social capital to its partners and maximize volumes sourced from small producers who previously lacked the social and economic capital to sell to high end markets. To do so, Thrive sets a small-farmer quota for each product line, and actively reaches out to small-farmer communities outside of pre-existing networks. Thus, final sourcing decisions are made as a "balance of our overall network, and finding the places of need, balanced with the quality and the supply chain that is realistically able to be built" (Mike Mannina, personal communication, 2019).

Emergence - Thrive emerged as a result of a diverse combination of international backgrounds, expertise, skills, and networks, brought together through collaboration among Ken, Michael, and farmers of the San Rafael Sustainable Coffee Initiative. Ken acted as a connector of diverse actors, noting "my forte in life has been in dealing with people that are much smarter than I am in certain focus areas and having to assimilate myself into that and be conversant and communicate" (Ken Lander interview in 2015). Michael's assets included his entrepreneurial vision, network, and access to start-up financing (both own funds and angel investors). Farmers and neighbors brought in important perspectives on the challenges and opportunities of local coffee farmers. As Thrive grew, it added more skill sets to the team, including Tom Matthesen, the current president of the company, who previously worked on funding private equity backed portfolio companies. The ability to access mainstream financing instruments in order to pre-finance green coffee upon delivery at scale was invaluable to move away from the consignment model and become a serious player in the coffee market. Media exposure affirmed the need for innovation and facilitated the Chick-Fil-A collaboration, which in turn offered the proof-of-concept required to scale up.

in order to avoid overinflating their impact. The quoted numbers should thus be read as the lower bound of the likely impact on profit margins, with the true effect likely to be higher, especially for efficient farmers.

II. CASE COMPARISON

In this section we identify key similarities and differences between the two cases, including features of the model, conditions facilitating emergence, and approach to scaling. We also compare their success in shifting value down the supply chain with alternative models in the coffee sector.

Common Features

The two business models share several features. First, they are firmly profit-driven, committed to profit-sharing, and explicitly aim to increase the prices paid to coffee farmers. As Ken explains, sharing means a farmer's "stakeholdership in the actual value that is generated on the demand side" (Ken Lander interview in 2019). Value is shared by increasing prices paid by the buyer and decreasing the share of that price paid for intermediary services. The companies are not subsidized by charities, and thus the fate of farmers and the enterprises are dependent on one another. Second, both enterprises recognize that small-scale commodity farmers struggle with both low prices and income volatility, and take risk mitigation seriously. They have developed several strategies aimed at sharing the benefits of high prices while mitigating risks of low prices: payment schedules align with farmers' cash flow needs; the first price reflects market dynamics and other intermediaries' offers; and the second payment reflects sales prices of both individual farmers and the broader community, which helps to pool risks. Third, both businesses aim to expand farmers' choices within the market framework instead of locking them into a partnership with a long term contract. They encourage producers to pursue the most advantageous opportunities each year, and to diversify sales channels. Thrive enters the market at the same time as other buyers to make its contracts, aiming to offer producers the best price possible while not precluding other options. Catracha farmers sell coffee to the Fairtrade cooperative as well as intermediaries, which allows them to also earn income from their lower-quality coffee. Fourth, both entrepreneurs have revised their business plans over time and created flexible models to adapt to shifting market forces and stakeholder needs. After initially pursuing the social mission through the for-profit enterprise alone, both subsequently added non-profit entities to deliver additional services to members and distribute benefits to the broader community. Additionally, payment schedules, first to second payment ratios, and relationships with buyers have been adjusted to stabilize farmer incomes, mitigate risk to the enterprise, and facilitate higher prices.

The histories and leadership also have a great deal in common. First, both founders act as key decision-makers (in the case of Thrive, this has over time expanded to other members of the leadership team such as a Chief Operating Officer). In both for-profit businesses, the entrepreneurs have full legal power to make all decisions. Although farmers, buyers, or other stakeholders are not part of the formal governance structure, the founders express a deep sense of accountability to them. Each year, the leadership team reviews the profit-sharing ratio to address market conditions, accommodate shifts in operating budgets, and respond to changes in buying and selling partnerships. In the case of Catracha, the non-profit entity has a board of directors that represents a broader range of stakeholders. Second, both entrepreneurs are closely involved in the marketing of the model through speaking at industry and grassroots events, scheduling personal meetings with prospective buyers, and seeking media coverage (e.g. newspapers, industry publications, documentaries). They feel this has minimized marketing expenses, bolstered public profile, and facilitated their ability to deliver and sell a credible and compelling story. Both have websites that focus on the ‘farm-to-table’ concept, explain their profit-sharing model in very simple terms, and highlight the benefits of higher prices at origin. Third, both entrepreneurs are permanent residents of the beneficiary communities. As Ken explains, “we don't visit once a year and have a handshake and a photo with producers. Most of our producers say that they have never had a customer that is so involved in their lives. We do life together with our producers. We go to weddings, travel together, eat together, and visit each other not for business” (Ken Lander interview in 2019). Lowell offers a similar assessment, “I feel like our security depends on staying on mission. If we are perceived as taking advantage of the community our ability to live here could meet resistance…. The minute we don’t do what we say we are going to do, we are done” (Lowell Powell, October 2019, email correspondence). In both cases, a sense of shared fate helps facilitate trust, communication, and honesty.

Key Differences

The models differ in how they approach the question of scale. Taylor et al. (2002) and Dees et al. (2003) identify two variants of scaling social innovations: Scaling ‘deep’ and scaling ‘up’. Entrepreneurs scale ‘deep’ when they aim to increase impact to the incumbent community, adding new services and incorporating more individuals. They scale ‘up’ by identifying similar needs in other geographic markets and expanding the innovation. Catracha scales ‘deeply’ by continuing to increase services and benefits to its members and others in the community while Thrive scales ‘up’ by extending the model to more communities, including large estates, additional countries, and producers of varied quality. Consequently, the companies’ approaches at origin differ: Catracha conducts site-specific research aimed at achieving exceptional quality; Thrive identifies sites in which a large network of farmers and highly functioning processing infrastructure can consistently generate high volumes of good quality coffee. Their strategies for working with buyers also differ: Catracha aims to convince roasters to purchase from specific farmers each year; Thrive develops multi-year contracts with large buyers.

Comparative case analysis suggests that differences in approach to scale, quality requirements, buyer strategies, and transparency are consequences of the companies’ distinct mission statements. Given Catracha’s commitment to a small group, it makes sense to focus on consumers who expect high-end quality and are willing to pay. This segment creates margins that allow for considerable profit redistribution even by small companies with relatively large overhead, benefitting producers who had little access to such markets before (Donnet et al. 2007; Teuber and Herrmann 2012; Wilson and Wilson, 2014). As a small, localized enterprise, Catracha can also minimize overhead by limiting staff and bureaucratic structure. Mayra’s income comes from another job in the coffee industry, and her family’s private funds have twice covered losses. Catracha also limits operating costs by forgoing third party verification of its payment and impact claims. It is working to mitigate the tradeoffs to this approach: Mayra and Lowell maintain careful records, are working to develop an online system that allows farmers to self-report the prices they receive; and are actively seeking an expert to provide a pro bono impact assessment. Given Thrive’s commitment to disrupting specialty coffee at a larger scale, it makes sense to work with both small-scale and larger farmers, and to diversify risk and spread impact by working in multiple countries. This strategy allows the company to offer several quality points, volume, and reliability. Because this strategy requires greater capital for pre-financing, partnerships with the venture capital community are necessary, even though their returns on investment may reduce payments to producers. Although Thrive’s relationship with investors may put it at a greater risk of mission drift than Catracha, its founders have aimed to mitigate this possibility by making the principles and broad methodology that guide pricing decisions more explicit in an internal document that aims to facilitate mutual understanding among stakeholders.

Success in Sharing Value

Both Catracha and Thrive measure success in terms of both prices paid to farmers (level and stability) and broader community-level developments. At the farmer level, our analysis suggests they are consistently able to offer prices significantly higher than farmers' next-best options, for the qualities purchased. They are also able to offer other benefits related to value, including price stability, quality premiums, and improved market access. Catracha and Thrive's ability to share value is constrained by buyers' willingness to pay, which is a product of market fluctuations, consumer price elasticity, and retailers' expected profit margins; factors over which they have little control. At the community level, success has been evident in the proliferation of sustainable micro-enterprises, improved food security, investments in quality, community organizing, health service provision, investments in arts and culture, and youth empowerment activities.

III. METHODOLOGY

What is a case study?

A case study is a rich, empirical description of a particular instance of a phenomenon, typically based on a variety of data sources (Yin, 2017). Researchers examine the similarities and differences among multiple case studies to evaluate which characteristics are idiosyncratic or part of a broader pattern (Eisenhardt, 1991). Cases are selected strategically to allow the object of study to be investigated fully (Patton & Applebaum, 2003). When the purpose is to extend theory, not test it, the cases do not need to be representative or random. Instead, they are selected purposefully, based on fit with the phenomenon, variables, and questions of interest (Bartlett & Vavrus, 2016). We followed the "polar type" approach to purposive case selection, choosing two cases that appeared very similar in most ways but differed dramatically in one dimension (Eisenhardt & Graebner, 2007; Eriksson & Kovalainen, 2015). The analysis of only two cases is the bottom limit for generalization (Yin, 2017). In this context, generalizability is determined by the strength of the description, which allows the reader to determine the level of correspondence between the cases studied and other, potentially similar, situations (Patton & Applebaum, 2003).

Why did we select these cases?

We selected two cases of social enterprises that have innovated a profit-sharing mechanism to distribute value to suppliers: Catracha Coffee Company and Thrive Farmers International Inc. (hereafter 'Catracha' and 'Thrive,' respectively). Both are for-profit social enterprises that aim to achieve the social mission of improving the income and wellbeing of coffee suppliers through their primary economic activity of buying coffee from suppliers in Latin America and selling it to roasters in the United States (on integrated models, see Battilana et al., 2012; Ebrahim et al., 2014; on beneficiaries as clients see Santos et al., 2015). Catracha and Thrive self-identify their mechanisms as "profit sharing" and "revenue sharing," respectively. An initial query suggested their approaches were more similar to one another than to any of the mechanisms examined in the literature. It also revealed a key difference: one scaled up; the other scaled deep. Variation on this feature is particularly interesting because each of the three mechanisms in the literature tend toward one of the two types of scaling, not both. We triangulated our preliminary impressions by reviewing academic literature, reading industry media, and probing academics, traders, roasters, certification board members, direct coffee managers, NGO executives, business association leaders, suppliers, and others with relevant expertise. Through this research we identified several cases that shared some features but were overall less similar to each other than the cases we selected. They include: New Zealand NGO Trade Aid, which pays producers dividends from operating surplus; Progresso, which distributes profits to Oxfam UK, a community trust, and cooperatives in Honduras, Ethiopia, and Indonesia through a shareholding agreement; and Pachamama, a California-based roaster cooperatively owned by small-scale suppliers in Peru, Nicaragua, Guatemala, Mexico, and Ethiopia, who share profits among themselves (Low & Davenport, 2007; Lloyd, 2003).

How did we collect the data?

To learn how profit sharing functions and compares to other mechanisms, we gathered data from interviews, internal records, public documents, and media coverage (see Table 1), triangulating official, public accounts with other lived, documented, and potentially conflicting accounts (Hollingsworth & Dybdah, 2007). We interviewed diverse respondents, asking questions relevant to our understanding of the mechanism, to reduce convergent strategies of impression management (Eisenhardt & Graebner, 2007). We collected both real time and retrospective data over several years in order to reduce retrospective sensemaking (Eisenhardt & Graebner, 2007), until reaching "category saturation," the stage at which no new evidence appears (Strauss & Corbin, 1998). Because each researcher began collecting data on a case several years before collaborating on this analysis, the timeline, methods, and data are slightly distinct. Names have not been changed, on request of the entrepreneurs. Each individual who provided information was informed of the researchers' intent and permitted to decline participation at any time without recourse. We did not collect identifying information, though the analysis draws on personal accounts sourced from the public domain.

How did we analyze the data?

First, we reviewed our data and developed open codes (Strauss & Corbin, 1998).[2] Second, we organized data into themes that reflected the literature, our research questions, and the open codes by copying and pasting data (and their sources) into an outline. Triangulating data from varied sources, each researcher developed a narrative for each case for each theme (Stigliani & Ravasi, 2012). Third, we reviewed and discussed each other's narratives, requested and incorporated additional data from each entrepreneur into the narratives, and invited the entrepreneurs to confirm

[2] **Open Codes**: philosophy, empowerment and pride, governance, value chain, financial aspects, approach to quality, profit sharing, training and quality improvement, material resources, community-based research, collaborative relationships, relationship to fair trade, marketing, impact, theory of change, outcomes, quality, farmer reinvestment, diversification, community development, scalability, tradeoffs of scaling, changes in scaling, evolution of size, evolution of participating roaster, and evolution of priorities. **Themes:** origin, development, business model, profit sharing, community investment, impact, and scale.

accuracy. This process generated a 2,000-word narrative for each case. Following the "Eisenhardt method," we then organized our analysis into a table displaying concise summary points of each case that facilitates comparison (Reay, 2014). This allowed us to iteratively compare the cases across three axes: horizontal (contrasting cases with each other), vertical (tracing phenomena across scales), and transversal (tracing phenomena and cases across time), bringing the novel phenomenon of profit sharing into focus, identifying its core features, functions, and consequences (Bartlett & Vavrus, 2016). Finally, we drew on the narratives and comparative case analysis to develop theoretical propositions responding to our research questions (Eisenhardt & Graebner, 2007).

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