Proportional Pricing Coffee Buying Partnership

Torque Coffees is pioneering a unique and radically different approach to the coffee value chain. The current coffee value chain starts at the commodity market price of generic green and tries to come up with some amount of add-ons to make that base commodity price deliver value to specialty coffee producers.

Torque Coffees reverse engineered the coffee value chain (GVC) and we start from the value to the consumer for a bag of roasted coffee and assign a preset percentage of that consumer price as due the coffee producer. The Proportional Pricing model is straightforward: Torque pays producers 20% of what a bag of coffee costs the consumer. So for every $20 bag of roasted coffee bought, the consumer knows that the producer got $4. And the coffee producer knows exactly what their coffee will be sold for. Its farmer equity.

We use the economic definition of equity which is **“The right to share in the appreciation in value.”** We believe that is the bare minimum foundation of a balanced, equitable coffee industry. And that is our ultimate goal. To break the chains of inequality and bring coffee into balance.

Since there are weight differences between retail bags and green sacks and shrinkage the math works like this to get the producer pricing per pound of export ready green coffee.

- Producer Price is 20% of the planned retail price of each bag of coffee
    - We technically go from Producer Price to determine the Customer Price.
- It takes 400g (~14oz) green to make 340g (12oz) roasted coffee. (Roasting coffee loses 15%-20% weight.)
- So for a coffee that sells for $20 for 340g/12oz - using 20% weight loss
- Producer gets 20% or $4.00 for 400g of green coffee or $0.10/g or $4.54/Lb
    - This is for export ready, fully milled, grainpro bagged, exportable green coffee
- This is what the farmer/cooperative is paid for export ready bagged green coffee. Import & export costs and margins are on top of that. (aka FOB + EXW costs)
- And what we do is start at the Producer Price and that sets the Consumer Price.
    - We use our matrix below to calculate the retail price.
    - Once the Producer Price is set we can not sell that producer's coffee for more than that number no matter what. It’s proportional.

Producers = Either a farm owner or a cooperative.

In terms of purchasing green coffee: (somewhat in the model of Direct Trade contracting)
Since Torque sells a roasted coffee complete in a package we use the same setup when determining producer price in order to account for varying models of producers go to market steps.

- **PRODUCERS:**
  - The Producer Price determines the Torque Retail price.
  - This is for export ready, fully milled, grainpro bagged, exportable green coffee
    - Although any extra packaging costs like vac pack, boxes, smaller packaging etc are above and beyond this price.
  - The price paid for the quality of the green coffee we received and approved.
  - So this includes wet and dry milling costs, grainpro bags, transport to mill.
  - We don't use the phrase "Farm Gate" because it isn't equivalent across every country.
  - This approach doesn't work for every origin, every coffee and every producer nor importer. But we try to be flexible and we can generally figure out how to make it work.
  - This price is what we call **Producer Price**

- **FOB/EXPORT:**
  - Costs of transport to port from dry mill, insurance, export fees, exporter profit etc are extra and on top of Producer Price
  - So from an export ready grainpro sack of green coffee at dry mill to FOB status
  - We expect that this cost ranges from $0.15 to $1.00 a lb (depending on country, customs, margins etc)
  - If this is more we need to understand why and make adjustments

- **IMPORT/EXW:**
  - Costs of shipment, insurance, customs, transport and unloading etc to final warehouse destination
  - On top of Producer Price and FOB
  - We expect that this cost ranges from $0.5 to $0.90 a lb (depending on country, customs, transport, margin etc)
  - If this is more we need to understand why and make adjustments and understand why

- **FINAL PRICE:**
  - Final EXW price includes those three items
    - Producer Price
    - FOB costs
    - Import & EXW costs
  - Total: Producer+FOB+EXW
  - TOTAL price example = (***Producer $5.31 + FOB $0.15-$0.90 + EXW $0.50 to $0.80)* = $5.96 to $6.90 a lb**
  - If a coffee has export + import + margin costs higher than $1.50 /lb we need to discuss why and work in an additional Producer Price payment per lb.

Transparency:

- We aim to be up front with our pricing and the percent that goes to the producer
- We have no problem showing our overall costs to produce coffee.
- We do not need to know what the producers' costs or margins are.
  - That is not our business.
- We do need to know what the other costs that go into FOB and EXW.
  - We are NOT trying to cut out your margin or nitpick your costs.
- We are ensuring that the price we set aside to the producer goes to the producer
- We are focused on ensuring that the 20% Producers Portion is paid for fully export quality, grainpro bagged and fully prepped coffee that matches the sample we approved. Pre FOB & EXW costs.
- Another way to think about the numbers is subtract the costs & margin of importing, exporting and get to the price for that export ready coffee per pound.
- We also know that there are lots of variations on how coffee is traded, financed, processed and transacted all over the world. So we are open to working towards a green coffee equivalent price in select circumstances. Our goal is to bring greater equity to coffee producers.

Note:

In general the higher the FOB + EXW costs are on a coffee the higher the Producer Price has to be. Since we can not raise our retail price to cover those costs, what we do is pay the producer more. In the case where there are highly increased costs of bringing coffee from a mill to our door we can build in an additional price per pound paid to the producer so that we can raise our retail price to cover some of those costs. Example: we add an extra $0.25/lb to Producer Price which means the retail price goes up approximately $1.00 which enables us to partially cover higher than normal FB/EXW costs. This extra payment would be shown on our sales contract and paid via wire transfer or some other method. (we pay those costs)

Our Producer price to retail price matrix. The producer price determines the planned retail price. That is the maximum retail price we can sell that coffee for. It can never go above that because 20% of it goes to the Producer.

In our model Wholesale prices are pre-determined the same way but 35% of the wholesale price is the Producers Share.

So we simply enter the Producer Price in the yellow field and it auto calculates the retail price. We use 20% as shrinkage to account for any variations in roast weight loss and other shrinkage.

Its a very simple concept but the math is particular!

Producers price/ lb (pre-FOB)	Producers price /gram green	amount of green in roasted	Shrinkage	Retail roasted grams	20% Producers share 340g	Retail Price 20% PP
$4.00	$0.009	408	20%	340	$3.59	**$17.97**