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# VALUE CREATION IN THE FAIR TRADE CHAINS

di Donatella Depperu
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**Abstract**

The aim of this research[1] is the analysis of the trade mechanisms which govern the alternative chains which import products from developing countries; a critical comparison of these chains and traditional ones, in terms of the players involved and the distribution of value; and finally, an evaluation of the strategic and economic sustainability of the alternative chains.

After identifying the players involved in the FT chain and describing their roles, this paper analyses, in detail, the banana chain and coffee chain and presents a comparison to the traditional chain, in terms of the actors involved and the distribution of margins. Next, the mechanisms for creating value are presented, from the point of view of the corporation and, specifically, from the point of view of the consumer

In conclusion, the paper demonstrates the strategic and economic sustainability of FT, which could thus be a valid "ethical" alternative to the traditional chain. The paper also shows the obstacles facing the potential diffusion of this phenomenon.

[1] This paper is the output of a national research project, funded by the italian Univeristy and Research Ministry.

## 1. Introduction

For the last twenty years in the tropical commodities market there has existed a phenomenon that has significant implications for the world economic system: the increase in demand of finished products from advanced economies corresponds with a reduction in the international price of the raw materials. This phenomenon can be attributed to at least two factors: on the one hand, overproduction on a global level and, on the other hand, the disparity in bargaining power of the players along the supply chain, at the extremes of which are found those individuals with almost no bargaining power – numerous small producers of raw materials, from developing countries – and a very restricted number of international corporations.

At a time where there is a great thrust towards low-cost supply markets, and, at the same time, great attention to corporate social responsibility (driving social progress and providing a source of competitive advantage), companies are focusing increasingly on the behavior of their suppliers and are unwilling to be accomplices to any irresponsible actions these suppliers may take. Adding to this the fact that suppliers have become, especially in certain sectors, strategic stakeholders – whose consensus could have relevant reputational implications – it is understandable why companies are giving these individuals so much attention.

A two-sided tendency becomes evident: on the one side, companies often control the operations of their own suppliers, who find the stimulus for responsible behavior in the demands of their customers; on the other side, the same companies are asked to exercise socially responsible behavior in regards to their suppliers.

Under these circumstances, the entrepreneurial world – Italian and international – has created a variety of initiatives for the ethical control of the supply chain and of the promotion of socially responsible behavior towards the suppliers. One of these initiatives, limited to certain sectors - primarily tropical commodities and artisan products - is Fair Trade, a movement with the scope of fairly remunerating producers from developing countries, protecting their living and working conditions and supporting entrepreneurial development.

This paper adds to the corpus of studies on corporate social responsibility and, therefore, corporate strategy, and it intends to demonstrate the strategic and economic sustainability of FT, the “ethical” alternative to the traditional chain.

## 2. The research

*Objectives*

The aim of this research is to evaluate the economic sustainability of the fair trade (FT) chain, based on the analysis of value creating systems in Fair Trade (FT) and comparison with the traditional ones. The Italian market is used as the market of reference.

FT products are marketed through the Worldshops and large distributors, which, over the years, seem to have been more seriously engaged with the FT movement (Moore, Gibbon and Slack, 2006). In the analysis of the FT phenomenon and its development potential, the large retail sector takes on an important role: the research here is restricted to the Italian market and the analysis of the large retail sector channels. It is important to emphasize that some of the conclusion that are drawn may not be valid for Fair Trade's other marketing channel – the Worldshops.

*2.2 Research Methodology*

The research question can be stated as follows:

*"Is the Fair Trade chain a feasible option for profit organizations?"*

The research is an explorative survey and the methodology used is based on "case studies" (Eisenhardt, 1989). This methodology is most suitable for the aim of the research and to the lack of financial official data related to the distribution of margins along the fair trade chain. Being in direct contact with some of the players in the Fair Trade chain – through personal interviews – allowed the researchers to understand how value is created in the Fair Trade value creation system and to acquire financial information which have then put together to determine the value distribution system in the fair trade chain.

The research methods, in the first phase, stipulate the analysis of academic literature and various materials found on the Internet; then, the key players in the analyzed chains were identified, 12, personal, semi-structured interviews were carried out and the data supplied by the interviewees was studied. The chains that were investigated were the banana and coffee ones. A variety of players in these chains were interviewed: producers from the developing countries (especially, coffee producers from Africa), importers (Peviani), producers of the finished goods (Chiquita, Lavazza, Icam Cioccolato), individuals from the certification (Trans Fair Italia, Trans Fair UK) and financing bodies (Consorzio Etimos) and managers from the large retail sector (Auchan, Carrefour, Coop), for a total of twelve interviews, which have been recorded and transcribed. First of all, the banana chains were analyzed; then the coffee chains were analyzed to verify whether the same considerations of the previous study could be applied.

It was noted that there was little cooperation on the part of the players involved in the FT chains, and those who were willing to meet were not inclined to share data on the FT products.

The theoretical framework which this paper is based on is the "commodity chain approach", theory developed by world-system theorists to analyze the world economy (Hopkins and Wallerstein, 1986). A commodity chain is defined as "a network of labor and production processes whose result in a finished commodity" (Hopkins and Wallerstein, 1986). Commodity chain analysis focuses on the sequence of processes which extends from the production of the primary commodities to the finished goods and their sales to consumers. It analyses the nature of commodity flows to and from each stage, and the geographic distribution of the flows. The amount of value added to the product at each stage of the chain, and who appropriates the profit from that stage, are determined by the rules governing these transactions and their relations to transactions at the other stages (Talbot, 2002; Talbot, 1997).

Based on the "commodity chain" framework, the tool used for the analysis of the value creation systems is the well known M. Porter' "value chain[2]": it has been used for identifying the activities that the companies carry out, to correlate with these activities revenues and costs, understanding where the revenue made by the various players in the chain originated.

## 3. Fair Trade

### *3.1 Definition*

FT has a rather long history: the first manifestations of this phenomenon were in the late 1800's in the midst of the cooperative movements. The first manifestation of FT in the form that we know today appeared in the 1940's and became a real "movement" in the 1960's and 1970's (Moore, 2004). Over the years, FT has been ascribed different definitions and, even though many of the FT operators share objectives and tools, there is no shortage of divisions over the defining characteristics of this phenomenon. In this paper we accept the definition
n of FT proposed by FINE[3].

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. *(FINE, 2001)*

Based on the proposed definition, it is possible to outline the objectives of FT under the following points:

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[2] Porter M. 1985. Competitive advantage: creating and sustaining superior performance, New York: The Free Press.

[3] International informal network, which several FT bodies are associated to: for example, Fairtrade Labelling Organization (FLO), International Federation for Alternative Trade (IFAT), Network of European Shops (NEWS!) and European Fair Trade Association (EFTA).

- Improving the living conditions of producers in developing countries by facilitating their access to the market, stimulating the constitution of the producers' association, paying a higher price for the acquisition of their products and guaranteeing the stability of the supplies.
- Promoting the development opportunities for disadvantaged producers, especially women and indigenous people, and protecting children from exploitation in the production process.
- Increasing the consumer's awareness of the possible negative effects of international trade on producers.
- Setting an example of trade relations based on dialogue, transparency and respect.

In sum, FT presents itself as an alternative channel of access to developed markets for producers who, in the traditional international trade circuit, encounter barriers that are insurmountable without the help of local intermediaries – intermediaries who often take advantage of producers' limited bargaining power.

The main goal of FT is the improvement of living conditions for producers in developing countries; sustaining humanitarian initiatives, assisting and supporting financial gain in favor of the producers' community and, in the longer term, sustaining training initiatives aimed at updating production techniques and developing the producers' entrepreneurial skills in such a way that they set up virtuous circles for the improvement of living conditions (Barbetta, 2006).

### *3.2 The Players*

There are five categories of individuals involved in FT: producers, traders, licensees/distributors, certification bodies and financing organizations.

#### *The producers*

The producers participating in the FT circuit are small, family-run organizations: in most cases they are united in consortia or cooperatives; in some cases there are more complex structures, with ownership of a capitalistic nature. What unites the FT producers is the difficulty accessing the traditional market, except for through local intermediaries who speculate on their virtually nonexistent bargaining power (www.fairtrade.com).

Adherence to the FT circuit represents, therefore, an opportunity to enter developed markets and to obtain fair prices and stability of supplies, training for the improvement of production techniques and welfare services for the community of origin. In exchange, the producers are asked to respect the minimal standards for working conditions, in regards to child labor and environmental protection norms.

*The Traders*

The traders (exporters or importers) of the FT chain are the individuals who favor (or effect) the exchange of goods between the countries of production and the countries of consumption. In some cases they are specialized organizations in FT and those dedicated exclusively to FT, the so called Alternative Trade Organizations[4] (ATOs); in other cases they are importers, distributors or producers who are not exclusively dedicated to FT but who market some of their products and use them as the raw material for their own businesses.

Traders admitted in the FT circuit by the certification entities have obligations in regards to the producers: above all, long-term contracts and, should the producers ask, an advance on the part of the supply, so that producers can reduce the necessity of debt (Barbetta 2006). It is important to remember that one of the main problems faced by developing countries is access to credit (Pastore[5], 2004).

*Licensees/Distributors*

The distributors and licensees are the individuals who sell the final products to the consumers and who are authorized to use the FT trademark, for the use of which they pay royalties to the certification bodies.

During the first years of development the FT products were only sold through the Worldshops, shops run primarily by non-profit organizations. Two thirds of the global market of FT products is made up of foodstuffs (Moore, 2004), which has recently made it possible for FT to find a place in some traditional stores and some large distribution chains.

The introduction of FT products in the large retail sector has brought a notable increase, in relative terms[6], to the market share of certain products (Murry and Raynolds, 2000; Nicholls, 2002; Cafedirect, 2003), but also carries the heavy risk that the very concept of the FT "looses its essence" (Raynolds, 2000) and becomes "diluted" by the market and the profit logic that guides the operation of many businesses (Renard, 2003).

How FT can minimize this risk and, at the same time, maximize the volume of business is still a subject of debate. Nicholls (2002) maintains that the keys to preserving the nature of FT are: (a.) rigid standard for certification, (b.) changing the accessibility of the "Fair Trade" mark usage licenses, (c.) greater transparency in information regarding the dynamics of pricing and (d.) initiatives for raising the consumer's awareness with the FT phenomenon.

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[4]The most important are: Gepa (Germany), CTM Altromercato (Italy), Tradicraft (UK) and Oxfam (Holland).

[5]Interview to Dr. P. Pastore, coordinator of Trans Fair Italia (2004, December 1st).

[6] In absolute terms, the market share of FT products is still minimal, even after the introduction of FT products into the big retailers sector (see 2.3).

*Certifying Bodies*

An absolutely critical role in the FT chain is that covered by the certifying bodies; national or international institutions that guarantee that products marketed with the FT trademark conform to the principles and standards of FT. The certifying bodies assume a role of absolute importance in the FT chain in protecting the consumer, who, asked to pay a higher price for FT products compared to similar products in the traditional chain, has a right to be informed and assured of the route attributed to remuneration at the top of the chain.

In 1997, recognizing the need for a unique FT mark and a suitable certification structure, various national organizations founded FLO (Fairtrade Labelling Organization), a non-profit organization which acts as an international certification entity and holds the rights to the FairTrade mark, a mark which distinguishes FT on a global level (Barbetta, 2006).

FLO defines the standards that producers and traders have to respect in order to take part in the FT circuit and conducts an initial investigation; following which, the Fairtrade certification mark is issued to producers and the license to use the mark is issued to traders; next, FLO conducts inspections (generally once a year) verifying the adherence to standards set by the FT circuit.

The producers and traders who request to join the FT circuit pay FLO an initial registration fee of approx. €2,000 and an annual renewal fee of approx. €1,000. The license to use the Fair Trade mark is granted by national organizations - FLO partners - upon the payment of royalties, which average around 1.5-2% of the consumer price of products which use the FT trademark. The royalties sustain the activities of the national organizations and also those of FLO (Barbetta 2006).

The national organizations, beyond issuing licenses to distributors, are responsible for monitoring the FT phenomenon on a national level; promoting campaigns, based on public opinion, to raise awareness; and, in some cases, conducting reviews of the adherence of standards on the part of the mark licensees.

Another standard setting agency in the FT world is IFAT (Moore, 2004), the global network of Fair Trade Organizations, which have developed in 2001 the Standards for Fair Trade Organizations. Thus, in 2004, at the World Social Forum in Mumbai – India – the FTO Mark, a trademark which identifies registered Fair Trade Organizations worldwide, has been launched. The FTO Mark means that IFAT standards are being implemented regarding working conditions, wages, child labour and the environment. These standards are verified by self-assessment, mutual reviews and external verification (www.ifat.org).

Between IFAT and FLO there exist some differences: first of all, FLO acts mainly as a product standard whereas IFAT as a network of producers which have sold their products through the ATO channels, in fact only recently IFAT has developed its standards; secondly, FLO applies most exclusively to food products, instead IFAT to non food ones (Moore, 2004)

Not all of the FT products are certified. There are some individuals who import from producers so disadvantaged that they can't finance the FLO certification. In these cases the importer, or the ATO's – in respect for the founding principles of FT – qualify them as a guarantor, creating endless controversy over the conflict of interest that inevitably arises in those who certify, or better, self-certify their own activities, putting themselves in a position of self recommendation.

*Financing Organizations*

Another party exists in the FT chain which, even if it isn't strictly implicit in the process of production/transport/marketing, has a leading role: the financing organizations. These are parties who provide financing to the producers of the developing world: they are, for the most part, individuals who, not coming from traditional financial organizations, are specialized in the problematic nature of this type of client. The financing provided is often amounts rather small in absolute value - it sometimes involve only €2,000 - but it is able to make a large difference for the small producers of developing countries who, among other problems, struggle with limited access to credit.

Operating in Italy is a consortium belonging to Banca Etica and specializing in the collection of savings supporting the micro-entrepreneurial experience and micro-financing programs in developing countries and in areas of financial crisis: The Etimos Consortium.

Etimos is a cooperative consortium which collects savings and provides financing only among its own partners, which are organizations (not individuals – who are offered other ways to sustain Etimos): micro-finance institutions, producer cooperatives, associations, universities, schools and institutions promoting social activities (in developing countries); cooperatives, Worldshops, foundations, public and religious entities and associations (In Italy). They become Etimos partners and, therefore, have the opportunity to access the savings and credit services offered, purchasing at least one share (258€)[7].

The major part of individuals who turn to Etimos to receive financing are not able to provide adequate refunding guaranties for which Etimos invites individuals, groups, associations and religious entities to become guarantor should, for any number of reasons, the borrower find it impossible to pay back the debt. For the Etimos shareholders this involves a bona fide division of responsibility of an ethical investment, in which the value can't be translated exclusively into financial gains. The risk of not be refunded by the financed producers is very low: on average, around 3%.

The same mechanism which the Etimos Consortium bases its activity on, inspires other similar organization - of greater dimensions - operating on an international level; among the principle organizations are Triodos Bank, operating in the UK, Holland, Spain and Belgium with headquarters in Holland; Oikocredit, which operates in eleven countries and has its headquarters in Holland; Shared Interest, UK (Krier, 2005).

[7] Consorzio Etimos, Sustainability Report 2003.

### *3.3 The diffusion of FT*

FT has entered a new phase: starting rather modestly in the 50's, today it has become a global phenomenon, from which millions of producers and their families benefit.

On a global level, in 2002, the total value of the FT market was around 500 million dollars (Redfern & Snedker, 2002).

More recent data relevant to the European market: from 2004-2005, the FT European market was valued at 660 million euro, a figure which is significant in its own right, but even more remarkable if you compare this with estimations from five years ago – 1999-2000, which was confirmed to be around 260 million euro. Therefore, in Europe, in the last five years, FT has more than doubled in terms of value (an increment of 154%) stimulating an estimate of the rate of annual growth at approximately 20% (Krier, 2005).

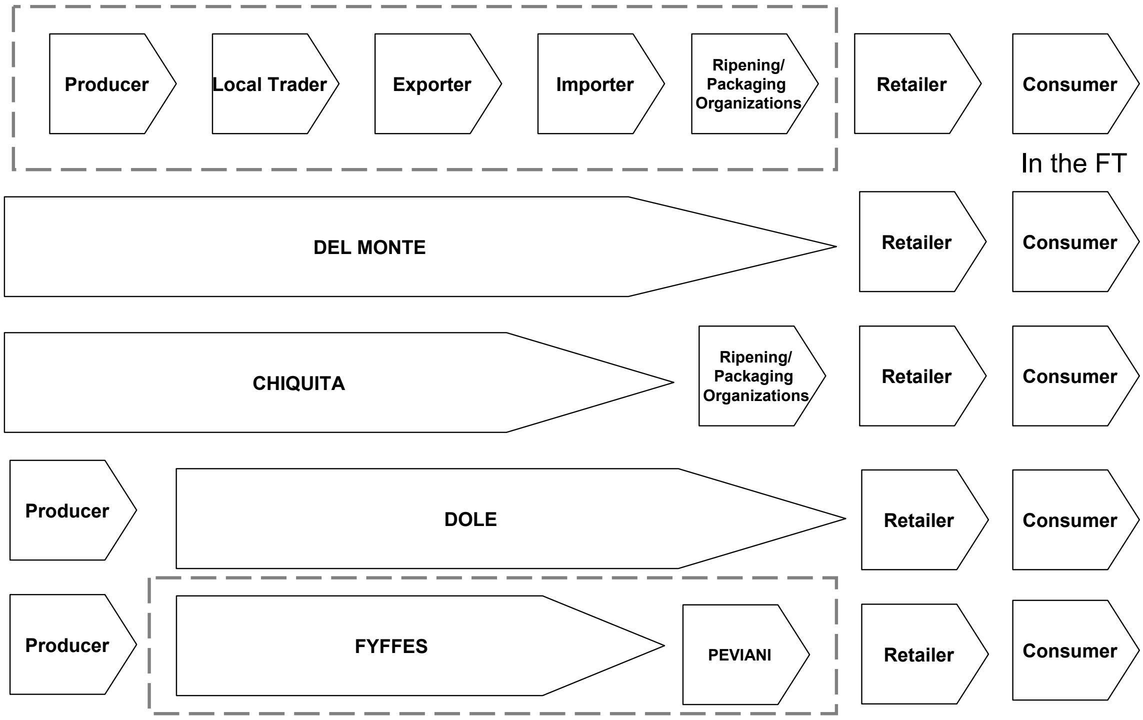
A large part of the FT turnover achieved in Europe in 2004-2005 is linked to products with the FairTrade mark (597 million Euros) - in particular, coffee and bananas. Today, in Switzerland FT bananas, flowers and sugar have make up an important share of the market (47%, 28% and 9%, respectively); in the UK, a country with a population eight times larger than that of Switzerland, tea, bananas and coffee have reached a market share of 5%, 5.5% and 20% respectively. The effect of the market is impressive; a growth that wouldn't be possible without the introduction of FT in the large retail sector: today the FT products can be found in approx. 55,000 points of sale in the European large retail sector (Krier, 2005).

## 4. The banana chain

The traditional banana chain is composed of the producer, the local trader, the exporter-importer, the "ripener" (a unique figure in this chain, who manages the maturation process of the unripe bananas that arrive from developing countries), distributors and the final consumer. Another peculiar element of this chain is the role of the "Five Sisters", the five global giants responsible for logistics: Chiquita, Fyffes, Noboa, Del Monte and Dole. Until the end of 2005, the banana market was not a free market, but a market regulated by licenses, essentially divided up by the "Five Sisters". From 2006 the licenses were abolished but the role of the "Five Sisters" continued to be very strong, as they are the only ones capable of managing the complex logistics of bananas, with the long voyage from the country of origin (countries of the developing world) to industrialized countries where they are consumed.

As you can see in figure 1, the traditional banana chain can assume different configurations, with a greater or lesser degree of integration of the various players: from the maximum integration of Del Monte – which manages all of the activities from plantation (on its properties) to the maturation – to the minimal integration of Fyffes – who acquires products from the producer and transfers them to a ripener, Peviani.

**Figure: 1** – Bananas, traditional chain

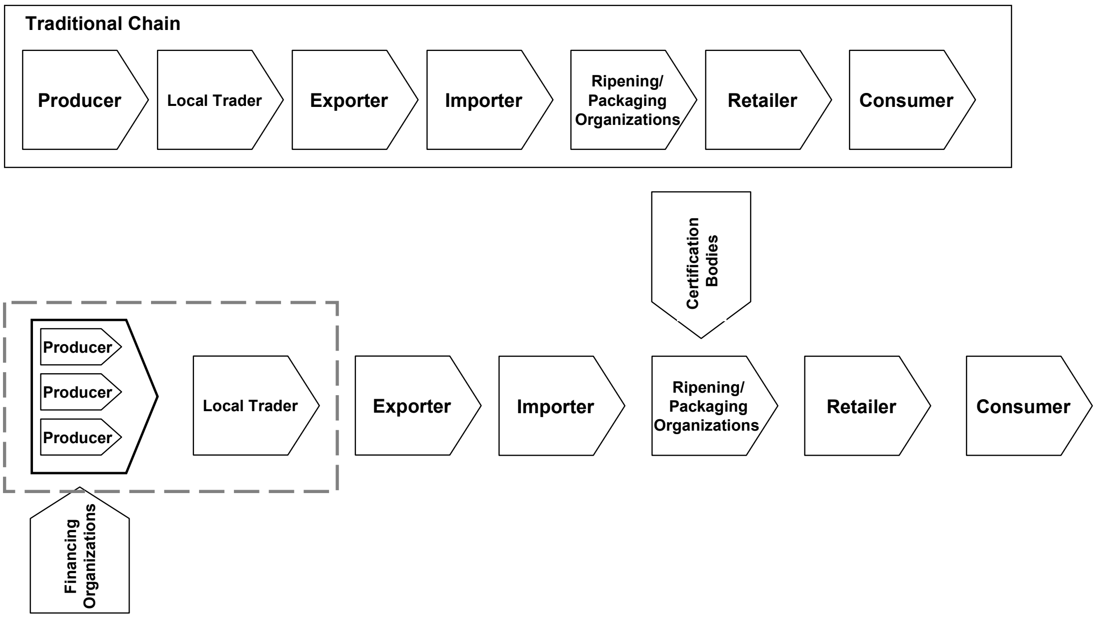



**Source**: Authors' data processing

In the FT banana chain (see fig. 2), there are the same players found in the traditional chain; the substantial difference between the traditional chain and the FT chain is that the producers are associates, making up a consortia and insuring greater bargaining power and visibility in the market in respect to the single producer.

In respect to the traditional chain two new players are identified; they are not involved in the production process, but are essential for defining the FT: the financial institutions and the certification bodies. In figure 2 the certification bodies are positioned in correspondence to the ripeners and packagers not because they are the only individuals subject to review but because in the banana chain, the honor of the certification falls, in the form of royalties, on the party which uses the certification mark.

**Figure: 2** – Bananas, fair trade chain




**Source**: Authors' data processing

One of the fundamental problems perceived by the consumer in regards to FT products is the lack of clarity about the destination of the higher price which they are asked to pay; various interlocutors found indications of the breakdown of margins and their distribution of value along the FT banana chain; the data most in line with the information collected during the interviews is that supplied by Transfair UK (see Fig. 3).

**Figure: 3** – Margin distribution in the bananas chain - Facts expressed in €, referred to 1 Kg of product

| Actors | Traditional | | Fair Trade | | FT-Traditional | |
|---|---|---|---|---|---|---|
| **Producer** | 0,12 | 6% | 0,29 | 13% | 0,17 | 6% |
| **Exporter** | 0,11 | 6% | 0,13 | 6% | 0,02 | 0% |
| **International transport** | 0,89 | 47% | 0,81 | 35% | -0,08 | -12% |
| **Certification** | 0 | 0% | 0,03 | 1% | 0,03 | 1% |
| **Ripening/Packaging/Distribution** | 0,78 | 41% | 1,06 | 46% | 0,28 | 5% |
| **Consumer final price** | 1,9 | 100% | 2,32 | 100% | 0,42 | 0% |

**Source**: TransFair UK

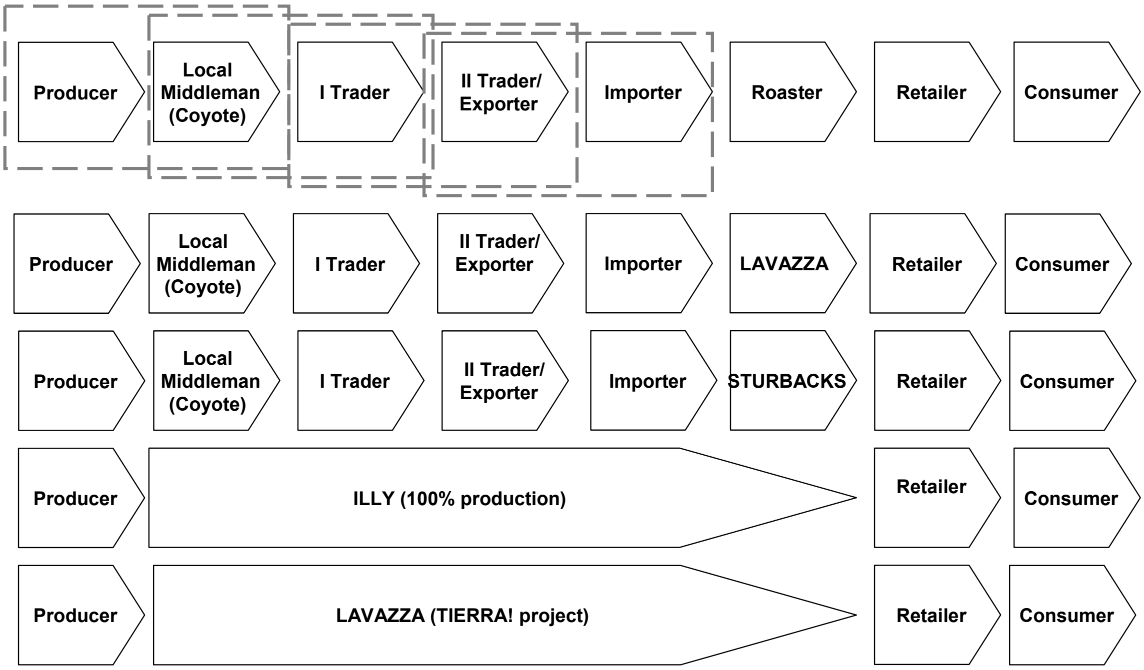
Starting with final price for the consumer, in the traditional chain the price is €1.9/kilogram, while the FT chain is €2.32/kilogram: the FT consumer is asked, therefore, to pay a rather significant premium price, €0,42/kilogram. Moving up the chain, note that the ripener, the packager and the distributor receive €0.78/kilogram (41% of the final price to the consumer); a value that in the FT chain seems rather high, €1.06/kilogram. Moving once again up the chain, we find the certification bodies (which, obviously, exists only in the FT chain), the international transport (the Five Sisters which are discussed above), the exporters and finally the producers, who in the traditional chain receive 6% of the final sales price and 13% in the FT chain, fulfilling, at least in appearance, the objective and the FT's reason for being, that is, the maximum remuneration for producers from the developing world. Hence, the premium price which consumer are asked to pay in order to buy FT products equals €0.42/kilogram, whereas the greater remuneration gained by producers is about €0.17/kilogram: where has gone the missing part of the premium price – €0.25/kilogram? For the most part it is divided between the ripener, the packager and the distributor. This data can be interpreted positively from the company's point of view, in terms of the potential development of the phenomenon: managing to achieve the same margin – or even a greater one – in the traditional chain and the FT chain makes the allocation of production capacity along the two chains economically indifferent. According to Hayes and Moore (2005), there may be a link between the premium price paid by the final customer and the major remuneration recognized to the FT producer, but there is not any guarantee that this is the case because, in some circumstances, the premium price supports the FT buyer or the local FT organization. Despite what it is just said, the question remains open: why do the ripener, the packager and the distributor have a premium margin in the FT chain if, as emerged during the interviews, the production process is substantially identical so there should not any real justification to receive a support from the ethical consumer? We could speculate on the reason why this additional €0.25/kilogram does not go to the producers, as the maximization of their remuneration should be the goal of FT. We could also state that, in the end, final customers fund not only the greater remuneration of the producers from developing countries, but also the greater remuneration of some other actors along the chain and the most serious aspect of this story is that final customers are completely unaware of it. We could open a debate on these aspects but the discussion would concern the FT mechanism in itself and it is not the point. The points to highlight here are basically two:

1. All of the intermediary players in the chain achieve, essentially, the same margin in the traditional and FT chains, or, in some case, a greater one.
2. The final price to the consumer is notably higher in the FT chain and, therefore, in consideration of the first point, it can be concluded that the consumer finances the maximum remuneration for producers from developing countries, that is the "essence" of FT.

## 5. The Coffee Chain

The coffee chain, in respect to the banana chain, involves a greater number of players (see fig. 4): the producers, the small local trader who collects the products of the small producers spread throughout the territory (the player who is called “coyote” in slang) one or two wholesalers who also function as traders or as exporter/importer, the roasters, the distributors and finally the end consumers. The rectangles with dashed borders show the possible integration of the various players; for example, between the producers and coyote, between the coyotes and wholesalers and so on.

**Figure: 4** – Coffee, traditional chain




**Source**: Authors’ data processing

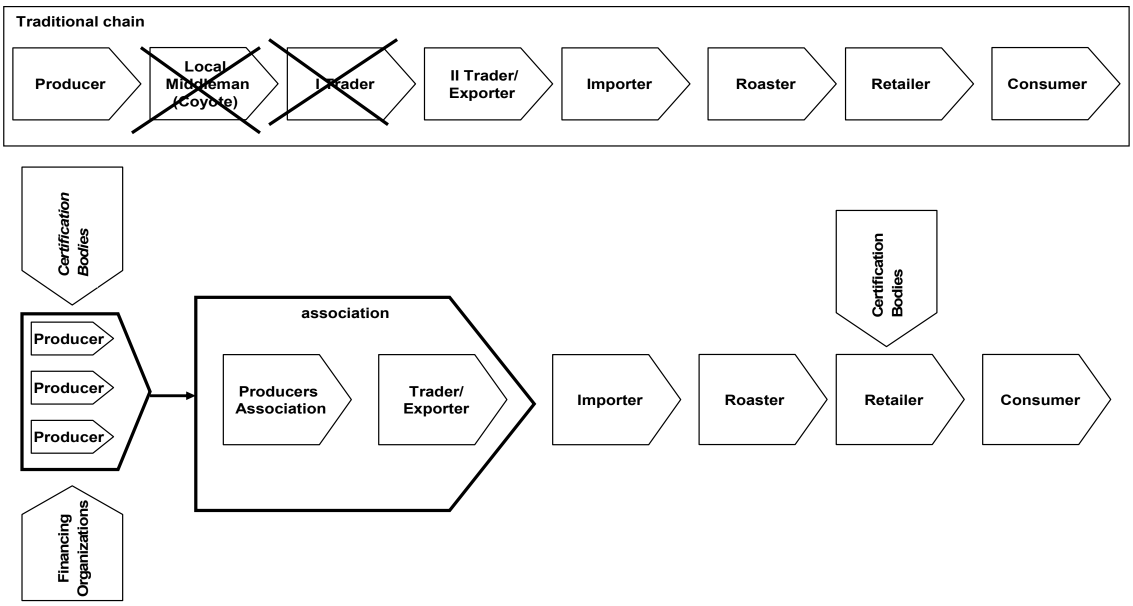
One of the fundamental characteristics of the coffee chain is that the price is negotiated on the stock market: this clearly has a significant influence on the remuneration and margins that the various players manage to achieve along the entire chain. As with the banana chain, presented are some cases that illustrate the diverse configurations that the traditional chain can assume (see Fig. 4). The first two examples (Lavazza and Starbucks) represent the traditional configuration of the chain. Illy, on the other hand, is completely different, integrating all of the activities, from the production all the way to the roasting. Illy is an example of a great success in the coffee sector, with a business model which is notably different from others in the sector and clearly a key to its success: Illy purchases coffee directly from the producers and by bypassing all of the intermediary links in the chain, manages to compensate its producers from the developing world and its suppliers with a higher than average remuneration (Lipparini and Cazzola and Pistarelli, 1998). Illy, which is certainly an exemplary case of alternative configurations in the traditional chain, can't be called FT but demonstrates sensitivity to the phenomenon of corporate social responsibility.

Another alternative configuration in the traditional chain – which is in many ways similar to the Illy model – is the configuration realized by Lavazza with its project Tierra: Lavazza has launched a new coffee ("Tierra!") produced entirely with primary product purchased from three communities in developing countries. The assistance provided by Lavazza in these three communities is not limited to their guarantee to purchase raw materials but also includes investments to help the community and training courses and support for increasing the production competencies of the small local entrepreneurs. At the root of this project, therefore, is a concept that echoes the principles of the FT, but is obviously not the FT.

The FT coffee chain (see Fig. 5) maintains, for the most part, the same configuration of the traditional chain: as with the banana chain, the presence of a consortium of producers (which, in some cases, manage to even have access to the financing market), of a certificating body, a financing organization and a number of lesser intermediaries.

In regard to certification, it should be noted that, unlike in the banana chain, in the coffee chain certification is held by the one who, at the distribution and roasting level, uses the trademark (in the form of royalties - for example, three cents for every package of coffee) and by the producers from developing countries who are asked to pay a share of the annual registration to the FT circuit. (This share of registration wavers between €500 and €2,000 based on the volume of production given to the FT circuit.)

**Figure: 5** – Coffee, fair trade chain




**Source**: Authors' data processing

In regards to the margins achieved by the coffee chain, there exist different sources of data which report, in some cases, very different findings. The data supplied from sources that seem most reliable are: De Toni e Tracogna (2005) (see Fig. 6) and Transfair Italia (see Fig.7)
De Toni e Tracogna report the percentage distribution assigned to the various players along the chain: 20% the producers, 11% local intermediaries, 6% exporters, import/export taxes, 30% roasters and 15% distributors.

**Figure: 6** – Margin distribution in the coffee chain (I)

| Actors | Margin Distribution (%) |
|---|---|
| Producer | 20% |
| Local Middleman | 11% |
| Exporter | 6% |
| Export Fees | 2% |
| International Trader | 8% |
| Import Fees | 2% |
| Roaster | 30% |
| Retailer | 15% |
| Taxes | 6% |
| | **100%** |

**Source**: De Toni, Tracogna (2005), L'industria del caffè, Il Sole 24 Ore

Moving on to the data supplied by Transfair (see Fig. 7), above all it is worth noting the difference between the average price of 250 grams of coffee from the traditional chain – €2 – and the price of the same quantity of FT coffee – €3.36. Moving up the chain, according to Transfair, the producer can take 8% of the generated value. De Toni e Tracogna, instead, report 20%.
Unfortunately, it is not so easy to say which data is correct. The point that everyone does seem to agree on is that a large part of the value created along the coffee chain (whether that be the traditional or FT chain) does not remain in the country where it is produced. Rather, it is transferred to industrialized countries – that is, the countries where the product is consumed and where the roasters and distributors operate. According to Gereffi (2001), there are two major types of governance structures in global commodity chains: producer-driven and buyer-driven chains. Generally speaking, developing countries producing for global markets sell into buyer-driven chains (Slob, 2005).

In light of the data reported in figures 6 and 7 it is evident that in the FT chains some of the players achieve a higher margin, others a lower margin. For example, it seems that the importers, roasters and distributors fall into this last category – achieving €1.65/250 grams in the traditional chain and €2.46/250 grams in the FT chain, but this data is not confirmed in the information gathered during the interviews. The roasters claim that in the FT chain they are not able to achieve economy of scale and, therefore, the overall cost of production is a bit higher than that of the traditional chain, but, assuming equal sales volume, the FT products make it possible to achieve a margin which is not inferior to the traditional chain, the distributors claim that the FT products are not ever discounted, so, although they have a higher production cost, they offer the larger retail sector a stable margin over time and, on average, a margin that is not less than achieved in the traditional chain.

Which is the truth about the distribution of margin in the coffee FT chain we are not able to say and this is the most weakness of the entire FT world: the lack of information and transparency, which final customers should deserve to be given, as it seems to be that they are the most important financier of the FT movement.

**Figure: 7**. - Margin distribution in the coffee chain (II) - Facts expressed in €, referred to a package of 250 grams

| **Actors** | **Traditional** | | **Fair Trade** | | **FT-Traditional** | |
|---|---|---|---|---|---|---|
| **Producer** | 0,15 | 8% | 0,62 | 18% | 0,47 | 11% |
| **Local Middleman** | 0,06 | 3% | 0,08 | 2% | 0,02 | -1% |
| **Exporter** | 0,14 | 7% | 0,14 | 4% | 0,00 | -3% |
| **Certification** | | | 0,06 | 2% | 0,06 | 2% |
| **Importer – Roaster – Retailer** | 1,65 | 83% | 2,46 | 73% | 0,81 | -9% |
| **Consumer final price** | 2 | 100% | 3,36 | 100% | 1,36 | 0% |

**Source**: Trans Fair Italia

## 6. Discussion

The analysis of the collected data can be structured into two parts: (a) creating value for companies, (b) creating value for the consumer

*Creating value for companies*

Comparing the traditional and FT banana and coffee chains, the following differences emerge: above all, in the FT chain a player who is non-existent in the traditional chain plays a primary role – the certification body. Secondly, in the FT chains the producers are generally organized into cooperatives or consortia which give them greater bargaining power. Finally, in the FT chains they often work to reduce the number of intermediaries involved in the course of the products from developing countries to advanced markets.

Apart from the difference stated above, it is possible to affirm that the traditional and FT banana and coffee chains do not present significant differences for the players involved, the phases of production, or trade mechanisms; this is clearly a positive sign in terms of the development of the phenomenon; that is, a business which operates in the traditional chain and desires to open itself to the FT world would not find its business model turned upside-down.

Further reinforcing these positive signs for the future development of the phenomenon is another consideration which emerges from the research: the margins achieved by all of the players involved in the traditional and FT chains are not significantly different. And so, if the business model would not be upset and if the margins would not be impacted, what is stopping companies that currently operate in the traditional chain to enter the FT circuit? Clearly the FT circuit isn't yet governed by efficient market rules. Entering in the FT circuit would present the management with significant strategic and operative problems (Nicholls, 2002), for example the supply chain may not always be reliable in terms of the product quality and delivery time. When the management of Starbucks first approached the FT phenomenon, doubts immediately emerged about the quality of coffee supplied by the FT circuit. The firm had the intention of opening its doors to FT, to demonstrate that its culture was strongly oriented to social responsibility, but not at the expense of loosing its reputation because of poor production quality (Argenti, 2004).

Another obstacle that companies operating in the traditional chain face in joining the FT circuit are prices (Witkowski, 2005). In order to purchase the FT products the company is asked to pay a higher price for the purchase of raw materials. This higher price, as noted, is recuperated in the final price of the product. During periods of fierce competition between distributors, who are more and more frequently faced with bona fide "price wars," the premium price asked by FT products could be an obstacle in the competition, especially if this higher price does not correspond to higher quality (Jones, Comfort and Hillier, 2004). On the other hand, Stecklow and White (2004) have demonstrated that some distributors, including Sainsbury and Tesco, have taken advantage of sales of Fair Trade bananas and coffee at exorbitant prices.

Therefore, taking into consideration the above, what justification could there be for the sustainability and the potential growth of FT in Italy?

The first consideration regards the market and its expectations: from the interviews conducted during the research, it emerged that the primary motivation for companies to enter in the FT circuit is to satisfy demands expressed by a consumer niche. Therefore, the first answer to the question is linked to the dynamics of the market and the evolution of consumption patterns in the developed world. To demonstrate to what extent the market demands influence a company's inclination to enter in the FT, consider, for example, that the American market, culturally more oriented towards profit logic and less inclined to sacrifice consumer sovereignty in the face of a collective benefit compared to the European market, has helped develop the FT phenomenon far less than the European market (Brownstein, 2003). Nicholls e Opal (2005) reckon that if the Americans had the same tendency for the FT phenomenon as Europeans, the world FT figures would increase by approximately twenty times.

The second consideration regards the strategic orientation of the company.

FT could serve as a model of corporate culture oriented at social responsibility and FT could serve as control tool of the supply chain, more than ever a problem in this era of globalization: a thrust from companies of the developed world towards a "low-cost" supply markets, somehow makes these companies "accomplices" in the behavior of their suppliers. For the company's management this complicity constitutes a moral problem that appeals to its conscience (Guidotti, 2006). The control tools in the supply chain are, in any case, diverse - initiatives of single enterprises, requests for self-certification on the part of the suppliers, initiatives of multi-stakeholders, SA8000 certification. FT could be one of these. Buying raw materials from suppliers registered with FLO could be, for the companies operating in advanced markets, a guarantee of ethical standards assumed by the producers in the production process: which would constitute "The benign manifestation of globalization" (Nicholls & Opal, 2005).

This research demonstrates that the FT chain is a sustainable chain for all of the players: no one, in fact, seems to suffer from a margin inferior to that of the traditional chain. So, the answer to the question is probably not in the sustainability of the FT chain, for which this research has found an answer, but in the strategic orientation of the company. Social responsibility, as a distinguishing quality and, therefore, also source of competitive advantage, has to be a genuine expression of the company culture: corporate social responsibility is other than philanthropy (Molteni, 2004).

### *Creating value for the consumer*

From the consumer's point of view, one of the first considerations is the quality of FT products: if it is true that in the FT chain none of the players involved renounce any part of their margin then only the consumer, in the end, feels the impact of the higher remuneration of producers from developing countries. One of the obstacles in the diffusion of the FT phenomena, from the consumer's point of view, is, undoubtedly, the quality of the products, which frequently does not correspond to the higher price which consumers are asked to pay: the conscience and sensitivity of individuals can finance the FT circuit, but, faced with a level of quality that does not correspond to the price paid, even the most sensitive of these individuals would, sooner or later, take their money elsewhere.

Asked to choose from the numerous market choices, the Italian consumer who today chooses FT products responds neither to the criteria of “better quality” or to the criteria of “better price”, but only to an ethical need: if, without touching the premium price, which is an inherent characteristic of the FT phenomenon, they could reconcile ethics and quality, the developmental potential of FT would probably be much greater. Quality must be an attribute of the FT products, justifying the higher price.

Another important problem from the consumer’s point of view is transparency. There is far too little dissemination of information regarding the distribution of margins along the chain. If FT makes an appeal to the consumer conscience and the consumer’s need for ethics, they must reassure the consumer as to the destination of that which they are asked to pay, the efforts to normalize the standards, the initiatives on the part of international institutions. From this point of view, the FT has a long road ahead, and the difficulties encountered collecting data while conducting this research are prove it.

## 7. Conclusion

This research demonstrates that the FT chain is strategically and economically sustainable as long as it does not upset the business models of the companies involved and does not entail that the margins achieved in the traditional chain be renounced. FT could represent, therefore, an “ethical” alternative to the traditional chain and the phenomenon, consequently, experiencing greater diffusion. Obstacles, nevertheless, arise, impeding the diffusion of this phenomenon; the most pronounced obstacles being the higher prices to the consumer, the limited transparency of information relative to the division of that higher price along the chain and finally, the quality of the products, which certainly does not correspond to the higher price asked.

This paper adds to the corpus of studies on social responsibility: highlighting, as other academic contributions have already done, the obstacles that the development of FT faces and the necessity to force a more solid commercial partnership with the large distribution players, creating, ideally, fertile ground for the development of the phenomenon; with the elaboration of the data collected on the distribution of margins in the FT chain, this work contributes, moreover, to the enrichment of FT literature which, up until now, has dedicated little space to these economic-finance aspects in favor of more ideological details – undoubtedly due to the difficulty in finding information in this area.

This research does have limitations: above all, from a methodological point of view, it was not possible to choose the players to interview based on rigorous criteria of importance. The choice was, instead, strongly determined by the limited willingness of the players involved in the FT chain to share information. Furthermore, as shown in this paper, the data related to the distribution of margins is a result of elaboration of all of the information gathered by all of the authors: official data would certainly make the considerations expressed have a greater impact, but there doesn't seem to be a data base reporting the margins achieved along the chains studied. Reflecting on the limits inherent in this work, one can gather inspiration for new areas of research: it would be interesting, for example, to analyze the mechanisms for creating value in other FT chains, enriching the data base with new interviews and applying other models for the analysis of the distributions of margins.

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