FAIRTRADE PRODUCTS IN RETAIL CHAINS: CASE STUDY IN THE CZECH REPUBLIC*

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Abstract. The main objective of the article was to find out what the situation is with Fairtrade products on the Czech and Slovak markets in relation to consumed primary raw materials and their Fairtrade premium, and also the supply of these products in retail chains operating in the Czech Republic (including products that are marked with their private labels). To meet the first part of the objective, secondary data taken from the Fairtrade Czech Republic and Slovakia annual reports involving the 2017 – 2021 period were used. These reports showed that the consumption of cocoa beans and coffee beans in the production of Fairtrade products was on an upward trend in the years under review. The opposite was true for cane sugar, which was also reflected in the evolution of the Fairtrade premium for this commodity. To meet the second part of the objective, a qualitative mystery shopping method was used. On the basis of this method it was found that Kaufland has the highest number of Fairtrade products among the retail chains operating in the Czech Republic, followed by Penny, while Albert supplies only one product. Another important fact was that most of the Fairtrade products provided by the retail units surveyed were sold under their private labels and yet not from well-known manufacturers. It is the increase in the number of Fairtrade products offered under private labels, based on negotiations with the producers of these products, which would ultimately lead to an increase in Fairtrade premiums for growers’ cooperatives.

Keywords: fairtrade products; primary raw materials; retail chains; private labels; Fairtrade in the Czech Republic and Slovakia

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JEL Classifications: L81, M31

1. Introduction

Fair trade is considered to be one of the concepts that promote sustainable development and social change through ethical consumption based on support of the producers in developing countries, and thus improving their livelihoods (Ribeiro-Duthie et al., 2021). Sustainable development as a concept focuses not only at the social, economic, and environmental aspects, but applies the ethical principle as well (Čech, 2019; Belas et al., 2022a,b). Fair trade represents an alternative market system which tries to correct the historically unfair (and unethical) trade conditions

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between geopolitical global North and South (Jaffee et al., 2004) to ensure good working conditions and just incomes for the producers and workers at the tail of the value chain (Ruiz, 2022). In this regard, fair trade provides better payments to the producers than global free trade (Wang and Chen, 2019). The system is based on consumers who are willing to pay higher prices for imported goods from developing countries (Witkowski, 2005) produced in line with sustainable development goals (D’Souza et al., 2020) to support the social, economic and environmental development and decent living for the producers (Witkowski, 2005). The growth of fair trade and its visibility and recognition can be directly connected to Fairtrade organization, its label and its marketing activities (Wright and Heaton, 2006). Nowadays, Fairtrade is a well-known organization with a well-established label (Durevall, 2020). Fairtrade uses several specific mechanisms to improve the livelihoods of producers in developing countries, such as price floor, Fairtrade premium, access to credits and their stability, institutional structure, but also safe working conditions and environmental protection (Dragusanu et al., 2014). Fairtrade certification may increase job satisfaction by all the benefits related to the system, including both the extrinsic and intrinsic rewards for workers and empowering them (Krumbiegel et al., 2018). The certification is gaining momentum as it is becoming important for many crops produced in developing world, and as it significantly increases aggregate living standards of the households participating in the Fairtrade system (Knößlsdorfer et al., 2021). The certification body of the Fairtrade is Flocert (Balzarova et al., 2022), which works as an independent organization conducting certification audits (Abbott, et al., 2017). The controlling task is very relevant nowadays, when a lot of companies tend to report their corporate social responsibility, which has generally a positive effect on corporate value of enterprises, yet the practices cannot be proven, and thus lack credibility (Ḫašek et al., 2019; Xu et al., 2020). Nowadays, the Fairtrade certified products can be found on shelves of the most famous retailers in many countries of the developed world (Ruggeri et al., 2021). In this study, the authors shall examine retailing of Fairtrade products and its recent development in the Czech and Slovak Republic, both in terms of the commodities as well as the supply of Fairtrade products displayed on shelves of established retail chains operating in the Czech Republic, where an in-store analysis was conducted.

2. Theoretical background

While the retail sales of Fairtrade products increased in most countries, it is Europe that is recognized as the largest market for Fairtrade certified products. The old continent represents almost 80% of retail sales in the global market (Lernoud and Willer, 2018). Large multinational companies, including retailers, are often blamed for taking financial and competitive advantages of this system. On the one hand, retailers need to respond to the trend to meet the demand for Fairtrade products (Hellwig et al., 2020). On the other hand, the introduction of the products on supermarket shelves affects the demand and interest in them. Some retailers have even developed own product lines (Nicholls, 2002; Olearova et al., 2022). However, for a successful inclusion to the shelves, retailers need to differentiate the features of Fairtrade goods from the conventional ones (Bhavsar et al., 2021). The ethical dimension of such differentiation reduces the pressure on the price competitiveness of even homogeneous products, and the higher retail prices caused by the higher incomes for producers in developing world are generally classified as having a higher value (Kuzmenko et al. 2023; Gavurova et al. 2022). The higher price and value perceived by consumers is also connected with a feeling of buying a kind of a premium product (Baake et al., 2018). Interestingly, the willingness to pay for such products partly depends on the retailer’s perceived level of respect towards the producer rights and the trust in the retailer’s social responsibility (Hellwig et al., 2020). Such social responsibility as well as the retailer’s positive reputation are important factors in attracting consumers (Wang et al, 2022; Pan et al., 2022; Qin et al., 2022; Martiskova et al., 2022). Therefore, socially responsible retailers need to be transparent to their customers and build positive relationships with society (Zeng et al., 2021; Streimikiene et al., 2021; Deliana & Rum, 2017). In the case of Fairtrade products, one part of the trust to buy these products is the trust in the Fairtrade itself, which is then followed by the trust in the retailer. Based on a survey among Italian customers of retail chains, it was found that retailers with a good social reputation gain more trust when selling Fairtrade products, even under their own private labels (Castaldo et al., 2009). Furthermore, there are two important milestones for retailers in terms of Fairtrade products introduction. The first one is to convert existing brands to Fairtrade, the second one is
to convert own label products to Fairtrade. It is claimed that the reason for doing so is not only the previously mentioned pressure on the demand side presented by the ethically conscious consumers, but also the competitors’ behaviour. Once the competitors start to introduce Fairtrade products, the others, including supermarkets, have to behave likewise if they want to stay competitive on the market. Moreover, based on evidence from the industry reports, the introduction of Fairtrade products into supermarkets attracts more people than just the ones ethically-driven to make the purchase (Yamoah, 2019).

In addition, market growth can be directly linked to the shift from fair trade goods starting as a niche market to the boost related to the Fairtrade labelling and finally the mainstreaming of the products in supermarkets. The drastic change is connected with the year 2005 when WalMart, Nestlé and Tesco were granted the Fairtrade license on some of their products. This led to a higher extent of introducing Fairtrade products by other retailers, including Carrefour or Ahold Group, with some of them doing so under their own labels (Doherty et al., 2013). In the UK, many retailers demonstrated their position towards Fairtrade by various claims, such as “leading retailer of Fairtrade”, “first supermarket to sell Fairtrade” etc. Surprisingly, the first retailer operating supermarkets in the UK that converted its entire label product category to Fairtrade was Co-op. It did so with all own brand chocolates in 2002, and all own brand coffee in 2004 (Smith, 2010). The collaboration with retailers, especially the supermarket chains, is thus an important strategy to increase the availability of Fairtrade products in the market (Nylund et al., 2021). In the Czech Republic, there are several strong players in retail. In the sector of supermarket (and hypermarket) chains, the TOP 7 retailers in terms of sales include Lidl, Kaufland, Albert ČR, Penny Market, Tesco Stores, Billa, and Coop Group (Divinová, 2022). Lidl is the leading discount chain in the Czech market recognized for its efforts in corporate economic, social and environmental responsibility, including the support of producers from developing countries through the Fairtrade system. Kaufland is the hypermarket retail chain that is also concerned with social responsibility. Kaufland offers Fairtrade products, including products under own private brand bearing the label of Fairtrade Cocoa Program (Šalamoun, 2020). As for the Fairtrade coffee, the widest range can be found in Lidl, Kaufland and Globus. As for the Fairtrade chocolate, the widest selection of products is provided by Lidl, but Tesco offers such chocolate as well. In Albert, customers can find Fairtrade flowers (Wočadlová, 2021). Apart from the previously mentioned information, there is an overall lack of scholar attention regarding the Fairtrade in the Czech retail sector. By presenting this study, the authors strive to fulfil this knowledge gap.

3. Research objective and methodology

The main objective of the article is to find out what the situation is with Fairtrade products on the Czech and Slovak markets, in relation to the primary raw commodities consumed and their Fairtrade premium, as well as the supply of these products in retail chains operating in the Czech Republic (including products which are marked with their private labels).

In the context of the above objective, the following research questions were established:

1. Was there an increasing trend in the consumption of primary raw materials related to Fairtrade production in the Czech Republic and Slovakia between the years 2017 and 2021?
2. How did the Fairtrade premium for primary raw materials in the Czech Republic and Slovakia develop in the 2017 – 2021 period?
3. Do retail chains operating in the Czech Republic sell mainly Fairtrade products from producers rather than Fairtrade products labelled with their private labels?

To answer the first and second research questions, secondary data contained in the annual reports of the Fairtrade Agency Czech Republic and Slovakia from the 2017 – 2021 period were used. Specifically, they were related to the quantity of primary raw materials used to produce Fairtrade products for the Czech and Slovak markets in each year.
Based on the above stated, the first step made by the authors was to identify which types of primary raw materials were repeatedly used in Fairtrade production in each year under review, and then to compare quantities of these raw materials with each other for individual years. In addition, the Fairtrade premiums for the primary raw materials selected were also compared. It should be noted that the Fairtrade premium is one that the Fairtrade producer cooperatives received on each of the primary raw materials examined through sales of Fairtrade products on the Czech and Slovak markets (Fairtrade Czech Republic and Slovakia, 2019a).

To answer the third research question, primary data obtained through a qualitative data collection method, namely mystery shopping, were used. The essence of mystery shopping was to find out which products made from primary raw materials listed in the annual reports of Fairtrade Czech Republic and Slovakia in 2017-2021 are part of the commercial assortment of selected retail units of major retail chains operating in the Czech Republic. Mystery shopping was scheduled for mid-January 2023 and took place in 8 retail units of major retail chains operating in the South Bohemia Region. The authors assumed that the supply of Fairtrade products is the same in relation to all retail units of a given type - supermarkets and hypermarkets - of the selected retail chains nationwide. The research itself also focused on products bearing the private labels of the retail chains surveyed, which were identified on the websites of the retail chains prior to the research.

Retail units of the following retail chains were included in the research: Globus, Lidl, Kaufland, Penny, Billa, Terno, Albert and Tesco.

4. Result and discussion

As regards the research purposes and to answer the first research question, Fairtrade Czech Republic and Slovakia's annual reports involving the 2017 – 2021 period showed that cocoa beans, coffee beans and cane sugar are the primary raw materials from which Fairtrade products are produced, recurring in each of the years under review (Fairtrade Czech Republic and Slovakia, 2019a; Fairtrade Czech Republic and Slovakia, 2019b; Fairtrade Czech Republic and Slovakia, 2020; Fairtrade Czech Republic and Slovakia, 2021; Fairtrade Czech Republic and Slovakia, 2022). These findings are in line with the globally most traded Fairtrade products mentioned above, as well as bananas (Ruggeri and Corsi, 2021).

Subsequently, the consumption of these raw materials was compared as follows (see Figure 1).
Figure 1. Development of the consumption of primary raw materials in Fairtrade production in the Czech Republic and Slovakia in 2017-2021

Source: Fairtrade the Czech Republic and Slovakia, 2019a; Fairtrade the Czech Republic and Slovakia, 2019b; Fairtrade the Czech Republic and Slovakia, 2020; Fairtrade the Czech Republic and Slovakia, 2021; Fairtrade the Czech Republic and Slovakia, 2022

Figure 1 shows that the aforementioned consumption increased year on year for coffee beans and cocoa beans. The opposite is true for cane sugar. To illustrate this more clearly, Figure 2 below shows that the trend in the consumption of cane sugar in Fairtrade production was flat in the first two years and then increased by more than 60% in the third year compared to the second year. In contrast, there is a decrease in 2020 of about 35% compared to the previous year, and in 2021, there is an increase in consumption of once as much compared to 2020. In comparison to the global Fairtrade sales volumes by products between the years 2018 and 2020, only the coffee sales were increasing each year, while both cocoa and cane sugar sales were decreasing each year. As for cane sugar, the decrease is more significant than in case of cocoa (Fairtrade International, 2022a).

Figure 2. Development of cane sugar consumption in Fairtrade production in the Czech Republic and Slovakia in 2017-2021

Source: Fairtrade the Czech Republic and Slovakia, 2019a; Fairtrade the Czech Republic and Slovakia, 2019b; Fairtrade the Czech Republic and Slovakia, 2020; Fairtrade the Czech Republic and Slovakia, 2021; Fairtrade the Czech Republic and Slovakia, 2022

On the basis of the above, the first research question can be answered as follows: Only the consumption of cocoa beans and coffee beans in Fairtrade production in the Czech Republic and Slovakia in 2017-2021 recorded an increasing trend, while cane sugar did not.
In relation to answering the second research question, information taken from Fairtrade Czech Republic and Slovakia's annual reports for the 2017 – 2021 period (Fairtrade Czech Republic and Slovakia, 2019a; Fairtrade Czech Republic and Slovakia, 2019b; Fairtrade Czech Republic and Slovakia, 2020; Fairtrade Czech Republic and Slovakia, 2021; Fairtrade Czech Republic and Slovakia, 2022) was again used.

As mentioned above, the primary raw materials, from which Fairtrade products are produced and which recur in each of the years under review, are cocoa beans, coffee beans and cane sugar. It is for these raw materials that the Fairtrade premium was monitored.

Furthermore, Figure 3 below indicates that in 2017-2021, the Fairtrade premium for cocoa beans was not always higher than for coffee beans. The difference can be seen in 2018 (less than 5%).

Figure 3. Development of the Fairtrade premium for primary raw materials in the Czech Republic and Slovakia in 2017-2021

*Source:* Fairtrade the Czech Republic and Slovakia, 2019a; Fairtrade the Czech Republic and Slovakia, 2019b; Fairtrade the Czech Republic and Slovakia, 2020; Fairtrade the Czech Republic and Slovakia, 2021; Fairtrade the Czech Republic and Slovakia, 2022

Next, Figure 4 below shows that the Fairtrade premium development for cane sugar did not always follow an upward trend, as would be expected after answering the first research question where there is a link between consumption and the Fairtrade premium.
Regarding the second research question, the total Fairtrade premium for cocoa beans was not always higher than for coffee beans, and the Fairtrade premium for cane sugar was not always on an upward trend between 2017 and 2021 in the Czech Republic and Slovakia. The globally most important Fairtrade premium products based on certified volume are coffee, bananas and cocoa (Loconto et al., 2019). The Fairtrade premium is set as a percentage of the commercial price, or as a total price per unit depending on a particular product, its specific type, and sometimes also the agricultural method (conventional or organic), or place of origin. For example, the premium for conventionally produced raw sugar or direct consumption is 60 USD/MT, while the premium for organic raw centrifugal cane sugar for direct consumption is 80 USD/MT, whereas the by-products of cane sugar in both agricultural methods make up 15% of the market price. The Fairtrade premium for cocoa beans, both conventional and organic, is 240 USD/MT. For coffee, the premium is 0.2 USD/pound regardless of the agricultural method. The minimum price is set differently for various Fairtrade products. It can be a fixed amount, or the commercial price (implying there is no Fairtrade minimum), as well as a plus minimum organic differential for some organic products (Fairtrade International, 2022b). The minimum gives the producers the ability to rely on the prices and also plan ahead, while the premium is intended for various socio-economic projects and payments, which gives them the opportunity to develop the livelihoods in the community, and also justifies the higher prices of Fairtrade goods (Krumbiegel et al., 2018).

When considering the third research question, results from mystery shopping were used. It is important to note that the primary raw materials and products examined were those that appeared in all Fairtrade Czech Republic and Slovakia annual reports from the 2017 – 2021 period:
- coffee beans (coffee),
- cocoa beans (instant drinks, chocolates, biscuits, muesli, chocolate baking ingredients),
- fruit in the form of juices,
- bananas,
- cut flowers,
- cane sugar,
- tea leaves (teas).

In addition, cotton (being the primary raw material as well) was not monitored in this research due to the fact that products made from this raw material are mainly sold in specialty clothing stores rather than in the selected retail units surveyed.

Table 1 comprises a summary of products with the Fairtrade label on their packaging that were displayed in the retail units surveyed.
In order to provide greater clarity, Fairtrade products produced under each retailer's private label are shown in italics in Table 1. The numbers put in brackets indicate the number of types of these products. As can be seen from Table 1, Kaufland supplies the highest number of Fairtrade products, followed by Penny, while Albert sells only one product, namely coffee beans.

The most common products included cocoa bean products, mainly chocolate and biscuits, with muesli also being displayed.

On the other hand, the following products were completely absent in the retail chains surveyed: fruit in the form of juices and tea leaves (teas). In the case of bananas, they were only stocked in Kaufland, while cane sugar was offered only by Tesco. In both Kaufland and Lidl consumers could buy cut flowers. In addition, the Fairtrade logo was displayed on designated shelves in Lidl for quicker customer orientation for Fairtrade products.

Another important fact is that most of the Fairtrade products provided by the five retail units surveyed are sold under their private labels. These are Globus, Lidl, Kaufland, Penny and Billa. Two of the four retail chains mentioned offer Fairtrade products under three of their private labels, namely Penny (Penny, Crip Crop, My BIO) and Billa (Billa, Billa Premium and Billa Genusswelt), two have Fairtrade products under two private labels in their portfolio, namely Lidl (J.D. Gross and Tastino) and Kaufland (K-Classic and K-Favourites), while Globus supplies one product under one of its private labels. It would also be worth noting that, for example, the retail unit of the retail chain Tesco sold products under its private label with the Rainforest Alliance label, a social standard to ensure that farms protect the health and well-being of workers and surrounding communities (Rainforest Alliance, 2023).

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Table 1. Overview and numbers of Fairtrade labelled products sold in the retail units surveyed
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<td>Roses</td>
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</tr>
<tr>
<td>Cane sugar</td>
<td></td>
<td>Agrana</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sugar (5g)</td>
<td></td>
</tr>
<tr>
<td>Tea leaves (tea)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: own processing*

Moreover, mystery shopping also revealed that Fairtrade products from manufacturers (Tchibo, Halloren, Kinkratz, LambertZ, Manner, Choco’la, Maître Truffout, Agrana) were less represented in the retail units studied.

Based on the above, it is possible to answer the third research question as follows: Retail chains operating in the Czech Republic mainly sell Fairtrade products labelled with their own private labels.

**Conclusions**

*The purpose of Fairtrade is to provide growers, workers and artisans from the Global South (countries in Africa, Asia and Latin America) with the opportunity to earn a living from their own labour under decent conditions* (Fairtrade Czech Republic and Slovakia, 2023). This is also related to the Fairtrade premium mentioned above and a view of how stakeholders from the Global South could receive more funding from the consumption of primary raw materials used for Fairtrade production.

The results of the mystery shopping research showed that retail chains operating in the Czech Republic mainly sell Fairtrade products labelled with their own private labels. A suggestion to increase the consumption of primary raw materials could be a negotiation between retail chains and companies that produce Fairtrade products for these retail chains to use primary raw materials from Fairtrade producers for a greater variety of products.

These Fairtrade products would then be distributed to the retail units of these retail chains, which would also tailor their marketing communications. This would include, for example, sales promotion in the form of tastings, consumer competitions, sampling, point of sales and, above all, merchandising on the sales floor. Appropriate advertising should also be an essential part of this. These marketing communication tools should lead to an increase in the purchase of Fairtrade products, which would in turn lead to an increase in the purchase of primary raw materials for the production of these products. Ultimately, this would lead to an increase in the Fairtrade premium.

The above research did not compare the prices of either Fairtrade or non-Fairtrade products, so further research could focus on comparing the prices of Fairtrade products sold under the private labels of retail chains with the prices of Fairtrade products of manufacturers, as well as the prices of products that do not carry the Fairtrade label.
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