Case 5-1

Starbucks Coffee Company

On an overcast February afternoon in 2000, Starbucks CEO Orin Smith gazed out of his office window in Seattle and contemplated what had just occurred at his company's annual shareholder meeting. In prior years, the meeting had always been a fun, all-day affair where shareholders from around the country gathered to celebrate the company's success. This year, however, Smith and other senior Starbucks executives heard an earful from the activist group Global Exchange at the meeting. Global Exchange, a human rights organization dedicated to promoting environmental, political, and social justice around the world, criticized Starbucks for profiting at the farmers' expense by paying too little for beans and not buying "fair trade" beans. Not only did the activists disrupt the company's annual meeting to the point that the convention hall security police asked the activists to leave, but they also threatened a national boycott if the company refused to sell and promote fair trade coffee. Although Smith strongly disagreed with using the shareholders meeting as a public forum, he knew there was a strong likelihood his company could face serious reprisals if it did not address the issues raised by Global Exchange.

FAIR TRADE COFFEE

Fair trade began after World War II as religiously affiliated non profit organizations purchased handmade products for resale from European producers. Fair trade was an economic model based on fair labor compensation and mutual respect between producers and consumers. By the late 1990s, the fair trade movement had gained a foothold in the United States, and in early 1999, TransFair USA, a third-party certification agency, launched its Fair Trade Certified coffee label. During that summer, Global Exchange began a campaign to educate consumers and the media about labor conditions in the coffee industry, focusing on getting the message out to specialty coffee consumers. Although the activists were successful in educating pockets of consumers, they knew their effectiveness was limited without directing blame for the farmers' woes. Global Exchange decided to take an anti corporation stance and focused its attention on the most visible brand in specialty coffee: Starbucks.

At this time, fair trade coffees were coffees that were purchased directly from cooperatives of small farmers at a guaranteed floor price. Unlike shade and organic coffees, fair trade coffee focused on the workers' economic sustainability. Fair trade coffee attempted to cut out or limit the middlemen and provided much-needed credit to small farmers so that they could end their poverty cycle. Licensing organizations in individual importing countries certified fair trade coffee from farmers listed on the Fair Trade Registry. Consequently, there was a host of different certifying agencies, and fair trade coffee accounted for different market share in each country.[1]

STARBUCKS' ISSUES WITH FAIR TRADE COFFEE

For Starbucks, the real issues were brand perception and the consumer proposition. Starbucks hesitated to sign a fair trade license, not wanting to commit until it had carefully weighed all of the implications.[2] According to Starbucks

[1] Rice & McLean, p. 78.

[2] Smith, personal interview.

Source: This case was sponsored by the Allwin Initiative for Corporate Citizenship and prepared by Alison Stanley, T'02, under the direction of Professor Paul A. Argenti, with the cooperation of Starbucks Coffee Company.

executives, their chief concern with fair trade coffee was finding top-quality beans from cooperatives that had not demonstrated an ability to produce quality beans to Starbucks standards. From earlier cupping analyses, Starbucks had little evidence that fair trade coffee met its quality standards. Starbucks was beginning to move toward purchasing more of its coffee through direct relationships with exporters or farmers and negotiated a price based on quality. The company was willing to pay higher prices for great-quality beans and had developed long-term contracts with many of its suppliers.

Mary Williams, senior vice president (VP) of the coffee department, was known throughout the coffee industry as a "tough cupper" who would not settle for anything less than top-quality beans and explained, "the relationships I have with farmers were built over the last 20 years. It's taken some of them years before I would use their beans consistently and pay them $US 1.26 or more. Now I was being asked to use another farmer who I didn't know and pay him the same price without the same quality standards?"[3] On average, farmers sent samples and met with Starbucks coffee buyers at their farms for at least 2 years before Starbucks accepted their beans. In weighing the fair trade coffee issue, Williams had secondary concerns with how the farmers she worked with would react when they discovered that other farmers received the same price without being held to the Starbucks quality standards. This was not a trivial issue because it was more expensive to grow high-quality beans. Further, she feared that the smaller cooperatives would not be able to guarantee that they could take back a low-quality shipment and replace it based on Starbucks' volume and quality needs.

Starbucks was also concerned about its brand exposure if the quality of fair trade coffee turned out to be very different from the rest of its 30 whole bean coffee line. Coffee quality was a critical component of the Starbucks brand, and if it

[3] Mary Williams, Starbucks SVP Coffee Department, July 24, 2002.

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[4] Tom Elhers, pe
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[5] Tim Kern, pers
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