Dark Milk Chocolate Bars Help to Unlock Wealth in West Africa

Date : February 13, 2018

What will you do in high school that will inspire your future choices? For Steve Wallace, an exchange student trip to Africa as a teenager ultimately resulted in him starting Ghana-based Omanhene Cocoa Bean Co., a unique chocolate bar business that treats employees like family. He shares his journey in his new book, Obroni and the Chocolate Factory, An Unlikely Story of Globalization and Ghana's First Gourmet Chocolate Bar. *Wallace visited our sister publication* ***Knowledge@Wharton*** *to discuss his book and how he hopes Ghana can reap more benefits from the cocoa value chain.*

Knowledge@Wharton: How did a young man from Milwaukee, Wisconsin, end up starting a company in Ghana?

Steve Wallace: In high school in 1978, I had been selected for a foreign exchange scholarship on a program called AFS, and I was sent to the town of Sunyani, Ghana. I was placed with this remarkable host family. My host father had three wives and 21 children, and I took my place as child 22.

The town happened to be at the northern edge of the cocoa growing part of Ghana. In any given year, Ghana is the largest or second-largest cocoa-producing country in the world, trading with the Ivory Coast. That summer was transformative for me. We had a coup, a military takeover of the government. The economy was a shambles at the time, so I had a firsthand seat at an emerging democracy. I saw what it was like for a post-colonial country to begin to move forward into both democracy and a reinvigoration of its own economy.

That's where the affection for Ghana came from, and all the rest of the business was in some ways an excuse to go back to a place that I loved. I wanted to bring my small business knowledge to that country and see if we could play some small, modest role as it began to transition from a colony to a first-world economy.

Knowledge@Wharton: Although Ghana produced cocoa, there really wasn't production of chocolate, correct?

Wallace: That's right. They were really comfortable at what would be called the very bottom rung of the cocoa value chain: growing the beans. Ghana probably exports $2 billion to $2.5 billion of raw beans a year. If you were to ask people where good chocolate comes from, they might say Switzerland or Belgium or France. My first question was, how many cocoa trees grow in Zurich? The answer was none. I began to think, why is it that a country so primary in the growing of the world's finest cocoa is not enjoying the fruits of the benefits of the cocoa value chain, and why didn't they move upstream to create chocolate? I wanted to put some assets against that and see if we could actually manufacture export-grade chocolate that could compete in the world markets.

Knowledge@Wharton: I tried the sample of your dark milk chocolate, and it was tasty. What is dark milk chocolate?

Wallace: I didn't realize until I got into the business that dark chocolate is a definition of the U.S. Food and Drug Administration. It refers to the minimum amount of cocoa liquor, which is the nonalcoholic essence of the bean. The cocoa liquor is what gives us the aroma, the addictive quality, the euphoric quality of chocolate. If you have a minimum percent, you get to call yourself a dark chocolate. It's different in every country. Switzerland, for example, has a far higher threshold. A dark chocolate in the U.S. wouldn't qualify as dark in Switzerland.

I thought the American palate was maturing and they wanted more profound and intense chocolate than the real sweet chocolates that probably you and I grew up with. I wanted to more than double the cocoa content needed to call yourself a dark chocolate in the U.S., so that's what we did. We also used full cream milk to take a little bit of the bitterness, which is inherent in cocoa liquor, off the edge. The FDA said, "Well, if you put a drop of milk in, you either have to call it a milk dark chocolate or a dark milk chocolate." So, we really invented a brand new category of chocolate called dark milk chocolate.

Knowledge@Wharton: Your company takes care of its employees. Tell us about that.

Wallace: I had grown up in a series of family businesses, and they were small business endeavors. The ethic of treating your employees well, in the sense of you're a steward for people's lives and livelihood, was ingrained with me. On a practical sense, what I realized was that Ghana certainly had the human talent and the raw materials to make fine chocolate. What I think was lacking was the ability to market, brand, create recipes and get hold of the trade craft that was necessary to export chocolate into high-value markets. I needed to spend a lot of time both in Ghana setting up the production and, most importantly, abroad selling the chocolate. If I'm going to be in the United States selling the chocolate, I wanted to make sure everybody was happy.

I think happy workers, workers who feel it matters that they show up to work and that they're well cared for, are more productive. For me, it was a productivity issue and a sustainability issue because I didn't want to have to keep re-training and re-hiring. We try to find good people and take care of them well, and we'll all create wealth together.

Knowledge@Wharton: How have the workers benefited?

Wallace: Ghana's government has a Ghana cocoa port, which is really a vertically integrated overseer of the whole cocoa industry. They had an ethic of wanting to take care of workers, too. The cocoa farmers, for example, represent the middle class of Ghana. They represented very significant voting blocs, so politically it was important to take care of everyone. When I conceived of the company, these notions of taking good care of workers and the things we do was not such a huge difference. This was met not with surprise but sort of an expectation that this is how you do things in West Africa, or at least within Ghana's cocoa sector.

At our production facility, there's an on-site medical clinic with a doctor for all the workers and their families. There's a commissary, so they get free lunches. They have free uniforms. All the workers are shareholders in the factory. Again, this is trying to align our economic interest. I wasn't going to create wealth if I was exploiting or just trying to arbitrage cheap labor. I thought, what we have to do is create a very unique and compelling flavor profile and a freshness imperative for our chocolate. That's what we're going to compete on, not having the lowest cost of production in the world. Because frankly, I don't.

Knowledge@Wharton: Where is your chocolate exported?

Wallace: It comes to the United States, and we export it to Japan. Those are our two big export markets. We've done some smaller work in Canada and the United Kingdom for some ingredient work. We sell in dozens of states. We do a lot of independent retailers, grocery store work, Whole Foods work. But it's primarily independent retailers of various sorts that really love our product and use it both at retail and behind the counter in recipes.

Knowledge@Wharton: In the book, you said you learned a lot from both your dad and host dad.

Wallace: I think the book's a lot of a celebration of fathers and what we can learn. I learned from my father the flexibility that's needed, the ability to set aside your own ego and excite people about your business idea and involve them in meaningful ways in your company.

My host father was a remarkable man. He had cobbled together an independent business world, a little constellation of companies at a time when 85% of all the jobs in Ghana were government jobs. You worked for a ministry or a local regional government or something. The rest of the 15% of the people were largely farmers. The idea of people working in their own business was really quite a foreign concept. He had half interest in a Ford tractor, which he would lease out to people. He had imported a couple of small Toyota Corollas he used as taxis. He had some interest in farming and raised chickens and rabbits. He did all sorts of small businesses but found ways to commercialize them. He also had a world vision. He was kind enough to open his family to me and welcome me in at a time when food was scarce and the economy wasn't strong. He really thought there was a big world out there that even he, up in Sunyani, Ghana, could compete in and play a role in. He had wonderful enthusiasm for the world. As opposed to being scared of globalism, he embraced it, as improbable as it was. I think that kind of inculcated with me an enthusiasm for business that I hope I carry with me to this day.

Knowledge@Wharton: Do you think you could replicate what you have done in Ghana in other parts of the world?

Wallace: Oh, absolutely. I would love to. I think it's easy to say in the abstract, figure out what it is that your country does best. Countries often look back and figure out what it is they do best, and it's sort of historic. Are you a dairy state? Are you a manufacturing state? The hard work is articulating what it is that, indeed, you are best at. Not what you wish you were best at, not what historically you were best at, but what are you good at now?

When people come to me and say, "Our country grows the best tomatoes in the world," let's look at it. Are there other crops that grow as well with tomatoes that maybe have a better economic advantage or less competition? I really try to tear apart and get at it because when Adam Smith and David Ricardo talked about what makes a country unique, it wasn't just a casual use of the word. The hope is you can articulate what in your soil, where your micro-climate or your education system or your topography gives your country some real, articulated, competitive advantage in the world? That can take a long process. I think it's too easy to fall into the easy answer.

Knowledge@Wharton: Are there parts of your operation that you want to improve, not necessarily from the business perspective but with the relationship with the workers?

Wallace: You are always looking at self-improvement for the company, for all those involved with the company and for the environment we work in, which is the country of Ghana. Ghana was knocking at the door of what global economists call middle-income status, moving up from poverty to middle-income status. This was a hugely celebrated occurrence. I'd like to think we can help play a part of that.

If you're a former colony, your economy was based on extractive industry. There was gold. Ghana used to be called the gold coast, for example. Or it was cocoa or gas and oil. Things are lifted out of the ground and shipped abroad for profits. As long as the price of cocoa was a dollar less than the world price, or the quality was a little better than world quality, people just line up and take your goods. You really didn't have to sell them. I'd like Ghana to get to the point where we realize that creating brands, creating products with raw materials, will unlock quite a bit of wealth for that country.

It's scary because some of those investments will fail, and it's a government that really can't afford to fail. On the other hand, I would tell them to do nothing is a choice as well. Over time, there have to be some institutional investments in an enabling environment that will allow these experiments in moving up value chains to take place. Right now, one of my focuses is trying to articulate and advocate for that case.

Knowledge@Wharton: Have you heard from other companies interested in your kind of business model?

Wallace: I think a business school's professors will often tell you that sometimes first-movers bear a disproportionate amount of the cost of educating a market about a new way of doing things. I suspect we were that first-mover 26 years ago in terms of we were the first single-origin chocolate bar.

I was giving a speech at a university and a classmate of mine, who happened to be editor of *Fast Company* magazine, featured a competitor of ours on the cover. I emailed him and I said, “I wish your journalist had found out that we were doing single-origin manufacture of chocolate in Africa two decades before the company you happened to feature on the cover.” He wrote an email back that said, in so many words, “Steve, if I had a magazine called *Slow Company*, you’d be on the cover.”

I like to celebrate the long-term satisfaction of companies that aren’t made, built, bought and sold within five to seven years in a venture capital model. There’s a lot of satisfaction in running a company, creating jobs and trying to tackle difficult and intractable problems over time. I think there’s a difference between making money and creating wealth. I’ve always been more interested in creating wealth over time, which is really sustainability. In emerging markets, like many of the African markets, it takes that long-term commitment. There aren’t going to be quick wins, or very few.