

Which way to market?

Exploring opportunities for marginalised producers in developing countries to supply mainstream commercial companies in the UK

Executive Summary

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Traidcraft

Fighting poverty through trade

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Amid the current wave of interest in ‘corporate citizenship’, more companies are being asked to use their power to take on board responsibility for the impact of their operations on the communities where they operate or trade. One approach is for companies to source their products from businesses that are marginalised by the international trading system because of a need for external resources to achieve market entry and overcome the lack of development in their country. This report looks at the practical side of creating export opportunities for ‘marginalised’ producers in developing countries *while not exposing them to exploitation* through their lack of bargaining power in view of the risks they face, and to ensure that the increased trade has *a beneficial impact on poverty*.

For over three decades, the fair trade movement has been working to create opportunities for marginalised businesses under more equitable trading terms. Fair trade operates as a separate niche market but in the last few years has begun to expand sales into mainstream commercial businesses. The objectives of the report are to:

- Document the experience of fair trade organisations (also known as alternative trade organisations or ATOs)
- Outline the difficulties in trading with marginalised businesses
- Look at what initiatives have been tried as solutions
- Generate recommendations for action by the Traidcraft policy unit which will reduce the barriers to market entry so that the idea of buying from marginalised businesses can be encouraged among mainstream companies.

In addition to allowing market access for businesses that might not otherwise be able to make international trading links, fair trade is often described as paying a mutually agreed fair price where there are visible benefits to the producer group and/or their community. Typical benefits can include access to advance payments, a better return for labour, improved and non-exploitative working conditions and community development projects. The trading relationship must also be long term and based on a spirit of co-operation. Approaches to fair trade differ between ATOs, and for different product types from varying countries of origin. There are strict internationally defined standards for a number of commodity products while for other items, especially hand-crafted gifts and interiors, a more flexible framework is needed to fit the variety of products. Some ATOs believe that fair trade principles can never truly be applied in the mainstream because of the inevitable exposure of producers to market fluctuations in taste and demand when the fair trade niche is built on long term trading relationships.

However, all ATOs are value-driven to achieve social development objectives using trade as a means, not an end. Therefore, the ATO niche generally takes a more sympathetic approach towards suppliers than mainstream companies in that they are prepared to work with businesses that have less resources at their disposal. That said, the product still has to be appropriate to the target market and be of the required standard. To be considered ‘export ready’ without the need for the external inputs

offered in the fair trade package, a producer must also have the capacity for a product delivery service to the buyer that maintains confidence in continuing the trading relationship.

At the outset of the fair trade movement, the emphasis was on finding an outlet for what the producer could supply. Now there is a much sharper focus on the market, and product development in line with current trends in the destination country is a crucial part of the fair trade package of support for business capacity building. In addition, buyer initiated requests to find a fair trade source for ready developed products are now being received.

The Fairtrade Mark is the only label in the UK which guarantees adherence to strict criteria developed by the Fairtrade Labelling Organisation, and is one way of distinguishing fair trade products from conventionally sourced goods sold in the mainstream. The Fairtrade Mark is available for coffee, tea, cocoa, honey, sugar and bananas. Products falling outside the scope of the Fairtrade Mark can be promoted through an ATO brand, and some products are both branded and labelled.

Such a wide range of products requires separate analysis to develop a workable market entry strategy. But consumers and businesses can still be segmented according to their ethical priorities. While fair trade addresses the terms of trade, commercial companies are increasingly taking an interest in implementing codes of conduct to achieve minimum labour standards, an approach known as ethical trade. Approaches to fair and ethical trade can be put on a continuum ranging from:

- ATOs interested in the terms of trade – these are small scale businesses relative to, say, high street retailers;
- Companies with values sympathetic to the fair trade movement, especially environmentally driven community businesses;
- Commercial businesses with an ethical foundation (such as The Body Shop)
- Commercial companies who have pro-actively taken up the challenge of social responsibility through strong interest in fair trade and/or ethical sourcing
- Companies who have become involved in ethical trade (codes of conduct) because it makes business sense to do so in the current climate
- Those with little or no interest in fair trade or ethical trade.

It is important to note that if a company or consumer is not interested in social development, there might still be a sales opportunity if the product is what the consumer or buyer wants. Some hand-crafted interiors are sold to the designer end of the market through fair trade channels and are not distinguished as fair trade goods. The products sell themselves.

Although there is a trend to buy more products directly from the producers, intermediaries or ‘middlemen’ can play an essential co-ordinating role in consolidating volumes for exporting or importing before reaching the buyer and end market. Mainstream companies with a high stock turnover do not have the time to source from a large number of small marginalised businesses, while the primary producers rarely have the production capacity or the resources to make market links with commercial buyers. The key to minimising exploitation of the producer is to find an intermediary who does not extort maximum commercial advantage.

Volumes appropriate to the mainstream can be achieved through second level co-operatives – a co-operative or union of co-operatives – which perform an intermediary consolidating role while maintaining an owner-producer structure. But fair trade suppliers are not all producer co-operatives – many are community owned or privately owned businesses. Traidcraft suppliers are often intermediary organisations run on a commercial basis which specifically buy from some of the poorest groups and offer them favourable terms of trade.

How does a company go about sourcing or procuring products from marginalised businesses on fair trade terms? There are currently three main routes to market for fair trade products:

- *ATOs as wholesalers*, where the retailer buys the goods from an ATO who provides the verification of the fair trade relationship through the brand and/or the Fairtrade Mark. In this case, the trading relationship with the producer is connected more closely with and managed by the fair trade wholesaler.
- *NGO facilitated sales*, where a marketing NGO (non-governmental organisation) provides business development training and advice to the producer when needed, as well as making contacts with appropriate buyers. The NGO acts as an agent without taking a fixed commission so that the price remains viable. These organisations can also be called ‘alternative marketing organisations’ or AMOs.
- *Fairtrade Mark product lines*: Some conventional commercial companies have established distinct product lines that qualify for the Fairtrade Mark. This route is available for certain commodities only, as described above.

But while social responsibility and ethical issues are given far more attention in business circles than just a few years ago, efforts by marginalised businesses to achieve access to export markets are plagued by a combination of obstacles. One of the major barriers to entry is that the price of labelled or branded ‘fair trade’ products is often higher than the competition from conventional sources. A look at the difficulties faced gives some insight into why this is so.

1. Dilemmas between commercial and social objectives. Using commercial means to create direct social development benefits is extremely complicated and riddled with contradictions. For example, choosing suppliers can sometimes mean a balance between the potential for trading success and targeting groups based on the need for social benefits delivered by the trading relationship.

2. Market preparation. Reaching the point of being ‘export ready’ requires rigorous preparation. In an ideal situation, a business will have already proved its success in the domestic market before planning to export. But for some products – especially certain commodities grown as cash crops – there is little or no domestic market in the country of origin, and therefore this shield is not available.

One of the main areas of work in export preparation is obtaining information about and gaining real understanding of the destination market. This is the problem most frequently identified and voiced by producers in developing countries. In response, some European countries have established government run services that specifically

provide information and support for suppliers in developing countries. However, there is still a need to train producers on how to interpret and apply the information in an effective way, especially in the context of hand crafted interiors and gifts products where design innovation is essential. The need for adaptation and change within the producer business in order to achieve export success is often underestimated.

3. Achieving standards of quality, consistency, product safety, timeliness, and other market requirements is essentially part of market preparation, but it is separated out to emphasise its importance. Quality and consistency of product is a fundamental concern for a buyer. The domestic market in a developing country is rarely as demanding of quality requirements, partly because of different standards and norms, and partly because the goods do not have to travel as far to the point of sale, and have less chance of being damaged. The cultural context of the producer can be a natural barrier to understanding why certain features are important.

Other standards – such as organic certification - may currently be a way to distinguish a product from the competition but have the potential of becoming the norm in future years. In this case, it can be a barrier for smallholder farmers who have the right product but no means to gain the proof that the market demands. The growing popularity of ethical trade could also prove to be a barrier to market entry because the informal sector is difficult to audit.

4. Market linkages with appropriate buyers who are also interested in marginalised businesses needs to be matched with the supply of good products. A first time meeting with a UK buyer would be virtually impossible for a marginalised business based in a developing country to arrange without assistance. Even intermediary marketing organisations in the country of production find this difficult; buyers are busy, pressured and have the power to pick and choose. The Trade Facilitation team at Traidcraft provide a sales service through Traidcraft's partner network using a sales strategy based on the quality of the products which 'happen to be fair trade' as well. However, most development donors are reluctant to fund this type of 'northern based' sales work.

One way of making sales contact is through attending trade fairs. Research and preparation as to the appropriateness of trade fairs is essential to avoid costly and frustrating experiences. Commercial buyers are under too much pressure to visit showrooms – and therefore, product sellers have to take their goods to the buyer.

5. Credit, technology and infrastructure within a country are the underpinning of commercial operations, and a major contributing factor to the timeliness of product delivery. E commerce is a significant trend that could cause further marginalisation because of low technological capacity. The expectations of short lead times on electronic transactions are often not possible for micro-businesses and fair trade producers because of transport infrastructure and other factors described here. Exposure of design led interior products opens the risk of massed produced copies by those with higher capacity, but e commerce might be possible for commodities with the Fairtrade Mark.

6. International Trade policy: The World Trade Organisation (WTO) was set up to reconcile national and regional policies on international trade with the principles of

free trade for all, but discrepancies still exist. High import tariffs on processed goods into Europe can be problematic, and means that the lucrative processing business often remains in the EU because the final product would be priced out of the market by the tariffs. Protocols on specific products give preferential treatment to certain countries. Sourcing outside the scope of a protocol can mean high tariffs even if the goods are fairly traded and from an area in need of development. Fairtrade labelling has so far not been an issue at the WTO because it is a voluntary initiative and specifically targeted at businesses that can be marginalised by WTO rules.

On a positive note, the new EU-ACP agreement which will supersede the Lome Convention from June 2000 specifically supports trade development activities, including the promotion of fair trade.

7. Marketing and communication of fair trade principles has been built on a simple message: Buy fair trade and make your contribution to the reduction of poverty in developing countries, but the picture is more complex in practice. The different approaches of ATOs can contribute to mixed messages; closer strategic co-operation is needed as well as literature aimed at a commercial audience.

The scope of the Fairtrade Mark can undermine consumer reassurance of fair trade for products not covered by the Mark. Resources to develop Fairtrade Mark criteria for other products would help this as well as clear communication about which products can qualify and which cannot. Also, the registers for tea and coffee are already full and this is a real barrier for newcomers to the market because they cannot get access to officially labelled channels.

But perhaps the biggest risk of confusion is where large commercial companies choose to include marginalised smallholders in their supply chains and generate publicity without addressing the trading relationship in terms of power balance and social development needs. A comprehensive evaluation system linking fair trade to the social benefits generated would be a useful learning exercise as well as an endorsement to the advantages of fair trade for the producers.

Conclusions

The difficulties facing marginalised businesses are usually the commercial reasons why mainstream companies have not traditionally sourced products from them. But active support of fair trade and marginalised producers can be a way of enhancing corporate reputation to support a branding strategy – although a balance is needed between actual input and marketing mileage. Some companies have already found pro-active engagement with social development requirements in countries of operation brings practical advantages aside from reputation management. One example is that buying from smallholder farmers can spread the risk of pest attack and climatic conditions compared with monoculture plantations.

In reviewing the activities and experience of fair trade organisations and the barriers to market entry faced by marginalised producers, work to improve market access needs to be conducted both internally and externally of the fair trade movement. Priority activities for the Traidcraft policy unit are:

- To facilitate closer working relations among fair trade organisations, including co-ordinated discussions on the future of fair trade
- To implement projects to assess the impact of fair trade, to examine where more emphasis is needed and give systematic weight to fair trade marketing claims
- To initiate a programme to include small producers in the ETI
- To generate awareness of fair trade aimed at a commercial audience, both at a general level (including business schools) and in more detail targeted at specific sectors

Other ideas and themes raised in the report are:

- To work towards expanding the scope of the Fairtrade Mark, possibly as a collaborative project with several ATOs
- To explore creative partnerships with companies and business related organisations which are willing to get involved in social development activities and which can offer beneficial services to marginalised producers
- To consider an import promotion agency in the UK along the lines of the Dutch organisation CBI.
- To build links with business schools and design schools
- To monitor the trends in e commerce

Some specific points are put forward for consideration by donor agencies:

- Impact assessment projects are essential as a broad strategic method of targeting and supporting fair trade activities
- ‘Northern’ based work on trade links is important to complement input in the country of origin. This includes market awareness tours, making buyer linkages and attending trade fairs.
- One way of improving market access for marginalised producers is to encourage more benevolent marketing intermediary organisations. However, these are long term projects and a medium term time scale is needed to measure sales success.
- Marketing intermediaries working with marginalised producers cannot be expected to be viable independent of external funding because the service they provide is correcting a market failure. Some funds can be generated through diversifying activities into other areas e.g. social auditing services, but these need to be recognised as long term business aims, and may not be applicable in all circumstances.

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Contents of full report

	<u>Page</u>
<i>Glossary</i>	<i>iii</i>
<i>Executive summary</i>	<i>iv</i>
1. Introduction	1
2. What is fair trade?	5
3. Product focus	7
3.1 Product types	7
3.2 Drivers of product development	8
3.3 Product identification	9
4. Who will buy?	11
4.1 Consumers	11
4.2 Commercial buyers	12
5. Routes to market	14
5.1 ATOs as wholesalers	14
5.2 NGO facilitated links	15
5.3 Commercial schemes to include marginalised producers	17
6. Getting to market: Roadblocks and signposts	20
6.1 Reconciling different objectives	20
6.2 Market preparation	22
6.3 Achieving international standards	24
6.4 Market linkages	27
6.5 Credit, technology and infrastructure	29
6.6 International trade policy	31
6.7 Marketing and communication	33
7. Which way forward? Conclusions and recommendations	36
Appendix 1: Common objectives, different perspectives – a glossary of fair trade organisations	40
Appendix 2: Corporate members of the Ethical Trading Initiative	41
Notes and References	42

List of tables and figures

	<u>Page</u>
Table 1: Some examples of products in the fair trade sector	7
Table 2: A typology of approaches to fair and ethical trade	13
Table 3: Some creative tensions of trading for developmental objectives	21
Figure 1: The dynamics of sourcing from marginalised businesses	8

List of Boxes

	<u>Page</u>
Box 1: The FINE definition of fair trade	5
Box 2: Traidcraft partner development	16
Box 3: Doormats with a difference	17
Box 4: Smallholder integration into supermarket supply chains	18
Box 5: Export readiness	22
Box 6: An import promotion office in the UK?	23
Box 7: Legal trading standards	25
Box 8: Business Bridges in developing countries?	27
Box 9: Kibo Handicrafts – Reflections on successful exporting	28
Box 10: How will e-commerce affect fair trade	31
Box 11: Summary of recommendations	38