

Fair Trade Coffee Proposal: O'Connor Express Marts/Jetz Convenience Centers

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I. Introduction to Fair Trade

A. The development of Fair Trade products

Fair Trade economic practices have grown out of the escalating global problem of profitability drowning small-scale producers. As global industries and corporations have grown, farmers, crafts producers and other workers have been left behind. Fair Trade looks to help the exploited and oppressed continue to survive in the current climate. It entails a partnership between consumers in North America and producers in Asia, Africa, Latin America and the Caribbean.

Fair Trade is driven by a set of principles based on the concept of sustainability and economic reality. These principles make it a vital economic movement in the struggle toward sustainable global policy:

- Prices paid to producers for their commodities must allow for living wages.
- Slavery — in any of its various constructions (forced labor, child labor, exploitation of workers) — can not be allowed.
- Long-term relationships must be built between producers and buyers.
- Technical and financial assistance must be available for producers when needed.
- Employees must work in healthy and safe environments.
- Employment must be equal and unbiased.
- Trade and production must be open to public accountability
- Sustainable production techniques are encouraged.

Products currently shifting into Fair Trade practices include coffee, cocoa, tea, bananas and other fruits. *The Fair Trade Federation* labels such products with a logo or a “Fair Trade Certified” marker. Fair Trade handcrafts are similarly regulated.

Fair Trade Certified Coffee is the first product that has been introduced in the United States. It’s an enormous industry trend that spans more than 100 companies and is provided by such name-recognized coffee roasters as *Starbucks, Tully’s, Peet’s, Equal Exchange, Diedrich* and *Green Mountain*. At least 7,000 retail locations provide Fair Trade Coffee.

The need for Fair Trade practices in the coffee industry was predicated largely by a trend of inexpensive gourmet coffee offerings. Prices for coffee have reached an eight-year low — selling at under \$0.50 per pound — but retail prices have remained constant.

Unable to clear cut forests, use cutting-edge fertilizers and (many times unwilling to) employ new-wave pesticides, small farmers have been left behind by the boom. Because they are the most important source of environmental stewardship, those farmers need to be brought back into the industry.

B. Background Information — O’Connor Express Marts/Jetz Convenience Centers

Robert O’Connor currently owns and operates three convenience stores dispersed in and around the Milwaukee, WI area. The convenience stores are located in West Allis,

Wisconsin (ZIP Code 53214); Hales Corners, Wisconsin (ZIP Code 53130); and Muskego, Wisconsin (ZIP Code 53150). All three of Mr. O'Connor's locations function as both convenience stores and gas stations. His West Allis store offers car wash facilities and contains a *Culver's* and a *Subway* restaurant (see pictures in Appendix). His Muskego store has a car wash and contains a *Quizno's Subs* and a *DQ restaurant*. The operating hours for each store are from 5 a.m. to 11 p.m.

The clientele for older convenience stores and gas stations tends to be predominantly male, but Mr. O'Connor's convenience stores are more upscale and, as such, tend to cater more to families and females. As the pictures included in the Appendix show, his stores are clean and new in appearance.

The Hales Corners and Muskego stores are suburban locations; the West Allis store is mainly an urban location. The West Allis store is about two blocks from MATC and is near the West Allis business park. It is right on the way to the freeway, near a major thoroughfare. The Muskego store is near the main funnel point out of Muskego. There aren't any coffee shops that are close to either the Muskego or West Allis stores; there is a *Starbucks* across the street from the Hales Corners store.

Mr. O'Connor is currently rebranding his stores — shifting from the brand name *O'Connor Express Marts* (see Appendix for logo) to the new brand name *Jetz Convenience Centers* (see Appendix). Mr. O'Connor is interested in introducing Fair Trade Coffee as part of the transition. It is not often that a business owner has an opportunity to rebrand his product, so this is a great opportunity for Mr. O'Connor to incorporate sustainable practices into his convenience marketing, whether that means selling Fair Trade Coffee or something else.

The current coffee offerings in Mr. O'Connor's stores are *Café Royal* (house blend) and *Superior* (varied flavors). These come in both regular and decaf. The regular prices are as follows:

Small cup:	\$0.89
Medium cup:	\$0.99
Large cup:	\$1.09

A 16-ounce (medium sized) cup of the regular coffee costs \$0.16 for Mr. O'Connor to produce, while a 16-ounce cup of Fair Trade coffee would cost \$0.31 (almost twice as much). To account for that differential, Mr. O'Connor is planning on selling Fair Trade coffee at the following prices:

Small cup:	\$1.09
Medium cup:	\$1.19
Large cup:	\$1.29

Even with heightened prices, this enterprise will cut into Mr. O'Connor's profit margin: he will only charge \$0.20 more per cup, but the Fair Trade coffee costs almost twice as much for him to produce. These prices are not promotional — Mr. O'Connor is not planning on changing the prices in the future.

All three of Mr. O'Connor's convenience stores offer counter and wall space that could be used to promote Fair Trade Coffee. Blue tags adorn all the coffeemakers in his

store, but Mr. O'Connor has indicated that he would be willing to consider placing special colored tags (i.e. green) on Fair Trade coffeemakers to visually represent and help customers distinguish the difference.

Mr. O'Connor's main concern is whether his customers will be willing to pay additional money for the more ethical business practice and, if they are, to what extent. As discussed in the history of fair trade, Fair Trade Coffee's main advantage over other products is the moral high ground it occupies. It makes up for disadvantages in price by offering an ethical choice that is organic, improves the lives of its makers and eliminates slave labor situations. Mr. O'Connor also expressed interest in whether the amount that customers will pay for ethical business practices varies based on location.

To answer these concerns, it was necessary place Fair Trade Coffee in one of Mr. O'Connor's stores and to create point-of-purchase posters advertising the product (in this case: *Prebica Arabica Coffee by Superior*). It also was necessary to collect demographic information from the Milwaukee area.

One of Mr. O'Connor's goals is to find a system by which to inform his customers that the circumstances surrounding Fair Trade coffee (i.e. production) are part of its perceived value. He wants his clientele to know that what the coffee offers is not just about taste or price; it's about ethical business practices. A system of marketing the product (i.e. informational posters stressing the point) are every bit as crucial to the introduction of Fair Trade Coffee as pricing requirements and research.

C. Demographics

West Allis, Wisconsin — home of one of Mr. O'Connor's stores — is self-described as a community oriented location. According to the city's description, it is a group of people, with strong feelings, living and working together with a common interest. Located in the middle of the Milwaukee metropolitan area, nearly 98 percent of the land available has been developed, translating into an urbanized community.

Average income in this area clusters around \$50,000 per year. The ethnically diverse population is largely made up of middle class, white-collar, homeowners. Commerce and industry are central to West Allis, which translates into unemployment rates that consistently stay below Milwaukee's average. This leaves West Allis' residents with a higher than average expendable income — something that would be to the benefit of sales for Fair Trade Coffee.

Boasting more than 121 local clubs and chapters of national organizations, it is clear that this community takes pride in its willingness to come together and support common goals. There are also 11 parks in West Allis. According to marketing research data, many of the people who live there enjoy mountain biking and jogging, as well as other outdoor activities. This is important because it shows that residents of this area have personal interest in the environment and the outdoors.

Hales Corners, Wisconsin is smaller than West Allis. With just under 8,000 residents, this area of Milwaukee is also far less ethnically diverse. 96 percent of Hales Corners' population is white, non-Hispanic. 35 percent of the population has a bachelor's degree or higher and the average household income is just under \$55,000 per year. The majority of the population of this suburban community is currently married and lives a financially comfortable lifestyle.

This demographic profile is also conducive to environmentally conscious consumers. The slightly higher median income allows for spending extra money to purchase fair trade coffee. The higher education level may also translate to a more environmentally conscious consumer.

Muskego, Wisconsin, is the second largest of the towns that Mr. O'Connor has located his stores. Muskego has just over 22,000 people, as of 2002, with a median household income of just under \$65,000. Over 67 percent of the population is married, and the median age is 37 years old. This location has the highest median income of the three stores, a factor that works in Fair Trade's favor. Because the average person is younger, it is safe to assume that they have had more exposure to environmental issues and learned more conservation techniques in schools.

This is a town with a high interest in the environment. Muskego has its own urban forestry committee, which is committed to growing and maintaining trees in schoolyards, lining streets, cemeteries and anywhere else that trees can grow. Since the year 2000, over 250 trees have been planted. In an effort to educate the community, the city offers free tree care workshops and informational brochures. This strong effort clearly demonstrates the high level of commitment and receptiveness to environmental initiatives.

II. Results

A. Predictions

We began this project with a set of predictions, focused on selling fair trade coffee at a convenience store.

- The price increase would initially deter customers to switch to more ethically produced coffee.
- Given more information, customers might be made more aware of ethical business practices concerning coffee and would then pay more money for fair trade coffee.
- Working with in the time frame, the results of our surveys and marketing research would not offer very much positive data for selling fair trade coffee.
- Selling fair trade coffee might require a different business/marketing approach

B. Method of research

Our marketing research focused on informing convenience store customers about fair trade coffee practices, surveying local coffee shop managers and local convenience store customers and doing Internet research of the areas demographics, size, population, consumer habits and trends.

We began our marketing research by focusing on informing the *Jetz Convenience Center* customers about ethically sound business practices pertaining to fair trade coffee. We provided several flyers with facts about fair trade practices and facts about coffee. These flyers were posted in one of the stores Mr. O'Connor owns and operates. The store is located in the Muskego area. In addition to these posters, Mr. O'Connor set up a trial run of selling fair trade coffee for customers to sample and comment upon. This experiment ran from November 8th to November 18th. Mr. O'Connor collected data, receipts and comment cards over this time frame to keep track of how many people purchased fair trade coffee instead of the regular coffee *Jetz Convenience Center* offers and why they chose to do so.

We then discussed fair trade coffee and other related topics with Madison area coffee shops and convenience store employees. We surveyed several managers from the State Street area coffee shops, including *Starbucks*, *Espresso Royale*, *Steep and Brew*, *Fair Trade Coffee*, and *Michelangelo's*. We discussed general comments of Fair Trade practices and price difference between regular coffee and Fair Trade coffee. We asked the coffee shop managers what their reasons for selling Fair Trade coffee were. We also looked at marketing strategies they had employed to promote the Fair Trade movement (see survey attached in Appendix). We collected informational packets from several of the shops to see what information was being provided for consumer interest.

We then turned our attention to Madison area convenience stores. We again surveyed customers — collecting information on their general knowledge of Fair Trade business practices and whether they would pay more for ethically produced coffee. We surveyed approximately fifty customers at the *Stop 'N Go* gas station in DeForest, Wisconsin (which is more conservative than Madison but less conservative than the

Waukesha area). We asked them if they understood Fair Trade practices concerning coffee and for their general comments on Fair Trade Coffee (see survey attached in Appendix). We also surveyed approximately 50 customers at two different convenience stores in the Madison area: *Kelly's Market* on West Washington and *Open Pantry* on Regent Street.

General research was the ongoing element for this project. We spent time collecting information at the location Mr. O'Connor's Convenience Centers and constructed a profile of the average customer who purchased coffee at the convenience centers. We used several different websites that connect demographics to specific ZIP codes to gather data on who lives in the area surrounding the stores. We had a phone conversation with Mr. O'Connor to discuss the general ideas he had concerning the foundations of this project. Mr. O'Connor provided us with the basic information concerning his stores location and consumer set. Using this information, we expanded our research to include employment in the area, annual income of area residents, environmental concerns etc.

The results we gained from our Fair Trade Coffee experiment at Mr. O'Connor's Muskego store were not very positive. The survey data that we collected from area convenience stores provided sample data that was not very representative of our project area, but did provide adequate information on selling Fair Trade coffee.

C. Muskego location data

The Fair Trade Coffee experiment began November 8th and ran through November 18th. Through this time span, Mr. O'Connor set up a sampling of Fair Trade Coffee in his Muskego Store. Results varied from zero people purchasing Fair Trade Coffee to only four people purchasing Fair Trade Coffee. The range of total coffee sold, as comparison, was between 68 and 127 (see collected data and comments Appendix).

The Fair Trade Coffee price differential was met with excessive negative reaction and deterred most customers from purchasing the coffee. Many of the comments made connected the coffee to liberal ideas or just made negative statements. In an email connected to the data collected, Mr. O'Connor stated, "With these results, it will be cost prohibitive to continue to offer Fair Trade Coffee."

D. Madison convenience stores data

The survey research that took place in Madison focused on two convenience stores near campus, *Kelly's Market* and *Open Pantry*. Between those two stores, we surveyed fifty total people. Considering that Madison is a more liberal town and has a large college student population, we took the data gathered from these survey as quite possibly unrepresentative of Mr. O'Connor's customer base — but also used it as a point of optimism. Mr. O'Connor thought using Madison area convenience stores for survey data could provide an adequate and representative sample for our project.

30 of the people surveyed knew what Fair Trade Coffee was. 25 percent of these people said they would pay more for ethically sound business practices, but they would rather purchase it from a coffee shop. Many of the people surveyed indicated that the

atmosphere a coffee shop adds to the allure of Fair Trade Coffee, making it preferable to purchasing from a convenience store.

When asked how much more money they would pay for Fair Trade Coffee people responded with a range of \$0.12 to \$1.25 more for coffee. Those respondents that were willing to pay more commented that it seems like the right thing to do. They liked the thought of helping out the little guy and the farmers. In general, we saw an open approach to Fair Trade ideas and received few negative responses. An important reality we observed was that, if the respondent was more informed about Fair Trade business practices, he or she would be more willing to pay more for ethical coffee.

E. DeForest Stop 'N Go data

We surveyed 50 customers at the *Stop 'N Go* in DeForest, Wisconsin (a small town of about 7,000 15 miles north of Madison). DeForest is a more conservative community than Madison, but is less conservative than the Waukesha/Muskego area. We created a survey with five questions, which is included in the Appendix.

First we asked the customers if they know what Fair Trade coffee was. Out of 50 customers, only 13 had heard of Fair Trade coffee. Next we asked if they would consider paying more for ethically sound business practices and for the reasoning behind their answers. 19 of the customers said they would consider paying more for ethically sound business practices. These 19 people were not very articulate about why they would pay more, but a common answer was because they believed that when they buy a product, they're buying into the company's ethics and practices and want to make sure that those beliefs match their own beliefs. Others said that, especially if it's not much money, they feel that it's an easy and cheap way to make a difference. Another answer was that they normally spend quite a bit of money at convenience stores — filling up on gas — so a few extra cents wouldn't make or break them. A few other people said that they wanted to do what they could to help and that this doesn't seem like it would take much time or effort.

Out of the 31 people who said they wouldn't consider paying more for ethically sound business practices, common answers were: why should they pay more money for something they don't know much about; if they wanted to pay more money for coffee, they would go to a coffee shop (i.e. *Starbucks*); they would rather spend their money on cigarettes (two people said this); and they are Republicans and don't agree with these "Democratic" practices.

Next, we asked the 19 people who said they would consider paying more money how much money they would be willing to pay for these ethical business practices. The answers ranged from \$0.10 to \$1.00. Nine people said they would pay \$0.10 more; three people said they would pay \$0.15 more, five people said they would pay \$0.20 more, one person said he would pay \$0.50, and one person said she would pay \$1.00 more.

Our next question was what factors the customers consider when buying coffee. We had them rank the following factors in terms of importance: price, flavors, cup size, the availability of self-serve (as opposed to coffee made behind the counter), and specials (i.e. free muffin with purchase). Most of the people we surveyed said that price is the most important factor. In the majority of cases, the second most important factor was specials. The next most important consideration was flavors offered, followed by self-

serve availability. Most people said that cup size is the least important factor they take into consideration.

Our final question was whether customers would buy coffee from a convenience store instead of a coffee house. The majority of the respondents said that they would prefer to buy coffee from a convenience store (34 of them said this); the other 16 respondents said that they prefer to buy coffee from a coffee shop.

III. Conclusion

A. Specific recommendations

The results of the Fair Trade coffee experiment at Mr. O'Connor's Muskego convenience store were not very positive or encouraging. As such, we are focusing our recommendations on general ethical business practices, keeping in mind that Fair Trade is a good option; however, smaller steps can be taken to reach the goals of sustainability.

First, we recommend that a future group should pick up where we left off — our project can be a platform for a future project relating to Fair Trade practices. We suggest that this future group focus more on informing the customer about Fair Trade practices. From the data that we collected, it appears that many customers of convenience stores are uninformed about Fair Trade coffee and its ethical business practices. Mr. O'Connor could have his employees wear buttons promoting Fair Trade coffee, be an information source for customers, ask the customers if they'd like to try Fair Trade coffee, etc. These things were not put into practice during this study due to the time frame we were working within, the added expense for the convenience store of purchasing additional promotional items and that general research needed to be done during this limited time.

Second, we recommend that a limited-time promotional offer be connected to Fair Trade Coffee so that the price would not be a deterrent to customers. Once customers are better informed about the coffee and have sampled it, they might be more willing to pay the extra money. Drawing from our convenience store survey research, customers responded positively to the idea of packaging a promotional item with the coffee to entice them to buy it (i.e. "Buy a cup of Fair Trade coffee, get a free muffin for a limited time!"). This would give customers a chance to adjust to the increased price as they come to understand why Fair Trade is an important issue and is worth their extra money.

Third, we recommend that Mr. O'Connor investigate different options for his Fair Trade coffee supply. While interviewing State Street-area coffee shop managers, we were informed about *Just Coffee* (located in Madison). This company could provide useful information on educating customers and marketing Fair Trade Coffee (their slogan is "Not just a market, but a movement."). Also, we learned that *Green Mountain Coffee* is currently marketing Fair Trade coffee in *Exxon Mobile* convenience stores, so this would be a good resource for information and possibly provide a better option for Mr. O'Connor's Fair Trade coffee supply.

Fourth, we recommend that Mr. O'Connor focus on general sustainable practices in order to present a united front of sustainability to his customers. Mr. O'Connor could do things like print his receipts on 100% post-consumer recycled paper; establish an organic waste receptacle for the disposal of biodegradable products (i.e. leftover food, open food, etc.); and install energy-efficient lighting, cooling/heating systems, and appliances.

Fifth, we recommend that Mr. O'Connor lead by example, i.e. promoting awareness through his everyday activities. In order to promote ethical business practices in his stores, he should stay involved and informed of current issues concerning Fair Trade coffee and sustainability matters. In turn, he could pass this information onto other business owners in the Milwaukee area and be a good source of information for them.

Mr. O'Connor could be a leader in the Milwaukee business community and take sustainable business practices to the next level.