



Fair Trade?

By Niraj Dawar

Hardly a week goes by without yet another milestone for “ethically labeled” products. You know, the products that are labeled “Fair Trade,” “Organic,” “Green,” and so on. Here’s a recent report, for example, that says that 10,000 products are now sold with a Fair Trade certification in the U.S., and that sales of such products are up 63% in the last QUARTER! In markets such as the United Kingdom, more than one of every five cups of coffee sold is fair trade labeled.

This is an enduring puzzle for me: why do people buy fair trade products?

Now before you convince yourself on the scant evidence of that one question that I am a cold, heartless, cynic, I want to assure you that I am all for helping farmers get a better deal.

But the why question is really two questions: the first is, what is the consumer motivation to purchase fair trade products? And the second is, given that motivation, is buying fair trade products the best way for consumers to achieve those goals?

So in terms of what drives the consumer to buy, and often pay more for, ethical products? First, I am sure that consumers who buy these products are nice people, who look at consumption as a means of doing good for their community, society, and humanity. So they buy products that are “fairly” sourced. And buying such products encourages other products and companies to fairly source their products.

“Fairly sourced” generally means that the third-world farmers who grow the stuff (the coffee or chocolate beans, the nuts, and the vanilla) are given a fair shake on the deal, often including fixed prices that protect them from

volatility in commodity prices.

For example, a company buying fair trade coffee from a third world farmers' cooperative may agree to pay the farmers a fixed price of \$2.80 per kilo of coffee beans, regardless of the market price. This fixed price could be twice as high as the market price when there's a coffee glut, or it could be close to the market price in "normal" times.

To ensure the product is noticed by consumers and successful in the marketplace, the coffee brand advertises its fair trade line.

But if you're a consumer who wants to do good, you probably want to know how much of the premium you pay for your fair trade coffee goes to the farmer. In other words, how efficient is your voluntary contribution?

The answer is that in times of coffee glut, farmers' cooperatives benefit tremendously from the price floor provided by a fair trade program. Their revenue per kilogram of coffee can be double what they would otherwise get.

But in terms of the percentage of the premium paid by the consumer for fair trade coffee, there are probably more efficient ways of channelling funds to the farmers' cooperatives.

In fact a larger amount is often spent by brands on advertising the fair trade affiliation and credentials to the consumer than is handed over to the farmers as a premium; sometimes several times larger.

If fair trade labels are an inefficient way of channelling funds back to the farmers, why do consumers insist on buying fair trade rather than sending money directly?

First, perhaps because they are unaware of the inefficiency of the system, or unaware of other means of channelling the funds. But there is a second reason, and one that is often ignored: the fair trade label is efficient for the consumer in that it is a by-product of consumption - it does not require any extra thinking or action on the part of the consumer to make a contribution to the greater good.

Recent research suggests that consumers buy ethical products not just to contribute to the greater good: they buy them to signal to themselves (and perhaps to others) that they are good people.

If this is the motivation, as long as the fair trade is fair and does some good for the farmers, consumers are likely to be ok with it. The relevant measure of efficiency of the program is not whether it gets a good chunk of the money into the hands of the farmer, it is whether it is a low-hassle way for consumers to feel good about themselves.

Perhaps fair trade must be fair first for those paying for it.

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