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For love or money? Fairtrade business models in the UK supermarket sector

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Par amour ou par argent ? Les modèles économiques du commerce équitable dans le secteur de la grande distribution au Royaume-Uni

SMITH Sally

Abstract

Sales in supermarkets have contributed greatly to growth in Fairtrade, but the literature suggests there may be tensions between Fairtrade principles and the commercial practices which characterise UK supermarket value chains. This paper explores these tensions through an analysis of supermarket value chains for Fairtrade coffee, cocoa, bananas and fresh fruit. It finds considerable variation in supermarket approaches in terms of scale and scope of commitment to Fairtrade and in the nature of relationships with Fairtrade suppliers. In some cases supermarket involvement has the potential both to expand and deepen the impact of Fairtrade, whereas in others it threatens to undermine the ability of Fairtrade to support long term processes of development. The findings indicate that a more nuanced approach to supermarket Fairtrade is required, with recommendations for actions that could be taken to maximise the opportunities and minimise the risks.

Résumé

Les ventes en supermarché ont grandement contribué à la croissance du commerce équitable, cependant, la littérature sur le sujet suggère qu'il peut y avoir des tensions entre les principes du commerce équitable et les pratiques commerciales qui caractérisent la filière de la grande distribution au Royaume Uni. Cet article se propose d'explorer ces tensions à travers une analyse des pratiques des supermarchés pour des produits tels que le café, le cacao, les bananes et les fruits frais « commerce équitable ». On trouve une grande variation dans les approches des supermarchés en termes de niveau de leurs engagements envers le commerce équitable et dans la nature des relations avec les producteurs de la filière commerce équitable. Dans certains cas, l'engagement des supermarchés peut amplifier l'impact du commerce équitable, tandis que dans d'autres, il menace d'affaiblir la capacité du commerce équitable à soutenir le processus de long terme de développement. Les résultats indiquent qu'une approche plus nuancée de la grande distribution pour les produits commerce équitable est nécessaire et plaident pour des actions qui devraient être initiées pour maximiser les opportunités et minimiser les risques.

The growth and challenges of supermarket Fairtrade

Much of the growth in Fairtrade over the last decade is a result of supermarket retailing of independent Fairtrade brands and supermarket "own brand" goods. For example, a recent survey of Fairtrade sales in 25 European countries found that 56,700 of the 78,900 "points of sale" were supermarkets (FINE, 2005). While a mark of success in mainstreaming, the growing incidence of Fairtrade in supermarkets presents a number of potential challenges. There is an emerging literature on the involvement of conventional corporate actors in Fairtrade, from large plantations to multinational traders and high street retailers, which highlights the challenges of working "in and against the market" and questions the power of Fairtrade, as it is currently practiced, to have a transformative effect on international trade (Raynolds, Murray and Wilkinson, 2007; Renard and Pérez-Grovas, 2007; Shrek, 2005). For UK supermarkets in particular, there are questions about the extent to which the Fairtrade concept of *a trading relationship based on dialogue, transparency and respect*[i] is upheld (Barrientos and Smith, 2007). The growing dominance of a limited number of supermarkets in UK food retailing, and the globalisation of food sourcing, has given supermarkets unprecedented power over producers and agents in their global value chains (Lang, 2003; Vorley, 2004). This has led to accusations by campaigning organisations, journalists and researchers that they make unreasonable demands on suppliers and push prices down so low that producers and workers are unable to make a decent living (Oxfam, 2004; ActionAid, 2007; Blythman, 2004). With few alternative routes to market, suppliers are forced to accept terms of trade that include last minute changes to orders, giving retrospective rebates and paying for in-store promotions, as well as sudden changes in payment terms.

Fairtrade networks have traditionally been populated by actors concerned about the injustices of international trade and actively seeking ways to redress the balance in favour of producers and workers in developing countries. In contrast, supermarket interest in Fairtrade is commercial, seeing it as both an opportunity to attract consumers interested in ethical issues and a way to reassure the wider consumer, investor and campaigning communities that they are taking their corporate responsibilities seriously. The literature suggests there may be considerable tension between the values of

Fairtrade and the commercial principles and practices which characterise UK supermarkets' global value chains. This paper draws on the findings of research carried out in 2005 and in 2007 to explore these tensions and the opportunities and risks associated with Fairtrade in UK supermarkets. It uses concepts derived from global value chain analysis, which highlights the ability of dominant buyers (like UK supermarkets) to distribute and coordinate actions within trading chains to minimise their exposure to risk while optimising the financial returns (Gereffi, 1994; Dolan and Humphrey, 2004; Gereffi *et al*., 2005). The analysis is based on case studies of Fairtrade coffee, cocoa (processed into chocolate), bananas and fresh fruit, including both supermarket own label and branded Fairtrade products. The case studies involved in-depth interviews with producers, exporters, importers, processors and supermarkets, as well as other participants in Fairtrade networks such as development organisations and national labelling initiatives.

Diversity in supermarket approaches to Fairtrade

The case studies revealed that supermarkets vary substantially in the way they approach Fairtrade. There are two main ways in which this difference manifests itself:

(i) Scale and scope of commitment to Fairtrade;

(ii) Type of value chain relationships.

- **Scale and scope of commitment to Fairtrade**

Supermarkets often talk about the value of their Fairtrade sales as a way to demonstrate their commitment, vying with each other to lay claim to the tag of "leading retailer of Fairtrade" or "first supermarket to sell Fairtrade XXX". To make meaningful comparisons it is necessary to put Fairtrade sales into the context of their total sales. For example, the supermarket J Sainsbury achieved £53M in Fairtrade sales in 2006, which equated to 0.3% of total retail sales in 2006/7, while the Cooperative Group ("the Co-op") Fairtrade sales were £20.5M in 2006, but this represented 0.7% of their total sales[ii]. However, not all supermarkets release their Fairtrade sales figures as they deem them commercially sensitive, which makes it hard to build a complete picture. An alternative is to look at the range of products on offer, but again these figures are not particularly accurate indicators of commitment as they say little about availability across stores or how many products are actually sold.

Perhaps a more reliable indicator of commitment to Fairtrade is the willingness of some retailers to convert entire own brand product categories to Fairtrade. The Co-op was the first UK supermarket to do so, switching all of its own brand chocolate to Fairtrade in 2002 followed by coffee in 2004 and tea and drinking chocolate in 2008. Over the past few years Sainsbury's, Marks and Spencer and Waitrose have also carried out category conversions in products such as bananas, tea, coffee and sugar. When a supermarket stocks a Fairtrade line alongside other types of own brand product it tends to be treated just like the other products, with the supermarket devoting little attention to the producers concerned as Fairtrade makes up such a small proportion of the total business. If the source of that Fairtrade product dries up, or the quality is unsatisfactory, it is relatively easy for the supermarket to replace it with an alternative. In contrast, when a supermarket switches an entire product category to Fairtrade it makes a greater investment in ensuring there will a reliable source of supply year round. Most supermarkets have tried to work with their existing supply base to get producers and traders registered with FLO, but sometimes suppliers are unable or unwilling to do so. In such cases the supermarkets have to invest in locating new sources and building up supply relationships. Importantly, they have also adjusted their pricing strategies to ensure that the product categories do not become uncompetitive, including reducing profit margins where they think that consumers will not be willing to absorb additional costs. Although it is hoped that the investment and loss of margin will be recouped in extra sales (as well as in publicity and brand value through association with Fairtrade), by default this also implies that more effort will be made to promote Fairtrade and ensure the product sells. This tends to create a virtuous circle of investment and commitment, as association of the supermarket brand with Fairtrade becomes stronger and it becomes more difficult for the supermarket to contemplate walking away.

Besides expanding volumes and ranges and switching entire categories to Fairtrade, some supermarkets provide additional forms of support to Fairtrade. One example is Sainsbury's £1 million Fair Development Fund launched in 2007 and managed by

Comic Relief. This fund is being used to support new producer groups enter Fairtrade, and to help existing Fairtrade producers upgrade their quality and add value at source. Another example is the Co-op's ongoing promotion of Fairtrade, including producing campaigning materials to enable Co-operative members to promote Fairtrade in their communities and paying for Fairtrade producers to travel to the UK on promotional tours. Such forms of additional support increasingly differentiate between supermarkets that have taken on Fairtrade because it does not require any substantial change in their day-to-day business to do so, and those that are going the extra mile to take Fairtrade to the next level in mainstreaming.

- **Type of value chain relationships**

The differences in approaches to Fairtrade become more apparent when we look at the nature of relationships in supermarkets' Fairtrade value chains. These relationships vary automatically according to the type of product. For independent Fairtrade products (including those of 100 per cent Fairtrade companies and other specialist brands, as well as those of large conventional companies like Nestle) the brands act as an interface between supermarkets and the rest of the value chain, with supermarkets having no control over the constituent parts. For their own brand products supermarkets will be more closely involved in the value chain, from new product development through to quality control. However, most UK supermarkets operate a system of "category management" by which their direct suppliers (usually one or two per category) have responsibility for ensuring year round supply of a range of products in a particular category and for managing the value chains. Thus, category managers for bananas will be responsible not only for sourcing Fairtrade bananas, but also other banana product lines such as "organic" and "value pack". But the supermarkets effectively retain control over the chains, setting the standards and conditions for production and the price at which products will be purchased.

Some supermarkets have strong relationships with Fairtrade suppliers, be they for independent brands or own brand products. This includes building direct relationships with producers and working closely with suppliers to address issues of supply, quality and price. However, the case studies indicated that commercial practices in the Fairtrade value chains of several UK supermarkets contradict core principles of Fairtrade, such as long term supply relationships and advance notice of purchases. For example, fruit producers in South Africa said that even when they received "programmes" from supermarkets with anticipated Fairtrade volumes to be purchased, they sometimes ended up having to offload their Fairtrade fruit on conventional markets (at below Fairtrade minimum prices) once it had been shipped to the UK as supermarkets decided not to purchase it. This is because supermarket purchasing decisions are typically made on a "just-in-time" basis, depending on day-to-day sales and consumption trends, in order to limit storage and wastage costs. This means that risks and costs are passed down to suppliers, who have to invest in packing and shipping products as Fairtrade without guarantees of selling on Fairtrade markets. In one case a supermarket took four weeks before deciding to purchase the fruit that had been programmed and shipped for it, by which time the quality had deteriorated to such an extent that it imposed a fine on the supplier.

The problems with just-in-time ordering are particularly acute for fresh fruit as the product cannot be stored. But even for dry products like coffee and chocolate the lack of long term purchase agreements and written contracts puts producers and others in the value chain in a vulnerable position. Competition in Fairtrade markets is growing daily, as more and more players enter the market. This is making it especially hard for Fairtrade brands, suppliers and producers with higher cost prices to maintain their market position and achieve supermarket listings. Several suppliers talked about increasingly tough negotiations with supermarkets on price and the growing incidence of strategies like open book accounting which enable supermarkets to pressure for price cuts. The relatively high prices of Fairtrade brands and specialist suppliers is partly a result of larger conventional traders and supermarket own brands using economies of scale and vertical integration in their value chains to reduce costs. For own brand products retailers can also cross-subsidise from other parts of their business. But the higher prices of Fairtrade brands and other specialist suppliers are often also a result of the close relationships they have with Fairtrade producers and the extra services they offer them, such as advising on production and quality control systems and aiding the development of management skills and export capabilities. Fairtrade brands like

Cafédirect and Agrofair channel considerable resources into these types of activity; for example, Cafédirect reinvested an average of 60 per cent of profits between 2003 and 2006, and £684,000 in 2005/6 alone, in its ‘Producer Partnership Programme’. Numerous studies have concluded that the capacity building and organisational strengthening impacts of this type of support are often at least as important as the financial benefits of Fairtrade premium prices, especially in terms of sustainable market access and for less well established, more marginal groups (Dankers, 2003; Raynolds, Murray and Taylor, 2004; OPM and IIED, 2000; Udomkit and Winnett, 2002; Ronchi, 2002; Paul, 2005). But it is hard to communicate the importance of these close value chain relationships to supermarket buyers and mainstream consumers, for whom the FLO mark is assumed to distinguish products as having been fairly traded and beyond this price becomes an important factor in purchasing decisions.

Some Fairtrade producers are confronting similar competitive issues, as costs of production can differ quite substantially between countries and between small and large producers. While for some products (including coffee and cocoa) the FLO minimum price is the same for all products of the same classification, for others (e.g. fresh fruit, including bananas) the minimum price varies by country. One of the risks associated with supermarket Fairtrade is that, as more producers are certified in order to meet growing demand, supermarket buyers with no particular commitment to specific producer groups will seek to reduce costs by sourcing from lower cost countries. One supermarket buyer admitted that a “race to the bottom” to find the cheapest sources of supply was increasingly likely as the UK Fairtrade banana market expanded. A related issue is supermarkets’ preference for working with a smaller number of large suppliers that can deliver large volumes of homogenous products. The implications of this for small producers in Fairtrade are clear; one supermarket buyer was even quoted in an industry journal as saying, “We are rewriting the [FLO] standards to give more business to plantations.”[iii]

These dynamics imply that the type of relationships that supermarkets have with their Fairtrade suppliers is critical to Fairtrade outcomes. It is not a simple picture however. There may be considerable variation in how different Fairtrade suppliers are treated by one supermarket, depending on the type of product, whether it is own brand or independent, and even depending on the particular buyer involved. Supermarkets considered to be leading supporters of Fairtrade and with very positive relationships in some Fairtrade value chains may still exhibit commercial practices that conflict with core Fairtrade principles in other parts of the business. Meanwhile other supermarkets have more consistently positive relationships in both their Fairtrade and non-Fairtrade value chains, particularly when they have business strategies based on high quality products which require close relationships with key suppliers to execute and/or a consumer base for whom ethical behaviour is a priority (as is the case for some of the smaller UK food retailers). Of greater cause for concern, however, are supermarkets which do not treat Fairtrade any differently than any other product line and which abuse their dominant commercial position over all suppliers. These types of value chain relationships, and in particular the lack of security that is offered to producers, threaten to undermine the ability of Fairtrade to support long term processes of development, premised upon the transfer of resources and capacity through sustained, favourable trading relationships which gradually strengthen the position of producers over time.

Implications for the future of Fairtrade

While the research found that some supermarket practices contradict fundamental principles of Fairtrade and threaten to undermine the ability of Fairtrade to achieve its objectives, other supermarkets (or even individuals within the same supermarkets) exhibited considerable commitment, support and flexibility towards Fairtrade suppliers and were making substantial efforts to grow Fairtrade sales. This was particularly the case when entire categories had been converted to Fairtrade, but also included the relationships that some supermarkets had with Fairtrade brands such as Divine Chocolate and Agrofair. In these cases supermarket involvement has the potential both to expand and deepen the impact of Fairtrade, particularly when they work in partnership with Fairtrade companies and development organisations to provide additional support to producer organisations and strengthen their position in the value chain. This suggests that rather then condemning supermarket involvement in Fairtrade, as some are wont to do, a more nuanced approach to supermarket Fairtrade is needed.

A key part of the problem is that supermarkets are not bound by FLO regulations, as they are not required to be licencees even for their own brand Fairtrade products since they do not put the label on products themselves. Instead their direct suppliers hold the licences and are responsible for ensuring FLO trading standards are complied with, but this can be hard to do when supermarkets are effectively setting the terms of trade and they have little control over purchasing decisions. This is a technical loophole which should be closed, since the principle should be that any company whose name is being associated with the FLO mark should be required to abide by the trading standards which define what it means to be Fairtrade.

Another problem is that consumers are unaware of differences between Fairtrade products in terms of the commitment and support that actors in Fairtrade value chain provide to producers, and importance of this support for achieving sustainable development objectives. As such they baulk at paying higher prices for some Fairtrade products, even though those prices may be justifiable. Similarly the supermarkets that have demonstrated a greater commitment to Fairtrade have not necessarily seen this reflected in sales figures. As a result, there is a risk that the companies which go the extra mile to support producers and promote further expansion of Fairtrade may in future be the least successful in mainstream Fairtrade markets. Some Fairtrade actors advocate the introduction of differentiation in Fairtrade labelling, for example to identify products from 100 per cent Fairtrade companies, as a way to address this. Others argue that this would cause confusion among consumers, especially given the recent proliferation of certification schemes. An alternative would be for FLO and national labelling initiatives to develop ways to acknowledge the performance of individual companies, such as through Key Performance Indicators and annual reporting frameworks. Fairtrade brands are likely to score well again such criteria and this would help consumers begin to understand why their products may be more expensive. But the aim should be to encourage all companies to take the "Fairtrade high road" by gradually increasingly their commitment and support over time. Leading retailers are looking to go beyond their competitors and now that having a Fairtrade line is so commonplace they want to add value to the FLO mark. Currently they are doing this by combining it with other labels (organic, Rainforest Alliance, etc.) or funding projects directly with producer organisations. If Fairtrade does not act quickly to respond to these trends, it is in danger of becoming a “lowest common denominator” certification, instead of the standard bearer that it has always aspired to be.

In conclusion, Fairtrade appears to be at a critical juncture in its engagement with UK supermarkets. The opportunities brought by supermarkets have, somewhat inevitably, also been accompanied by a number of risks. The biggest risk is that supermarkets driven by commercial imperatives rather than social objectives, influence policy and ethos within the Fairtrade system in ways which detract from founding principles, or worse, walk away from Fairtrade once it no longer serves their purposes, while at the same time those that have done most to support producers are squeezed out through competitive pressures. At this stage it appears these risks remain largely theoretical. But those involved in Fairtrade need to take action to mitigate the risks and maximise the opportunities, and should carefully monitor the situation in the coming years to ensure this has been achieved.

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Notes

i This is the widely used definition of fair trade, as agreed by the four principal fair trade networks: FLO, IFAT, NEWS! and EFTA.

ii Co-operative Group Annual Report and Accounts 2006: http://www.co-operative.co.uk/en/corporate/reportsandpublications/. Excludes specialist retail sales. J Sainbury Annual Report 2006: http://www.j-sainsbury.co.uk/index.asp?pageid=20 and research interview.

iii Sainsbury's banana buyer quoted in the Fresh Produce Journal, 5 January 2007, p.8.