Consumers' preferences for ethical attributes of coffee: a choice experiment in the Italian market

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Abstract

The world coffee market shows that coffee is a widespread consumption product characterized considerable potential for further increases. Coffee is one of the world's most valuably traded commodity and its market is defined by high price volatility and long-term declining profits for the producers. Since the late 1990s the sustainability debate has been directly linked to the coffee sector so that coffee is regarded as the pioneering industry for sustainability standards and certification.
Organic and Fair Trade are two of the most important ethical attributes of coffee with specific labels. The success of an organic and/or Fair Trade coffee depends on several factors. One of the most critical is the willingness of consumers to pay a premium price for ethical attributes.
This study uses a choice experiment (CE) in accordance with several other studies to investigate the attitudes towards organic and Fair Trade coffee among Italian consumers.

Keywords
Coffee market, FairTrade coffee, organic coffee, ethical consumption, choice experiments.

Introduction

The world coffee market shows that coffee is a widespread consumption product characterised by significant growth, with considerable potential for further increases. In particular, coffee is one of the world's most valuably traded commodity, second only to oil, and the most widely traded agricultural product. Its consumption has doubled in the last forty years as the drink has come to form part of a modern affluent lifestyle in the Global North (Tucker, 2011).
The coffee market is also defined by high price volatility and long-term declining profits for the producers, in particular for small producers (ICO, 2014 2015) who are the weaker agents of a complex supply chain with many actors.

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Moreover, since the late 1990s and the beginning of 2000, the sustainability debate has been directly linked to the coffee sector so that coffee is regarded as the pioneering industry for sustainability standards and certification (IIED-IISD, 2014).
Finally, coffee is one of the most important goods produced in developing countries (in many producing countries, coffee accounts for over 75% of total export revenue) and consumed (and also transformed) in developed countries. It therefore represents a symbol of the economic relations between these two world areas in a market characterised by imperfect competition where the market power distribution between the agents (in particular between producer on one hand and traders and roasters on the other) is asymmetrical. For these reasons, the distribution of the added value between coffee market agents represents a fundamental ethical aspect of a traditional economic problem.
Organic and Fair Trade are two of the most important ethical attributes of coffee with specific labels. Organic refers to food grown without pesticides and herbicides. Fair Trade concerns mainly a supply chain management characterized by: products imported from small-scale farmers in developing countries, fair prices guaranteed to producer, respect of safe working condition for farmers and human rights for local community, environmental protection. Therefore, these two ethical attributes include some common characteristics; they may be related, and one brand of coffee can have both attributes (e.g. organic and Fair Trade coffee).
In particular, the Fair Trade coffee supply chain impacts all the critical aspects of the world coffee market through 1) a more equal distribution of added value among the actors of the supply chain, 2) a sustainability production system concerning not only social and economic aspects but also environmental aspects, 3) a vertical coordination to reduce price volatility and 4) product differentiation (ensured by certification process and product labelling) to answer the ethical demands of a growing share of consumers.
The success of an organic and/or Fair Trade coffee depends on several factors. One of the most critical is the willingness of consumers to pay a premium price for ethical attributes.
This study uses a choice experiment (CE) in accordance with several other studies (see a review in Liebe & Andorfer, 2012) to investigate the attitudes towards organic and Fair Trade coffee among Italian consumers.

The world coffee markets

World coffee production is estimated to be around 141.9 million bags in crop year 2014/15, while an initial estimate of world coffee consumption in calendar year 2014 is 149.3 million bags (ICO, 2014, 2015). This production represents an average annual growth rate of 2.3% over the last 4 years; statistical data show similar growth rates in the first decade of the century (ICO, 2014, 2015).
World coffee consumption is characterised by different trends: more mature or traditional markets, such as those of Europe, USA and Japan, are relatively stable, while emerging markets, particularly Africa and Asia, are recording significant increases, albeit from a relatively low base. The strongest growth over this time has been found in emerging markets, averaging 4.6% since 2011, with particularly strong demand in Russia, South Korea, Algeria and Turkey. Exporting countries have also been recording increased demand,

at an average of 2.6%. Brazil, with 20.8 million bags for 2014, is by far the largest coffee consumer among exporting countries, followed by Indonesia (4.2 million), Ethiopia (3.7 million) and Mexico (2.4 million) (ICO, 2014, 2015).

The mature market and the traditional market account for over 50% of world total coffee consumption, but they do not drive global growth; in fact, these markets have been growing at a rate of 1.5% over the last 4 years. In particular, Europe has recorded a relatively modest growth over time, increasing on average 0.8% per year, while North America has registered 2.6% over the time period (ICO, 2015).

In the last decades in these areas, especially in Europe, the traditional coffee market has transformed from a principally 'bulk' market—where the coffee was a commodity—to a market with quality and sustainability claims, where the product has become, in many cases, a 'speciality food'. In fact, this sector is now characterised by an increasing awareness regarding the implications of climate change, sustainability of production and new variations in consumer demand.

In particular, in the traditional markets and especially in Europe, the increase in specialty coffee consumption is increasing the value of demand more than the volume, although the USA and Canada are still exhibiting considerable market growth. In addition, mainstream roasters are focusing on developing more individualised products for their consumers; this trend allows for price differentiation. Exporters should be aware of the increasing market segmentation for the distinct needs of individual consumers, such as Fair Trade and organic.

In addition to the better known niche labels (Fair Trade and organic), a number of new schemes have emerged that focus on mainstream products. The most popular mainstream labels include 4C, UTZ Certified[1], Rainforest Alliance as well as the company labels Coffee And Farmer Equity (C.A.F.E.) Practices and Nespresso AAA. Standard compliant coffee production represented 40% of global production in 2012, with Brazil and Vietnam being the largest producers of standard compliant coffee by volume in 2011/2012 (IISD, 2015). UTZ Certified (26% per annum from 2008 and 2012) and Rainforest Alliance (30% per annum from 2008 and 2012) are the fastest growing labels. It is expected that certified farmers and exporters can bargain for better income due to increased efficiency and insights in their position in the supply chain. However, oversupply can lead to reduced benefits for sustainable producers (ICO, 2014, 2015).

The agents of the coffee supply chain also have to effort high price volatility. The causes of price volatility are largely systemic: price speculation, unfavourable weather conditions and climate change have continued to drive price volatility. The current coffee market is more influenced by speculation than ever before. This is due to the prevailing uncertainty surrounding the damage to the Brazilian crop together with higher than usual price volatility (ICO, 2015). In addition, oversupply and growing global production contribute to the ongoing profit decline in the coffee sector, which particularly affects profits for the growers. International efforts (e.g. by the International Coffee Organization [ICO]) to secure a more stable and predictable relationship between supply and demand have not yet counteracted

[1] UTZ was launched in 2002 as Utz Kapeh, meaning 'Good Coffee' in the Mayan language Quiché. It was founded by Nick Bocklandt, a Belgian-Guatemalan coffee grower, and Ward de Groote, a Dutch coffee roaster, with the goal of implementing sustainability on a large scale in the worldwide market.

the ongoing price volatility. In this situation, product segmentation, price differentiation and supply chain coordination/integration are some useful strategies to effort high price volatility. In addition, agents can adopt other strategies of risk management concerning financial and insurance instruments, such as futures, options and insurance policies.
Of note is that the coffee supply chain is very complex and involves many actors; by some reports, a coffee bean could change hands as many as 150 times along the commodity chain between the producer and the consumer. Almost 70% of the coffee produced worldwide is sold by thousands of very small farms (with less than 5 hectares) to a few international traders and coffee roasters. The international traders and coffee roasters have recently undergone a process of horizontal and vertical integration: As a result, the main groups of traders and roasters have increased their market share, and the market power distribution among farmers, traders and roasters has become highly asymmetrical (Danielis & Rotaris, 2011).

The ethical consumption of coffee

Consumers in affluent societies increasingly consider the moral features of products in their everyday monetary decisions. They buy organic food, use renewable energy, abstain from buying clothes manufactured under dubious working conditions and invest in companies that operate in a socially responsible manner. Ethical consumption can thus be defined as purchase decisions by people concerned with not only the price of products and services but also with the political, social and environmental consequences of their purchases. From this point of view, the ethical demand can be analysed using the Lancaster approach, developed in the so-called 'new theory of consumer demand' (Lancaster, 1966). In this theory, what consumers are seeking to acquire is not goods themselves but the characteristics they contain, and for some consumers the characteristics of goods include ethical aspects. Several studies indicate that the social context strongly influences these behaviours (Liebe et al., 2014).
Ethical consumption includes consumers' refusal to buy products and services that harm the environment, communities, animals and workers. This behaviour involves consumers' deliberate purchasing of organic foods and Fair Trade products over other types of products.
Ethical certification in the coffee sector dates back to 1967, when the first organic coffee was exported from Mexico. Although principally identified as production without chemical inputs, the organic movement was initially fuelled by an interest in building farm sustainability through improved soil health. Since then, organic production has grown to be associated with, and is largely fuelled by, a combination of ensuring both environmental integrity and personal health.
The first certification initiative to explicitly target trade itself as a tool for improving farmer livelihoods was the Max Havelaar label, established in Holland in 1988. The Max Havelaar model, which required licensees (manufacturers) to pay a minimum price for coffee while also ensuring other trade benefits, was quickly adopted in other countries; these eventually came together to form Fairtrade Labelling Organizations International (FLO) in 1997. In addition to the specification of a minimum price, Fair Trade is exceptional in that it works only with democratically organised smallholders (i.e. those organised into cooperatives)

while also specifying a fixed social premium to be distributed to the producer organisations for reinvestment in the local community (Adriani & Becchetti, 2002; Araque-Padilla et al., 2015, Becchetti & Solferino, 2003; Fehr & Schmidt, 1999; Gallenti & Prestamburgo, 2001). It is estimated that while conventional supply chains distribute to the farmers 8% of the price paid by the final consumers, the Fair Trade supply chain awards the farmers 18% of such value. Conversely, traders and coffee roasters get 83% of the shelf price within the conventional supply chain and 73% within the Fair Trade one (Danielis & Rotaris, 2011).
In the last decades, organic and Fair Trade initiatives have continued to benefit from the growing corporate and consumer interest in sustainable sourcing, with constant growth well beyond that of the conventional coffee sector as a whole. The latest reported sales for both Fair Trade (2012) and organic (2011) are in the range of 130,000 metric tons (each approximately 2.1% of the 2012 coffee trade), making them major players in total sales of sustainable coffee (IIED-IISD, 2014).
In Italy, although the Fair Trade organisations have been less active than in other European countries, organic consumption represents relevant market shares that are increasing. Market studies suggest that Italian consumers are interested in organic and Fair Trade products for quality, solidarity, sustainability and equity reasons (Catturani et al., 2008; Danielis & Rotaris, 2011; Maietta, 2005). These considerations provide the background for the analysis performed in the present study. More particularly, this study aims to ascertain the preferences of Italian consumers for coffee attributes, including the ethical content.

Methods

Since the market share of the organic and Fair Trade channel ultimately depends on the consumers' preferences for the characteristics of the product and on the premium price they are willing to pay for the organic and Fair Trade label, it is necessary to analyse the consumers' choices in order to estimate the market potential of these products. Particular attention is paid to the Fair Trade brand because this certification is more closely related to the ethical behaviour of consumers and less tied to the intrinsic characteristics of the product. On the other hand, the organic label is more strongly linked to the health aspects of consumption, also presenting characteristics of ethical consumption.
We applied a choice experiment to the Italian coffee market in order to define not only the ordinal ranking of preferences but also the Willingness to pay (WTP) for the key characteristics of the product. This method approximates real-world purchasing behaviour and for this reason is widely used in economic research to study the valuation of public and private goods, including Fair Trade and organic (Arnot et al. 2006; Carlsson et al., 2010; Hanley et al., 1998; Hudson et al., 2012). The basic idea of a CE is that products differ in their characteristics; each combination of characteristics yields a different product. Respondents are asked to choose from an array of products and select the one they favour most. Such a design allows researchers to estimate the effect or value of each product characteristic on respondents' stated choices. Choosing among different product alternatives mirrors real purchase decisions more closely than simple items in surveys.

Therefore, this method combines insights from the characteristics theory of value (Lancaster, 1966) and random utility theory (McFadden, 1974). The characteristics theory of value assumes that individuals do not derive utility from a product per se but from a product's characteristics (and attributes, respectively).
Researchers who are interested in individuals' preferences for consumer products (or any behavioural alternatives) have to study their preferences for a product's attributes.
In this context, consumers' interest towards food knowledge is basic, and an important role is played by information; therefore, label information and logo certification became important to ensure the existence of the characteristics desired by consumers. The basis of this theory is the economics of information (Akerlof, 1970; Stigler, 1961). In particular, Akerlof was the first to show that asymmetric information, as quality uncertainty about a commodity, can cause the market to degenerate into one consisting of only low-quality commodities.

Choice experiment design

A CE was developed to analyse consumer preferences towards coffee. A focus group was formed and a pilot study was conducted in the process of designing the questionnaire. Five main attributes have been defined after the focus group screening. In detail (Table 1): geographic origin of coffee, organic product, fair trade product, recyclable package, and, to enable estimation of WTP, a monetary attribute with three levels was defined as a price for 250 g package.
We conducted a face-to-face questionnaire survey among Italian consumers during 2013 and 2014. The questionnaire, which was completed by 420 respondents, included questions about respondents' socio-economic characteristics, coffee-related consumption habits, their specific knowledge of organic and Fair Trade coffee (section A of the questionnaire) and their perception of the Fair Trade coffee (section B of the questionnaire) estimate.

Table 1. Attributes and attribute levels used in the CE

Attribute	*Levels*
Geographic origin	Ethiopia; Indonesia; Brazil
Fair Trade coffee	Yes; no
Organic	Yes; no
Recyclable package	Yes; partially; no
Price (€/250 g)	3; 5; 9

Source: own elaboration

A fractional factorial orthogonal design has then been generated with SPSS® software. A final set of treatment combinations has been chosen, so that respondents had to face 6 choice sets with 3 treatment combinations each plus the opt-out alternative ("none of these").
To analyze data, we used a utility function for each considered option in the multinomial logit model (base model) as follows:

$U(x_i) = \beta_0 \cdot OPT\text{-}OUT + \beta_1 \cdot INDONES_i + \beta_2 \cdot BRAZIL_i + \beta_3 \cdot FAIR_i + \beta_4 \cdot ORG_i + \beta_5 \cdot REC_i + \beta_6 \cdot NOREC_i + \beta_{price} \cdot PRICE_i$,

where: OPT-OUT = dummy for the 'none of these/no choice' option; INDONES = dummy for origin from Indonesia; BRAZIL = dummy for origin from Brazil; FAIR = dummy for Fair Trade coffee attribute; ORG = dummy for organic coffee; REC = dummy variable for recyclable package; NOREC = dummy variable for no recyclable package; PRICE = price in €/kilo. The βs coefficients can be considered as the marginal utilities of each attribute of the utility function.

Results

Table 2 shows the main characteristics of the respondents.

The analysis of the data was performed with a random parameter logit (RPL) model. The results obtained from the model are summarized in Table 3. The estimation of the model was conducted using NLOGIT® 4.0. As regards distributional assumptions made about the chosen random parameters, we opted for a triangular distribution. Although we do not observe the WTP, we can estimate the respondents' WTP from the RPL model. In addition, we were able to obtain individual specific parameters and consequently WTP values for each respondent.

Table 2. Questionnaire: Section A

Respondents' characteristics	*Contents*	*%*
Gender	Female	62
Age	Under 25 year	8.2
	25-40	35.6
	41-55	27.6
	56-70	23.1
	Over 70	5.5
Education	Primary	4.5
	Lower Secondary	13.4
	Secondary	50.0
	Graduate	31.6
	Other	0.5
Employment	Employee	43.2
	Entrepreneur/professional	10.8
	Students/housewife	15.6
	Retired	22.5
	Other	7.9
Knowledge of Fair Trade coffee	Yes	71.5
Consuming frequency of Fair Trade coffee	Occasionally	46.2
Knowledge of organic food	Yes	91.7
Consuming frequency of organic food	Occasionally	57.8

Source: own elaboration

All the coefficients of the model had the expected sign except fair trade coffee and they were all statistically significant ($p<0.005$). The model appeared to have a good ability to interpret the phenomenon (pseudo r-squared = 0.29; Table 3). We noticed that respondents tended to prefer coffee produced in Brazil where the most traditional coffee is produced, not taking into consideration coffee quality. Their mean WTP was € 3.3. Fair Trade coffee seemed to decrease their utility. This could be due to the lack of knowledge about this type of certification and the above-mentioned positive impacts on the socio-economic context of developing countries. In order to be able to better understand the RPL results for this attribute and to take into consideration latent heterogeneity, we analyzed the cumulative frequency distribution of individual WTPs. From the analysis of this distribution, it was possible to observe that more than half of respondents have a positive WTP for this attribute pointing out the significant heterogeneity among respondents.

Table 3. Random parameter logit model results

	Coeff.	*Std. Error*	*T-value*	*p-value*	*WTP estimate (€ per 250 g)*
	Random parameters in utility functions				
INDONES	–0.378	0.109	–3.471	0.000	-2.2
BRAZIL	0.569	0.110	5.174	0.000	3.3
FAIR	–0.744	0.131	–5.660	0.000	-4.3
	Nonrandom parameters in utility functions				
OPT-OUT	–3.948	0.211	–18.725	0.000	
PRICE	–0.173	0.015	–11.489	0.000	
ORG	0.495	0.168	2.944	0.003	2.8
REC	0.432	0.071	6.119	0.000	2.5
NOREC	–0.814	0.122	–6.656	0.000	-4.7
	Derived standard deviations of parameter distributions				
INDONES	0.929	0.128	7.248	0.000	
BRAZIL	1.009	0.092	10.962	0.000	
FAIR	0.972	0.077	12.541	0.000	
McFadden pseudo $R^{-squared}$= 0.29 Log-likelihood = –2474.63 Number of observations: 2.520					

Source: own elaboration

However, our findings demonstrate that consumers seemed to be mainly interested to point out the opportunities of organic coffee, as respondents were willing to pay a premium price for the organic attribute (€ 2.8). Moreover, they were also willing to pay for recyclable packaging (€ 2.5), while not having recyclable packaging seemed to decrease their utility (€ -4.7).

Conclusions

This study examined the attitudes towards organic and Fair Trade coffee among Italian consumers. The findings provide an understanding of how consumers perceive Fair Trade and organic attributes of coffee. The RPL results showed that respondents tend to be more

concerned with organic attribute than to Fair Trade coffee. Nevertheless, the analysis identified also a considerable heterogeneity among respondents and a consistent group of them willing to pay a premium price in order to consume a fair trade coffee. However, these findings could be due to several factors: a) the attributes we considered in our CE, as we compared Fair Trade coffee with the organic attribute, while other studies did not consider this comparison. Because our respondents had to consider two ethical attributes, they could have decided to place more importance on environmental and safety considerations (organic production) instead of the social impacts of the Fair Trade system; b) sample dimension; c) socio-economic characteristics of the respondents; d) interview location or the type of shop (supermarket vs. speciality store); e) finally, the heterogeneity of the sample investigated influenced the results. In particular, consumers with strikingly different socio-demographic, demographic, economic and consumptive behaviour variables could have had a different willingness to pay for Fair Trade coffee.

These aspects underscores an important area of further research—consumer willingness to pay in distinct markets needs to be further explored.

These findings can be viewed as part of a more comprehensive work to understand consumer behavior. First, they can be used for developing further research to improve producers' strategies by reflecting what consumers perceive as important; second, they can be used to improve consumers' knowledge about Fair Trade products and their impacts.

According to Bosbach and Maietta (2011) and Schollenberg (2012), consumers in developed countries are increasingly interested in the consumption of products that incorporate ethical aspects; however, it seems obvious from our study that consumers need more information about Fair Trade products. In fact, while other studies (e.g. Rotaris and Danielis, 2011) stated that respondents were willing to pay a significant premium price for certified Fair Trade coffee, our results suggest that a group of respondents did not.

It is well known that the coffee sector has been the testing ground for many of the sustainability initiatives operating across commodity sectors today. As such, the sustainable coffee market is one of the most mature markets currently in operation.

Differentiated and value-based coffees, including environmentally and socially certified products, present an opportunity for small rural producers to participate in the cost-competitive global coffee market. Indeed, securing a market position based on ethical certification is potentially a viable long-term strategy for coffee-producing smallholders.

Ethical consumption mixes the role of consumer with that of citizen. There is much talk about consumers' informed choice, and most actors in the food supply chain and elsewhere support the idea in principle. However, informed food choice with respect to ethical issues in the agri-food sector is still limited. In particular, in the coffee market, ethical certification is not sufficiently supported by a traceability system. In fact, traceability has been implemented in the agri-food sector in general and in particular inside the EU, but ethical traceability has not.

Ethical traceability has the potential to function as a communication strategy for empowerment and involvement in ethical aspects of food production. This is true both for actors in the food supply chain and for consumers. For actors in the food supply chain, ethical traceability and informed food choice can help define the 'value-laden' and ethical qualities of their products and thus contribute to the 'identity' of their products. For

consumers, ethical traceability is paramount both for making informed food choices and for engaging in ethical issues related to food production. According to the Akerlof theorem (1970), the adverse effects of asymmetric or incomplete information give rise to 'adverse selection' and an inefficient market equilibrium that highlight the importance of an effective labelling system based on the traceability system.
Ethical traceability is put forward as a potential goal for traceability systems to allow for, and to enable, a more open and democratic approach for consumers to act as citizens in the marketplace through their purchasing decisions by asking for and obtaining the information they desire about food production practices. The realisation of ethical traceability will need to negotiate both these modern supply chain complexities and their governance and the existing private sector and public sector endorsed ethical traceability forms in the food system.

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