

Sourcing core ingredients

Understanding and successfully navigating the complex raw material markets

by Raphael Wermuth

Steven Retzlaff, what is the Global Sourcing & Cocoa business?

Barry Callebaut's Global Sourcing & Cocoa business is a separate operating segment like a Region. The segment is responsible for

the global procurement of our high-quality raw materials, such as cocoa, sugar and dairy products and it is the global cocoa production unit for semi-finished products, such as cocoa liquor, cocoa butter, and cocoa powder. Global Sourcing & Cocoa has sourcing teams in Africa, Asia, Europe as well as North and South America. In total, the segment employs 1,600 colleagues.

Roman Müggler, cocoa sourcing is obviously a complex business – why is that?

Indeed, it is. Cocoa is a commodity and buying and selling activities take place in a constantly changing environment – cocoa



The three interview partners: Roman Müggler, Steven Retzlaff and Massimo Selmo (from left to right).

our local sourcing teams in Côte d'Ivoire, Ghana, Cameroon, Sierra Leone, Tanzania, Brazil, Ecuador and Malaysia as well as with local partners in Nigeria, Indonesia and most of the other cocoa producing countries. We study the correlation of different events and the resulting effect on price in order to secure the necessary supply of cocoa, at the right time, in the required quality and at competitive market prices.

prices go up and down depending on the prevailing market forces. Cocoa availability can also vary significantly due to various factors. To manage this complexity, we have a team of 12 cocoa specialists who work alongside

Massimo Selmo, you are responsible for sourcing all non-cocoa raw materials.

What else is needed in order to produce chocolate?

Our team of around 40 sourcing specialists procures ingredients such as dairy products, sugar, oils and fats. To give you an idea of the volumes, the amount of milk we buy is equivalent to the annual milk production of 200,000 cows. The 3.3 million tonnes of sugar beets we buy are cultivated on an area of land the size of 30,000 football fields. My team also takes care of purchasing technical machinery and spare parts, packaging material as well as energy like electricity and gas.

Are both your teams doing this centrally out of Barry Callebaut's head office in Zurich?

M. Selmo: We are organized as one team with three main presences in Zurich, Chicago and Kuala Lumpur as well as smaller, local presences in emerging markets such as Russia, Brazil and China. This way we



While the finished chocolate is the sweet finale, the story of Barry Callebaut chocolate begins with sourcing. Specialized teams buy all the raw materials needed to produce the company's own cocoa and chocolate products in order to serve its customers best. We interviewed Steven Retzlaff, President of Barry Callebaut's Global Sourcing & Cocoa business, along with Roman Müggler, Vice President of Cocoa Procurement, and Massimo Selmo, Head of Purchasing, to understand better how this is done and what the main challenges are.

are very close to our internal and external customers and can serve them around the clock with quick reaction times. At the same time, this setup is also necessary because agricultural products such as sugar and dairy products are not traded globally but sold on local physical markets which are often protected by import quotas and tariffs.

R. Müggler: As a team, we secure along with our local sourcing organization about 15% of the global cocoa crop in order to satisfy the company's needs. From an organizational standpoint, we do this with a hub team in Zurich, while leveraging a regional approach with local points of contact for customer and supplier proximity.

What are the main responsibilities of the purchasing team?

S. Retzlaff: First and foremost, we have to ensure the right quality and quantity of raw material at the right time and at a very competitive market price. Additionally,

our purchasing teams support the Regions and their customers by providing market intelligence and tailor-made solutions for special raw material requirements.

The recent past was marked by increasing raw material prices and high volatility on the respective markets. Are there other risks you have to cope with?

R. Müggler: Wildly fluctuating prices are certainly an issue we have to deal with.

We also face supply risks. For example, with the rising popularity of cars in emerging markets, we face a situation where cocoa is competing with other crops like rubber for manufacturing car tires. Besides that, there is the quality risk. Which

is why, for example, we intensified our efforts to move up the cocoa supply chain and get closer to the farmer. Direct sourcing is the most effective way of managing our supply and quality risks.



What instruments do you have at hand to manage the different market risks?

S. Retzlaff: In order to cope with the seasonal supply and demand for raw materials, Barry Callebaut applies a variety of sourcing strategies and best practices to manage inherent market risks. These include diversification of origin countries, vendor assessment, price hedging of physical cocoa through futures market transactions, physical forward contracts as well as arbitrage management.

How did the export ban in Côte d'Ivoire in early 2011 influence the daily work of the cocoa trading team?

R. Müggler: During our long-standing presence of more than 50 years in this country, we have experienced a variety of crises, but we had never been confronted with a de facto export ban in Côte d'Ivoire. However, since we closely monitored and constantly evaluated developments as they unfolded, we anticipated a deterioration of the overall situation in the country. By preparing alternative scenarios and adjusting our contingency plan we managed to overcome the tight cocoa supply situation. •