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CASE STUDY

Guayakí — creating an entirely new value chain

Introduction

Chris Mann is not your typical CEO. At first glance one might mistake him for a California surfer with his long blond hair, untucked shirt, and friendly, easy-going personality. However, spend some time with Chris and one finds him to be exceptionally sharp and a shrewd businessman. His company, Guayakí (Gwy-uh-KEE), headquartered in Sebastopol, California, can be similarly misperceived. Guayakí is a small but growing beverage company that specializes in selling organic, rainforest-grown, fair trade yerba mate — a South American caffeinated plant which, when steeped in hot water, creates an infusion that provides a healthy alternative to coffee or tea.1 See Table 13 for an overview of the company.

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1 Yerba mate is similar to tea in that it is made by steeping dried leaves of a plant. However, the leaves for tea and mate are obtained from different plants.


Table 13 Guayakí overview

<table>
<thead>
<tr>
<th></th>
<th>Guayakí in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual revenue</td>
<td>$7.3 million</td>
</tr>
<tr>
<td>No. of employees</td>
<td>34</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Sebastopol, CA, U.S.</td>
</tr>
</tbody>
</table>
| Environmental focus     | • Sustainable food/agriculture  
                          | • Sustainable housing      
                          | • Fair traded commodities  |
| Profitability level     | Near break-even          |

**Mission**

Guayakí works directly with growers to deliver unique and beneficial products that enhance personal health and well-being. Our goal is to create economic models that drive reforestation while employing a living wage.

While, to many, it may seem that Guayakí is just another natural herbal drink company trying to ride the wave of organic and health foods being sold in the United States, this hybrid organization has a unique strategy for sourcing and selling its product. Over the past decade Guayakí has succeeded by using an innovative business model it calls “market-driven restoration.” By purchasing Guayakí yerba mate, customers help support reforestation of the South American Atlantic Forest and improve the economic conditions of the farmers and indigenous communities that supply Guayakí.

Guayakí is not a company that merely pays lip service to the triple-bottom-line approach (i.e., measuring a company on its financial, social, and environmental performance); rather, its whole business model depends on it.

Early grassroots efforts by its founders have shaped Guayakí’s success. They created a high-quality, premium product with a true social and environmental mission, and convinced other like-minded people to buy it. Today, however, Guayakí’s creative marketing is using the health, energy, and weight-loss benefits of mate to reach a larger market. As a result, more players, including coffee and tea companies, are beginning to sell mate.

As the demand for mate grows, the Guayakí business model will be tested:
1. Can they hold onto their market share?

2. Will their suppliers be able to keep up with demand or are there limits to growth rate using this model?

Despite the uncertain outcome, one thing is clear: Guayakí’s commitment to market-driven restoration will differentiate it from its competitors just as much as the laid-back nature of the company’s CEO differentiates him from others.

Overview and history

What is yerba mate?

Yerba mate is a small tree native to the South American subtropical Atlantic forests of Paraguay, Argentina, and Brazil. South America’s indigenous peoples have long used yerba mate leaves and stems to create a beverage they call mate, which they drink to boost and sustain their energy, health, and well-being.

Millions of South Americans consume mate daily as a staple of their diet. Deemed the “drink of the gods,” mate is said to carry the same stimulant rewards of coffee or chocolate but with better health benefits, including clarity of mind, increased energy, and balance in body. According to the Guayakí website:

Yerba mate is nature’s most balanced stimulant and naturally contains 24 vitamins and minerals, 15 amino acids, abundant antioxidants and naturally occurring caffeine.

A compilation of research published in the November 2007 issue of the *Journal of Food Science* supports these health claims and details yerba mate’s health attributes and its potential benefit as a weight management drink (Heck and de Mieja 2007).

How Guayakí mate is grown

High-quality yerba mate is shade-grown under the canopy of the Atlantic rainforest. The shade creates optimal conditions for growing thick and dark green mate leaves, distinguished by their lush, waxy finish. According to Guayaki, the tree’s growth is carefully monitored:

In the wild, the tree needs about 25 years to develop completely, reaching a height of up to 15 meters. When cultivated, the mate trees are pruned to a height of three to five meters to allow for harvesting. The harvesting (or careful pruning) of the leaves and tender stems begins after three to four years of age. Harvest takes place annually between May and July in most regions. At maturity, yerba mate has a unique bittersweet flavor. The tree can produce for about 40 years making it a perfect crop when sustainably harvested.3

These lush, shade-grown leaves contain more flavor and nutritional properties than thinner, sun-grown, commercial varieties. The challenge for growing mate in its native environment is the destruction of the Atlantic rainforest, more than 90% of which has been cut down for lumber, cattle grazing, and mono-crop agriculture.

How Guayakí mate is processed

The leaves and stems of mate are picked during harvest time in May, June, and July. Guayaki’s harvesters follow organic certification guidelines, and weigh and label the leaves accordingly. From harvest, the leaves are transported to a mate processing center where they are dried by flash heating. Flash heating halts the oxidation process, keeps the dry leaves green, and preserves mate’s nutritional properties. The leaves then go through either a wood-drying process that gives mate a smoky flavor, or an air-drying process that results in a lighter, “greener,” flavor. The mate is then aged in a cedar chamber for 12 months. Prior to export, the mate is milled down to Guayaki’s loose tea cut.

The traditional way to drink mate — a ritual and ceremonial process

Mate is traditionally shared with a group of friends or relatives and serves as a symbol of hospitality and connection for the group. Mate is tradition-
ally drunk from a gourd with a metal straw called a *bombilla* (see Fig. 15).

**Figure 15** Gourd with *bombilla*

![Gourd with bombilla](image)

Tradition also dictates the way mate is to be prepared and served. One member of the group acts as the *cebador/a*, the mate server, who prepares the mate by steeping dry leaves of yerba mate in hot (not boiling) water. This person drinks the first couple of mate gourds to ensure correct consistency and, once ready, refills the gourd with water and passes it counter-clockwise with the *bombilla* facing the recipient. When exchanging the gourd, eye contact is maintained between the *cebador/a* and the recipient, and usually no words are spoken. Saying “thank you” indicates that you do not wish to have any more. Each person takes as much time as they need to drink all the liquid from the gourd. Once finished, the recipient returns the gourd to the *cebador/a* in the same manner it was given, *bombilla* facing the person receiving the gourd. The *cebador/a* refills the gourd with hot water and passes it to the next person in the circle. This process continues until the mate is flat. Meanwhile active conversation is shared among the group.

**Company background**

**Beginnings**

Alex Pryor and David Karr founded Guayakí when they were seniors at California Polytechnic State University in San Luis Obispo, California, in

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4 In Spanish, *cebador* denotes a male mate server and *cebadora* denotes a female mate server.
1996. Alex, from Argentina, and David, from California, became friends when they met at a local lunch spot. Being from Argentina, “where yerba mate has 95% market penetration (and toilet paper has 98%),” Alex loved to drink mate and introduced it to David over lunch. After sharing a daily traditional mate gourd for a few months, David’s lifelong allergies began to subside and he felt increased mental clarity and physical energy.

David became convinced of what Alex had been saying all along, that mate was a drink that should be brought to the United States. David left his computer business and started working with Alex to formalize the idea behind Guayakí. They soon generated a new restorative business model which would do three things. First, it would protect the South American rainforests. Second, it would provide needed income to the indigenous South American forest communities. Third, their plan would bring a healthy energy beverage to North America.

To move the venture forward, Alex and David brought Chris Mann, Michael Newton, and Steve Karr on board. Chris brought management and financial experience, Steven had graphic design expertise, and Michael was their salesman. These five made up the founding seed group. Together they traveled in a recreation vehicle, which they had decorated with a rainforest mural, while serving mate to any customers they could generate.

Between 1996 and 2007, they turned a small struggling mate company into an award-winning, rapidly growing consumer foods company. Throughout this time, they demonstrated how hybrid organizations can be socially and environmentally driven while at the same time increasingly profitable.

**Where they source their mate**

Guayakí sources all its mate from the Atlantic rainforest. In the beginning, all was sourced from families who lived and worked in the Guayakí Rainforest Preserve in eastern Paraguay. Established by Alex’s extended family in 1996, this reserve was where Guayakí’s first yerba mate grew. After learning how to grow mate under the forest canopy in its native and lush

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5 Personal communication with C. Mann, Sebastopol, CA, January 31, 2008.

environment, Alex trained the local people how to clear the right plants and maintain the forest in a sustainable manner.

However, in 2008 only 10% of their yerba mate comes from 34 families (approximately 200 individuals) who live and work in the Guayakí Rainforest and 90% comes from reforestation projects in Argentina and Brazil. In Argentina, Guayakí works with small family farmers and, in Brazil, it works with a family farm and two co-operatives.

**Mate sourcing prices**

In the early 1990s, Argentina attempted to stimulate economic activity by subsidizing mate. Supply became larger than demand and the market price of mate fell. Finding it difficult to survive on such low margins, mate-producing families began to convert their mate farms to cattle ranches or to monoculture crops. On behalf of Guayakí, Alex started meeting with farmers and offered to pay them two to three times the market price if they continued to grow mate. (This continues in 2008. The market price is approximately $0.75 per kilogram and Guayakí pays $1.80–3.00 per kilogram.) In addition, with bank financing and credit cards, Guayakí provided no-interest loans to help farmers begin pre-harvest operations.

Although Guayakí paid these farmers for all their crops, it would not use their mate until it met Guayakí quality standards. By showing local farmers how to create a higher-quality sustainable product and by giving them the economic motivation to do so, Guayakí has created personal and long-lasting relationships with its supply chain.

**Using the Guayakí name — the Paraguay project**

The name Guayakí honors the Aché Guayakí people. The indigenous Aché people are the last hunters and gatherers that remain in the Atlantic Forest. Via the company’s Paraguay Project, Guayakí is working with the Aché people to grow mate and preserve their rainforest home. To do so, in 2002, Guayakí started a 20-year plan with the Aché people to grow mate. Guayakí trained a few Aché people to lead the project as managers and donated seeds for them to get started.

Guayakí has been paying the Aché a nominal fee of about $5,000 per year up until the mate is ready for harvest. When Guayakí reaches sales of $10 million (which its projects for 2008), it will pay 0.05% of revenues to the Aché people every year for use of the Guayakí name, as well as purchase all of the yerba mate they grow at two times the market rate.
Goals and objectives

Guayakí strives towards market-driven restoration — restoring the forests of South America, while at the same time providing a living wage to the indigenous people and bringing a healthy, organic energy drink to North America. According to Richard Bruehl, Guayakí’s Vice President of Operations:

Currently Guayakí holds 60% of the [U.S.] market and we don’t see that lasting forever. Today the yerba mate market is a $15 million market and we hope it grows to a multi-billion-dollar market where we hold 10%.

Reaching that goal will take more restorative work and an increased integration of mate into the North American culture.

Product information

Guayakí sells organic, fair trade yerba mate in:

- Mate tea bags — seven currently available varieties include Traditional, Pure Empower Mint, Chai Spice, Mate Chocolatté, Greener Green Team, Pure Endurance, and Pure Heart
- Loose mate
- Mate latte concentrates
- Mate gourds and bombillas
- Bottled iced mate drinks

Its best-selling products are its 25-count traditional tea bags and its eight-ounce loose bag. In addition, Guayakí yerba mate is used in the energy drinks Steaz and Sambazon Amazon Energy. Overall, Guayakí has about 20 SKUs (a few more include duplicate labels for products sold in Canada). Bottled drinks account for 45% of their overall sales, while dry products make up 50% and accessories the remaining 5%.

Guayakí has a warehouse at its company headquarters in Sebastopol, CA, where it stores most of its dried product and packs mate for the Canadian market. Outside co-packers pack the dried mate for the U.S. market, while bottlers on the East and West Coast bottle the Guayakí cold bever-

7 Personal communication with R. Bruehl, Sebastopol, CA, January 31, 2008.
Guayakí’s products can be purchased at thousands of natural food stores, cafes and supermarkets throughout North America.

**Business strategy and model**

**Guayakí market**

While Guayakí sources its mate from South America, it primarily sells it to the North American market — the United States and Canada. International orders are accepted but make up only 1% of Guayakí’s overall sales. Figure 16 illustrates how the company’s strategic positioning has changed since its formation in 1996.

**Figure 16 Guayakí’s strategic positioning**

![Strategic Gameboard Diagram](image)

Within North America, Guayakí’s target market comprises coffee, tea and energy drink consumers. Specifically, Guayakí targets its product to two subsets of energy drink consumers:

1. The health-conscious consumer (90%)
2. The environmental and culturally conscious consumer (10%)

**The health-conscious consumer**

Much of the Guayakí marketing material emphasizes the energy, health, and weight-loss benefits of mate. Among the health benefits listed on its
website are induced mental clarity, sustained energy levels, weight control support, and bad breath reduction.\(^8\) Chris Mann estimates that up to 90% of its customers purchase mate for these health reasons. In Southern California, where many residents are health-conscious, the cold bottled Guayakí drinks are the top-selling bottled tea-like beverages in natural food stores. Many of the consumers in this category may not be aware or even care about the social and environmental benefits that come with their purchase. The company believes that for most customers, even if they are aware of the social and environmental benefits, these benefits are not the primary reason for purchase.

**Environmental and culturally conscious consumer**

A smaller percentage of their target consumers buy Guayakí primarily for the positive social and environmental impacts. Chris estimates that 10% of consumers are compelled to purchase Guayakí because of its important mission, in addition to the other benefits that come with the product.

While the ultimate goal of Guayakí is a triple-bottom-line effect, another high priority is to expand this native drink throughout North America. Richard Bruehl, VP of Operations, says Guayakí has been very deliberate in its marketing efforts. When talking with consumers, employees must know what aspect of the product to pitch. The fact that Guayakí has many different angles from which to do so makes it more competitive. Guayakí can talk about many aspects of its products — they are organic, fair trade, environmentally beneficial, and a healthy stimulant. This combination of benefits creates a unique advantage that is helping Guayakí gain market share in a well-established beverage industry.

**Distribution channels**

Guayakí sells its product through three different distribution channels:

- Direct distributors
- Direct to wholesaler and partnerships
- Direct to consumer

Direct distributors
Direct distributors make up approximately 80% of Guayakí’s sales. Through large national distributors such as United National Foods, a U.S. distributor certified to handle organic products, Guayakí products are delivered to thousands of natural food and chain grocery stores across the country such as Whole Foods, Wild Oats, Krogers, Safeway, and Vons. In addition, Guayakí uses smaller distributors for direct store distribution (DSD), i.e., to deliver, stock, and display Guayakí products in grocery stores. These micro-distributors typically focus on Guayakí’s bottled products.

Direct to wholesaler and partnerships
Sales direct to wholesaler and partnerships comprise 10% of Guayakí’s total sales. Wholesalers include coffee shops, cafes, and bookstores.

Guayakí partnered with Tully’s Coffee Corporation in January 2007. In this exclusive partnership, Tully’s features Guayakí’s yerba mate in a series of beverages including brewed yerba mate tea, yerba mate lattes, mochas, shakes, and smoothies. Tully’s was the first major specialty coffee company to carry the entire line of Guayakí products.

Guayakí has also partnered with Steaz Organic Energy and Sambazon Amazon Energy drinks by providing yerba mate as one of drink’s main ingredients.

Direct to consumer
Guayakí makes 10% of its sales from direct to consumer orders. Of these orders, 70% come from the internet and 30% come by phone. Growth has been steady over the past few years.

In addition to web and phone orders, Guayakí recently opened a Mate Bar in the same building as its headquarters in Sebastopol, CA. The idea came from customers who had emailed suggestions. Guayakí management believes that the bar will generate enough money to break even; if it proves successful, there could be Mate Bars opening up around the country.

Business model
As mentioned earlier, Guayakí’s innovative business model sets it apart from other beverage companies. While other companies may promote fair trade or organic practices, Guayakí is able to market that its product provides social, environmental, and health benefits.
Guayakí has pioneered a unique model called Market Driven Restoration (see Fig. 17). This model uses market forces to connect North American consumers with indigenous South American communities engaged in reforestation and sustainable agriculture in the rainforests of Argentina, Brazil, and Paraguay. The specific aspects of this triple-bottom-line approach are outlined below.

**Environmental stewardship**

By teaching sustainable agricultural practices to indigenous South American farmers, Guayakí is contributing to the reforestation of the Atlantic Forest. This not only promotes carbon sequestration but also converts carbon dioxide to life-sustaining oxygen. In addition, forests contribute to a host of incalculable natural benefits and ecosystem services, including clean air, clean water, food provision, medicine sourcing, and building materials. By insisting on having the best-quality mate that is rainforest-grown, Guayakí is providing economic reasons for reforestation the Atlantic Forest and is showing the local citizens that the forest is much more valuable standing than it is cut down.

**Social justice**

By creating a premium market for rainforest-grown yerba mate and paying above-market rates for the product, Guayakí is supporting local cultures while providing a living wage. Unlike other companies, Guayakí does not
simply broker its product; its Latin American team works with the local community to identify and respond to their needs. Because of these close relationships, the farmers put extra effort into the product and give Guayakí the best-quality mate. It is a mutually beneficial relationship. 9

**Economic viability**

Guayakí exemplifies the fact that a company can be both profitable and adhere to a triple-bottom-line model approach. Guayakí internalizes the additional costs of fair trade and organic certification into its business model and allows customers who value these ideals to make a statement with their purchasing power. In addition, its business model demands a premium product and, accordingly, a premium pricing strategy. As its marketing tactics continue to tap into the growing market created by the desire of North American consumers to improve their health and well-being, Guayakí has been able to capture customers unaware of its entire three-pronged model. As consumers pay a premium for quality, they participate in driving social and environmental change.

**Competition**

Guayakí’s main competitor is Eco Teas, an Oregon-based company that specializes in yerba mate. Eco Teas holds 30% of the total mate market. Its one-pound bulk bag of loose mate is its number one selling product, as it is for Guayakí, but it is listed at half of Guayakí’s price. While Eco Teas’ mate is organic, it is not rainforest-grown. In Guayakí’s opinion, it does not offer the same quality. Like Guayakí, however, Eco Teas works with family farms in Argentina to supply the mate. Its operation is much smaller.

Other competitors in the organic, natural product space include Republic of Tea, Choice Teas and Yogi. Larger, more mainstream competitors include those that make high-fructose corn syrup drinks whose products include soft drinks, juices, and energy drinks. For example, Snapple and SoBe provide competition for Guayakí’s cold bottled yerba mate beverage. In the organic and natural food space, Guayakí competes by marketing the fact that mate is a fair trade product and is organically grown in

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9 Chris Mann says they calculate a living wage as follows: “We calculate it using a local basket of goods and audit. We also ensure that social security and healthcare are provided.”
the rainforest. In the mainstream market, the health and stimulant benefits of mate are the larger focus.

As the company continues to grow, and as more competitors start to enter the mate market, Guayakí’s business model will undoubtedly be tested. Chris Mann postulates that most entering competitors will come with organic, sun-grown mate. “It won’t be rainforest-grown.”

Because mate does not currently grow anywhere else in the world except in South America and needs specific conditions to grow, Guayakí may have a competitive advantage over new entrants provided consumers truly care about, and can differentiate, the rainforest-grown quality its brand offers. The relationships formed with so many local farmers and the premium brand that it has created gives Guayakí an edge that will be hard to imitate.

**Headquarters relocation**

For nine years Guayakí was headquartered in the city where it all began, San Luis Obispo (SLO), in the central coast of California. However, market saturation and a limited labor pool (Chris Mann cites difficulty in recruiting executive-level management to SLO) made Guayakí rethink its headquarters’ location. Thus, the company decided to move to Sebastopol, California, in the northern part of the Bay Area. This is a region that has yet to reach mate saturation and enables more convenient air travel.

There were trade-offs to this decision. Northern California is slightly more expensive than SLO, so the cost of living for Guayakí employees has increased. However, approximately two-thirds of its SLO employees made the move. While the Guayakí executive team earns below-market salary rates for the area, they felt the move was important to the health and longevity of the business. As one of the biggest businesses in Sebastopol, Guayakí is already making a positive impact on the local community.

**Finance**

**Sales and revenue**

In 2007, Guayakí’s revenues reached approximately $7.3 million, and, while they were operationally profitable, the company posted a modest
loss when including interest, taxes, depreciation, and amortization. This loss is largely due to new placement costs and the launch of Guayakí’s ready-to-drink bottled beverages. Sales are currently up 50% over last year’s numbers and the company is on target to reach a breakeven in 2008 on sales of $11.8 million.

In 2007 Guayakí hired six employees, mostly as sales representatives, to help with its growth, but are hoping to stop hiring as it has begun to reach a critical mass in operations. While Guayakí has been profitable at various times in the organization’s history, the past four years of operation has resulted in losses as it has been heavily investing in growth. Guayakí expects to become profitable in 2008 with its current level of staffing and past year investments.

Ownership structure
Guayakí began its business with eight shareholders. Alex Pryor, David Karr, Chris Mann, Michael Newton, and Steven Karr make up the five founding seed members and initially held a 95% stake in the company. The other three shareholders, their attorney and two friends, held the remaining 5%. Guayakí’s primary source of early-stage financing was through Small Business Administration (SBA) loans from a local San Luis Obispo bank and through leveraged credit cards with low-interest “teaser” rates (usually below 5%), which required constant balance transfers.¹⁰

In 2001, after a few years of hard work and grassroots efforts to spread the Guayakí brand name, the company was able to raise capital from outside investors. These included members of the Social Venture Network and local San Luis Obispo investors. These investors were all like-minded individuals who focused on using the power of business to create positive social and environmental impacts.

The first round of investments in 2001–2002 included approximately $100,000 from friends and family, and $350,000 from socially progressive venture capital funds. These funds were created by Ben & Jerry’s, and include the Barred Rock Fund, which is led by Chuck Lacy (a Guayakí board member), and Hot Fudge Ventures, which was formerly run by Pierre Ferrari, Guayakí’s VP of Marketing and Sales.¹¹ Pierre says patient

¹⁰ In 1997, Guayakí received a $50,000 SBA; in 1998, it was given another $100,000, and, in 2000, another $205,000. It also utilized $100,000 in credit cards between Chris, David, and Steven.

¹¹ Other board members include John O’Shaughnessy, General Manager of Blue Diamond Growers.
equity from such investors has allowed Guayakí to present the return on investment as a composite of financial, environmental, and social values. As of February 2008, the company had between 30 and 40 different investors with the seed group of five owning approximately 60% of the firm and other employees owning approximately 20%.

**Venture capital interest and financing growth**

After having been approached several times, management has considered selling Guayakí to external investors. However, they are not selling, nor selling out, anytime soon. According to Chris:

> It would be easy to sell Guayakí, but VCs [venture capitalists] want control. It would be difficult to maintain our mission if we only have 30% or 40% control. The beverage category is a lottery culture. We are competing in the market of Vitamin Water[s] [Vitamin Water sold to Coca-Cola for $4 billion]. Vitamin Water was not profitable at $80 million in sales, but kept raising capital. We could do the same thing, but realistically we can’t grow that fast. If we wanted to grow from $8 million to $30 million in sales we would need $20 million in inventory and this is a constraint.¹²

From an operational perspective it is impossible for Guayakí to scale up the production of mate in a short amount of time, even if it wanted to grow its mission and double production. Key constraints include:

- Amount of lead time required to grow certified organic mate
- Time it takes to build relationships with local farmers and teach them the sustainable practices of growing mate for purposes of restoring the Atlantic Forest. Only a century ago, most of the Atlantic Forest was intact. Today, less than 5% of this forest remains

Chris estimated that it would take at least 18 months to scale up in terms of quantity of mate needed, and noted that such growth would be difficult to enact while maintaining the high product quality.

For now, Guayakí hopes for steady growth of mate demand within North America. It will continue to finance this growth through traditional

¹² Personal communication with C. Mann, Sebastopol, CA, January 31, 2008.
market-rate debt and patient equity investments, as well as reinvestment of its operating profits.

**Organization**

**Leadership**

Chris Mann, CEO of Guayakí, was one of the five original seed members. His journey to Guayakí has been an unconventional one. After growing up in southern California, Chris attended Harvard University where he played football and earned an economics degree in 1991. He worked at Bank of New York for a few years after graduation and then relocated to Monterey, California, to head up the bank’s mortgage branch. Although learning a lot while working at the bank, he soon became dissatisfied with the motivations of modern corporations, thus prompting him to quit his job and join a high school friend and now VP of Operations at Guayakí, Richard Bruehl, in starting a vegetarian restaurant in San Luis Obispo. From there, Chris met Alex and David, and subsequently joined Guayaki as the company’s CEO. Chris was appointed CEO because of his finance and prior business background, and because he had the interest.

As described in the introduction, Chris is not a typical CEO. His unassuming and humble demeanor matches his leadership style, which his fellow management describe as “servant, leading by serving others, rather than others serving the leader,” emphasizing collaboration and trust.

Chris described the organization as operating with consensus-based leadership. Nothing in Guayakí is done without full consideration given to the environmental and social goals of the organization.

Recent additions to Guayakí include Patrick Lee, a former Balance Bar senior vice president, who joined in 2005, and Pierre Ferrari, a former senior vice president for Coca-Cola USA, who joined the team in 2007. Their roles are Global Cebador and VP of Sales and Marketing, respectively. These veteran industry leaders have been brought in to help manage Guayakí’s growth.

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13 Chris Mann’s business card actually reads “Chairman of the Gourd.”
14 From Guayaki’s survey response for this study.
Structure

Guayakí is organized by functional departments; 34 employees are divided into six departments:

- Executive team
- Sales
- Marketing
- North American operations
- Latin American department
- Finance

While the organization chart (see Figs. 18 and 19) denotes hierarchy, management describes the operating structure to be highly collaborative and democratic.

The glue that holds the organization together is the Latin American team, which is composed of five people. Alex Pryor leads the Latin American team, which is based in Buenos Aires. This team maintains personal relationships with farmers in Argentina, Brazil, and Paraguay to ensure high-quality raw materials are produced for the company. They utilize six to eight different projects to yield a couple of hundred tons of yerba mate. Maintaining these relationships and having a geographically local Latin American team is a key component to Guayakí’s competitive success.

Pierre Ferrari, Guayakí’s Vice President of Sales and Marketing, suggests that its organizational structure helps the company meet its environmental sustainability goals. “All of our decisions,” he notes, “are mission centered, which explicitly includes social and environmental stewardship of our whole supply chain.”

Culture and mission

Guayakí’s mission statement is as follows:

Guayakí works directly with growers to deliver unique and beneficial products that enhance personal health and well-being. Our goal is to create economic models that drive reforestation while employing a living wage.

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15 Online survey comments from P. Ferrari, November 4, 2007.
Guayakí’s mission is completely embedded within the company culture. As Chris Mann explains, “The culture of mate is to celebrate the human spirit. We had this mission before we had the sales, [thus] the spirit is infused within our company culture.”\textsuperscript{17} To give an example, Chris spoke about the company’s meeting style. Every month, employees convene in a large meeting space where they sit on the floor with pillows and pass around gourds of mate, following the traditional ceremonial style. Teammates are encouraged to spend the first part of the meeting sharing personal as well as work issues. “Sharing out of the same vessel breaks down barriers and is a real unifier for the employees,” explains Chris. “It keeps everyone connected.”\textsuperscript{18}

In addition to these types of non-traditional meeting styles, Guayakí also offers some standard corporate benefits such as flexible work time and 401k options for all U.S. employees. But, because of limited profitability, only 84\% of its employees are paid at or above a living-wage salary for the area. Guayakí is unable to pay full market salary wages to its executive team members. In addition, it provides insurance for each employee but cannot offer it to all employee spouses or family members.

\textsuperscript{17} Personal communication with C. Mann, Sebastopol, CA, January 31, 2008.
\textsuperscript{18} \textit{Ibid.}
Figure 19 Guayakí organization chart
While Guayakí cannot provide all the typical benefits of a large corporation, the culture helps to maintain loyal employees. In 2007, World-Blue recognized Guayakí for dedication to democracy in the workplace. Employees completed a survey evaluating their company’s democratic principles such as decentralization, accountability, and choice and integrity on a leadership level. Guayaki was one of 35 companies to receive the honor. To be a part of something that is greater than themselves is important to Guayakí employees.

**Processes and metrics**

Guayakí has many processes for ensuring the quality and sustainability of its products. It tracks environmental and social impacts upstream (i.e., from its suppliers), downstream (i.e., for its end-customers), and internally through its own operations.

**Upstream**

From an upstream operations perspective, Guayakí tracks the sustainability of its products from social, environmental, and quality perspectives. Socially, Guayakí is helping to support families across Argentina, Brazil, and Paraguay in maintaining decent livelihoods.

From an environmental perspective, Guayakí is helping to reforest the Atlantic Forest and maintain the rainforest’s biodiversity. According to Guayakí’s website:

> The Atlantic Forest of North Eastern Paraguay, North Eastern Argentina and Southern Eastern Brazil, is one of the world’s top five biodiversity hotspots . . . and one of South America’s highest priority sites for bird conservation . . . The 12,500-acre Itabo Rainforest Preserve [in eastern Paraguay] is home to over 330 species of birds and 36 species of mammals . . . Guayakí’s project [in the Itabo Preserve] has also been singled out by the United Nations and other environmental organizations as one of the best examples of medium-scale sustainable agriculture use in South America.19

With regard to quality, Guayakí goes beyond standard food regulations to ensure its mate is of extremely high quality. Quality control specialists in South America and the U.S. test products against a comprehensive list of specifications. Guayakí has created its own checklist of guidelines which covers the supply chain from water source and soil to finished product. As Richard Bruehl remarks, “We want to be known as the greatest mate in the world. To get that gold standard we have to stay ahead of the curve.”

**Downstream**

For the end-consumers, Guayakí tracks both health and environmental impacts. As noted above, the leaves of yerba mate contain 24 vitamins and minerals, 15 amino acids, abundant antioxidants, and naturally occurring caffeine. For its end-consumers, yerba mate is touted as a healthy stimulant with a plethora of benefits, including clarity of mind, vitality, sustained energy, and well-being. In addition to positive health impacts, Guayakí has quantified the environmental impact of a consumer drinking a Guayakí product by suggesting that, “With two servings per day, a consumer helps protect approximately one acre of rainforest every year.”

**Internal operations**

Internally, Guayakí is dedicated to tracking its sustainability metrics. The company measures its ecological footprint for each product line — bottles and tea bags. Two examples of the company’s dedication are its energy use and packaging.

Guayakí conducted an energy usage inventory and found that it was responsible for generating an estimated 28.5 tons of carbon dioxide annually. To offset its carbon emissions, the company buys solar power renewable energy credits from the Solar Living Institute in Hopland, California.

The company has also conducted a life-cycle analysis to demonstrate the net carbon dioxide emissions, subtracting sequestration, that result from its sustainable business practices. This analysis has shown that Guayakí’s activities in South America offset over 100 tons of carbon dioxide. Thus, purchasing offsets are not needed to achieve neutral emissions and is instead built into the business model.

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20 Personal communication with R. Bruehl, Sebastopol, CA, January 31, 2008.
All the boxes used for Guayakí tea bags are printed on 100% recycled paper with at least 55% verified post-consumer waste. In addition, all the company’s tea bags are biodegradable. The company has recently started to use a biodegradable and home-compostable cellulose-based “biobag” to package some of its loose tea products.

**Upcoming sustainability report and B Corporation status**

Guayakí is making further efforts to be true to its triple-bottom-line mission. In 2007, it hired an independent third-party organization called Conscious Brands to collect data and write its first ever sustainability report, which was completed in 2008.

In addition, Guayakí is an official founding B Corporation. B Corporations are companies that meet exacting standards for environmental and social performance. A nonprofit organization called B Lab founded the B Corporation concept and certification process. According to its website:

The mission of B Lab is to support B Corporations and this emerging sector by 1) certifying and rating B Corporations through the B Ratings System; 2) developing and disseminating a legal framework to institutionalize stakeholder interests within existing corporate law; 3) recruiting and promoting B Corporations; and 4) helping B Corporations access purpose-driven capital markets.\(^\text{22}\)

To qualify for B Corporation status, companies must complete a survey of questions related to their environmental and social performance. Those that score 80 points out of 200 are usually included. In 2007, Guayakí scored 110 out of 200 in the survey and were awarded B Corporation status.

Innovation

Raw materials pricing/sourcing based on market-driven restoration model

Guayakí is most proud of its innovative triple-bottom-line business model, designed to bring mate to North America while simultaneously creating economic demand that supports reforestation and provides a living wage. The business model is as sustainable as the yerba mate tree itself. As long as demand for the product stays constant or increases in North America, local growers will be paid a premium to practice sustainable agriculture and contribute to the reforestation of their environment.

Guayakí’s business model shows that profitable business can result from an environmental and social mission. Such innovative thinking can be an inspiration to all business leaders seeking to create positive social and environmental impact.

Infusing mate into the North American culture

Guayakí has been able to adapt a traditional bitter-tasting drink to the modern needs of the Western world. Appealing to the health-conscious habits of Americans has enabled Guayakí to compete with the coffee and tea industry. In the process they have formed a new beverage category for yerba mate as a healthy stimulant beverage. In addition, the creation of various mate flavors (and Guayakí’s innovative extract, e.g., the greener green tea, mate chocolatté and mate lattes), as well as its expansion into cold bottle beverages, have collectively allowed Guayakí to reach an even larger market.

While Guayakí’s social and environmental missions are written all over its product packaging and marketing materials, the high quality of the product has driven its success. Guayakí has brought a staple Argentine product to North America and is converting it to satisfy multiple needs.

High-technology eco-package design

Guayakí pays close attention to detail in all aspects of its product and pushes environmental innovation. Its tea bags utilize “flow-through” technology to maximize brewing yield, flavor, and potency of the product.
In addition, these bags are made from eco-friendly filter paper, which is itself made of biodegradable unbleached hemp and wood pulp. The tea box utilizes all its panel space to communicate Guayakí’s mission, along with the health and nutritional values of the product. As noted above, the box is also made of 100% recycled paper with at least 55% verified post-consumer waste.

**Potential sale of carbon credits**

Guayakí is always generating new ideas. Currently, it is investigating the possibility of selling its own carbon credits. Because its business model generates forest regrowth and forests sequester carbon, there is the possibility that Guayakí produces a net environmental benefit when it comes to its carbon footprint. If offsets are built into the model, Guayakí could potentially sell excess carbon through its website and use the funds to create new reforestation projects.

**Challenges for the future**

**Defining a living wage**

Guayakí’s mission is to provide a living wage to the local farmers of South America who supply its product. However, Guayakí is unable as yet to provide a living wage to all of its Sebastopol employees. Only 84% make market or above-market salary rates ($16 per hour for Sebastopol, California). Executive employees earn below-market salary rates, which poses a challenge when they are living in a high-cost area such as northern California. Furthermore, while individual health insurance is provided for all, not every employee receives spouse or family healthcare coverage. If Guayakí wishes to keep its employees happy, it will need to find a way to meet their living wages. There is a clear tension between meeting the social needs of the South American farmers and meeting the needs of its corporate employees.
Managing growth rate and balancing market and mission

In February 2008, Guayakí sales were up 50% from the year before. While growth is good for the company, managing this growth is crucial. Creating relationships with the South American growers and teaching them the practices of sustainable agriculture takes time. Trying to grow too fast can jeopardize the quality of the product and the Guayakí mission. Thus, Guayakí will have to take care when balancing market demand and mission objectives.

Culture change

In 2007 Guayakí hired six new people, mostly in sales. While some of these hires were to make up for those employees that did not relocate with them to Sebastopol, some were hired to help manage growth. With growth comes the potential for culture change. Guayakí has a unique and tightly knit culture. This culture is vulnerable to dilution or collapse should Guayakí have a tremendous growth spurt. For example, how would the company be able to maintain its unique meeting style if the organization was to double in size? While doubling in size is not something that will happen anytime soon, Guayakí must be prepared for how it will manage culture should significant growth occur.

Changing consumer habits

Guayakí has found that it is extremely difficult to change people’s habits. Indeed, it can take generations to do so. Bringing mate into a market that is dominated by coffee has been challenging. Getting people to try mate is the first step. According to Chris Mann, once they do, people frequently comment on how amazing mate is, and sometimes explain how it has changed their lives. The trick is to keep such customers coming back. Guayakí has learned that persistence and patience are vital. While it can take generations to change a habit and perhaps longer to change economics, Guayakí has already demonstrated that change is possible.

Educating consumers to combat competition

Guayaki’s promotional materials state that its products are organic, rainforest-grown and fairly traded. For the average consumer, how do these practices measure up against another mate company whose product may
be only organic? Will Guayakí’s sustainable practices have negative financial consequences, as other competitors using sun-grown mate provide products that are more affordable for the average consumer? Educating consumers to understand and care about the difference will be crucial for Guayakí to combat its competition.