

Conference Name: AARES National Conference 2010

Dates: February 10 through 12, 2010

Paper Title: CONSUMER ATTITUDES TOWARDS FAIR TRADE COFFEE

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Abstract

This study examines consumers' awareness of fair trade coffee and their purchase interest concerning fair trade coffee. The research uses a survey instrument that was administered through the use of a personal interview. The random sample of 200 coffee purchasers was collected in San Luis Obispo County, California. San Luis Obispo County was designated the best test market in the United States by *Demographics Daily* (Jackoway 2001). San Luis Obispo was found to be the best of 3,141 counties to represent a microcosm of the United States based on 33 statistical indicators. This research uses simulated test marketing research to examine consumer interest in purchasing a branded fair trade coffee and finds that the branded fair trade coffee is appealing to only a small percentage of coffee consumers. Consumers indicate that the very desirable characteristics of coffee when making a purchase decision are: is flavorful, has a rich taste, high in quality, reasonably priced, and is a good value for the money. The fair trade coffee examined in this research rates lower in consumers' perceptions than the conventionally produced coffee of the same brand on four of the most desirable characteristics: is flavorful, has a rich taste, reasonably priced, and is a good value for the money. Thus, consumers perceive the fair trade product to be inferior.

Background

Globally, the annual coffee market is approximately \$10 billion and includes 25 million farmers (Wilson 2006). Worldwide, fair trade coffee has increased in sales from \$22.5 million in 1998 to \$87 million in 2006 (Wilson 2006). Although fair trade coffee sales have increased dramatically, the fair trade coffee market is very small proportion of the coffee market. It has a share of slightly under 1% of the coffee market. In the 1950's Oxfam, the Oxford Committee for Famine Relief, in the United Kingdom sold products that were considered fair trade, due to the guarantee of fair prices for the products. The program grew and in 1995 Oxfam International was created (Oxfam International 2008). In 1964, the Alternative Trading Organization (ATO) came into existence (Appropriate Technology 2004). The ATO allowed people to trade directly, which lowered costs, and set a fair price for goods (Transfair 2004). In 2004, there were approximately seventeen different fair trade certification organizations in the world. The largest organization is the Fairtrade Labeling Organizations International (FLO). Now, FLO has 800,000 producers in 45 countries (Appropriate Technology 2004). Transfair USA, the U.S. branch of FLO both certifies and

monitors coffee roasters and importers (Cray 2000). In the last eight years fair trade coffee has steadily increased.

Fair trade has become one solution to poverty in many developing countries. The impact of fair trade is very important for countries, such as Guatemala, that are still struggling structurally and culturally (Lyon 2007). The fair trade label has many benefits for the coffee farmer. The price of coffee beans for conventional farmers is relatively low. Coffee farmers sell to brokers (Cray 2000). The reason the price is so low comes from coffee being a demand inelastic commodity, which makes coffee prices unstable (Hira 2006). The fair trade certification guarantees a price to coffee farmers for their beans. There are two reasons for a minimum price. The price is intended to cover the cost of producing the coffee beans and give a little extra money to help farmers put money towards development in the community. FLO provides farmers with a minimum of \$1.26 per pound of coffee (Cray 2000). When fair trade products are purchased, the farmers are given “a partial payment in advance to avoid small producer organizations falling into debt” (Hira 2006). According to Transfair USA, the fair trade certification also gives farmers direct trade with the coffee market, requires employees on the farm to have safe working conditions, shows farmers how to put money into their community, and supports environmental sustainability.

In order for farmers to become fair trade certified, they must meet three requirements. Once farmers become certified, there are many benefits. Only small family farms are accepted for fair trade certification. The farmers also have to be a part of cooperatives within their communities. Finally, the cooperative has to work towards specific goals, which will benefit the community (Lyon 2007). Although the extra money goes directly to the cooperatives, they are required to spread the funds throughout, to better everyone. Similarly, importers of fair trade coffee must meet four requirements in order to display the fair trade label. According to Lyon, coffee must be directly purchased from small farmers by the importers (Lyon 2007). Long-term contracts that last for more than one harvest must be offered to the farmers. Pre-financing has to be offered to the farmers as well, paying for no less than 60% of the contract. Last, the importers have to pay the farmers \$1.26 per pound (Lyon 2007). Once both the importer and farmer are certified, shipments of fair trade labeled coffee may begin.

The link between consumers and producers is an important reason that the fair trade market exists. Fair trade strongly suggests the importance and influence of consumption on foreign markets (Lyon 2007). Third world countries and consumers don't directly interact. However, consumers' purchasing decisions at home promote human rights in other parts of the world. Importers and coffee roasters are the connecting link between farmers and consumers (Lyon 2007). Fair trade coffee is an issue of ethics and can be controversial. According to Carrigan, consumers entered into an “ethics era” in the 1990's (Carrigan 2001). Carrigan suggests this era stems from consumers who are more aware, educated, and informed. More information is needed for many consumers to make knowledgeable and ethical decisions. Arnot suggests there are three types of ethical consumers. Moral values are the main motivation for the first type. Brand names and quality are the key motivation for the second type, and the third type only thinks about price (Arnot 2006).

There are many factors that are attributed to consumer decision making and studies vary in determining the primary factors. Price and convenience are main influences, when consumers make a purchasing decision (Arnot 2006). Studies show that when it comes to influences, “negative information influences consumer attitudes more than does positive information” (Carrigan 2001). Some consumers are influenced to purchase coffee based on what other people around them are purchasing. Consumers are influenced to spend more on fairly traded products when they are informed of previous customers' purchases (d'Astous 2008). One recent study examined how price affected consumers' decisions to purchase fair

trade coffee over conventional coffee. The results showed that “ethical attributes may be the primary influence on coffee purchasing behavior,” since an increase in price of fair trade coffee didn’t result in higher spending on conventional coffee (Arnot 2006). However another study found that ethical matters such as fair trade coffee don’t really influence consumers’ purchasing decisions (Carrigan 2001). De Pelsmacker examined characteristics of ethically labeled coffee and how consumers relate to them. The top three characteristics to consumers that purchase ethically labeled coffee were: the distribution strategy, type of ethical label, and issuer of the label (De Pelsmacker 2005b). De Pelsmacker also found that ethically labeled coffee should be found in supermarkets along with the conventional coffee. (De Pelsmacker 2005a).

Research Methodology

This research uses simulated test marketing research to examine consumer interest in purchasing fair trade coffee. Simulated test marketing research is a valid methodology that has been used by the marketing community since the 1960’s to forecast purchase interest in new products and new positionings for existing products (Clancy 2006). The validation history for year one projections is very strong for the forecasting systems using simulated test marketing methodology. For example, in-market sales for 250 cases reported by the BASES simulated test marketing model have been within 10% of predicted sales (Clancy 1994). In-market sales generated by products tested using the DESIGNATOR simulated test marketing system have been within 9% (Clancy 1994).

This simulated test marketing research examines purchase interest by exposing consumers to two branded coffee products and evaluating purchase interest with an attitudinal purchase interest question. A Juster 11-point scale was used to examine purchase interest. The Juster eleven-point scale was created by Dr. Thomas Juster of the U.S. Department of Commerce. The scale couples word meanings with probability estimates to enhance serious thinking. Marketing researchers have discovered through extensive experimentation that the Juster scale predicts real world behavior more effectively than other purchase interest alternatives, especially for mixed and high involvement decisions (Clancy 2006). Table 1 shows the purchase interest question used in this research.

Table 1: Juster Scale

If you find this product in a store where you shop, how likely would you be to purchase this product in the next twelve months? Use the scale below to indicate how certain you are to buy this new product.

Certain will buy	(99 chances in 100)
Almost sure will buy	(90 chances in 100)
Very probable will buy	(80 chances in 100)
Probably will buy	(70 chances in 100)
Good possibility will buy	(60 chances in 100)
Fairly good possibility will buy	(50 chances in 100)
Fair possibility will buy	(40 chances in 100)
Some possibility will buy	(30 chances in 100)
Slight possibility will buy	(20 chances in 100)
Very slight possibility	(10 chances in 100)
No chance you will buy	(0 chances in 100)

Positioning research examines the factors, attributes and benefits, that motivate consumers to purchase one product versus other products. Consumers' tastes, and perceptions of how specific products will meet their tastes, are in their mind. Thus, positioning is the battle for the consumer's mind (Ries 2000). The characteristics of a product that consumers want when they purchase it are examined by desirability ratings (Clancy 1994). The most desirable characteristics are used in the development of a new product and in developing a positioning statement that is used to explain the product to the consumers. Characteristics which describe a product are rated on a five point desirability scale (Clancy 1994) to examine the characteristics that impact a consumer's purchase decision. This research uses the positioning research methodology to determine if the fair trade production methodology is an important characteristic to the consumer when making a purchase decision. Characteristics concerning quality, flavor, taste, price, and production methodology are rated. Consumers are asked the following question: "Please rate the following characteristics you look for when shopping for coffee where: 5 = Extremely Desirable; 4 = Very Desirable; 3 = Somewhat Desirable; 2 = Slightly Desirable; 1 = Not At All Desirable."

In order to understand how consumers perceive new and existing products in the marketplace, positioning research methodology examines how specific product characteristics describe the products (Clancy 1994). Specific products or brands are rated by consumers on the characteristics that are also rated for desirability. Respondents answer the following question: "Based on your perceptions, please use the following scale to describe how these characteristics describe *a specific product* where: 5 = Describes completely; 4 = Describes very well; 3 = Describes somewhat; 2 = Describes slightly; 1 = Does not describe at all.

A two cell study design is used to examine consumer response to Fair Trade coffee. In this research, consumers are exposed to two concepts with their brand logos: Starbucks Café Verona and Starbucks Fair Trade Blend. Thus, the brand remains constant between the control and experimental cells. However, the price and production method differs between the two experimental cells. There are 103 consumers in the test cell (Cell 1), where the branded fair trade coffee product is priced at the market price, \$11.48. Consumer purchase interest is examined after exposure to this concept. The control cell (Cell 2) is used to examine 52 consumers that are exposed to a conventionally produced coffee product with the same brand name at the market price of \$9.99.

This research examines 155 coffee consumers in San Luis Obispo County, California. The data was collected through personal interviews using a consumer survey instrument

during 2007 and 2008. San Luis Obispo County was designated the best test market in the United States by *Demographics Daily* (Jackoway, 2001). San Luis Obispo was found to be the best of 3,141 counties to represent a microcosm of the United States based on 33 statistical indicators.

Results

The research shows that only three percent of consumers are likely to purchase the Starbucks Fair Trade coffee at the price of \$11.48 per pound, while a 15% are likely to purchase Starbucks Café Verona at the price of \$9.99 per pound. Thus, although the fair trade category is growing, it continues to have a relatively small appeal to the general population of coffee consumers. It is a niche product.

Table 2 Purchase Interest

		Cell 1 Fair Trade N = 103	Cell 2 Control (N=55)	Total	Chi- square⁺ P Value
Certain will buy	(99 chances in 100)	.0%	9.6%	3.2%	
Almost sure will buy	(90 chances in 100)	2.9%	5.8%	3.9%	
	90 chances & higher	2.9%	15.4%	7.1%	
Very probable will buy	(80 chances in 100)	8.7%	7.7%	8.4%	
Probably will buy	(70 chances in 100)	9.7%	11.5%	10.3%	
Good possibility will buy	(60 chances in 100)	11.7%	11.5%	11.6%	
Fairly good possibility will buy	(50 chances in 100)	20.4%	11.5%	17.4%	
Fair possibility will buy	(40 chances in 100)	16.5%	5.8%	12.9%	
Some possibility will buy	(30 chances in 100)	8.7%	9.6%	9.0%	
Slight possibility will buy	(20 chances in 100)	13.6%	7.7%	11.6%	
Very slight possibility	(10 chances in 100)	5.8%	5.8%	5.8%	
No chance you will buy	(0 chances in 100)	1.9%	13.5%	5.8%	.007**

** Significant at the .05 level * Significant at the .10 level

+ Chi Square Test for independence between variables

Carrigan suggests that the “ethics era” stems from consumers who are more aware, educated, and informed. This research indicates that the typical coffee consumer is not aware, educated and informed about the meaning of fair trade. Consumers in both experimental treatments have similar awareness levels of the meaning of fair trade. Almost two-thirds of coffee consumers in both groups indicate that growers are paid a fair price. However, a third of consumers indicate that they do not know the meaning of Fair Trade, almost a fifth think it is the result of the World Trade Agreement, and a tenth indicate that fair trade and free trade are the same. Thus, it appears that there is a lack of true awareness concerning the fair trade certification for coffee.

Table 3 Two-Cell Study Design and Responses

	Cell 1 Fair Trade	Cell 2 Control	Total/Chi- square⁺
Number of Respondents	103	52	155
<i>Price of Branded Coffee</i>	\$11.48/lb.	\$9.99/lb	
<i>Positioning/Brand</i>	Fair Trade	Café Verona	
<i>Proportion Almost sure will buy</i>	2.9%	15.4%	7.1% (.007**)
Knowledge of Concept of Fair Trade	Fair Trade	Café Verona	
Producers pay growers a fair price	59%	65%	61% (.495)
They are the same as free trade products	9.7%	11.1%	10.2% (.783)
The price paid growers pays for the costs of production and is socially just and environmentally sound	45.2%	8.92%	42.7% (.246)
They are the result of World Trade Agreement negotiations	13.6	24.1	17.2% (.137)
Other	14.6%	9.3%	12.7 (.344)
Do not know	35.0%	24.1%	31.2% (.162)

** Significant at the .05 level * Significant at the .10 level

+ Chi Square Test for independence between variables

Positioning research is used to diagnose why consumers are attracted to a particular product. This research examines the desirability of seventeen characteristics of coffee to consumers when making a purchase decision. A five-point desirability scale is used. The seventeen characteristics of coffee are segmented into three groups: very desirable, somewhat to very desirable, and slightly to somewhat desirable characteristics. The very desirable characteristics are: is flavorful, has a rich taste, high in quality, reasonably priced, and is a good value for the money. Arnot also found that price is an important influence in a consumer's coffee purchase decision. Characteristics that are somewhat to very desirable are: is good to brew at home, gets me going in the morning, has a strong aroma, has a robust flavor, good to drink with friends, good for a break, good to drink at a coffee shop, and is a gourmet brew. The characteristics of coffee that are only slightly to somewhat desirable are: is certified fair trade, from a well-known brand, has a mild flavor, and organic. Thus, taste and price drive the purchase interest of coffee consumers and production methods are only slightly to somewhat desirable to consumers when they are making a purchase decision.

Table 4 Characteristics People Desire When They Purchase Coffee

Characteristics of Coffee	Mean (N= 155)	P-Value⁺
Very Desirable		
Is flavorful	4.31	
Has a rich taste	4.04	.000**
High in quality	4.03	.865
Reasonably priced	3.97	.642
Is a good value for the money	3.94	.603
Somewhat to very desirable		
Is good to brew at home	3.83	.363
Gets me going in the morning	3.73	.399
Has a strong aroma	3.58	.181
Has a robust flavor	3.50	.295
Good to drink with friends	3.32	.111
Good for a break	3.17	.083*
Is good to drink at a coffee shop	3.15	.907
Is a gourmet brew	3.08	.450
Slightly to somewhat desirable		
Is certified fair trade	2.87	.111
From a well-known brand	2.78	.549
Has a mild flavor	2.75	.723
Organic	2.60	.241

*Significant at the .10 level **Significant at the .05 level

⁺Paired-sample t test

In order to understand the consumers' purchase interest in each coffee product, they rate both Starbucks Fair Trade Blend and Starbucks Café Verona on how well the seventeen characteristics of coffee describe each brand. Consumers rate Starbucks Café Verona higher than Starbucks Fair Trade Blend on four of the top five characteristics: is flavorful, has a rich taste, reasonably priced, is a good value for the money. Further, consumers rate Starbucks Café Verona higher than Starbucks Fair Trade Blend on four of the top somewhat to very desirable characteristics: is good to brew at home, gets me going in the morning, has a strong aroma, and has a robust flavor. The higher ratings of Café Verona on the important characteristics of coffee explain the higher purchase interest for Café Verona compared to the Fair Trade Blend. The Fair Trade Blend only rated higher in consumers' minds on the slightly to somewhat desirable attributes, is fair trade certified and organic. It appears that consumers perceive the fair trade product of the same brand to be inferior in taste and value. Consumers need to be educated about the benefits of fair trade production to improve their perceptions of the product and grow the category.

Table 5 Product Ratings of Starbucks Fair Trade Blend and Starbucks Café Verona

Feature	Starbucks Fair Trade Blend Mean	Starbucks Café Verona Mean	P-Value [†]
Very Desirable			
Is flavorful	3.29	3.66	.000**
Has a rich taste	3.24	3.62	.000**
High in quality	3.57	3.53	.660
Reasonably priced	2.71	3.04	.000**
Is a good value for the money	2.96	3.34	.000**
Somewhat to very desirable			
Is good to brew at home	3.30	3.46	.053*
Gets me going in the morning	3.15	3.34	.015**
Has a strong aroma	3.22	3.64	.000**
Has a robust flavor	3.23	3.57	.003**
Good to drink with friends	3.16	3.18	.738
Good for a break	3.04	3.11	.265
Good to drink at a coffee shop	3.44	3.50	.477
Is a gourmet brew	3.44	3.39	.630
Slightly to somewhat desirable			
Certified fair trade	4.06	2.03	.000*
From a well known brand	4.20	4.07	.106
Has a mild flavor	3.17	2.54	.000**
Organic	2.45	2.12	.002**

*Significant at the .10 level **Significant at the .05 level

[†]Independent-sample t test

Conclusions

This research finds fair trade coffee is appealing to only a small percentage of coffee consumers. Further, it finds that although almost two-thirds of consumers believe that fair trade producers pay a fair price for the coffee, there is much confusion concerning the production method. Consumers indicate that the very desirable characteristics of coffee when making a purchase decision are: is flavorful, has a rich taste, high in quality, reasonably priced, and is a good value for the money. The fair trade coffee examined in this research rates lower in consumers' perceptions than the conventionally produced coffee of the same brand, Starbucks, on four of the most desirable characteristics: is flavorful, has a rich taste, reasonably priced, and is a good value for the money. Thus, consumers perceive the fair trade product to be inferior. In order to grow the fair trade category for the benefit of growers

in developing countries, consumers need to be educated concerning the meaning of fair trade and that the product is of high quality and tastes good.

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