Towards a sustainable coffee market: paradoxes faced by a multinational company

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TOWARDS A SUSTAINABLE COFFEE MARKET? PARADOXES FACED BY A MULTINATIONAL COMPANY

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ABSTRACT

This article examines the case of sustainable coffee as faced by Sara Lee's International Coffee and Tea Division (SL), asking which strategic direction the company should take considering its regulatory, competitive and societal contexts. More than a decade after sustainable coffee became a strategic issue for SL, emerging public purchasing guidelines seem to exclude the 'mainstream-market' policy of the company and instead favour the Fairtrade standard that embodies a niche approach. The article presents the strategic, organisational and marketing dimensions, in their international supply-chain and industry dynamics. It raises the question what it means for a large, mainstream multinational company to move to sustainability when the issues at hand are very complex, consumer awareness is limited and the market for sustainable coffee is not mature yet. Several strategic options are presented, each with their pros and cons, as input for further discussion and research on the paradoxes related to sustainability and international business.

KEY WORDS

Coffee; sustainability; strategy; marketing; supply chain; fair trade

TOWARDS A SUSTAINABLE COFFEE MARKET? PARADOXES FACED BY A MULTINATIONAL COMPANY[1]

INTRODUCTION

More than a decade after sustainable coffee became a strategic issue for the company, Sara Lee International's coffee and tea division (SL) enters a crucial phase. The immediate trigger has been the adoption of new sustainable purchasing guidelines in Europe in general, and the Netherlands in particular, the country from which its main coffee brand, Douwe Egberts (DE), has developed and where Sara Lee's international division is headquartered. The Dutch government has drawn up sustainable procurement guidelines, which also cover coffee. All public agencies have started to implement them, with municipalities including concomitant conditions in their public tenders. These requirements, however, exclude the 'mainstream-market' approach adopted by SL and instead favour the Fairtrade standard that includes aspects that are only suitable for a market niche.

In its offers, SL has pointed at its commitment to make the coffee sector more sustainable. This includes its leading position as the world's largest buyer of Utz Certified coffee, and the projects undertaken in the framework of the DE Foundation, created by the company in 2002 to improve living conditions of small coffee farmers in developing countries. Nevertheless, several tenders were lost in view of the fact that SL could not supply coffee with the Fairtrade label and its guaranteed minimum price. Although the well-known founder of the Dutch Fairtrade label (Max Havelaar), who is director of a fair trade organization that promotes sustainable agriculture,[2] publicly emphasises the value and contribution of the SL/Utz approach (Solidaridad, 2010) compared to Fairtrade, this did neither convince municipalities nor higher courts where SL lodged appeals.

What should the company do in this situation? Does it need to change its approach, which has developed over the years and which enjoys wide support, even from those non-governmental organisations (NGOs) that were very critical about the company a decade ago? Is it necessary to move away from a focus on 'mainstreaming' sustainable coffee, i.e. targeting the mainstream market, towards a niche approach as embodied in Fairtrade even though this may be difficult to reconcile with the company's generic strategy, and be much less impactful in terms of sustainability overall? *Which strategic options exist and can best be taken, considering the various pros and cons?* These are questions to which we will return in the final section, after having given more details about the major actors, the markets, the standards for sustainability in the coffee sector, and SL and its competitors.

CONTEXT AND BACKGROUND ON MNCS AND THE COFFEE CHAIN

In many sustainability issues, multinational companies (MNCs) play an important, if not critical, role, given their prominence in international trade and production, and their

[1] This case, while based on the actual company and the competitive and regulatory situation on the coffee market, does not pretend to necessarily portray a fully accurate picture of corporate developments and considerations.

[2] In this article Fairtrade is used to refer to the label, while fair trade is used as a generic term to indicate the nature of trade.

presence on multiple markets around the world. In the coffee chain, roasting and manufacturing MNCs occupy a pivotal 'intermediary' position between producers and end consumers. As shown in Figure 1, producers can be smallholders, medium-sized farmers or large plantations. Concerning consumers, MNCs distinguish retailers (grocery and specialty shops) and institutional customers (restaurants, offices) as channels via which they sell their products (see Figure 1). MNCs are very often targeted by NGOs and called upon to take their responsibility to improve matters (Spar and La Mure, 2003). Coffee is no exception as campaigns focused on these large roasting and manufacturing companies (Kolk, 2005). This became especially notable after the regulated coffee system that ensured stable prices had ended in 1989, and price volatility and income vulnerability emerged as inherent characteristics of a more buyer-driven commodity chain (Gilbert, 1996; Ponte, 2002). NGOs linked MNCs as powerful buyers on the market to the fate of the farmers, their declining income levels, poor working conditions and social situation, and of all those families that depend on coffee (Oxfam, 2002). They attacked the ones with the largest market shares in particular, i.e. Nestlé, Kraft, SL, and Procter and Gamble (P&G, which sold its coffee business to Smucker's in 2008).

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While qualifying their degree of 'responsibility' and emphasising that they could not solve this huge problem alone, MNCs have become involved in industry initiatives and undertaken corporate activities (Vogel, 2010; Waddock, 2008). In this case this included purchasing coffee certified according to voluntary standards that incorporate sustainability criteria. Various standards have emerged, drawn up by NGOs and sometimes industry (jointly). The four main ones that include independent monitoring and certification are Fairtrade, Organic, Utz and Rainforest Alliance (Kolk, 2010). MNC responses are part of a sector dynamic as companies closely watch competitors' behaviour, with a tendency to 'follow the leader' (Knickerbocker, 1973; Kolk and Levy, 2004). However, their approaches are also shaped by specific corporate and country-specific characteristics, such as stakeholder pressures in home and host countries, the importance of specific markets and market channels, related to MNCs' positioning vis-à-vis competitors (see Box 1 for the broader debate relevant for MNCs). This forms the background of differences in timing and steps taken, for example the fact that some MNCs buy one type of certified coffee, such as Utz, while others select a different one, e.g. Rainforest Alliance, or choose those from multiple standards simultaneously (e.g. from a corporate programme and Fairtrade).

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THE SUSTAINABLE COFFEE MARKET: VOLUMES OF CERTIFIED COFFEE

The four main sustainable coffee standards are Fairtrade, Organic, Rainforest Alliance (RA) and Utz. Each has its own distinct history and background. Fairtrade, for example, is the oldest, and supporting small producers has been its starting point, while for RA and Organic this has been protection of ecosystems and biodiversity, and for Utz market-based mainstreaming of sustainability (for peculiarities see Kolk, 2010; see also next section). In amounts of coffee available on the market, Utz is clearly the largest, followed at a distance by Fairtrade and RA, and then Organic (see Table 1). In volumes purchased there is not such a huge difference yet, but Utz and RA show large growth rates: both more than doubled in 2008 compared to 2006. Nevertheless, sales of these four types approximate only 4% of world total (TCC, 2009).

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Table 1 around here

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The share of sustainable coffee on the world market increases to around 6% if we add coffee from ‘other standards’, i.e. the corporate programmes from Starbucks (its so-called Coffee and Farmer Equity Practices, CAFÉ) and Nestlé (AAA Nespresso), and 4C, the Common Code for the Coffee Community that identifies coffee that is compliant with its Code (see below). It should be noted that even if guesstimated available volumes of all certified/verified coffee are compared to total world production, that this adds up to 14% at best (calculated from TCC, 2009). Besides that numbers are estimates, some coffee may also have been double counted as sustainable given that producers often have multiple certifications.

SUSTAINABLE COFFEE STANDARDS: MAIN DIFFERENCES

Fairtrade stands out for the minimum guaranteed price for producers and a fixed premium, meant for community development programmes, that is always assured. Other standards are more market driven, with price being negotiated between buyer and seller. Unlike Fairtrade, they do not pay an assured premium, but in practice certified coffee generally receives a higher price. The idea, as made explicit by RA and Utz in particular, is that quality improvement of production and processing helps realise a market-determined quality premium for the farmers adopting these practices (higher price for a better product). With this divergent underlying principle comes a different system of accepting farmers. Entry barriers for RA and Utz are low; for Fairtrade entry barriers are also low as far as registration is concerned, but high for actual participation, and there are limits to numbers of farmers and volumes of coffee that it can include in practice (Kolk, 2010; Muradian and Pelupessy, 2005).

Fairtrade focuses on small coffee farmers who do not hire permanent labourers and thus are family-based, and who spend most of their time working on the farm with most of their income originating from agriculture. Moreover, they should be organised in formal, democratic cooperatives composed of a majority of small producers. Other standards have no such built-in restrictions: they accept individual and groups of farmers, whether in producer organisations or not, and also those involved in contract farming. Fairtrade also has limitations as to total numbers and market size it can cover due to conditions imposed on roasters that buy the coffee, such as the relatively high license fee roasters have to pay and the requirement to offer pre-financing to producer organisations. Lastly, being certified does not include a guarantee that producers can sell their coffee to the Fairtrade market on Fairtrade terms. In reality, most producer groups only sell part of their coffee under these conditions. The Fairtrade umbrella organisation estimates that this to be just 10%-20%, with the rest being sold for regular market prices (Slob, 2006, p. 32). There is controversy as to which standard is best; this debate has been unresolved so far (Kolk, 2010; see Box 2).

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Box 2 around here

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MNCS AND SUSTAINABLE COFFEE VOLUMES

MNCs' most concrete steps towards a sustainable coffee market are buying certified coffee and supporting activities to improve and spread sustainability standards and practices. Table 2 gives an overview of the largest roasters with regard to their purchasing volumes. It shows total coffee volumes, and amounts and shares of sustainable coffee bought in 2008 as well as 2005 if available. Looking at the 'big Four' (Kraft, Nestlé, P&G, SL), certified coffee purchases have increased in both absolute and relative terms (except for P&G/Smucker's), but as a percentage of total it is still fairly limited overall. At the same time, the total volume of sustainable coffee available on the world market (see Table 1) is grossly insufficient to cover the needs of the big Four. If SL, for example, had purchased all 2008 Utz coffee left on the market (available minus purchased, is 228,500 tonnes) this would have only covered a little over half of the total volume it needed. A similar scenario for Kraft and RA would have only covered around one tenth of this company's total.

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Details included in the penultimate column of Table 2, the sources of certified coffee, suggest considerable differences in approaches taken. Fairtrade is not very prominent; only Nestlé and P&G/Smucker's buy a little bit. P&G/Smucker's is the smallest of the big Four, and mainly oriented at the US market, especially with its Folgers and Millstone brands. Table 2 does not distinguish between the company's purchases of Organic, RA and Fairtrade coffee, which are all three used in concomitant Millstone coffee blends. P&G first introduced Fairtrade Certified – an announcement it made in September 2003 (Kolk, 2005). As to Nestlé, most of its sustainable coffee approach consists of its AAA Nespresso programme, developed together with RA and the Sustainable Agriculture Network, which is limited to this premium brand. Kraft, relatively large amongst the big Four in terms of shares of sustainble coffee, has chosen to buy RA certified coffee. It started this approach in October 2003 when the company announced to buy 5 million pounds (Kolk, 2005).

SARA LEE

Current situation and approach

SL has the largest share of sustainable coffee of the big Four, with a clear focus on Utz. It announced to start bying Utz certified coffee in March 2004, a few months after Kraft had made a similar move with RA certified coffee (Kolk, 2010). SL announced to buy a similar amount of Utz as Kraft had done for RA. In addition to having the largest share, SL has also become the first in terms of volumes as it increased its Utz coffee purchases from 20,000 in 2008 to 30,000 tonnes in 2009 and 40,000 tonnes in 2010 (Sara Lee, 2010). Compared to other three major roasters, SL stands out for its choice for Utz, and for the commitment to move to 100% sustainable coffee, although a time line has not been given.

SL opted for Utz for several reasons. One reason was that only this standard could accommodate the mainstream demands of the roaster in terms of a large number of available origins, and coverage of all types of coffee and farms/production systems. This approach ensures maximum flexibility and consistent quality of its products (RA originally focused on rainforest countries, limiting origins/types; Fairtrade accepts smallholders in cooperatives only). SL also wanted to have a clear market-based system, i.e. use of the market mechanism for pricing, with rewards based on higher quality, thus avoiding major price increases of its coffee. Considerations regarding specific Utz characteristics also played a role. In addition to the system's transparency and its more limited costs, this included the fact that Utz certification would support SL's DE brand rather than submerging it, as Fairtrade was seen to do with its all-encompassing logo and trademark.

Overall, the situation is rather different from the one almost a decade ago, when MNCs such as SL were targeted for their responsibility for the difficult situation of coffee farmers (see earlier in this article). This change seems at least partly due to industry dynamics and campaigns by NGOs (Kolk, 2005).

NGO pressure and SL

In the Netherlands, considerable pressure was exerted on SL by the Coffee Coalition, consisting of seven development organisations and two trade unions (its successor, the Tropical Commodity Coalition, which extended its focus to include tea and cocoa in addition to coffee, had a largely similar composition with eight NGOs and two trade unions) (CC, 2006; TCC, 2009). It targeted SL in particular in 2003, when the 250th anniversary of its main DE coffee brand was used as an opportunity to emphasise that "there was nothing to celebrate". This wave of attention had a clear influence on the company, as its most well-known brand was attacked in the country where it had the largest share of the coffee market and that was home to its international headquarters.

The company not only reacted with the decision to start buying Utz certified coffee, but also established the DE foundation in 2002, to which it donates € 1.2 million annually. The DE Foundation directly supports coffee quality improvement projects to advance living conditions of small coffee producers.[3] Remarkably, the very organisations that initially campaigned against the company are now much more positive, and confrontation has given way to collaboration. The Dutch NGO Solidaridad (2010), which took the initiative for Fairtrade in the Netherlands and opposed SL for some years, currently characterises the company as a frontrunner. It also labels its coffee projects, in some of which Solidaridad participates, as best in class.

SL's involvement in sector initiatives

Together with Nestlé and the European branch of Kraft, SL played an active role in the creation of Common Code for the Coffee Community (4C). 4C is a multi-stakeholder initiative of the main players in the coffee sector as a whole, although MNC participation particularly originated from European locations. Hence, P&G/Smucker's has not been involved. 4C was created in 2002 to increase sustainability in the (mainstream) coffee sector, and brought together producers (federations from a range of coffee producing countries), trade and industry (including Kraft, Nestlé, SLDE and the European Coffee Federation), NGOs and unions from both developed and developing countries, and others (international organisations such as the International Coffee Organization and the World

[3] http://www.defoundation.org/. In the course of its existence, the scope has been extended to include small tea farmers as well. The author was an independent external board member of the Foundation in the period 2003-2010.

Bank, ministries and other labelling, research and action groups). Legal advice was also sought to ensure that competition rules would not be infringed.

The main focus of 4C was the creation of a code of conduct, involving its own 'internal' monitoring system (i.e. not by external parties, which is different from the four standards mentioned in the preceding section) that verifies farm practices according to standards derived from inter alia international conventions. This way, '4C compliant' coffee could be identified from 2007 onwards, with growing quantities: total available volumes were 275,945 tonnes in 2008 and 569,886 tonnes in 2009. However, purchases of 4C coffee only amounted to a very small portion of the available supply of 4C coffee, i.e. 4.2% in 2008 and 5.2% in 2009 (or in tonnes, 11,638 respectively 29,541) (calculated from 4C, 2009). If these figures are linked to those in Table 2, then it seems that almost all of the 2008 4C compliant coffee has been bought by two members, Nestlé and Tchibo (in total 11,000 tonnes). As the price for 4C compliant coffee equals those of 'conventional' coffee (i.e. without a sustainability label) the added value on the market seems to be limited so far.

Membership in the so-called 4C Association (created in 2006 when the initial project aimed at formulating a code of conduct ended) has grown to over 130, in different categories: producers, trade and industry, civil society, individual members and associate members (4C, 2010a). Some of the initial members are no longer involved; these include international organisations, Utz, unions, some civil society groups, and SL. SL left 4C early 2010, stating to concentrate its efforts on Utz and the DE Foundation. The costs of 4C membership, weighed against the (limited) benefits/added value, may have played a role as well: for the largest buyers, the maximum contribution is €160,000 per year (4C, 2010b). For SL, taking the volume listed in Table 2, this amounts to €120,000. Moreover, given that the company has developed a credible strategy for sustainable coffee markets, it seemed to have room to leave 4C without any negative impact on its reputation. Other large roasters did not have such an alternative trajectory.

Of the ten largest roasters included in Table 2, four were members of the 4C steering committee until December 2006 (Kraft, Nestlé, SL and Tchibo). These same four companies have actively participated in the coffee platform of the Sustainable Agriculture Initiative that was created in 2003 to help further sustainable green coffee practices. As to the 4C Association, current members include Aldi, Kraft, Melitta, Nestlé and Tchibo, while SL, Smucker's, Starbucks, Lavazza and Segafredo are not members. Considering the amounts of sustainable coffee purchased as well as future commitments in Table 2, this suggests that SL and Starbucks have taken their own route separate from 4C, while the other three have a very limited (or no) strategy in this area. Amongst the current 4C members, the only company that has committed itself to a fully sustainable future path, and that buys a relatively high percentage of such coffee, is Tchibo.[4]

There appears to be an underlying difference in views and visions as to whether sustainability represents a niche or will become a mainstream market approach. This relates to peculiarities of coffee markets, customer demand, and regulatory influences.

PECULIARITIES OF SUSTAINABLE COFFEE MARKETS

Figure 1 distinguished between different types of markets relevant to the coffee sector: institutional (the so-called 'out of home'market), which includes restaurants, vending

[4] Starbucks has a deadline for 100% sustainability, but focuses on its own corporate standard; it is also a specialty company, not a large roaster, and it is not a member of 4C.

machines, offices; and retail. Retail can be subdivided into the more 'mainstream' market channel consisting of groceries and super/hypermarkets, and specialty shops (cafes, specialist coffee and tea shops, fair trade and organic shops). Obviously price-quality requirements differ depending on the specific set of customers involved, but more intangible aspects such as the degree of sustainability of coffee production have started to play a role as well in the past decade. This applied to the mainstream retail channel to a limited extent in the early years, and much more to the out-of-home market (offices and vending machines more than restaurants initially). Here, demand for sustainable coffee became noticeable, and so did interest in specialty coffees produced under better circumstances than conventional coffee. Specialty coffees exhibit much larger growth rates than conventional coffee, where stabilisation, rather than an increase, can be seen.

In general, the US is the largest coffee consuming country, with between 15-20% of world consumption, Brazil is second (around 13%), Germany third (around 7%) and Japan fourth, followed by Italy and France; the European Union as a whole accounts for approximately 30% (derived from ECF, 2010, p. 4). Per capita consumption differs considerably between countries: in 2006 it was 6.39 kg in Canada, 4.95 kg in the EU, 4.09 kg in the US and 3.38 kg in Japan (Giovannucci et al., 2008, p. 36). Within the EU, consumption habits diverge, with France, for example, at 5.48 kg, Germany at 6.3 kg, the Netherlands at 7.1 kg, Spain at 4.0 kg and the UK at 3 kg (2008 figures, ECF 2009).

The US

Certified coffee accounted for approximately 8% of all coffee imported in the US in 2006 (Giovanucci et al., 2008, p. 36). In addition to the more specific world shops and online/mail-order channels traditionally oriented to organic/Fairtrade, Starbucks started to meet specialty sustainability coffee demand in its own shops. Of the big Four roasters, P&G (Smucker's) over the years began to target mainstream grocery stores with its Millstone sustainable brands. For P&G this was an attempt to capture a share of increasing US customer interest in specialty coffees, with certified coffee amongst the fastest growing segments. Interestingly, SL, whilst relatively small in the US as far as its coffee business is concerned, included some Fairtrade (and later Utz coffee as well as part of the overall policy developed internationally) in its assortment in response to customer demand. What is specific for the US is that Utz has been relatively small there, having a much larger presence in Europe: recently activities in the US have expanded, although amounts are still around one tenth of the Fairtrade volume, for example (calculated from Transfair, 2009, p. 9; Utz, 2010, p. 7).

Germany and the Netherlands

There are two markets that stand out in Europe for containing the largest consumers of coffee (Germany) and for having relatively high consumption levels per capita (The Netherlands). They are also home to more proactive roasters. Yet, their certified coffee consumption varies widely from 5% (Germany) to 25% (the Netherlands) of national markets in 2008 (TCC, 2009). In Germany, Tchibo and Kraft are market leaders. A range of different certified coffee types are being sold, including RA (by Kraft and Tchibo; the latter also buys Fairtrade, Organic and 4C). Certified coffee is also available at specialty coffee shops (Starbucks). Fairtrade is relatively small on the German market.

In the Netherlands, certified coffee, and especially Fairtrade has a long history (as it is where the Max Havelaar label originated in 1989). In the early years only Fairtrade/Organic was sold and accounted for around 3% (CC, 2006). In 2002, the situation changed, with Utz becoming more prominent: it was included in the largest supermarket's own brand (driven by its own Ahold coffee company, which was involved in setting up Utz); later on another supermarket chain followed suit. SL moved to buy Utz as well for its DE brand, which has a market share of more than 50% in the Netherlands. In addition, demand for sustainable coffee in the out-of-home market (government agencies, NGOs, and organisations that buy coffee for their offices/vending machines) became more prominent, which was what also influenced SL's move in this direction. This market, in relation to the government's sustainable purchasing guidelines, has also led to difficulties for the company recently (see below). In recent years, other supermarkets have followed suit, also because a Dutch roaster which supplies many private coffee brands to supermarkets started to offer a range of sustainable coffees (RA, Utz, Fairtrade, 4C).

RECENT MARKET AND CUSTOMER DEVELOPMENTS IN SUSTAINABLE COFFEE

It should be noted that there are many developments in the past few years that may not be visible in the figures yet; this applies not only to the Netherlands, but more broadly. Increasingly chains such as McDonalds, Ikea and Sodexo want to make offerings in their stores and services sustainable. This also applies to mainstream supermarkets such as Wal Mart, giving considerable impetus to the demand for certified coffee. For these companies, corporate social responsibility has started to include sustainable coffee offerings as well, overall leading to the inclusion of certification in all market channels.

Interestingly, corporate approaches differ considerably, as only a few chains adopt a global strategy, where they select just one type of certified coffee; Ikea, that chose Utz, is a prominent example. Others show a large variety, including selecting different roasters (and their brands), or developing their own (house) brand and then select several certified coffee suppliers depending on price, market and other peculiarities (e.g. franchising requirement or not). As an illustration, BP's cafe outlets Wild Bean offer, under their own label, Utz in the UK and the Netherlands, Fairtrade in Australia and New Zealand, and no visible certification in other countries. McDonalds sells RA-certified coffee in the UK and Germany (where it cooperates with Kraft) and Utz in the Netherlands (SL).

RECENT REGULATORY DEVELOPMENTS

While these developments combined provide ample opportunities for a roaster such as SL with an international presence and a sustainable coffee strategy, its out-of-home market presents a major challenge as a result of recent regulatory changes. In 2008, the Dutch government announced, as frontrunner in the EU, a sustainable public procurement policy. This in turn incentivised other (lower) government bodies to include the same in their own tender procedures. The government's policy letter did not explicitly favour Fairtrade, as this is prohibited by EU rules. Nevertheless, the criteria adopted contain vital elements of the Fairtrade approach: particularly 'fair trade norms' (consisting of a minimum price and pre-financing up to a maximum of 60%) and a so-called 'liveable wage/income' for farmers/workers, a rather complex concept that is difficult to operationalise in a global setting.

While roasters such as SL and the Dutch Industry Association of Coffee and Tea pointed at the 'unfairness' of these criteria vis-à-vis other standards, and the fact that the complexity of the guidelines would easily lead government agencies to then adopt a Fairtrade only approach in tender approval decisions (e.g. VNKT, n.d.), this has not had an effect. As noted in the introduction, SL lost several tenders and, despite lodging appeals, alternative routes towards sustainable coffee have not been recognised. Local courts judged the approach taken by municipalities, namely to select Fairtrade coffee providers, as consistent with the Dutch government and EU policies. It was justified as a focus on system criteria taken from Fairtrade that were deemed relevant characteristics of products and processes (such as minimum price and pre-financing) and that other suppliers and standards could adopt in principle as well. The European Commission though has recently referred the Netherlands to the Court of Justice as it thinks that obligations of EU procurement rules have been violated (EC, 2010). It remains to be seen what will come out of that, but this process is likely to take quite some time.

It is estimated that government spending on hot drinks in the Netherlands (excluding those for meetings) amounts to € 100 million per year (VROM, 2010, p. 5). If foregone, this will have a major impact on SL in the Netherlands given its large market share; it could also extend to other European countries and even spread beyond the public sector if Utz (and SL's approach) is perceived as less 'fair' than Fairtrade. This situation presents major challenges to the company, and a decision on its strategic direction is necessary.

CORPORATE CHALLENGES AHEAD

We now return to the question posed in the introduction: *How should Sara Lee International's coffee and tea division proceed given the competitive context, regulatory developments and societal pressures?* Its current mainstream sustainable coffee strategy, while receiving positive support even from those NGOs that were campaigning against the company a decade ago, is not rewarded in the out-of-home market due to public procurement guidelines that require a Fairtrade approach. There are several (combinations of) strategic options, all of which with pros and cons. These relate, inter alia, to market and reputational consequences, and to organisational and operational issues. For an MNC this includes, for example, coordination of approaches between different locations, across the various steps of the value chain, and markets and customers. Complexity also stems from the need to keep streams of coffee (conventional and certified coffee types) logistically separate from beginning to end. This 'disturbs' existing systems for handling large bulks of coffee and increases transaction costs. Although the strategic options for SL will not be discussed in depth here, we mention the following ones as input for further discussion and research.

First, SL can pursue its current path, by gradually increasing the amount of Utz certified coffee purchased and carrying out projects for small farmers in the framework of the DE Foundation, while concurrently doing everything within its reach to prove that this approach is at least as good as Fairtrade, and that the company should thus be given equal opportunities for public tenders. The Netherlands will be a testing ground as sustainable procurement policies are expected to be adopted in other EU member states and perhaps beyond that in the coming years. It is unclear to what extent these will also be adopted by commercial and non-profit customers, and what the result of appeals lodged will be.

Second, SL can – like other roasters, and as adopted by its US location years ago for its institutional customers – buy enough Fairtrade certified coffee as needed to meet demand in specific markets, and adopt that as a niche approach. This seems inconsistent with the current mainstream strategy, however, raising questions as to what needs to happen with the DE Foundation and the purchasing of Utz certified coffee. Is this something to be given up altogether? Or can the two be combined in some way? New objectives are needed to give direction, and the implications for brands and labels used in the retail market must be considered.

Third, the company can try to incorporate the criteria for sustainable public procurement (minimum price, pre-financing, liveable wage/income) in its current approach, for example by using the projects of the DE Foundation as pilots and then explore scaling up and widen implementation, while ensuring that all operational aspects are being dealt with in an efficient way. This seems beyond the core focus of SL and raises concomitant complications, but may offer a new, perhaps first-mover direction.

There are likely other options that can be taken and explored. Yet any route towards a sustainable coffee market will be accompanied by paradoxes and complex choices, not only for the company, but for the entire sector, supply chain and society as a whole, as well as for individuals in the various entities involved. How this can best be addressed is a real challenge.

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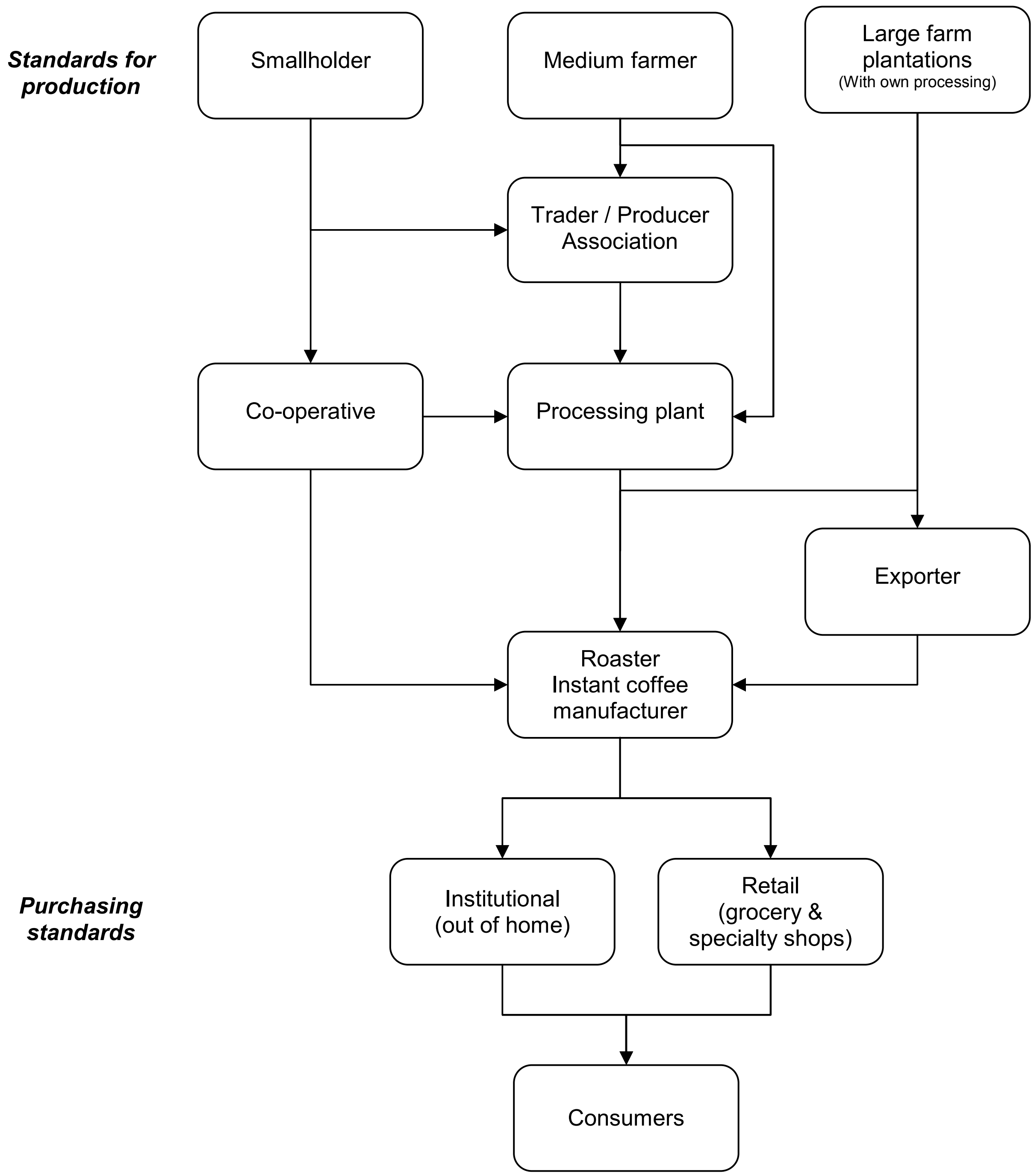
FIGURES AND TABLES

Figure 1. An overview of the coffee supply chain from bean to cup



Source: Kolk (2010).

Box 1. MNCs and paradoxes

Peculiar to MNCs is the debate on whether to adapt and be responsive to local circumstances, given divergent stakeholder pressures, markets and customer preferences as well as cultural differences, or whether to standardise across locations to reap economies of scale and scope, and rely on global brands, assuming that buyer behaviours become more homogeneous and markets integrated. This global integration versus local responsiveness, or standardisation versus adaptation, has implications for MNCs' strategy, marketing and organisation, as have been explored for social and environmental issues as well (Kolk and Margineantu, 2009; Kolk and Van Tulder, 2004).
This is a typical example of a paradox, in which we perceive conflicting demands or opposing perspectives that seem to have no definitive solution but that managers and policymakers nevertheless try to reconcile by accepting and accommodating existing tensions, and in which they aim to "get the best of both worlds" (De Wit and Meyer, 1999, p. 19). In addition to local and global, relevant to coffee, there are tensions between cooperation and competition, and profitability and responsibility. In the coffee case, such tensions can be distinguished, where those involved try to combine often divergent options where possible in order to maximise wherever they can, but decision-making in this context is far from easy as this article will demonstrate.

Table 1. Estimated available and purchased volumes of certified coffee in tonnes

Type of certified coffee	Available on the market			Purchased		
	2006	2007	2008	2006	2007	2008
Utz Certified	154,000	216,000	306,000	36,000	52,600	77,500
Fairtrade	n.a.	n.a.	165,000	52,000	62,200	65,800
Rainforest Alliance	77,000	91,000	124,000	27,000	41,500	62,000
Organic	n.a.	n.a.	78,000	52,000	67,000	78,000

Note: Standards overlap (i.e. producers can have multiple certifications) and some figures (as also noted by TCC, 2009) are estimates (especially those not obtained from the organisations directly)

Source: Kolk (2010).

Box 2. Is there a 'best' standard?
As far as the beneficial impact of different standards on producers is concerned, no definite conclusions can be drawn, despite several studies on the implications of certification systems (see Kolk, 2010, for more details). One of the reasons for this inconclusiveness is that most publications have focused on just one standard, generally Fairtrade, and usually in a qualitative manner (case studies) without using good baselines; the few quantitative studies tend to rely on (self-)reported perceptions via surveys, with their own complexities in rural settings involving small farmers. Another problem is that analyses generally do not include costs and benefits for all participants in the value chain as a whole, and do not include control groups. In comparing different standards, there is also the issue that Fairtrade farmers often sell only a small portion of their coffee on Fairtrade conditions, that producers can have multiple certifications and that there are short-term as well as long-term impacts including a range of environmental, social and economic dimensions, which are difficult to capture in just one one-off study. The few studies that compared multiple standards tend to find positive effects across the board, albeit in different ways: Fairtrade more often in the short run in terms of income and demand-side market creation, others concerning increased supply-side production efficiency and quality improvement. Hence, there may be multiple, complementary ways towards a more sustainable coffee market; we lack evidence to back up divergent statements in what is often a heated debate between those who support Fairtrade versus other standards.

Table 2. Basic information about largest roasters as to (certified) coffee purchases

Company	**Total coffee purchased in tonnes, 2008** (if available, 2005 figures between brackets)	**Certified coffee purchased in tonnes, 2008** (if available, 2005)	**As % of total in 2008** (2005)	**Certified coffee per source in tonnes, 2008**	**Future commitments**
Nestlé	780,000 (780,000)	21,000 (1,500)	2.7 (0.2)	AAA: 13,000 FT: 2,000 4C: 6,000	
Kraft	740,000 (780,000)	30,500 (11,300)	4.1 (1.5)	RA: 29,500 4C: 1,000	
Sara Lee	450,000 (450,000)	20,400 (7,500)	4.5 (1.7)	Utz: 20,000 4C: 400	100% sustainable (no time specified)
Smucker's (P&G)	280,000 (288,000)	1,500 (1,500)	0.5 (0.5)	RA/FT/O: 1,500	
Starbucks	175,000	134,000	76.5	CAFÉ: 120,500 FT: 9,000 O: 4,500	100% sustainable 2015
Tchibo	170,000 (204,000)	10,500 (1,500)	6.2 (0.7)	RA/FT/O: 5,500 4C: 5,000	12% 2012; 15% 2015; 100% (no time specified)
Aldi	145,000	n.a.		n.a.	
Melitta	145,000	n.a.		n.a.	
Lavazza	140,000	1,400	1.0	RA: 1,400	
Segafredo	120,000	0	0.0	-	

AAA: Nespresso standard; CAFÉ: Starbucks standard; 4C: Common Code for the Coffee Community; coffee seen as complying with the Code; FT: Fairtrade; O: Organic; RA: Rainforest Alliance

Source: Kolk (2010).