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The Rise and Stall of a Fair Trade Pioneer: The Cafédirect Story

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ABSTRACT. This is a case study investigating the growth of fair trade pioneer, Cafédirect. We explore the growth of the company and develop strategic insights on how Cafédirect has attained its prominent position in the UK mainstream coffee industry based on its ethical positioning. We explore the marketing, networks and communications channels of the brand which have led to rapid growth from niche player to a mainstream brand. However, the company is experiencing a slow down in its meteoric rise and we question whether it is possible for the company to regain its former momentum with its current marketing strategy.

KEY WORDS: fair trade, Cafédirect, coffee, case study, marketing and marketing ethics, networks, business ethics

ABBREVIATIONS: FtF: Fairtrade Foundation; FLO: Fairtrade Labelling Organisation; PPP: Producer Partnership Programmes; R&G: Roast and Ground Coffee; CEO: Chief Executive Officer; IPO: Initial Public Offering; ATO: Alternative Trading Organisation; DfID: Department for International Development

Preamble

In this case study, we investigate the success of fair trade pioneer Cafédirect. We explore the brand's marketing, networks and communication channels which have led to its rapid growth from niche player to a mainstream brand. However, we also identify a distinct slow down in this growth, particularly in its core retail coffee market, and explore whether Cafédirect has reached its natural limit for the growth as an ethical brand.

The case was drawn from both a review of existing literature and two longitudinal studies carried out between 1999–2004 and 1999–2009. For those interested in more details of our trail of evidence gathered during the development and writing of this case, please see Appendix 1 where we outline our methodology in more detail. However, since this case is designed to be read as a story, we have deliberately suppressed many of the sources of our company insights to maintain a consistent narrative.

We are not the first people to investigate the marketing of Cafédirect (Low and Davenport, 2005a, b; McDonagh, 2002; Nicholls and Opal, 2005; Wright, 2004) nor to look at the importance of networks in fair trade (Davies, 2009; Raynolds et al., 2004) or even the effects of mainstreaming in the industry (Davies, 2007; Doherty and Tranchell, 2007; Golding and Peattie, 2005; Moore, 2004; Wilkinson, 2007). However, through our in-depth investigation of the company, its supply chain, customers and general marketplace dynamics over time, we can provide a critical examination of what has led to the success of the brand and where the limits of its expansion might lie.

Since the success of Cafédirect has made a significant contribution to the mainstreaming of fair trade in the UK (Nicholls and Opal, 2005), the lessons from this case study are important to other companies utilising ethical claims to compete in the mainstream.

Fair trade or Fairtrade©

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, marginalised producers and workers. Fair trade organisations are engaged actively in supporting producers, raising awareness among consumers and campaigning for changes in the rules and practice of conventional international trade (FINE, 2001). It started initially with the importation of craft and household goods from under-developed countries by charities and religious organisations for sale in wealthier countries, especially Western Europe. Products such as the Argentinean pin cushion sold through Oxfam in the 1960s and the Bangladeshi wicker baskets from Traidcraft in the 1970s and 1980s are good early examples of fair trade products where retailers paid a higher price directly to the producer and, where applicable, they assisted producer communities with social, environmental and economic issues they were facing. This continued through the 1980s with increasing numbers of products, sometimes of dubious quality, being imported for sale through specialist retailers (often called World Shops) or through mail order catalogues, such as the Traidcraft catalogue. Until the early 90s, fair trade was unbranded, mostly not-audited, and its products were fondly remembered as… 'disgusting' (referring to the coffee), 'poorly made and pointless' (referring to the craft products) and 'gosh, another basket… how are you going to sell this?' (from the daughter of a Traidcraft Rep).

During the late 1980s and early 1990s, a parallel stream of fair trade goods appeared in World Shops which offered commodity products such as coffee, tea and sugar, for general consumption. They followed a much more structured, audited and labelled method of identifying fair trade products. These included the first fair trade coffee product, Max Havelaar, that was formally audited and labelled for sale in Northern Europe, and Campaign Coffee sold in the UK by mail order (later rebranded to Equal Exchange). In 1991, the Fairtrade Foundation (FtF) was created by a number of charities, including Oxfam, Christian Aid and the World Development Movement: Its responsibility was to oversee the Fairtrade© Mark (see Figure 1a, b). It does this by awarding the Mark to products that have had their supply chain audited to ensure they adhere to the standards laid down by the world fair trade governing organisation; the Fairtrade Labelling Organisation (FLO). It is the FLO that sets the standards for Fairtrade© commodity products and a separate body, FLO-CERT, which conducts the supply chain audit; for ease of communications, we will refer to these related bodies as the FLO.

Figure 1. *a* Fairtrade Mark (1992–2001). *b* Fairtrade Mark (2001).

Although there are a great number of fair trade goods which do not carry the Fairtrade© Mark (especially crafts and clothing), Cafédirect adopted the Fairtrade© certification in setting up its brand. As a result, we will focus primarily on these FLO certification standards here rather than of the others offered by organisations such as the International Federation for Alternative Trade (IFAT), European Fair Trade Association (EFTA) and Network of European World Shops (NEWS).

The FLO standards aim to ensure both better working conditions and more sustainable farming practice in grower communities. As coffee and tea prices are volatile, the FLO sets minimum market prices (floor price) that are paid for Fairtrade© certified products to cover the cost of production. For example, the Fairtrade© minimum prices for different types of coffee beans are as follows: Arabica coffee = 131 US cents/lb; Arabica organic coffee = 151 US cents/lb; Robusta coffee = 111 US cents/lb; Robusta organic coffee = 131 US cents/lb (in November, 2008). Whenever the world market prices go above these minimum prices; Fairtrade© also guarantees a higher-than-market price to growers through an additional 'social premium' of between 5 and 15 cents per kg, depending on the product. For coffee, this equates to paying the market price plus 10 US cents/lb. Through these two pricing mechanisms, Fairtrade© aims to guarantee a long-term, sustainable commitment to its growers, giving them more opportunity to plan for the future and to invest in their farms and communities.

Following the introduction of fair trade labelling, fair trade evolved rapidly both in terms of sales and public awareness. With increasing levels of institutionalisation, it has established itself as one of the major initiatives to pursue social purposes using market mechanisms, i.e. poverty alleviation for small-scale producers in the South through sales for products in the North[1] (Moore, 2004; Nicholls and Opal, 2005; Raynolds et al., 2007). Nicholls and Opal (2005) propose that fair trade is a new business approach that looks holistically at the supply chain to address market failures and their social impacts at source whilst acknowledging the need for profitability.

Worldwide, consumers spent over £1.6 billion on Fairtrade© Marked products in 2007, with over 7.5 million producers and workers across 58 developing countries benefiting (FLO, 2008) from this. A number of authors (e.g. Golding and Peattie, 2005; Low and Davenport, 2005a, b; Moore et al., 2006; Nicholls and Opal, 2005) identify the mainstreaming[2] of fair trade through the successful branding of fair trade companies, such as Cafédirect and Divine Chocolate, as a key factor in the rise of such products. However, the mainstreaming of fair trade produce is not without its critics.

The pros and cons of mainstreaming fair trade

A number of authors have reported on the positive arguments for Fairtrade© Marked products being in the mainstream because of increased sales which benefit a larger number of marginalised producers, and the opportunity to reach a wider audience with the fair trade message (Low and Davenport, 2005a, b; Nicholls and Opal, 2005). In fact, earlier research on fair trade highlights the problem of poor availability in supermarkets as a limiting factor in the growth of fair trade sales (Nicholls, 2005; Nicholls and Opal, 2005; Ronchi, 2001; Strong, 1997a, b). Furthermore, Teather (2006) argues that the involvement of major retailers has been a key factor in the growth, and Taylor et al. (2005) suggest the new corporate interest in fair trade is an indication that fair trade has succeeded in demonstrating that the market should reward socially just and environmentally sound practices. Today, more than 4,500 fair trade products are available in the mainstream UK market (Fairtrade Foundation, 2007). These products have entered the mainstream via a number of differing entry routes including:

- Branded fair trade products from 100% *Fair Trade Companies* such as Cafédirect and Divine Chocolate Ltd. All products from these companies carry the Fairtrade© Mark.
- Branded Products from *Fair Trade Adopters* where significant part of their product portfolio is Fairtrade© Marked products e.g. Clipper Teas, Green and Blacks Chocolate, Percol Coffee Company.
- Line extensions from *Fair Trade Branders* where they are large, mainstream organisations wishing to have ethical products in their portfolio e.g. Fyffes (one of the five largest global fresh produce distributors which supply's Tesco with own label bananas), Nestlé and Billingtons (Europe's leading supplier of unrefined cane sugar).
- Retailer *Own Label Fair Trade* products from suppliers such as Tesco own-label fair trade coffee. These products sit on the shelf alongside branded fair trade products.
- Fair trade products from retailers Marks and Spencer and Starbucks Coffee Company who only stock their own brand products.

(Davies, 2007; Doherty and Tranchell, 2007).

According to the Economist (2006), the decision to buy fair trade products in grocery stores sends out a very clear political message. A number of authors agree that consumers act neither as a purely economic agent nor as purely political agent, but as a mixture of the two; with consumers whose identity, beliefs and practices aim to address the economic imbalances highlighted by the fair trade movement (Parker, 1999; Urry, 1995). Connolly and Shaw (2006) suggest that many ethical consumers believe they are part of a wider collective of concerned consumers, although acting individually. It is interesting to note that in a Market & Opinion Research International Ltd. (MORI) survey on fair trade awareness, 43% of those aware of fair trade were first made aware of what it stands for whilst shopping (MORI, 2005). Strong (1996, 1997a, b) also identified communicating the human element of sustainability as one of the key challenges for fair trade companies wishing to develop a mainstream position. This is important if fair trade companies are to avoid social/environmental qualities becoming subordinated to just price. Moore et al. (2006)

argue the fair trade products in the mainstream need to work on the depth of the fair trade message to avoid it being seen just as a lifestyle choice, something we will explore later through Cafédirect advertising.

Despite the growth in fair trade, a number of authors warn that uncritical engagement with mainstream business risks absorption and dilution of the fair trade movement (Low and Davenport, 2005a, b; Moore et al., 2006; Murray et al., 2006; Taylor et al., 2005). This can lead to 'clean-wash' which occurs when a company 'derives positive benefits from its association with the fair trade movement, however minimal its efforts to live the values' (Murray and Raynolds 2000, pp. 68–69). Moore et al. (2006) also highlight the possibility that corporate commitment to fair trade may only be temporary. Taylor et al. (2005) argue that corporations cannot be expected to have the same levels of interest and commitment that inspired the creation of the fair trade system, as evidenced by the proliferation of other ethical labels outside the Fairtrade Labelling Organisation (FLO) system which do not demonstrate the equivalent social standards. The Fairtrade© labelling system does not differentiate between organisations which are solely fair trade companies with direct links with producers, and the larger corporations whose fair trade commitment is only a small percentage of their sales. Raynolds et al. (2007) propose that one of the challenges facing fair trade organisations will be to ensure it is not just about increasing prices but also maintaining a transformative alternative system with people and the environment at its centre. Low and Davenport (2005a, b) argue that fair trade in the mainstream has already shifted the message from participation in an international programme of trade reform to individualised shopping for a better world by focussing mainly on the dimensions of fair price for producers and product quality.

Nestlé's 2005 UK launch of its fair trade coffee, Partners Blend, has brought this debate of 'clean-wash' into sharp focus (Cookson, 2005) as the company still occupies the top spot in the Ethical Consumer Organisation's list of boycotted brands, largely due to its aggressive marketing of baby milk powder in developing countries. Nestlé makes no secret of the commercial reasons for its decision to launch a fair trade product and aims to target the semi-ethical segment. According to Tallontire et al. (2001), semi-ethical consumers are infrequent purchasers of ethical goods who may be persuaded to buy more if the goods were made more attractive or more easily available to them. Currently, Partners Blend makes up only 0.2% of the Nestlé coffee range, with the remainder of its coffee being bought at the prevailing world market price. However, it claims that there are just not enough fair trade coffee producers to switch production to fair trade for its major lines.

Fair trade brand pioneers such as Cafedirect and Divine Chocolate are partly owned by producer groups with producer representatives on the Boards of these companies in unique governance arrangements. Doherty and Tranchell (2007) argue that these fair trade companies as examples of radical mainstreaming can actually strengthen the transformative message of fair trade. Through investigation of such companies using the type of longitudinal study reported here, we can gain greater insights into the impacts of mainstreaming on the fair trade ideology, and the growing pains of fair trade and other similar social initiatives as they emerge from their grass roots to mainstream, highly visibility organisations.

The founding of Cafédirect

The International Coffee Agreement which controlled the price of coffee beans collapsed in 1989. This caused the price of coffee beans to fall to a third of its pre-1989 level within a few years and had a devastating effect on the incomes of small-scale coffee farmers globally (Brown, 2007). Three quarters of the global supply of coffee is produced by small, family-owned farms. In response to this crisis, Oxfam, Traidcraft, Equal Exchange and Twin Trading got together in 1991 and formed the branded fair trade coffee company, Cafédirect. All four organisations were already involved in the distribution of fair trade coffee into the UK but they realised that collectively they could achieve so much more:

> Our contribution to Cafédirect was that we were the only member who had any marketing experience.

> Twin Trading had the coffee supply chain management, Oxfam had shops and campaigners and Traidcraft had Traidcraft Reps. (Founder of Equal Exchange and Director of Cafédirect, 2002)

Cafédirect was born from this alliance of interested charities with one specific mission – to pioneer fair trade into the mainstream of consumer consciousness and purchasing in the UK. By 2007, Cafédirect had become the UK's largest fair trade hot drinks company and the fourth largest hot beverage company in the UK with a turnover of £22.3 m in 2007, up 3% year-on-year. Its brands include Cafédirect Coffee, Teadirect and Cocodirect which are sold through both major supermarket chains and alternative channels of distribution, including Oxfam shops. Cafédirect is the fifth largest coffee brand in the UK with a 7% market share of the roasted and ground coffee market (Mintel, 2008) and sources coffee beans from 39 producer organisations across 13 different countries which means that over a 250,000 growers benefit. Cafédirect's product portfolio includes 15 coffee products (from roast and ground, espresso, decaffeinated, organic to instant), three tea products and Cocodirect drinking chocolate. Teadirect that was launched in 1998 is now ranked ninth in the UK's top tea brands and its sales have grown 30% in the last year.

Cafédirect's policy is to go further than just the FLO price standards outlined above by paying an extra 10% at least above this Fairtrade© price; they call this their 'Gold Standard'. For example, tea prices fell from \$1.60 to \$1.35 per kg in Tanzania and to as low as \$1.18 in Uganda during 2004 and 2005; nonetheless, Cafédirect bought at a minimum price of \$1.95 per kg (Cafédirect, 2005).

Overall, in 2007, Cafédirect paid nearly £1.0 million above the market price for its coffee, tea and cocoa raw materials (data demonstrated by a Marketing Manager at Cafédirect during observation). The company has then paid a further £600,000 to its producer partners through its Producer Partnership Programmes (PPP). These programmes consist of business development training tailored to the needs of producer organisations supplying Cafédirect with tea and coffee. They include building capabilities in marketing, quality control, crop husbandry and crop diversification.

Cafédirect and the three phases of fair trade marketing

Cafédirect really entered the UK market in 1993 when Equal Exchange negotiated its first major grocery retail contract to supply roast and ground (R&G) coffee to Safeway Supermarket stores across Scotland. All of its products were carrying the Fairtrade© Mark; this was the major breakthrough in fair trade that the founders were looking for. Shortly afterwards, the Co-operative Retail Group, followed by Sainsbury's, started stocking Cafédirect R&G and, within 3 years, Cafédirect was available from most major UK retailers; fair trade had moved away from just being sold in World Shops and was entering the mainstream of UK grocery markets. Davies (2007) identifies mainstreaming as the *third era* in the fair trade marketing evolution since inception:

- *The Solidarity Era (~1970–1990)* – Where fair traders tried to demonstrate their solidarity with third world producers. This development can be considered as the genesis of the marketing of sustainable products.
- *The Market Development Era (1990–2002)* – Where fair trade tried to shake its charity image and compete openly on the market with quality products and using the Fairtrade© Mark as a unique selling point.
- *The Mass-Market Era (2002–Date)* – Where fair trade competes in the mainstream with a wide range of fair trade brands positioned at differing pricing points and offering a range of qualities (from budget to premium) and with a number of multinational coffee brands who now include a fair trade brand in their portfolio. In each case, the brands are marketed according to the unique social/environmental attributes they can display.

Cafédirect has followed similar stages in its marketing evolution to those outlined above since its introduction in 1991. One of the main guiding principles for Cafédirect in the early days was that it had to shake the stigma associated with the poor quality 'charity products'. Consistent high product quality standards were seen by Cafédirect management as critical because its benchmark competition was viewed as mainstream brands such as Nescafé original, and Kenco medium roast. Since launch, Cafédirect has achieved this and has always been viewed as premium quality brand with retail prices 20–30% above competition throughout most of its brand lifecycle. Cafédirect argues that its investment in producer organisations via PPP ensures that product quality is second to none across its three main product lines. Its first major product line was R&G coffee; however, market research revealed that the majority of UK consumers were drinking freeze dried coffee, and so in 1994, it launched a freeze dried instant coffee. This enabled the company to make its first profits in 1995 and heralded the start of Cafédirect's strong growth which was continuously fuelled by new product introductions. As such, 3 years later, Cafédirect entered the tea market with Teadirect and then, in 2002, Cocodirect drinking chocolate was launched using both fair trade cocoa and sugar. Recently, they have released many gourmet single-source-of-origin coffees (some of them organic), a range of premium instant coffees and specialist teas.

Bearing in mind Cafédirect's strong brand name today, it is hard to imagine that they have never advertised on television. The company has even won the 2004 Marketer of the Year Award from the Marketing Society on an official marketing budget of only £4,000 (less than 0.02% of the total marketing spend in the industry). This has been achieved through the clever use of partners, volunteers and network associates. Principally, PR, journalism and print advertising have been the driving force behind Cafédirect's marketing and advertising success. Through these media, the three eras of the company's marketing, advertising and packaging strategy is clearly visible:

Fair trade solidarity: marketing ethics 1993–1999

Although the product quality has changed little over the years, the advertising, branding and packaging have gone through some significant changes. Early packaging tended towards simplicity but with large amounts of text telling customers about the product and the producers (see Figure 2). This fits well with a solidarity view of the products by bringing the consumers and the producers closer together. It also supports the effort to market the ethics of the product by informing customers of how 'ethical' the product is.

The poster campaigns during this 6-year period show farmers either suffering or demonstrating pride (see Figure 3) and tended to contain a testimony and portray how buying Cafédirect assists these coffee farmers and their communities. This ties in closely with attempts to draw customers into feeling solidarity with producers and to begin the process of demonstrating how Cafédirect provides a more ethical and sustainable alternative choice in the coffee market.

As brand recognition grew, Cafédirect became more controversial by suggesting that not only was their coffee ethical but, by their very nature, the mainstream competition was not (see the 'Whiff' advert in Figure 4). Similarly, they attacked the 'fat-cat' mentality of large corporations as their 'Has Been' advert from the appropriately titled 'edge' campaign shows (also in Figure 4). In a stroke of creativity, 'Has Been' was powerfully displayed on the*The Guardian*'s obituaries page on 8th September 1997 which was otherwise entirely dedicated to the main obituary for one of Africa's most corrupt dictators, Mobutu Sese Seke.

One problem with this type of branding is its similarity to the charity aspect of fair trade and the 'poor quality' image of pre-Fairtrade© Mark products. In addition, there is a perceived limit within the fair trade community as to how much market share 'core ethics' can gain a company (Managing Director Divine Chocolate, interview 2004). This is considered to be around 3% market share for cocoa and coffee in Europe (Managing Director Divine Chocolate, interview 2003; CEO Cafédirect, interview 2007) and is evidenced by other fair trade initiatives such as Max Havelaar[3], Transfair[4], Rättvisemärkt[5] and Reilun Kaupan[6] all of which have struggled to grow beyond 3% market share.

Market development: marketing quality 1999–2003

In order to push sales above this 3% level, Cafédirect changed its messages during 1999/2000, portraying their branding in a more evocative format. The company created brands which suggested high quality, premium coffees and teas by showing scenes

Figure 2. Packaging developments in the Cafédirect brand portfolio.

from the environments in which the commodities were produced (see packaging developments in Figure 2 and the newspaper advertisements in Figure 5) as opposed to portraits of subsistence coffee farmers. They even changed the name of Cafédirect Instant to 5065 – the average height at which their coffee beans were grown – to make a clear transition to the premium end of the market.

Over the next 2 years, there was continued progress into new advertising methods and media with the first, highly evocative cinema advertisement for any fair trade company in which the peak of Machu Picchu (The face in the mountain in the poster below) rises up at the smell of the coffee. In another first, Cafédirect was granted advertising rights on the London Underground for its new brand 5065 during this period.

The main purpose of Cafédirect's new advertising and packaging was to move the focus away from the grower (or the 'core ethics' message previously used) to the experience of the consumer. Consequently, there was a major reduction in the amount of fair trade text on the packaging and advertising, with grower testimonies becoming 3-line sound bites rather than stories. There was even talk of dropping the Fairtrade© Mark altogether as Cafédirect had higher brand awareness than the Mark itself. Although this did not occur, the space given over to the Mark was distinctly reduced. The impact of this new, customer experience message was to spark a rapid growth in sales and much greater brand awareness and market share rising above the 3% barrier.

As each product was rebranded to reflect its new positioning, the company began to have a new problem. Although sales had been increasing for a number of years in each category and the brands were considered quality premium products, they each needed their own marketing and sales support which led to rapidly increasing costs in slowly growing markets. Competitors also began to follow their lead by rebranding and adopting product

Figure 3. Solidarity poster and press campaigns.

Figure 4. Ethical versus unethical press campaigns.

quality messages. The market has also seen a vast increase in the number of fair trade brands on the supermarket shelf, including premium coffees from major roasters, budget own-label brands from supermarkets and fair trade lines from Nestlé (and similarly branded 'sustainable' coffee from Kenco). Competitive advantage from the 'core ethics' of the product was being eroded and with trusted brands bringing out quality products, the quality message was no longer as effective. The impact was Cafédirect's revenues and growth had begun to shrink.

Market research undertaken by Cafédirect suggested that consumers were not aware that its coffees, teas and cocoas came from the same organisation, meaning that Cafédirect could not leverage the success of its coffee to sell newer products (interview in 2007 with former CEO at Cafédirect, 1998–2008). The CEO also confirmed that the quality of the brand was publicly recognised and with more competitors matching this quality, the main differentiator for the organisation needs to change:

> The key strength identified was our relationships with producers which demonstrated our values and integrity. The research showed that our stakeholders want us to shout about these relationships by symbolising through producer stories showing the impact of these fair trade relationships. This should be at the heart of our values resulting in a trusted brand, dividends and social/environmental benefits for producers.

With product quality now established, it became the organisational values and Cafédirect's

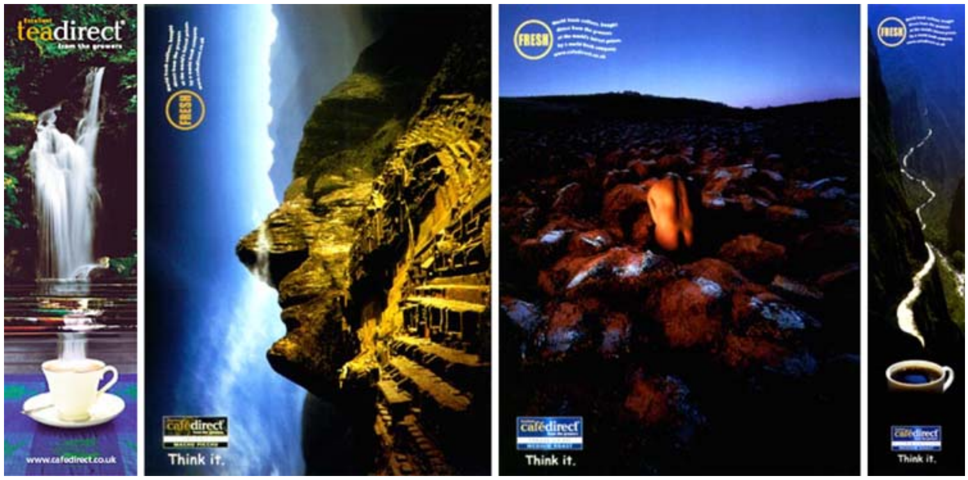


Figure 5. Market development evocative and quality image campaigns.

corporate brand communications that would influence sales growth and help reduce marketing expenditure. Beginning in 2004, Cafédirect undertook a corporate product and re-branding programme which culminated in 2007 with its brand portfolio being presented as a family of related products.

Mass-markets: marketing uniqueness 2004–present

In making this move, the company departed from product brand marketing towards corporate brand marketing – or a 'branded house' in the market parlance – to communicate how uniqueness of Cafédirect across its range of brands.

The company can justifiably claim a range of innovations which makes it unique: the first fair trade company to advertise, the innovator of the first fair trade instant coffee and the first fair trade company to have an initial public offering (IPO). It can also identify a number of market initiatives such setting up as the Gold Standard whereby not only does the company pay the fair trade premium to growers, but it also pays an additional premium for grower development initiatives. Cafédirect has invested £1.9 million or 60% of operating profit into Producer Partner Programmes in the 3 years to 2007. Since its IPO in 2004, it has also handed over a portion of its share issue to the producer community – 4.9% of equity – to give producers a role in the governance of the organisation.

The company now attempts to leverage stories of sustainability and shared ownership in its marketing communications as reasons why people should preferentially buy 'Brand Cafédirect' over other competing products. As a consequence, Cafédirect's physical products are no longer featured in today's advertising.

The transition to corporate marketing communications based on uniqueness has been a gradual process. In many ways, there has always been an undercurrent of this but over the last 5 years, the vast majority of Cafédirect's advertising has been based on 'events' and big extravaganzas. Examples of this include the extent to which they have involved themselves with the Glastonbury Rock Festival and the Edinburgh Fringe. One major investment has been on 'The Lift' (pictured in Figure 6a with the comedy group The Pineapple Boys) which is a miniature entertainment venue where small audiences (as many as will fit) are treated to live entertainment. It is quite literally a lift making the Cafédirect 'experience' somewhat avant-garde and a magnet for drawing press attention.

Following on from the Lift as a venue, Cafédirect took over the London Eye in 2005 with each pod representing a venue for entertainers (following the example of The Lift). Samples of press coverage from Cafédirect's annual report in that year are shown in Figure 6b. Figure 6b also shows a Daily Mirror front cover with the transformation of Madonna into an African woman in a major piece of PR for Cafédirect:

Figure 6. *a* The lift. *b* Uniqueness: a selection of press coverage of Cafédirect's marketing activities.

Brand location in store

Supermarkets were one of the first commercial business customers to expand the sales of fair trade and to validate Cafédirect as an alternative, mass-market business model rather than a niche offering. However, this distribution channel in itself threw up some business and ethical problems. Many people within the fair trade movement believed that working with supermarkets was hypocritical. When trying to demonstrate a better way of trading and supporting growers, working with organisations famous for their tight financial control over suppliers was regarded as questionable. In addition, to ensure sales were high enough to keep them on the supermarket stocking list meant encouraging existing consumers to move away from the independent and highly supportive World Shops to buy Cafédirect products at their local supermarkets. At the same time, the company also had to create awareness of their range among supermarket shoppers quickly and to persuade them to buy their products. Convincing campaigners to stand outside supermarkets and talk to people into buying fair trade on a one-to-one basis was certainly not unusual. In fact, during those early days, Cafédirect was lucky enough to have a group of devoted volunteer campaigners willing to brave wet February mornings during the Fairtrade Fortnight, an annual event aimed at raising fair trade awareness, to promote its brand. Many of these supporters were from the partner organisations, Oxfam and Traidcraft.

Rather surprisingly, one of the biggest challenges faced by Cafédirect was to get its products situated appropriately in store. A great deal of confusion existed (and in some cases it still does) as to what fair trade actually is! Many supermarkets stack their fair trade ranges on shelves displaying such things as Organics, Health foods and Ethnic produce. In fact, the aim with most Fairtrade© Marked brands has always been for them to sit alongside the mainstream brands and not elsewhere as an ethical, niche brand. By the time Cafédirect was creating tea brands in the late 1990s, ethical consumers were no longer its target market. Convincing every supermarket shopper that fair trade was simply a better way of consuming became the new mantra. Thus, wherever the mainstream brands were sold, Cafédirect wanted to be there too.

In 2000, Cafédirect entered into a partnership with Costa Coffee to sell fair trade coffee as a menu option throughout their estate of UK coffee shops. This market sector is termed 'out-of-home' and, in recent years, has been the strongest growth sector for Cafédirect, with them enjoying sales of £4.6 m in 2007 from a base of around £0.5 m 5 years earlier. New products developed for vending machines and catering packs for cafes, restaurants, planes and trains are the key reasons behind this growth.

Thus, Cafédirect's approach to distribution has been a vital element in shifting fair trade products into mainstream consumption. The company was able to convince trade buyers and consumers alike that it is not just a niche brand but a mass-market competitor with a unique selling proposition. How this message has been successfully communicated over time is of critical importance for Cafédirect. For a relatively new company with a workforce that has never risen above 35 people, this is a bold marketing and sales position to have adopted and has been achieved by giving the impression of size through its extensive use of networks.

Cafédirect's networks through its business development cycle

Cafédirect were founded as a joint venture between four organisations with different capabilities. With Twin Trading as their supply chain partner, they needed no buyers or supply chain managers (or plantations for that matter). In fact, Cafédirect was, and still is, a virtual organisation. Currently, Keith Spicer[7] manufacture, package and distribute their teas and Gala[8] roast, grind, package and distribute their coffees. This enables Cafédirect to remain small and entirely marketing and demand management focused. It has meant that the company can appear to the market as a much larger organisation than it is through the use of existing business networks and links to the market. This has given the company greater credibility and market impact despite only being a small, entrepreneurial business. Over its business development cycle, Cafédirect has gone through three distinct stages in its network usage which reflect its marketing developments previously discussed.

The solidarity launch stage: Cafédirect's business network

During its launch, most of Cafédirect's partners were from an Alternative Trading Organisation (ATO) background. All of the supply chain, sales and marketing was conducted by other organisations, in particular, Cafédirect's founding partners. Even manufacturers such as Northern Tea Merchants had long-standing relationships with fair trade having been the manufacturer of Equal Exchange and Traidcraft coffee prior to Cafédirect's involvement (see Figure 7). This network is consistent with the marketing and branding of Cafédirect during the fair trade solidarity period.

Cafédirect's business network during its market development growth phase

During this growth stage, Cafédirect began to assume more responsibility for sales and marketing, taking away the initiative from its founding partners. The company also started to rely less on ATOs for retailing its products or advertising its brands as they

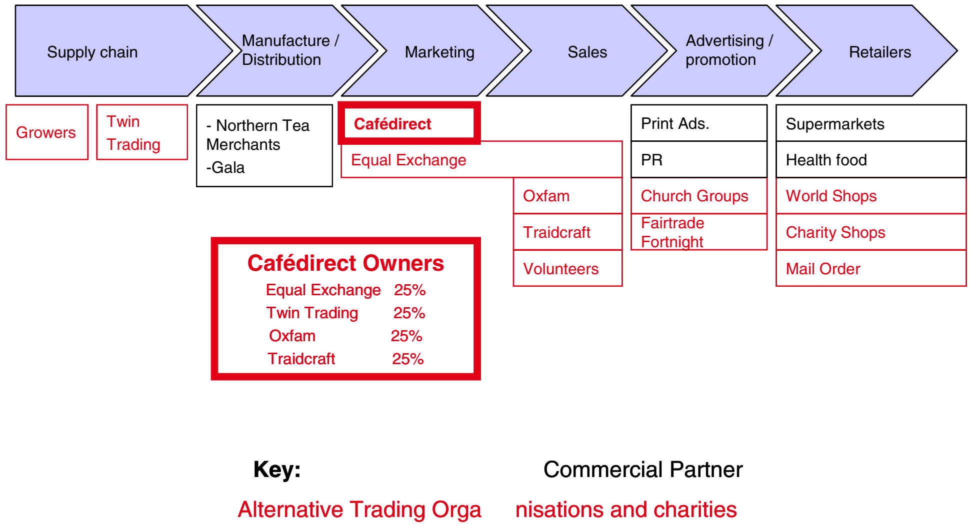


Figure 7. Cafédirect's original business network.

move more towards traditional style advertising, such as posters and print adverts, and mass-market distributors. They also partnered with Coffee Fresh[9] for vending machine distribution and had an agreement with Costa Coffee to ensure distribution in the growing market for coffee shops. In order to develop the market for both its own brands and the fair trade category in general, distribution was widened and Cafédirect's marketing and sales resources were increased by introducing more commercial partners into the network and reducing its commitments to the ATOs (see Figure 8).

Cafédirect's current business network during its mass-market stage

Currently, there is a clear shift away from the company's original fair trade founders to other types of trading partners (both commercial and ATOs) as it competes in the mass-market. In promoting and advertising the brand, Cafédirect has sought to develop increasingly avant-garde partners, such as the Edinburgh Fringe Festival, Glastonbury Rock Festival, G8, and organisations including the London Eye and *The Guardian* Newspaper (who now hold a

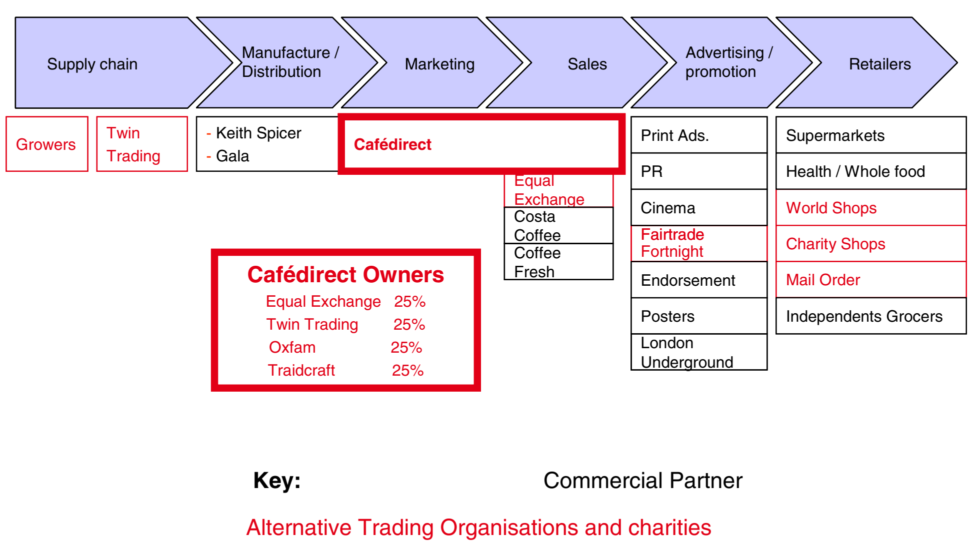


Figure 8. Cafédirect's market development network.

board seat) to gain significant levels of free advertising space (or at a very much reduced cost) in prime locations (including newspaper front covers, festival stages and endorsements). The company has also begun to involve itself in many issues beyond the fair trade agenda, such as contributing to the climate change debate with partner GTZ, getting involved in the Sri Lankan Tsunami Appeal and the Kenyan civil strife following the 2008 election. The senior management of Cafédirect are also now consulting with The Department for International Development (DfID) on health and poverty issues in Africa (see Figure 9 for Cafédirect's current business networks). Arguably, this strategy once again starts to push the company back towards the charity-style public image they once tried so hard to cast off. However, one of the differences now is that the people involved in the company are no longer ATO workers with experience working in Africa (as they were in the beginning), but former sales and marketing managers from GlaxoSmithKline, Mars and Nestlé and other multinationals.

Over time, Cafédirect has effected very significant changes in the type of companies it networks with and the ways in which these networks are leveraged. Originally, a high proportion of its network contacts were charities, ATOs and 'ethical' companies manufacturing and distributing through alternative retailers. All of them partnered with Cafédirect as part of a transformative movement to build an alternative to conventional international trade, ultimately leading to the presence of Cafédirect on supermarket shelves and movement into the mainstream. For example, for many years, Fairtrade Fortnight (as mentioned earlier) was the principle means of promotion. For 2 weeks each year, all the licensed members of the Fairtrade Foundation join together to promote one common message; an effective method of promoting the idea of size and cohesion which really does not exist across the fair trade market. PR contacts and volunteer sales forces were also key to the network in the early stages. To a certain extent, this original marketing strategy was driven by cost because, as a small business, Cafédirect could not afford expensive sales and marketing. Also, weight was added to Cafédirect's sustainability claims by using church groups and other charities to advertise their products.

Now, the influence of the founding partners of the company has been significantly reduced. For

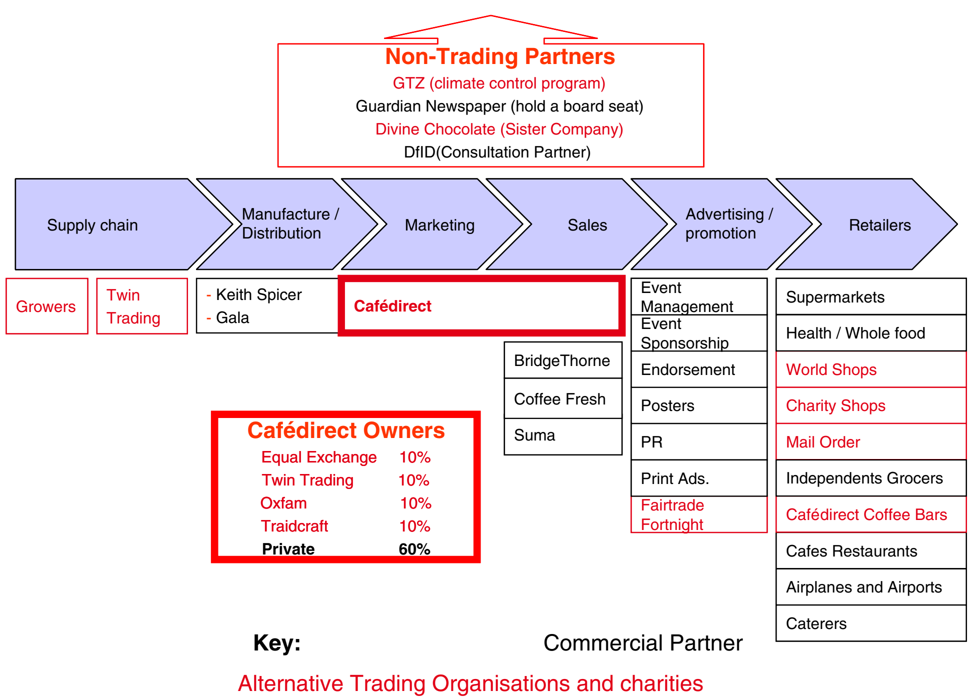


Figure 9. Cafédirect's current business network.

TABLE I

Market share (by value) of coffee by manufacturer: 2003–2007

Company	£m 2003	£m 2005	£m 2007	% change 2003–2007	% change 2005–2007
Nestlé	294	308	304	3.4	−1.3
Kraft	126	128	139	10.3	8.6
Douwe Egberts	27	40	47	74.1	17.5
Cafédirect	7	8	10	28.6	12.5
Taylors	8	8	10	37.5	37.5
Lavazza	8	8	11	37.5	37.5
Gala (Lyons)	6	5	4	−33.3	−20
Food Brands Group (Percol)	5	5	5	0	0
Own-label	88	104	122	38.6	17.3
Others	44	56	68	54.5	21.4
Total	613	670	720	17.5	7.5

Source: Adapted from Mintel (2008).

instance, Equal Exchange the original sales and marketing team for Cafédirect, is no longer involved in running the company. Shortly after moving to London, Cafédirect effectively curtailed its relationship by only allowing them to act as the distributor for Cafédirect brands into the catering, health and wholefood markets. Within a couple of years, the company had effectively by-passed even this arrangement with Equal Exchange by agreeing to supply direct to their biggest customer (Suma). Cafédirect has not only reduced its use of the founders' sales and marketing teams, it has also begun to formalise their relationships with them by using service level agreements in place of the trust-based agreements. At precisely the same time as these events, Cafédirect converted from private to public ownership, reducing each of the founding partners from 25% share to 10% share in the company and reducing their position on the Board to one representative.

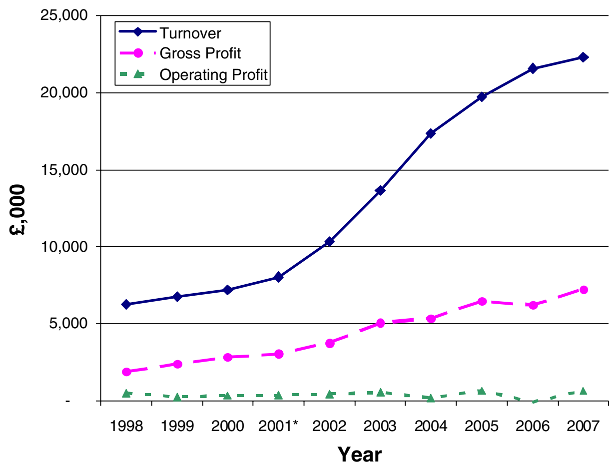
Cafédirect has moved away from the ATOs to more traditional business partners such as Bridge-Thorne (outsourced retails sales and distribution), Coffee fresh (vending machines) and selling directly to Suma (major warehouse and distribution centres for independent retailers. As the range of partners that Cafédirect works with increases dramatically, they are beginning to look more like any other small coffee business as they make connections to advance the commercial aspects of the firm whilst concentrating less on the ethical image they had portrayed in the past.

Cafédirect: where to next?

Cafédirect has been a huge marketing success story. They have consistently grown far faster than the total market although not necessarily as fast as some competitors (see Table I). In 2008, the former CEO was made an Officer of the Order of the British Empire (OBE[10]) Award, after overseeing the vastly over-subscribed initial public offering for Cafédirect in 2004. Cafédirect paid its first dividend in 2005 – much to the surprise of many investors – despite the increased pressures from competition and was also voted number one most-recommended UK brand by a Millward Brown consumer market survey in 2007.

In 2006, the company made its first after-tax loss since 1995(see financial results in Figure 10). During 2007, retail sales actually fell 4% for the first time in the company's history to £17.0 million which must be viewed with some concern as 70% of total company turnover is via the retail channel. Fairtrade© coffee at retail level overall is still growing at 33% volume and 24% retail (Fairtrade Foundation, 2008); Cafédirect does not seem to be capitalising on this and is also feeling the effects of increasing competition from both like-for-like fair trade goods, including supermarket own-label fair trade products, and new, sustainable coffees.

For instance, 39% of fair trade coffee sales are now accounted for by supermarket own-label brands. In fact, forecast data for Fairtrade© coffee in general



* Adjusted from 18 month to 12 month reported period

Figure 10. Cafédirect's financial results. *Source:* Cafédirect plc. (2001a, b, 2002, 2003, 2006, 2007, 2008).

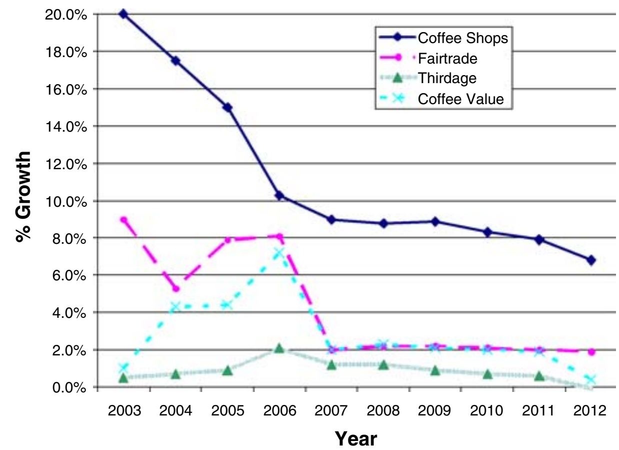


Figure 11. Market growth forecasts relevant to Cafédirect.

does not look encouraging with a gradual slowing of growth which could reduce even faster if the 2006/2007 trend continues (see Figure 11, long-dash line). Since 2005, Cafédirect have actually underperformed in terms of growth compared to fair trade in general (Fairtrade growth rate = 8% per year, Cafédirect growth rate = 6–7% per year), they have also grown relatively conservatively compared to the rest of the coffee market (Figure 11), Similarly, although the predicted growth in coffee shops is still strong (bold line), this growth is definitely slowing too, indicating near-saturated markets in both retail and out-of-home coffee consumption. This could be an issue for Cafédirect as they have recently started investing in their own high street coffee shops to take advantage of this growing market.

There is also a problem in the target age group for coffee consumption amongst the demographic group called the Thirdage (hashed line of Figure 11) as there is actually a predicted fall in this age bracket of people 45 years and older. This may have a double impact on Cafédirect as fair trade itself is more attractive to Thirdage consumers than other demographic groups (Nicholls and Opal, 2005; Strong, 1996, 1997a, b). Taken together, these market predictions adversely impact on the overall market forecast for coffee sales (short-dash line), making coffee a far less attractive market than it was a few years ago.

Through its current and past networks, Cafédirect has been able to convince their stakeholders that it is a much larger business than it really is. It has been able to cast off its charity image for a professionalism not seen previously in fair trade companies, and has exploited just about every opportunity to expand its public profile whilst improving its contacts at governmental, industrial and consumer levels. Cafédirect now buys from 39 producer organisations representing over 250,000 growers from 13 different countries (Cafédirect, 2007), and the fair trade movement is now generally recognised as an alternative approach to traditional trading models (Moore, 2004; Nicholls and Opal, 2005; Raynolds et al., 2007). However, competing ethical claim certification marks are now entering the market (e.g. Rainforest Alliance[11], Utz Kapeh[12] and the coffee industry's 4C code) which is introducing greater competition. On the positive side, it emerges that a major UK supermarket has delisted Nescafé Partners Blend due to poor sales. A supermarket buyer offered the opinion that, 'fair trade consumers just do not seem to trust the Nestlé brand' (interviewed in February 2009).

In the face of this increasing market threats, we are seeing the current Cafédirect management team expanding its ethical message by engaging in broader issues such as ethical consumption, overseas development aid and human rights issues… as well as climate change through its involvement with DfID and GTZ.

The company has also to deal with the negative publicity about fair trade that appears in the press from time to time, such as the accusation that fair trade is not living up to its promises to growers or that it is been subverted by multinational organisations (Nestlé 'Partners' Blend' being awarded the Fairtrade© Mark). Fair trade organisations are sometimes criticised for 'colluding' with the supermarkets by 'agreeing to' the profit levels supermarkets achieve on fair trade products (BBC, 2006). Cafédirect has even been accused of destabilising the market by swimming counter to market economics, representing nothing more than protectionism and, as such, damaging free trade across the whole coffee market (Kappler, 2001, CBI and British Soluble Coffee Manufacturers' Association in *The Guardian* 1998, p. 22). However, this argument assumes that free trade was working in the first place. For small-scale coffee farmers receiving less for their product than it has cost them to produce sustainably, it's hard to see how this can work for such communities (Brown, 1993).

Conclusions

As a case study, this paper attempts to explain Cafédirect's rise from obscurity to become the champion brand of the fair trade movement in the UK. Through the use of networks and the ways in which the company leverages its Fairtrade© status demonstrates great creativity and ingenuity which can be generally characterised as an aggressive, market-orientated approach.

However, the case also presents a microcosm of the issues surrounding ethical brand management. Cafédirect could only rely on core product ethics (being fair trade) and ethical messages to deliver a very limited market share. Product quality and corporate identity, combined with strong distribution and consumer awareness, have proved more important in achieving a greater market share and sales growth; Cafédirect has had to adapt its business model and core messaging to reflect this. The people within the organisation have also had to adapt to these changing market conditions.

Despite the flexibility of the Cafédirect management and the companies strong brand credentials, it is facing a number of challenges as a result of mainstreaming. Its first challenge is to maintain its unique ethical edge. Although Cafédirect today is more heavily sales driven than the charities and ATOs that founded the organisation were, is it fair to argue that its engagement with mainstream business has led to a dilution of the fair trade movement (Low and Davenport, 2005a, b; Moore et al., 2006; Murray et al., 2006; Taylor et al., 2005)?

Certainly, Cafédirect's structures and processes for selling its products are not particularly different to any other mainstream consumer business. Nevertheless, its ownership and engagement with supply chain development issues through PPP and Gold Standard suggest that its claim to be the authentic voice for subsistence growers is certainly as strong today as it always has been. However, the company is now competing against other organisations within the fair trade movement, unlike in earlier times where all fair trade companies presented a united front (Davies, 2007). Especially if the coffee market goes the way of the chocolate market where big brand leaders (in this case Cadbury's) convert their mainstream brands to fair trade. To a certain extent, this forces the company to adopt a defensive strategy to help protect its brand and it's now not insubstantial revenues. It is telling that the new CEO (formerly from Ribena) is an experienced consumer goods marketer, skilled in protecting market share rather than an entrepreneur experienced at growing an ethical business.

The second challenge faced by Cafédirect in mainstreaming is whether or not it is clean-washing its partner organisations (Murray and Raynolds, 2000; Golding and Peattie, 2005; Valor, 2006). In contrast to its sister company Divine Chocolate, Cafédirect does not directly license its products to other organisations for own-label production. It does, however, provide the opportunity for organisations in its network partnership to gain reputational benefits whilst contributing very little to the movement. An extreme example of this is an airline demonstrating commitment to sustainability by having fair trade coffee on-board, perhaps in an attempt to deflect attention from other environmental issues.

The third challenge may be about survival of the company rather than promoting development of the fair trade movement. Ultimately, Cafédirect is one of the companies that set the standards for what fair trade has become. This case demonstrates that if the movement wishes to have a large market presence, it has to embrace a mainstream approach. Fair trade has gravitated towards being heavily brand-orientated in competitive market segments which effectively negate the notion of being a united movement. Within these segments, brands must fight for market position which means there may well be limits to size since as soon as the market segment becomes big and profitable enough, large commercial brands can quickly enter and draw a larger share of that market. (Currently, the FLO does not limit the number of licenses available to suitable applicants). Whilst it is possible to sustain a number one or two brand position within a segment, ultimately, company's survival and profitability depend upon occupying multiple market segments (Aaker, 2004); niche brands are usually viable within a mainstream market segment but niche companies are not.

The final challenge raised in this case is whether consumers can variously differentiate between not only *competing ethical claims* (i.e. the new ethical labels) but also *the number of claims* that they can willingly process. Moore et al. (2006) calls for fair trade to show unity in fair trade messaging to ensure its survival as a distinct product offering. At Cafédirect, there has been a movement towards corporate ethics as its unique differentiator leading to an involvement in numerous ethical activities and promoting this engagement over a broader series of sustainability issues. Davies and Crane (2003) discussed the idea of ring-fencing the fair trade ideology behind a 'moral curtain' and really promoting that message over all other activities. In writing this case, we cannot readily identify whether Cafédirect's corporate marketing activities about its various positions on global ethical issues is having an impact on the slowing of sales growth since there are too many other factors at play in the market. However, evidence from Mintel (2008) would suggest the majority of customers are not sufficiently savvy to comprehend multiple messages on ethical or sustainability issues (e.g. confusing organics and fair trade).

Notes

1 The terms 'South' and 'North', most often used in the literature on fair trade, correspond to a geopolitical division of the world, between, respectively 'developing countries' and 'industrialised countries'.

2 Mainstreaming refers to the broadening of distribution channels to compete directly with traditional business organisations and brands by placing fair trade products wherever you would expect to see the leading brand names.

3 Fairtrade Coffee originally but now the mark for fairtrade in Holland, Switzerland, Belgium, France, Denmark and Norway.

4 National Fairtrade Mark in Germany and Luxemburg.

5 National Fairtrade Mark in Sweden.

6 National Fairtrade Mark in Finland.

7 Keith Spicer is a British tea blender, and coffee roaster and grinder (founded in 1934) which manufactures both its own brand but also many branded coffees from many famous brands. It is a Soil Association organic-awarded manufacturer and also deals with both fairtrade and Rainforest Alliance 'sustainable' coffees.

8 Gala is the UK's biggest roaster and grinder and makes many UK coffee brands including Lyons and Mill House.

9 Coffee Fresh are providers of out-of-home vending machines for offices and public services.

10 This is a prestigious award for service to the British Empire bestowed by the Queen and is two steps below being Knighted (i.e. made a Sir or Dame).

11 A labelling scheme for coffee produced without rainforest destruction (used by Kenco and The Eden Project).

12 An almost direct competitor to Fairtrade in the coffee market guaranteeing more money will be passed back to farmers.

13 A code of conduct created by the world's four biggest coffee roast and grinders in response to Fairtrade that promises many of the same advantages as Fairtrade, but without any auditing or requirements on which to judge compliance.

Appendix 1: Methodology

The data used in this case study come from two longitudinal, exploratory studies into the management and implementation of strategy in Cafédirect over the periods of 1999–2004 and 1999–2008, respectively.

The methodology used in both studies involved the researchers gaining privileged access to the company to develop a deep understanding of the organisational phenomena (Glaser, 1992). A case study approach was, therefore, selected as the principal method of gaining in-depth information (Yin, 1994). Data sources were wide ranging, including not only primary qualitative data (observation, interviews and attendance at corporate events) but also annual reports, company reports, secondary data, and statistics and surveys providing information of relevance to the study (Goulding, 2001). These supplementary data sources provide some of the background as well as further verification of our findings from the qualitative works. Nevertheless, the methods of enquiry are predominantly qualitative to gain this rich contextual understanding to promote revelatory case insight (Mintzberg, 1979; Van Maanen, 1979).

The predominant qualitative methods used in each study were:

Study 1 – participant and personal observation recorded through formal and reflexive research diaries spanning a period of 9 years and semi-structured interview technique;
Study 2 – participant observation included work shadowing in the sales and marketing department, touring with the marketing team at public events such as the *Edinburgh Fringe Festival* and *The Lift* venues (see later), participation in team and external/network organisation meetings and working from the head office on marketing and research activities and semi-structure interviews.

In total, the observation leads to over 1000 h contact time over the two studies as well as informal observation from the authors' cumulative experience of 20 years working within and observing the fair trade movement.

The semi-structured interviews also carried out consisted of 12 formal interviews within Cafédirect and 42 supplementary and validating interviews across the marketplace, from supply chain participants to the fair trade establishment. Key informants include past and present personnel at Cafédirect, the company's founders, the Fairtrade Foundation, other fair trade companies, competitors, supermarket buyers, supermarket ethical trading managers, a trading manager from a UK Coffee shop chain and established independent retailers. All interviews were recorded.

In order to ensure internal validity and reliability, a constant comparative method borrowed from grounded theory was utilised for both studies collectively (Barnes, 1996) multiple responses from different people within the same organisation were compared against each other, field notes and secondary sources. We subsequently interpreted these data outputs and provided underlying rationales for the companies actions from the data (Rubin and Rubin, 1995; Eisenhardt, 1989). External validity and reliability was increased through triangulation with both secondary sources and formal interviews with appropriate third parties (such as network partners) to ensure greater rigour in the findings and conclusions (Askey and Knight, 1999).

Interviews were transcribed and run through a series of categorisation, abstraction, and comparison processes to identify themes which contribute to theory development (Spiggle, 1994). Aspects of theory were then reviewed iteratively to decide on the direction of future data collection and emergent themes were then put to participants for review and refinement prior to writing this final version of the case study.

Appendix 2: Teaching appendix

Suggested questions

Do you think companies in an ethical niche have to compromise their ethics when competing in the mainstream?

Looking back at Cafédirect's market development, would you have done things differently if you had been in charge? If you were to have been offered the CEO role in 2008 when it became available, what would you do differently at Cafédirect?

For business ethics course

(a) Cafédirect has been a clear success and is held up as an archetype case for 'ethical business', but is it really any different from other competitors that enjoys a unique selling proposition? Has fair trade reached its natural limit when codes such as the 4C (Common Code for the Coffee Community

– http://www.4c-coffeeassociation.org/en/association.htm) are put in place to govern the entire coffee market with similar rhetoric to the Fairtrade© principles?

(b) As a marketing and logistics company, what should Cafédirect's responsibilities be? Consider:

i. Are they an appropriate organisation to be advising the government on African development?

ii. Should they be getting involved in climate change discussions or is this diluting their core purpose?

iii. Can single issue brands still compete in an ever more complex and diversified market?

For marketing ethics course

Discussion

Davies and Crane (2003) discuss the idea of a 'Moral Curtain' where, by ring fencing a single issue (the marginalisation of growing communities) and really promoting this, fair trade companies can achieve success over time by allowing other areas of the business to mimic traditional business models whilst the company itself remains perceived as an 'ethical brand'.

Has this been happening in Cafédirect? Does an involvement in ancillary campaigns, such as climate change, weaken their market proposition?

For marketing course

You have been appointed as the new Marketing Director of Cafédirect with the specific brief to get both profits and sales back on track. Your brief allows you to consider all aspects of the company's business and marketing strategy and there are no 'no go' areas. Fortuitously, one of the world's leading marketing services company has offered their extensive market research resources to you for free – both qualitative and quantitative – as part of their global sustainability programme. So, as a first step in managing change in Cafédirect's marketing strategy, you decide to draw up a MR brief for the agency. Your brief should highlight the key aspects of the business and market you want to investigate. What do you consider to be the *five* key areas where research insight is most needed to develop your revised marketing strategy?

Business strategy courses

From the case study, identify the tangible and intangible resources utilised by Cafedirect to support its competitive position in the UK Hot Beverage market?

Further reading

If you are interested in getting a greater understanding of fair trade, mainstreaming of fair trade or wish to explore some of the issues covered in this case further, please refer to the following suggested texts:

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