

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Diploma Thesis**

**Analysis of Fairtrade Coffee Market  
in the Czech Republic**

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## DIPLOMA THESIS ASSIGNMENT

Edita Svitáková

Economics and Management

Thesis title

**Analysis of Fair Trade coffee market in the Czech Republic**

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### **Objectives of thesis**

The goal of this thesis is to analyse a current situation of Fair Trade products with emphasis on coffee in the Czech Republic.

### **Methodology**

The Thesis will be elaborated with use of descriptive and comparative methods.

## The proposed extent of the thesis

50 – 70 pages

## Keywords

Fair Trade, coffee, market, Czech Republic

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## Recommended information sources

Kimberly Elliott. 2012. "Is My Fair Trade Coffee Really Fair? Trends and Challenges in Fair Trade Certification." CGD Policy Paper 017. Washington DC: Center for Global Development.  
<http://www.cgdev.org/content/publications/detail/1426831>

OPAL, C. – NICHOLLS, A. *Fair trade : market-driven ethical consumption*. London ; Thousand Oaks, Calif.: SAGE, 2005. ISBN 978-1-4129-0105-5.

RANSOM, D. *Fair trade*. Brno: Doplněk, 2011. ISBN 978-80-7239-258-2.

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DECLARATION

I, the undersigned, hereby declare that the thesis „Analysis of Fairtrade Coffee Market in the Czech Republic“ is result of my personal work and only sources I used are listed in the references.

In Prague, November 21<sup>st</sup>, 2016.

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Edita Svitáková

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## **Analýza trhu Fairtradové kávy v České republice**

### **Souhrn:**

Tato diplomová práce je zaměřena zejména na analýzu trhu Fairtradové kávy v České republice. Literární rešerše popisuje a vysvětluje hlavní témata a koncepty, které jsou klíčové ve vztahu k principu Fair trade obchodování, ochranné známce Fairtrade a s ní spojenou certifikací. Na teoretická východiska navazuje analytická část, která se zabývá analýzou trhu Fairtradové kávy v České republice. Cílem této analýzy je posouzení vnějších i vnitřních faktorů ovlivňujících toto odvětví trhu, ceny Fairtradové kávy a její vývoj a především se zabývá dostupností těchto produktů v daných obchodech, které byly zmapovány vlastním pozorováním. K posouzení konkurenčního prostředí v tomto odvětví je využit Porterův model pěti konkurenčních sil. Následuje část založena na hlavních zjištěních a výsledcích provedené SWOT analýzy, která shrnuje navrhovaná doporučení k rozvoji trhu a zhodnocuje vyhlídky Fairtrade v budoucnosti. Závěr práce obsahuje shrnutí všech relevantních faktů a výsledků.

**Klíčová slova:** férový obchod, ochranná známka Fairtrade, certifikace, káva, trh

## **Analysis of Fairtrade Coffee Market in the Czech Republic**

### **Summary:**

The Diploma Thesis is focused on the analysis of Fairtrade coffee market in the Czech Republic. The literature review describes and explains the main concepts and topics which are crucial in connection to Fair trade trading and Fairtrade trademark and its certification. The theoretical part is followed by the analytical part which is based on the analysis of Fairtrade coffee market in the Czech Republic. The analysis investigates the external as well as internal factors influencing the market, price of Fairtrade coffee and its development and especially the accessibility of these products and its retailers that were summarized by the own observation. In order to analyse the competitive rivalry in the industry, the Porters' Five Forces model is applied. Subsequently, there are recommendations regarding market expansion and future prospects of Fairtrade based on the main findings and SWOT analysis results. The conclusion contains summary of all relevant facts and results.

**Key words:** Fair trade, Fairtrade trademark, certification, coffee, market

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## List of Abbreviations

ATO	Alternative Trade Organisations
CR	Czech Republic
CZK	Czech Crown
EFTA	European Fair Trade Association
<i>e.g.</i>	<i>exempli gratia</i> , for example
<i>etc.</i>	<i>et cetera</i> , and so on
EU	European Union
FI	Fairtrade International
FLO	Fairtrade Labelling Organizations International
FTO	Fair Trade Organizations
g	gram
ICO	International Coffee Organization
<i>i.e.</i>	<i>id est</i> , that is
Kg	kilogram
MT	megaton
o.p.s.	obecně prospěšná společnost, public benefit organization
SMBC	Smithsonian Migratory Bird Center
s.r.o.	společnost s ručením omezeným, limited liability company
UK	United Kingdom
USD	United States dollar
WFTO	World Fair Trade Organization
WIPO	World Intellectual Property Organisation

## **1. Introduction**

Recently, there have been major changes regarding peoples' perception of products they buy, the food they eat and how is the nature affected by their behavior. Customers are still more and more interested in what exactly are they buying, what is the origin, who produced it, the quality, even the conditions in which the product was created and if human rights were not abused. Moreover, they are willing to pay more for products which standards comply with their values, have better quality or do not harm the environment. The public awareness about conditions in the developing countries as well as environmental impacts and its protection is significantly increasing, thanks to many national or multinational organizations which are focused on these issues and its promotion. Generally, we can say that it is a form of social responsibility which is being awoken.

The concept of Fair trade was established as a consequence of the mentioned issues. And it is more than just trading. It is often connected with the terms fair price and ethical shopping and reacts to the globalization as well as to still greater inequalities between well developed and developing countries even in some countries itself.

In the Czech Republic, the concept of Fairtrade is still quite new compared to other countries such as United Kingdom or the Netherlands. However, during past ten years the increase in volume of sales on the Czech market was really significant. Sales of Fairtrade products have risen from 3 million CZK in 2004 up to 203 million CZK in 2014. This growth shows that people in the Czech Republic are still more often looking for an alternative form of trading and nowadays Fair trade is part of the sustainable development.

Coffee which is the major topic of this thesis is, after crude oil, the second most traded commodity worldwide and a lot of people could not image a day without having a cup of coffee. Because of the fact that coffee is produced mainly in the developing countries where the human rights are not always observed and farmers are not rewarded as they should be, it has great Fair trade potential. Moreover, there are several multinational corporations producing and selling coffee with the primary goal of earning as much profit as possible with whom Fair trade tries to compete.

## **2. Thesis Objectives and Methodology**

### **2.1. Objectives**

The main objective of the thesis is to analyze the current Fairtrade coffee market situation in the Czech Republic, evaluate the accessibility, supply and prices in specific retailers. In particular, the thesis is focused on questions about the process of certification, distribution of coffee, how did the volume of sales changed during past years, which components are included in comprising the price and what is the price difference between Fairtrade coffee and non-Fairtrade one.

The goal is also to analyze the competition in this industry and to find the most appropriate and suitable alternative to Fairtrade and subsequently compare and evaluate both concepts.

### **2.2. Methodology**

Firstly, in the theoretical part all relevant data were gathered in order to clarify terms and definitions which are important in relation to Fairtrade coffee market. In this part the concept of Fair Trade including its history, goals and principles were described and Fairtrade trademark and the process of certification were explained.

The practical part is elaborated with the use of descriptive and comparative methods. To analyze the market, data and statistics from annual reports of relevant organizations were gathered. The method of own observation was conducted in order to map the supply and accessibility of Fairtrade coffee as well as its prices.

Subsequently, comparative methods were used for the purpose of finding the appropriate alternative to the Fairtrade concept and doing a comparison of Fairtrade coffee with the non-Fairtrade one. Finally, the model of Porter's Five Forces, which is a useful tool how to evaluate the level of competition within the industry, and SWOT analysis which is used to assess the future potential of Fairtrade is conducted. On the basis of the outputs of both analyses, recommendations regarding future development are suggested and gained results are discussed with Literature Review statements.

## **LITERATURE REVIEW**

### **3. Concept of Fair Trade**

#### **3.1. Definition of Fair Trade**

"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" (World Fair Trade Organization, 2014). However, as World Fair Trade Organization points out: "Fair Trade is more than just trading. It proves that greater justice in world trade is possible. It highlights the need for change in the rules and practice of conventional trade and shows how a successful business can also put people first. And it is a tangible contribution to the fight against poverty, climate change and economic crisis."

"Fair Trade is an alternative approach to conventional trade based on a partnership between producers and traders, businesses and consumers. Fair trade offers consumers a powerful way to reduce poverty through their everyday shopping" (FAIRTRADE INTERNATIONAL, 2016).

Alternatively, Fair Trade can be described as a following issue: "Fair Trade attempts to address some of the key problems in the increasingly deregulated global marketplace by addressing the producers' needs, as well as those of consumers, big corporations and their shareholders. Fair Trade represents a new way to do a business that looks holistically at a supply chain to address market failures and their social impacts at source, but which still acknowledges the need for profitability. Fair Trade is not about aid, charity, or just 'doing good': it is about recognizing the global community as having rights and responsibilities that extend across all of its stakeholders" (Nicholls and Opal, 2005).

When defining the basic terms, it is necessary to distinguish between the terms Fair Trade and Fairtrade which are crucial in order to understand this topic. Fair Trade is a general concept of trading partnership, explained in the definitions above. "The term Fairtrade is used to denote the product certification system operated by Fairtrade International FLO" (More detailed information about this organization can be found in a chapter 3.4.2.) (World Fair Trade Organization, 2011).

### 3.2. History, Principles and Goals of Fair Trade

History of Fair trade began after the Second World War when British charity organization called Oxfam and some other organizations started to import products from their humanitarian and developmental projects. The very first shop offering Fair trade products was established in 1959 in the Netherlands. In the 80's the Fair trade products started to spread out and could be found also in regular shops. Because of the expansion of these products, some unique sign and guarantee, which would warrant the fair principles and origin of a product, had to be set up. In 1988 the first Fairtrade label called Max Havelaar, under the initiative of the Dutch development agency Solidaridad, was launched.

The fundamental **Fairtrade principles** are listed above:

- Fair price
- Sustainable development of local communities
- Compliance with International Labour Organisation (ILO)
- Environment protection, controlled use of pesticides
- Long-term business relationships
- Dignified working conditions
- Equality of rights
- Democracy
- Prohibition of children's work
- Transparency and accountability

The main goals of Fairtrade are to improve the life and working conditions of disadvantaged producers by helping them to entry the market, provide them a fair price for their products and support the continuity of long-term business relationships. Emphasis is placed on developing the new opportunities and protecting women and children from any form of abuse. Fairtrade struggles for human rights compliance and environmentally friendly behaviour. Moreover, Fairtrade tries to improve consumers' awareness about negative impacts of international trade on producers.



### 3.3. Fairtrade Commodities

Generally, Fairtrade commodities can be divided into two groups, food and non-food products. Food Fairtrade products are mainly cocoa, coffee, tea, sugar, rice, bananas or honey, to non-food group belong for instance flowers, cotton or gold. Besides, there are several campaigns related to other Fairtrade projects, such as Fairtrade towns (currently nine Czech Fairtrade towns) or Fairtrade schools which can be found in the Czech Republic as well.

### 3.4. Fair Trade Organisations

There are several organizations worldwide which are supporting and promoting the concept of Fair trade or providing the certification trademark. The most important of them are briefly described above.

#### 3.4.1. World Fair Trade Organization (WFTO)

WFTO (formerly IFAT, International Fair Trade Organisation) is probably the most important global network of organisations which unites more than 400 membership organisations in more than 70 countries all over the world. Members are from small producers to big businesses as well, producers, marketers, exporters, importers, wholesalers and retailers but they are all necessarily obliged to observe ten standards defined by WFTO (World Fair Trade Organization, 2014). WFTO provides certification to organizations while FLO, described below, certify particular products.



Picture 1: WFTO logo

#### 3.4.2. Fairtrade International

The Fairtrade International was established in 1997 in Bonn, Germany. It represents the world's largest and most recognized Fair trade system. Nowadays the organization is divided into two parts. **Fairtrade Labelling Organizations International (FLO)** which is a non-profit association of 25 organisations and its main goal is the formulation of the Fairtrade standards and norms.



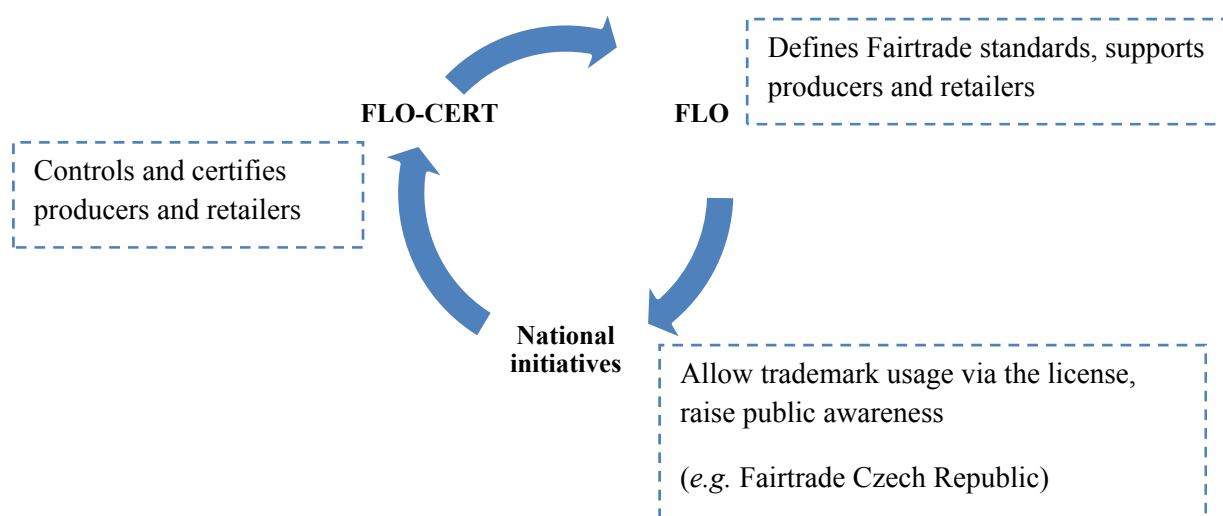
Picture 2: Fairtrade International logo

And secondly **FLO-CERT**, its main role is mainly to monitor, supervise and carry out the certification process of production organizations. Fairtrade International unites national Fairtrade certification initiatives, synchronizes the worldwide process of certifications and creates the standards for

FAIRTRADE® trademark certification. Since 2002 is this trademark recognized worldwide and enables to improve the visibility of Fairtrade products on the market and simplify cross border trade. Moreover, it coordinates the global Fair trade strategy and promotes this concept (FAIRTRADE INTERNATIONAL, 2016). The Figure 1 shows the roles and responsibilities of particular organizations.

Fairtrade International activities are financed mainly from grants and Fairtrade trademark usage fees.

Figure 1: Roles and responsibilities



Source: (Bačová a Hejkrliková, Základní kurz pro prodejce fair trade 2010); own processing

### 3.4.3. European Fair Trade Association (EFTA)

This association was set up in 1990 in the Netherlands and unites 11 Fair trade importers in nine European countries in order to support its members and to enable better coordination and cooperation between them.

## 4. Fairtrade Trademark

As was already mentioned, Fairtrade trademark is globally recognized symbol which enables customers to easily identify the wide range of Fair trade products and ensures that the 100% of the product meets the Fairtrade standards. “International certification mark FAIRTRADE ® is the exclusive property of Fairtrade International (hereinafter referred to as FI) and internationally registered as a trademark (for the EU with number 002606994, at the World Intellectual Property Organisation (WIPO) with the number 806431). The Czech Republic is registered at the Industrial Property Office, the file number 7408917, and 1001027, and its management is contracted by the Fairtrade Czech and Slovakia” (Fairtrade Česko a Slovensko, 2016).

Fairtrade International (2016) explains the design of the mark as follows: “The roundel incorporates a blue sky symbolizing optimism, green for growth and a raised arm for empowerment. Together they represent the vision and values of Fairtrade as a modern movement.”

Of course there are strict rules and limitations which need to be observed regarding the trademark management and treatment. For instance the Fairtrade trademark has a high moral and also financial value and has to be presented in this way. The trademark must not be connected to another label, brand or identity and must not be related to products which are not certified in agreement with the Fairtrade standards.

Sometimes, there is an assumption that Fairtrade trademark also guarantees that the product is organic. However, not all of the certified products are organic because organic certification requires meeting given requirements and of course costs some money and not all of the farmers choose to pay for it. In fact, about half of the Fairtrade producers are also certified organic.

### 4.1. Certification

In order to gain a Fairtrade trademark certification, an application form has to be submitted and fee to be paid. All products marked with a Fairtrade® sign has to be certified on all stages of retail chain, from producer to packaged products which are prepared for sale. This process is secured by the independent organization called FLO-CERT. “By checking compliance with Fairtrade Standards, the company ensures that the

relevant economic, social, and environmental standards are met.” Well experienced and trained auditors, who visit particular countries, carry out regular checks. Because of the fact that the size of the producer organizations significantly varies, “There is pre-defined number of minimum number of farms to be physically visited and workers to be interviewed. The annual cost of certification depends on the total number of farmers or workers. After the acquisition of the certification, producer organizations are physically audited at least twice in a three-year certification cycle.” Moreover, there are also irregular, unannounced controls (FAIRTRADE INTERNATIONAL, 2016). Important is to point out that not only producers but also traders and companies selling the Fairtrade products are controlled and monitored. The audits are paid by Fairtrade organizations, importers and by those who process the goods. This financial capital and the registration fees are used to operation of FLO-CERT.

As Fairtrade Czech Republic (2016) explains the following entities can apply for the Fairtrade certification: direct importer (buying products directly from producers involved in the Fairtrade system), manufacturer (buying products from the Fairtrade certified importer and process the product) and small enterprise. The small enterprises are obliged to sell the final products directly to the customers or process or pack Fairtrade certified products. Total turnover must be equal or lower than  $\leq 2$  million € and the limit of maximum annual sales of Fairtrade products is set to 8 tons per roasted coffee. The price for certification is 750 € per three year period (*i.e.* 250 € annually).

#### **4.1.1. Certificate Benefits to Farmers**

Once the farmer or organization acquire the permission to use the trademark on the products, it means some advantages but certain duties as well. Firstly, one of the most important is the principle of **Fairtrade Minimum price**. It is a fixed minimum price, determined by Fairtrade International and applies to most Fairtrade certified products. „This price aims to ensure that producers can cover their average costs of sustainable production. It acts as a safety net for farmers at times when world markets fall below a sustainable level. When the market price is higher than the Fairtrade Minimum Price, the buyer must pay the higher price. Producers and traders can also negotiate higher prices on the basis of quality and other attributes” (FAIRTRADE INTERNATIONAL, 2016).

Second benefit which arises from the Fairtrade certificate is called **Fairtrade Premium**. As Fairtrade International (2016) explains “In addition to the price paid for the product, there is an additional sum of money, called the Fairtrade Premium, that farmers receive for products sold on Fairtrade terms. This money goes into a communal fund for workers and farmers to use to improve their social, economic and environmental conditions.” In other words there is an extra, fixed amount of money which is added to purchase price of a product and is used to local development, *e.g.* investments in education, health care or infrastructure. Producers itself democratically decide to which area the premium amount will be invested.

The example of accurate amount of Fairtrade Minimum price and Fairtrade premium based on the type and variety of product can be seen in the table below (Table 1).

Table 1: Example of Fairtrade Minimum price and Fairtrade Premium

Product	Product variety	Currency/ quantity x unit	Fairtrade Minimum price	Fairtrade Premium	Valid from
Cocoa	Organic, beans	USD / 1 MT	2300.00	200	1. October 2012
Coffee Arabica (coffee)	Conventional, washed	USD / 1 pound	1.40	0.20 (of which at least 0.05 for productivity and/or quality)	1. April 2011
Avocados (Fresh Fruit)	Organic, fresh, all varieties	USD / 1 kg	1.53	0.12	15. September 2010
Bananas for processing (Fresh Fruit)	Organic	USD / 1 MT	160	22.50	12. February 2016
Honey	Organic, A Quality	USD / 1 kg	2.95	0.20	1. January 2011
Soybeans (Oilseeds and Oleaginous fruit)	Conventional	USD / 1 MT	355.00	35	5. December 2008

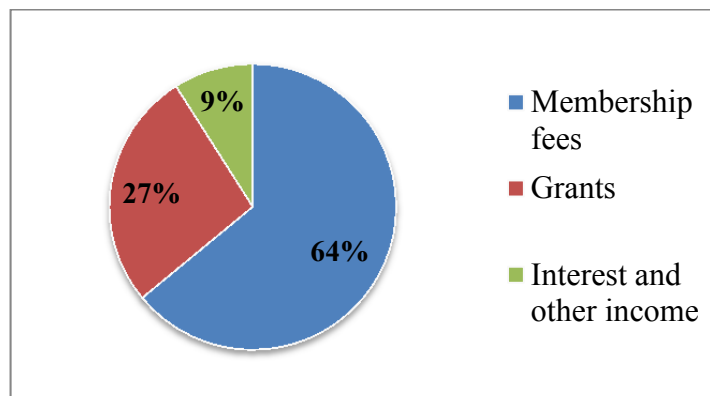
Source: (Fairtrade International 2011); own processing

## 4.2. Fairtrade Worldwide

According to Fairtrade International annual report 2014-2015 (2015) over 1.5 million farmers and workers and about 1,210 producer organization across 74 countries are involved in Fairtrade production. Fairtrade products are being sold in more than 125 countries all over the world and it is possible to say that global Fairtrade sales are still increasing. In 2014 global sales reached €5.9 billion which is approximately 10 % increase since the previous year. According to available statistics 64% of all Fairtrade farmers are in Africa and the Middle East.

Regarding financing, for example 96% of Fairtrade Premium is generated by the following seven products: bananas, cocoa, coffee, cotton, flowers, sugar and tea. The Figure 2 below shows from what comprises the Fairtrade International income. The Figure 2 shows that majority of finances (64%) come from the membership fees, 27% from grants and 9% from interest and other income.

Figure 2: Fairtrade international income



Source: (Fairtrade International 2015); own processing

## 4.3. Fairtrade in the Czech Republic

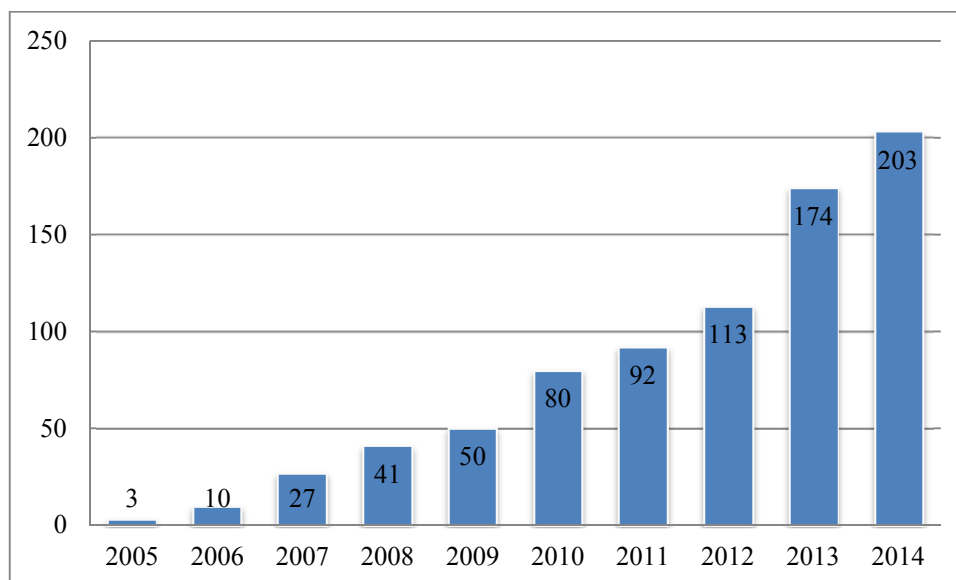
Compared to other European countries it is possible to say that the concept of Fair trade is relatively new and often perceived as an alternative way of trading. Similarly, the general product certification awareness is still rather low. Even though the sales of Fairtrade products increased significantly during past years, it is still necessary to improve the society's awareness.

The very first shop offering Fair trade products was established in 1994 in Prague by the organization called 'Jeden svět'. The growth of public interest increased after the year

2000. In 2004 the Ecumenical Academy Prague started to import first Fairtrade certified products and subsequently other various organizations dealing with distribution and sale of Fairtrade products were founded. One of these organizations is the Association for Fair trade which was established in 2004 as well. Its main goal was to create a platform where non-profit organizations and companies dealing with Fair trade products can meet and improve the publicity of these products. Additionally, the association set a goal to become a Czech national representative of Fairtrade International. This goal was achieved in 2009 when the agreement between Fairtrade International and Association of Fair trade (in 2012 renamed to Fairtrade Czech Republic) was made. Currently the Fairtrade Czech Republic strives mainly to support Fairtrade products sales, increases the awareness and is responsible for monitoring of Fairtrade trademark usage and supervises whether the determined rules are observed.

The Figure 3 shows the volume of sales of Fairtrade products in the Czech Republic in the period between the years 2005 to 2014. Since 2005 when the sales were equal to about 3 million CZK, it is possible to see annual significant increase and in 2014 the sales reached 203 million CZK.

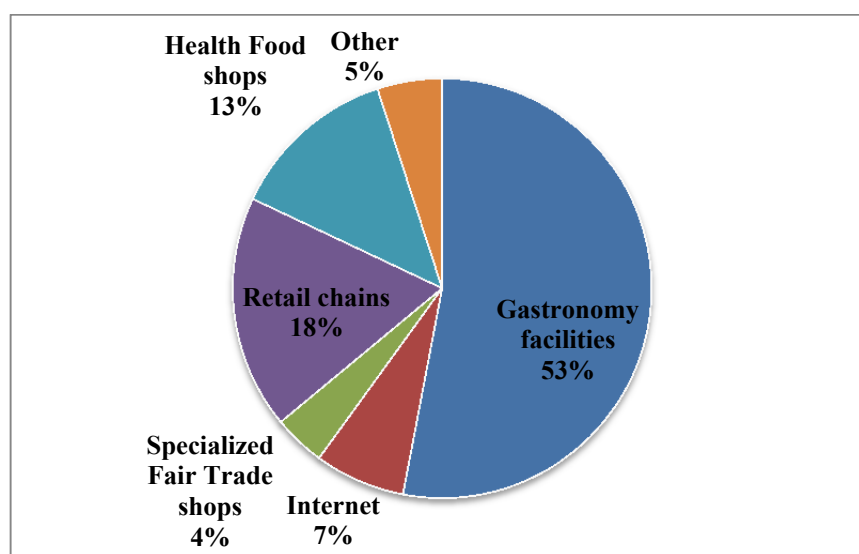
Figure 3: Volume of sales of Fairtrade products in the Czech Republic in millions / CZK



Source: (Fairtrade Česko a Slovensko 2015); own processing

Regarding the market structure of the Fairtrade commodities, the top-selling product is repeatedly coffee which is subject of this thesis. Approximately 190 tons of coffee in the financial value of 138 million CZK, which is equal to 67% of all Fairtrade products, were sold in the Czech Republic in 2014. On the second place with 16% is cotton and third top product is tea, which accounts for 7% of Fairtrade sales (Fairtrade Česko a Slovensko 2015).

Figure 4: Structure of place of sales (2014)



Source: (Fairtrade Česko a Slovensko 2016); own processing

Structure of place of sales, displayed in the Figure 4, has considerably changed during past years. While earlier the majority of Fairtrade products were sold in traditional shops offering Fairtrade products or in small shops, nowadays Gastronomy facilities play the major role on the market. In 2014 about 53% of Fairtrade products were sold in cafes, restaurants *etc.* Gastronomy facilities are followed by Retail chains (18%) and Health Food shops (13%). Other 7% of Fairtrade products were sold via the internet through various e-shops. Internet has already overtaken the Specialized Fairtrade shops and with the growing number of e-shops and supply, it is expected that the position of Internet regarding Fairtrade products purchase will strengthen in the future.

Beyond the specialized and health food shops, cafes and e-shops, in 2009 the Fairtrade products were possible to purchase in the following retails, namely in Marks & Spencer, Globus, Tesco and DM Drogerie (Krátká, Pernicová and Šťastná, 2009).



## 5. Fairtrade Coffee

### 5.1. History

Coffee nowadays is a commodity which is an inherent part of peoples' everyday lives and which has created a huge, separate industry. The first bag of coffee was brought to England from Turkey in 1652 and the global consumption has almost doubled during the last 40 years and is expected to increase in the future. Nonetheless, it is colonial commodity with a complicated past. Coffee is actually the very first Fairtrade certified product and the history of this first certification is connected to Max Havellar label, established in 1988. „Indigenous Mexican coffee farmers from the UCIRI cooperative in Oaxaca had approached the Dutch development aid organization Solidaridad two years earlier with an unprecedented proposal. After several years of selling small amounts of coffee through world shops, UCIRI wanted access, on equitable terms and in larger quantity, to European consumer markets. Essentially, the cooperative was asking the European alternative trade movement to go beyond its largely symbolic purchases and buy coffee in volumes sufficient to make a significant difference in the incomes of UCIRI's peasant farmers. Solidaridad initially considered starting its own alternative brand to compete alongside commercial coffees in mainstream supermarkets. Instead, it opted to create a label, Max Havellaar, which could be placed on coffee sold under any brand, certifying that coffee farmers had received a premium price that constituted a 'fair return'. It is possible to say that this is the moment when 'alternative trade' became fair trade" (Jeffee, 2014). Subsequently, certificated coffee spread rather quickly during the 90's, mainly in the Western Europe.

There are two main types of coffee beans, Arabica and Robusta. Arabica is in general milder and more expensive since has higher quality. Whereas Robusta is stronger, not so tasty, its breeding is less demanding and therefore is less expensive. Both are requiring the plantation in a tropical environment (Druhy kávy, 2015).

### 5.2. International Fairtrade Coffee Market

Coffee can be traded in two ways. Firstly, on the spot market bought or sold physically or secondly on the international futures markets (New York Intercontinental Exchange and London Liffe). Futures markets are describes in a report called Fairtrade and Coffee (2012) published by Fairtrade International as follows: "The trading of futures

contracts – a commitment to buy or sell a standardized quantity of coffee beans at a specified place and time in the future – is a tool used by commercial traders and producers to ‘hedge’ or protect against the risk of loss through future price fluctuations and exchange rate movements.”

Global coffee production depends on several factors, such as weather conditions or diseases which vary usually every year. Because of this, the international coffee market can be characterised as unstable. Therefore, there are also wide fluctuations in prices. “This price volatility has significant consequences for those who depend on coffee for their livelihood, making it difficult for growers to predict their income for the coming season and budget for their household and farming needs. When prices are low farmers have neither the incentive nor resources to invest in good maintenance of their farms by applying fertilisers and pesticides or replacing old trees” (Fairtrade International, 2012).

Besides, it is important to realize that there are several large companies, such as Nestlé (famous for its coffee Nescafé, Nespresso, Dolce Gusto) Tchibo (interesting is that Tchibo offers regular coffee without any kind of certification and also Fairtrade coffee, but in their shops customers can find UTZ and Rainforest Alliance certified coffee as well), Kraft Foods and Procter & Gamble, which control about half of the global coffee market. However, the main goal of these companies is to make a profit by keeping low price level. As Adam P. Carlson stated in his research, the Fairtrade coffee price is by 22% more expensive than coffee without this certification (Carlson, 2009).

Generally, we can say that the level of competition in the coffee industry is high because of the limited differentiation of products. Small farmers are compared to these corporations very weak and price fluctuations, weak negotiation position, lack of information and technical support can be devastating for them even for the whole regions. Fairtrade certification struggles to help these farmers by ensuring the Minimum price which covers the average costs of sustainable production and Premium Price which contributes to local community development. “In 2011, all Fairtrade coffee organizations together decided to devote at least 25% of the Premium to increasing productivity and / or quality” (Max Havelaar Foundation, 2013). According to Max Havelaar Foundation data from 2013, almost half of the Fairtrade Premium (49%) is allocated to Investments in organizational development, production and processing, 27% to Cash payments to

members, 8% into Community, 3% Environment, 2% Health and the same amount is allocated to Training.

The development and changes of Minimum and Premium Price displays the table below. Since 1988 the Minimum Price of Arabica increased by 25 USD cents and Robusta by 6 USD cents. Premium Price was doubled in 2011 from 10% to 20%.

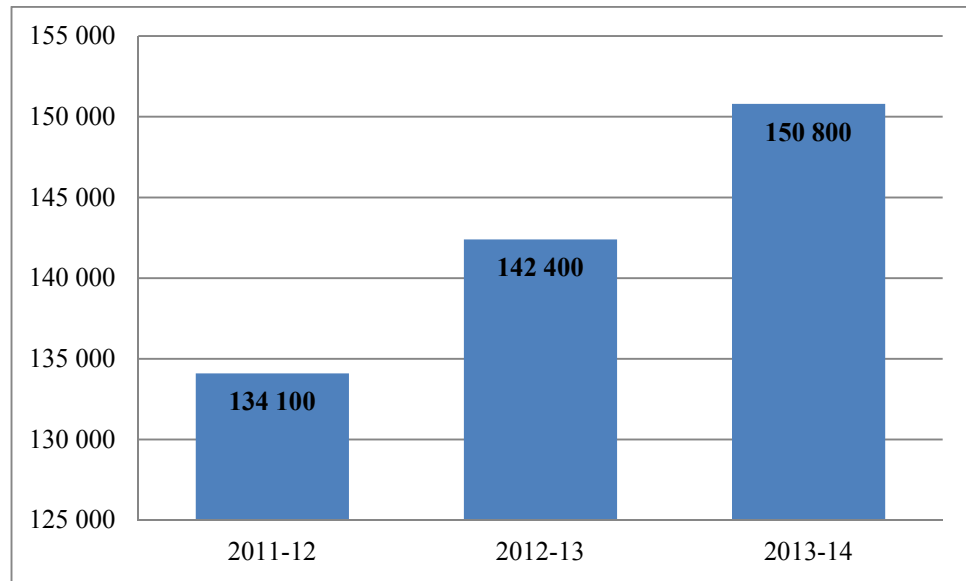
Table 2: The Minimum Price and Premium Price change in 1988 – 2011

Year	Minimum Price (US cents per pound)		Premium (US cents per pound)
	Arabica (washed)	Robusta (unwashed)	
1988	115	95	10%
1995	121	101	5%
2007	121	101	10%
2008	125	101	10%
2011	140	101	20%

Source: (Max Havelaar Foundation 2013); own processing

According to Fairtrade International (2016) statistics “Nearly half of all Fairtrade producers are coffee growers with roughly 812,500 small-scale farmers organized in 445 producer organizations.” Fairtrade coffee is produced by farmers from about 30 different countries and totally 1,105,600 hectares are under Fairtrade coffee cultivation. However, 80% comes from Latin America – mainly from the following countries: Colombia, Brazil, Peru, Nicaragua and Costa Rica.

Figure 5: Fairtrade coffee volume sold (MT)



Source: (Fairtrade International 2015); own processing

Figure 5 shows the volume of sold Fairtrade coffee during the period from 2011 to 2014. It is possible to see the ascending trend that have reached the volume of 150,800 MT of coffee sold during 2013-2014. The annual increase is equal to about 6.19% from 2011-2012 to 2012-2013 and 5.90% from 2012-2013 till 2013-2014. This significant growth is expected to steadily continue in the future.

## **ANALYTICAL PART**

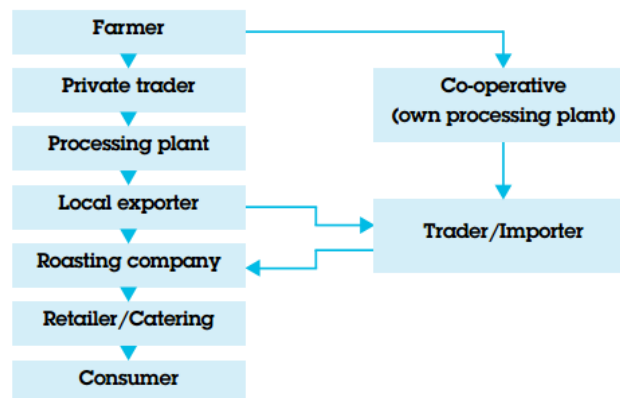
### **6. Analysis of Fairtrade Coffee Market in the Czech Republic**

#### **6.1. Import and Distribution**

Description of the process of import and distribution of coffee is not simple. It is complex because it may differ in several ways. Until 2008 all Fairtrade products were imported into the Czech Republic via import organization from EU countries, called FTOs or ATOs (Fair Trade Organizations or Alternative Trade Organisations). These organizations usually buy primary or only minimally processed material from producers or producers organizations, manufacture it and subsequently sell it to wholesale, retail businesses or sometimes even to final consumer. Some of these organizations also support the producers and strive to increase the awareness of Fairtrade products. Commodities in the Czech Republic usually come from these organizations: Gepa (Germany), EZA (Austria), El Puente (Germany), Comercio Alternativo – Equo Solidale (Italy), Eine Welt Handel (Germany) or Lobodis (France). In 2008 the company called Mamacoffee was established and as a first one in the Czech Republic gained the Fairtrade certification and started to import raw coffee, not directly from the producers, but from the European harbours. Currently several non-profit and retail organizations engage in the distribution and sale of imported coffee and often organize various education activities. An example of them is Ecumenical Academy Prague, Jeden svět o.p.s., Excellent Plzeň s.r.o., Mamacoffee s.r.o. or Fairově s.r.o. (Krátká, Pernicová and Šťastná, 2009).

Simplified supply chain (Figure 6) shows the way how the coffee gets from farmer to final consumer. “Small farmers typically sell their coffee beans to local traders, often agents for big coffee millers and exporters, who transport the coffee to the processing plant. After processing, the coffee is sold by a local exporter to an international trader, from whom roasting companies then usually purchase the coffee and sell it to retailers, notably supermarkets, before finally reaching consumers. Primary or village co-operatives purchase members’ coffee and sell it in bulk to a processor or exporter, while regional co-operative unions purchase, process and export coffee on behalf of their member co-operatives” (Fairtrade International, 2012).

Figure 6: Simplified coffee supply chain



Source: (Fairtrade International 2012)

## 6.2. Volume of Sales of Fairtrade Coffee

As was already mentioned before, Fairtrade coffee is the number one top-selling product in the Czech Republic with 67% of total turnover. Approximately 190 tons in the financial value of 138 million CZK was sold in 2014 in the CR. These numbers mean that Czechs paid more than 2 million CZK as a Fairtrade Premium price (Fairtrade Česko a Slovensko, 2015).

## 6.3. Organizations

Despite the fact that in the Czech Republic the concept and principles of Fairtrade are not as well-known as in some other countries such as in Germany or Great Britain, the public awareness has definitely increased recently. The following non-governmental and non-profit organizations are in operation in the Czech Republic and have made a significant contribution to the propagation of Fairtrade.

### **Ecumenical Academy Prague**

Citizens' association that focus mainly on raising of public awareness in relation to Fairtrade and realize also specific projects oriented *e.g.* on development. Since 2004 they have conducted Fairtrade wholesale store and some retail shops offering Fairtrade products as well. Its aim is to create a forum for open discussion in collaboration with partner institutions in the Czech Republic and abroad.

## **Jeden svět, o.p.s.**

This charitable association was established in 1994 by the Czech Brethren church. There are no employees, all of the activities are done on a voluntary basis. The main goal is to provide beneficial services to mentally or physically disabled people in the Czech Republic and to people in developing countries as well. Moreover, they propagate the concept of Fairtrade and operate two shops located in Prague which are offering the Fairtrade products.

## **Association for Fairtrade**

Citizens' association engaged in increasing Fairtrade awareness in the Czech Republic. They point out Fairtrade as a useful tool in asserting the sustainable development, organize regular workshops, seminars and lectures and create several information materials. Moreover, they are supporting innovative forms of developing education and operate Fairtrade shops called Na Zemi (Krátká, Pernicová and Šťastná, 2009).

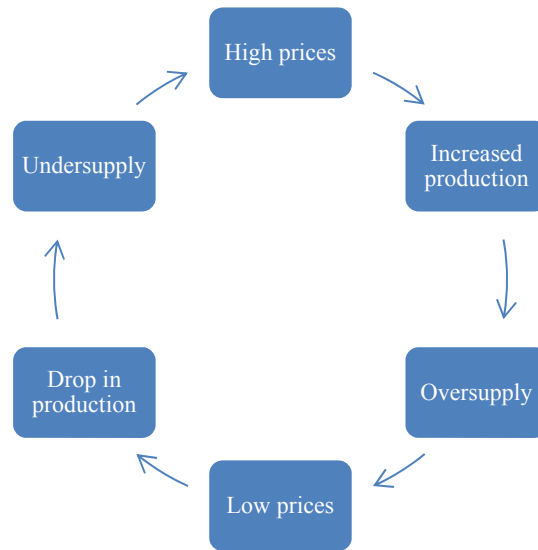
Besides these non-governmental and non-profit organizations, there are also enterprises that focus on Fairtrade products sale. For instance Excellent Plzeň, s.r.o., Fair Trade Centrum, s.r.o., Mamacoffee, s.r.o. or Fairově, s.r.o.

## **6.4. Analysis of Price of Fairtrade Coffee**

### **6.4.1. Price Volatility of Coffee**

As was already mentioned in the chapter International Fairtrade coffee market, the combination of variable demand and steadily increasing supply result in distinct fluctuation of price of coffee and inherently unstable market. This fluctuation is caused by non-constant supply which is influenced by current climatic conditions, vegetation cycles of coffee trees, political, social and economic situation in particular region, pest activity or by accessibility of fertilizers. The price increases in case of high demand and on the contrary decreases in case of supply excess. Because of these reasons the coffee market structure is characterized as a cyclical (as shows the chain below – Figure 7).

Figure 7: Cycle of prices and production



Source: (Voronyak Diaz 2009); own processing

The production process is not able to react immediately to the situation on the market. In case of coffee shortage on the market, newly planted areas are fully producing coffee beans after couple of years, the average time period from the harvesting to the distribution is four years. Similarly during the period of high supply, considering the initial investment, farmers tend to endure this time instead of growing some new crop, for instance (Voronyak Diaz, 2009).

#### 6.4.2. The Development of Price of Coffee

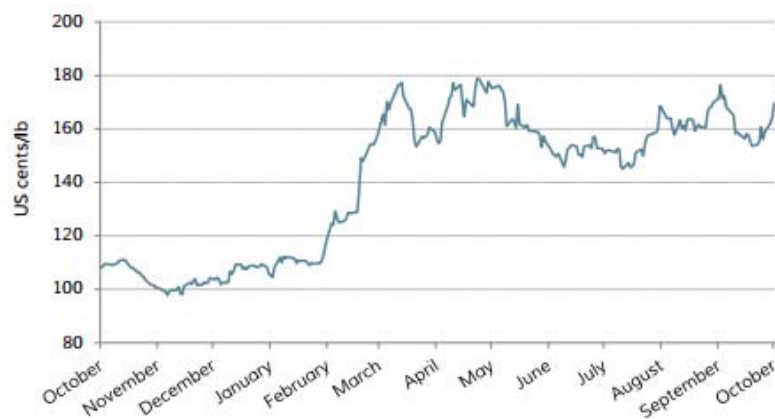
The period between 2000 and 2004 is perceived as a period of coffee market crisis. Coffee prices on the world markets dropped to thirty-year-old minimum, however, in real prices it was the lowest value in the last 100 years. This downswing was caused by overproduction which was significantly exceeding the demand and large coffee stocks worldwide. According to International Coffee Organization (2015) the production exceeded the demand by 10 million bags of coffee in 2002. The production in that time was increasing in average by 3.6%, whereas the consumption only by 1.5%. The crisis ended up in 2004 because of the weak crop in Brazil. The coffee stocks subsequently reduced and the proportion between supply and demand became relatively balanced.



Another drop came in 2008 during the global economic crisis when the average price of coffee decreased by more than 10%. However, the crisis did not influence the demand considerably so the overall impact was not fatal.

Figure 8 shows the International Coffee Organization (ICO) composite indicator daily prices during the period 2013-2014. For this time period (2013/2014) the average price was 141 cents/pound which is by 10.3% higher than the previous (2012/2013) average. The low values from October till February were caused by droughts in Brazil (International Coffee Organization, 2015).

Figure 8: ICO Composite indicator daily prices (Coffee year 2013/2014)



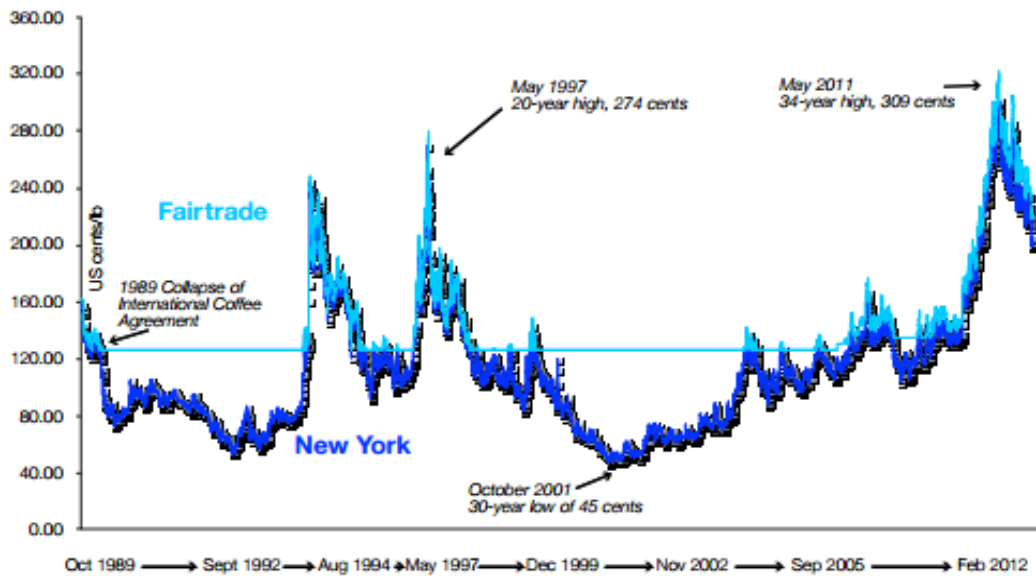
Source: (International Coffee Organization 2015)

Regarding contemporary situation and the future expectations, during past six months the price of coffee has increased significantly. The reason of this rise is once again the weather, specifically climatic phenomenon called El Niño. Predominantly dry weather period negatively influenced the harvest, especially Robusta, in Brazil, Columbia or Vietnam. Arabica, which has higher quality, is in relation to Robusta the cheapest over the past three years. The droughts in Brazil influenced more Robusta therefore the prices of Robusta and Arabica become almost equal. According to E15 journal, this would mean growth in price of instant coffee of lower quality. Besides, the annual consumption of coffee is expected to increase and there is an assumption of 20% growth in demand by 2020. The price of coffee and its fluctuations will continue to be dependent on the weather conditions and the harvest size (Lazarevič, 2016).

### 6.4.3. Price of Fairtrade Coffee

The price of Fairtrade coffee is, as already mentioned, declared as fixed for each year. The Figure below (Figure 9) shows the price fluctuations regarding the Arabica coffee market during the period 1989 to 2012. There is a curve of Fairtrade Minimum price (since 1<sup>st</sup> of April 2011 is set to 1.40 USD per 1 pound) which guarantee that if the market price is higher, farmers will get the current market price according to New York market price. During the years 1989 till 1993 and mostly from 1997 till 2005 the Fairtrade Minimum Price was above the New York prices. While during 1993 – 1997 and then since 2006 the amount of Minimum Price was higher than the one which is determined in order to be equal to current market price. In October 2001 the price of Arabica rapidly fell to only 0.45 USD which was a 30-year low price level caused by excess of supply. Compared to Fairtrade Minimum price of 1.25 USD, it is a giant difference, and its existence definitely saved a lot of coffee growers.

Figure 9: The Arabica coffee market (1989 – 2012) – Fair Trade price vs. New York price (in USD cents)



Source: (Fairtrade International 2012)

Regarding the price, it is necessary to define what components are involved in the pricing. The table below (Table 3) shows an illustrative example of structure of price of one Tanzanian coffee certified as Fairtrade. It is possible to see what exactly needs to be done and what comprise the final selling price for customers. The final selling price is determined by nine factors or steps which came before the final stage when customer can buy the product. For each step there is a price in CZK and particular percentage from the final price. It is important to point out that these components differ regarding each importer and retailer who sets the final price and the price of course differs according to particular product and local conditions and law (for instance shop operation expenses). Nevertheless, there is a system of recommended prices which serves as guideline to retail pricing, in other words for how much the customer will be able to purchase the product. These ‘table rates’ should be observed in order to maintain the fair and transparent trade concept.

Table 3: Structure of price, an example of Fairtrade Tanzanian coffee

	<b>CZK/200g</b>	<b>Percentage from final price</b>
<b>Purchase price and processing</b>	63.7	28%
<b>Transport to EU</b>	19.5	8%
<b>Customs duties</b>	21.9	11%
<b>Importers' expenses</b>	31	13%
<b>Transport to the Czech Republic</b>	4	2%
<b>Wholesale in the Czech Republic</b>	20	9%
<b>Fairtrade license fee</b>	1.6	1%
<b>Retail</b>	42	18%
<b>VAT 10%</b>	23	10%
<b>Final selling price</b>	230	100%

Source: (Bačová a Hejkrliková, Základní kurz pro prodejce fair trade 2010); own processing

The whole process starts by paying the purchase and processing price, this is equal to 28% of the final selling price, which means 63.7 CZK per 200 grams of coffee. This part is overall the most expensive one. Processing is followed by transport to European Union (19.5 CZK), Customs duties (21.9 CZK), Importers’ expenses (31 CZK), Transport to the Czech Republic (4 CZK), Wholesale in the Czech Republic (20 CZK), Fairtrade licence fee (1.6 CZK), Retail (42 CZK) and finally VAT equal to 23 CZK. As was mentioned before the most expensive part is to purchase and process the coffee which is equal to 28%

out of the final price. Second most expensive is Retail part with 42 CZK (18%) and third is Importers' expenses with 31 CZK (13%) out of 230 CZK for which can be the coffee purchased by regular customers.

The majority of revenues from coffee generally go to exporters, importers and mainly to distributors and retailers. Small farmers usually get only a small amount of final selling price, approximately 5%.

#### **6.4.4. Comparison of Price of Fairtrade Coffee versus non Fairtrade Coffee**

In order to compare the price of Fairtrade coffee with the non-Fairtrade one, it is firstly necessary to specify the differences between the Fairtrade and conventional trading system. Generally, it is possible to say that the Fairtrade activities are similar to regular trading. Different levels of retail chain such as production and manufacturing, logistics and transport or marketing and public relations are in actual fact the same. The main difference between Fairtrade and conventional business is that Fairtrade makes an effort to eliminate the useless mediators from the retail chain in order to ensure farmers as much as possible from the profit and improve their live and working conditions. While conventional business intends to pay as little as possible without regard on farmers and their future.

Contrast between Fairtrade and common trading can be found also in customers' awareness. People buying Fairtrade coffee are in most cases aware of the country of origin and local conditions and sometimes also farmers' name and some additional information. This is often possible mainly thanks to volunteers and non-profit organizations which are involved.

The table below (Table 4) was created in order to compare the price of available Fairtrade coffee with the non-Fairtrade one. Data were gathered in several shops in Prague in September 2016. To have comparable samples following criteria were determined: all chosen are coffee beans, not ground coffee, and contain 100% Arabica. Prices are displayed in CZK per 100g.

Table 4: Prices of Fairtrade coffee and the non-Fairtrade coffee

FAIRTRADE COFFEE		NON-FAIRTRADE COFFEE	
Name of the shop	Price in CZK per 100g	Name of the shop	Price in CZK per 100g
Mamacoffee	105	Tesco	60
	105		50
	115		60
	84	Tchibo	45
	85		60
	100		60
Fairově	73	Lidl	16
	77		19
	66		16
mojekafe.cz	54	cerstvakava.cz	64
	76		60
	90		60
Tchibo	50	Nordbeans	130
	50		120
fairtrademarket.cz	46	Billa	45
	53		48
	90		48
fairtradecentrum.cz	80	Globus	38
	53		34
	66		36
<b>Average price</b>	<b>76</b>	<b>Average price</b>	<b>53</b>

Source: own observation; September 2016

To evaluate the results regarding prices, it is possible to see quite significant difference in the average price of both groups. The average price of Fairtrade coffee is 76 CZK per 100g while non-Fairtrade coffee costs in average 53 CZK of 100% Arabica per 100g. This difference is equal to 23 CZK per 100g which means that the Fairtrade coffee is by 43% more expensive than the non-Fairtrade one. In my opinion, for a lot of people in the Czech Republic it is a distinct variance which discourages them from buying Fairtrade coffee. Even though the Fairtrade coffee has often higher quality and social and ethical added value, people are not willing to pay for it. Of course it is necessary to realize that coffee sold in Lidl per 16 CZK is not comparable with the Mamacoffee roasted coffee by their own for about 105 CZK and the customers and target group of both companies are completely different.

On the other hand, it is important to realize that Fairtrade certified products are usually sold by more expensive brands therefore the results can be biased due to this fact. This statement is confirmed by the example of Tchibo, included in both categories which are being compared. The Fairtrade coffee sold in Tchibo is approximately the same price as the non-Fairtrade one and similar occurrence can be seen in Tesco.

Regarding evaluating the results it is necessary to point out that this comparison has several limitations. Chosen shops and the samples are only illustrative, it is not representative selection of the whole Czech Republic coffee market. Due to the fact that the observation was conducted in Prague only, the research has also regional limitation.

### **6.5. Retailers of Fairtrade Coffee**

The goal of this chapter is to analyse the accessibility of Fairtrade coffee on the market, to find out in which retailers can be purchased and at what price.

Thanks to propagation of Fairtrade, a number of organizations focusing on raising public awareness and still more people who are aware of some form of social responsibility, the number of places of sales where it is possible to buy Fairtrade coffee is still increasing. The large supermarkets are not by a long sight the only place and the structure of places of sales has significantly changed during past years. It is mainly because of the number of smaller shops offering organic and healthy food that have entered the market and are still expanding, whether chain such as Sklizeno or individual shops, and also because of online shopping boom.

According to catalogue Taste (2016), published by Fairtrade Česko and Slovensko, and which is the first material centralizing the majority of current supply of Fairtrade products in the Czech Republic, there are 122 different Fairtrade coffee products. Six producers have residence abroad and there is distributor for the Czech Republic and ten producers are located in domestic.

Generally, the Fairtrade coffee can be currently purchased in the large supermarkets which used to be the number one but have lost the position mainly because of the specialized smaller shops entering the market and offering smaller variety of products. Supply in larger supermarkets was always very limited and their position regarding Fairtrade products is expected to weaken in the future. The observation discovered that

currently the Fairtrade coffee is sold only in Tesco, in other common supermarkets such as Albert, Billa, Lidl and Globus it is not available.

On the contrary, there are smaller shops that focus on healthy, organic and high quality food offering also wide range of Fairtrade products. Even though these shops are noticeably more expensive than regular supermarkets, people are getting used to buy at least some of the products here and the number of these shops is still increasing. An example is already mentioned chain called Sklizeno, currently having eighteen shops around the Czech Republic and one in Slovakia (Sklizeno, 2016) or Country Life which was established in 1991 as the first one introducing the organic food on the Czech market. Currently there are nine Country Life shops, from which eight of them are located in Prague (Country Life s.r.o., 2012).

Another place where Fairtrade coffee can be purchased are cafes. Apart from the fact that people can come and have a cup of coffee, it became very popular to buy there also coffee for own consumption at home. This trend is spreading mainly in Prague and other bigger cities very quickly, in the manner of large western cities such as Berlin. Recently, there are many newly established cafes which put emphasis mainly on the quality of coffee, but also on different types of coffee preparations and sophisticated interior. Since people are willing to pay more for the quality and service, these cafes are highly appreciated among Prague inhabitants. Moreover, some of these cafes roast their own coffee. An example of such is 'Mamacoffee' which has roasted coffee since 2008 and used to be the oldest fair roasting room in the central Europe. In the same year they acquired the Fairtrade International license and established the first café (Mamacoffee, 2016). The second example is Czech company, roasting room called 'Doubleshot' which was established in 2010 with the goal of offering coffee of unprecedented quality, but at the same time trying to protect the nature and respect the farmers' work. Their philosophy is based on the Direct trade system (described in the chapter Competition), they put emphasis on cooperating only with quality oriented producers, having long-term relationships and supporting sustainable agriculture. All the coffees are sold under the farmers' name and contain all the important information such as the origin. Currently there are three doubleshot cafes located in Prague and its roasted coffee is supplied to several other cafes (Doubleshot, 2016).

The next group of places offering Fairtrade coffee is the mixture of different stores. Firstly, the drugstores such as DM which is primarily offering cleaning products and cosmetics but offer at same time some food products, usually organic and healthy ones. Secondly, there is an example of Marks & Spencer, British clothing retail chain which chose a diversification strategy of offering high quality food products. The range of products is still extending and becoming more and more popular. Besides, Fairtrade coffee is sold in a smaller volume in selected restaurants, theatres, bookstores, ecological or other educational centres and organizations.

Finally, there are e-shops usually offering wide choice of Fairtrade coffee. Some of them are additional sales to cafes or shops, some are individual businesses and the electronic supply is usually quite wide.

The table below (Table 5) is based on data from own observation which was conducted in the mentioned places in September 2016. Therefore, the prices are in accordance with the stated time period. It shows the sample of retail shops located in Prague where Fairtrade coffee can be purchased. The samples were chosen in order to cover as wide spectrum as possible. So the regular supermarket (Tesco), smaller shop offering healthy food (Sklizeno), cafe (Mamacoffee), drugstore (DM), e-shop (Na Zemi) and store selling food but primarily clothes (Marks & Spencer) are included. For each sample there is number of Fairtrade coffee products available and minimum and maximum price per 100g package is displayed to make comparison possible.



Table 5: Fairtrade coffee in retail

	<b>Products</b>	<b>Minimum price/100g</b>	<b>Maximum price/100g</b>
<b>Tesco</b>	8	42 CZK	42 CZK
<b>Marks and Spencer</b>	17	62 CZK	159 CZK
<b>Mamacoffee</b>	7	76.80 CZK	102.40 CZK
<b>Sklizeno</b>	4	109 CZK	119 CZK
<b>Na Zemi</b>	10	62 CZK	185 CZK
<b>DM</b>	2	53 CZK	200 CZK

Source: own observation; September 2016

It is possible to see that the largest selection, equal to 17 products of Fairtrade coffee, can be found in Marks & Spencer which is not predictable since this retail chain is not focusing primarily on food but on clothing industry, as already explained. Besides the wide range of products, they offer coffee of significantly different price levels. Customers can choose from Fairtrade coffee starting at 62 CZK per 100g, which is compared to others one of the cheapest price, up to 159 CZK which is, on the contrary, one of the more expensive ones. Therefore, it is possible to say that Marks & Spencer targets broad group of people.

Regarding the number of products and variety of selection, second one is Na Zemi with 10 products. This shop (and e-shop also) has after drugstore DM the second most extensive supply in relation to price dispersion. Customers can purchase Fairtrade coffee starting at 62 CZK up to 185 CZK.

Cafe and roasting room Mamacoffee has average values regarding variety either pricing and attracts customers by high quality coffee roasted by their own. Sklizeno offers four Fairtrade coffees, all in higher level of pricing.

Drugstore DM (Drogerie markt) offers only two Fairtrade coffees but with very different pricing. The first one costs only 53 CZK per 100g, the second 200 CZK. Both

prices are the most expensive either almost the cheapest one across the samples included in this observation.

Supermarket Tesco has eight Fairtrade coffee products in their supply (all under the Tesco finest brand). Nevertheless, these are of the same series and the same price, differentiated from each other only by the country of origin (Colombia, Guatemala, Sumatra, Kenya, Costa Rica, Ethiopia). Considering the fact that it is unlike others the shop offering primarily food and is definitely the biggest one, the Fairtrade coffee supply can be evaluated as limited with small selection.

## **6.6. Competition**

Generally, the main competitors of Fairtrade are the already mentioned giant corporations on the market in the Czech Republic and smaller organizations and business enterprises running a business in the Fair trade coffee market area or those who are focusing on some other type of certification.

Regarding the big and retail shops, such as Tesco having a strong position on the market, which started to create their own Fair Trade brands. The very first so called house-brand came into existence in the United Kingdom. “In 2000 the Co-op chain introduced the first ever house-brand Fair Trade certified product, a milk chocolate bar. Since then the company has converted all of its house-brand coffee and chocolate products to Fair Trade. Currently, Co-op vies with Tesco, the UK’s leading supermarket, for the top spot in terms of Fair Trade sales volume” (Linton, 2012).

Logically, the question why are these big companies creating their own brands of this kind arises. Representatives state in general three reasons: customer demand, commercial opportunity and brand value. The problem is that these reasons are completely different from the Fair Trade principles and issues such as addressing inequalities or supporting marginalized producers are completely absent. Generally, Fair Trade label serve as a business strategy tool in this case and do not have any form of Corporate Social Responsibility (Linton, 2012).

Regarding the local market, there is also a trend of new private brands established by big retail chains. The business strategy of portfolio broadening by sort of deluxe and premium brands, organic products or special food products appropriate for people with

some intolerance (e.g. gluten or lactose) is becoming more and more popular. For instance Tesco finest by Tesco, Albert Excellent by Albert, Billa Premium by Billa or Deluxe brand by Lidl. The market share of these private brands is about 22% in the Czech Republic and is expected to rise (Mediaguru, 2016).

From the mentioned shops, only Tesco offers Fairtrade coffee which is under the Tesco finest brand. Since 2005 this brand can be found in the Tesco stores and is characterized as something deluxe or extraordinary. In addition to this, each product has guaranteed origin of ingredients (Tesco Czech, 2016).

Apart from big retail shops, it is necessary to mention other certified coffee available on the Czech market. For this purpose UTZ, Bird Friendly, Rainforest Alliance and the concept of Direct trade were chosen and are described in the following paragraphs. The goal of this part is to find the best alternative to Fairtrade and compare it.

#### 6.6.1. UTZ

UTZ Certified is a non-profit organization established in 2002 which is focused on sustainable production of coffee, tea and cocoa. UTZ Certified products prove sustainable farming, social responsibility, proven agriculture methods and monitoring of suppliers' chain.



Picture 3: UTZ logo

“UTZ stands for sustainable farming and better opportunities for farmers, their families and our planet. The UTZ program enables farmers to learn better farming methods, improve working conditions and take better care of their children and the environment. Through the UTZ program farmers grow better crops, generate more income and create better opportunities while safeguarding the environment and securing the earth's natural resources. Now and in the future. The UTZ certified label features on over 20,000 different products across 135 countries” (UTZ, 2015). According to UTZ Annual Report, about 575,000 farmers and 335,000 workers were included in UTZ program in 2014.

Monitoring body consists of private certifiers approved by initiative and the monitoring procedure is based on annual monitoring basis (Dragusanu, Giovannucci and Nunn, 2014).

In the Czech Republic there are many companies which are offering UTZ Certified coffee, an example of such a large company can be IKEA or Tchibo.

### 6.6.2. Bird Friendly

“Bird Friendly is a certification created by the Smithsonian Migratory Bird Center (SMBC), which is part of the National Zoo based in Washington, D.C. Bird Friendly standards are the strictest of the third-party environmental standards. The SMBC requires that producers meet the requirements for organic certification first, and then meet



Picture 4: Bird Friendly logo

additional criteria to ensure they are maintaining the forest cover that provides habitat for birds and other wildlife. As a result, Bird Friendly coffee offers all the environmental benefits of organic coffee” (Ethical Coffee, 2016). As mentioned in many articles, the biggest advantage of Bird Friendly coffee is the fact that it helps to protect the whole ecosystem, forestry as well as biological variety and, in addition to this, has high quality.

The concept of Bird Friendly coffee was established in 1997 and the monitoring body and procedure is the same as the UTZ one. Annual monitoring and certification of land is done by private certifiers approved by initiative (Dragusanu, Giovannucci and Nunn, 2014). As the Smithsonian Migratory Bird Center (2016) explains: “Through decades of research, we've learned the combination of foliage cover, tree height and diversity needed to provide suitable migratory bird habitat while maintaining productive farms. Producers must be recertified every three years to ensure they continue to meet these requirements and can truly call themselves Bird Friendly.”

Bird Friendly certified coffee is currently available at one shop only, Bird Song coffee located in Prague. Therefore, compared to Fairtrade coffee supply and demand, it is possible to say that Bird Friendly coffee is not able to compete with Fairtrade coffee so far.

### 6.6.3. Rainforest Alliance

Rainforest Alliance is non-profit organization established in 1987, currently has 35,000 members, more than 300 employees and global offices in nine countries. They characterize their mission and vision as: “The Rainforest Alliance works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices,

business practices and consumer behavior. We envision a world where people and planet prosper together” (Rainforest Alliance, 2016).

Rainforest Alliance provides certification to coffee and other products as well, if certain standards are fulfilled. However, these standards are not as strict as the Bird Friendly ones which is the reason why is Rainforest Alliance sometimes criticized. For example, farms are obliged to preserve or restore natural forest cover so that 40% of the area will be covered by shade. Farms can acquire the certification even if they do not meet the requirements but have to introduce an exact plan how the particular changes will be realized.



Picture 5: Rainforest Alliance logo

The certificated products can be recognized by a green frog which is displayed on the company’s logo and are available e.g. in Tchibo stores.

#### **6.6.4. Direct trade**

The concept of Direct trade is relatively new. The first reference to this alternative trading model dated back to year 2003 when company called Intelligentsia Coffee & Tea made a first agreement about coffee based on direct trading system. It is perceived as an answer or in other words result of some Fairtrade issues which have arisen. In particular, Direct trade reacts to lack of transparency and decrease of confidence. The main idea is that coffee is bought directly from farmers without any kind of certification done by the third party. It is farmers’ own decision whether they want or not to certify their coffee as a Fairtrade, organic or would prefer any other certification. The relationships are based mainly on a confidence and there are no strict rules and standards determined. Consumers need to trust that roasting rooms choose coffee which complies with their standards and values. However, building trust requires long period of time therefore this is probably the most controversial issue regarding Direct trade. As Daniel Jaffee in his book *Brewing Justice: Fair Trade Coffee, Sustainability and Survival* (2014) points out: “Whatever the integrity of the claims, direct trade – unlike fair trade – is disconnected from any broader social movement designed to address structural injustices in the global market. Direct traders do some good things in terms of paying more money to farmers, but at the same

time they miss a lot in terms of building long-term relationships and appreciating the collective culture of coffee communities as opposed to just the individual farmer.”

On the other hand, roasting rooms have the possibility to visit the farmers and communicate with them directly. That enables them flexibility to select a coffee of the highest quality which is for them the most important indicator.

The price of Direct trade coffee is determined by mutual agreement between the purchaser and the farmer and usually it is not lower than twice or triple of current stock market price. In practice it means about 3 to 6 US dollars per one pound of coffee (Doubleshot, 2012).

#### **6.6.5. Comparison of Direct Trade versus Fairtrade**

Since Direct trade is perceived as the best alternative to Fairtrade, in this part some basic characteristics of both concepts, Fairtrade and Direct trade, are defined and its advantages and disadvantages are discussed and compared. In order to define these statements more precise, they are described from the farmers’ viewpoint as well as from the consumers’ one. Below there is a table (Table 6) showing simplified principle of how Fairtrade and Direct trade works and the key differences can be seen.

Table 6: Principle of Fairtrade and Direct trade

	<b>FAIRTRADE</b>	<b>DIRECT TRADE</b>
<b>Concept</b>	Money transaction primarily with cooperative	Money transaction with farmer
<b>Coffee customer</b>	Specialty coffee that can vary in taste from average to great	Exceptional rare coffees of limited lot sizes, and sublime tasting experience
<b>Local roasters</b>	The cooperative handles the money transaction	Direct money exchange
<b>Trade</b>	The cooperative has up to thousands of farmers	Collaborative relationship with independent farmer
<b>Farmers</b>	<ul style="list-style-type: none"> <li>• not insulated against increased coffee commodity prices,</li> <li>• farmers have little to no direct feedback of quality,</li> <li>• farmers have little to no contact with local roasters</li> </ul>	<ul style="list-style-type: none"> <li>• roaster helps needs of farmer,</li> <li>• farmer eligible for bonuses and rewards per roaster,</li> <li>• improved coffee quality</li> </ul>
<b>Coffee cherries</b>	Coffee quality combined	Coffee quality controlled

Source: (Bird Rock Coffee Roasters 2014); own processing

#### 6.6.5.1. Advantages

The main advantage of Fairtrade from the farmers' viewpoint is definitely the Minimum Price which ensures that producers can cover their average costs of sustainable production. It provides them sort of certainty and security. It is possible to say that Fairtrade coffee is widely accessible which is definitely advantage for its consumers.

From the consumers' viewpoint, Direct trade enables direct communication and choosing of the currently available coffee of the best quality. Roasting room can select from particular farms according to where the season and its harvest was the best. For farmers, big advantage is no additional cost paid for certification and no need to follow specific rules, as it is in case of Fairtrade.

#### 6.6.5.2. Disadvantages

The Direct trade advantage of freedom in choosing the best coffee according to where the seasonal conditions were the best is at the same time disadvantage for farmers. In case of unfavourable climatic conditions and poor harvest, the famers may face financial

issues during some seasons. If they cannot find enough direct purchasers, it may cause them serious existential problems. On the other hand, it is natural danger of doing own business, especially in the agriculture. Moreover, during successful seasons Direct trade enables to earn more money so farmers should be able to survive the less successful ones.

Despite the fact that Direct trade is often mentioned as a better alternative to Fairtrade because of the fact that the whole process is much more transparent, still in some cases transparency issues can occur. Even though the purchasers usually communicate with the farmers directly, sometimes there are also local mediators. There are several reasons but the most common are cultural and language barriers and complicated logistics of exported coffee. The rules and restrictions regarding trading, transport and export differs in each country so sometimes the whole process is really complicated. Moreover, there is no audit done by the third party because the trade is performed directly, so the origin of the coffee cannot be guaranteed. Therefore, it is up to customers and their confidence whether they trust particular roasting rooms.

Regarding Fairtrade there are several topics which are often mentioned as the main disadvantages. First of all, crucial difficulty is caused because of the fact that acquisition of the Fairtrade trademark is too expensive for farmers. Secondly, some of the farmers are united in the cooperatives where particular harvest is mixed together with the harvest of others. Therefore, there is no individual remuneration for better quality and some argue that farmers are not motivated to produce higher quality coffee. In addition to this, Fairtrade is often criticized because the Minimum price is guaranteed only to the cooperatives and prices are fixed despite the fact that the price level differs in each country.

### **6.6.5.3. Summary**

To conclude this comparison, the most significant problem about Fairtrade is insufficient transparency and the quality of coffee which cannot be guaranteed. Since the price paid to farmers is fixed, farmers are not motivated to improve the quality.

The concept of Direct trade reacts to these ‘imperfections’, however, its disadvantage is mainly the fact that it has no impact on the particular society and does not support sustainable community development, as Fairtrade does. Therefore, *e.g.* no child work or dignified working conditions are not monitored and cannot be guaranteed.



The whole situation is the more complicated because of the industry size and volume of trade. Millions of people are employed and involved in coffee industry and its potential is still not fulfilled. In my opinion Direct trade seems to be the best alternative reacting on Fairtrade issues and offering solution to them. However, with regard to the above mentioned market size and number of people being involved and the fact that the whole system is based on confidence and trust, it is probable that especially in the relationship between large corporations and farmers, some abuse is likely to occur. Therefore, I would say that Direct trade is perfect system for smaller to medium size organization, roasting rooms or companies that require the best quality, have lower volume of sales and are able to build relationship based on trust with farmers as well as with own customers. But it is not suitable for large companies which have large volume of sales of coffee, are not able to guarantee the best quality and additionally quality is not the primary factor for them. These organizations need a concept such as Fairtrade which has given standards and rules and due to its size also need a third party that would make all the necessary arrangements.

## **6.7. Porter's Five Forces**

In this part the model of Porter's Five Forces by Michael Porter is done in order to analyse and identify the five competitive forces that shape the Fairtrade coffee industry. These forces are Threat of New Entry, Threat of Substitutes, Buyer Power, Supplier Power and overall Competitive Rivalry and to each of them a level (low, moderate or high) is classified. It is essential framework for the purpose of examining the future perspectives within the market.

### **6.7.1. Threat of New Entry**

In the present world, coffee is globally one of the most important commodities, it is really popular and it is possible to say that coffee industry is very attractive. Threat of new entry examines how easy or difficult is for new coffee brand to entry the market and gain the Fairtrade certification.

Company which makes an effort to acquire the Fairtrade trademark for its coffee has to submit the application form, meet the determined requirements and to be approved by the entry FLO-CERT audit. Beyond the initial investment to run the business, the fee needs to be covered. First year this fee is equal to 750 € and the payment repeats every three years (for small enterprise). These additional payments can be perceived as a barrier to

entry the Fairtrade market. Also the companies could not benefit from the economies of scale. On the other hand, once the Fairtrade license is awarded, the company gains the competitive advantage over non-Fairtrade businesses in the form of support, assistance and reputation.

Barriers to entry are lowered by the fact that there are no major brands which would have high market shares, people buying Fairtrade coffee usually do not have exact preferences regarding brand. Therefore, it is easier for new entities to enter the market. Overall barriers to entry are evaluated as a **moderate**.

### 6.7.2. Threat of Substitutes

The second market force is based on the level of threat that customer will choose alternative product. Taking into consideration the fact that the Fairtrade coffee is often perceived as a luxury good, the threat of substitutes is characterized as **high**. People buying Fairtrade coffee are usually aware of some kind of social responsibility and sustainability and price is not the primary factor for them. Moreover, potential customer is always able to find a cheaper, non-Fairtrade alternative at no switching cost.

In order to maintain the position on the market, it is crucial, more than in other forces, to build the reputation and raise the public awareness.

However, in the context of socially responsible products, Fairtrade is undoubtedly the most famous and top-selling one, and there are only few substitutes (in terms of other certification) such as Rainforest Alliance or UTZ.

Besides, the threat of substitutes is expected to change during time as the consumers' preferences change. According to Gunne Grankvist: „On average 41% of EU citizens indicated they were willing to pay more for products from companies that respected the rights of employees and that applied high social standards in their activities and 35% were willing to pay more for products in order to benefit developing countries“ (Grankvist, 2012).

### 6.7.3. Buyer Power

Next market force focuses on the bargaining power of buyers or customers, which in other words means how powerful the buyers within Fairtrade coffee industry are.

It is obvious that customers are really important and the whole industry depends on them. Without customers buying and drinking coffee, there will be no marketplace. The facts that the buyers pay no switching cost when choosing alternative product, the buyer volume is big and during the time of internet shopping, all of this contribute to buyers' negotiating leverage.

Fairtrade targets at relatively specific kind of people, being interested in what they are buying and from where. Therefore, Fairtrade is dependent on its customers who are interested in these issues, believe in the system but have particular expectations. These are the main reasons why the buyer power is **high**.

### 6.7.4. Supplier Power

This force examines the bargaining power of suppliers, which means whether suppliers have enough impact to affect Fairtrade margins and volumes.

This force is quite specific case because the suppliers are unlike new entrants, substitutes and buyers part of the Fairtrade concept which is the subject of this analysis. Nevertheless, the supplier power is characterized as **low**. Mainly because the Fairtrade certification is voluntary, members are part of the huge organization which enables them significant advantages but they are obliged to meet the determined requirements. It is up to members' decision whether they want to be part of the Fairtrade system or not.

Typical Fairtrade producer is small scale farmer or manufacturer so they do not have enough power to bargain. Moreover, the suppliers can be easily substituted on the market and the switching cost is not high.

### 6.7.5. Competitive Rivalry

All the five forces, moderate threat of new entry, high threat of substitutes, high buyer power and low supplier power are reflected in the overall competitive rivalry.

Typical Fairtrade consumer is concerned about social responsibility and is willing to pay more if it is in compliance with his or her values. Potential competitor therefore has to

be also oriented on social responsibility issues. As was mentioned before, there are few organizations providing different kind of certification or targeting similar people as Fairtrade does, but currently Fairtrade holds the major position in this market segment. Therefore, concerning companies and organization focused on the social responsibility and the like, the competitive rivalry is relatively low.

On the contrary, Fairtrade is not able to fully compete with the large coffee corporations and top selling brands in retails. Not enough people are in general willing to pay more for Fairtrade trademark, can easily find a cheaper alternative at no switching cost. In this case the competitive rivalry is significantly higher.

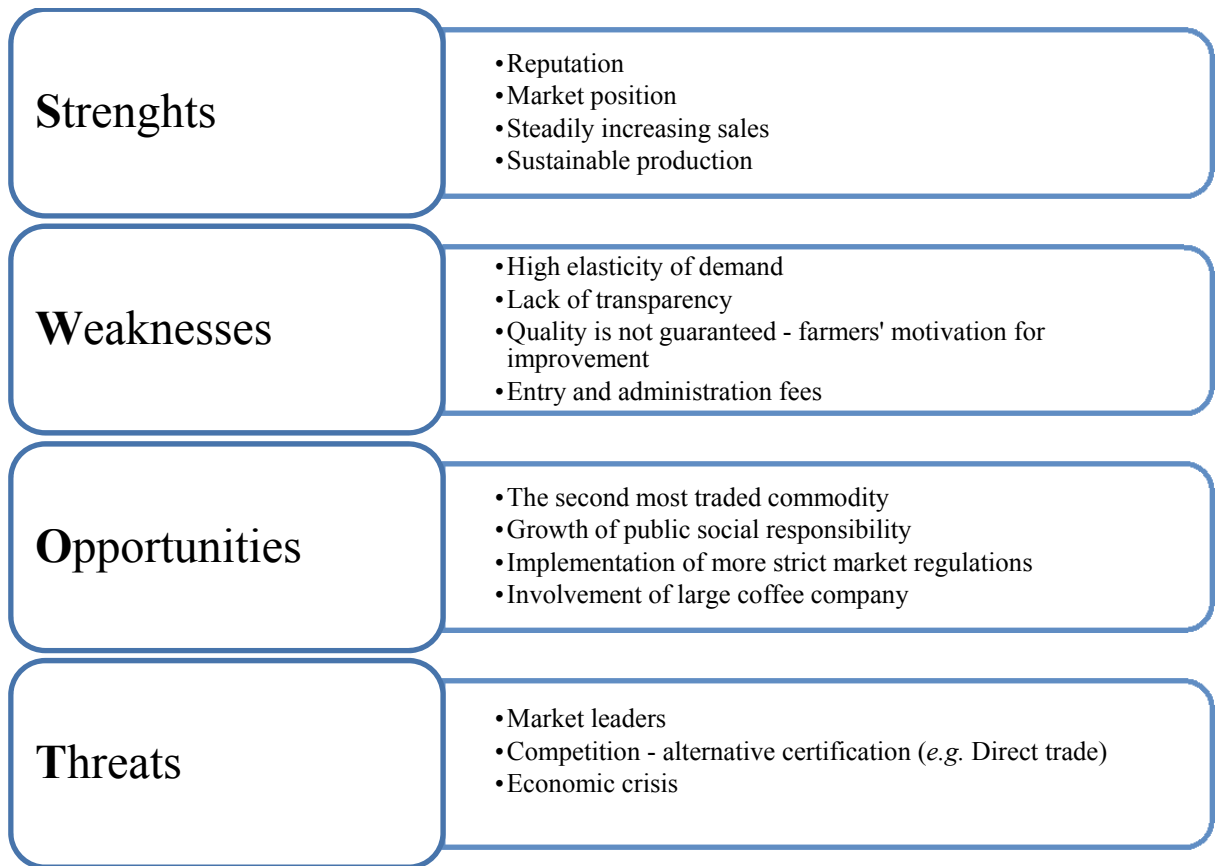
Recently, there are intentions done by a lot of companies (even the large one such as Nestlé) to be more sustainable, socially responsible and more environmental friendly and it is expected that people will require these changes more and more. Therefore, it is important to realize that in the future some major changes regarding coffee industry competition can occur.

To conclude, it is possible to say that even though the coffee industry has some barriers to entry and there are several requirements in order to acquire the Fairtrade certification, it is still considerably attractive with great market potential. Fairtrade trademark ensures to a certain extent better visibility of a product and customers.

## **6.8. SWOT Analysis**

In order to be able to propose some steps how the Fairtrade coffee market can be developed and improved in the future, the SWOT analysis was chosen. It is basic analytical and strategic tool which defines the external – opportunities and threats and internal factors – strengths and weaknesses. Following statements are defined for Fairtrade organization system as a whole.

Figure 10: SWOT analysis



### 6.8.1. Strengths

First of all, there are strengths as internal factor. The main advantage of whole Fairtrade system is its reputation. It is undoubtedly the most famous organization of its kind which is connected to its strong market position which is proved by steadily increasing sales worldwide. Due to the fact that Fairtrade puts emphasis on sustainable development, the farmers, producers even the whole process is more resistant to some inconveniences such as market changes that can occur. Moreover, Fairtrade focuses on environment protection which is beneficial for farmers in their future perspective.

### 6.8.2. Weaknesses

Second internal factor are weaknesses. In this group there is definitely high elasticity of demand which means that for instance during the economic crisis it is probable that people will choose cheaper, non-certified coffee instead of Fairtrade coffee because it does not belong to the basic needs and there are no switching costs when choosing an alternative product. It is sometimes considered as a kind of luxury good.

Since the mediators are often involved in the process, Fairtrade is often criticized because of lack of transparency. Some people also argue that because there is no level of quality guaranteed, farmers are not motivated to improve the harvest. No quality guarantee and motivation are therefore considered as an important weakness of this system.

In addition to this, entry and administration fees which have to be paid by farmers or organizations in case they want to be part of the Fairtrade system, should be also mentioned as a weaknesses. Despite it is definitely necessary capital how to provide farmers Fairtrade Minimum price and sustainable production conditions and they profit from Fairtrade trademark several benefits, still some farmers cannot afford it and are therefore excluded from this opportunity.

### **6.8.3. Opportunities**

As was already mentioned before, coffee is the second most traded commodity worldwide and repeatedly the top-selling Fairtrade product. In the time period 2013-2014 about 150,800 MT of Fairtrade coffee volume was sold, which prove the importance and big potential of this industry.

Recently, the growth of public social responsibility contributes to general popularity of Fairtrade coffee and is therefore a big opportunity. People become conscious of social responsibility of their behavior and started to be more interested in the background and impacts of products they buy. In addition to this, as mentioned before their willingness to pay more for products which are in their opinion consistent is slowly increasing.

The two next opportunities as external factors are hypothetical, however, due to current economic and social movements are likely to happen. Firstly, there is a possibility of new, stricter market regulations which would be implemented whether in the exporting or importing country. These regulations can apply to export, import, transport, manufacturing process or working conditions and human rights. Without regard to the industry sector, it is obvious that large corporations and market leaders will more likely have some troubles compared to Fairtrade that pay attention to paying fair price to farmers or to prohibition of child work *etc.*

Secondly, there is a future chance that some large company with strong position on the market would be interested in acquisition of Fairtrade license or in case of shop

significantly increase volume of Fairtrade coffee supply. In case this company would be able to fulfill given requirements, it will give Fairtrade meaningful strength and competitive advantage. However, as was mentioned before there is a trend of private brands established by big retail shops which are focused on deluxe, premium or organic food products in order to satisfy the customers' demand. Since this business strategy is created by their own under their conditions and rules, it is much easier way how to target new customers.

#### **6.8.4. Threats**

The main external force that might be threatening Fairtrade is competition in this industry. Firstly, there are the strong market leaders, giant corporations such as Nestlé or Procter & Gamble that hold more than a half of the coffee market share. Fairtrade is not able to compete with companies of this size and volume of sales but can utilize the general increase in the social responsibility and customers concern not only for price.

Secondly, there are competitors which are not that big and are not the top market leaders but have the similar 'point of interest' as Fairtrade does. These are other companies and organizations which provide sort of alternative coffee certification or so called fair trading system (namely described in the chapter focused on competition). An example can be Direct trade which is not a special kind of certification but type of alternative trading concept responding to Fairtrade imperfection and issues for which is Fairtrade being criticized. The main difference is that Direct trade strives for omission of mediators and is based on purchasing coffee directly from the farmers which enables monitoring of the quality.

The last threat is occurrence of long-term and distinct market fluctuations or economic crisis. Potential crisis can lead to decrease in Fairtrade coffee sales and weaken its market position.

## 7. Results and Discussion

### 7.1. Results Summary

The main findings and results regarding Analysis of Fairtrade coffee market in the Czech Republic are to be summarized in this chapter.

Coffee is basic and significant commodity and plays important role in Fairtrade concept as well. It is number one top-selling Fairtrade product in the Czech Republic with 67% of total turnover and the sales are still increasing. There are several organizations such as Ecumenical Academy Prague, Jeden svět, o.p.s. or Association for Fairtrade which are focused on Fairtrade promotion, workshops and projects organization and raising public awareness. Some of them are also running a business such as shops offering Fairtrade products.

The coffee market is identified as a highly unstable with fluctuations on the market. It is caused mainly by non-constant supply which is influenced by current climatic conditions, vegetation cycles of coffee trees, political, social and economic situation in particular region, pest activity or by accessibility of fertilizers. Moreover, the supply is not able to react immediately on the market changes such as increase in demand and vice versa.

Regarding the price of coffee, the principle of Fairtrade Minimum price (since 1<sup>st</sup> of April 2011 1.40 USD per 1 pound), which guarantee that if the market price is higher, farmers will get the current market price according to New York market, is explained and its development and changes are demonstrated in contrast with the mentioned New York coffee market price. Subsequently, there is an example of Tanzanian Fairtrade coffee which illustrates what components together compose the final selling price. There are about nine steps which come before the customer can buy the Fairtrade coffee in a shop. The most expensive part is to purchase and process the coffee (28% out of the final price), then retail part (18%) and third are importers' expenses (13%).

One of the goals of the thesis is to compare the Fairtrade coffee with the non-Fairtrade one. The results of the own observation in Prague shops show that the difference is about 23 CZK per 100g of 100% Arabica coffee beans which means that the Fairtrade coffee is by 43% more expensive. However, supposing that Fairtrade coffee is usually sold



in more expensive brands, the price difference is in actual fact not so distinct. This research points out the case of Tchibo, where Fairtrade coffee is being sold for the same price as non-Fairtrade one.

The next part of the thesis is focused on the Fairtrade coffee products in retail. The own observation was conducted in September 2016 in Prague for the purpose of analysing the accessibility and price of Fairtrade coffee in particular shops and enterprises. Firstly, there is summarized where is possible to purchase Fairtrade coffee. Apart from big retail shops which used to be the number one in selling the Fairtrade products but currently have only limited supply and majority of them do not have Fairtrade coffee in their offer, there are many other places. Important role play specialized smaller shops focusing on healthy lifestyle and organic products, in form of individual shop or even chain such as Sklizeno or Country Life, which are quickly expanding and become rather popular. The next place which is popular for Fairtrade coffee purchase are cafes. Recently, there is a huge trend of new established cafes which are particular about high quality coffee and its preparation and interesting and sophisticated interior design. Some of them are even roasting their own coffee which is then sold in the cafes and customers can buy some for their own consumption. Apart from that, Fairtrade coffee is being sold at e-shops, drugstores and shops which are primarily not focused on food products but have some volume in their supply, such as clothing company Marks & Spencer. Besides, in a smaller volume it can be purchased in selected restaurants, theatres, bookstores, ecological or other educational centres and organizations.

From above mentioned places were chosen the following shops in order to cover various types of enterprise: Tesco supermarket, Marks & Spencer, cafe Mamacoffee, chain Sklizeno, e-shop and shop Na Zemi and DM drugstore. The goal of the own observation in these shops was to investigate the number of Fairtrade coffee products offered and its minimum as well as maximum price. Gained data were used for comparison among them. This research showed that the largest selection of products has Marks & Spencer, which is not predictable since it is not primarily food store, and shop and e-shop Na Zemi. On the contrary, supermarket Tesco has only very limited supply but at the cheapest price level. The most expensive Fairtrade coffee can be found in DM drugstore and generally higher prices are also in chain Sklizeno.

In order to analyse the market competition in this industry, apart from big retail shops, potential competitors having the same point of interest as Fairtrade, which means providing coffee certification and focusing on social responsibility, sustainability or protection of the environment, were described. Following organizations and concepts were chosen to be characterized: UTZ, Bird Friendly, Rainforest Alliance and Direct trade. Subsequently, Direct trade was analysed as the best alternative to Fairtrade, advantages and disadvantages of both were compared and summarized. Direct trade is not a special type of certification, it is a form of alternative trading based on confidence and trust and direct communication with the farmers. The main advantage over Fairtrade is that it enables choosing coffee of the best quality which is currently available, while Fairtrade does not focus on the level of quality that much. Moreover, the whole process is much more transparent. On the other hand, Direct trade does not ensure customers the conditions in which the coffee is being produced such as human rights, no child work, sustainability *etc.*, it is up to purchasers' own appraisal, usually made during the visit of the particular place. Since Direct trade is based on trust, it is evaluated as a suitable concept for small to medium size organizations. Fairtrade with the given standards and rules is then more suitable for larger companies with higher volume of sales, a lot of parties included – therefore mediator is useful, and also for such a large companies the quality of coffee may not always be the primary factor.

Finally, the model of Porter's Five Forces and SWOT analysis, which are essential frameworks for the purpose of examining the future perspectives within the market, are done in order to analyse and identify the five competitive forces that shape the Fairtrade coffee industry and its strengths, weaknesses, opportunities and threats. The five forces are classified as follows: moderate threat of new entry, high threat of substitutes, high buyer power, low supplier power and the last part includes evaluation of the overall competitive rivalry.

## 7.2. Recommendation and Discussion

This chapter comes out mainly from the summarized results and findings regarding coffee market analysis in the Czech Republic. On the basis of these findings, its goal is to provide suggested arrangements and recommendations regarding market expansion and the future prospects. Moreover, some outcomes of the analysis are discussed with the Literature review theory.

Fairtrade trademark is undoubtedly the number one in the market area focused on social responsibility and sustainable development of producers. However, it is obvious that there is an increasing number of other organizations or companies who are promoting alternative trading systems and/or certification and considering the fact that the demand for such products is expected to increase in the future, there is a big market potential. Besides these organizations there are big retail shops which can be also perceived as competitors for Fairtrade. Because of that, Fairtrade still need to focus on market expansion, promotion and improvement. To build up the customers' base and raising the public awareness by promoting social responsibility is a crucial thing in order to be successful and sustainable.

One of the weaknesses which are being mentioned in connection to Fairtrade are relatively high entry and monitoring fees which have to be paid by farmers or cooperatives. In case of slight lowering of these charges, more farmers could be engaged in the system and the supply could be enlarged.

The customers consuming and buying coffee have changed a lot during past years. In the Czech Republic, there are still more and more people who are interested in the origin and especially the quality of the coffee and this can be also a matter of problem for Fairtrade in the future. As mentioned before, Fairtrade does not guarantee the coffee quality which can discourage potential customers from buying these products. In my opinion, Fairtrade should focus on finding a way how to motivate farmers for quality improvement.

Another potential improvement is connected with the accessibility of Fairtrade coffee in the Czech Republic. I would recommend local organizations which are concentrated on and promoting Fairtrade to focus more on supply extension in common, bigger shops or supermarkets to which people are used to regularly go to buy food. Fairtrade should utilize its market position and reputation as much as possible. Currently, Fairtrade coffee is sold

mainly in the more expensive shops, in the specialized or healthy shops as was discovered in the market analysis dealing with the question where can be Fairtrade coffee purchased. The average price of all products is generally more expensive in these shops than in regular supermarket. So introducing Fairtrade coffee there would decrease the average price and make it much more affordable and available. On the other hand, this is definitely not an easy goal, mainly because of the private deluxe and premium brands owned by big retail shops (e.g. Tesco finest which includes Fairtrade certified coffee) which became very popular and their market share is expected to grow in the future.

It is possible to compare the current accessibility, mainly in the retail chains, of Fairtrade products with the situation in 2009. As was mentioned in the Literature Review, according to '*Fairtrade in the Czech Republic – Analysis of the Current Situation*' by Krátká, Pernicová and Šťastná (2009) it was possible to buy Fairtrade products namely in Marks & Spencer, Globus, Tesco and DM Drogerie. However, the own observation conducted in Prague in September 2016 showed that the situation has changed quite significantly. It was approved that Fairtrade coffee can be purchased in Marks & Spencer and DM Drugstore, but is not available in Globus. Tesco has its own brand Tesco finest, from which one type of coffee is Fairtrade certified. Generally, the retail chains offer is considerably limited. The most common supermarkets such as Globus, Lidl, Albert and Billa are not selling any coffee with Fairtrade trademark.

All mentioned recommendations are important. Nevertheless, probably the most crucial regarding future development of Fairtrade is to focus on own weaknesses and issues for which is Fairtrade being criticized and try to eliminate them. Otherwise, other alternative concepts such as Direct trade, which results mainly from Fairtrade imperfections, can endanger its market position and sustainability.

Regarding the comparison of Fairtrade coffee price with the non-Fairtrade one, the results of the own observation showed that the Fairtrade coffee is in Prague shops by 43% more expensive than the regular coffee. It is possible to discuss it in relation to research paper done in the United States by Adam P. Carlson called *Are Consumers Willing to Pay More for Fair Trade Certified Coffee?* (2009) mentioned in the literature review in the chapter dealing with the topic of International Fairtrade coffee market. He concluded that the Fairtrade certification means an increase in coffee price by 22%. However, also points

out that the results can be biased because Fairtrade certified products are usually sold in more expensive brands, which is considered also in this research. The results vary by 21% difference in pricing, however, the fact that the researches were conducted in different countries needs to be taken into consideration.

## 8. Conclusion

Coffee is undoubtedly a valuable commodity, with a long history and is part of the economies as well as different cultures. Many people are used to having a cup of coffee every day and currently it is possible to taste and buy coffee from all around the world. However, it is necessary to realize that globalization, technological development as well as accessibility of almost all kinds of products regardless of their origin has, besides other things, several disadvantages and negative impacts.

The history of the Fair trade concept began after the Second World War and the Fairtrade trademark, which improves the visibility of Fairtrade products and enables customers to quickly identify it, is globally recognized since 2002. Fairtrade seeks greater equity in international trade, tries to support sustainable development, environment protection and human rights. Moreover, it enables customers to fight against poverty mainly in developing countries. In other words, it is more than just trading; it is based on social responsibility and can offer an alternative form of globalization (sometimes called 'alternative globalization') which takes into consideration economic growth, social development as well as protection and respect for the environment.

Fairtrade in the Czech Republic is developing quickly and its recognition and general popularity is still increasing. During the past ten years the volume of sales of Fairtrade products has grown multiply up to 203 million CZK in 2014. Since there are many non-profit, either profit organizations and companies that are struggling to support and promote Fairtrade products, it is expected that the sales will continue to rise. Similarly, the number of shops, cafes or other places offering Fairtrade coffee and other products is increasing. However, since 2009 some of the retail chains decided to withdraw Fairtrade products from their supply, namely Globus, and in addition to this the research showed that neither other common supermarkets included in the observation sell such products. Currently, Fairtrade coffee can be purchased mainly in smaller, specialized or healthy shops or cafes. As a matter of fact, this causes that Fairtrade coffee costs on average more because it is sold generally in the more expensive brands. The research showed that in shops offering both Fairtrade and non-Fairtrade coffee, the price difference is negligible but otherwise the Fairtrade coffee is by 43% more expensive than coffee without the trademark. Distribution of Fairtrade coffee products into larger, common stores would

therefore strengthen Fairtrade's market position in the Czech Republic, improve public awareness and future potential.

The whole concept of Fairtrade has great potential but crucial is to focus on eliminating the imperfections and things for which is Fairtrade being often criticized in order to be sustainable and able to compete with others in the future. Otherwise, there is a threat of loss of the competitive advantage. Firstly, there are other organizations and concepts targeting the same audience that place emphasis on the social responsibility, such as Direct trade which was evaluated as the best alternative to Fairtrade. However, being based on confidence and trust it is more feasible for smaller or medium size entities. Secondly, there are big retail shops offering regular cheaper products and creating their own 'fair', bio or organic brands which is currently an important trend and business strategy in order to satisfy customers' demand and utilize the commercial opportunity. The problem is that these reasons are completely different from the Fairtrade principles and issues such as addressing inequalities or supporting marginalized producers are completely absent. Generally, Fair Trade label serve just as a business strategy tool in this case and do not have any form of Corporate Social Responsibility.

Therefore, it is up to customers and their final decision, how they perceive their own social responsibility, if they are concerned about companies and products background and if they are interested in where the money paid for purchasing the product go. The question is if regular customer is able to always distinguish between fair trading concept which aims to serve the interests of both customers either producers and business strategy with primary goal of earning as much profit as possible.

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