

Harmless Harvest: First Fair to Life Coconut Water

INTRODUCTION

Harmless Harvest coconut water first appeared exclusively on Whole Foods shelves in 2011, seemingly out of nowhere. This sudden appearance was the intention of founders Douglas Riboud and Justin Guilbert. In fact, the company had stored a million bottles of coconut water in its warehouse before even selling one unit. According to the founders, they knew they had a stellar product. They did not want to take time trying to get into a number of different stores while allowing competitors to release similar products. Instead, they focused all their efforts on Whole Foods. Their risky strategy paid off when Harmless Harvest coconut water became Whole Food's best-selling item. Today it earns \$100 million in annual revenue.

Harmless Harvest is the first Fair for Life coconut water in the United States. Fair for Life certification is more stringent than Fair Trade certification. Being certified as Fair for Life means that the company, the coconut farms, and the bottling operations all undergo extensive annual audits that examine the well-being of farmers and employees, the environmental impact of their operations, and working conditions. Harmless Harvest desires to create value for everyone in the supply chain, including suppliers and the environment that produces the coconuts.

BACKGROUND

The story of Harmless Harvest begins with two French entrepreneurs, Justin Guilbert and Douglas Riboud, who met in school as they were pursuing their MBAs. In 2008 the two were well on their way up the corporate ladder. Guilbert worked at L'Oreal, while Riboud worked for a finance firm. However, the two dreamed about starting their own business that would embody the values they were passionate about. Both entrepreneurs embraced the concept of constructive capitalism.

Constructive capitalism combines the concepts of capitalism with ecology to promote the welfare of all stakeholders. Guilbert and Riboud believed in two types of capitalism: destructive and constructive. Destructive capitalism prioritizes the bottom line even if it means negatively impacting certain stakeholders, particularly the environment. Constructive capitalism broadens the concept of value so it creates meaningful value for humans and the environment. For Guilbert and Riboud, they wanted to create meaningful value for the entire supply chain, from the farmers all the way down to the end consumer.

The entrepreneurs had agreed on the values of their company. Now they needed to find a product. While investigating fruit juices in Brazil, the two soon turned to coconut water. They felt like the coconut beverage products on the market did not taste anything close to what came out of fresh coconuts. Guilbert and Riboud decided coconut water would be the company's product.

Such a move was not without risks. There were many of the established coconut water players already in the market. The demand for coconut water was increasing, which was attracting even more competitors into what is now a \$1.3 billion market. As of 2015, Vita Coca dominated the U.S.

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market for coconut water with 40 percent market share. It competes heavily for shelf space against Zico, O.N.E., and Naked brands. Guilbert and Riboud also wanted to adhere to the highest ethical standards in their business practices, which would mean paying farmers fair wages, taking steps to ensure their well-being, and minimizing their impact on the environment. Achieving these goals would be costly, meaning that their coconut water would be priced higher than competitors.

This did not deter the two entrepreneurs. They knew if they could utilize the best-tasting coconut and find a way to preserve its flavor, demand would soon follow. After searching a number of coconut varieties, they decided upon the Nam Hom coconut variety from Thailand. Once they had decided on what coconut to use, the two men approached Thai farmers in the area. Guilbert and Riboud wanted to form relationships with farmers that would be mutually beneficial and allow them to earn a good living. Because farmers in the area are used to people coming and going, it took nearly a year before they trusted Harmless Harvest enough to solidify a business relationship. Gaining the cooperation of farmers was essential not only for labor purposes; Guilbert and Riboud wanted to utilize the farmers' expertise to learn everything they could about the Nam Hom coconut. They also approached other businesspeople they admired, such as Stonybrook co-founder Gary Hirschberg, to give them advice as they tried to develop a beverage that would retain the fresh taste of the Nam Hom coconut.

In particular, the two men were searching for an appropriate extracting and bottling process that would pasteurize the product but maintain its 'raw' flavor. They quickly eliminated heating as an option. Other coconut water makers used heating to preserve their products, but Guilbert and Riboud realized that heating the product would cause the coconut water to lose some of its distinctive raw flavors. This decision led them to experiment with a variety of extraction and bottling techniques, resulting in several failures before they discovered high pressure processing (HPP). High pressure processing, a common technique to preserve meats, uses pressure rather than heat. Guilbert and Riboud began using this proprietary HPP technique to preserve the product as well as retain the vanilla-nutty flavor of the Nam Hom coconut.

Harmless Harvest was officially founded in 2009. However, before Harmless Harvest launched its products onto store shelves, it wanted to make sure that it had enough product. By stocking up and being selective about where the product was sent, Harmless Harvest wanted to aggressively push into the market without giving competitors a lot of time to copy their idea. Harmless Harvest differentiates itself from other coconut beverages with its HPP proprietary process that preserves the freshness of the flavor as it is first removed from the coconut. Harmless Harvest 100% Raw Coconut Water is sold at Whole Foods stores for \$4.99 a bottle. Guilbert believes that this premium price point is acceptable to consumers because they know that "there is value in every penny."

FAIR FOR LIFE

Many companies choose to obtain Fair Trade certification to assure stakeholders that they are exercising ethical conduct throughout their supply chains. Harmless Harvest wanted to go even further. Over the next four years, the firm worked to achieve Fair for Life certification. Companies with Fair for Life certification are annually audited to determine their impact on employee wages, well-being, working conditions, and environmental practices. Results of the audits are posted on the

Fair for Life website, allowing consumers to make informed choices about whom they purchase from. Harmless Harvest became the first coconut water to achieve Fair for Life certification.

As a Fair for Life certified firm, one practice Harmless Harvest vehemently guards against is the passport confiscation of foreign workers on the farms of their suppliers. Many workers on coconut farms in Thailand come from different countries, including Cambodia, Burma, and Laos. It is a common practice for the farmers to confiscate the passports of their workers so they cannot leave. Harmless Harvest noted that the cause of the problem is that turnover among farm workers is high. Farmers who employ foreign workers often invest a substantial amount of money in fees for work permits, visas, and more. If the workers quit soon after for better-paying jobs, the farmer loses money. Harmless Harvest believes in addressing the crux of the problem and offers farmers higher wages by pricing its coconut water based on the real costs of production. In exchange, farmers that supply Harmless Harvest are never allowed to confiscate the passports of their workers. All farmers undergo inspection before Harmless Harvest will do business with them, and Harmless Harvest has the farmers sign a moral contract agreeing to Fair for Life principles. By paying farmers higher wages, the farmers can in turn pay for visas and other documentation for foreign workers with less of a risk that they will lose money if the workers leave shortly after. Also, because the workers are also receiving higher wages, turnover is likely to decrease. Any violation of these rules will result in Harmless Harvest suspending the supplier.

Due to Harmless Harvest's strong adherence to Fair for Life rules, its first audit yielded a score of 59 compared to the average of 42, demonstrating that Harmless Harvest takes its responsibility to suppliers and the environment to a whole new level. Harmless Harvest estimates that it has created 100 jobs for members of the local community in Thailand. The firm is also looking toward developing funds for health and education initiatives in Thailand.

Consumer reaction for Harmless Harvest 100% Raw Coconut Water was enthusiastic, netting the firm millions in just a few years. Consumers love the fresh test of Harmless Harvest coconut water resulting from its HPP process. Many are also willing to pay more because they know Harmless Harvest is committed to the highest ethical standards. Media brand Eater taste-tested a number of different coconut water brands and selected Harmless Harvest as the best tasting. In 2016 CircleUp, an online marketplace for investing in innovative consumer and retail organizations, nominated Harmless Harvest as one of the 25 most innovative brands of the year.

FDA CHALLENGES

Harmless Harvest's immense success has not been without its challenges. In 2015 the Food and Drug Administration (FDA) called into question the ability of Harmless Harvest's HPP processes in eliminating potentially hazardous spores at its Thai processing facility. The FDA sent Harmless Harvest a warning letter citing that Hazard Analysis and Critical Control Point (HAACP) regulations were not being followed. As a result, the FDA held back multiple shipments of unpasteurized frozen coconut water from Harmless Harvest. The company responded by suspending its bottling operations in Thailand so it could upgrade its facilities. It also hired new leadership to run the company. Guilbert and Riboud remain with the company in the areas of product development and innovation. Harmless Harvest also announced it would remove the phrase "100% Raw" from its bottles due to a lack of a definition for the term.

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In 2016 Harmless Harvest developed a new proprietary multi-step microfiltration process to increase the safety of its coconut water while preserving the fresh flavor. Not only does this technology increase the safety of Harmless Harvest coconut water, it also extends the shelf life of the product from 45 to 60 days and allows the firm to use 24 percent less plastic in packaging. Harmless Harvest was able to take a challenge and successfully adapt so that it not only meets FDA regulations but also increases the value of its product while decreasing its environmental impact.

CONCLUSION

Harmless Harvest shows how a firm committed toward ethical supply chain relationships and constructive capitalism can be both innovative and profitable. Whenever there are problems, Harmless Harvest has taken a proactive approach not only to address them, but also to make its processes better. For Harmless Harvest everything boils down to trust. Trust is the key to maintaining strong relationships with farmers, government regulators like the FDA, and customers. Harmless Harvest is carrying this trust into new product lines as well. For instance, it introduced a new line of Coffee Coconut Water using Fair Trade coffee from a Peruvian co-op.

Harmless Harvest is an example of a company that centers everything on its core principles and values. Everything the firm does—from its Fair for Life certification to its proprietary processes that reduces plastic packaging—is meant to reinforce the constructive capitalism principles of creating value for the entire ecosystem. As Harmless Harvest grows in popularity, other firms are likely to follow its lead of embracing Fair to Life principles as a way of promoting social and sustainable change.

QUESTIONS

1. Describe how Harmless Harvest is creating value for all stakeholders in its supply chain.
2. Why was it so important for Harmless Harvest to develop coconut water that tasted exactly like it did when it came out of the coconut? How does creating the best-quality product relate to ethical conduct?
3. Consider how Harmless Harvest addressed the problems of quality control the FDA raised. How does its reaction reinforce its ethical culture?

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