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## The Supply Chain Of Fair Trade Coffee: Challenges, Opportunities & The Future Inside A Troubled Industry

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THE SUPPLY CHAIN OF FAIR TRADE COFFEE:  
CHALLENGES, OPPORTUNITIES & THE FUTURE  
INSIDE A TROUBLED INDUSTRY

A Thesis Presented

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## ABSTRACT

What started as a grassroots effort to aid tradespeople in developing nations, Fair Trade and similar certification models have, over the last sixty years, successfully established themselves as a viable alternative to conventional international trade; the ongoing growth of their market share and volume emphasize the increasing market demand for these alternatives. For coffee, Fair Trade's oldest and most established commodity, over two billion pounds was sold as certified in 2012 alone and the percentage of certified coffee continues to grow in share each year (Volcafe, 2012, Fair Trade USA 2012). As Fair Trade continues to grow, so does the variety of participants in the program and with this shift, Fair Trade is challenged to continuously evaluate how it can support both its producer base and the customers driving demand. This is, at its core, a challenge of maintaining its mission while appealing to new customers and channels.

Fair Trade's expanding customer base, particularly with larger and more conventional businesses, has driven increased pressure for Fair Trade to prove and improve its impact and value. The research presented in this thesis explores Fair Trade's history, its current state and its future with a focus on impact and value creation. While Fair Trade is ultimately only a third party certification scheme with a mission singularly focused on improving producer livelihoods, its certification has inadvertently developed a global value chain network. This research focuses not on the mission, but on the supply chain of Fair Trade.

This thesis reviews two existing bodies of literature; the first, the past and present of Fair Trade and its current challenges, the second sustainable supply chain management and supply chain governance. Following this review, we also explore the work of Keurig Green Mountain, the largest US procurer of Fair Trade coffee (Fair Trade USA, 2013). From here, we develop a conceptual model and framework by which to view the current supply chain actors within Fair Trade. Finally, through our research and a series of semi-structured interviews with key industry players, we explore the future of Fair Trade and the opportunities within the supply chain to optimize operations and explore the potential benefits. Based on the results of our qualitative research, our study seeks to highlight a gap in the existing literature of Fair Trade by exploring its opportunities from a business and supply chain management perspective.

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## TABLE OF CONTENTS

ACKNOWLEDGMENTS .....	ii
LIST OF TABLES .....	iv
CHAPTER 1: INTRODUCTION .....	1
1.1. Fair Trade: Why It Matters .....	1
1.2. Supply Chain Management .....	2
1.3. Research Questions.....	3
CHAPTER 2. COMPREHENSIVE LITERATURE REVIEW .....	5
2.1. Literature Review: Fair Trade & Coffee.....	5
2.1.1. Background.....	5
2.1.2. The History of Fair Trade.....	7
2.1.3. Fair Trade Today & Fair Trade Coffee .....	10
2.1.4. The Fair Trade Divide and Current Challenges.....	15
2.1.5. Critiques of Sustainable Models & Fair Trade.....	21
2.2. Supply Chain Economics .....	27
2.2.1. Background.....	27
2.2.2. The Conflict of Business & Sustainability.....	28
2.2.3. The Challenge of Governance & Power .....	30
2.2.4. The Coffee Supply Chain.....	35
2.2.5 Supply Chain Management.....	41
2.2.6. Summary.....	45
2.3. Keurig Green Mountain .....	47
2.3.1. Background.....	7
2.3.4. Summary.....	53
CHAPTER 3. CONCEPTUAL MODEL.....	54
CHAPTER 4. METHODS .....	65
CHAPTER 5. ANALYSIS & FINDINGS.....	70
5.1. Industry Themes.....	72
5.2. Fair Trade Themes .....	73
5.3. Themes from Keurig's Fair Trade Programs .....	77
5.4. Themes on the Future of Fair Trade .....	81
5.5. Conclusion.....	85
CHAPTER 6. DISCUSSION.....	87
CHAPTER 7. CONCLUSION.....	96
COMPREHENSIVE BIBLIOGRAPHY & REFERENCES .....	99

## LIST OF TABLES

<b>Table</b>	<b>Page</b>
Table 1: Conceptual Model of Coffee Buyer Categorization .....	55
Table 2: Variables and Measures of Coffee Buyer Indicators.....	56
Table 3: Categories and Demographics Represented by Interview Candidates.....	60

## **CHAPTER 1: INTRODUCTION**

### **1.1. Fair Trade: Why It Matters**

Given its steady and strong growth over the past six decades, it is safe to say that fair trade has become a deeply rooted and mature global trading strategy (Jaffee, 2012). This fact is most evident in the commodity of coffee, the birthplace of the developed fair trade labelling programs we are familiar with today (Jaffee, 2010, Gendron et al 2009). As context to the commodity's size and global importance and impact, behind crude oil coffee is the second largest traded commodity in the world; in the 2009-10 growing season, 93.4MMbags of coffee were sold, representing over 5.6 billion pounds of coffee (ICO, 2010). The coffee trade also represents the increasingly visible challenge of global international trade as massive and highly profitable multinational corporations purchase a commodity being grown vastly by small and disadvantaged farmers in developing nations (Raynolds, 2009). The complexity of the global trading market and the wide disparity of trading power between coffee producers and buyers leaves producers marginalized (Tencati and Zsolnai, 2009).

The success and growth of fair trade in the international marketplace is a direct result of the consumer critique of international trade inequalities between mature and developing actors and nations (Raynolds, 2009). It is also a result of the growth of ethical consumption in developed nations, where consumers have an increasing awareness of the impacts of their

consumption choices on the local and international community (Sebastiani et al, 2013). Fair Trade, and more specifically Fair Trade USA, seeks to address these concerns by ensuring a fair and sustainable price for producers to ensure and improve their livelihoods (FTUSA, 2012b). Through the Fair Trade program in the US, by 2012 approximately \$93MM in additional revenue had been given to Fair Trade cooperatives, with \$31MM of this being in 2012 alone. With the exception of one year, Fair Trade USA has seen strong double and triple digit sales growth each year (FTUSA, 2012).

Despite its growing pains, challenges and the critiques lobbied at fair and sustainable trading schemes, Fair Trade continues to be the primary avenue for a growing number of buyers to respond to consumer demand for fairer prices at the producer level. While international trade inequalities exist, Fair Trade will continue to play a key role in challenging the issues within conventional global capitalism.

## **1.2. Supply Chain Management**

It is clear that we are becoming an increasingly global economy; we continue to trend toward a future of increasingly disaggregated and decentralized global supply chains and these supply chains more and more frequently comprise a large number of international stakeholders (Vurro et al, 2009). Yet with this shift, large multinationals are receiving increasing pressure to address issues of discovered abuse, whether these are of the environment, labor, or otherwise (Porter and Kramer 2011, Crane et al 2014).

Our new global nature is “expanding corporate responsibility beyond the traditional limits of ownership and direct control” (Vurro et al, 2009 p.607).

The coffee industry has long been a complex global network of key stakeholders. Being an agricultural product somewhat sensitive to processing and handling, each of its supply chain stakeholders have an even more critical piece to uphold in the quality and ultimate value of the coffee. The global coffee industry, therefore, may not only benefit from strong and responsible supply chains, but also may benefit from increasingly collaborative strategies (Tencati and Zsolnai, 2009). Consequently, there is a case to be made to explore methodologies for improved supply chain management and governance (Vurro et al 2009, Peterson 2002, Porter and Kramer 2011, Conner et al 2012, Bloom and Hinrichs 2011); not only could these opportunities address the challenges and critiques of large multinationals from consumers, they may also reduce risk, ensure quality, and further enhance the sustainability of the coffee industry. Supply chain management is of critical importance to the success of the coffee trade.

### **1.3. Research Questions**

Over the course of the last two decades, there has been a plethora of academic research on the third party certifications for commodities that continue to gain popularity and grow year after year (Volcafe 2012, FTUSA 2012). These certifications stem from over sixty years of history and signal a consumer demand for a relationship with the source of our goods and services beyond that of conventional international trade (Raynolds 2002, Renard

2003). More specifically, the existing research explores the history of Fair Trade, its evolution and challenges, and its impact in seeking to understand if the claims being made by these certifiers are coming to fruition at the producer level. However, now that Fair Trade has matured and made it well into the mainstream commercial markets, a lack of research has been presented which evaluates the *business* of Fair Trade and, more specifically, the supply chains which support the program. Though Fair Trade has strong mission based roots, its growth has pushed it well into the realm of big business (Fridell, 2009). This presents a gap in the research and an opportunity to explore the business of Fair Trade. More importantly, it may signal that there are opportunities within the supply chain of Fair Trade that have yet to be fully understood or leveraged. Through research on the management of the Fair Trade supply chain, we seek to address the following three research questions:

1. What do actors within the Fair Trade coffee supply chain see as Fair Trade's opportunities and challenges?
2. Are there opportunities to optimize the Fair Trade coffee supply chain?
3. If opportunities exist, what kind of benefits could they yield and who could benefit from them?

## **CHAPTER 2. COMPREHENSIVE LITERATURE REVIEW**

### **2.1. Literature Review: Fair Trade & Coffee**

#### **2.1.1. Background**

With more than six decades of history behind it, the movement of fair and sustainable trade continues to grow in both volume and market share in keeping with the growing demand of an increasingly informed and educated consumer base. A recent study notes that seventy six percent of consumers consider environmental and social aspects when they make purchasing decisions (FTUSA, 2014b). There are many active product certification schemes today, both in the US and abroad. In the US, Fair Trade is one of the most recognized; a third of Americans are considered to be “ethical consumers” and, of these, more than half are aware of and familiar with the Fair Trade certification (FTUSA, 2014b). In the US alone, there were over twelve thousand Fair Trade Certified products in 2012 and Fair Trade imports were up twenty percent from 2011. This volume signifies the work of five hundred and forty seven producer groups from fifty countries around the world (FTUSA, 2012). The growth of Fair Trade has been made in part by selling product in a wide array of consumer channels, from mission driven Whole Foods to mega retailer Wal-Mart (FTUSA, 2012).

Coffee was the first product to be labeled as certified under a sustainable trade model (Bacon, 2005) with the Max Havelaar brand in 1988 and it was the flagship product of Fair Trade USA one decade later. Coffee producers continue to be the largest segment of producer groups certified, representing more than half of all producers, and in

2014 coffee surpassed the one billion pound mark for volume sold to date (FTUSA, 2014c). By all indications, Fair Trade coffee will continue to see growth; from 2011-2012, volume was up another eighteen percent that year alone. The impact of these purchases to date represents an estimated \$93 million in Fair Trade premiums which directly fund work in community, education, environment, and productivity projects at origin (FTUSA, 2012).

This thesis will focus on the US Fair Trade model (managed by Fair Trade USA and henceforth called simply “Fair Trade”) for a variety of reasons, but we cannot overlook the collective progress of other certification schemes. This industry’s certification schemes, each with a slightly different focus or mission, represent enormous collective impact. In 2012, over 2.1 billion pounds of coffee traded were certified and sold under at least one scheme, a vast increase to the 1.3 billion pounds just two years earlier (Volcafe, 2012). However, while Fair Trade is most recognized in the US, the global tapestry is much more diverse. Globally, Fair Trade and Fair Trade USA comprise only 16% of this volume with certification schemes 4C, Utz, Rainforest Alliance, Starbucks’ internal Café Practices program, and organic certification all holding roughly equal shares to Fair Trade (though approximately half of coffee sold with an organic certification is dual Fair Trade Certified) (Volcafe, 2012). While the volume of certified coffee procured for is large and growing, it is still less than half the volume that is actually available under these schemes, signaling that there is still significant growth to be had before supply becomes a bottleneck (Volcafe, 2012). In the next section of this review, we will explore the history and evolution of sustainability schemes and the

alternative trade movement.

### **2.1.2. The History of Fair Trade**

There has been significant evolution in the economic model of fair trade. Now spanning over sixty years, the development and growth of a fair trade model is, at the core, both a signal of the failures within the paradigms of neo-classical economics as well as a critique of international trade inequalities both past and present (Renard 2003, Raynolds 2009). The long and complex evolution of fair trade is the ultimate cause of present day divides and tensions amongst those stakeholders within the current model. There are a few prevalent theories as to the precise origin of fair trade, but despite its origin it can be argued that many initiatives happened in the broader sense in parallel, signaling that not just few but many global individuals and groups were either knowingly or unknowingly vocalizing their disagreement with the inequalities within internal trade simultaneously (Low and Davenport, 2005).

While some may cite an incontestable relationship with the fair trade movement and the cooperative movement which has its roots in the UK and Italy in the nineteenth century (Gendron et al, 2009), the research at the World Fair Trade Organization indicates that fair trade was born in the US in 1946, when the founder of the present day store chain Ten Thousand Villages began a mission driven campaign to sell Puerto Rican needlework in her home of rural Pennsylvania, following a trip to the country and bearing witness to the overwhelming poverty of the region (WFTO 2011, Ten Thousand Villages 2014). Unrelated, this was followed shortly thereafter by the founding of nonprofit

SERRV in the US in 1949 by the Church of the Brethren. An acronym for Sales Exchange for Refugee Rehabilitation and Vocation, the group was developed to sell crafts from European refugees following World War II in an effort to help these populations recover economically (WFTO 2011, SERRV 2014). While the international organization Oxfam (taken from the name of the Oxford Committee for Famine Relief) was founded in Britain 1942, the WFTO notes that it was not until the 1950s that Oxfam UK began to sell crafts made by Chinese refugees in its shops in an effort to improve the livelihoods of these displaced populations (WFTO 2011, Oxfam 2014). While these and others were separate initiatives, they each had the underlying intent of charity or *benevolence* trade, with some having the added intent of utilizing the revenue from the sale of these crafts to fund their own development projects. At this time, there were no systematic links between the crafts sold and the communities who benefited from the assistance, a principle that was not established until the late 1950s (Gendron et al 2008, Low and Davenport 2005). Toward the end of the 1960s, further structure was developed and it marked the shift from benevolence trade to *development* trade as organizations began to expand their support of and services for the producer groups to encompass exportation or even production itself. The slogan “trade, not aid” from the 1960s United Nations Conference for Trade and Development (UNCTAD) epitomized the larger mission shift of these organizations as they began to mature (Gendron et al, 2009). Organizations such as these flourished across Europe in the 1960s and 70s through established World Shops. They then also expanded across North America through a combination both catalogues and stores (Raynolds, 2009).

In a similar timeframe another form of trade, *solidarity* trade, was stemming from the political movements against neo-imperialism in the 1960s in solidarity with those countries that were being politically marginalized, aiming to find markets for products from countries excluded from mainstream trading channels for political reasons (WTFO 2011, Renard 2003). No matter the motive for the organization, all of these developments fell under a broader umbrella of Alternative Trade Organizations (ATOs). In short, the broader term alternative trade was selected to denote a difference: an alternative (WTFO 2011). By the 1980s, many of the ATOs had expanded upon the original, more finite, mission of alleviating poverty and had developed more robust shared norms and practices, including parameters for the producer themselves. The International Fair Trade Association was developed to bridge many of these groups together into a common network; now known as the World Fair Trade Organization, it comprises hundreds of members from seventy countries (WTFO 2011, Reynolds 2009).

A pivotal turning point came in fair trade history in 1988, when Max Havaalar, a church-based NGO in the Netherlands partnered with a Mexican coffee cooperative to launch the Max Havaalar Fair Trade product certification (Bacon 2005, WTFO 2011). Products now bearing this logo were differentiated in the market to their consumers. This important change marked the point at which fair trade products no longer needed to be relegated to their own catalogues and world shops but could expand into other market channels while still maintaining their differentiation. This moment began a fair trade mainstreaming process that grew quickly; other fair trade labeling organizations spread across the northern hemisphere and more southern producer groups were able to access

the network. This triggered the development of numerous certifying bodies and labels, but some organizations opted to join forces and in 1997 the Fair Trade Labeling Organizations International (FLO-I) was created to promote fair trade, establish standards and coordinate an international fair trade product monitoring and certification system (Bacon, 2005).

It is important to understand these diverse origins of Fair Trade to better understand its present day tensions. It draws from a rich history of charity and benevolent trade, with church groups and NGOs seeking to focus on the alleviation of poverty. Many organizations based in development trade furthered this model with additional structure and a focus on social and environmental welfare. Further, the political activism and resulting solidarity trade following World War II developed around politically marginalized countries. This history both highlights the resounding demand for alternative trade models as well as pinpoints the challenge of further evolving the model while trying to stay true to the missions that bore it.

### **2.1.3. Fair Trade Today & Fair Trade Coffee**

While this particular research focuses on Fair Trade USA (FTUSA), a former member of FLO-I, and its particular model, evolution and future, it is valuable to note that numerous other labeling schemes exist to date each with their own particular focus, WFTO, Rainforest Alliance, Utz, Fair Trade International, and 4C to name a few. However, while Fair Trade is historically linked to these models, Fair Trade is distinguished by its breadth and depth and has come to represent an important

counterpoint to the conventional global food system (Raynolds, 2009). It is the very complexity and comprehensiveness of the Fair Trade model that ultimately makes it challenging to succinctly define. In fact, each stakeholder and participant may color their definition of Fair Trade by their own reasons for participating. We will explore this growing divide more in the following section. Fair Trade USA defines their mission statement as:

“... [seeking] to empower family farmers and workers around the world, while enriching the lives of those struggling in poverty. Rather than creating dependency on aid, we use a market-based approach that empowers farmers to get a fair price for their harvest, helps workers create safe working conditions, provides a decent living wage and guarantees the right to organize... Keeping families, local economies, the natural environment, and the larger community strong today and for generations to come; these are the results we seek through Fair Trade” (FTUSA, 2015).

The Fair Trade mission is focused solely on the producer. In a broader context, the Fair Trade model has been defined as offering “farmers and agricultural workers in the global South better prices, stable market links and resources for social and environmental projects, [while] in the global North, Fair Trade provides consumers with product options that uphold high social and environmental standards and supports advocacy campaigns fostering responsible consumption practices” (Raynolds 2009, p.1083). Alternatively, focusing on a purely economic context the key characteristic of Fair Trade has been defined as one “of equal partnership and respect...The idea of the ‘invisible hand’ has

given way to the idea of working ‘hand in hand’, with the market regulated by democratic authorities” (Raynolds 2002, p.410).

While Fair Trade now has certification programs that stretch from agriculture to apparel, from flowers to alcohol, this research focuses on the commodity of coffee as a case study for the future of the certification program. Not only was it the first product to ever receive a certification label with the Max Havaalar group, but it became the most dominant commodity amongst the various labeling schemes (Murray et al, 2006).

Specifically for coffee, the FLO standards note that producer groups must be made of small, family based growers who have organized democratically and that they must focus on ecological conservation (Raynolds 2002, Murray et al 2006). Further, coffee importers or buyers comply with an additional set of standards in order to qualify to use the Fair Trade label, which cite that purchasing agreements must extend beyond a harvest cycle, that they must adhere to the minimum pricing and pay their social premium and that they must be willing to offer pre-financing upon request (Raynolds, 2002).

Exploring these benefits in greater detail allows us to understand why the future expansion and development of the model can become contentious. First and foremost, the producer group benefits from standardized and improved pricing on their crop. Due to the rural and remote nature of most Arabica coffee farms, power in the traditional coffee sales model is usually with *coyotes*, or traveling exporters who often take advantage of rural farmers desperate for cash by paying on the spot but paying a significantly lower price (Raynolds, 2002). By standardizing the pricing model with both producer, exporter and beyond, the producer group is guaranteed not only a fair price for the product, but

also the standardized premium for adhering to the Fair Trade requirements. This not only covers the producer in the primary concern of revenue, but also in the secondary ability to have reduced risk for future years and harvests and the potential to establish longer term planning and to invest in assets for the farm (Ruben and Fort, 2012). As FLO regulations require the producer to be part of a democratic cooperative, there are also several other secondary benefits to membership (FTUSA, 2014). Revenues from premiums are required to benefit the cooperative, the greater good, which oftentimes results in the creation of water treatment, processing mills or other shared facilities, school programs for the area's children, or other shared resources for the coop's main office. These investments generate dividends for years to come and further reduce the risk of the group (FTUSA, 2014). At the other end of the supply chain, consumers and companies alike can be assured that their purchases are not at the expense of the farmer. By design, these products can even be traced back to the coop from which they were produced and are occasionally marketed with this information, which can increase the sense of connection between farmer and consumer (FTUSA, 2014).

Despite the benefits, there are challenges with the program. The *Fair Trade Compliance Criteria* is a robust document; there are no fewer than twenty two pages of detailed requirements for the *independent small holders* category, more than eighteen of them focused solely on the cooperative itself. For the coop, these include a diverse array of subjects including structure of the coop itself, non-discrimination practices, health and safety, fertilizer, waste, soil, and water management and biodiversity to name a few (FTUSA, 2014). While the Fair Trade program and premiums have valuable benefits,

there is a vast amount of work, management, and structure required of the producer groups in order to enter into and maintain their Fair Trade status. For many, these can require costly investments and can be time intensive. Additionally, there is the added risk that, while their entire crop is Fair Trade certified, not all of it will *sell* as certified. If they are unable to find the appropriate market demand for their specific product, they will default to a conventional cost structure which may negatively impact their ability to manage their previous investments (Mendez et al, 2010).

Beyond the coop, the remainder of the supply chain is also held to standards for buying and selling Fair Trade products including lead time to purchase, ensuring traceability of Fair Trade product and documented processes (SOPs) for supply chain management and flow, record keeping, and more (FTUSA, 2014). For larger supply chain participants, including exporters, importers and roasters, these requirements do not largely deviate from their conventional management and practices and will not typically be overly burdensome to implement. That being said, they do require solid processes, record keeping systems and the human resources to support the work which can be significantly more than that of conventional procurement. It stands to reason that those companies that are smaller, understaffed, or are challenged to plan out their purchases for more than one year may find the Fair Trade standards challenging. Conversely, those large roaster companies for which the selling unit of most producer groups (a shipping container or less) is too small and cumbersome to purchase efficiently (as they purchase many shipping containers at a time) may also find the compliance requirements challenging.

#### **2.1.4. The Fair Trade Divide and Current Challenges**

In their 2012 Annual Almanac, Fair Trade USA noted that “according to the World Bank, more than 2 billion people live on less than two dollars a day. Today’s Fair Trade model reaches only a small percentage of them. Fair Trade can and must do more” (FTUSA 2012, p.5). While the desire to do more is hard to argue for supporters of the model, *how* to do more is a topic of heated debate and it has caused a growing divide between supporters of Fair Trade. The debate takes two main forms: the first is a debate on whether “doing more” means *broadening* or *deepening* Fair Trade impact at the producer level while the second debate is one on the broadening of the consumer end and the dilution of mission and exposure to abuse of the model by opening it to an increasingly diverse consumer base (Murray et al 2006, Gendron et al 2009). These debates cannot be ignored as they are directly tied to the concept of volume, which is one that most cite as the basis for an effective Fair Trade program; in other words, the larger the volume, the more producers will be able to benefit (Gendron et al, 2009). Put another way, “...alternative commerce can only be a real alternative if products are available in every supermarket, every grocery store, on every street corners [and] in places of business where consumers shop” (Gendron et al 2009 p.69 ). The growing divide around the future of Fair Trade has already had visible consequences as Fair Trade USA and FLO parted in 2011 due to their irreconcilable differences of opinion. These debates play into both the current challenges for Fair Trade USA as well as the plans for future paths for the program.

Whether the ultimate goal is to sell a continually increasing percentage of commodities as Fair Trade certified or to engage larger numbers of producers, both require a *broadening* of Fair Trade supply. Here, *broadening* means to increase the number of participants while *deepening* refers to strengthening the social and environmental impact of the program at origin (Murray et al, 2006). Despite its continuous growth in volume and market share, Fair Trade still ultimately impacts a very small amount of rural poor at origin. As stakeholders continue to evaluate how to incorporate a larger amount of disadvantaged farmers, the suggestion of altering the limitations on who can enter has arisen. Due to Fair Trade's key focus on democracy and shared ownership within their producer groups, participation has historically been limited to small producers banding together as a cooperative network (Low and Davenport 2005). In terms of impact to the number of rural poor, however, some argue that there are many more who are employees on larger coffee estates and an increasing amount of these plantation-based producers as well as their importers have called for opening up the certification to other producers (Murray et al, 2006). Not surprisingly, there has been strong opposition by the current certified small scale farmers, many of whom logically argue that this would replace them as other producers have more significant economies of scale (Murray et al, 2006). Additionally and perhaps more at the core of the debate, adding estates and other producers is inherently at odds with the democratic organization at the heart of Fair Trade (Raynolds, 2012). Estates employ seasonal and oftentimes transient workers and are wholly and privately owned. Therefore, decision making and investment would naturally be by the owner and for the owner, which would defeat the

democratic nature of Fair Trade. If the program were to be broadened to additional types of producers, new requirements for governance would need to be meticulously developed by Fair Trade and these requirements would need to strike equity with those required of the coop participants so as not to unfairly impose or benefit one and not the other. Nonetheless, if the mission of the Fair Trade model is to reach as many rural farmers as possible, broadening the definition of who can be welcomed into the system will need to be carefully considered.

At the opposite end of this debate, some would argue that it is not the quantity of the participants but the quality and ultimate impact of the program which should be the mission and focus of Fair Trade. There are many that see the program's current state at origin as one that has significant gaps. Studies at coops have uncovered a lack of understanding of the program and its benefits at the farmer level, a significant issue given that democratic involvement in the program by all members is a cornerstone of the scheme (Ruben and Fort 2012, Mendez et al 2010, Murray et al 2006). While managing the requirements and financial benefits of Fair Trade at the cooperative office and management level can be more efficient, leaving the producers to focus their attention on their crops, it ultimately comes at the great expense of democratic participation and engagement throughout the organization and this lack of engagement can have several negative consequences. As with anything, a lack of understanding as to why something is important can lead to a weakening of the adherence to the requirements or thoroughness and quality by which they are completed. This can mean an increased risk of shortcuts in environmental or operational requirements and opens the door for unilateral decisions to

be made by a few instead of the many. While this may not always be negative, it can allow for abuse of finances or investment decisions that may not benefit the entire network as they should be intended. Further, if the benefits beyond the premium are not understood by the broader cooperative, the value of participating in the Fair Trade system may not feel as strong and could weaken the desire for long term participation (Ruben and Fort 2012, Mendez et al 2010). For example, pre-financing access via the Fair Trade model is oftentimes critical for the cooperative to stay solvent and pay major debts during the growing season. Without it, many coops would struggle or even crumble. If the producers in the network do not have knowledge of this benefit, it may weaken the perceived benefit of these services. Finally, without a broad and thorough understanding of the Fair Trade perspective on gender equality, the female members may not be able to comfortably vocalize their concerns and desires along with their male counterparts or grow into ownership or management roles that could otherwise be limited to them (Murray et al, 2006). In short, as the future of Fair Trade is explored at the producer level, broadening and deepening impact are at odds with one another as widening the types of and participation may dilute impact and the mission of Fair Trade.

There is a second debate regarding the future of Fair Trade further downstream at the company and retailer level. Here Fair Trade is at another impasse: if the mission of Fair Trade is to have an increasingly larger percentage of commodity products certified or if it is to continue to increase the premium's revenue for the marginalized producers, both will require increased sales and sales opportunity, largely in the form of additional companies and retailers participating in the program. However, if this list of participants

is to continue to grow, it will need to include those that are not current supporters of the Fair Trade mission. Introducing these participants comes at the risk of dilution of the mission and possible weakening of integrity with consumers as well as with existing Fair Trade participants. This is a growing divide amongst Fair Trade supporters and one that needs to be carefully considered in planning the future of the program.

It is of value to differentiate coffee retailers from roasters in this debate. Despite some critique by the most militant of advocates, retailers are largely accepted by supporters of Fair Trade as a means to an end. In other words, despite mega-retailers like Walmart having unarguably and profoundly different business ethics than those of Fair Trade or other retailers such as Whole Foods, they have been largely accepted by Fair Trade supporters despite the cognitive dissonance of Fair Trade products being sold within their stores as widespread access to these products will inevitably broaden the client base (Gendron et al, 2009). The expansion of coffee roasters, however, is at the core of the debate. Put one way, it is a debate about the future of Fair Trade and how two types of company can exist within the same sphere: the mission-driven participant, devoted to consumer education, and the market-driven participant, which may be largely shareholder or marketing driven (Fridell, 2009). Alternatively, some argue that there is actually a third hybrid of the two poles called *quality-driven* buyers, who despite their level of alignment with the Fair Trade mission will leverage the program to ensure supplies of high quality coffee (Raynolds, 2009). Arguably, it is not the hybrid participants that are most at issue but rather the market-driven participants who are now the largest and fastest growing segment of Fair Trade buyers and many appear to have

little if any allegiance to the mission (Raynolds, 2009). While it's not fair to say that all market-driven participants share the same reasoning for procuring Fair Trade coffee, it can be inferred that some of their motivations stem from either improving upon their company image or an effort to increase consumer demand, the latter of which would by nature be controversial if the consumer is demanding it for the very qualities the market-driven participants are not meeting. Occasionally coined *fairwashing*, *clean washing* or *green washing*, there is no regulation from Fair Trade that prevents a coffee company from procuring a minimal amount of Fair Trade coffee to create a single product in its larger portfolio and then promote it (and thereby the company) for its sustainable benefit (Raynolds, 2009). This halo effect allows the company to appear to have a much more sustainability focused image than it, in reality, does. It is not surprising that there are some negative critiques of corporate social responsibility (CSR) initiatives in large corporations, which can be used as a means to initiate one time sustainability projects for a large gain in company image. "A significant distinction exists between CSR, which is 'money-driven', and Fair Trade, which is 'mission-driven'" (Fridell 2009, p.82). The second motivation, that of increasing consumer demand by offering a Fair Trade product, can be almost as troubling. Offering Fair Trade in a manner that simplifies Fair Trade as a *type* of coffee, alongside other products such as decaffeinated, organic or flavored, falsely relegates Fair Trade as an *attribute* rather than a *business model* (Gendron et al, 2009). While these companies may meet most of the minimum requirements of Fair Trade as written, the broader intent of the program is missing and is misleading to consumers seeking sustainably sourced products.

In 2008, Starbucks, who purchases one percent of the world's global coffee supply (Fridell, 2009), announced that it would be partnering with Fair Trade USA to expand its participation in the program with the goal of doubling its Fair Trade purchases and becoming the largest buyer of Fair Trade certified coffee in the world. CEO of Fair Trade USA, Paul Rice, applauded the partnership (Jaffee, 2010); unfortunately, market-driven participants like Starbucks have been criticized for not only failing to meet the larger intent of the Fair Trade supply chain but also skirting even some of the written regulations by, for example, refusing to buy coffee from producers who request their pre-financing. By avoiding these credit obligations, they mold their Fair Trade relations to their conventional model to the detriment of the producers (Raynolds, 2009). By expanding further into market-driven partnerships, Fair Trade will gain volume but runs a growing risk of diluting consumer confidence in the program and alienating, or worse yet losing, the mission-driven participants that drove the program to where it is today. If Fair Trade wishes to “do more” by expanding their coffee company partnerships in the US, it may come at increasingly greater risk of diluting the program and eroding support.

#### **2.1.5. Critiques of Sustainable Models & Fair Trade**

Sustainable trade, and Fair Trade specifically, is not without its critics. Critique appears to fall largely into two categories: the first is a critique of sustainable models and their interference with the traditional neoclassical economic model while the second is a critique of the lack of quantifiable or provable impact at origin by Fair Trade and other schemes.

At a purely economic level, some call sustainable minimums and premiums “interventionist schemes” or “suboptimal protectionism” and note that by establishing Fair Trade systems in some but not all countries you are unjustly targeting some countries while, since coffee demand is inelastic, you are by default harming others (Yanchus and de Vanssay, 2013). Critics go on to cite that, by raising the relative price of the coffee industry within a country, it artificially shifts productive resources away from the production of other goods and toward the production of coffee and, therefore, coffee growers are unambiguously better off (Yanchus and de Vanssay, 2013). These targeted countries may thereby become dangerously dependent on premiums, consequently skewing their production too far. Finally, some critics go so far as to suggest that it would be more optimal to simply donate funds directly to the producing country as a whole rather than targeting coffee producers, citing that, *ceteris paribus*, it would require fewer funds to have the same impact to the region (Yanchus and de Vanssay, 2013). “However well-intentioned, interventionist schemes to prop up prices above market levels ignore... market realities. Accordingly, they are doomed to end in failure—or offer cures that are worse than the disease” (Lindsey, 2003, p.1).

The challenge with these criticisms of Fair Trade is that they are blind to some basic characteristics of the coffee industry. The allegation of harming some countries by establishing Fair Trade supply chains in others partially relies on the idea that all coffee is homogenous and that there are no other differentiating factors in the market. The reality of the market, however, is that the available market for a buyer is constrained by the coffee type, quality, and sensory profile. In the specialty Arabica market, where Fair

Trade is focused, the demand for coffee is overwhelmingly determined by quality grade and sensory profile (Oberthür et al, 2012). In short, while origins such as Vietnam and Thailand, two countries in which there are no approved Fair Trade producer groups, do exist in the same commodity market as the coffees of Ethiopia and Kenya, two countries in which Fair Trade is established (FTUSA, 2012), the quality and sensory profiles are so different that they would not be considered to competition for the same demand.

The second segment of the critique asserts that coffee farmers are “unambiguously better off” than others in their country and this is consequently skewing coffee production too far. Unfortunately, this criticism is based on a flawed understanding of the program. At its core, Fair Trade is a mechanism that allows for the reduction of risk in coffee farming or the increase in the farmer’s ability to manage risk through stabilization of revenue (Bacon 2005, Ruben and Fort 2012), which allows the farmer to continue farming in a sustainable and environmentally conscious environment, the added benefit of which is coffee supply from these regions also remains more stable. The setting of a price floor ensures that coffee farms can continue and subsequent coffee supply is thereby less prone to the erraticism and challenges of functioning within the global market, one whose adjustment to supply and demand is prone to long lags (Lindsey, 2003) largely driven by the years needed for coffee plants to mature. The erraticism and long lag time can have devastating impacts to global coffee production, as seen in the mid-2000s, when coffee prices languished at an almost 100-year low due to overproduction and innovations in processing (Murray, 2006). Oftentimes without any other economic opportunity in their region, farmers desperate to escape the grinding

poverty of the coffee crisis would seek dangerous migrations to other countries (Murray, 2006). Rather than being “unambiguously better off”, the main benefit is market protection from industry-specific risk resulting in farm stability rather than atypical wealth. Additionally, overproduction does not seem to be a result of the program as critics may suggest. Both prices and production continue to fluctuate and from 2008-2012; coffee prices rarely fell below the Fair Trade coffee price minimum and in fact saw a fourteen year price high in 2011 (CNN Money, 2011).

The final segment of the larger critique that, *ceteris paribus*, it would require fewer funds if one were to simply donate to the country’s government rather than inefficiently targeting select producers, focuses on only one piece of the program (the financial) and disregards the social and environmental requirements of the program which would not occur if the funds were siphoned through a federal government. In short, while there are economic critiques to Fair Trade schemes, they seem to rely largely on misunderstandings of the programs and their nonfinancial impacts.

The second critique of Fair Trade is its inability to quantify its value or specifically “prove” its impact at origin. While Fair Trade USA and others can easily determine how much social premium has been granted by year, region, or coop, the resulting impact of these funds and the larger program’s benefits are significantly challenging to quantify. Further, while Fair Trade can quantify the social premium, they cannot quantify how much of the total revenue from the final sale made it to the producer or coop level; beyond pounds sold, Fair Trade is not involved in the financial details and is not privy to the costs and revenue taken from the others in the supply chain including

mills, exporters and importers.

In a recent meta-analysis of forty six relevant Fair Trade studies, only eleven were found to show any producer-level benefits (Blackman and Rivera, 2011). Further, if Fair Trade's goal is to gain a larger and larger producer base and thereby benefit greater numbers of smallholders, critique indicates that those producers joining certification schemes may already be meeting most if not all of the scheme's criteria, making the positive additional impact of joining a certification scheme minimal, if anything at all (Blackman and Rivera, 2011). In regards to the mixed or limited benefits to producers, there are a few possible root causes noted, one being that many certified farms are able to only sell small quantities of their coffees as Fair Trade, just twenty to twenty-five percent on average, with the rest being sold at conventional prices the result of which give little return on any investments or changes made to meet the certification requirements (Mendez et al, 2010).

This final critique is much more serious to the future success of the Fair Trade program and is significantly more challenging for Fair Trade to address. With such a broad spectrum program, accurately measuring the impact of Fair Trade is extremely challenging. Not only do you have the primary environmental, social, and financial goals, but the less tangible secondary goals of improved well-being and viability, empowerment of women, the strengthening of the coop's supply chain and risk reduction. How does one accurately measure risk reduction in coops over a long enough span of time while removing all other variables (weather, market) and find a sizeable control group for reference? Many studies performed to date draw a similar conclusion: that more study is

needed on Fair Trade to determine its true impact (Bitzer et al 2013, Ruben and Fort 2012, Blackman and Rivera 2011) or, that while Fair Trade is beneficial in limited terms, it cannot solve for poverty in isolation and that a multi-faceted approach is needed to truly make lasting impact (Mendez et al 2010). Fair Trade will need to take significant steps to evaluate and measure its impact in broader more transparent terms if it hopes to curb the growing uncertainty of its success.

## **2.2. Supply Chain Economics**

### **2.2.1. Background**

In the last six decades, Fair Trade has developed from the original small scale direct or charity trade into a vast global supply chain of its own. It has successfully established itself along with other certifying schemes as it intended, in opposition to and as an alternative from the conventional trading relationships between the global north and the disadvantaged global south. Yet while Fair Trade remains steadfast on its mission to improve producer livelihoods, it continues to seek growth through partnering with large buyers that are increasingly profit-driven, publically traded entities. As a result, Fair Trade is under increasing pressure to prove and improve upon its value proposition to these large partners.

Inherently, coffee is a complex supply chain of multiple key stakeholders; producer groups and mills, exporters and importers, micro-financiers and NGOs and more, all of whom provide services along the route from producer to roaster. As with any supply chain, each stakeholder is both a service and an additional cost. As we look to the future of Fair Trade and its continued evolution, proving and improving its value proposition may increasingly include opportunities not immediately tied to farmer livelihoods; rather, now that Fair Trade is arguably a global supply chain unto itself, there may be increasing value to evaluating the supply chain that supports Fair Trade and understanding how it can be optimized to further support the mission and both drive and prove value to its buyers.

In the following sections, we explore the conflict of conventional business practices with sustainability. We then discuss both supply chain governance and the issues of power as well as supply chain management and the coffee supply chain itself, highlighting challenges and opportunities for Fair Trade's future.

### **2.2.2. The Conflict of Business & Sustainability**

It is no coincidence that as Fair Trade continues to grow in volume and popularity, conventional supply chains and conventional business have seen an increasing groundswell of pressure to improve their impact, one that has been increasingly viewed as a major cause of social, environmental and economic problems (Porter and Kramer, 2011). However, ours is a culture of capitalism and within it we continue to measure the success of companies large and small primarily and narrowly by their short-term financial performance (Porter and Kramer, 2011); it is the singular means by which we can most easily compare one business to another and interpret a business' success over time. With this measure, business and sustainability are inherently at odds; "there is no escape from the conflict between economic goals and their social and moral implications" (Tencati and Zsolnai 2009, p.369). Further, when sustainability is seen as an add-on program to a business' goals and not as a model and process from which they determine their growth and progress, corporate responsibility and sustainability are subordinated; they become an instrument for economic competitiveness or worse, a marketing ploy rather than a true business change (Tencati and Zsolnai, 2009). The movement for businesses to have independently functioning departments for Corporate Social Responsibility, or CSR, has

come under scrutiny.

Despite the challenges to do so, the consumer pressure for heightened responsibility and sustainability continues. Ethical consumption, the behavior of consumers who feel accountable for their decisions' impacts on the environment and society, continues to gain ground and press for collaborations between companies and social demands (Sebastiani et al, 2013). Additionally, consumers are holding corporate enterprises increasingly accountable for the actions of their supply chain partners. An incriminatory 2009 Greenpeace report on the Brazilian cattle industry publically condemned and held accountable major shoe manufacturers such as Adidas, Nike, and Reebok for their relationships with the leather illegally deforested areas of Brazil (Vurro et al, 2009). Even more recently, a four part exposé in the LA Times held accountable Wal-Mart, Albertsons, Safeway and even the World Bank for their relationships with the deplorable treatment of labor at Bioparques, one of Mexico's largest tomato exporters (Marosi, 2014). These exposés can create long term damage to brand integrity and it is safe to say that corporate responsibility has expanded beyond the traditional limits of ownership and control; those at the end of global value chains are increasingly challenged to ensure that their social responsibility reaches well beyond their own borders and fully encompasses the partners they work with (Vurro et al, 2009).

In response to continued consumer pressure, business is exploring the opportunities that will better improve their supply chains and better align their strategies and successes to social and environmental responsibility and sustainability. One theory, coined *collaborative enterprise*, stresses engagement and transparency with all supply chain

stakeholders, the result of which can strengthen the business and lower transaction costs for, “the sustainability of the company depends on the sustainability of the stakeholder relationships” (Tencati and Zsolnai 2009, p.374). Another theory, coined Creating Shared Value or CSV, by Michael Porter and Mark Kramer of Harvard University, contends that there are, in fact, means to develop “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (Porter and Kramer 2011, p.66). They note that businesses rarely approach social issues from a value perspective, instead treating them as peripheral issues which obscure the connections between financial and social concerns (Porter and Kramer, 2011). With CSV, they elevate the strategic relevance of social goals and press for their measure and implementation to realign the entire company’s budget rather than to limit it and its impact by a set budget of its own as with earlier and more common CSR models (Porter and Kramer, 2011). While there are some that argue that CSV ignores the tensions between social and economic goals, amongst other things (Crane et al, 2014), it does help to frame the need for sustainability in a language that business understands.

### **2.2.3. The Challenge of Governance & Power**

Already challenged by the inherent conflict between business and sustainability, Fair Trade supply chains are also challenged by the conflict of power and governance between actors in the chain. Inequality of power within a supply chain can have profound impacts on the supply chain actors’ abilities to interact efficiently and to gain alignment

on processes and goals (Gereffit et al 2005, Bitzer et al 2013, Mendez et al 2010). To understand the challenge of power and governance within Fair Trade coffee, convention theory can be applied. Contrary to the neo-classical economic theory that the mechanism of price encapsulates all the required information on a product, the theory of conventions attempts to explain those determinants that influence economic activity outside of price; in particular, it cites quality as one of the spheres that go beyond price and the theory perceives quality as both the fundamental concept for economic analysis but also as the axis for all modern competitive strategies (Renard, 2003). Further studies have distinguished between different means to define quality, arising from the different categories of supply chain activity. For the coffee industry, two of these types of coordination become key: market coordination, in which the more traditional market laws and the mechanism of pricing are dominant, and civic coordination, in which a group of actors seek to adhere to a set of collective principles (Renard, 2003). Foremost, these two forms of coordination again reiterate the inherent tensions of Fair Trade functioning within the more conventional marketplace it has now grown to become a part of; Fair Trade attempts to act both outside the market, pulling away from neo-classical product valuation with its social mission of providing market access to disadvantaged producers and enforcing pricing floors, and inside the market, with its growth with some of the largest corporate retailers and its increasing reliance on conventional distribution channels (Taylor, 2004). This ongoing contradiction also highlights the power struggles within Fair Trade coffee supply chains. Ultimately, to gain access to the Fair Trade market, producer groups must adhere to the demands at the other end of the supply chain.

These demands are twofold; there are, of course, regulations created and enforced by Fair Trade USA, but this market is also increasingly dictated by the large corporate buyers and roasters at the end of the supply chain who, “as in all power relations, can in the end win space or impose their rules” (Renard 2003, p.95). In this case, demands on product quality and other attributes can dominate the business and the producer groups have no choice but to attempt to meet them if they wish to gain the premium associated with the Fair Trade sale.

Despite Fair Trade’s mission of improved market access for disadvantaged producer groups and its improvements over the conventional coffee supply chains, the current Fair Trade coffee supply chain structure continues to be heavily dominated by large corporate actors, exposing the lack of power at the producer level. Critics have cited that, while FLO and Fair Trade have made progress toward improved democratization, it is still ultimately a pyramid decision-making structure with little communication between the top and the base and that, more pointedly, the Fair Trade coffee movement is dominated by Northern interest (Taylor, 2004).

From another vantage point, Fair Trade coffee supply chains can also be evaluated from a global commodity chain approach and the resulting commodity chain governance. Governance “refers to patterns of authority and power relations which structure the parameters under which actors operate” and governance patterns can be evaluated against the three variables of complexity of information and knowledge transfer, the potential for codification, and the capabilities of the supplier (Taylor, 2004 p.130, Gereffi et al, 2005). Specifically, as we look at the ways by which supply chain

actors interact with one another, the ease by which their transactions occur is critical to the success of the business. Ease and efficiency increase when the information regarding the transaction can be simplified and when the system for transmitting the requests can be methodical and in a language that all parties can easily understand. Further, when all parties are capable and knowledgeable, the risk of the transactions is further reduced. For Fair Trade coffee supply chains, this highlights the criticality that the roaster, importer, exporter, producer group and any other actors involved in the transaction of the coffee all work to ensure that they are calibrated both around the product being sought but also the means by which that request will be shared. It is important to note that here, Fair Trade coffee is not acting in isolation; the specialty coffee industry has worked diligently on the codification of coffee attributes and, in particular, the Specialty Coffee Association of America (SCAA) has developed and championed both a process and a one hundred point scale by which to grade coffee (in which coffee receives the grade of “specialty” only if it meets or exceeds a score of eighty) (Oberthür et al, 2012). Further, SCAA and its partner the Coffee Quality Institute (CQI) have established a global training program to support the calibration of coffee experts around the world (Coffee Quality Institute, 2011). However, as with any specialty product, there are subtleties within the attributes of a coffee that can take years to become knowledgeable on; in order to ensure that when a roaster is requesting, as an example, a Colombian coffee scoring between an 83-85 with an aroma of cherries, bright acidity, medium body and a flavor profile including jammy red fruit and dark chocolate, there must not only be an efficient means of transmitting that request, but there must also be a capability for all actors in the supply chain to understand

that request and to be calibrated amongst the actors on what that request truly means. The more fluid and collaborative a value chain, the greater the efficiency and the greater the decreases in risk and cost (Gereffi et al, 2005, Tencati and Zsolnai, 2009). Therefore, if Fair Trade wishes to further prove and improve upon its program and its success, finding opportunities by which to improve upon the governance within the supply chain may be valuable to explore.

The issues of power, governance and sustainability in supply chains are inextricably tied. Particularly for coffee, roasters are increasingly concentrated and large in scale, with a mere five corporations dominating the specialty coffee market (Taylor, 2005). In the vastly buyer-driven commodity chains of Fair Trade coffee, producers are ultimately in the hands of these larger actors in the industrialized north and subject to their control and governance of the process of coffee procurement. Research has established that even those buyers most ingrained with the Fair Trade mission, outside of the top five roasters, are “not immune from market pressures and clearly exert their power over suppliers in ratcheting up coffee quality expectations” (Raynolds 2009, p.1091). Yet there is a powerful case for being made to address the power inequalities within the supply chain. By empowering the producer groups, giving them a larger voice in the certification scheme and the supply chain itself, Fair Trade could better access the issues, challenges and concerns at the coop level and better latch onto the innovations and ideas being generated by this critical facet of the industry.

Success stories on improving the power inequalities within a supply chain and certification scheme exist outside of the coffee industry, with the Forest Stewardship

Council (FSC) being a leading example. The FSC has a strong emphasis on stakeholder involvement and its governance system is explicitly structured so that half of its voting members represent the global north and half the global south; their process effectively represents the interests of quite disparate actors in their supply chains to inform policy making and the governance scheme that guides their industry transactions (Taylor, 2005). The empowerment of producer groups in Fair Trade would drive a more diverse engagement within the supply chain and allow for more collaborative governance approaches. Studies have determined that these collaborative governance approaches are the strategic key to improving social responsibility and increasing sustainable development (Vurro et al, 2009) but even further, by adjusting power dynamics and driving a more collaborative supply chain Fair Trade coffee has the opportunity to improve efficiency within the supply chain and reduce both risk and cost (Taylor 2005, Vurro et al 2009, Gereffi et al 2005, Tencati and Zsolnai, 2009).

#### **2.2.4. The Coffee Supply Chain**

While the complexity and types of actors within the coffee supply chain have been touched upon in previous sections, it is valuable to understand these actors and their interactions in greater detail in order to better assess the need and purpose of supply chain management. As with any industry, the supply chain, its complexity and the number of actors therein can vary widely. In this section we will discuss two key aspects of the coffee supply chain: one, the actors themselves and their power within the supply chain and two, the way these actors interact in various supply chain scenarios within the

industry.

In broad terms, when looking at the various actors within the supply chain a couple characteristics surface which correlate to the actor's amount of power versus others. The first, not surprisingly, is access to the market. One of the primary reasons for which alternative trade models got their start, access to the market or lack thereof can be a strong determination of the actor's power within the supply chain; a lack of access can limit bargaining ability as it constrains the number of available customers. A close corollary to market access, financial and technological access is also a key driver of actor power. Like many industries, the coffee industry has greatly advanced through access to the internet and financial tools. Limited access to information on the c-market or limitations to electronically connecting with potential customers can have a strong impact on an actor's power. Lastly, access to education can be a stronger driver of actor power in the supply chain. Understanding the market and the financial tools that drive purchase and sale decisions can have a profound impact on an actor's ability to maximize their revenue within supply chain transactions. Without a basic understanding of these tools, an actor can be exposed to being taken advantage of by other players.

**Farmers, Coops and Estates.** As expected, the coffee supply chain starts with the farmers. Those on the ground, responsible for caring for and harvesting the coffee trees, most commonly fall into three categories. At the most basic, there are independent farmers. These farmers and their families typically own very small parcels of land. While this varies greatly by country, it can be as little as less than one hectare (Kenya) or five to seven hectares (Peru) on average from which most or all of the family revenue is

generated from the sale of coffee or other small crops (Ruben and Fort 2012, FairTrade USA 2012). Due to their typically rural location of coffee growing regions and minimal income, independent farmers represent some of the lowest amounts of power in the coffee supply chain, oftentimes forced to sell their crops at significantly reduced prices in order to buy their most urgent necessities. Of all of the other supply chain actors, they have the most restricted access to market, technology and financial tools, and education.

The second category of farmer is represented by the cooperative model. Here, groups of farmers within proximity to one another form a producer organization, leveraging their larger size for some additional bargaining power. Some coops can become quite advanced, investing in shared capital and farm equipment as well as other shared services, including schooling and medical care. While this provides marginally increased power within the supply chain, cooperatives are still largely at the mercy of the widely fluctuating C-Market and are oftentimes hindered by a lack of education regarding the market and optimal timing to sell crops.

The final category of producer is found on estates. Here, a larger estate owner utilizes a largely migrant labor pool for the farm work. These laborers represent the most marginalized and least powerful actor within the industry, having no land or equity and subject to the wages determined by the estate owner. These estate owners, conversely, are perhaps the most powerful of the actors at the producer level; larger estates may even brand and advertise their coffee or diversify into agro-tourism and other ventures. Despite these opportunities, the farmer population as a whole represents the weakest actors within the supply chain, with little to no bargaining power or control over the market.

**Mills.** Unless a coop or estate owns its own milling equipment, many producers utilize regional milling operations to prepare their coffee cherries for sale. Proper milling and processing can have a significant impact on coffee quality and it is a step that must be well controlled to yield the highest quality for a particular coffee harvest. As the equipment can represent a significant financial investment but a necessary one, mills typically have marginally more power than the farmers.

**Coyotes and Exporters.** Once a coffee is ready for sale, exporters are typically utilized for leaving southern producing countries for largely northern markets. Exporters can own varying levels of responsibility in the supply chain. They should generally be offering quality storage and timely transportation as well as insurance for the coffee while in their care. They may also offer services such as coffee sensory evaluation to determine price or training for the producer on farm management or price risk management. Two types of exporting relationship dominate this piece of the supply chain. Coops and estates largely rely on established relationships with a single exporting partner. There may be little awareness of the differences in services provided from one exporter to another or the quality of these services at the producer level. Exporting operations can be quite large and financially savvy, with reasonable access to the market, financial and technological tools and education. The second type of exporter is the *coyote*, a traveling exporter who often takes advantage of rural farmers desperate for cash by paying on the spot but paying a significantly lower price (Raynolds, 2002). Both of these exporters represent a moderate amount of power in the supply chain and have significantly more power than the producer groups.

**Importers.** One of the most powerful actors in the coffee supply chain, importers are generally the connecting point between the coffee in the market and the roaster; some of the largest importers will both export and import for additional vertical integration. Importers are responsible for a number of services, including the insurance for the coffee and other financial options and may also provide additional sensory testing and quality assessments. They are financially savvy operations and may even have partnerships or underwriting from major financial institutions. Importers often have relationships with several coffee storage and logistics companies within a country to physically care for the inventory until its sale. They have some of the strongest access to the market, financial and technological tools, and education.

**Roasters/Buyers.** While coffee will still change hands once, twice or more after its roasting and packaging as it heads through distribution centers and retailers before finally arriving at the consumer, the roaster or buyer is considered the end of the coffee supply chain for the industry. While a roaster's power will be largely driven by the size of the company, roasters are increasingly concentrated and large in scale, with a mere five corporations dominating the specialty coffee market (Taylor, 2005). These large corporations represent the most powerful actor in the supply chain, as successful relationships with them could yield huge volumes of business for all other actors in the supply chain, even at the producer level. Given the supply of coffee in the market, they often have the most bargaining power and their access to the market, financial and technological tools, and education is high.

**Certification Organizations & NGOs.** While never taking physical possession

of coffee, certifying organizations nonetheless represent a notable amount of power in the coffee supply chain. As certifications oftentimes mean access to additional markets and higher prices for producers, they represent an important ally for producers groups which engage in the certifications. With a strong relationship with a certifying body, producers can gain training on farm management to improve quality and yield for increased revenue. These organizations also typically have strong access to the market and other supply chain actors, as well as strong access to technological tools and education.

With the primary supply chain actors identified and defined, it is also of value to understand how these actors interact in the spectrum of supply chains typical in the coffee industry; supply chains may leverage some or all of these actors in addition to a host of other logistical support. At the minimal end of the spectrum of coffee supply chains, direct trade relationships exist and many roasting companies market themselves based on this unique model, Equal Exchange being one of the most prominent in the US. Here, the supply chain can be limited to few actors beyond roaster and producer; the roaster procures the coffee directly from a producer. In this model, there may be middlemen to transport the coffee to the buyer, but little else. The direct trade model represents an effort to shift the balance of power back toward the producer level; these supply chains are often represented by long multi-year relationships and fairer pricing, through which coffee quality can be altered to meet the producer's demand. While these relationships can shift the balance of power, producers are still largely the price-takers in the relationship. Direct trade models are also much less common; the model requires an

intimate knowledge of producing regions and vast investments of time and money on the part of the buyer, which few buyers can or are willing to do.

On the other end of the supply chain spectrum, the largest and most complex supply chains are represented by conventional coffee supply chains that service some of the largest coffee companies in the world; they are the longest and least transparent and are some of the most common models within the industry. In these purchases, there is often little knowledge of the coffee's origin beyond its region and it is common not to know who the other actors in the supply chain are beyond those you directly interact with. In these purchases, there is a heightened focus on cost and the power resides almost entirely with the importer and buyer. It is in these situations where the producers have the last power and are largely at the mercy of the market for their revenue.

In the previous section, the challenge of power imbalances and governance within the supply chain was explored. By defining and highlighting the power dynamics particular to the coffee supply chain actors in greater detail, we reiterate the power disparity which dominates the coffee supply chain. If we are to accept the position that balanced supply chains yield improved efficiencies and thereby reduced costs, this again reiterates the value of a optimizing these supply chains through a reevaluation of governance.

### **2.2.5. Supply Chain Management**

While there is an inherent conflict of interest in traditional business management and sustainability, there is growing research on how to better bring the two closer together, to have a mission of sustainability while

simultaneously optimizing the business. As we have noted in a previous section, management of the supply chain not only is critical for sustainability but is also a key driver of efficiency and thereby success. As with most industries, there is a wide range of supply chain models for procurement within coffee. Transaction cost economics suggests three primary supply chain models; at one end of the continuum are those in which buyers procure based almost exclusively on price in arm's-length spot markets. On the other end, there are direct trade buyers, in which supply chains are primarily or possibly only producer and buyer. Between these two poles, however, there is a wealth of other hybrid relationships, including strategic partnerships (Conner et al, 2012). Fair Trade can be considered one such hybrid supply chain in which, for example, multi-year contracts and long-term partnerships are clearly established (Raynolds, 2002).

Beyond this traditional supply chain model, however, Fair Trade differentiates itself further into what we call a value chain. The value chain model, developed by Porter (1985), shares characteristics with supply chain partnerships but is distinguished by the shared values held by the stakeholders and a desire to cooperate in order to achieve mutual goals around sustainability and quality (Conner et al, 2012). The power of the value chain model is that it can facilitate product differentiation and create value-added products in the marketplace. It is a strategic partnership across all actors in the supply chain and value chains are optimized through and

characterized by trust, information-sharing and commitment to the welfare of all participants through fair pricing (Conner et al, 2012). It is important to note that fair governance is also a key attribute of a value chain model; while it may be unrealistic to expect a perfect balance of power, the perceived fairness of the powerful actor's process for managing the relationship is critical (Bloom and Hinrichs, 2010).

Beyond the distinction of value chains, there is research that suggests that there is still more that can be explored between the coordination of supply chain actors for further benefit. One such supply chain management technique, coined an *integrated supply chain*, is defined by supply chain actors working together via management techniques to specifically optimize “their collective performance in the creation, distribution and support of the end product” (Peterson 2002, p.1330). Benefits of the model include reducing carried inventory and the associated sunk funds, reductions in transaction, operating and investment costs, reductions in operational redundancies between actors improved flexibility and agility to the market; with a focus on information sharing and a collective goal around optimization, transaction costs fall and the profitability of the chain rises (Peterson, 2002).

Going even further than the integrated supply chain, the term *learning supply chain* has been coined to highlight what is viewed as the additional need for even greater information sharing. Given the increasing value and power of knowledge in a business relationship, learning supply chains draw from additional knowledge management techniques to provide the added benefit of even tighter coordination between actors and

the higher potential for innovation versus those supply chains that are less able to efficiently share knowledge (Peterson, 2002). It is important to note that knowledge management in this context is defined as a deliberately designed process for the creation, communication and leveraging of collective learning against specific objectives (Lee and Yang 2000, Peterson 2002). Despite its benefit, engaging a supply chain to proactively share and draw from its intellectual capital is challenging; it requires the motivation to share valuable knowledge unconditionally by all parties as well as profound trust between actors that they will not abandon the chain or otherwise renege on the promise of sharing (Dyer and Nobeoka 2000, Peterson 2002).

Both the integrated supply chain and the learning supply chain models offer interesting opportunities for Fair Trade coffee if it desires to further improve or prove the value of the scheme as it continues to grow and mainstream. Already a supply chain of actors drawn together by a mission and governed by some transparency and information sharing not prevalent in the conventional supply chain counterparts, the barrier to adoption would be reduced. Particularly for the opportunity of knowledge management, Fair Trade stands in a unique position in the chain and may offer a more neutral actor as the contact point for collection and dissemination of knowledge and innovation. Nonetheless, the success of opportunities such as these would require even greater trust between the current supply chain stakeholders, most of whom simultaneously participate in both Fair Trade and conventional supply chains and may already be more conservative than their Fair Trade only or direct trade counterparts. Fair Trade may need to consider pilots or other case studies to further prove out the benefits of these supply chain

management models to the rest of their network.

### **2.2.5. Summary**

Fair Trade has matured as an established and viable alternative from conventional international trading practices. Having long since engaged those buyers already aligned with the Fair Trade mission, Fair Trade is under increasing challenge in expanding their market to provide additional channels for Fair Trade producer groups. Inherently, this means engaging increasingly conventional companies and with this mainstreaming process, Fair Trade finds itself increasingly challenged to prove and improve the model in order to engage and win over these new partners. While ultimately Fair Trade's mission is singularly focused on improving producer livelihoods, we have highlighted here that there may exist opportunities beyond the producer level and within the supply chain itself to drive additional stakeholder value. The issues of power and supply chain governance are strongly linked both to one another as well as to the broader issue of sustainability. Ultimately, the sustainability of a supply chain depends on the sustainability of its stakeholder relationships (Tencati and Zsolnai, 2009).

While we have highlighted some challenges to leveraging the opportunities raised in this chapter, they nonetheless indicate that there are prospects for optimizing the Fair Trade scheme and proving and driving additional revenue to stakeholders, thereby further strengthening Fair Trade

and increasing the possibility of engaging more mainstream buyers.

## **2.3. Keurig Green Mountain**

### **2.3.1. Background**

As we have seen from our research, Fair Trade's origins were in response to, and in opposition of, the conventional practices of international business and trade that were marginalizing producers in less developed countries. Yet as Fair Trade has grown in popularity with consumers and sought growth through the addition of more and more sellers, in this case roasters, it has begun to interact with those very large companies whose practices are, in many ways, the reason Fair Trade was born. In order to achieve their certifications, these companies have needed to alter their buying practices. For large, publicly traded corporations, the added expense and procurement limitations of Fair Trade can be an increasingly challenging program to defend. As a result, there are varying degrees of adherence to the Fair Trade program in large corporations. There are those that may apply only to the auditable "letter of the law", procuring a minimal amount of Fair Trade coffee and changing their practices as little as possible, maintaining their conventional strategies (Raynolds, 2009). Yet this is not the only path for large corporations. Keurig Green Mountain, a nearly five billion dollar company, has been the largest procurer of Fair Trade coffee in the US for the last four years (Fair Trade USA, 2013). Keurig not only is supportive of the mission of Fair Trade, but its buyers also cite that, by fully adopting Fair Trade practices, that the program is a powerful and beneficial procurement

strategy.

Through semi-structured interviews with two of the senior staff within Keurig Green Mountain's Coffee Department and supplementary research, the evolution of the company into a Fair Trade promoter and advocate takes shape. Keurig Green Mountain's beginnings were as a quaint roaster retailer in Vermont, then operating as a single café called Green Mountain Coffee Roasters. It was purchased in 1981 and expanded into a chain of cafés and bagged coffee sold at retail. It was not until the early 2000's that Keurig Green Mountain began purchasing Fair Trade coffee, then as a means to better trace it's organic coffee purchases and to ensure the higher costs were actually making it back to the producers as revenue. As Keurig Green Mountain continued to grow, so did its purchases of Fair Trade coffee and as the company continued to grow and the program became a larger part of their overall volume, the buyers recognized that the Fair Trade program benefitted more than just the producer groups. The Fair Trade program offered complete traceability and access to each person in the supply chain who touched the product in a business where it was rare to know and often extremely challenging to confirm who harvested, milled, exported, or financed the product you purchased. In fact, it is oftentimes only the importer and the country of origin that is known to the buyer.

For Keurig, the combination of the traceability and additional premiums at origin opened a number of doors. If they did, in fact, maintain multiyear contracts as the Fair

Trade compliance criteria required, they could work with the producer groups to improve the quality of the coffee over time through collaboration and with the improvements the assets purchased with the premiums would generate. This realization became a catalyst for what would become a series of innovations within Keurig Green Mountain's coffee procurement strategy which leveraged the inherent attributes of the Fair Trade program. As part of their early Fair Trade strategy, Keurig instituted a clear purchasing policy to its Fair Trade producer groups in which they communicated that meeting or exceeding the coffee quality levels they contracted for would *guarantee* the producer group a larger purchase the following year. Fair Trade traceability and long term contracting turned the coops from producers to *partners*, encouraging *and* incentivizing them to produce to meet Keurig's needs.

These new relationships had a number of secondary benefits. Through working with the producer groups over a number of harvests, Keurig was able to improve their access to the types and qualities of coffee they sought. They also gained loyalty from producers who would be more likely to meet their Keurig contracts rather than sell to another buyer given the incentive of larger future business. Combined, this reduced Keurig's risk, better ensuring they would not struggle to source coffee. Keurig sees the premiums as a long term, mutually beneficial investment in their coffee supply chain, rather than an additional expense.

In recent years, Keurig has also explored how else they can leverage their established supply chain partnerships and transparency for additional benefit. In 2013, they formalized a program called *Intercambio*, *exchange* in Spanish. This program was a

series of Keurig conferences at origin, which would put Keurig's entire supply chain in a single room; Keurig's buyers and other support staff would travel to large coffee origin countries and invite all key stakeholders from that origin or who supported that origin to make their purchases possible, including coops, exporters, importers, NGOs including Fair Trade USA, micro-financiers and more. Throughout the meeting, the supply chain could discuss current or future contracts, calibrate on coffee sensory activities, attend trainings on price risk management and openly discuss challenges and issues within the region for coffee development and sale.

To Keurig's team, Intercambio brings with it several benefits. They are, of course, a very efficient way to engage with their entire supply chain. The Keurig team also cites that the value of having face time with major producer groups each year cannot be understated; they feel that by not only meeting with their producer groups but by also expressing an active desire to listen to their producer groups and engage openly and transparently on issues and challenges, they build significant trust and loyalty that would otherwise not be possible. Additionally, by hosting coffee evaluation sessions (*cuppings* or *tastings* as they are called in the industry) with their producer groups in person, they gain significant improvements on calibration; these producers can now more efficiently send coffee that meets Keurig's desires for quality and taste, which further reduces risk and the rejection of samples by the buyers.

Finally, Keurig notes that Intercambio events are a powerful way to crowdsource from the entire supply chain ideas and solutions to issues that they have. Keurig cites, for example, epiphanies on exporter margins and their link to shortfalls in quality

development for producer groups in Brazil or epiphanies on the levels of organization of producer groups in Colombia and its ties to Fair Trade impact as critical learnings that could not have been gained otherwise. Further, by sitting together not only supply chain partners but also supply chain *competitors* in one room, be it other coops or other importers, they can not only gather learnings from one another but it also engenders a level of *coopertition*, competitive cooperation, that can spur groups into action on improvement projects and the interest of improving efficiency. This program would not be possible without the transparency gained from the Fair Trade program; attempts in recent years to extend Intercambio to Keurig's conventional supply chain partners has met mixed results; the difficulties in locating and drawing in their conventional producer groups remains a barrier.

A second Keurig program, coined *value mapping*, was also recently developed as an extension of the existing Fair Trade supply chain. For Keurig, value mapping is an exercise in which they understand what services are being provided by each supply chain member and what they are charging for those services. In specialty coffee in particular, there are a number of services that must be provided in order to ensure high quality product that meets the contract in question. These services may include things such as processing of green coffee, evaluating the coffee's sensory attributes and quality (cupping) and offering financial tools for the coffee such as insurance and price fixing to name but a few. It is here that conventional supply chains and Fair Trade supply chains part ways: for many conventional coffees, there is no understanding at the buyer level of what stakeholders have covered for services. There could be unnecessary duplication of

certain services (which would needlessly drive up costs) or services that may not be covered enough which could have negative impacts on the end product (which would needlessly drive up risk). Within their Fair Trade supply chains, Keurig can understand and access what services are being provided, the costs associated, and then work with the producer groups and other stakeholders in a coordinated way to ensure the best coverage of services for the most efficient price.

For Keurig, value mapping takes two forms: either as a tool to better understand an individual negotiation or used more broadly to understand a particular origin's supply chain. Keurig cites many examples of benefits in utilizing the value mapping tool. At the individual negotiation level, if a certain producer group continues to struggle with quality, for example, they can review the quality services being offered along the way to determine where services may be lacking, where they need to be fortified or where services are being paid for but not adequately received. As another example, if transportation rates are great but the shipments are consistently months late, it can be something to then troubleshoot with the producer group and exporter. At a broader level, if there are systemic issues with quality in a particular origin, a larger study of the value mapping can expose critical opportunities for improvement. For example, if Keurig is paying an ample price for their coffees in a particular origin and quality continues to suffer, value mapping has, in the past, uncovered above average importing and exporting fees in some regions that are preventing enough revenue to return to the producer group for basic farm management. Highlighting these issues has optimized rates for services and consequently increased the revenues leading back to the producer group.

#### **2.3.4. Summary**

Keurig Green Mountain offers itself up as an example of working with and developing beyond the traditional Fair Trade model. By adopting the mission of Fair Trade but also leveraging it as a business and supply chain *strategy*, they create an example of the cooperation of corporate business and alternative trade models. They leverage the benefits of the existing Fair Trade program for better access to and collaboration with their supply chains, which allows them to strike a balance between the mission they wish to support and the stakeholders and financial pressures of a publically traded company.

### CHAPTER 3. CONCEPTUAL MODEL

As Fair Trade coffee has continued to grow in volume and popularity, it has needed to carefully address and redefine both the types of producers able to apply for certification as well as the types of buyers interested in procuring certified coffees (Jaffee 2012, Hira and Ferrie 2006). With these determinations, Fair Trade has been managing the delicate balance of both its accessibility as a certifying scheme to allow for continued growth and impact as well as concerns on the dilution of its mission as the definitions for both producers and buyers become broader and more encompassing (Murray et al 2012, Jaffee 2010).

Now more than sixty years later, as we evaluate some would call the *mainstreaming* of Fair Trade coffee, we see a wide array of producers and buyers (Fridell 2009). Many in the industry and in the market question the decisions Fair Trade has made on buyer access, citing concerns on the dilution of the Fair Trade mission as an increasing number of buyers appear to be participating in the procurement of Fair Trade not for their alignment with the mission or belief in sustainability initiatives for the industry, but as a means of improving their own corporate or brand image, with terms like *greenwashing* arising more frequently (Hira and Ferrie 2006, Gendron et al 2009). As noted in the earlier literature review, Laura Reynolds identified and developed a continuum of Fair Trade buyers which she coined *mission-driven*, *quality-driven*, or *market-driven*. In this study, Reynolds defined each segment and went on to describe what she felt to be key descriptors of each category, citing examples of existing roasters and importers within the

marketplace (Raynolds, 2009).

As we look toward the future of Fair Trade and the potential of leveraging the outputs of the certification program for further operational efficiencies and benefit within the value chain from producer to roaster, we can leverage this initial framework and expand upon it, creating a conceptual model which can better define the buyer actors both in and immediately outside of the Fair Trade continuum. This process offers a few key benefits. First, defining categories of coffee buyers both in and out of the Fair Trade program allows us to better understand both their business strategy and motivations in the market. In doing so, we secondly highlight where those buyers are on two intersecting scales: one scale measuring the desire of the buyer to engage with and support the producer groups and the other scale measuring the buyer's prioritization of business and financial motivations. Finally, by assessing the placement of various buyers on these two scales, we may begin to draw some hypotheses on two fronts: first, we may begin to articulate the differences in motivations of those buyers immediately outside of the Fair Trade program on either end of the spectrum, perhaps highlighting indicators or variables that could be studied and leveraged to continue Fair Trade growth. Secondly, we may begin to understand which buyers within the Fair Trade spectrum may be best in a position for Fair Trade to pilot supply chain optimizing initiatives. By defining key indicators and the variables that measure them across the coffee buyer spectrum, we can begin to better understand which of the buyer actors are in the position to best leverage the Fair Trade program for supply chain optimizing initiatives.

The Raynolds framework is based on an analysis of the diverse buyer

relationships with producers within the Fair Trade certification program. The quality of the producer relationships can be quantified as high to low. At one end of the spectrum, high quality producer relationships are encompassed in the mission-based buyers, those who “promote Fair Trade’s social, ecological, and place-based commitments, supporting organizational and democratic facets of coffee cooperatives and partnership-based trade relations” (Raynolds 2009, p1083). At the opposite end of the spectrum, you find low quality producer relationships with the market-driven buyer, those who “may meet audited certification requirements, but otherwise advance mainstream business practices” (Raynolds 2009, p1083). In the midst of these two poles is quality-driven buyers, who “selectively foster Fair Trade principles to ensure reliable supplies of gourmet coffee, rendering trade relations less durable but potentially no less egalitarian if producer’s technical capacity is enhanced” (Raynolds 2009, p1083).

Yet while it is important to understand the categories of buyer within the Fair Trade scheme in order to best understand their position and ability to leverage the model for additional opportunities, we can also make an argument for participating in the Fair Trade program by expanding the Raynolds framework out further, to better understand the buyers immediately outside of the Fair Trade program on either side of the spectrum of producer relationships. By doing so, if we can prove the value of initiatives which leverage the outputs of the Fair Trade program to advance operational efficiency and value along the supply chain, we can make a case not only for leveraging the program, but for entering the program for those buyers who remain at its fringes.

To define these new categories of buyer beyond the Raynolds model, we can

extrapolate from both the previous literature review (Cho 2005, Howard and Jaffee 2013, Jaffee 2012, Jaffee 2010, Fridell 2009, Raynolds 2009, Raynolds 2012), the research gathered through subsequent supply chain interviews, and half a decade of professional industry experience. With this, we add one more category to each end of the spectrum. On the end toward low quality producer relationships, we add the financially-driven buyer. This buyer typically has little to any relations with the producer level of the supply chain and has procurement strategies whose financial focus drives frequent switching between producers, importers, or even origins. These buyers likely support coffee brands whose niche is low price at retail and whose coffee quality standards may allow for extreme flexibility in sourcing. Furthering the end of the spectrum of high quality producer relationships, we add the direct trade or *third wave* buyer (Cho, 2005). Though not synonymous, direct trade and third wave buyers typically tout high quality coffee and are extremely knowledgeable about the producer group and growing regions. These buyers either import directly from origin or leverage an importer, but their traceability is high and few players in the supply chain allow for quantifying the revenue that returns to the producer. In recent interviews with people in the industry, they note that these buyers typically also feel that the Fair Trade program has become too diluted given its inclusion of market-driven buyers and they seek to regain the niche of the sustainability- and quality-focused consumer by creating a meticulous selection process that, they generally would argue, go above and beyond Fair Trade certification.

In evaluating the five types of coffee buyer in our model, seven key indicators arise. As shown in Table 1, these indicators are: coffee assortment, supply chain/value

chain model, level of partnership, impact at origin, willingness to pay, availability/risk, and flexibility/reaction to market. These indicators robustly define each buyer's place in the market both by their values as well as how those values interact with their business model and business strategy. Both are important aspects to understanding both their current place within the buyer continuum, but also their potential barriers to shifting within the continuum, highlighting possible tradeoffs needed to initiate a shift.

Within each of these indicators, we also note one or a few key variables which help to further define the buyer (see Table 2). For example, by coffee assortment, we mean to understand what the buyer has and is willing to buy: conventional, certified, or direct trade coffees and, in measuring this, what percentages of each comprise their portfolio. In evaluating the supply chain or value chain model, we mean to understand the broader method by which the buyer procures their coffee and how they interpret their supply chain. Transaction cost economics derives three models of procurement depending on the level of control and ownership of the supply chain by the buyer and other actors (Hobbs 1996, Conner et al 2012). Further, value chains build off of this model but retain strong connections at the producer level with characteristics of commitment, fair governance, and trust (Porter 1985, Conner et al 2012). By exploring variables such as the difficulty in sourcing their desired coffees and the concentration of power within a buyer's supply chain, possibly through measures such as the use of or number of importer partnerships, we begin to understand how the buyer views and acts within their market as well as their possible power or size within the market they act in. This indicator is related, but not identical, to level of partnership. Here, we seek to

understand how the buyer values the strength and tenure of their partnerships with producers. This indicator includes variables such as the buyer's familiarity with their producers, level of engagement, and length and strength of each relationship at the producer level. By measures such as the average length of partnership and frequency of visits to origin, we begin to understand how the buyer values and fosters their partnerships.

The level of partnership is generally, though not always, correlated to the impact at origin. Here, we seek to understand if the buyer understands where their dollars go and if or how they are benefiting their producers. For many Fair Trade relationships, one may be able to determine how many annualized premium dollars they spent, but less would be able to confidently say how much of their total sale went back to the producer or what the producer or cooperative did with the revenue (asset building and investments being two examples) (Valkila et al, 2010). The buyer's ability to quantify their impact or speak to the investments and assets at their producer level will speak to the importance of impact to the buyer. The buyer's willingness to pay may also be indicative of their level of partnership. The aggressiveness of negotiations and processes by which they manage contracts when a producer does not meet expectations further speak to the buyer's commitment and financial flexibility in support of these partnerships. It may also speak to how important profit is versus partnership.

Finally, both availability/risk and flexibility/reaction to market explore how much the buyer is willing to be impacted by their commitment to their producers and their business model. The first looks at contingencies; by exploring the actions a buyer takes

when their producers can't deliver on a commitment, we get a sense of how committed they are to producers and how willing they are to be financially impacted due to this commitment. Additionally, flexibility/reaction to market explores how quickly the buyer could expand or reduce purchases if the market demanded. Buying on the spot market or cancelling purchases from producers highlight the buyer's interest in meeting the market demand rather than staying within the partnerships with known producers; it signals an appetite for the market and for growth over partnership.

As we explore supply chain initiatives, such as the value mapping program in our earlier review with Keurig Green Mountain, against the buyer models we have developed, we see that there are implications to these models on the goals of efficiency and farmer welfare. There is an intersection of desire, scale, and impact that limit the models that can leverage these benefits. As we see by the market-driven and financially-driven buyers, while they may have the power and scale to demand coordination between supply chain actors, their level of partnership and supply chain model make them unlikely to have the connectedness or tenure of partnership that would be needed to develop this initiative. Conversely, direct trade and mission driven buyers may have the level of partnership and the value chain to make such initiatives desirable, but these buyers may not have the volume, scale or power within their value chain to secure buy-in from all supply chain actors. While the third wave and direct trade buyers are dedicated to their producers, their business models tend to align with smaller or niche consumer markets, which can constrain overall volume impact and power in the market.

By developing our conceptual model for coffee buyers both within and at the

outer fringes of the Fair Trade program, we determine that there are tradeoffs at each end of the spectrum. While direct trade and mission driven buyers have high touch, high quality partnerships at the producer level with high impact at origin, these models can open them to additional risk, slow reaction time and lack of flexibility to market, and typically limit the overall volume of the business. On the other side of the spectrum, market driven and financially driven buyers see decreased risk to supply, are nimble to market variability, and may be more financially strong given their ability to shop more by price. That being said, these buyers tend to have very low, if any, quality of producer relationships and their impacts are marginal if they are positive at all. Due to these tradeoffs, both ends of the spectrum may not be as well situated to either leverage or scale additional initiatives, like Keurig Green Mountain's value mapping, that take advantage of the Fair Trade model for the goals of additional efficiencies and benefits both at the producer level and throughout the value chain. If these quality-driven buyers of the middle are able to prove the value of these initiatives, they may encourage other buyer models to become more engaged with the Fair Trade program to drive further mutual benefit.

In the previous literature review, research was approached in two distinct categories. The first was an evaluation of the history of fair and alternative trade as well Fair Trade's current challenges as it moves toward the future. The second body of research was focused on supply chain management, including the issues of power and governance and the challenges sustainability initiatives face in the conventional global marketplace. Through the development of this conceptual model, a third body of

knowledge is developed: an understanding of the current buyer market and its motivations. In subsequent chapters, the methods and findings of further research will be discussed, which seeks to address the core of our first two research questions: that of Fair Trade's opportunities and challenges and possibilities for optimizing the Fair Trade supply chain. While this same body of work will also address the third research question, that of what benefits this could yield and who could benefit from them, this conceptual model adds additional context to the "who" in the Fair Trade marketplace. It both clearly defines those currently participating in the Fair Trade marketplace at the buyer level and deepens and understanding of their motivations, but also highlights those actors who are just outside of the fringes of the Fair Trade program and speaks to their barriers to entry. While the findings and recommendations of this thesis will focus on optimizing the program for the actors participating in the supply chain, it is of value to understand those actors outside of the program as well, for these findings and recommendations may reduce these barriers to entry and thereby expand participation in the Fair Trade program at the buyer level.

**Table 1** Conceptual Model of Coffee Buyer Categorization

	Quality of Producer Relationships			
	High ←			→ Low
	Noncertified Buyers Direct Trade/Third Wave	Certified Coffee Buyers Mission Driven	Quality Driven	Noncertified Buyers Financially Driven
Definition	Buyers who seek an intimate level of partnership with select producers. These buyers may be disenfranchised with the expansion of Fair Trade to allow for market driven participants and are seeking to reframe their procurement to regain the niche sustainability consumer	Buyers "promote Fair Trade's social, ecological, and place-based commitments, supporting organizational and democratic facets of coffee cooperatives and partnership-based trade relations"	"...Buyers selectively foster Fair Trade principles to ensure reliable supplies of gourmet coffee, rendering trade relations less durable but potentially no less egalitarian if producer's technical capacity is enhanced"	"Buyers who may meet audited certification requirements, but otherwise advance mainstream business practices fostering competition and intensive buyer control, causing a shift in network relations from partnership to traceability"
Key Indicators	Coffee Assortment	Fairtrade only	A blend of Fairtrade and conventional coffee	Mostly conventional coffee with token Fairtrade purchases
	Supply Chain/Value Chain Model	Hybrid Value Chain	Hybrid Value Chain	Market Supply Chain
	Level of Partnership	Intimate and long term	Intricate and long term	Close and medium to long term, based on ability to meet requirements
	Impact at Origin	Quantifiable-Very High	Non quantifiable-Moderate	Non quantifiable-Low
	Willingness to Pay	Moderate-High	Moderate	Low
	Availability/Risk	High	Moderate-High	Low
	Flexibility/Reaction to Market	Low	Low	High
Example		Intelligentista	Green Mountain Coffee	Proctor & Gamble (Millstone Brand)
				Sara Lee (Senseo Brand)

**Table 2** Variables and Measures of Coffee Buyer Indicators

Variables	Coffee Assortment	Supply Chain/Value Chain Model	Level of Partnership	Impact at Origin	Willingness to Pay	Availability/Risk	Flexibility/Reaction to Market
What type of coffee does the buyer procure and how much?	How easy is it for the buyer to find the coffee (quality, profile) they're looking for?	How familiar is the buyer with all producers?	Can the buyer quantify the dollars paid to the individual producer and/or cooperative?	Do they turn decline purchases based on expense?	How strongly does the buyer negotiate?	If a producer is unable to fulfill the buyer's orders, how easily can the buyer replace those orders with other producers?	If there is a sudden increase or decrease in demand, how easily can the buyer react to the market based on procurement strategy?
What is their buying power (i.e. how much volume do they buy in the market)?	Do they meet with some, most, or all producers at origin and, if so, how frequently?	Do they know how much beyond market rates they have paid (i.e. premium) to the producer or cooperative?	Does the buyer have knowledge of how premiums are beign spent at the producer or cooperative level if they are quantifiable?	Are there activities, initiatives, or collaboration between buyer and producer outside of contractual obligation?	Do they turn decline purchases based on expense?	How likely is the buyer to be out of stock if a producer is unable to meet commitments?	Are they willing to procure on the spot market?
What is the level of concentration of power within the value chain?	What is the level of engagement with each producer?	What is the level of engagement with each producer?	How premiums are beign spent at the producer or cooperative level if they are quantifiable?	Are there activities, initiatives, or collaboration between buyer and producer outside of contractual obligation?	Do they turn decline purchases based on expense?	How likely is the buyer to be out of stock if a producer is unable to meet commitments?	Are they willing to procure on the spot market?
1. Percentage of coffee purchased by type (direct, certified, conventional)	1. Buyer's ease of finding coffee (1-10)	1. Average number of origin visits per producer group (annually)	1. Average net revenue by producer above/ below current market price (per kilo)	1. Average net revenue by producer above/ below current market price (per kilo)	1. Average net revenue by producer above/ below current market price (per kilo)	1. Percentage of annual purchases on spot market	1. Percentage of annual purchases on spot market
2. Buyer's access to market (i.e. number of established importer/exporter partnerships and size/ scale of those importers/exporters)	2. Level of coffee calibration between buyer and producer (ability to score coffees identically based on profile and quality)	2. Premiums given (total premium dollars annually)	2. Percentage of breach contracts based on specifications	2. Percentage of breach contracts based on specifications	2. Percentage of breach contracts based on specifications	2. Short/Out of stock incidents based on producer issue	2. Timeliness of contracts based on producer issue
3. Buyer's annual volume (kilos)	3. Average length of partnership (total years or total years as percentage of buyer's tenure)	3. Dollars invested at origin beyond contractual partnership (annually)	3. Percentage of breach contracts based on specifications	3. Percentage of breach contracts based on specifications	3. Percentage of breach contracts based on specifications	3. Gross lost sales based on producer issue (\$)	3. Percentage of contracts cancelled (non-breach)
4. Buyer's annual sales	4. Hours spent in training at origin (quality improvement, agricultural practices, water management)	4. Percentage gross lost sales based on producer issue	4. Percentage gross lost sales based on producer issue	4. Percentage gross lost sales based on producer issue	4. Percentage gross lost sales based on producer issue	4. Percentage of kilos cancelled (non-breach)	4. Percentage of kilos cancelled (non-breach)

## CHAPTER 4. METHODS

In order to develop a methodology which seeks to address gaps in the current literature, it is important to understand the existing literature and methods. In evaluating the existing literature, Fair Trade research is concentrated into two categories. The first is the analysis of Fair Trade's evolution, current challenges, and future growth. The second seeks to understand and quantify Fair Trade's impact and to evaluate its results versus the claims of the certifying programs. It is important to note that both categories are external to the process of Fair Trade coffee and do not address the interactions of the actors within this complex supply chain. Within the category of Fair Trade's history, current challenges and future, two main methods emerge. The first and seemingly most prevalent is the distillation and analysis of available data which can produce frameworks and conceptual models (Jaffee 2010, Hira and Ferrie 2006, Gendron et al 2009, Nicholls 2010, Raynolds 2002, Renard 2003). The second set of methods was primarily qualitative, generally consisting of interviews or larger case studies from one of two perspectives: the first at the producer level (Murray et al 2006, Bacon 2005) and the second at the buyer level (Fridell 2009, Raynolds 2009, Jaffee 2012). Within the second category of quantifying impact, two methods also emerge: the first being of quantitative analysis of existing data or studies (Valkila et al 2010, Blackman and Rivera 2011) and the second of heavily quantitative surveys or case studies at the producer or coop level (Mendez et al 2010, Ruben and Fort 2012, Bitzer and Glasbergen 2013, Donovan and Poole 2014). In short, while both qualitative and quantitative methods have been utilized for Fair Trade

research, research largely remains focused at the poles of the program, the producer or the buyer, and generally does not seem to account for or address the actors of the middle (micro-financiers, mills, exporters, importers) nor how they interact with these poles.

The analysis of the existing research provides justification for research on the supply chains of Fair Trade coffee, specifically with a focus on those actors between the two poles of producer and roaster. In this study, data was drawn primarily from semi-structured interviews with one dozen actors throughout the coffee supply chain, including producers, exporters, importers, and buyers and explored their reflections on Fair Trade coffee in three broad sections. The first section sought to understand their personal experience with Fair Trade and conventional coffee supply chains as well as their understanding or definition of Fair Trade. This first category achieves two objectives: foremost, it provided data on the interviewee by which we could further evaluate their subsequent responses. Secondly, it gauged their initial impressions and comprehension of the program as well as focused their mindset for the remainder of the interview. The second section of questions focused on their perceptions on the evolution of Fair Trade and its current challenges. More specifically, this line of questioning was primarily industry-facing, focusing on the interactions between the supply chain actors and included reflections on trust between actors. The final section of questions reflected on both the future of Fair Trade and the progressive programs of Keurig Green Mountain, depending on the interviewee's level of familiarity. These questions further probed at the idea of collaboration between supply chain actors via some specific examples and also drew on these perceptions to understand their future implications. Each interview was a

co-constructed interaction wherein the dialogue allowed for shifts and deviations from the original interview questions (Patton, 2002).

Prior to engaging research participants, approval was obtained from the Institutional Research Review Board at the University of Vermont. Within the university, the Committee on Human Research in the Behavioral and Social Sciences evaluates the methods of any research involving human subjects and ensures that due care and management of confidential data is practiced. Once approved, interviews were then held between November 2014 and February 2015. Initially, a core list of respondents was developed based on professional and industry recommendations. Once interviews commenced, snowball techniques were used to identify additional supply chain actors. Snowball sampling is a process by which interviewees recommend other potential participants that the researcher can then contact for additional data points (Conner, 2014). From the core list and subsequent snowball sampling, interviewees were selected with maximum variability sampling in mind, by which they were intentionally included to develop responses from a broad range of geographies, occupations, and levels of tenure/experience within the industry (Patton, 2002); our pool contained interviewees based in five different countries with years of industry experience ranging from four to twenty eight, with an average tenure of fourteen. Table 3 provides information and demographics about the interview respondents, keeping outside of the confidentiality of the respondent's themselves. While not random, the sample is broadly representative of the range of key actors and perspectives from within the coffee supply chain.

The interviews occurred either in person or over the phone and were audio

recorded. For those interviewees in which English was not their primary language, a sample of questions were emailed, in English, to allow for further comprehension and fuller response. Interviews typically lasted between forty and sixty minutes. Once a few interviews had been undertaken in November and the survey questions field tested, additional adjustments were made to the interview script to include more concise questions regarding existing projects in the field as well as the addition of questions on trust between actors within the supply chain, an already prevalent underlying theme. Additionally, while English is not the primary language of all interviewees, the interviews were held only in English and were modified or simplified as needed to ensure the comprehension of the questions and the integrity of the information. Once complete, interviews were immediately transcribed verbatim by the interviewer. Names and identifiers were replaced with codes to maintain the confidentiality guaranteed to the subjects. While it is understandable that each interviewee had unique perspectives on the questions and topics raised, several themes emerged throughout the interviews and increasingly few new topics were generated. By the twelfth interview, the interviewer felt that reasonable saturation had been achieved and the interview process was completed (Patton, 2002).

Given the largely exploratory nature of the interviews within this gap in literature and the desire to “build theory rather than test theory” (Patton 2002, p127), the coding and the analysis of the data collected will lean toward a more grounded approach (Miles and Huberman 1984, Patton 2002). The subsequent data, combined with the previously developed conceptual model and additional cited academic literature will inform the

research and resulting thesis.

By reflecting on the existing literature on Fair Trade, specifically in regards to coffee, we recognize a gap in research regarding the supply chain that supports and delivers certified coffee and the way these actors interact. We draw from the existing literature to first develop a conceptual model which explores the various types of actors both within and at the outer fringes of Fair Trade certification. From here, we gain data insights from key industry actors throughout the supply chain through the qualitative method of semi-structured interviews. The themes and findings of these interviews will explore what the current supply chain stakeholders view as the program’s challenges and the findings will explore opportunities resulting from the interviews and their potential benefits.

**Table 3** Categories and Demographics Represented by Interview Candidates

<i>Interviewee</i>	<i>Category</i>	<i>Country</i>	<i>Title/Position</i>	<i>Tenure in Industry (Years)</i>
A	Roaster	USA	VP, Coffee Sourcing	28
B	Roaster	USA	Senior Buyer	16
C	Roaster	USA	Director, Coffee	7
D	Importer	USA	Trader	4
E	Importer	USA	Trading Manager	19
F	Importer	USA	Chief Coffee Officer	20
G	Exporter	Honduras	Assistant Manager	5
H	Coop	Costa Rica	Manager	25
I	Certifying Body	USA	Director, Coffee Supply	12
J	Certifying Body	Germany	Director, Global Accounts	10
K	Certifying Body	UK	Senior Advisor	15
L	Micofinance	USA	Director, Investor Relations	8

## CHAPTER 5. ANALYSIS & FINDINGS

During the interview process for this study, interviews were recorded and then transcribed verbatim into Microsoft Word. Once all interviews were complete, the transcriptions were uploaded into HyperRESEARCH, a qualitative data analysis software package utilized by the University of Vermont. Once uploaded, the interviews were read, studied and coded. The process of open coding was used, in which concepts are identified and their properties discovered in the data (Patton, p.490). The code book was modified and streamlined throughout the coding process; an example of the code book, many codes of which were utilized can be found in Table 4. Open coding is a technique prevalent in the *grounded theory* of qualitative analysis; it is a process by which a set of well-developed themes or concepts are systematically interrelated by statements of relationship, forming a theoretical framework, a framework which seeks to address a relevant phenomenon (Patton, p.487). Further leveraging grounded theory, the constant comparative method was used during the analysis, in which the findings and their variations were systematically examined and refined (Patton, p.239).

From the one dozen industry interviews performed for this study, several prominent themes were uncovered that spoke to Fair Trade, Keurig's Fair Trade programs, as well as the industry at large. These initial findings are organized in the following sections based on scope, moving from broadest topics, the industry as a whole, to the narrowest, such as individual reflections on Keurig's Fair Trade programs. In the following four sections, we discuss these findings as it relates to

**Table 4** Sample Code Book for Interview Transcriptions

<i>Code</i>	<i>Description</i>	<i>Code</i>	<i>Description</i>
D	Interviewee Demographics	Iss-SC	Supply Chain Issue
D-Tenc	Tenure with Coffee	Iss-SC-Trst	Trust
D-Sirt	Year started in industry	Iss-SC-Pow	Power
D-Tenl	Tenure in Extended Industries (Beverage, other NGOs, etc)	Iss-Cof	Coffee Industry Issue
J	Interviewee Jobs	Iss-Cof-Fight	Infighting
J-Loc	Location of Job (Country)	Iss-Cof-Cof	Scarcity of Specialty Coffee
J-Cat	Job Category (i.e. NGO, Exporter, Importer)	Iss-Cof-GrnW	Green washing/abusing certifications
J-Ten	Time/Tenure in Job	Iss-Cof-Pvrtv	Poverty
J-Titl	Job Title	Con	Consumer
Int	Interviewee	Con-Imp	Consumer Impressions/Motivations
Int-Obs	Interviewee Observation/Opinion	Ind	Industry
Fut-FT	Future of Fair Trade	Ind-Mot	Industry Motivations
Hist	History	Ind-Chng	Industry Changes
Hist-FT	Comments on history of FT	Ben-FT	Benefit of the Fair Trade Program
Hist-Cof	Comments on history of Coffee Industry	Ben-FT-Vis	Coop Visibility/Access
Iss-FT	Issue with Fair Trade Program	Ben-FT-Asur	Assurance/Confidence in Coffee Bought
Iss-FT-Tran	Transparency	Ben-FT-Dev	Coop Professionalism/Development
Iss-FT-Trst	Trust	Int	Intercambio
Iss-FT-Cst	Cost	Intc-Ben	Benefit Of Intercambio
Iss-FT-Impct	Impact	Intc-Obs	Observation of Intercambio
Iss-FT-Pf	Proof	Intc-Chng	Issue with Intercambio
Iss-FT-Val	Delivering Value	VM	Value Mapping
Iss-FT-Mkt	Marketing	VM-Ben	Benefit of Value Mapping
Iss-FT-Msg	Messaging/Communication	VM-Obs	Observation of Value Mapping
Iss-FT-Dilu	Dilution of Message	VM-Chng	Issue with Value Mapping
Iss-FT-Comp	Competitiveness		Other
Iss-SC	Supply Chain Issue	Trnst	Transition/Change
Iss-SC-Trst	Trust	Miss-FT	Statements about the mission of FT
Iss-SC-Pow	Power	Phil	Missions or Philosophies of other entities

the industry, Fair Trade, Keurig's Fair Trade programs, and the future of the Fair Trade program.

### **5.1. Industry Themes**

At the broadest level, our interviews generated a significant amount of feedback and reflection on the status of the coffee industry as a whole, both certified and conventional coffees. Over half of those interviewed cited at least one issue with the broader specialty coffee industry. Within this topic, three key themes emerged: the loss of the farmer population, the future availability of specialty coffee, and the challenge of what we coin "solution infighting".

The most dominant of these themes was concern about the loss of the coffee farmer population. Almost half of the interviewees reflected on this once or more and, within this theme, three sub-themes emerged. Primarily, farmer loss was associated with concerns about poverty and food insecurity in the coffee growing regions. This was supported by a smaller, secondary concern of an aging farmer population that is not being replaced. Lastly, but still significant, interviewees noted that there was "simply no reason to stay" on a coffee farm. Interviewee L asked, "What's the value proposition for staying a farmer? Very little".

Perhaps interrelated to concerns on population loss, nearly a third of those interviewed who expressed at least one concern with the broader coffee industry raised concerns regarding the future availability of specialty coffee. For this theme, the concern about a lack of investment dollars and, perhaps worse yet, industry

leaders “greenwashing” their amount of true involvement in making improvements were noted. “Everybody’s talking about sustainable coffee but nobody seems to want to pay for it!” exclaimed interviewee K.

The third and final theme on industry issues could perhaps be coined “solution infighting”. Almost half of those that cited an industry issue expressed concern that, while there are many different groups working on solutions to address the concerns of poverty, food insecurity and specialty coffee scarcity, these groups have a propensity to undercut their solution “competition”, claiming that *their* solution is the best or most comprehensive. However, as certifying schemes and other trade methods compete and undercut one another, they can ultimately degrade their collective impact to the cause itself. In other words, certifying schemes and programs focus more on competing with one another and defer energy away from their collective impact. Interviewee B concluded, “the biggest issue with fair trade is the infighting amongst fair trade. Fair Trade USA versus FLO, Equal Exchange versus Green Mountain. Or even people with the same certification just fighting and losing ground... there’s so much infighting within fair trade”.

## **5.2. Fair Trade Themes**

Not surprisingly, Fair Trade’s challenges and benefits were a dominant topic during the interview process. What was surprising, however, was the consensus or lack thereof around these benefits and challenges. In regards to Fair Trade’s benefits, there was a notable lack of commonality between responses; nearly every

interviewee highlighted a unique benefit or set of benefits, leading to few dominant themes. Quite to the contrary, while the dialogue around Fair Trade's challenges also yielded a broad array of response, significant and dominant themes emerged. We reflect on each of these in greater detail next.

If one theme could be distilled from the interviews on Fair Trade's benefits, it would be that Fair Trade's benefits are as wide ranging and diverse as the individuals it touches; over 80% of interviewees discussed at least one benefit and these could be categorized as benefits for the coop itself, but also as direct benefits for the importer, the buyer and roaster, the consumer and the industry at large. Of Fair Trade, interviewee F summarized that, a "quality coffee experience is about a great tasting cup of coffee that I also know for a fact comes from the right communities, the right people and it's sourced in a responsible way...that's the complete package". Interviewees at or near the coop end of the supply chain noted that Fair Trade created trust and that the premiums, if invested wisely, had a positive impact at the coop. Importers interviewed listed a way array of benefits, some being that the program builds the professionalism and organization of the coops and that the program has driven conscientiousness in the consumer market. Amongst other things, buyers and roasters appreciated the traceability and access to financial details the program provided that they would not be able to get otherwise and that, particularly at scale, it allowed them to effectively engage with the producer level and ensure that the money they were spending on Fair Trade coffees, particularly organics, would reach the producers. Those interviewees who

themselves worked for the certifying bodies noted the program's impact on availability of higher quality coffees and their feeling that it was providing long term, rather than short sighted, benefit to the industry. In short, the aggregation of the data yields a theme that Fair Trade has some benefit to an array of stakeholders well beyond that of the coops themselves, though the benefits noted are diverse.

Despite the benefits noted by 80% of the respondents, the topic of challenges with the Fair Trade program received significantly more response and was the dominant topic through most interviews. Over 90% of interviewees discussed two or more challenges with the program and, more compellingly, there were no fewer than twelve issues that were noted by more than one interviewee; in other words, each of these twelve challenges were raised by two or more respondents. Like the benefits, the challenges had a wide scope; they ranged from challenges for the consumer to challenges for the coffee industry itself. There were challenges cited for the coop and challenges with the format and complexity of the scheme itself. Despite this, three key themes emerged regarding the challenges of Fair Trade. The primary theme and by far the most dominant, 50% of the interviewees felt that Fair Trade either cannot or is not "proving" its impact or value and that there is a lack of hard data to support the cost of the program. This theme was unanimous throughout the supply chain, from coop to roaster, and was noted regardless of tenure in the industry (from four years to twenty). Half of those respondents also went on to highlight that other programs that have more notable "proof" of their value, such as direct trade or direct private investment programs, are competing with and gaining

ground from Fair Trade. Another half of these interviewees also felt that Fair Trade was ultimately a qualitative, not quantitative, program which may further speak to its challenge with quantitative proof.

While not as prevalent, the second key theme was that Fair Trade is ultimately “only as good as the last mile”. Some noted that without effective leadership at the coop level, the implementation of the fair trade requirements and the management of the premium funds is ineffective, which may not be uncommon if the elected coop leader has little or no managerial training or skills. “You can have all the great curriculum in the world and if you’re a shitty teacher, it doesn’t really matter”, explained interviewee L, “and so the people that are auditing and the people that are responsible for the continuous improvement of these producer groups- if they’re excellent, then the standards are really going to be successful. If they’re shitty, then the standards are useless”.

The final theme of challenges for Fair Trade was that, ultimately, Fair Trade won’t “solve it” alone: Fair Trade will not solve the issue of poverty at a coop in isolation and it will not solve the issues in the industry in isolation. Taking this theme further, one interviewee noted that Fair Trade is ultimately a “blunt instrument” and that it is not possible for a single tool to be a solution for coops in different geographies or different cultures. Further, one respondent noted that due to the complexity and comprehensiveness of the Fair Trade scheme, it would be hard to tell which facets were benefitting or providing value to the coops most or at all. Interviewee L summarized by noting of Fair Trade, “...It’s the spear point. It’s the

thing that drives in at first but I don't think that it's the arrow that stays in for the long term".

### **5.3. Themes from Keurig's Fair Trade Programs**

All of the interviewees from our study had at minimum a basic knowledge of the programs that Keurig Green Mountain has implemented in the Fair Trade supply chains. While both the Intercambio program and the Value Mapping initiative are inherently quite different, they received some similar feedback when discussed as opportunities to further or improve value in Fair Trade supply chains. Two overarching themes emerged from discussions on these programs: that of transparency and that of power and trust.

One of the most dominant themes when speaking about either program was increased transparency and that increased transparency was perceived as largely beneficial. "I mean, transparency is key", remarked interviewee C, "you know, we talk a lot about price and we talk a lot about pre-financing and things like that but if you don't have transparency you don't have anything". Within transparency, some sub-themes also emerged. Some drew the connection from transparency to the proof of impact that so many cited as a Fair Trade challenge. Interviewee I noted that, "...transparency creates visibility that shows the investment that you're making is reaching its intended destination and it's critical that that process is seen and validated and improved over time". Some also made the broader connection of greater transparency coming from making opportunities for greater

communication, which was also unanimously positive. This comment was also related to the broader commentary on strengthening the relationships within the supply chain, which was again unanimously positive. Of Intercambio specifically, interviewee L cited that “the power of Intercambio is the idea that you can basically strengthen the relationship, increase efficiency and basically push transparency in your supply chain by basically holding an open forum meeting where you actually do all of the contracting and engagement in a place that is open and honest”. Finally and somewhat surprisingly, one interviewee even noted that this improved transparency drove coop competition and this was also seen positively; Intercambio was “a positive experience for producers of Fair Trade as they can compare their performance with other groups”, they noted. Ultimately, over half of those interviewed gave comments that could be categorized into the theme of transparency and this was the primary benefit of these programs.

While the primary theme was seen as overwhelmingly positive and a benefit for both programs, the underlying theme of power, the balance and the use of power and the issue of trust was also dominant when discussing these programs. This theme contained largely negative connotations and was viewed as the “con” of the two programs. It is important to note that few if any of the respondents directly used the words “trust” or “power” when discussing their concerns with the Keurig programs, but several synonyms and related terms were utilized and will be noted here. Through the literature review in previous chapters, there is an awareness of the prevalent issues of trust, power and governance within the specialty coffee

industry. Using this lens, response relating to power and trust can be aggregated together, comprising the secondary theme.

Nearly half of the interviewees had at least one comment related to trust and a lack thereof when discussing the Intercambio and Value Mapping programs. In the analysis of this data, respondents were considered to be talking about the broader issue of trust when they expressed reluctance or concern in sharing certain knowledge or discussed negative impacts on relationships as a result of sharing certain information. When categorizing this feedback, the theme of trust was designated when participants used words such as “resistance”, “scary”, “upset”, and “threatened or jeopardized” when speaking about information sharing.

The theme of trust and a lack thereof had two primary root causes: the speaker either was concerned about the other party’s *capability* to use given information accurately or prudently or was fearful to share their information altogether (fear of unknown consequences). In speaking about value mapping and the capability at the coop level, interviewee G believed that “...producers lack knowledge to understand the information they are receiving”. On the fear associated with communication, interviewee I reflected, “it’s very challenging for those players who are accustomed to a high degree of opacity to get comfortable with sharing information that they’ve never shared before... that information is quite powerful and there’s been a lot of resistance among the part of the trade that have had the information”. Finally, in their closing thoughts, interviewee C stated simply, “If there isn’t that trust in the chain, it can get a little tricky”. These comments reflect both the

broad spectrum of concerns regarding trust within the supply chain and they also provide an interesting counterpoint to the primary theme of transparency noted earlier. We will discuss this disparity in greater detail in the following chapter.

In addition to the response on trust, a third of interviewees also expressed at least one comment on the issue of power and the balance of power within the supply chain. Comments were determined to be discussing power when they contained terms such as “one-sided”, “one direction” or “one way and a half” when referencing communication and influence. For both programs, there was a feeling by most of the respondents who discussed issues of power that the supply chain actor spearheading the programs, Keurig, was ultimately benefitting above all others from the initiatives. Further, some thought this “power play” was either calculated or manipulative; one interviewee expressed the opinion that Keurig was attempting to maintain their relationships by “trying to convince... partners that’s it’s still committed to their relationships and to fair trade” with their Intercambio program. Other respondents shared opinions that Keurig was using its value mapping tool to financially benefit by negotiating all of the other supply chain actors down rather than drive efficiency and shared benefit; this was thereby felt to be a more, not less, risky supply chain strategy.

While the programs of Intercambio and Value Mapping, developed by Keurig, are ultimately quite different, the feedback received on each program had some broad overlaps. While the largest and most positive response was toward increased transparency and its benefits, the secondary theme of lack of trust and

concerns about the balance of power in the supply chain and in these programs provided a counterpoint and a strong challenge to the transparency heralded as a benefit.

#### **5.4. Themes on the Future of Fair Trade**

The future of Fair Trade was a challenging topic throughout the interview process. Half of those interviewed noted optimism about Fair Trade's future, but some of the others interviewed expressed more ambiguous sentiment. The future was a topic that generated a lot of reflection and generalizations, but was characterized largely by broader terms; concrete ideas generated were rarely repeated by more than one individual. At the broadest level, the respondents focused their reflections in two categories, either the physical growth of fair trade or the improvement of fair trade. Beneath these, three small themes emerged: emerging markets, collaboration, and innovation.

While many interviewees mentioned the need for an increase fair trade volume purchased, few were able to clearly recommend or articulate how Fair Trade might accomplish this. One idea noted by those in the certifying bodies and at the roaster level was the exploration of new emerging markets. Fair Trade purchases are vastly made in a small handful of economically strong countries in the global north. However, as countries continue to grow and evolve, countries are developing middle and upper economic classes were none previously existed; these represent new untapped markets of consumers that may also be interested in

supporting coffee farmers, driving the volume of global Fair Trade purchases even further. Interviewee A wondered: "...how can we democratize this idea of equitability within the supply chain so that we can have broader participation globally, including in producing countries? ... I think that there's huge interest and huge potential in emerging markets... how do we frame the proposition so that it's as relevant in emerging markets as it is in mature markets?"

When reflecting on the future of Fair Trade, while some focused on the growth of volume, the largest focus was on improving, rather than growing, the Fair Trade program. Within improvement, the theme of collaboration was ultimately the most significant and it was referred to by nearly half of the respondents when discussing the industry at large or the supply chain itself. This theme appeared related to the concerns raised on the balance of power and governance during earlier pieces of the interview; interviewee C reflected, "I think we have to make sure we're listening and not dictating what we [the roasters] need all the time. [Fair Trade is] very end-of-supply-chain-driven... we need to make sure that the balance shifts to a certain extent back to producers because we need to hear what they need, what's going on. We can't solve their problems by saying 'here's a fix' and not really addressing their true needs". Others interviewed talked about the same topic in even broader terms, citing the need for ongoing and increased communication. "I think in order to continue to be successful or in order to strengthen [Fair Trade], observed interviewee D, "I think it is really important that coordination between all the entities and communication continues to happen or happens more often".

Beyond improving collaboration within the Fair Trade supply chain itself, collaboration was also cited when discussing the competition between Fair Trade buyers and roasters. As we learned through literature review in previous chapters, one of the tensions within the Fair Trade program is that between the Fair Trade buyers at each end of the spectrum. This was raised as an issue that needed addressing for Fair Trade to have a successful future. During interviews, one interviewee reflected that on the wasted opportunity this tension causes, explaining “if the small, mission driven people really took the rightful seat as being the spearhead [of Fair Trade and] running this whole thing, but then collaborating with the mainstream because [they bring] the volume, that’s the model that works... These are two separate camps right now. They’re opposite each other where it’s, like, God, if you were a [small] mission driven company and you made that connection, wouldn’t you feel better about the work you’re doing? Because you might not be doing it at scale [and supporting Fair Trade with large volumes] but you’re supporting the work at scale [through collaboration with larger, more mainstream companies]”. Interviewee J took this sentiment even further, theorizing that the future of Fair Trade would require improved collaboration beyond even immediate Fair Trade actors and must include other actors within the industry. “I think success is going to come from collaboration. More collaboration and not just collaboration between the Fair Trade movement and the companies but also other associated NGOs that are trying to achieve the same thing... certainly we can collaborate better than what [we’re] doing today...and there are all kinds of options

for us to try and make sure that we're all working to the same common goal. It should be a motivation for all of us...". "I think that's a huge piece of the collaboration", interviewee C also added, "...we can't do this in our own little bubble. There could be lessons out there that we all want to learn... Fair Traders... [cannot] be so insular".

Beyond improved collaboration, some respondents also cited the importance of innovation to Fair Trade's future. While the sentiment was shared directly by a third of the interviewees, most of which were at the roaster or certifying body level, there were no singular ideas or opportunities discussed by more than one individual. Ideas posed varied broadly in scope, however. Interviewee C, a roaster, focused on financial opportunities, at one point proposing the decoupling of Fair Trade from the C-market as an interesting opportunity, noting that it had already been tried successfully during market downturns and theorizing that this could open up additional financial opportunities for the certifying scheme. Interviewee B, another roaster, took another approach and focused on advancing innovation with equipment at the coop and mill level. "Some of these mills haven't innovated in eighty years", B explained, "the machinery has literally been bolted to the ground for eighty years. Dusty as hell, nothing going on, no innovation". Speaking in broader terms, interviewee J stated simply, "I think innovation is going to be critical for Fair Trade over the next five years... looking at how we might find new ways to work, not just underpinning the work that we do but...finding new options and new ways of encouraging a wider involvement in Fair Trade to take it to the next level".

## **5.5. Conclusion**

Through coding and analyzing the twelve industry interviews, four larger topics emerged: the specialty coffee industry, Fair Trade, Keurig's Fair Trade programs, and the future of Fair Trade. Within these topics, ten major themes were distilled which represent the reflections, concerns and insights of the actors within the Fair Trade supply chain. On the whole, they are a group concerned with issues in the broader specialty coffee industry in which they operate. They express concern about the loss of the farmer population from poverty and food scarcity, aging, and a future not compelling enough to keep them on the land. There is also a related concern about the subsequent future availability of specialty coffee and a frustration about the industry infighting between various NGOs and groups seeking to address these issues.

The Fair Trade supply chain is a group which sees broad and diverse benefits in the Fair Trade program. Yet they are also a vocal group of its critics. The group expresses the greatest concern with Fair Trade's inability to prove and quantify its value and impact and some express concern that much of the impact and value is stymied by weak or inexperienced leadership and management at the coop level. Finally, despite its benefits, they feel that Fair Trade cannot work in isolation; they do not feel it will not "solve" the industry issues alone.

In evaluating two of Keurig's program innovations for Fair Trade, Intercambio and Value Mapping, the group interviewed spoke positively about

efforts to increase transparency in the supply chain and felt that the programs drove increased transparency. Yet this same group expressed concerns of trust of the other supply chain actors and shared responses that reflect that issues of power, the balance of power, and governance within the supply chain pose significant barriers. When looking toward the future, the group spoke in few absolutes; while expanding into emerging new markets and geographies developed as a theme, overarching themes of the need for increased collaboration and innovation were the most prevalent. While some concrete ideas arose, none were expressed by multiple individuals within the supply chain.

The themes that have emerged from the interview analysis represent some intriguing paradoxes within the Fair Trade supply chain. These will be discussed in greater detail in the next chapter.

## CHAPTER 6. DISCUSSION

The themes drawn from the Fair Trade supply chain interviews shed light on both the current challenges within Fair trade and the supply chain as well as speculate on the needs for the program's future. They also further address our initial research questions:

1. What do actors within the Fair Trade coffee supply chain see as Fair Trade's opportunities and challenges?
2. Are there opportunities to optimize the Fair Trade coffee supply chain?
3. If opportunities exist, what kind of benefits could they yield and who could benefit from them?

It is valuable to note that there is consensus within the supply chain that the industry does need a solution to the challenges continuing to plague the coffee farmer population. This sentiment supports the need for initiatives such as Fair Trade and other programs from a perspective within the industry but also implies that there is more work that needs to be done within the current programs as these issues remain unsolved. The reiterated need for a solution and improvements to the current programs supports the value of our research.

It would be reasonable to conclude that the actors willingly participating within Fair Trade supply chains are largely Fair Trade's proponents, those that push forward its cause and are eager to see it grow and improve. When the interviewees

reflected on Fair Trade's benefits, one of the most notable outcomes was not how many different benefits were cited, but that so many of these benefits benefitted segments of the supply chain beyond the coop level. This understanding of the program amongst its industry proponents provides an interesting juxtaposition to Fair Trade's mission and marketing, which is focused solely around the livelihood of the farmer, as discussed in previous chapters. This finding indicates that, while the supply chain stakeholders support Fair Trade for its mission, they have found additional self-serving benefits or mutual benefit in aspects of the program that further encourages their participation. While Fair Trade may be aware of the additional perceived benefits beyond the coop level, this finding may highlight an opportunity and gap for Fair Trade in the way it is communicating the broader benefits of the program to potential new buyers and markets within the supply chain. Being able to distill, articulate and market these additional benefits beyond its current mission and marketing may yield messaging which could attract new buyers and markets.

Beyond these benefits, one of the most notable findings from the interview themes is the complicated picture painted of relationships within the Fair Trade coffee supply chain. When speaking of the benefits of Keurig's Fair Trade programs, many highlighted transparency and communication as assets of these programs and indicated that these were assets that the supply chain could use more of. Yet, paradoxically, many also expressed a lack of trust or a hesitation or fear in sharing information. Further, when speaking about the future of Fair Trade, increased and

improved collaboration was determined as one of the top three avenues to explore. This finding represents a significant challenge for the Fair Trade supply chain and further supports the issue of power and governance cited in the previous literature review. These findings may indicate that the Fair Trade supply chain sees a need for (and is desirous to) improve and increase communication, transparency and collaboration within the supply chain to improve the program but may be increasingly challenged to do so given the current structure of the Fair Trade scheme. This finding suggests that it may be valuable for Fair Trade to reevaluate the scheme's governance model and explore means to increase the amount of coop representation and power. Changes in governance may improve the balance of power within the program which, as our earlier literature review indicates, can further trust and pave the way for increased transparency, communication and collaboration between stakeholders.

While significant feedback was generated regarding a variety of topics within the interviews, the most concise and significant finding remains that the actors within the Fair Trade supply chain see Fair Trade's inability to quantify or "prove" its impact or value as the biggest challenge to the program. Based on this research, it represents the largest challenge for Fair Trade to address. This lack of "proof" may also represent a barrier to many other comments regarding the need for Fair Trade to grow, both in volume and into new markets. Further, without proof of what aspects of the program are, in fact, most measurably successful, Fair Trade stakeholders may be less able to focus innovation, one of aspects noted as most

important to Fair Trade's future.

The findings generated from the interviews yields both valuable direct and indirect findings that address our research questions. Through our analysis, we have identified the key opportunities and challenges from the perspective of the Fair Trade supply chain; chief of these challenges is the lack of quantifiable value or proof of impact of the program. Through further analysis, a key indirect challenge emerged; there is a barrier to collaboration, increased transparency and communication seen as desirable by the supply chain stakeholders. Particularly in regards to Keurig's Fair trade initiatives, while their push toward increased transparency and collaboration is positive, stakeholders express hesitation and reluctance toward the sharing of some information as a there is a lack of trust between parties.

These challenges translate into opportunities to optimize the Fair Trade supply chain. From our analysis and earlier literature review, we highlight the imbalance of power and governance as a driver of lack of trust between supply chain stakeholders. Extrapolating from this, improving this balance of power and governance within the Fair Trade program has the potential for broad benefit to all stakeholders. Improved trust resulting from more balanced power and equal governance lends itself to increased communication and transparency. These attributes are critical for many of the progressive supply chain management techniques cited in previous chapters, paving the way for increased collaboration and innovation, seen as two of the top needs in Fair Trade's future. Finally, if Fair

Trade is also able to address the lack of quantifiable proof of impact and value highlighted by the supply chain, this has the potential to support growth into emerging markets, the other key opportunity highlighted for the future of Fair Trade, as well as potentially further supporting focused innovation within the program.

In the earlier literature review, the tensions between Fair Trade stakeholders were explored. Due to Fair Trade's complex history, many stakeholders are divided on the appropriate path forward. This divide is simplified to one of breadth versus depth; it separates those that wish to see Fair Trade expand by growing its volume through expansion into new markets, new producer categories and new buyers from those that wish to see Fair Trade expand by investing and improving on the program itself, offering greater impact at the producer level. What is notable about the above research is that it instead posits that depth is, in fact, a precursor to breadth. As noted earlier, the opportunity to improve Fair Trade through stronger governance and increased power for the producer groups of the supply chain would increase communication and collaboration amongst supply chain stakeholders and these developments would foster improvements to the program and drive efficiencies between the supply chain actors. This possibility represents the bridge between the divide, for as the program improves and efficiencies are gained, these efficiencies, seen in the form of streamlined costs throughout the chain will make the program increasingly attractive to those in the industry not yet participating in the program. Put simply, a stronger and more efficient Fair Trade program can

attract new buyers to the program, growing volume and thereby both depth *and* breadth.

In a previous chapter, a conceptual model was created to explore the types of buyers within and immediately outside of the spectrum of buyers in the Fair Trade program. From the findings and opportunities within this chapter, we hypothesize that the potential outcomes from these recommendations would make the Fair Trade program increasingly attractive to those buyers not currently participating. These recommendations stand the potential to attract new buyers just outside either end of the conceptual model; the “direct trade” actors may find the improved governance and resulting improved collaboration and communication attractive while the resulting efficiencies may attract the “financially driven” buyers. Ultimately, it is important to reiterate that this remains theory and represents an oversimplification of a long and complex potential shift in the Fair Trade program. Nonetheless, if we accept the earlier literature review that concludes that a greater balance of power through improved governance increases communication and sharing, that greater communication and sharing drive increased efficiencies and that efficiencies represent improved costs, we can theorize that these improvements would over time increasingly attract those buyers currently on the outside fringes of our conceptual model.

When fair and alternative trade models began and developed now over sixty years ago, there was a need to distinguish these products to the consumer and advertise this distinction through the use of certification logos. Yet as we have seen

through the previous literature review and the subsequent research, these certification schemes are no longer fringe outliers; they instead represent established and mature international trade models that increasingly engage and interact with conventional business. The certification logos, which once were few and far between, are increasingly present on packaging. For the coffee companies competing on the store shelf, the logo that used to represent a unique selling attribute to the consumer is increasingly diluted by the competition or, perhaps worse, muddied by consumer confusion as various certifications jockey for consumer awareness.

With this maturing market, a final recommendation that may warrant consideration from Fair Trade is the shift from a consumer marketed to an industry marketed certification. As shown in our literature review and subsequent research, the pressure to improve the coffee industry and related supply chains are a growing force. The market is “expanding corporate responsibility beyond the traditional limits of ownership and direct control” (Vurro et al, 2009 p.607) and our interviews from within the coffee supply chain echo the need for the industry to do more to support the producing regions. Given that there is decreasing product differentiation gained from the Fair Trade logo as volumes increase and ongoing consumer confusion as certifications jockey against one another for market share, we can extrapolate that there may be value in moving away from consumer advertising and opting instead to focus efforts on increasing industry adoption. After all, consumer marketing and advertising is a cost intensive and constant effort;

significant funding of Fair Trade USA via the licensing fees paid by roasting companies is allocated to consumer advertising. A shift away from this approach and toward industry marketing may reduce the advertising revenue needed, allowing it to be freed up for other initiatives. There is significant precedence for internal industry certifications; Underwriters Laboratories (UL), Safe Quality Food (SQF), Global Food Safety Initiative (GFSI), International Organization for Standardization (ISO) to name but a few are well-established industry certifications which ensure the quality of operations within major manufacturing and consumer packaged goods (CPG) industries. A shift in focus away from consumer advertising and toward industry advertising may better optimize funds and engage additional industry participants, further expanding the program.

While the findings and recommendations detailed here advance the existing literature on the Fair Trade coffee supply chain, it also highlights a need for additional research. As stressed earlier, the most critical missing research remains with proving Fair Trade's impact. As noted in the earlier literature review, there have been many earlier efforts to measure impact, but the aggregate findings are mixed and many studies conclude that additional research is needed. Dispelling this challenge would address the largest hurdle for Fair Trade within the industry, as concluded by our study. Yet beyond this primary effort, additional research is also warranted on the optimal governance solution for Fair Trade. While our findings conclude that more balanced power through a new governance model would work toward addressing the challenges detailed by our interviewees, more work is

needed on what model would best meet the collective needs of the supply chain and of Fair Trade. Finally, while the recommendation to move toward an industry internal certification scheme has promise, additional research is required to quantify the additional impact this shift could yield. Deeper analysis on other industry certifications is warranted to further understand the implications of this transition.

## CHAPTER 7. CONCLUSION

In its first year as an established entity, 1998, Fair Trade USA sold less than 80,000lbs of coffee as certified. In 2012, their figure was over 163 million pounds (Fair Trade USA, 2012). The significant growth of this and other certifying schemes shows increasing consumer awareness and support of alternative trade models. Alternative trade models continue to seek ways to challenge traditional international trade, providing improved access to markets and improved livelihoods to trading partners in the typically disadvantaged global south. Yet with this mission focused on farmer livelihoods, opportunities to further improve the program beyond the producer level may be underleveraged.

Research on the supply chain of Fair Trade coffees fills a gap in the current academic literature and allows for exploration of ways to improve the business and operations of Fair Trade; given the large number of stakeholders involved in the Fair Trade supply chain, increased efficiency between these stakeholders could drive out costs and provide additional revenue at the producer level, which is further supported by our literature review. By interviewing key stakeholders within the Fair Trade supply chain, we highlight the major opportunities and challenges from their perspective. Ultimately, the largest challenge for the supply chain remains a lack of quantifiable proof or measurable impact or value from the Fair Trade program. This finding is aligned with critiques highlighted in the literature review and reiterates the need measurable impact coming from Fair Trade, even from its current participants.

Other key findings represent both a barrier and opportunity to the Fair Trade

supply chain. While the stakeholders in the Fair Trade supply chain see transparency and increased communication positively, there is a lack of trust that inhibits sharing and collaboration. This challenge is in many ways in direct conflict with what they determined to be key facets of Fair Trade's future, those of increased collaboration and innovation, the latter oftentimes requiring considerable partnership and communication. Supported by the literature review, this signals a need to address the imbalance of power in the supply chain and supports the reevaluation of the governance structure of Fair Trade. Improving the balance of power in the Fair Trade supply chain could provide the additional trust needed to increase communication and collaboration and explore additional supply chain management techniques to further drive efficiencies and reduce risk and cost from the network. While there was some positive response to Keurig Green Mountain's progressive Fair Trade initiatives, the concerns raised by the supply chain signal that a lack of trust amongst stakeholders is preventing full adoption or endorsement of such measures. Lastly, the supply chain stakeholders reflected on a number of benefits to the Fair Trade program beyond the producer level. This could represent an additional opportunity for Fair Trade in the way they are driving future growth and participation in the program.

The findings from the Fair Trade supply chain indicate the industry sees a need for solutions to the poverty and food scarcity plaguing the farmers of the coffee industry. This signals a need for programs such as Fair Trade, but also indicates that these programs have not yet met their objective and that more work is needed. The three key recommendations listed above are drawn from the themes of one dozen supply chain

interviews and indicate opportunities from the perspective of those who are closest to the program. They represent both opportunities for additional research and opportunities for Fair Trade USA to drive additional improvements to the program.

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