

MARKETING FAIR TRADE: THE CASE FOR QUALITY

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ABSTRACT

"Fair Trade Certification" (FTC) has been used as an emblem for social equity and consumer social responsibility. This paper traces the origins of fair trade, current status of the fair trade movement and consumer perceptions of fair trade coffee. Findings from three consumer studies show FTC is associated with social responsibility and higher prices but not with higher taste quality. Marketing implications with additional research studies are suggested.

The Value of "Fair Trade" and "Fair Trade Certification"

What is Fair Trade?

The origin of "Fair Trade" has been traced to the 19th century in Italy and the United Kingdom. It began as an effort to develop a cooperative trade partnership from raw material production through retail. Agreements on competitive wages and democratic trade policies were the key aspects of early cooperatives. In the 1950s, these cooperatives evolved to Alternative Trading Organizations (ATOs), non-governmental development organizations that promote economic equality in developing countries. To expand the scope and monitor fair trade with universal standards and labels the Fair Trade Labeling Organizations International (FLO) was formed as an umbrella organization in 1997. Fair trade goods that display the FLO inspection label ensure the customer that farmers from developing countries are paid a minimum Fair Trade price and earn a decent standard of living. TransFair USA is the only licensed organization in the US that certifies fair trade products.

To receive the Fair Trade certification growers must meet a set of standards and importers must abide to FLO policies:

1. Producers must be small, family-based growers.
2. Producers must be organized into politically independent democratic associations.
3. Producers must pursue ecological goals by conserving natural resources and limiting chemical input use.
4. Purchases must be made directly from grower organizations using purchasing

agreements that extend beyond one harvest cycle.

5. Importers must guarantee the FLO minimum price (\$1.21/lb for Arabica coffee) and pay a social premium (\$.05/lb) above this minimum, or pay the world market price, whichever is higher; certified organic coffee receives a further premium (\$.15/lb).
6. Importers must offer pre-financing equal to 60 percent of the contract value upon request.

Fair trade produce and significance of FT coffee:

TransFair expects to certify 44 million pounds of coffee in 2005. Other products it certifies include bananas, cocoa, tea, sugar and rice. The coffee volume exceeds the cumulative volume of all other produce by twofold. The growth of fair trade coffee (FTC) is remarkable, 76% growth in 2004 which is consistent with its annual growth since the inception of certification in 2000. FTC is 6 percent of the total US specialty coffee market and contributed \$26.2million income to fair trade farmers.

Challenges to FTC growth:

Unfortunately, there is currently more fair trade coffee being produced than demanded. It was estimated that half of the coffee produced under fair trade conditions was sold in the commodity market in 2004. While this increase in supply is insignificant in the coffee commodity market, it makes for a \$4.5 estimated loss in revenue in the fair trade market.

If the benefits of the fair trade movement are to expand, demand for certified fair trade coffee must be increased. Unfortunately, existing coffee markets provide good substitutes—a wide range of types and quality of coffee, including: instant, gourmet, geographic origin, and organic and ecologically certified. The only additional benefit fair trade coffee can offer the consumer is the knowledge that a larger portion of the proceeds are going to the small producers and their communities. Most fair trade coffee brands are positioned against high quality gourmet coffees, with the added social responsibility dimension, but in the same price range.

Most fair trade coffee has been positioned on the social responsibility attribute, but social responsibility

may not be the key to expanding demand for fair trade coffee. Fair trade coffee also typically competes most closely against gourmet coffees. In part, this is due to the similarity of prices. In part, it may be that the socially conscious consumer segment is part of the larger target for gourmet coffees, given their higher socio-economic status. The bulk of fair trade coffee is imported by countries that are also large importers of high quality gourmet coffee. Gourmet coffee is usually positioned on the quality dimension.

Quality may have several components, including taste, healthfulness, and social-responsibility. Fair trade coffee may be able to differentiate itself on the latter two features, but it faces a challenge on taste, which is probably the dominant component of quality. Consumers appear to have a schema for socially responsible products—that they are somehow inferior, to compensate for their socially beneficial aspects, e.g., the lower strength inferred for products made of recycled materials. Consumers may expect fair trade coffee to taste worse than gourmet brands. Some justification for this *a priori* bias is found in cases of fair trade brands that were objectively inferior, due to poor quality management. Whatever the reason, if fair trade coffees are to expand demand by positioning themselves as comparable or better tasting than gourmets, they must meet the challenge of consumer skepticism.

As mentioned, fair trade coffees are well positioned on the social responsibility dimension. Because many fair trade coffees are also certified organic, they may also stress that advantage. Organics are perceived to be more healthful than non-organics. Consumers are willing to pay more in order to insure their food is free of pesticides and herbicides. Organics are also environmentally friendly compared to non-organics, which is a socially responsible characteristic. Thus, one positioning option for fair trade coffee brands is to emphasize the related benefits of social responsibility and organic growing—doing good for both the growers and the earth while also offering the best in healthfulness. To the extent that consumers are willing to trade off the “do good” attributes for better taste, however, fair trade coffees will fail to expand much beyond the small segment that buys based primarily on the social responsibility aspects. Most consumers who want to buy on the basis of social responsibility already identify fair trade coffee as the front-runner on that dimension. Further expansion may be possible by persuading additional consumers to value social responsibility but not to the detriment of taste. A key marketing question, therefore, is

whether fair trade coffees can benefit more from stressing their social responsibility position or by challenging consumer skepticism about taste.

Within the arena of “social responsibility” Fair Trade Certification faces competing labels that confuse consumers. A recent Wall Street Journal article listed a frequently seen glossary of labels that “suggest you can help others by shopping”: Fair Trade Certified, Fairly Traded, Rainforest Alliance Certified, Certified Sustainable Local, Slow Food Snail. The confusion caused by competing labels likely blunts the effectiveness of social responsibility positioning.

RESEARCH GOALS:

To learn the buying motives and consumer perceptions of Fair Trade coffee we have completed three studies. From our findings we have begun a fourth study to test the relative effectiveness of social responsibility messages with traditional product benefit messages. The following text describes our studies, findings and hypotheses for our advertising message experiment (proposed fourth study).

STUDY #1

This study was done in cooperation with Pura Vida Coffee, a local Fair Trade roaster, with the objective of understanding how consumers use socially responsible label certifications in making coffee purchase decisions. It was also used to test the taste quality of a Fair Trade roast to a well-regarded non-fair trade roast.

To assess the relative quality of Pura Vida coffee, we conducted a “blind” taste test. Two identical canisters of coffee were set up on a table in a high traffic area on campus. One contained Pura Vida, the other contained a well-regarded non-fair trade roast. The containers were labeled “Roast 11” and “Roast 24,” and the research was described as a test of “new coffee roasts.” One hundred and eight respondents participated voluntarily. Order of tasting was arbitrary. Respondents drank 2-ounce samples of each coffee, with no additives, and rated them on a 7-point (terrible-perfect) scale, then completed several questions to indicate their normal coffee consumption, normal additives, and the importance they attached to four attributes—effect of coffee production on the environment, quality/taste of the coffee, safety/health concerns regarding coffee, and price paid to the coffee growers. The Pura Vida coffee was judged to taste somewhat better than the non-fair trade blend (means: 4.20

versus 4.05). Quality/taste of the coffee was rated significantly more important than the other three attributes on three-point scales (very, somewhat, not important)—1.15 versus about 2.0 for the others.

STUDY #2

Study 1 indicated the Pura Vida scored high in blind tests of taste/quality. To determine the effects of a Fair Trade label on perceptions, we conducted a second study in which the coffee was the same but presented under different labels. Respondents (different from Study 1) from four classes, three undergraduate business and one MBA, participated by indicating their coffee drinking and their preference for "Starbucks House Blend" versus "Starbucks Fair Trade Blend." After, they tasted each of two coffees, which were actually the same blend (Appassionato) but labeled as either "Starbucks House Blend" or "Starbucks Fair Trade" (labeled with 8.5 x 11 inch paper sign and 1-pound packages of the beans from Starbucks). After the tasting, respondents rated each coffee on a 7-point scale (terrible-perfect), indicated how much they were willing to pay for Starbucks Fair Trade per pound and per cup (given \$9.99 and \$1 as the standards for Starbucks House Blend) and asked to define the terms "organic," "shade grown," and "fair trade." The test subjects were later informed of the research conditions.

One hundred and nine people participated. Of these, 79 were coffee drinkers (as reported by non-zero cups per day average consumption). Of the coffee drinkers, 58% reported an initial preference for the House Blend. After tasting, however, the ratings of the two coffees were nearly identical ($M=4.49$ for House, $M=4.43$ for Fair Trade). The taste ratings were only slightly affected by the initial preferences. Those who initially preferred House Blend had slightly lower ratings of both coffees, but there was no interactive effect. These results suggest an initial biasing effect of the label, but that bias failed to influence the taste experience.

Sixty-five coffee drinkers responded to the willingness-to-pay measures. Coffee drinkers were willing to pay a premium for Fair Trade coffee—\$10.08 per pound (versus \$9.99) and \$1.23 per cup (versus \$1). We partitioned the willingness to pay responses by initial preference. The 35 people who initially preferred the House Blend were willing to pay an average of \$9.82 for a pound of Fair Trade, but \$1.17 for a cup. The thirty people who initially preferred the Fair Trade coffee were willing to pay \$10.38 and \$1.31.

The labels were not well understood: 75% of the coffee drinkers correctly defined "organic"; 36%, "shade grown"; and 38% "fair trade." (Not much different when non-coffee drinkers were included.)

Conclusions from Study 2

1. Initial preference among the sample was for the House Blend over the Fair Trade Blend. Since both coffees were from Starbucks, this effect appears to reflect a negative bias against Fair Trade coffee.
2. The initial bias in preference did not color the taste experience. Ratings of the tasted coffee were not different.
3. Consumers express a willingness to pay more for Fair Trade coffee, a common result in survey research. That they say they are willing to pay more but also state that they would prefer the Starbucks coffee may be an indication that the willingness-to-pay more is merely a social desirability bias artifact.
4. The labels are not well understood. Organic was correctly understood by 75% of the sample, but Shade Grown and Fair Trade fared much worse.

STUDY 3:

A survey was administered to a convenient sample of the student population to assess the relationship between consumer social responsibility, coffee drinking, and understanding of coffee certification labels—organic, shade grown, and Fair Trade. Surveys were administered in class to 158 undergraduate and MBA students at Seattle University and University of Washington (all different from Studies 1 and 2).

The first section of the survey consisted of twelve items intended to assess consumer social responsibility as a value. Nine of the items were selected from the 40-item Socially Responsible Consumption Behavior (SCRB) scale, developed by Antil and Bennett (1979). The nine items were selected as most relevant to this study; we rejected using the full scale for fear of respondent fatigue. Three additional items were designed to refer specifically to the issue of Fair Trade. The questionnaire concluded with one item to measure daily coffee consumption and two sets of open-ended questions asking for the meaning of each of the labels and expectations for coffee under each of the labels.

Results

The initial analysis confirmed that the twelve items formed a reasonable scale, with coefficient

alpha=.83. The addition of the three items did not significantly affect internal reliability; coefficient alpha for the nine SCRB items was not significantly higher.

The open-ended questions were content analyzed and sixteen variables were created—correct understanding of each of the labels, overall affect reflected toward each of the labels, specific assessments of coffee taste for each label, assessments of the general quality of the coffee for each label, specific assessments of relative coffee price for each label, and statements specific to coffee growers.

Understanding of the labels was coded as correct, incorrect, or no answer/no idea. Overall affect was coded on a 0-5 scale, with 0 indicating no indication of affect; otherwise, higher numbers reflecting more positive feelings. Specific assessments of taste were classified into one of five categories, 0 for no reference to taste, 1 for worse than regular taste, 2 for no difference, 3 for different (with no indication of better or worse), and 4 for better than regular taste. General quality assessments were classified into a similar set of five categories. Price assessments were reflected by three categories, 0 for no reference to price, 1 for lower than regular coffee price, and 2 for higher than regular price. The final variable, references to growers, was coded into three categories, 0 for no reference to growers, 1 to reflect statements that the label made things worse for the growers, and 2 to reflect that the label made things better for the growers.

Findings:

The labels were not well understood: 73% correctly understood "organic," 34%, "shade grown," and 46%, "Free Trade." These numbers are similar to those we found in Study 1. About one-third of the sample reported drinking no coffee (35%), nearly half (48%) reported drinking up to one cup per day, and 16% reported drinking two or more cups per day. Coffee consumption showed a weak relationship with correct understanding of the labels. Across three levels, zero, up to one, and 2+ cups, understanding was 71%, 73%, and 78% for "organic;" 33%, 31%, and 43% for "shade grown;" and 43%, 42%, and 61% for "Fair Trade."

In addition to understanding, the open-ended questions were content-analyzed for several other dimensions—overall affect, taste, quality, price, and references to grower welfare. The results are presented in the Table (#1). Overall affect was coded on a five-point scale, with higher numbers

indicating more positive feelings in response to the labels. As the Table indicates, a majority, but not all respondents, reflected some degree of affect to each of the labels. (Note that affect was inferred by the coder, so a specific reference was not required, which probably explains why the % mentioned values are substantially higher for the affect variable than the other categories.) For each of the labels, the feeling was slightly positive, tending to be more positive toward the labels as they were correctly understood.

The taste, quality, price, and grower benefit categories were mentioned by about a quarter or less of the sample, with the exception of quality in response to the Organic label. Almost all the mentions were positive with respect to taste and quality but more expensive when price was mentioned. The mention of price was notably infrequent in response to the Shade Grown label relative to the other two labels. Finally, there were few mentions of Grower Benefits to any single label, but all were positive. In conclusion, the open-ended responses reflect a weak but generally positive response to the labels with no strong associations except the high quality linked to Organic, along with a weak association to a higher price, except for Shade Grown. The open-ended question responses were crossed with coffee consumption, but no statistically significant differences were found between zero and non-zero coffee consumers.

Conclusions from Study 3

1. Confirmation of the poor understanding of the labels, especially Shade Grown and Fair Trade.
 2. No obvious relationship between CSR and coffee consumption or response to the labels.
 3. Few clear or strong associations to the labels.
- As we expected, some people associate the labels with more expensive, but, in general, the associations were positive.

HYPOTHESIS AND STUDY 4 EXPERIMENTAL DESIGN

The fourth study is an attempt to confirm insights from the previous findings and to guide strategic direction to marketers of Fair Trade coffee. One important insight from our findings is that specialty coffee drinkers do not compromise taste for social responsibility and do have a sophisticated palate to distinguish fine tasting coffee. An additional insight is that these consumers value social justice in their affect for "fair trade" and they express a willingness to pay more for Fair Trade coffee. From these insights we consider "fine taste" a necessary attribute to compete in the specialty coffee market

and "social justice" an attribute to augment quality. Thus the following hypothesis:

Preference for coffee will show an interaction effect between brand familiarity (known high quality versus unknown) and positioning appeal (superior taste versus social responsibility), such that:

- For a known high quality brand, a social responsibility appeal will result in higher preference than a superior taste appeal.
- For an unknown brand, a superior taste appeal will result in higher preference than a social responsibility appeal.

Marketing Implications:

Communication strategies for brand promotion of Fair Trade coffee should acknowledge the research hypothesis. Clearly well-known specialty coffee brands, such as Starbucks, Tully's, and Peet's should position the social responsibility benefits from purchasing their Fair Trade blends. Conversely, less familiar brands should position the superior taste benefits from purchasing Fair Trade coffee.

However the pursuit for long term success of fair trade coffee is contingent on the product quality and channel management decisions that TransFair USA's makes in managing its cooperative fair trade farms. Coffee quality must be managed from bean to cup. This requires selecting the highest quality beans for fair trade customers, imposing quality standards on fair trade roasters, ensuring fresh coffee beans at outlets and coordinating marketing communication, as previously noted. Such strategies are necessary to overcome the inherent "poor quality" bias against socially responsible products and coffee discussed in this paper. Notably, Transfair USA has initiated these practices in its "successful cooperatives means investments in Quality" for its 2005 campaign.

References and appendixes are available from the authors.