



# UK MARKET EVALUATION FOR MALAWIAN FAIRTRADE PRODUCTS

PRESENTED TO: MICROLOAN FOUNDATION

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## 1. EXECUTIVE SUMMARY

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### 1. EXECUTIVE SUMMARY

The Microloan Foundation (“MLF”) is a London based charity established in 1998 to provide small loans and basic business training to people in the developing world to enable them to develop self-sustainable livelihoods and work their way out of the poverty. To build on the success of its microlending activities, MLF is now looking to establish a trading arm that will incubate small and medium sized businesses in Malawi, where MLF has granted most of its loans. MLF will then market and distribute the resulting Fairtrade products in the UK.

Malawi, in the heart of Africa, is one of the poorest countries in the world. Its dependence on agriculture and agriculture related manufacturing is a key determinant of its low level of development. Given that most of the most products Malawi produces are commodities (coffee, sugar, tea, tobacco); its farmers suffer from global commodity prices which are continually being pushed downward. Fairtrade is a movement aimed at countering the negative impact of falling commodity prices for developing country producers. For consumers in the UK, the Fairtrade mark represents “an independent guarantee that disadvantaged producers in the developing world are getting a better deal.”<sup>1</sup> In the UK, the Fairtrade movement has a high profile and Fairtrade certified products have a significant market presence. MLF is looking to capture the interest of this market segment with its Malawian products.

Given that this is a new enterprise rather an established company, this project’s aim is to provide direction in answering some of the key “big picture” questions regarding product selection and marketing mix for this new venture. The client has not made any decisions regarding any elements of this question including: product, distribution channel and marketing mix. As a result, much of our analysis is conducted at the big picture level in order to give the client additional information regarding the characteristics of the market for individual products and Fairtrade in general. Our analysis is structured around the following key areas.

- 1. Market Analysis:** This analysis, including a consideration of Porter’s Five Forces, provides an overview of the current market presence of Fairtrade products in the UK. Given that Fairtrade is a product classification/certification rather than a distinct product, our analysis focuses on a list of 10 individual products, rather than the Fairtrade branded market as a whole. This analysis reviews, by product, overall market size and trends, Fairtrade market share and distribution channels, and retail pricing.
- 2. Strategy/Competitor Analysis:** To stimulate thinking from a strategic point of view, we studied the competitive landscape of the industry as a whole. The objective of this exercise

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<sup>1</sup> [http://www.fairtrade.org.uk/about\\_what\\_is\\_fairtrade.htm](http://www.fairtrade.org.uk/about_what_is_fairtrade.htm)

## 1. EXECUTIVE SUMMARY

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is to obtain some perspective on industry dynamics, to get an idea of what was currently out in the market place, and also to discover what sort of similar projects had been conducted in the past. By going through this process, we can make informed and intelligent insights in respect to success factors for comparable projects and opportunities for differentiation.

- 3. Industry Regulations:** To sell a Fairtrade certified product a number of requirements must be met related to producer, trader, and supply chain standards. This is not a simple process, and as such must be considered before the project commences. Also, while there is growing awareness about the meaning of the Fairtrade mark, there is also some debate as to value of the certification over a trader simply acting in a beneficial manner towards the producer

Following on from these three pieces of analysis, we propose a marketing strategy for MLF centred on the 4 Ps: Product, Price, Place and Promotion. Given that no pieces of this mix have been determined, the Product decision is the centrepiece of our recommendation as the other pieces of the marketing mix depend on this decision. In evaluating the potential products, we consider the resources and capabilities of Malawi and MLF and look for gaps in the UK Fairtrade marketplace which can be matched with products resulting from these resources and capabilities. To complete our analysis, we classify the initial list of products into four categories: Quick Wins, Products for Further Development, Products for Additional Consideration and Challenging Products. The categorization is based on the matching analysis mentioned above and reflects the additional resources needed to get the product to market, including skills training in Malawi, or the challenge of differentiation in the UK market.

Most important are, of course, the Quick Win products: Coffee, Cards, and Sauces. These products have been identified as Quick Wins because of the speed at which they can be brought to the market, the ability to differentiate, and the strength of the UK market for these products.

Of secondary or longer term importance are the Products for Further Development: Macadamia Nuts, Paprika, and Baskets. These products also share a number of common characteristics in that they are produced in significant quantities in Malawi, are currently underserved or non-existent in the UK Fairtrade marketplace, and add significant skills to the Malawians involved.

From the aforementioned product classifications, distribution and pricing recommendations can be made for specific products based on market comparables and supply chain capabilities. However, in the end, the evolution of MLF's distribution channels will require significant time to reach the grocer's shelf, but the evolution will prove to be as important as initial product selection in terms of success in the UK market.

## **2. PROJECT OVERVIEW AND KEY QUESTIONS**

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### **2. CLIENT AND PROJECT OVERVIEW AND KEY QUESTIONS**

#### **2.1 CLIENT OVERVIEW: MICROLOAN FOUNDATION**

The Microloan Foundation (“MLF”) is a London based charity established in 1998 to provide small loans, basic business training and on-going mentoring support to people in the developing world to enable them to develop self-sustainable livelihoods, feed, clothe and educate their families, and work their way out of the poverty trap.

Currently, most work is focused in Malawi, where over 3,700 loans have been made. From these loans, commercially viable projects have been developed leading to 97% of the loans being repaid in full. This high rate of loan repayment allows the capital to be recycled into new ventures.

#### **2.2 PROJECT OVERVIEW**

To build on the success of its microlending activities, MLF is now looking to establish a trading arm that will incubate small and medium sized businesses in Malawi, and then market and distribute the resulting Fairtrade products in the UK.

“While microfinance can be extremely effective at helping people to move out of poverty, its focus tends to be on providing small, short-term loans to develop local and self-sustainable businesses. Fairtrade, in contrast, is geared towards developing small and medium sized businesses into more mature operations. Microventures will facilitate this by providing substantial long-term investment, in-depth skills training and access to international markets in focused business areas”<sup>2</sup>.

The Microloan Foundation is currently in the initial stages of creating this new Microventures arm of the foundation. The initiative is being driven by three individuals based in the UK, with the support of a consultant in Malawi, all of whom have other commitments. Given that Microventures is a new venture, rather an established company, many of the big picture questions remain to be clarified. This project’s aim is to provide direction on some of the key “big picture” questions regarding product selection and marketing mix. These key questions are presented below.

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<sup>2</sup> Microventures Overview, Page 1

## **2. PROJECT OVERVIEW AND KEY QUESTIONS**

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### **2.3 KEY QUESTIONS**

1. Which products should MLF focus on developing?
  - a. Quick Wins
  - b. Longer Term Development Required
2. What are the appropriate channels for product distribution?
3. Suggested product pricing ranges
4. Highlight Requirements for Fairtrade labelling
5. Survey General Market Positioning of Fairtrade branded products

### 3. MALAWI COUNTRY OVERVIEW

### 3. MALAWI COUNTRY OVERVIEW



Source: CIA World Factbook - Malawi

The Republic of Malawi is a country of 12 million people, located in the Southeastern part of Africa, bordered by Tanzania, Mozambique, and Zambia. The country is landlocked, but has a large amount of coastline thanks to Lake Nyasa, which runs along its northeastern border.

Like many African nations, Malawi is currently struggling with issues such as slow economic growth and relative political instability. The situation has not been helped by rampant food shortages, which in October 2005 led the president, Bingu wa Mutharika, to declare a national emergency. Food production has been impacted by drought conditions during the lead up to harvest time, as well as the ongoing effect the HIV/AIDS virus has had on the rural workforce.

After contracting by 3% in 2005, Malawian GDP is forecast to grow only at a rate of 2.3% in 2006, rising to 3.5% in 2007<sup>3</sup>. This slow growth can be traced back in large part to a heavy reliance on the agricultural sector. The table below illustrates the makeup of the Malawian economy in 2003.

Origins of GDP 2003	% of TTL
Agriculture	38.4%
Industry	14.9%
Manufacturing	9.5%
Services	46.7%

Source: EIU Malawi Report Jan-06

Within the agricultural sector, the “big three” products, tobacco, sugar, and tea make up almost 70% of exports and approximately 90% of foreign exchange earnings. Digging deeper, it is clear that the tobacco industry far outweighs all other industries within the country, amounting to over 50% of the value of exported goods.

Principal Exports 2003	US \$ m	% of TTL
Tobacco	206	51%
Sugar	47	12%
Apparel	35	9%
Tea	26	6%
Total	402	100%

Source: EIU Malawi Report Jan-06

<sup>3</sup> Economist Intelligence Unit – Malawi Country Report, January 2006



### 3. MALAWI COUNTRY OVERVIEW

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Unfortunately, 2005 was a particularly bad year for Malawian tobacco with revenues from auction sold tobacco falling from US\$205m to US\$162.7m. This drop was in part due to a fall in prices, but mainly down to a fall in production, which in turn was due to the adverse weather conditions mentioned above. Compounding the poor performance of the tobacco sector were the weak production figures in the tea sector. Since tea was also heavily impacted by the early year drought conditions, production fell 22% from 2004 to 2005. Tea prices on the global market have also declined over the past year meaning that revenues fell at a greater rate than production. Fortunately, it was not all bad news for the Malawian agricultural sector over the past year, since the sugar crop was not as badly affected by the poor weather conditions. In fact, sugar production rose to 270,000 tonnes, marking an increase of 16.7% over the previous year.

Although some products, most notably tea, tend to be grown on large estate properties, there are large numbers of smallholder farmers who account for over 80% of Malawian agricultural production. Because of the high rate of population growth, the size of these smallholdings is decreasing, and many are forced to farm suboptimal plots such as those on steep hillsides. These sorts of factors, combined with low quality seeds and low rates of fertilizer use means there is however scope for productivity improvements<sup>4</sup>.

It is also important to note that the slowly growing manufacturing sector in Malawi is also heavily dependent on the agricultural sector for its productivity. This is because most of the manufacturing in the country exists in the form of industries such as tobacco processing, tea factories, meat processing, and spinning and weaving.<sup>5</sup> As a result, the manufacturing sector's performance closely follows that of agriculture.

From an international trade point of view, the country's exports are less regional than one might imagine, with the US and Germany as major trading partners. In contrast, the import market is much more regional in nature, with a large portion of goods coming from South Africa.

Main Export Partners	% of TTL
South Africa	13.8%
U.S.	12.9%
Germany	11.2%
Egypt	8.6%

Source: EIU Malawi Report Jan-06

Main Import Partners	% of TTL
South Africa	40.4%
India	7.9%
Tanzania	4.9%
Zambia	4.4%

Source: EIU Malawi Report Jan-06

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<sup>4</sup> <http://www.new-agri.co.uk/01-1/countryr.html>

<sup>5</sup> Malawi Profile 2003, Global Insight Inc

## 4. RESEARCH FRAMEWORK AND PROCESS

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### 4. RESEARCH FRAMEWORK AND PROCESS

#### 4.1 OVERVIEW

***Key Question: What is the right marketing mix for Malawian Fairtrade products?***

In the following section, we aim to outline the methods and frameworks used in answering the client's key question, determining the appropriate marketing mix for the new Microventures Malawi trading initiative.

Given the early stage of development of the client's trading arm, this is a very big picture question. The client has not made any firm decisions on any of the elements of this question. There is no predetermined product. There is no established supply chain and distribution channel. Thus, much of our analysis is conducted at the big picture level in order to give the client additional information regarding the characteristics of the market for individual products and Fairtrade in general. Then, with this picture of the current marketplace in mind, the client, armed with additional analysis conducted on the supply side in Malawi, will be able to finalize its course of entry into the UK market.

The client's question required us to first conduct an industry and competitor review to understand the current dynamics, trends and competitive landscape of Fairtrade in the UK market. This market analysis included the following elements.

- 1. Market Analysis:** Overview of the market presence of Fairtrade products in the UK
- 2. Strategy/Competitor Analysis:** Review the activities of other companies currently engaging in this type of activity
- 3. Industry Regulations:** Review the requirements for Fairtrade labelling

As Fairtrade is currently a small market segment, and continually developing and evolving, much of our research relied on interviews with individuals who are currently actively engaged in the market, including retailers and producers.

#### 4.2 MARKET ANALYSIS: OVERVIEW OF UK MARKET PRESENCE OF FAIRTRADE PRODUCTS

Before entering a market, it is critical to evaluate the market size and competitive landscape for the potential product. In this case, the potential product is a variety of fairly traded products produced in Malawi. Given that Fairtrade is a product classification rather than a distinct product, our analysis focuses on a list of 10 individual products, rather than the Fairtrade branded market as a whole. This list of products is the result of an initial list of interest presented by the client as well as additional products of which Malawi is known to be good producer. The full list of products studied is presented in *Section 7*.

#### 4. RESEARCH FRAMEWORK AND PROCESS

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This market analysis consisted of the following aspects:

- Review of historic and projected sales for the general product in the UK. This information demonstrates the size of the UK market and highlights growth trends for the product generally in the UK. The analysis was primarily based on national statistics databases and market research publications.
- Review of FT market share of total UK product sales. This section details the extent of the presence of fairtrade branded offerings within the product category. The Fairtrade Foundation and market research publications provided the data for this analysis.
- Distribution of FT branded product in the UK. Distribution is one the big picture questions to be answered. This section presents information on the typical point of purchase for a standard product as well as the current retail outlets for Fairtrade branded products. While there is detailed research available from industry associations and market research publications as to the distribution of standard products, the information is not as readily available for Fairtrade given the disparate and non-standard distribution channels, such as markets and churches. Thus, interviews and Fairtrade organizations were useful resources in gaining a picture of where Fairtrade products are sold.
- Pricing Summary. The pricing summary includes a summary of the retail pricing ranges for Fairtrade branded products currently available in the market from major retailers. There are two important data points to be taken away from this section: (1) the pricing range for Fairtrade branded products and (2) the average price differential between a standard product and a Fairtrade branded product.

In the pricing summary, for most of the products, the average retail price was obtained from the Office of National Statistics. However, there is no such resource for Fairtrade products. Consequently, for each product, we conducted a survey of retail prices at the leading grocery retailers and prominent Fairtrade retailers. Full details regarding the methodology of the price survey can be found in *Appendix C*.

Additionally, for products where the Fairtrade Foundation has established minimum fair trade producer prices, this information is included.

- Product Specific Issues to Consider. While the MLF will need to consider food safety and import regulations closely for each product, this section highlights any key issues which have been either prominently noted in the press or the interviews we conducted.

#### 4. RESEARCH FRAMEWORK AND PROCESS

The full review of the UK market by product is presented in *Section 8*.

#### 4.3 STRATEGY/COMPETITOR ANALYSIS: REVIEW THE ACTIVITIES OF OTHER COMPANIES CURRENTLY ENGAGING IN THIS TYPE OF ACTIVITY

To stimulate thinking from a strategic point of view, we studied the competitive landscape of the industry as a whole. The objective of this exercise was to obtain some perspective on industry dynamics, to get an idea of what was currently out in the market place, and also to discover what sort of similar projects had been conducted in the past. We felt that by going through this process, we would also be better able to make informed and intelligent insights during later discussions on differentiation.

As a result, the beginning of this process was a straightforward five forces analysis to get an idea of what the industry looked like from a strategic point of view. For the purposes of this analysis, we have viewed the industry as fairly traded food products within the traditional retail sector.

#### Five Forces for Fairly Traded Food Products in Traditional Retail Sector

	<b>Supplier Power</b> <b>HIGH</b>	
<b>Barriers to Entry</b> <b>MODERATELY HIGH</b>	<b>Rivalry</b> <b>PRODUCT DEPENDENT</b>	<b>Threat of Substitutes</b> <b>HIGH</b>
	<b>Buyer Power</b> <b>MODERATE</b>	

#### *Bargaining Power of Suppliers: HIGH*

In our opinion, for the case of a fairly traded product, the bargaining power of suppliers is quite high. The main reason for this is the fact that at the current time, regardless of product, there simply are not that many Fairtrade certified suppliers. The number of suppliers is of course constrained by the early stages of development in the Fairtrade market, but also by the complex process and expense of obtaining certification. As a result, switching costs for a trading company dealing in Fairtrade goods are quite high. Interestingly, this runs in contrast to the traditional supplier power in a commodity/agricultural market.

#### 4. RESEARCH FRAMEWORK AND PROCESS

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##### ***Bargaining Power of Buyers: MODERATE***

Assuming we are talking about end consumers rather than distributors, we feel that bargaining power of buyers is moderate. For most consumer products, the power buyers exert is quite low in that because they are so fragmented, they lack any sort of influence. In this case, buyers are still fragmented, yet power is increased by low switching costs. These low switching costs are not powerful in a vacuum, and in this case are magnified by the high price of fairtrade goods, since you can always switch to a cheaper product. Given that the price difference between a fairtrade good and a supermarket's own label coffee is so great, switching costs are exceedingly low. As a result, the customer exerts a moderate amount of power when voting with his/her chequebook.

##### ***Threat of Substitutes: HIGH***

For a fairly traded product, this is probably the biggest issue since substitutes abound in all categories and are usually offered at a price discount to a premium product. For example, a recent visit to [www.ocado.com](http://www.ocado.com) reveals that at Waitrose, there are 10 different brands of coffee, each with various product categorizations within those brands. This of course means that as a consumer, an individual has a wide array of choices when standing in the supermarket aisles. This variety and choice is also present in other product categories in which Fairtrade certified products compete.

##### ***Barriers to Entry: MODERATELY HIGH***

For a Fairtrade product, the barriers to entry are significant, but if starting on a small scale, perhaps less of an immediate issue than the three categories above. However, thinking longer term, the barriers to entry are not to be taken lightly. Areas such as economies of scale (can we produce cheap enough to gain an adequate return?), brand identity (can we use this to prevent switching?), volume considerations (can we produce enough to satisfy a modern retailer?), and access to distribution (can we get on a grocery retailer's shelf?) all demand attention for a fledgling fairtrade oriented trading company.

##### ***Rivalry: PRODUCT DEPENDENT***

Rivalry is something that within the Fairtrade space will tend to vary by product. Since the "industry" is in its early stages, we feel it is only really coffee that has reached the scale on which intra-fairtrade brand rivalry might take place. However, looking at the wider picture, rivalry is likely to be high given that in each segment of the grocery market, whether it be coffee, honey, or sugar, there are a number of competing brands, not necessarily fairtrade,

#### 4. RESEARCH FRAMEWORK AND PROCESS

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each unwilling to give up market share, shelf space, or profits to a fairtrade brand, no matter the good intentions.

What comes out of this five forces analysis is essentially that this is going to be a difficult furrow to plough for any new brand in the grocery market, fairtrade or otherwise. However, the one thing that fairtrade products can do to combat these pressures is to effectively differentiate them from the competition, an issue we will discuss later on.

##### *Peer Project Analysis:*

At this stage, we also chose to conduct some secondary research into similar projects which had been conducted in the past. These projects were not necessarily ones which were dealing with the same products or operating in Malawi, but schemes with similar aims of promoting a fairer way of trading with the developing world. The results of this analysis can be seen in *Section 6*. Our aim in conducting this analysis was to get some perspective on what is achievable, to see how peer projects have been structured, and also to try and extract some key lessons or learnings which we could then apply to our own work. We feel that this work was an essential “first step” on the road to making informed recommendations to the Microloan Foundation.

##### *Competitor Research:*

An interesting by product of our research on the UK presence of Fairtrade labelled products were some insights into which players currently operate in the space with these fairly traded goods. The grocery multiples themselves have become major players in the Fairtrade market with their own private label products, in particular, Co-op, Tesco and M&S. This expansion of Fairtrade products in major market multiple private label offering demonstrates the general emergence of Fairtrade as more than just a niche product. The Fairtrade market is also now attracting major producers of prominent Fairtrade commodity products, such as coffee and sugar, to offer their own Fairtrade labelled products, including Nestle (Nescafe) and Whitworths.

#### **4.4 INDUSTRY REGULATIONS: REVIEW THE REQUIREMENTS FOR FAIRTRADE LABELLING**

At the commencement of the project, there was some discussion about the necessity of the Fairtrade mark. Although little was known about what it actually took to get certified, there was some sense that it might not be vital, at least at the outset of the project. Additionally, as we will highlight, some detractors of the fairtrade movement note it is possible to “trade fairly” without getting the Fairtrade mark. We felt that for our own understanding, as well as

#### 4. RESEARCH FRAMEWORK AND PROCESS

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for these reasons of uncertainty, it was worthwhile doing a brief investigation into the fairtrade approval process. The results of this investigation can be seen in *Section 5.2*.

#### 4.5 GENERAL CONCLUSIONS: THE FOUR PS FOR THE MICROLOAN FOUNDATION

We felt that our conclusions would be most valuable if we were to work towards a recommendation within the 4Ps framework. What follows is a discussion of our thought process within each of those 4Ps.

##### 1. Product

When the project began, the MLF came to us with a list of potential products that they thought they would like to consider for this project. When we sat down to discuss which products the project should focus on developing, we realized we needed to analyse two things, the resources and capabilities of MLF and also investigate what sort of gaps there were in the fairtrade marketplace. Hopefully, the two of these things would match up in places and present opportunities for development.

##### *Resources and Capabilities:*

The major resources that the MLF have at their disposal range from products that are currently in large scale export quality production to those would require some investment to gain a critical mass of production. Coffee, Nali sauce, and greeting cards are the three areas in which in-country capacity is already available, and the product would be exportable essentially from day one. Within these three, coffee presents an additional resource with the ability to not only be grown in Malawi, but unlike most FT coffees, also to be roasted and packed in-country. To determine what other areas could be viewed as resources from the Malawi side of the equation, we utilized the list of products given to us by the MLF, as well as our own research into the Malawian agricultural base. Based on these two areas, the following products presented themselves as potential “resources”:

- Knitting/Sewing
- Tea
- Sugar
- Macadamia Nuts
- Spices (Pepper, Paprika, etc...)
- Handicrafts (Pots/Baskets)
- Honey
- Dried Fruits

#### 4. RESEARCH FRAMEWORK AND PROCESS

##### 2. Price

A specific price is difficult to establish or recommend at this early stage of product evaluation and prior to the final definition of the supply chain and distribution. However, the pricing information provided in *Section 7* for each product, provides a frame of reference for pricing a comparable Fairtrade or “fairly traded” product. Aside from finding the right pricing point, the final retail price is an important determinant of the margins MLF can obtain to generate sufficient funds to be reinvested in Malawi for development. Based on the preliminary estimated supply and transportation costs provided by Alfred Nkhoma, a consultant for MLF, a preliminary margin sensitivity analysis has been prepared for selected products to give an indication of the range of margins achievable to MLF (see *Appendix D*).

##### 3. Place (Distribution)

We felt that the appropriate distribution channels are very likely to vary by the product chosen, since each product will have its own particular needs, which some channels may not be able to address. The exception to this rule would be if the MLF were to set up an MLF branded shop, or market stall in order to exclusively sell Malawian fairtrade goods. Since many of the products are a good distance away from export capacity, this solution is likely to be one for the longer term. For the purposes of the shorter term, the table below aims to illustrate the major potential distribution channels available to the MLF, as well as their pros and cons. We discuss the distribution channels we feel most suitable within our recommendations in *Section 8*.

CHANNEL	PROS	CONS
<b>Retail Grocery Chains</b>	<ul style="list-style-type: none"><li>• Generates high volumes</li><li>• Generates large cash flows</li><li>• Widespread consumer exposure</li><li>• Good demand forecasting</li></ul>	<ul style="list-style-type: none"><li>• Will drive down margins</li><li>• Strict supply requirements</li><li>• Will require large volumes</li><li>• Difficult to break into</li></ul>
<b>“Farmers Markets”</b>	<ul style="list-style-type: none"><li>• Intermediate volumes</li><li>• Addresses customers who are likely to be informed about Fairtrade</li><li>• Stable flow of demand</li></ul>	<ul style="list-style-type: none"><li>• Not open daily</li><li>• Subject to the enthusiasm of the stall holder</li></ul>
<b>Churches/ Community Centres</b>	<ul style="list-style-type: none"><li>• Easy to get into</li><li>• Audience likely interested in the cause</li><li>• No margin dilution</li></ul>	<ul style="list-style-type: none"><li>• Not interested in all products</li><li>• Volunteers not necessarily salespeople</li><li>• Tiny volumes</li></ul>
<b>Fairtrade Shops</b>	<ul style="list-style-type: none"><li>• Open to new products/suppliers</li><li>• Enthusiastic core set of shoppers</li></ul>	<ul style="list-style-type: none"><li>• No exposure to wider audience</li><li>• Intra-shop competition among fairtrade goods</li></ul>



### 4. Promotion

While promotion is a key element of the marketing mix, it is also dependent upon the decisions made for the previous three elements. Given the big picture nature of this project, it is not within the scope of the question to recommend a particular promotion strategy as the three other elements remain unanswered. General marketing notes will be presented in the recommendations section (*Section 8*), based on market observations.

## 5. FAIRTRADE OVERVIEW

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### 5. FAIRTRADE OVERVIEW

#### 5.1 BACKGROUND AND OBJECTIVES

For consumers in the UK, the Fairtrade mark represents “an independent guarantee that disadvantaged producers in the developing world are getting a better deal.”<sup>6</sup> As a result, this idea of Fairtrade can be viewed as a “pull” mechanism by which consumers, through their use of fairtrade products, can promote better prices and working conditions for the disadvantaged producers mentioned above. When buying a product with the Fairtrade mark, consumers are getting a product which has been independently verified to have passed the certification and inspection process of the Fairtrade Labelling Organization (FLO). This process ensures that producers receive a minimum price for their goods and that some sort of social premium is returned to these farmers through a development organization.

See *Appendix A* for additional description of Fairtrade terminology.

#### 5.2 “FAIRTRADE” QUALIFICATIONS

In short, qualification for Fairtrade certification is based on the product or process in question being in full compliance with Fairtrade Standards. The Fairtrade standards consist of 3 major elements, producer standards, trader standards, and supply chain standards.

##### Producer Standards:

Producer standards “comprise the organisational, social and environmental criteria that producers must meet to be certified as a Fairtrade producer.” Under this umbrella of producer standards, the standards vary for the type of product produced. For instance, for a product such as coffee, which is generally produced by small farmers, a fair price is the key component. In contrast, tea is generally farmed on large estates, making wages and working conditions of more importance. It should also be noted that these standards are not of a static variety. The Fairtrade Labelling Organization (FLO) sets out specific minimum standards that an enterprise will need to meet in order to become certified, but as time goes on, there are progress requirements to encourage producers and sellers to work together to further improve conditions.

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<sup>6</sup> [http://www.fairtrade.org.uk/about\\_what\\_is\\_fairtrade.htm](http://www.fairtrade.org.uk/about_what_is_fairtrade.htm)

## 5. FAIRTRADE OVERVIEW

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### Trader Standards:

In contrast to producer standards, trader standards deal with the standards that are necessary throughout the relationship with the producers. The two main areas are the idea of a Guaranteed Minimum Price and the Fairtrade Investment Premium.

#### *Guaranteed Minimum Price (GMP)*

The guaranteed minimum price that is paid to producers is based on the “cost of sustainable production.” This cost is determined through research and discussions with the parties involved. Sustainable production means that the producers are able to operate according to the requirements of the Fairtrade labelling process and also earn a secure living and return on their investment. It is important to note that the GMP is only applied when market prices are below the GMP. Once the prices in the marketplace rise above the GMP, those are the prices producers receive.

#### *Fairtrade Investment Premium (FIP)*

In addition to the GMP, Fairtrade standards also stipulate that a Fairtrade Investment Premium must exist. This premium is paid above the level of the GMP (or market price, as the case may be) to the certified producer organisation. The producer organisation is free to spend the premium as it wishes, as long as the use meets the requirements of the Fairtrade Labelling Organisation (FLO). The FLO conducts periodic checks on how the premium is being spent in order to ensure it is not wasted.

In addition to the GMP and the FIP, traders are also encouraged to pay in advance when requested by producers in order to better enable long-term production planning.

### Supply Chain Standards:

To qualify as Fairtrade, a given product’s supply chain must be “auditable” according to the regulations laid out by the FLO. This essentially means that all participants in the supply chain are registered and licensed and all licensees must report transactions to the FLO on a quarterly basis. The first link in the chain is a certified producer who has undergone the inspection and certification process of the FLO, while the final link is a licensee who is registered with the national FLO (in this case, the Fairtrade Foundation) with the right to use the Fairtrade mark.

See *Appendix B* for more detail on the qualification/application process and reference to fees information.

## 5. FAIRTRADE OVERVIEW

### 5.3 UK MARKET PRESENCE OF FAIRTRADE

Sales of Fairtrade products globally amounted to approximately £500 million in 2003, and are estimated to top £1 billion by 2007<sup>7</sup>. The UK is the largest national market for “fairtrade” labelled products in the world<sup>8</sup>.

Currently, 1,500 retail and catering products from coffee to wine carry the Fairtrade mark in the UK. On average, retail sales of Fairtrade certified products are increasing by over 40% each year. In 2004, UK sales of Fairtrade certified products totalled £140 million.

UK Fairtrade Product Retail Sales							
Retail value*	1998	1999	2000	2001	2002	2003	2004
Coffee	13.7	15.0	15.5	18.8	23.1	34.3	49.3
Tea	2.0	4.5	5.1	5.9	7.2	9.5	12.9
Chocolate/cocoa	1.0	2.3	3.6	6.0	7.0	10.9	16.5
Honey products	n/a	0.1	0.9	3.2	4.9	8.1	3.4
Bananas	n/a	n/a	7.8	14.8	17.3	24.3	30.8
Other	n/a	n/a	n/a	2.2	3.5	7.2	27.3
Total (£ million)	16.7	21.8	32.9	50.5	63.0	92.3	140

\* assumes a margin of 40% for retailers (30% on bananas)

Source: Fairtrade Foundation.

Increased sales have been driven by increased awareness of the Fairtrade mark. “One in every two adults in the UK now recognises the Fairtrade mark according to new figures from MORI (Market and Opinion Research International). The survey shows that 50% of the adult population can now identify the certification mark, up from 25% in 2003 and 39% last year.”<sup>9</sup> In fact, 65% of UK consumers now judge themselves to be “green or ethical consumers”<sup>10</sup>.

Fairtrade certified products were first introduced to the UK through independent retailers, health food shops, cafés and coffee shops. To meet growing UK consumer ethicism, Fairtrade branded products are now sold in almost all major grocery stores in the UK. Additionally, Fairtrade certified products can also be found at independent grocery stores, health food stores, charity shops and online stores. Additionally, according to the British Association of Fair Trade Stores (BAFTS), there are over 100 BAFTS fairtrade retailers in the UK, independent retailers who sell Fairtrade products.

<sup>7</sup> Demetriou, D. (2003), ‘Consumers embrace ethical sales, costing firms £2.6bn a year’, *Independent*, 9 December: 7

<sup>8</sup> Fairtrade Foundation. [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

<sup>9</sup> <http://www.fairtrade.org.uk/pr270505.htm>

<sup>10</sup> Vidal, J. (2004), ‘Fair Trade sales hit £100m a year’, *Guardian*, 28 February: 13

## 5. FAIRTRADE OVERVIEW

<b>Outlet Shares within Total Fairtrade by Percent of Total Retail Value (2005)</b>		
<b>Retailer</b>	<b>Fairtrade</b>	<b>Total Food</b>
Tesco	25.0%	30.7%
Total Co-op	24.5%	5.0%
Sainsbury	20.2%	17.6%
Waitrose	9.8%	4.6%
Asda	8.7%	15.8%
Morrisons	6.1%	13.3%
Somerfield	3.4%	4.3%
Total Independents	0.9%	2.3%
Kwik Save	0.0%	1.8%
Iceland	0.0%	1.6%
Aldi	0.0%	1.8%
Lidl	0.0%	1.9%
Netto	0.0%	0.7%

Source: TNS Worldpanel.

The table above shows the distribution of total UK retail sales of Fairtrade products by retailer. By share of Fairtrade retail sales, Tesco, Sainsbury and Co-op are the largest retailers.<sup>11</sup> The Co-op was an early adopter of Fairtrade products and led the way in switching some of its key private label products, including coffee and sugar, to Fairtrade. This is a trend that is now being reflected in other major multiples as retailers such as Tesco, M&S, and Sainsbury now carry many private label products which are fairtrade. Additionally, coffee store chains, including Starbucks, Costa Coffee and AMT, have also adopted Fairtrade products.

Despite increased consumer awareness and wider distribution, the majority of sales of Fairtrade certified products are accounted for by the most well known Fairtrade certified products: coffee, tea and chocolate. It is these same product categories where Fairtrade certified products have the largest share in overall retail sales, as seen below.

<b>Fairtrade Share of Selected Food Markets</b>		
	<b>2004</b>	<b>2005</b>
<b>Total Ambient and Chilled Foods</b>	<b>0.20%</b>	<b>0.20%</b>
Coffee: Liquid, Ground and Beans	14.5%	13.6%
Coffee: Instant	4.1%	4.8%
Tea	4.1%	4.0%
Fruit	0.9%	1.0%
Chocolate Confectionary	0.3%	0.4%
Note: Based on Total GBP sold		

Source: TNS.

<sup>11</sup> "Fairtrade Market Opportunity" TNS. Presentation.

## 5. FAIRTRADE OVERVIEW

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### 5.4 Market Positioning of Fairtrade Products

Despite the increasing trend of ethical buying, Fairtrade products are still competing in a highly competitive retailing environment. Given that the guaranteed minimum price paid to producers is generally higher than the average market price for other producers, by the time a Fairtrade product reaches the shelf it is generally higher priced than the standard comparable product. Given the generally higher retail price for Fairtrade labelled products, Fairtrade labelled products are in direct competition with premium branded products on the grocery shelf. With this inherent price competition with standard premium brands, the quality of the Fairtrade product must be comparable to the premium brand. Regardless of the Fairtrade certification consumers still demand value for their money. If the quality of a Fairtrade product does not meet quality expectations, the probability of customer repurchase will be reduced.

### 5.5 DIFFERING OPINIONS ON FAIRTRADE

Although the success of Fairtrade products in the UK and their effect in the developing world are plain to see, as has become apparent during the research for this report, not everyone is equally convinced of the merits of the Fairtrade movement. From an economic standpoint, there are some individuals who hold the viewpoint that the fairtrade movement is a “...well meaning dead end.”<sup>12</sup> Brink Lindsey of the Adam Smith Institute argues that the number of consumers who are willing to pay a premium for a product like coffee is inherently limited because of the quality gap between fairtrade coffee and the “premium coffee” that lies in the same price range.

This quality gap is of course open to dispute on an individual product level, but the point is an important one and remains an absolutely essential piece of the puzzle for any fairtrade product. In fact, through discussion and research it has also become apparent that many organizations which offer a “premium product” already feel that by virtue of the high prices they achieve in the UK, they are able to provide a fair price to the growers they buy from without needing the Fairtrade mark. In particular, coffee importers argue that they “...do not support payment of arbitrary fixed prices to growers simply because they happen to grow coffee. We pay premium prices to growers in exchange for fine quality coffee”<sup>13</sup>.

Opinions on Fairtrade are always likely to be diverse, but what comes out of these remarks is that although within the UK the market presence and awareness of fairtrade is growing, price

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<sup>12</sup> Lindsey, Brink “Grounds for Complaint” Adam Smith Institute, London 2004.

<sup>13</sup> Stephen Hurst, Coffee Hunter.

## 5. FAIRTRADE OVERVIEW

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competition on the grocery shelf will be fierce, meaning that quality is the key. If a Fairtrade product is going to be sold for a premium price, then the vendor must be sure that the quality offered is commensurate with that price.

## **6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED**

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### **6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED**

This section provides a brief snapshot of some comparable fairtrade related projects. Because of a paucity of information on very small scale projects, these are perhaps better funded and wider ranging than we might expect the MLF project to be, at least at the beginning. The purpose of these snapshots is to provide food for thought regarding the future of the MLF project, as well as some of the major issues/problems faced. Additionally, these projects provide an understanding of the dynamics of the fairtrade market from the producer's point of view.

The four projects/programs to be examined are:

- 1. TEEM (Training for Enterprise and Exports in Malawi)**
- 2. Cafédirect & KNCU in Tanzania**
- 3. FFTU (Farmer's Fairtrade Uganda)**
- 4. Kuapa Kokoo (Cocoa in Ghana)**



## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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### 6.1 TEEM – TRAINING FOR ENTERPRISE AND EXPORTS IN MALAWI

TEEM (Training for Enterprise and Exports in Malawi) was a DFID funded project whose stated project goal was to “alleviate poverty in Malawi through equitable trade”. The main thrust of the project was the “expansion of in country capacity of market-led business counselling”. To this end, two organizations were set up:

- 1) Development Trading Limited (DTL) – trading company to practice fairtrade in crafts and crops
- 2) Business Consult Africa (BCA) company to promote business development services among SMEs and producer groups

This project was conducted in close partnership with Traidcraft who provided personnel to the BCA, as well as managing and overseeing the project as a whole. Interestingly, rather than focus on the actual production of goods, this project took a rather more hands-off approach, putting the emphasis on the training side of the project. The DTL was set up more as an outlet once the training had been successful and production was taking place. Traidcraft was overseeing the project, and their expertise in selling the fairtrade goods was already somewhat in place.

Unlike the three projects, which will be seen later on, TEEM chose to focus on not just one, but a number of products. These products were mainly handicrafts and food products including:

- Paper
- Baskets
- Groundnuts (peanuts)
- Sugar

Distribution outlets for the TEEM project were quite varied with the major ones detailed below:

- Online at [traidcraftshop.co.uk](http://traidcraftshop.co.uk)
- Major retail outlets (Sainsbury’s, Co-op, etc...)
- “Network of Fairtraders” (Church, Farmer’s Markets, community centres, etc...)

Despite a budget of close to £3,000,000, a 5-year time horizon to get up and running, and the expertise of Traidcraft, the TEEM project was ultimately wound up after four years. The major issues cited for the failure of the project were:

## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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### 1. Lack of Focus

- “The mandate was extremely broad i.e. to cover both crops and crafts, which demand quite different marketing skills, with product development being a key component in crafts.”
- Focus comes up again and again as a complicating factor

### 2. Supply Difficulties

- “Craft Producers were offered cash advances by DTL, but complained about price levels as well as infrequent purchases.”
- Must have smooth demand to keep producers working/happy
- “DLT reported that delays in delivery and/or poor quality had led to lost orders and demands for repayment of advances, so that they reduced the frequency of purchases”
- Quality is key, as well as pace of production

### 3. Training is Expensive

- “DTL made particular efforts to train a number of women’s groups to be basket weavers. However, the IAR found that they required more training than DTL was able to afford, in order to be able to meet the quality required in export markets”
- Unless quality currently available is close to international standard, questions should perhaps be asked about trying to train from scratch.

### 4. Cash Flow is King!

In many cases, producers will need to be paid up front to enable them to purchase the supplies needed to grow or manufacture the product. Even if this is not the case, the exporter will still likely be in a COD situation with the producer. As a result, there is a lag between paying for the product and then getting the money from the buyers here in the UK. In TEEM’s case, this led to a focus on low margin, high volume goods.

## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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### 6.2 CAFÉDIRECT & KNCU IN TANZANIA

Cafédirect is well known as the poster child of Fairtrade success stories. The company has built an impressive business dealing in Fairtrade teas and coffees. Below, we aim to delve a bit deeper into the relationship they maintain with one of their suppliers, KNCU in Tanzania.

Cafédirect's *modus operandi* is to purchase coffee from small producer co-operatives in Latin America and East Africa. Each of these co-ops has been certified by European Fairtrade organizations. In addition to paying a margin on the coffee they buy from these producer groups, Cafédirect puts 8% of its gross profits back into producer partners' organisations to support a wide range of activities, including market information, management training and any other elements required to grow their business.

KNCU is Africa's oldest coffee cooperative and produces beans for Cafédirect's single origin gourmet coffee, Kilimanjaro Mountain special. The organization itself is a secondary cooperative representing 90 smaller primary cooperatives.

Overall, the emphasis of the relationship between the two organizations was not just to sell to the fairtrade market, which KNCU had been doing for some time, but to establish export capacity for KNCU's beans into the commercial market.

As mentioned earlier, KNCU produces beans for Cafédirect's Kilimanjaro Mountain Special. These beans are of the Arabica variety rather than the Robusta variety. The table below illustrates the premiums paid by Cafédirect for both varieties of bean.

	<b>World Market Price (US cents/lb)</b>	<b>Cafédirect Pay (US cents/lb)</b>	<b>% premium</b>
<b>Arabica</b>	116.15	127.77	10.00
<b>Robusta</b>	58.88	106.00	80.04

*Source: Cafédirect*

Distribution of the coffee has been quite widespread, encompassing the outlets seen below:

- Online at [traidcraftshop.co.uk](http://traidcraftshop.co.uk)
- Major Retail Outlets (Asda, Tesco, Waitrose, etc...)
- Costa Coffee
- Oxfam & equalexchange shops

The relationship between KNCU and Cafédirect has been a successful one, with the Kilimanjaro coffee being quite popular. However, the relationship has not been without its difficulties, as detailed below:

## **6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED**

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### **1. Conflicting Priorities**

- KNCU more interested in improving their lot in the here and now, while Cafédirect has a more long-term focus. This means KNCU has a weak commitment to the developmental aspect of the project.

### **2. Passive Partner**

- KNCU was not very involved in the decision making process with Cafédirect, preferring to be a passive partner.

### **3. Unclear Expectations**

- Cafédirect perhaps needed to be more upfront in the beginning with regard to what it expects from its partners.

## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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### 6.3 FARMERS FAIRTRADE UGANDA (FFTU) – ORGANIC COTTON

Farmers Fairtrade (Uganda) is a scheme dealing in Fairtrade certified cotton lint. The stated goal of is “to operate effective trade in commodities (cotton) in national and international markets in Africa and to give fair prices to farmers by way of commercial trade with fixed and limited profit margins”. The scheme has been quite successful, especially from a production/participation standpoint, starting out with 200 farmers (70 tons) and growing to 900 farmers (900 tons) in two years. The network of organizations involved is particularly impressive. The relationship between these organizations is detailed below:

*Primary Societies* – Village/Parish based groups of farmers

*Lango Farmers Coop Union* – Ugandan regional farmers cooperative dealing with marketing and processing of cotton

*Farmers Fairtrade Union* – Ugandan based trading company dealing in organic cotton

*African Farmers Fairtrade Association* – Dutch based trading company set up to organize and operate trade in agricultural commodities

The logistics of the operation play out as follows:

1. Seed provided on credit (cost deducted from price paid to farmers for cotton)
2. Farmers grow, harvest, clean and sort cotton by hand
3. Product is collected by subcommittees of the primary society (see below)
4. FFTU lorries transport cotton to ginnery (ginning costs paid by buyer)
5. Cotton transported to Mombassa by buyer and shipped to international market.

The FFTU is guaranteed a healthy margin over the standard price of cotton set by the Cotton Development Organization. This margin ranges from 15 to 20% over the farmgate prices that would be achieved without the fairtrade premium. Additionally, the margin that the AFTA trading company is able to obtain is controlled at 15%.

Much like the projects seen above, although the FFTU program has been quite successful, it is not without its challenges. Some of these have been highlighted below:

#### 1. Organic Certification

- Must be completed each season
- Expensive, \$40,000 per season (responsibility of buyer FFTU)
- Certification based by village (one farmer spraying pesticide leads to whole village being de-certified)
- Cotton must be constantly monitored and documented to ensure that organic principles are maintained

## **6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED**

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### **2. Buying and Marketing**

- Marketing begins once volumes of production confirmed (6mos after harvest)
- National cotton guideline prices set early in the year by Cotton Development Organization
- FFTU sets prices based on a negotiation process with primary societies. FFTU price is generally 20% above the conventional price

## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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### 6.4 KUAPA KOKOO – COCAO IN GHANA

Kuapa Kokoo is an organization which, under one umbrella, comprises a farmers' union, cocoa purchasing company and a trust fund for its members. The organization is focused on making sure the cocoa cooperative works to improve the lives of its members. The organization itself is made up of 5 key units:

1. *Kuapa Kokoo Farmers Union (KKU)*
  - a. Provides for farmer empowerment
  - b. Encourages participation of women
  - c. Encourages environmentally responsible production
2. *Kuapa Kokoo Limited (KKL)*
  - a. Collects, grades, seals, and transports cocoa
  - b. Provides finance function and administrative support
  - c. Works to improve primary societies through education
3. *Kuapa Kokoo Farmers Trust (KKFT)*
  - a. Receives and distributes all premiums from Fairtrade labelling organizations as well as donor funds
4. *Kuapa Cocoa Credit Union (KKCU)*
  - a. Encourages a culture of savings
  - b. Makes loans to farmers
5. *Day Chocolate Company*
  - a. Markets Kuapa Kokoo own brand chocolate in the UK

The margins the farmers receive within the Kuapa Kokoo cooperative are far greater than that which they would obtain otherwise. The market price per ton of cocoa was, at time of writing \$800. The Kuapa Kokoo farmers receive a minimum of \$1,600 per ton. Additionally, there is a “social premium” of \$150 per ton. Interestingly, this social premium is not directly returned to the farmers; rather, it is managed by the KKFT and used for social improvements in the village society such as clean water boreholes.

The issues raised through this clearly very successful cooperative are somewhat less clear than in the other projects presented above. However, there are a few items which stood out in the research:

#### 1. *Social Differentiation*

There have been some concerns that the success of the co-op has created some divisions within the community which could manifest themselves long-term. Those farmers who have been successful within the co-op are of course better able to ramp up production and often find themselves in leadership positions in the primary society. Poorer families

## 6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED

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may have increased opportunities for work in the short-term, but could be disadvantaged in the long term.

### 2. *Lack of Collectivism*

Outside of the efforts of the KKFT, there is little evidence that the money raised is used in a collective capacity to improve the lot of the entire primary society.



## **6. REVIEW OF COMPARABLE ORGANIZATIONS AND LESSONS LEARNED**

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### **6.5 KEY LESSONS FOR MICROLOAN FOUNDATION**

When we look back at these projects a few things stand out above the others with regard to key learnings or takeaways. The first is how a clear focus greatly reduces complexity and creates an environment for success. Of our four “peer” projects, the one that did not live up to expectations was the one which tried to dabble in many areas simultaneously. By contrast, by focusing on chocolate, coffee, and cotton respectively, the other three were better able to succeed. This is likely because with one product, it is easier to keep all parties on the same page, and develop economies of scale with regard to product expertise. A second important point to consider is the risk of social differentiation. As in any successful venture, those on the outside looking in will be somewhat jealous. To minimize this situation, effective use of the social premium is the key to making sure that everyone involved, or otherwise, sees benefits from these schemes. Lastly, it is very important to consider the effects of cash flow. In many cases, projects have found it beneficial to pay for products up to a year in advance, enabling these producers to conduct some degree of long term planning, buy the requisite fertilizer (for agricultural products) and also instil a level of trust. Of course, this situation not without its difficulties since it puts strain and risk on the shoulders of the buyer, as money may not always be available a year in advance.

## 7. UK MARKET REVIEW BY PRODUCT

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### 7. UK MARKET REVIEW BY PRODUCT

Based on the client's experience in Malawi and their currently ongoing research in regards to supply, MLF presented an initial list of products to be considered for the UK market. This list included the following:

1. Coffee
2. Tea
3. Sugar
4. Honey
5. Dried Fruit
6. Sauces (Hot Sauce)
7. Cards
8. Handicrafts (including Knitting)

However, based on additional research into Malawi's agricultural sector and comparable handicrafts sold in the UK market, we have identified an additional three products of interest:

9. Paprika
10. Macadamia Nuts
11. Baskets

In the following section, we present a detailed review of the UK market for each of these products. This market review analysis includes:

1. General Product Overview
2. UK Market Overview
3. Fairtrade Market Presence
4. Distribution
5. Pricing Summary
6. Product Specific Issues to Consider, *when applicable*

This product market analysis has been drawn from numerous government and industry resources in the UK and Malawi, as well as additional trade industry resources and personal interviews. A full list of the sources used for this section is provided in *Appendix E*.

## COFFEE

## Product Overview

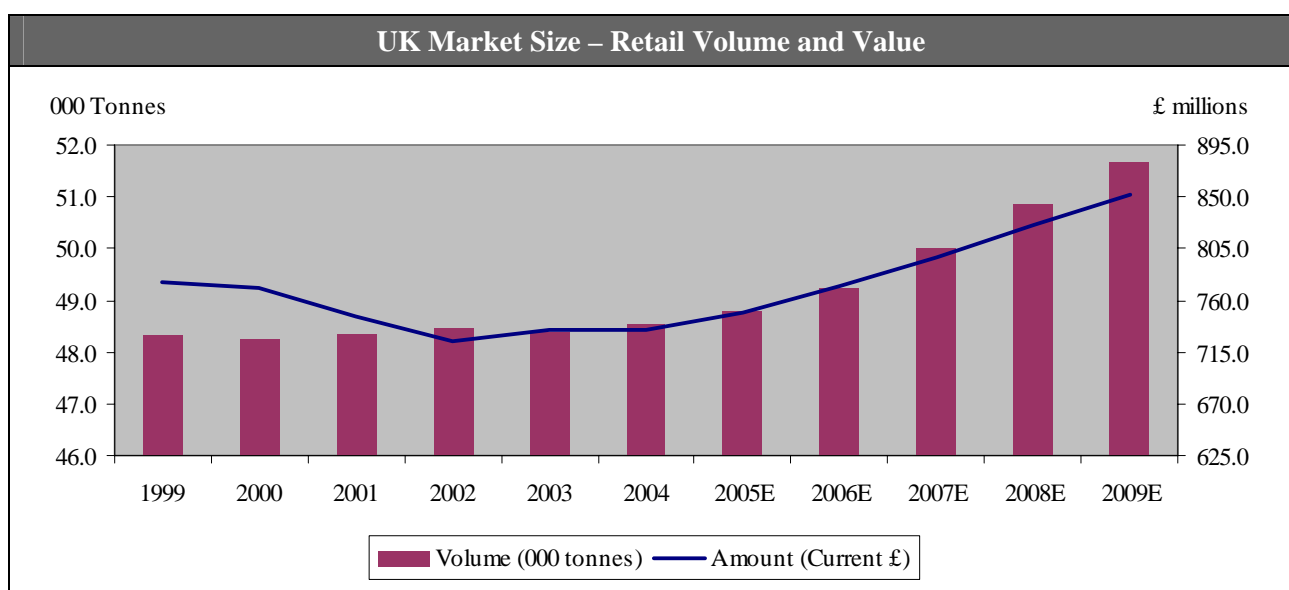
Arabica coffee is the fourth most important export crop in Malawi with average annual production of 4,176 metric tonnes. According to trade experts, “Malawi coffee is smooth and full bodied, slightly floral”.

Malawi is Africa’s smallest coffee-producing country, but has been producing coffee since the late 1800s. Malawi’s most prominent variety is “AA”, which is bright, aromatic and winey, and much bolder than the bean from neighbouring Kenya. It combines East African coffee’s best qualities: a light citrus and berry flavour, medium acidity, and a full body<sup>14</sup>.

The greatest potential product is Mzuzu brand coffee, which is produced by Smallholder Coffee Farmers Trust through independent producer associations.

Also, the United Kingdom is already a significant export market for Malawian coffee.

## UK Market Overview



The UK coffee market has been steadily expanding both in terms of value and volume. Traditionally, the UK market has been weighted towards instant coffee, but the market presence of ground coffee is continually increasing.

<sup>14</sup> [http://www.greenbeanery.ca/bean/catalog/product\\_info.php?products\\_id=75](http://www.greenbeanery.ca/bean/catalog/product_info.php?products_id=75)

### Fairtrade Market Presence

Ethical consumerism is a significant market driver in the UK and fairtrade coffee has seen great success to date.

Fairtrade coffee in 2005 accounted for 3% of total retail coffee sales. Despite representing a small share of the market currently, Fairtrade coffee is the fastest growing sector of the UK coffee market, with average sales growth of approximately 12% year on year. In fact, 28% of the new coffee products launched in 2004-2005 were ethical. Fairtrade coffee will continue to expand with wider varietals selections and organic Fairtrade coffee.

UK Market Size – Fairtrade Retail Volume and Value						
	1999	2000	2001	2002	2003	2004
Retail Value (£mm)	15.0	15.5	18.6	23.1	34.3	49.3
% of Total Retail	1.9%	2.0%	2.5%	3.2%	4.7%	6.7%
* Assumes 40% retailer margin						

Source: Fairtrade Foundation and Euromonitor

This emerging market segment has attracted the entire range of market players from small independent coffee plantations to major players in the coffee market, including Starbucks and Nescafe. Currently, there are 38 registered brands of Fairtrade coffee. Fairtrade has become a significant presence within the ground coffee sector via ethical traders Cafédirect and Percol (Food Brands marketing group) who between them account for 13% of retail value of total coffee sales.

**Cafédirect.** Cafédirect is the market leader and originator of branded Fairtrade certified coffee. In 2003, Cafédirect accounted for 22% of total UK fairtrade retail value sales. And, in 2004, Cafédirect gained additional ground in fresh ground coffee, posting growth above the subsector average. Positioned as a premium product, Cafédirect's fresh coffee is luring both ethically minded and brand conscious consumers.

Many private labels have expanded their ranges to include Fairtrade products, taking the concept of Fairtrade beyond a brand name. For example, Tesco and Sainsbury both stock private label Fairtrade items. Also, Co-op, which has long supported the Fairtrade Foundation, has converted all its private label coffee to Fairtrade. Another major market player has also recently joined this trend. On March 6, 2006, M&S announced it was converting all its coffee and tea to Fairtrade. Also, recent entry by major food companies, such as Nestle and Kenco, indicates the potential for this coffee segment

UK consumers are highly receptive to Fairtrade coffee, as TGI data show that more than 1/3 (37%) of coffee drinkers like to buy Fairtrade products when available.

Although, Fairtrade only represents a fraction of total coffee sales, its share is expected to continue to increase as consumers continue to demand greater quality and evidence of ethical trading policies.

### Distribution

In 2004, over 87% of coffee was bought in supermarkets/hypermarkets in the UK. “The supermarkets/hypermarkets distribution channel has been quick to respond to consumer demands both in terms of private label products on offer and through a dedicated effort to keep pace with growing sales of premium specialty and fairtrade products”<sup>15</sup>.

Registered Fairtrade Coffee is available at:

- **Coffee Stores** (AMT, Starbucks, Prêt a Manger, Costa)
- **Grocery Stores** (Asda, Budgens, Co-op, Morrisons, Sainsbury’s, Somerfield, Spar, Tesco, Waitrose, M&S)
- **Online and Mail Order**
- **Health food stores, Independents, and Oxfam Shops**

UK Market Fairtrade Coffee Sales by Point of Sale				
<i>(in tonnes)</i>				
	2003		2004	
	Amount	YoY Growth	Amount	YoY Growth
Volume purchased from Stores	2,083	42%	2,572	23.5%
Volume sold in Coffee Shops	511	67%	766	50.0%

Source: Mintel.

The table above demonstrates the strong growth of Fairtrade coffee sales in both stores and coffee shops.

### Pricing Summary

The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade agreements. The Fairtrade price is equal to the minimum price plus a \$0.05 premium. All prices are based on one pound of coffee.

<sup>15</sup> “Coffee – UK – January 2006”. Mintel.

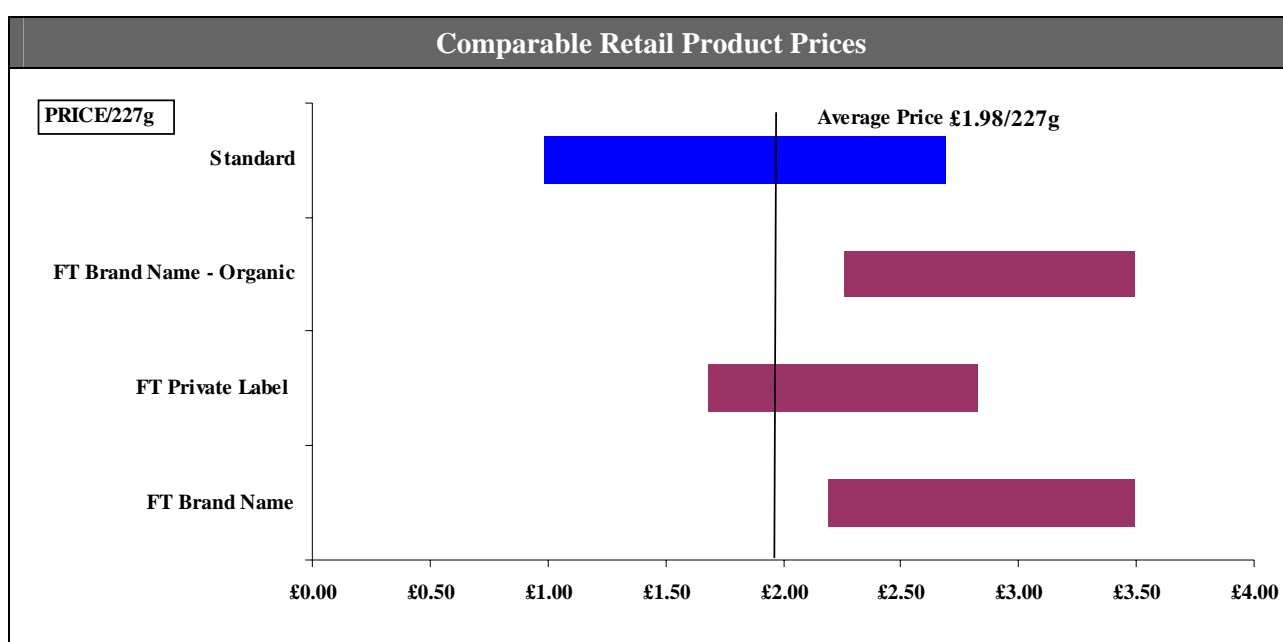
Fairtrade Minimum Producer Prices						
Quality	Origin	Organic	Min. Price	Premium	Fair Trade Price	Quantity
<b>Not Organic</b>						
Washed Arabica	Not S. America	No	\$1.21	\$0.05	\$1.26	Pound
Unwash Arabica	Not S. America	No	\$1.05	\$0.05	\$1.10	Pound
Unwash Robusta	All	No	\$1.01	\$0.05	\$1.06	Pound
Washed Robusta	All	No	\$1.05	\$0.05	\$1.10	Pound
<b>Organic</b>						
Washed Arabica	Not S. America	Yes	\$1.36	\$0.05	\$1.41	Pound
Unwash Arabica	Not S. America	Yes	\$1.30	\$0.05	\$1.35	Pound
Unwash Robusta	Not S. America	Yes	\$1.20	\$0.05	\$1.25	Pound
Washed Robusta	Not S. America	Yes	\$1.16	\$0.05	\$1.21	Pound

*Fair trade price = min price + premium*

Source: Fairtrade Foundation, March 2006.

In addition to the Fairtrade Foundation's producer pricing requirements, some companies selling Fairtrade branded coffee use alternate pricing methods to guarantee producers a fair price. For example, Cafédirect adheres to the same minimum price as other Fairtrade buyers, but the company also has a "Gold Standard policy". This policy stipulates that a Social Premium of an additional 10% is added on top of the require FT minimum price. If the addition of 10% means the total is below the FT minimum price, Cafédirect will pay the minimum price. If, however, the new figure is above the FT minimum price, then the company will pay the new higher price.

The chart below presents the ranges of retail prices for currently available Fairtrade branded coffee. The vertical line represents the average retail price for a standard coffee brand. Each price is for a 227g bag of ground coffee, the standard packaging size.



Source: Market Survey and Office of National Statistics

Compared to the average retail price of bag of standard ground coffee, FT coffee is generally priced at a premium over standard coffee. However, a coffee which is both FT and organic does not command an additional premium over the FT product.

To refer to a specific brand, Cafédirect aims, in terms of retail pricing, to be no more than 15% expensive than the most expensive premium mainstream coffee.

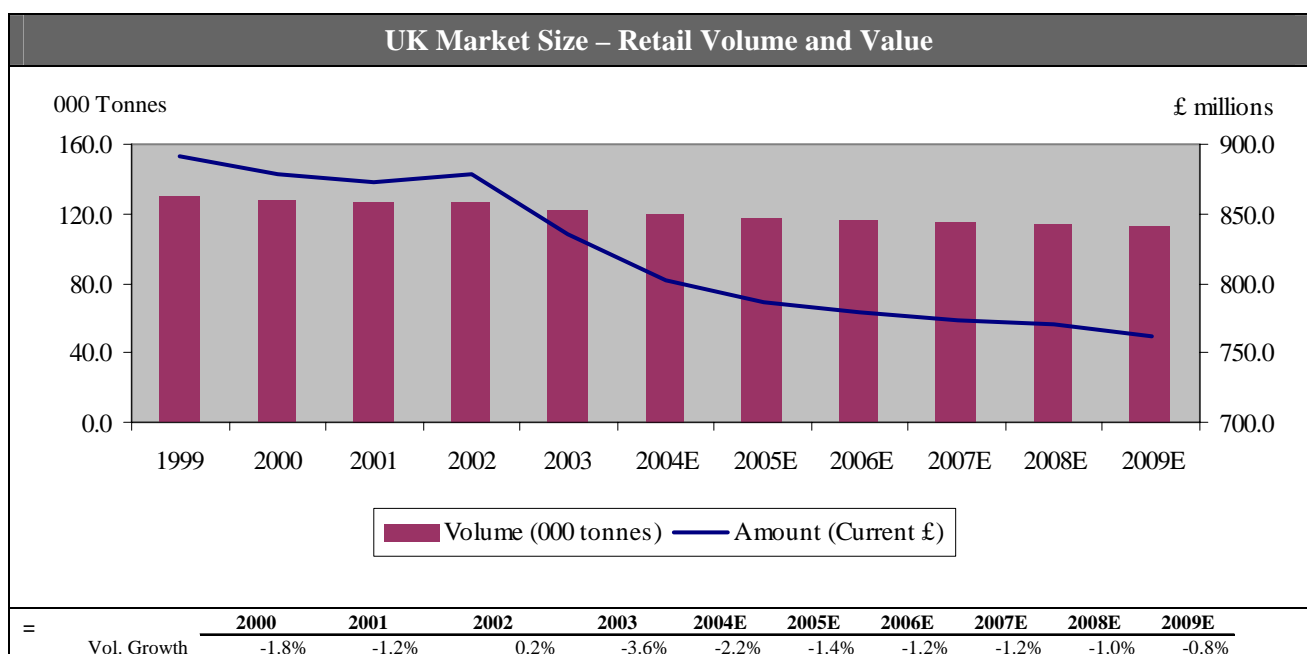
## TEA

**Product Overview**

Malawi is the second largest producer of tea in Africa after Kenya. Annually producing approximately 46,000 tonnes of tea, Malawi is one of the top 15 tea producers worldwide. Tea is primarily grown on large estates; however the government is promoting smallholder tea producers.

Although Malawi teas are not well known as speciality teas, they are used in the blending of leading British tea brands.

Tea is exported to European, Asian and American markets, and the United Kingdom is a significant export market.

**UK Market Overview**

Source: Euromonitor

As the retail volume of tea has been declining gradually, this has been accompanied by a more significant decline in sales value.

**Fairtrade Market Presence**

As ethical consumerism continues to grow in the UK, Fairtrade tea has been a leading Fairtrade product. While Fairtrade tea only accounts for approximately 1% of the total UK tea market (by value), it is growing at a rate of 20% per year.



UK Market Size – Fairtrade Retail Volume and Value						
	1999	2000	2001	2002	2003	2004
Retail Value (£mm)*	4.5	5.1	5.9	7.2	9.5	12.9
% of Total Retail	0.5%	0.6%	0.7%	0.8%	1.1%	1.6%
* Assumes 40% retailer margin						

Source: Fairtrade Foundation and Euromonitor

Traidcraft and Teadirect are the dominant FT players and accounted for over 50% of total Fairtrade tea purchases in 2002/3. Other Tea companies with Fairtrade ranges include: Bettys and Taylors of Harrogate, Clipper Teas, Hampstead Tea & Coffee Company, Northern Tea Merchants and Food Brands. Tesco, Sainsbury's, Asda and Co-op also have their own private label Fairtrade tea product offerings. Additionally, on March 6, 2006, M&S announced it was converting all its tea to Fairtrade. Although, Fairtrade only represents a fraction of total tea sales, its market share should continue to increase as consumer demand for ethically traded products increases.

### Distribution

In 2004, almost 88% of tea was bought in supermarkets/hypermarkets in the UK.

Registered Fairtrade tea is available at:

- **Coffee Stores** (AMT, Starbucks, Prêt a Manger, Costa)
- **Grocery Stores** (Asda, Budgens, Co-op, Morrisons, Sainsbury's, Somerfield, Spar, Tesco, Waitrose, M&S)
- **Online and Mail Order**
- **Health food stores, Independents, and Oxfam Shops**

As online shopping expands, many tea companies have established online ordering to make purchasing products more convenient.

### Pricing Summary

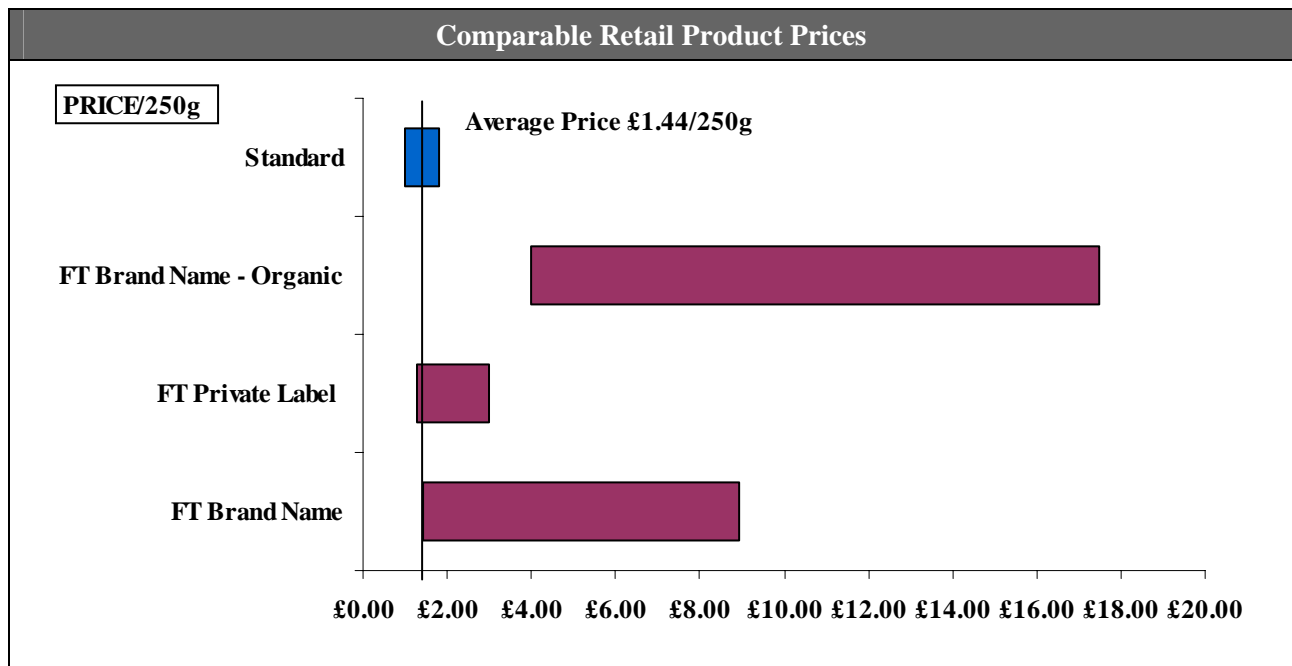
The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade agreements. The Fairtrade price is equal to the market price plus a premium. All prices are based on one kilogram of tea.

Fairtrade Minimum Producer Prices <sup>16</sup>					
Quality	Min. Price	Premium	Fair Trade Price	Min. Organic Price Diff.	Quantity
CTC, Orthodox Dust & Fannings & Roobios, Camile, Hibiscus, Peppermint	Market	€0.50	*	N/A	kg
All other Orthodox teas	Market	€1.00	*	N/A	kg
* Fair trade price = min price + premium					

Source: Fairtrade Foundation, March 2006.

<sup>16</sup> Fairtrade Foundation is currently reviewing the pricing standards for tea and new guidelines are anticipated in Summer 2006.

The chart below presents the ranges of retail prices for currently available Fairtrade branded tea. The vertical line represents the average retail price for a standard tea brand. Each price is for a 250g box of tea bags, the standard packaging size (80 tea bags).



Source: Market Survey and Office of National Statistics

Compared to the average retail price of box of 80 standard tea bags, FT coffee is generally priced at a premium over standard tea. Additionally, a tea which is both FT and organic can command an additional premium over the FT product, depending upon quality. The highest priced teas under FT Brand Name – Organic classification are premium tea varieties which are considered to be luxury.

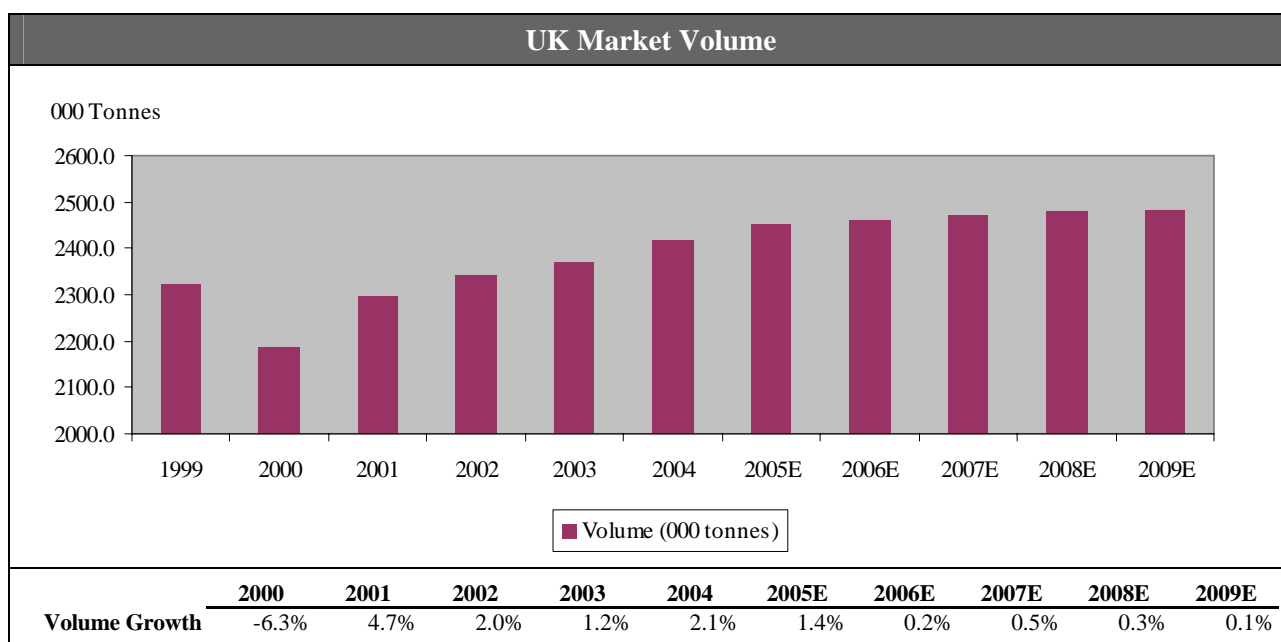
## SUGAR

**Product Overview**

Sugar, primarily produced by two producers, is one of Malawi's primary exports.

In Malawi, Kasinthula Cane Growers Ltd is a registered Fairtrade sugar supplier. This factory is the result of a government program which has empowered 272 smallholder farmers to participate fully in the commercial production of sugar cane. This project was developed in partnership with Illovo Sugar, Africa's leading sugar producer and a major worldwide player.

Traidcraft Exchange has been operational in Malawi since 2000 and sources sugar from there which it uses as an ingredient in many of its processed products. Sugar is purchased from Illovo Sugar Corporation in Malawi.

**UK Market Overview**

In 2004, the value of sugar retail sales was approximately £262 million and has grown at an average rate of 3% per annum. White granulated sugar represents over 70% of UK sales of sugar, with other sugars caster sugar, icing sugar, Demerara and golden granulated making up the remainder.

**Fairtrade Market Presence**

Holding a position at the premium end of the market, Fairtrade sugars continue to grow in market share, while organic sugars have not performed as well.

There are 6 brands of Fairtrade registered sugar: Co-op, Equal Exchange, Nirvana, Silver Spoon Company (Tate and Lyle), Traidcraft, and Whitworths. For Traidcraft, sugar accounts for only a small part of its activities, although it sells sugar as a conventional form and uses it as an ingredient in its composite products.

Also, in relation to Malawi in particular, Whitworths sells Fairtrade sugar from Malawi.

### Distribution

Grocers are the primary sellers of sugar.

Registered Fairtrade sugar is available from:

- **Major grocery stores:** Co-op, Tesco, Waitrose, Sainsbury's, Booths and Asda
- **Independents,** including health food shops, Oxfam Shops

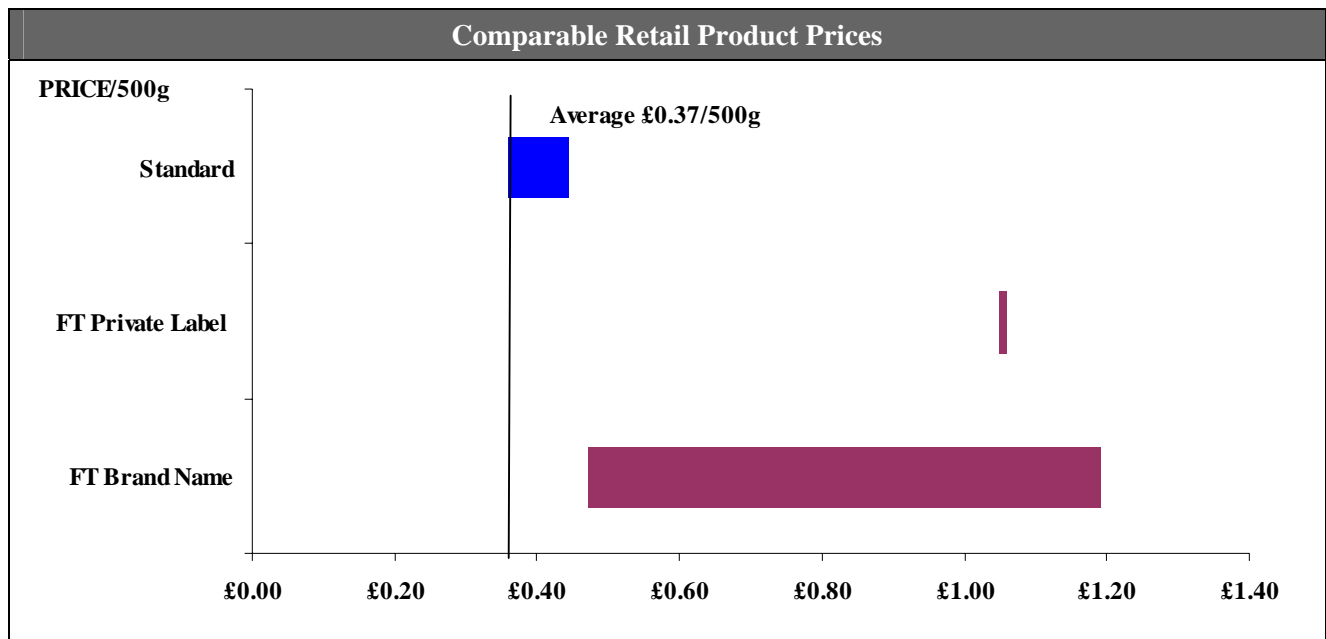
### Pricing Summary

The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade agreements, particularly in reference to Malawi. The Fairtrade price is equal to a negotiated price plus a \$60 premium. All prices are based on one ton of sugar.

Fairtrade Minimum Producer Prices							
Quality	Origin	Min. Price	Premium	Fair Trade Price	Min. Organic Price Diff.	Quantity	Form
Whole Raw	All Exp Malawi	Negotiated	\$60	Neg + Prem.	\$20	tonne	Whole Raw
White	Malawi	Negotiated	\$60	Neg + Prem.	\$20	tonne	Refined/Milled
Brown	Malawi	Negotiated	\$60	Neg + Prem.	\$20	tonne	Refined/Milled

Source: Fairtrade Foundation. March 2006

The chart below presents the ranges of retail prices for currently available Fairtrade branded sugar. The vertical line represents the average retail price for a standard sugar. Each price is for 500g of sugar, a standard packaging size.



Source: Market Grocery Store Survey and Office of National Statistics

From the chart above, it is clear that Fairtrade sugar is priced at a premium to standard sugar.

### Product Specific Issues to Consider

#### *Import restrictions:*

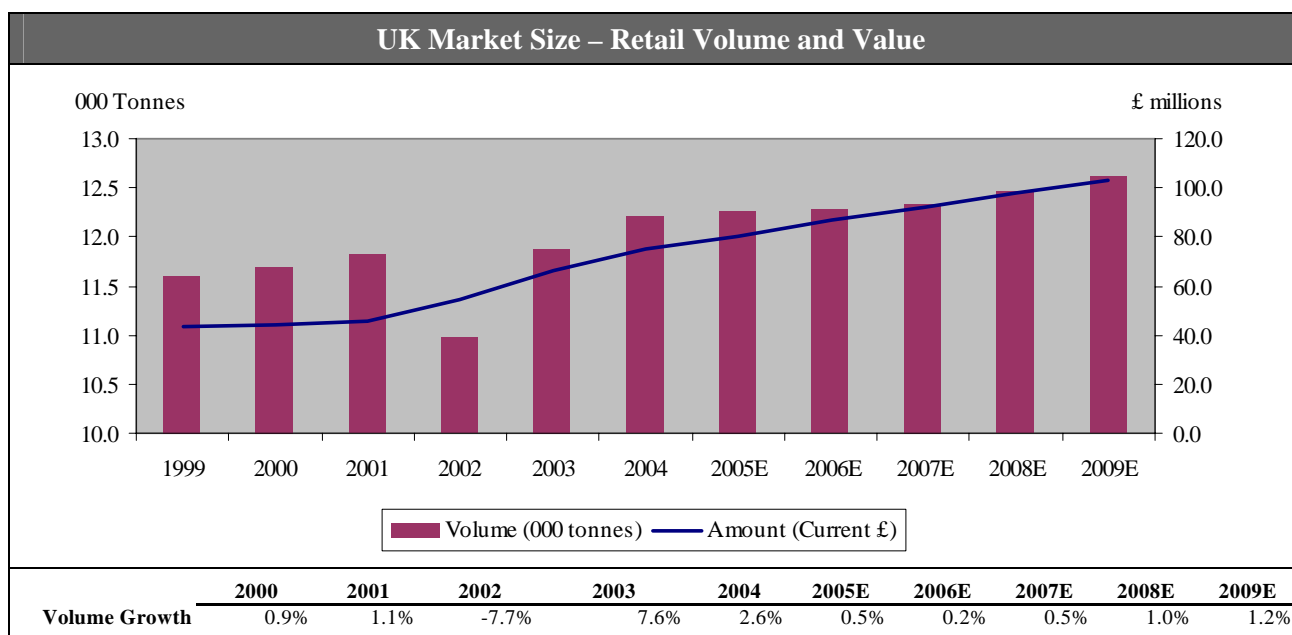
The EU has significant import restrictions/quotas on sugar. Illovo Sugar, the primary producer in Malawi, currently exports to the EU under the ACP protocol, principally through Swaziland. With the recently announced changes to the EU sugar regime, Malawi, Mozambique, Tanzania and Zambia are classified as LDC countries and will receive unrestricted access for sugar exports to the EU from 2009.

## HONEY

## Product Overview

Honey is a product with a wide variety of uses from sweetening to baking, as well as being used as a condiment. Honey production is an industry which can be adapted to any scale and is thus of interest in a developing country such as Malawi. According to USAID, Malawi currently produces about 50 tons of honey per year, but the country has the capacity to produce up to 240 tonnes.

## UK Market Overview



The versatility of honey has supported sales despite an increasingly diet conscious UK public. This sustained market share can partially be attributed to honey being positioned as healthier than sugar.

## Fairtrade Market Presence

Based on estimates by the Fairtrade Foundation, Fairtrade honey represents approximately 5% of honey sales by value. Fairtrade honeys are demonstrating only modest growth, generally because they are more expensive than standard honey. However, the market, as with other FT products, is likely to expand with wider distribution.

**UK Market Size – Fairtrade Retail Volume and Value**

	1999	2000	2001	2002	2003	2004
Retail Value (£mm)* > 0.1		0.9	3.2	4.9	6.1	3.4
% of total Retail		2.0%	7.0%	9.1%	9.2%	4.5%

Source: Fairtrade Foundation and Euromonitor.

Nine brands have registered Fairtrade honey products: ASDA, Co-op, Swallows, Equal Exchange, Marks and Spencer, Rowse, Traidcraft, Tropical Forest Products, and Windmill Organics.

The primary countries of origin for Fairtrade honey are Chile, Mexico and Uruguay.

### Distribution

In 2004, sales through grocery multiples accounted for 85% of sweet spreads sold with the remainder of sales approximately equally distributed between co-ops, independents and other retailers (health food stores and convenience stores).

Registered Fairtrade Honey is available from:

- **Major grocery stores:** Co-op, Tesco, Waitrose, Sainsbury's, Booths and Asda
- **Independents,** including health food shops, Oxfam Shops
- **Online and mail order**

### Pricing Summary

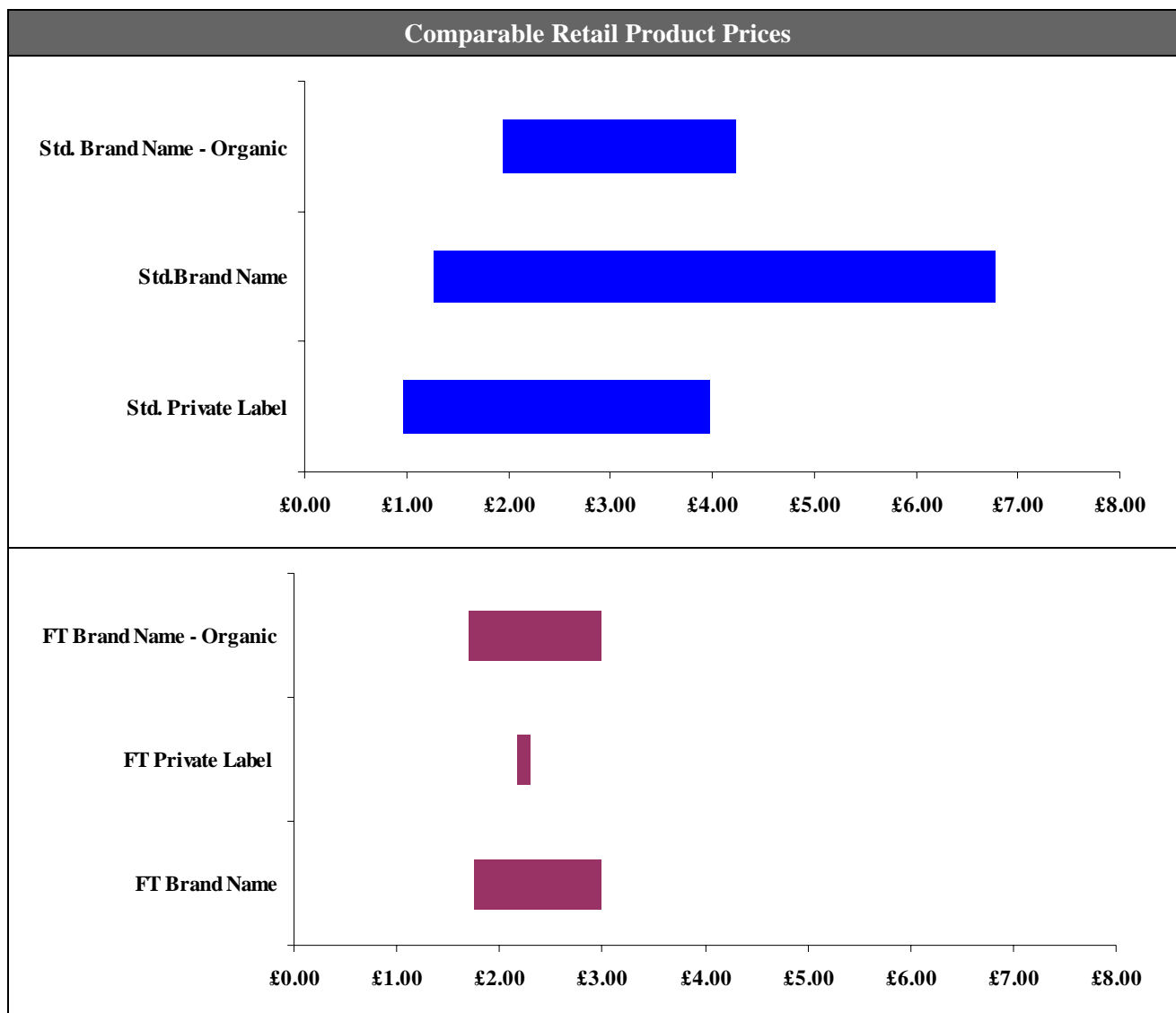
The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade agreements. The Fairtrade price is equal to a minimum price plus a \$0.15 premium. All prices are based on one kilogram of honey.

Fairtrade Minimum Producer Prices						
Quality	Origin	Min. Price	Premium	Fair Trade Price	Min. Organic Price Diff.	Quantity
A Quality	Worldwide	\$1.80	\$0.15	\$1.80	\$0.15	kg
B Quality	Worldwide	\$1.65	\$0.15	\$1.65	\$0.15	kg

*Fair trade price = min price + premium*

Source: Fairtrade Foundation, March 2006.

The chart below presents the ranges of retail prices for currently available Fairtrade branded honey. The vertical line represents the average retail price for a standard honey. Each price is for a 340g jar of honey, the standard packaging size.



Source: Grocery Store Survey

Organic honey is not priced significantly greater than standard honey as the organic label is regarded as being more relevant to meat and vegetables than spreads. Also, as the charts show above, Fairtrade honey is not necessarily priced at a premium to non-Fairtrade honey. However, this pricing differential could arise because some of the exotic honeys, which have a higher retail price, are not produced in countries where Fairtrade standards have been established for export honey.

### Product Specific Issues to Consider

**Food Safety:** Honey must comply with strict content specifications set out by the Food Standards Agency be called honey.

**Import restrictions:** Honey may only be imported into the UK from certain approved non-EU countries. The list was last published in July 2005 and Malawi has not been approved to export honey to the EU. However, this list of approved countries should be checked regularly with the Food Standards Agency.



## DRIED FRUIT

**Product Overview**

Malawi has a favourable climate for the production of a wide range of fruits that include pineapples, and mangoes. However, about 50% of these crops are left to drop and waste in the peak months. In relation to dried fruit, pineapple is of particular interest. Also, there is potential for drying mangoes and bananas. Dried fruit is an attractive industry for Malawi as it requires little capital investment and limited processing or technology.

**UK Market Overview**

In the UK, dried fruit accounts for 6% of all fruit consumed. Dried fruit was consumed on 525 million occasions from November 2004 to November 2005, 10% more than in the previous year. The most popular dried fruit is raisins and sultanas followed by apricots and prunes.

The UK is the world's largest importer of dried fruit, accounting for 27% of total global imports in 2000.

**Fairtrade Market Presence**

Branded Fairtrade dried fruit includes products from Traidcraft, FM Foods and Tropical Wholefoods. Aside from individual product packaging, Traidcraft incorporates dried fruit into 8% of its other food lines.

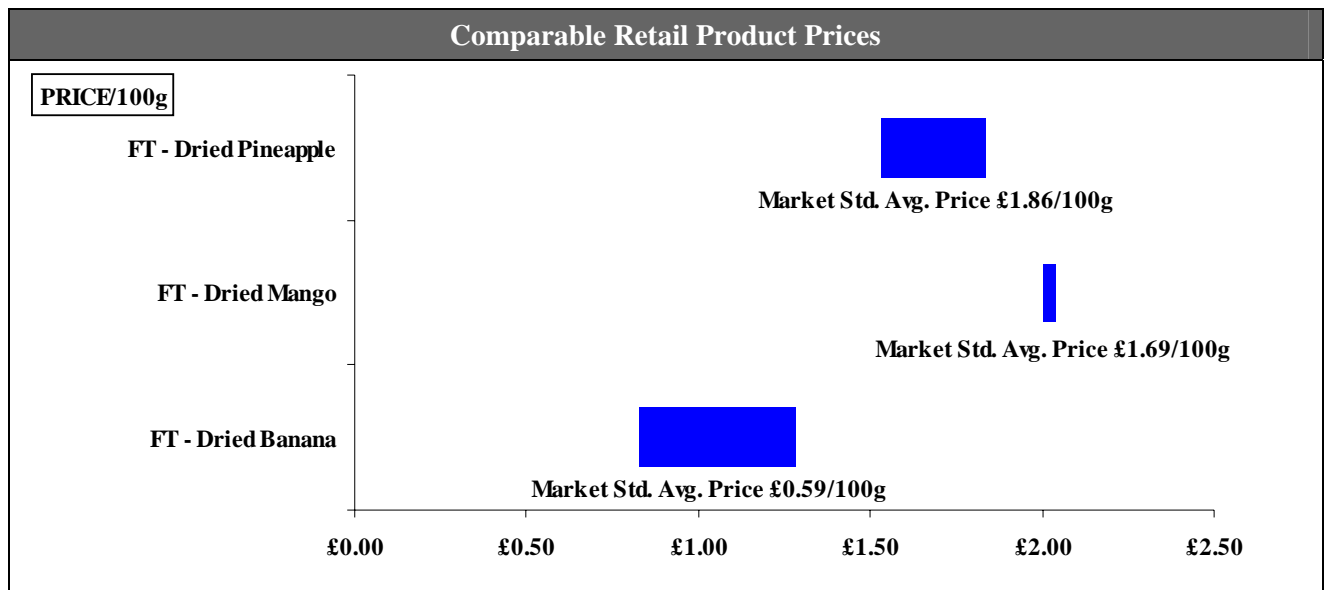
**Pricing Summary**

The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade purchase agreements. The Fairtrade price is equal to a minimum price plus a premium. All prices are based on one kilogram of dried fruit.

Fairtrade Minimum Producer Prices						
Fruit	Origin	Organic	Min Price	Premium	FT Price	Quantity
Bananas	Bolivia	Yes	\$3.00	\$0.45	\$3.45	kg
Bananas	Brazil	Yes	\$2.60	\$0.65	\$3.25	kg
Bananas	Costa Rica	Yes	\$4.20	\$0.80	\$5.00	kg
Bananas	Uganda	No	\$1.42	\$0.14	\$1.56	kg
Mangoes	W. Africa	Yes	€5.64	€0.57	€6.21	kg
Pineapples	Togo	Yes	€8.40	€0.60	€9.00	kg
Pineapples	Uganda	No	£2.33	£0.23	£2.56	kg

Source: Fairtrade Foundation.

The chart below presents the ranges of retail prices for currently available Fairtrade branded dried fruit. The average retail price for standard dried fruit is shown below the bars. Each price is for 100g of dried fruit.



Source: Grocery Price Survey

From the chart above, there appears to be a minimal pricing differential, if any at all, between FT and standard dried fruit. The price differential varies by product, but could also be affected by the limited data available for these products.

### Product Specific Issues to Consider

**Food Safety:** Food safety issues for dried fruit focus on quality issues concerning phyto-sanitary and sanitary standards, especially aflatoxins.

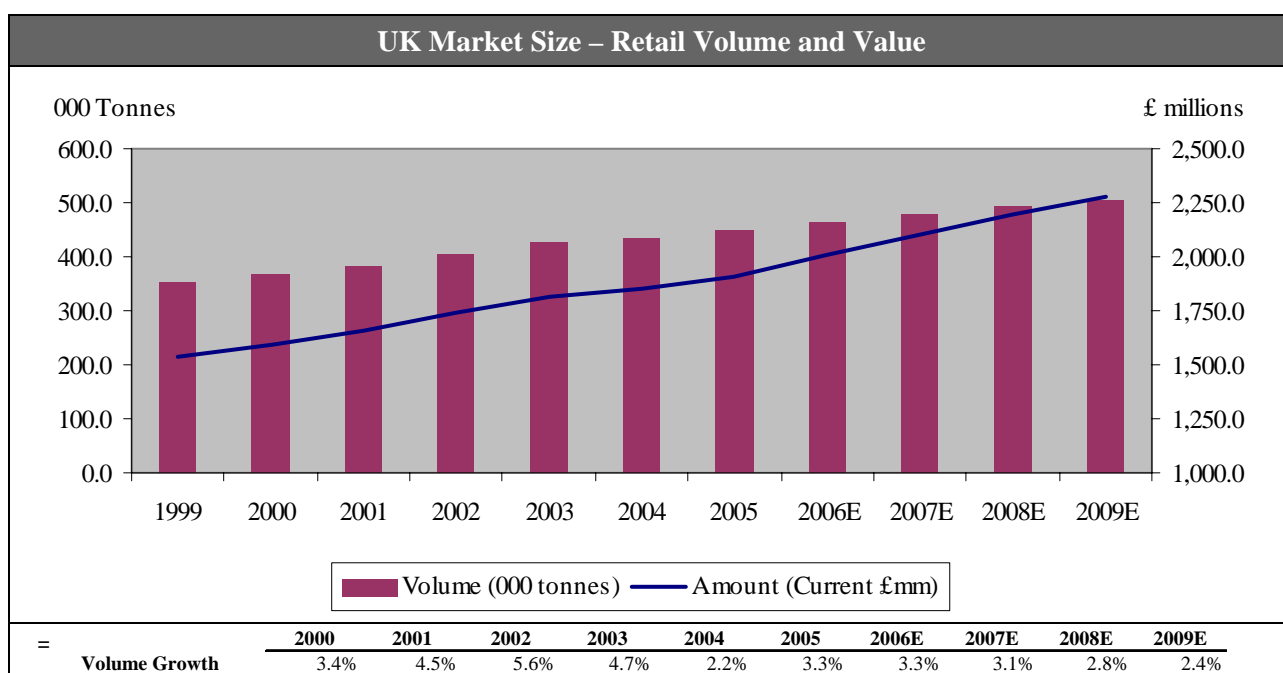
## SAUCES

## Product Overview



Nali Ltd is Malawi's biggest hot sauce company. The company commenced chilli sauce manufacturing in Blantyre, Malawi in 1974. Nali Ltd has grown and now exports sauces to Mozambique, Zambia, and Zimbabwe. The product line is composed of hot sauces in eight flavours ranging from the original Nali hot sauce to mild, barbeque, chicken, gold, vinegar, mango achaar, tomato sauce and pigeon peas.

## UK Market Overview



Source: Euromonitor

The continued expansion of British culinary tastes has led to steady growth in the sale of sauces in the UK, as seen in the chart above.

There is currently no sauce marketed as a Fairtrade product in the UK. This is primarily a result of the Fairtrade content requirements for composite products.

### Pricing Summary

Comparable Retail Product Prices					
Brand	Flavour	Country of Origin	Size	Unit Price	Bulk Price
Nando's	Extra Hot	South Africa	135g	£1.45	1.07/100g
Nando's	Garlic	South Africa	135g	£1.45	1.07/100g
Nando's	Hot	South Africa	135g	£1.35	1.00/100g
Nando's	Medium	South Africa	135g	£1.35	1.00/100g
Nando's	Sweet	South Africa	135g	£1.45	1.07/100g
Nando's	Wild Herb	South Africa	135g	£1.45	1.07/100g
Busha Brownes	Pukka Hot Peppersauce	Jamaica	142ml	£1.61	1.13/100ml
<b>Average</b>					<b>1.06/100g</b>

As there is neither a comparable fairly traded hot sauce on the market, nor a hot sauce from Malawi, the table above presents a summary of the retail prices of brand name hot sauces which are of comparable flavour and uniquely branded.

### Product Specific Issues to Consider

**Food Safety and Import restrictions:** Nali sauce would need to be tested for product safety. As reference, Nali Hot and Nali Garlic have been passed through the customs and FDA import process for the US.<sup>17</sup>

<sup>17</sup> SimplyAfrica.com. A US based reseller of Nali sauces in the US.

## PAPRIKA

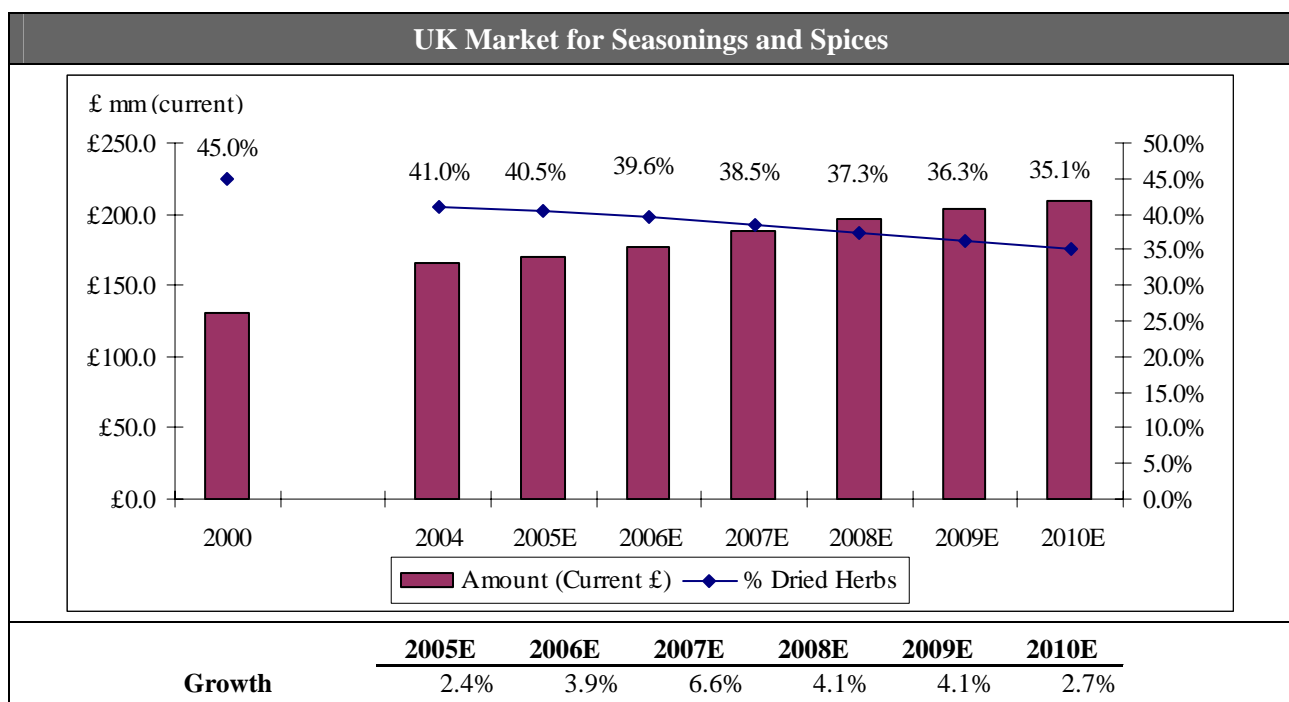
## Product Overview

Paprika is a spice derived from the dried, ground pods of *Capsicum annum*, a sweet red pepper. It is mildly flavoured and known for its red colour. Generally, paprika is used in seasoning blends for barbeque, snack foods, chilli, and various ethnic cuisines. Commercial food manufacturers also use paprika in cheeses, processed meats, tomato sauces, chilli powders and soups.

Malawi has commenced a development project to promote capacity building for the Paprika Farmers Association of Malawi in order to improve the production, processing and marketing of paprika. The number of farmers growing paprika has increased from 5,000 in 2002/2003 to 6,700 in 2003/2004 and production rose from 250,000Kg to 356,000Kg.

Most of Malawi paprika is exported to South Africa for further processing into powder, which is then re-exported to Europe and other markets. In addition to South Africa, Malawi paprika is also sold in Zimbabwe and Zambia, as well as, in Europe, particularly Spain.

## UK Market Overview



Source: Mintel. Data for all seasonings/spices. Percentage numbers reflect the percentage of dried seasonings and herbs of total retail value.

Growth among seasonings and spices has been steady and continues to be driven by evolving British culinary tastes and habits. Also, the introduction of a number of premium brands has also supported growth in the spice and seasonings sector.

## Fairtrade Market Presence

Three brands have been registered to sell Fairtrade seasonings: Bart Spices, FM Foods, and Steenberg's. While pepper and vanilla are currently the predominant Fairtrade registered seasonings, both Bart Spices and Steenberg's recently releases expanded Fairtrade product ranges. However, currently there are no Fairtrade standards for paprika, and hence, no comparable products.

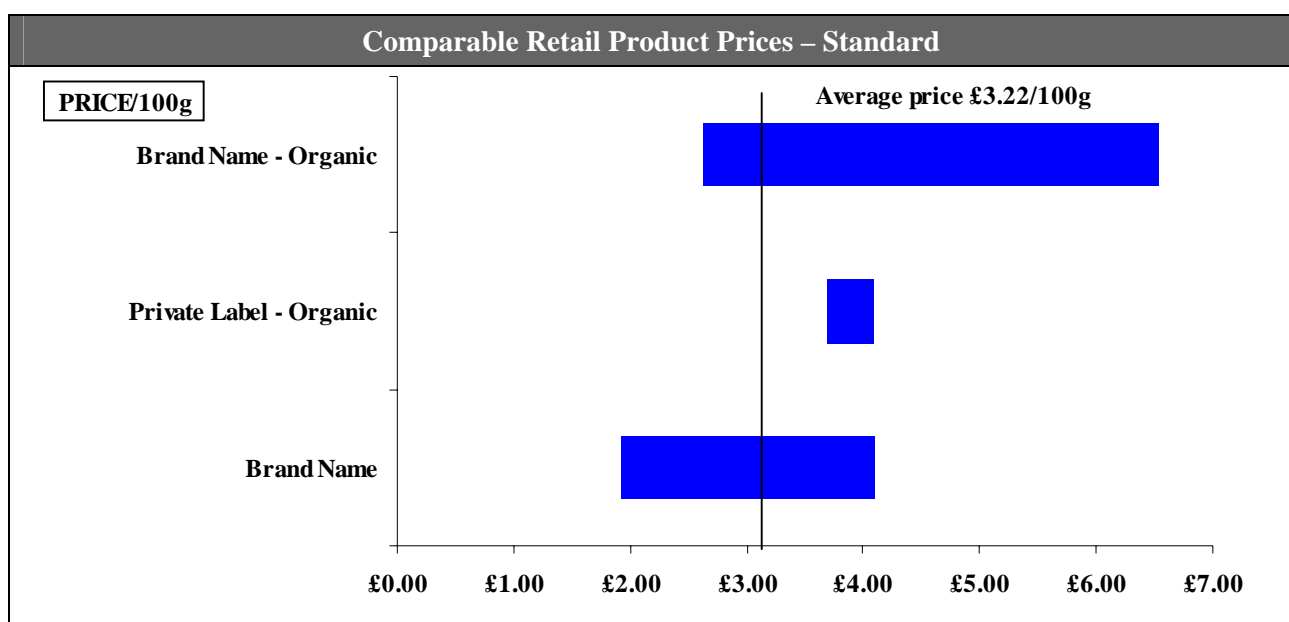
## Distribution

Overall, major grocery stores account of 95% of all spice and seasoning purchases. Although brands such as Schwartz and Sharwood's are found in both multiples and independents, the range stocked in the independents is smaller and focuses on everyday spices, rather than on the higher value premium goods.

Fairtrade registered products are available at:

- **Grocery Stores** (Sainsbury's, Waitrose, Booths)
- **Health food stores, Independents, and Fairtrade Shops**
- **Online and Mail Order**

## Pricing Summary



Source: Grocery Price Survey

As there is currently no Fairtrade branded paprika, pricing must be compared to the standard available paprika. However, looking at other spices, the difference between the average retail price of a standard product and a Fairtrade product is approximately £0.18/100g<sup>18</sup>.

<sup>18</sup> Based on a pricing survey of standard and fairtrade ground black pepper.

**Product Specific Issues to Consider**

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*Food Safety:* All Paprika which is brought into the UK must be certified to be free of the red dyes Sudan I, II, III and IV. Recent recalls of spices and prepared foods because of contamination from Sudan red dye has raised consumer concerns regarding product safety.

## MACADAMIA NUTS

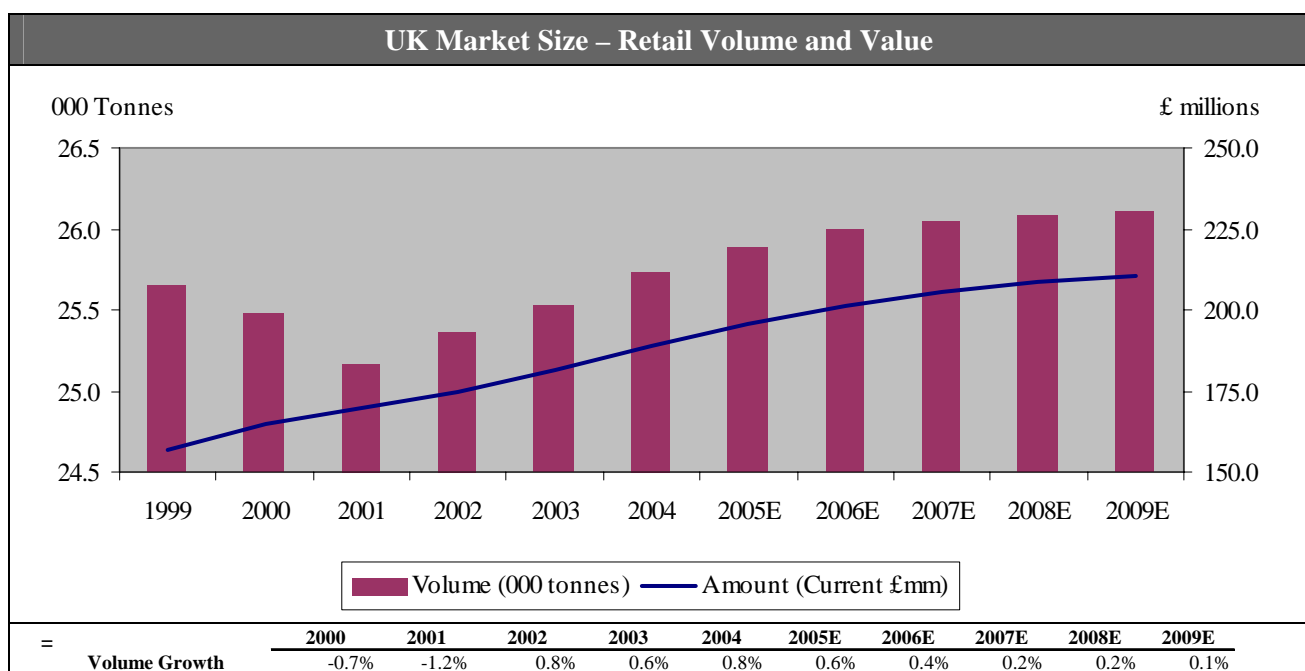
## Product Overview

Macadamia nuts, which are sweet and taste similar to Brazil Nuts, are eaten raw or roasted. Macadamia nuts are often covered with chocolate and can also be used to create cooking oil.

The Macadamia nut is extremely hard and, thus extremely difficult to open while preserving the nut. To open a macadamia nut a hammer, a fitter's or carpenter's vice grip pliers, or a commercial grade nut cracker designed specifically for macadamia nuts is required. This extremely hard shell also plays a part in the high cost of macadamia nuts.

Malawi is a significant producer of macadamia nuts, producing an average of 5 metric tonnes of macadamia nuts per year. Both smallholder farming and large-scale estates produce macadamia nuts. However due to increasing demand for the product, more foreign investment is being sought by Malawi to boost the production and processing of the nuts into various marketable products.

## UK Market Overview



Source: Euromonitor

Mintel forecasts slow, but steady growth for all nuts at 2% per year. Macadamia nuts, for an additional market, appeal as a healthy snack for low-carb dieters.

## Fairtrade Market Presence



Four brands have registered to sell Fairtrade nut products: Traidcraft, Equal Exchange, Co-op and Tesco. Currently, Fairtrade branded nuts are available in: Co-op, Tesco, Sainsbury's, Fairtrade Shops, Health food Stores, Online, Mail Order and Independents.

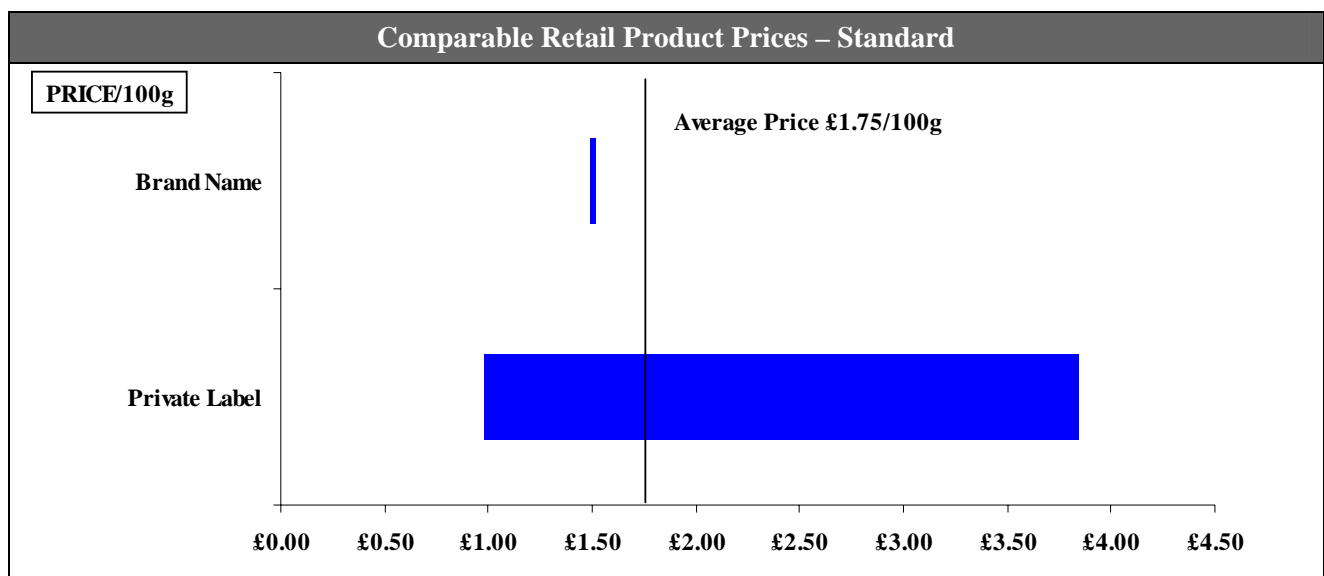
### Pricing Summary

The table below outlines the minimum price (Fairtrade Price) to be paid to producers under Fairtrade agreements. The Fairtrade price is equal to a minimum price plus a premium. All prices are based on one kilogram of macadamia nuts.

Fairtrade Minimum Producer Prices				
Origin	Min. Price	Premium	Fair Trade Price	Quantity
Any	\$7.68	\$0.33	\$8.01	kg

Source: Fairtrade Foundation, March 2006

The chart below presents the ranges of retail prices for currently available Fairtrade branded macadamia nuts. The vertical line represents the average retail price for standard macadamia nuts. Each price is for 100g of macadamia nuts.



Source: Grocery Price Survey

As there are currently no Fairtrade branded macadamia nuts in the market, pricing must be compared to the standard available products. However, looking at other nut varieties, the difference between the average retail price of a standard nut product and a Fairtrade nut product is £0.27/100g<sup>19</sup>.

<sup>19</sup> Based on a pricing survey of standard and fairtrade Brazil nuts.

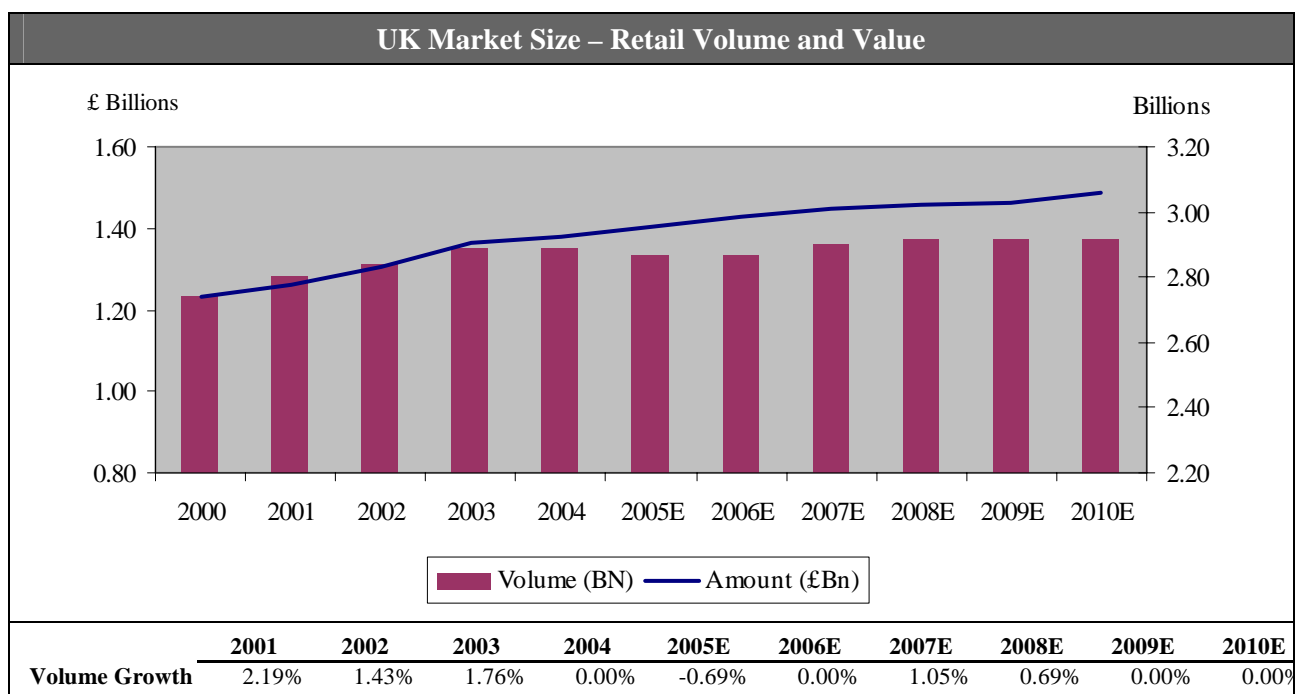
## CARDS AND PAPERCRAFTS

## Product Overview

Handmade paper and paper products, such as cards, are low-skill and low-capital industries which enable poor, rural workers to engage casually in this sector.

One of the primary producers of handmade cards in Malawi is an organization called PAMET (Paper Making Education Trust). PAMET was founded in 1990 as a solution to the paper shortage in schools and to assist poor Malawians. PAMET trains people in recycling and paper making in order to provide unemployed men and women with skills for a livelihood. Traidcraft, which has been operational in Malawi since 2000, currently purchases hand made paper from PAMET.

## UK Market Overview



In terms of variety, Christmas cards dominate by volume (72% of volume) but not value (Birthday is 41% of value). In addition, 40% of Christmas card purchases are linked to charities. Growth in everyday card category shows interest in more general cards. Additionally, handmade cards are continuing to move into mainstream channels.

Each year the average UK consumer buys 55 cards, which makes the UK one of the largest European markets for cards. The UK is also one of the largest import markets for cards.

### Fairtrade Market Presence

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Traidcraft and Oxfam currently sell Fairtrade cards from numerous developing countries including: Kenya, Malawi, Bangladesh and the Philippines. These cards are mostly hand crafted or machine processed using locally available materials.

### Distribution

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Standard retail distribution occurs through (1) Direct to Retail and (2) Wholesalers. Specialist card shops account for 35% of sales. Large card producers typically employ agents (approx 12) to cover all geographic areas of the UK. These agents charge a 15%-20% commission.

Fairtrade cards are primarily available online, mail order and in Oxfam shops.

### Pricing Summary

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Comparable Retail Product Prices	
	Price/Card
<b>Industry Average</b>	
Everyday	£1.32
Spring	£1.46
<b>Fairtrade/Handmade in Developing Countries</b>	
Traidcraft	£2.50

However, if the card is high quality, price will not be the main decision making factor.

### Product Specific Issues to Consider

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New postage rules, with differential postage pricing, may impact the customer purchase decision.

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**HANDICRAFTS**

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**Product and Market Overview**

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Given the low level of development, handicrafts employ a large number of people who create items necessary for daily life in developing countries. Crafts are often made in the home or in small workshops and predominantly made by women. The export craft market is increasingly fashion led. Also, traditional African crafts are under competitive threat from copying in both the developing and developed world.

Malawi produces various colourful arts and crafts which are hand worked to a high standard and sold in local markets and along the roadside. For MLF, knitted products, baskets and wood crafts are the handicrafts that are of the most interest.

Handicrafts in the UK are primarily sold through independent shops, department stores and mail order.

**KNITTED PRODUCTS**

Malawi has traditionally been known for its textile industry, including knitted products. Knitted products represent a sector of clothing exports. In 2004, Malawi exported approximately 7.2 million units. While the majority of these products were produced in factories, there is an interest from the communities where MLF lends to locally produce hand knitted products. In the UK, the value of retail sales of knitted products is relatively stable. However, according to the Ethical Consumption Report 2005, the market for ethical clothes has risen by 30% in the past 12 months, and it would be within this segment that hand knitted products from Malawi could be positioned.

**BASKETS**

Traidcraft currently imports baskets from Malawi and they have been noted to be of high quality. These large storage baskets are sold on the Traidcraft store website at a cost of £16 for two baskets. Baskets are hand-woven from the leaves of the palm trees by women as an additional activity.

**WOOD CRAFTS**

Woodcrafts are typically practiced by men as an additional side activity. Carved figures could be sold in the UK as curio items, whereas wooden bowls could be positioned as a higher end serving dishes or home accent items.

## 8. RECOMMENDATIONS FOR PRODUCT PRIORITIZATION AND MARKETING

### 8. RECOMMENDATIONS FOR PRODUCT PRIORITIZATION AND MARKETING

In this section we offer our product prioritization recommendations for trading and development by MLF. The classification of products set forth below is intended to provide a picture of the market opportunities (and challenges) for Malawi fairtrade products in the UK. However, final product selection will be dependent upon the determination of Malawi supply capabilities and the degree of skill development in which MLF wants to and can invest. A final point to be kept in mind through out this section is that the quality of the product is the key to attracting and retaining buyers.

In addition to product selection, we also provide a general framework for the MLF's distribution options and general marketing suggestions.

#### 8.1 PRODUCT PRIORITIZATION

In the evaluation of products for MLF to develop, the primary products for development have been placed in two categories: Quick Wins and Products for Further Development. *Quick Wins* are intended be products which can be brought to the UK market relatively quickly enabling the MLF to get its trading arm up and running quickly and gain import and supply chain management experience. However, in part by virtue of their "market readiness", these products are neither high value added products, nor do they present opportunities to develop new skills within Malawi. *Products for Further Development* are products which have a longer lead time either in developing a supply chain or performing the required skills training. However, these products offer an opportunity for differentiation in the UK Fairtrade marketplace and also the opportunity to develop skills within Malawi.

Product Classification Overview		
	Quick Win	Product for Further Development
<b>Product Characteristics</b>	<ul style="list-style-type: none"><li>– Supply in Malawi readily available</li><li>– Establish UK Fairtrade market for product</li><li>– Opportunity for product differentiation</li><li>– Ease of market entry</li></ul>	<ul style="list-style-type: none"><li>– Malawi produces the products, but not at saleable quantity or quality</li><li>– Potential skills development</li><li>– Opportunity for product differentiation</li><li>– UK market opportunity</li></ul>
<b>Products</b>	<b>Coffee, Cards, Sauces</b>	<b>Baskets, Macadamia Nuts, Spices</b>

Products, which do not appear in either of the categories above, present additional challenges and are evaluated below.

## 8. RECOMMENDATIONS FOR PRODUCT PRIORITIZATION AND MARKETING

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### 8.1.1 QUICK WIN PRODUCTS

#### COFFEE

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We feel coffee represents a quick win for the Microventures project for three key reasons:

- 1) Availability in Malawi is not an issue.
- 2) Suitable point of differentiation.
- 3) Despite growing Fairtrade presence, overall market growing.

Coffee is undoubtedly “the” Fairtrade product, and consumer awareness of fairtrade is higher than for any other fairtrade product. Additionally, as was pointed out in the product analysis, the overall market for coffee in the UK is growing, and the fairtrade segment is the fastest growing sector. In our opinion, these points serve to allay concerns that the consumer is tired of fairtrade coffee or that the market is “saturated” with fairtrade brands. Additionally, coffee has the added dimension of speed to consider. With coffee, the ramp up time is low and therefore could potentially provide cash flow which could be put into other products as well as serve as the “poster child” for MLF with donors.

Of course, the presence of numerous fairtrade brands makes differentiation key. We feel that the “grown, roasted, and packed in Malawi” is an excellent unique selling point and will be a good way to set the Microventures coffee apart from the others in the marketplace. However, because the coffee will be selling at a price on the higher end of the scale, quality is of the utmost importance. While interviewing Mr. Wreford-Brown, an expert on the retail sector, we discovered that the actual roasting process is a key variable when it comes to the quality of a particular coffee. As long as the roasting that takes place in Malawi produces a high quality product on a consistent basis, we feel that this could be a very promising first foray into the fairtrade market place. Product testing will be important in this case, and *Appendix F* contains a guide to coffee cupping should this testing have to be done in-house, at least on a preliminary basis.

One additional consideration with coffee is that volumes appear not being an issue, thanks to the apparent scale available with Mzuzu. However, if at some point down the road this becomes a concern, Mr. Simpson-Jones (buyer for Waitrose) suggested that although a Malawian coffee may be appealing, there is also scope for an “African Blend,” bringing in the coffee from smallholders in other countries. This could perhaps be an idea for some later point down the road when approaching a major retailer.

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As the project gets under way, the primary issue from a UK point of view is going to be one of distribution. We feel that at this point, attempting to get onto a major grocery retailer's shelf via our own efforts may be a step too far. Our preliminary discussions indicate that quantity and frequency of supply will be a challenge, as well as proving MLF to be a reliable partner. After all, at this point the organization is very much an unknown quantity with no track record, and, as a result, represents a risky venture for a major retailer. For this reason, we present two options for getting coffee out into the market, one small scale, and one larger scale.

The first of these is to find some existing market stall holders willing to add Microventures coffee to their product offering. Our general sense is that the church/community centre market is too small and too erratic to provide a viable starting point for a product with the potential of coffee. Additionally, we feel it may be a bit risky to actually put together a stall ourselves (unless we have a portfolio of products on offer). To that end, it makes sense to visit the local non-farmers' markets and find a vendor who is selling similar or complementary products. Ideally, this will provide a low-cost entry into the market and also help with demand forecasting, since these stallholders should have an idea of how much product they can move.

The second idea for distribution is on a bit of a larger scale, and comes out of our discussion with Mr. Wreford-Brown. Given that the coffee landscape of the major retailers is a bit "busy"; his suggestion was that rather than approaching them ourselves, we seek out a current distributor of fairtrade coffees and work to get our product as part of their portfolio. This means we no longer need to make and maintain relationships with retailers, nor do we need to figure out how to supply their multiple distribution centres. The drawback of this plan is that margins will be depressed a bit more as a distributor takes their cut.<sup>20</sup>

In regards to pricing, the coffee product analysis in *Section 7* suggests a pricing range of £2.20-£3.50 per bag (227g) of ground coffee, with an average price of £2.68/bag, for a brand name Fairtrade certified product. This average implies a £0.70 premium over standard ground coffee (non-Fairtrade). Also, as coffee has a defined Fairtrade minimum producer price, this price should be used a guideline when purchasing coffee in Malawi. A preliminary margin analysis, based on this minimum Fairtrade producer price and average Fairtrade retail price, is presented in *Appendix D* and shows that MLF can achieve good margins even paying a price greater than this FT minimum price.

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<sup>20</sup> Please see [http://www.fairtrade.org.uk/suppliers\\_wholesalers.htm](http://www.fairtrade.org.uk/suppliers_wholesalers.htm) for a listing of FT distributors

### CARDS

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We feel that cards represent a good opportunity for a quick win for the following reasons:

- 1) Ramp up time short
- 2) Supply readily available
- 3) Card market is exhibiting strong overall growth

As a non-agricultural product, within this analysis cards are something of a different animal. Overall market growth is good, with UK consumers buying on average of 55 cards a year, albeit on a more seasonal basis than the other products we are considering, with an emphasis on Christmas. Compared to the other proposed products, cards represent an opportunity for Microventures to be much more independent in the sourcing and distribution; in that the firm will be able to do much of the leg work itself thanks to what we feel is a potentially less complicated distribution arrangement. Additionally, cards could potentially be ramped up more quickly than the other products we are considering, mainly because they do not require something to grow or be processed/packaged. As a result, this again offers opportunities to develop a “poster child” sort of setup. Finally, in the case of cards, quality, although important becomes less of an issue since the price differential with traditional cards is less pronounced in respect to comparable handcrafted cards.

From a distribution standpoint, we feel that cards offer an interesting opportunity to deal with multiple distribution outlets. The most promising opportunity, although also the one with the longest range timeframe, is to exhibit at or visit trade shows such as Top Drawer. This will enable Microventures to interact and develop relationships with vendors of similar types of products and also engage in some competitive research. In a similar vein to our suggested approach for coffee, we feel that approaching current card/paper crafts vendors at markets is perhaps the best strategy for getting the cards out into the marketplace quickly. An example of one of these vendors would be Paper High at Camden Market ([www.paperhigh.com](http://www.paperhigh.com)). Thirdly, there is the additional opportunity of approaching organizations currently dealing in similar sorts of products, such as Oxfam. One outlet which we initially felt was quite promising, but on which we have since cooled, is that of churches/community centres. In our discussions with a group of ladies who sell Fairtrade products in Chiswick, we discovered that cards were one of the items which tended to move very slowly and did not generate much enthusiasm. However, they did point out that for cards and crafts in general, it was essential to have some sort of indication of the “story” of the cards (who made them, where they came



## 8. RECOMMENDATIONS FOR PRODUCT PRIORITIZATION AND MARKETING

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from etc) since as they are more tactile and are being sent to someone else, people tend to be more emotionally attached when making a purchase of cards vs. that of coffee.

In regards to pricing, the card product analysis in *Section 7* suggests a retail price of £2.50 per card. While this is at least a £1 premium over the average price of a printed standard card, it is comparable to higher-end printed or other handmade cards. A preliminary margin analysis, based on the average Fairtrade retail price and required margin on cards to MLF, is presented in *Appendix D* and shows that MLF can achieve significant margins on this product while also paying a higher than average price to producers in Malawi.

### SAUCES

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We feel that sauces represent a good opportunity for a quick win for the following reasons:

- 1) Ramp up time short
- 2) Supply readily available
- 3) Gap in the marketplace

We feel that sauces represent an interesting niche for Microventures to exploit. The market, although growing slowly, does not currently feature a “fairly traded” hot sauce. The product appears to be readily available in Malawi, and as such, does not need as much investment in development on the Malawi side as some of the products we will address in the sections below. Much like coffee and cards, ramp-up time would be low and once a distribution channel had been decided upon, conceivably importation could begin soon afterwards.

The idea of this product was enthusiastically received by the church group we spoke to, and they felt it was something “new and interesting” that would potentially move quite well in comparison to some of the other products they were trying to sell. The group anecdotally cited the increased adventurousness in consumers eating habits whether it be dining out, or cooking exotic foods at home. This interest in ethnic foods and spices is supported by the growth of these segments seen in the market statistics data presented in the product overview in *Section 7*.

This is one of the few products which we feel shows real potential in the church/community centre marketplace. This is because storage space requirements are low, something we were reliably informed is a real issue. Additionally, since these outlets are actively trying “not to act as a place for people to do their weekly shop,” unlike fairtrade coffee for example, this product represents something an individual could not get at Waitrose. For similar reasons, we also feel that there is good potential for this product in a farmer’s market environment, ideally with a vendor currently selling similar sorts of condiments.

In terms of pricing, market comparables of branded hot sauces are priced at £1.06/100g, or approximately £1.45 for a 135g bottle. However, with a limited number of comparable products, MLF may have more pricing flexibility. A preliminary margin analysis, based on the average Fairtrade retail price and required margin on sauces to MLF, is presented in *Appendix D* and shows that MLF can achieve significant margins on this product.

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### 8.1.2 PRODUCTS FOR FURTHER DEVELOPMENT

The following table presents the three products which we have highlighted as having significant trading potential for MLF after further development: Macadamia Nuts, Paprika (Spices), and Baskets.

PRODUCT	UK MARKET OPPORTUNITY	RESOURCES	CAPABILITIES	ADDITIONAL CONSIDERATIONS
<b>Macadamia Nuts</b>	<ul style="list-style-type: none"> <li>Premium priced product</li> <li>Multiple uses including raw consumption, confectionary and extracted oil</li> </ul>	<ul style="list-style-type: none"> <li>Already a major Malawi export</li> </ul>	<ul style="list-style-type: none"> <li>Labour intensive processing (Utilize cheap Malawi labour)</li> </ul>	<ul style="list-style-type: none"> <li>Confirm food quality standards and any import regulations</li> </ul>
<b>Paprika</b>	<ul style="list-style-type: none"> <li>Premium priced product</li> <li>Complementary to Nali Sauce</li> <li>Spices are a growing UK product market</li> <li>Major brands are beginning to move into Fairtrade spices</li> <li>Possibility to be a provider for own label</li> </ul>	<ul style="list-style-type: none"> <li>Grows well in Malawi</li> <li>Government support to expand production and processing</li> </ul>	<ul style="list-style-type: none"> <li>Processing required (Utilize cheap Malawi labour)</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to expand into a range of spices. Additional spice varieties available in Malawi include bird's eye chillies, turmeric, ginger, seeds of coriander, and cardamom</li> <li>Confirm food quality standards and any import regulations</li> </ul>
<b>Baskets</b>	<ul style="list-style-type: none"> <li>Premium priced product</li> <li>Opportunity to position the product with home stores as a home accent item, which would enable trading to begin with smaller volumes</li> <li>Sells very well as a fair trade product<sup>21</sup></li> </ul>	<ul style="list-style-type: none"> <li>Common handicraft purchased by tourists visiting Malawi</li> </ul>	<ul style="list-style-type: none"> <li>Traditional craft skill in Malawi</li> <li>Women typically make the baskets in their spare time</li> </ul>	<ul style="list-style-type: none"> <li>Supply chain management required to generate sufficiently large orders (9 month lead time)<sup>22</sup></li> <li>Quality consistency required to sell in bulk to major retailers</li> <li>Trade shows could be a point of entry to the UK market</li> <li>No Fairtrade standards for crafts</li> </ul>

<sup>21</sup> Interview. Keith Herrmann TEEM and Durham Business School.

<sup>22</sup> Interview. Keith Herrmann TEEM and Durham Business School.

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In terms of MLF's additional goal of developing skills for Malawians and not just providing a wider market for Malawian products, there is an opportunity for skill development associated with each of the products highlighted above including: growing the crops, processing the raw product and crafting baskets. Importantly, these products also carry a higher potential for margin generation given the additional value added in Malawi, rather than using a middleman for processing.

However, the necessary skills training and the establishment of an efficient supply chain will require time and, thus, these products cannot be highlighted as products for immediate trading by MLF. As with the *Quick Wins*, it is also important to review the relevant food quality standards and import restrictions for each of these products.

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### 8.1.3 PRODUCTS OF ADDITIONAL INTEREST

The following table presents the three products which have potential trading potential for MLF: Tea, Dried Fruit and Knitting.

PRODUCT	UK MARKET OPPORTUNITY	RESOURCES	CAPABILITIES	ADDITIONAL CONSIDERATIONS
<b>Tea</b>	<ul style="list-style-type: none"> <li>Market not as saturated as Coffee, opportunity for fairtrade sector growth</li> <li>High UK market awareness</li> <li>Complementary to coffee</li> </ul>	<ul style="list-style-type: none"> <li>Malawi already a major producer of tea</li> </ul>	<ul style="list-style-type: none"> <li>Labour intensive</li> </ul>	<ul style="list-style-type: none"> <li>Estate grown - could be an issue regarding child labour &amp; FT certification</li> <li>TEEM found no additional market for Malawian Tea</li> <li>Declining UK market for tea in general</li> <li>Looks attractive, but could be challenging. Blending issues.</li> </ul>
<b>Dried Fruit</b>	<ul style="list-style-type: none"> <li>UK worlds largest importer of dried fruit</li> <li>Can be used as ingredient in other products</li> </ul>	<ul style="list-style-type: none"> <li>Fruit is a major product of Malawi and much of the fruit is wasted in the peak season</li> </ul>	<ul style="list-style-type: none"> <li>Little investment required</li> </ul>	<ul style="list-style-type: none"> <li>Seasonality of fruit</li> <li>Significant volume required</li> </ul>
<b>Knitting</b>	<ul style="list-style-type: none"> <li>Growth ethical consumerism in the UK extends to clothing</li> </ul>	<ul style="list-style-type: none"> <li>Malawi has historically been regarded as a textile country</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to develop skills in Malawi</li> </ul>	<ul style="list-style-type: none"> <li>Patterns need to be responsive to trends</li> <li>Quality standards difficult to maintain</li> </ul>

## 8. RECOMMENDATIONS FOR PRODUCT PRIORITIZATION AND MARKETING

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### 8.1.4 CHALLENGING PRODUCTS

While both sugar and honey were considered earlier in the overall review of UK market opportunities, upon final review both should be considered to be a challenging products for MLF to develop for trading. The key challenge for both products arises from EU import restrictions. However, for sugar the nature of the product also poses additional challenges in creating a successful trade.

In addition to sugar already being a heavily commodized product, the challenges for making a profitable venture from sugar arise from both Malawi market characteristics and external regulations. First, in Malawi, the sugar industry has a firmly established value chain and the industry is dominated by two major producers. Secondly, EU trading regulations place a quota on the amount and form of sugar which can be imported from Malawi. In the recent round of trade negotiations, Malawi was significantly sidelined and its access to the EU market has been reduced. While, these restrictions are expected to be eased in 2009, it will probably not be to a degree to make it attractive for a new entrant such as MLF. There might be some market opportunity for selling Fair Trade sugar from Malawi to producers of Fair Trade composite products such as biscuits, jam and marmalade. However, for the market characteristics cited, we believe that sugar would be a challenging product to develop with limited possibility of adding value to the Malawi supply chain.

Honey, unlike sugar, is not a universally traded commodity product. Honey has significant prospects for production and skills development in Malawi, as shown by a USAID project. The UK market is also open to new honey varieties as there is little brand dominance in the product market and new flavours or origins are simple points of differentiation. However, the EU, including the UK, abides by strict importation guidelines in respect to honey and has only approved a selection of countries to import into the EU. Unfortunately, Malawi is not included on this list of approved countries. Hence, the importation of honey into the UK is prohibited. This restriction may change, but it is likely to remain in place in the near term, and, thus, honey is not a viable product for development.

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### 8.2 GENERAL DISTRIBUTION RECOMMENDATIONS

While specific distribution recommendations for the *Quick Win* products were provided above, recommendations for the other products are more difficult as it depends upon the development of MLF's distribution channels when these products are ready to retail. While exact distribution recommendations may not be possible for each product, it is worthwhile setting forth a general overview for the possible evolution of distribution channels as the Microloan Foundation moves forward with its trading arm. The following table is intended to provide an overview of the possible evolution of distribution channels, bearing in mind that moving through this evolution would most likely take a couple of years at each stage.

<b>Evolution of Distribution Channels</b>	
<div style="background-color: #808080; color: white; padding: 5px; display: inline-block;"><b>Stage 1</b></div> <b>“Start with the Easiest”</b>	<ul style="list-style-type: none"> <li>• Begin selling products through outlets which are easy to access directly:               <ul style="list-style-type: none"> <li>– Charities (i.e. Oxfam) and Churches</li> <li>– Markets</li> <li>– Online/Mail Order (through MLF website)</li> </ul> </li> </ul> <p><b>Comments/Considerations:</b></p> <ul style="list-style-type: none"> <li>• Minimal volume requirements</li> <li>• Small scale, with flexibility to expand to other channels easily</li> <li>• MLF is primary salesperson to customer</li> <li>• Easier to manage supply chain as MLF is the primary retailer (i.e. Markets)</li> <li>• Allows for differential pricing</li> </ul>
<div style="background-color: #808080; color: white; padding: 5px; display: inline-block;"><b>Stage 2</b></div> <b>“Expand with Wholesalers”</b>	<ul style="list-style-type: none"> <li>• Use wholesalers to access independents and larger retailers</li> </ul> <p><b>Comments/Considerations:</b></p> <ul style="list-style-type: none"> <li>• Approach with a product that has a sales history (Built in Stage 1)</li> <li>• Will have to give up some producer margin in fees to wholesaler</li> <li>• Wholesaler is primary salesperson to market</li> <li>• Branding consistency and message becomes more important as MLF is not there to directly communicate the message</li> <li>• Supply chain requirements expand</li> <li>• Requires standard product pricing</li> </ul>
<div style="background-color: #808080; color: white; padding: 5px; display: inline-block;"><b>Stage 3</b></div> <b>“On the Shelf”</b>	<ul style="list-style-type: none"> <li>• Approach Grocers Directly or with Food Brokers</li> </ul> <p><b>Comments/Considerations:</b></p> <ul style="list-style-type: none"> <li>• Takes a few years of sales to get to this point, when the product has been widely distributed through Food Wholesalers</li> <li>• Retailer will generally apply a 30-40% margin on standard food products, but will be greater for some products</li> <li>• Supply chain requirements further increase</li> <li>• Requires standard product pricing and branding</li> </ul>

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### *“On the Shelf at Major Grocers”*

While getting a product on the shelf of a major grocery store achieves the greatest market exposure for the product, it is also the most challenging step for a new product. The challenges include interaction with the grocery buyer, supply chain logistics and branding. Based on interviews with major retailers, the following are key considerations and suggestions for success in major grocery multiples.

<b>GETTING ON THE SHELF</b>	<p><b>Use a Food Broker</b></p> <ul style="list-style-type: none"> <li>• Most FT brands, including market leaders such as Cafédirect, utilize food brokers to approach grocery buyers.</li> <li>• Food brokers have established relationships with buyers. Access to buyers can be challenging for a new brand/product</li> <li>• Food broker will manage logistics and distribution</li> </ul>
<b>SUPPLY CHAIN LOGISTICS</b>	<p><b>Use a Food Broker</b></p> <ul style="list-style-type: none"> <li>• Food broker will manage logistics and distribution</li> <li>• Without a food broker, warehousing, inventory management and distribution all must be established, requiring significant capital investment and mass</li> <li>• As noted by one retailer, even the most efficient distributors have 30% inefficiency<sup>23</sup></li> <li>• Focus on MLF’s speciality of sourcing and skill development and allow an expert to manage the other aspects</li> </ul>
<b>PRODUCT QUALITY</b>	<ul style="list-style-type: none"> <li>• New brands will be tasted and tested by the grocer</li> <li>• Provide the grocer with detailed product information</li> </ul>
<b>BRANDING AND PACKAGING</b>	<ul style="list-style-type: none"> <li>• Established brands have an advantage</li> <li>• The consumer must “know your story”</li> <li>• Know the target market</li> <li>• Choose the smallest possible packaging to entice people to try the product</li> <li>• Packaging can be an expensive part of the branding process. For example, coffee packaging can require items such as special valves.</li> </ul>
<b>MARGINS</b>	<ul style="list-style-type: none"> <li>• Margins will vary by product <ul style="list-style-type: none"> <li>– Standard quick moving food products (coffee): 30-40%</li> <li>– Products which stay on the shelf longer (dried fruit) will have higher margin requirements</li> </ul> </li> <li>• Food brokers will also require a fee: fixed fee or percentage of sales</li> </ul>
<b>REQUIRED VOLUMES</b>	<ul style="list-style-type: none"> <li>• Volumes for a grocer will be much larger than the other distribution channels and will vary by product</li> <li>• As a point of comparison, a new Fairtrade coffee recently introduced exclusively at Waitrose as a special project is expected to sell 300-400 bags/week (standard bag 277g)</li> </ul>

<sup>23</sup> Interview with Michael Simpson- Jones, Waitrose Grocery buyer.



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In general, Fairtrade in major grocers, as mentioned earlier, has become common place under both private and own label. However, as Fairtrade continues to grow and become more mainstream, differentiation becomes increasingly important. Brands that are already established have an advantage, so it important to have a point of product differentiation, either in product or producer story. In addition to brand positioning, significant investment is required to raise product awareness on the competitive grocery shelf, including promotions and tastings.

### New Product Case Study: Good African Coffee<sup>24</sup>

One recent example of a new independent Fairtrade product coming to market is Good African Coffee. “Good African Coffee, made by the Rwenzori Coffee Company, was created three years ago in Uganda by a young entrepreneur, Andrew Rugasira.”<sup>25</sup> The coffee is grown by a cooperative of over 10,000 farmers in the Rwenzori Mountain area in Uganda and 50% of the profits generated are returned to the communities that produced the coffee.<sup>26</sup> While this is a Fairtrade product the focus is on product quality not simply “Fairtrade”. After a major launch event at the House of Lords, the coffee is available exclusively at Waitrose. Good African Coffee has used already established distribution channels, such as Food Brokers. Waitrose became interested in Good African Company as an element of its presence in ethical retailing.

### *Trade Fairs*

Whereas major grocery multiples are anticipated to be a later development in the evolution of the distribution channels, for some products, Trade Fairs could serve as a means of introduction to the market. Trade Fairs are a means by which to reach buyers with new products and also see the products of the competition. For cards and giftware, such as baskets, industry buyers have noted the importance of exhibiting at trade fairs.<sup>27</sup> Exhibiting at trade fairs is the main way for companies to meet new buyers or agents and obtain sales leads from both at home and abroad. For these reasons, we believe it is important for MLF to visit Trade Shows to assess the competitive landscape for cards and gift and potentially eventually exhibit at one of these shows once supply has been confirmed in order to build its distribution channels.

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<sup>24</sup> Full background on Good African Coffee: [observer.guardian.co.uk/foodmonthly/story/0,9950,1637625,00.html](http://observer.guardian.co.uk/foodmonthly/story/0,9950,1637625,00.html)

<sup>25</sup> Campbell, D. “African ‘trade not aid’ coffee on sale”. *The Observer*.  
[www.guardian.co.uk/fairtrade/story/0,,1505020,00.html](http://www.guardian.co.uk/fairtrade/story/0,,1505020,00.html)

<sup>26</sup> [www.rwenzoricoffee.com](http://www.rwenzoricoffee.com)

<sup>27</sup> Interview with Nigel Wreford-Brown.

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For greeting cards and gifts, the two largest fairs (Spring Fair and Autumn Fair) take place over five days from the first Sunday in February and September at the NEC Birmingham. In addition to these two events, there are additional 4 trade fairs which are important exhibiting venues. (Full trade fair details and schedule provided in Appendix 7). At these trade fairs, thousands of exhibitors showcase a wide range of products including general and volume giftware, stationery, greeting cards, pictures, prints, jewellery, collectibles, and home and decorative accessories.

As an example of size, the Spring Fair hosted over 4,000 exhibitors and was visited by over 78,000 buyers in 2005. Buyers represent all aspects of retail, multiple, independent, online and mail order.

To exhibit at a trade fair an exhibitor must register for a stall and fees can start at £253 +VAT per m<sup>2</sup> and potentially have a minimum space requirement<sup>28</sup>. For guidelines on exhibitor best practice, most trade show organizers provide handbooks for exhibitors, which provide tips on an effective exhibition experience<sup>29</sup>.

### 8.3 KEY MARKETING POINTS

As it was noted earlier, in presenting the scope of this engagement, given the number of undetermined factors, promotion would not be a point of recommendation. However, research by marketing firms has begun to focus on the Fairtrade marketplace and study the customer perception of Fairtrade products and the considerations which go into the decision to purchase a Fairtrade product. A couple of key takeaways from this recent market research are worth presenting.

Based on market research and customer surveys by Dragon Brands, the firm has presented the following key positioning takeaways for Fairtrade certified product sellers<sup>30</sup>.

- Products are expected to be more expensive than the standard comparable product.
- Consumers are hungry for clarification and information. They expect more communications activity and want the Fairtrade brand and profile to be pushed, including at point of sale.

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<sup>28</sup> Pricing information from Pulse by Top Drawer. However, pricing will vary by trade show and all costs should be confirmed.

<sup>29</sup> One useful guide is published by Pulse. [www.klinedavis.co.uk/pulse06\\_manual/index.cfm](http://www.klinedavis.co.uk/pulse06_manual/index.cfm)

<sup>30</sup> Following points are excerpts from. "Consumer understanding of Fairtrade." Dragon Brands. Presentation. 16 November 2005.

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- Focusing on the farm/producer provided reassurances about quality, legitimacy, origin, range - as well of offering a strong emotional benefit.
  - Faces of people or communities directly benefiting highlighted the importance and reassured shoppers that the scheme was worthwhile.
  - Backed up with facts surrounding the amount per purchase that reached farmers, and how this affected their everyday life.
- Fairtrade logo use should be consistent, central to pack design and ideally supported with further text to bring new users to the product.

## 9. ADDITIONAL QUESTIONS AND CONSIDERATIONS

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### 9. ADDITIONAL QUESTIONS AND CONSIDERATIONS

#### 9.1 OTHER PRODUCTS FOR CONSIDERATION

While the analysis in this report focused on a wide variety of products, given the agricultural foundation of Malawi, there are additional products which could be considered for future evaluation in terms of Malawi supply and UK market potential.

**Soya:** The soya bean is a versatile grain legume, which has many uses, including soya milk and meat, poultry feeds among others as it has high protein content. There is demand for soya beans both domestically within Malawi and internationally. Malawi annually produces approximately 29,496 metric tonnes<sup>31</sup> and the government is currently encouraging increased growth, production, processing and utilization of soya beans. In the UK, soya-based, dairy-free products have grown significantly in recent years following recent attention on the health benefits of soya.<sup>32</sup>

**Pepper:** Malawi is widely recognized for its spices, including pepper. Pepper is a good match with the UK market, as pepper, second only after salt, has significant penetration of the UK market in terms of sales of spices. UK Market growth for pepper is steady at about 5% per annum and “is mainly driven by sales of premium products, such as crushed and whole peppercorns, the latter now accounting for almost half of all pepper sales.”<sup>33</sup>

#### 9.2 IMPORT REGULATIONS AND RESOURCES

For each product which MLF is considering importing into the UK, the food safety requirements and import restrictions should be considered. These requirements and restrictions include product content requirements, prohibited ingredients, and import limitations, as well as labelling and packaging requirements. Some of these issues were briefly highlight in the product overviews in *Section 7*. However, it is best to further investigate and confirm the regulations and requirements, which apply to the products MLF will be importing. The following are good resources regarding the relevant regulations.

##### **Food Standards Agency**

[www.food.gov.uk/enforcement/imports/](http://www.food.gov.uk/enforcement/imports/)

##### **HM Revenue and Customs**

[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageImport\\_Home](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageImport_Home)

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<sup>31</sup> [www.mccci.org/agricultural\\_sector.asp#tea](http://www.mccci.org/agricultural_sector.asp#tea)

<sup>32</sup> “Functional Foods - UK - March 2006”. Mintel

<sup>33</sup> “Seasonings - UK - August 2005”. Mintel

**APPENDICES**

- A. A Note on Fairtrade Terminology
- B. Fairtrade Qualification Process and Fees
- C. Overview of Grocery Price Survey
- D. Preliminary Margin Sensitivity Analysis
- E. References for Product Analysis
- F. Coffee Cupping Overview
- G. Summary of Annual Trade Fairs for Greeting Cards and Gifts
- H. Summary of Interview Contacts

### APPENDIX A: A NOTE ABOUT FAIRTRADE TERMINOLOGY

The language of fairtrade can be confusing, with similar terms used to refer to different concepts. The following is a brief explanation of the three most common terms used to describe the area.

**Fairtrade** is the generic term for a trading partnership based on dialogue, transparency and respect. It contributes to sustainable development by offering better trading conditions to marginalised producers and workers. The term can be used to refer to both “fairtrade” and “fairly traded” products.

**Fairtrade** (one word) refers to a licensable brand which can be obtained by products and companies that meet certain criteria. The system involves independent auditing, and commonly guarantees a minimum price to growers and producers for their goods. In addition, producers are paid a “fairtrade premium”, which is then used for ethical and sustainable business development (i.e. new product development; establishing a pension fund). The Fairtrade Labelling Organisation (FLO) administers the “fairtrade” mark internationally, with UK licensing managed by the Fairtrade Foundation.

**Fairly Traded** is the term used to describe products traded according to fairtrade principles, but does involve any specific or generic licensing criteria. This form of fairtrade is particularly common for products where no “fairtrade” criteria currently exist, such as cards and crafts.

*Source: Microloan Foundation*

**APPENDIX B: FAIRTRADE QUALIFICATION PROCESS AND FEES**

*The Fairtrade Certification Process:*

1. Read FLO Standards Document - [www.fairtrade.net/sites/standards/standards.html](http://www.fairtrade.net/sites/standards/standards.html)
2. Contact FLO at [certification@flo-cert.net](mailto:certification@flo-cert.net), indicating interest addressing the following points:
  - a. What type of legal entity is your organisation? (Is it an Association or a Cooperative or a Company, etc).
  - b. Number of members and /or workers your organisation has and how they participate in decision taking processes.
  - c. Market position; if you currently export, please indicate where to and how.
  - d. Product type/variety, quality and quantity available for export.
  - e. Is (part of your) production certified by an organic certification body?
3. If FLO sees potential, they will then send out a detailed questionnaire.
4. After questionnaire is received, a preliminary inspection will be scheduled.
5. If certification is agreed, a contract will be signed between FLO International and the producer organization.

*Fees for inspection/certification & renewal:*

Fee system changed as of January 1, 2006. For detailed analysis of the new (and more complicated system) please see:

[www.fairtrade.net/sites/certification/FLO-Cert%20PC%20Fee\\_System\\_SF\\_INFO%20Ver1%206en.pdf](http://www.fairtrade.net/sites/certification/FLO-Cert%20PC%20Fee_System_SF_INFO%20Ver1%206en.pdf)

Other Source Material: [http://www.fairtrade.org.uk/about\\_standards.htm](http://www.fairtrade.org.uk/about_standards.htm)

<http://www.fairtrade.net/sites/certification/certified.html>

## APPENDICES

### APPENDIX C: OVERVIEW OF GROCERY PRICE SURVEY

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The Fairtrade retail prices of the selected products were collected from the online shopping websites of 4 major grocery retailers, 2 Fairtrade retailers and 2 independents. Additional price information was collected from store visits to 2 additional grocery retailers.

<b>Sample Set of Grocers and Retailers</b>			
<b>Major Grocery (Online)</b>	<b>Fairtrade Retailers (Online)</b>	<b>Independents (Online)</b>	<b>Major Grocery (Store Visit)</b>
<ul style="list-style-type: none"><li>- Waitrose</li><li>- Sainsbury's</li><li>- Asda</li><li>- Tesco</li></ul>	<ul style="list-style-type: none"><li>- Traidcraft Online</li><li>- Simply Fair</li></ul>	<ul style="list-style-type: none"><li>- Bart Spices</li><li>- Steenbergs</li></ul>	<ul style="list-style-type: none"><li>- Marks &amp; Spencer</li><li>- Somerfield</li></ul>

All price information was collected over the course of the first week of March in order to limit the effects of any price or promotion changes.

Following the initial collection of price data, the range of product categories for the each product was sorted by organic, Fairtrade and standard for both private label (store brand) and brand name. The average bulk price was then calculated for each of these segments.



## APPENDIX D: PRELIMINARY MARGIN SENSITIVITY ANALYSIS

## COFFEE

**Notes on Margin Calculation:**

Producer Price: Actual price of coffee from Mzuzu Coffee used, but minimum FT price provided for comparison.

Malawi Supply Costs: Costs provided by MLF consultant. Includes shipping costs.

UK Direct Costs: ASSUMPTION. The majority of direct costs for the product will be transportation. As UK input prices are generally greater than in Malawi, a number has been selected to reflect this cost differential. However, as the Malawi costs include shipping, the differential should not be sizeable.

Retailer Margin: Range provided for comparison

Retail Price: Average FT retail price, based on grocery price survey

Profit to Microloan: This is the result of the calculation. Implied profit margin shown.

## COFFEE

<b>Producer Price (Minimum Fair Trade Price)</b>	<b>\$1.26</b>	<b>\$1.26</b>	<b>\$1.26</b>	<b>\$1.26 per Pound</b>
	£0.70	£0.70	£0.70	£0.70 per Pound
	£1.54	£1.54	£1.54	£1.54 per KG
<b>Producer Price (Mzuzu Coffee Purchased)</b>	<b>\$4.36</b>	<b>£4.36</b>	<b>£4.36</b>	<b>£4.36 per KG</b>
	<b>£2.41</b>	<b>£2.41</b>	<b>£2.41</b>	<b>£2.41 per KG</b>
Malawi Supply Costs				
Transport to UK	<b>\$2.50</b>	<b>£1.38</b>	£1.38	£1.38 per KG
Handling Fees	<b>\$0.10</b>	<b>£0.06</b>	£0.06	£0.06 per KG
<b>UK Direct Costs</b>	<b>£2.50</b>	<b>£2.50</b>	<b>£2.50</b>	<b>£2.50 per KG</b>
Total Costs before Retail Margin	£6.35	£6.35	£6.35	£6.35 per KG
<b>Profit to Microloan</b>	<b>£2.39</b>	<b>£2.08</b>	<b>£1.79</b>	<b>£1.51 per KG</b>
<i>Implied Profit Margin to Microloan</i>	38%	33%	28%	24%
Retailer Margin %	35%	40%	45%	50%
	£3.06	£3.37	£3.66	£3.93 per KG
<b>Retail Price (Average FT Retail Price)</b>	<b>£2.68</b>	<b>£2.68</b>	<b>£2.68</b>	<b>£2.68 Per 227g</b>
	<b>£11.79</b>	<b>£11.79</b>	<b>£11.79</b>	<b>£11.79 per KG</b>

## CARDS

**Notes on Margin Calculation:**

**Producer Price:** This a result of the calculation after solving for predetermined profit margin to Microloan

**Malawi Supply Costs:** Costs provided by MLF consultant. Includes shipping costs.

**UK Direct Costs:** ASSUMPTION. The majority of direct costs for the product will be transportation. As UK input prices are generally greater than in Malawi, a number has been selected to reflect this cost differential. However, as the Malawi costs include shipping, the differential should not be sizeable.

**Retailer Margin:** Range provided for comparison

**Retail Price:** Average FT retail price, based on market price survey

**Profit to Microloan:** ASSUMPTION. Based on an assumed profit margin, as shown

**CARDS**

<b>Producer Price</b>			<b>£0.67</b>	<b>£0.64</b>	<b>£0.62</b>	<b>£0.59</b>	<b>£0.57 per card</b>
Malawi Supply Costs	<u>per kg</u>	<u>per kg</u>					
Transport to UK	<b>\$2.50</b>	<b>£1.38</b>	£0.03	£0.03	£0.03	£0.03	£0.03 per card
Handling Fees	<b>\$0.10</b>	<b>£0.06</b>	£0.00	£0.00	£0.00	£0.00	£0.00 per card
UK Transportation Costs			<b>£0.06</b>	£0.06	£0.06	£0.06	£0.06 per card
Total Direct Costs			£0.77	£0.74	£0.71	£0.69	£0.67 per card
<b>Profit to Microloan</b>			<b>£1.15</b>	<b>£1.11</b>	<b>£1.07</b>	<b>£1.03</b>	<b>£1.00 per card</b>
<i>Profit Margin to Microloan</i>			<i>150%</i>	<i>150%</i>	<i>150%</i>	<i>150%</i>	<i>150%</i>
Cost to Retailer			£1.92	£1.85	£1.79	£1.72	£1.67
<b>Retailer Margin %</b>			<b>30%</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>	<b>50%</b>
			£0.58	£0.65	£0.71	£0.78	£0.83
<b>Retail Price (Average FT Retail Price)</b>			<b>£2.50</b>	<b>£2.50</b>	<b>£2.50</b>	<b>£2.50</b>	<b>£2.50 per card</b>

## SAUCE

**Notes on Margin Calculation:**

Producer Price: This a result of the calculation after solving for predetermined profit margin to Microloan

Malawi Supply Costs: Costs provided by MLF consultant. Includes shipping costs.

UK Direct Costs: ASSUMPTION. The majority of direct costs for the product will be transportation. As UK input prices are generally greater than in Malawi, a number has been selected to reflect this cost differential. However, as the Malawi costs include shipping, the differential should not be sizeable.

Retailer Margin: Range provided for comparison

Retail Price: Average FT retail price, based on market price survey

Profit to Microloan: ASSUMPTION. Based on an assumed profit margin, as shown

## SAUCES

<b>Producer Price</b>	<b>£1.30</b>	<b>£1.11</b>	<b>£0.94</b>	<b>£0.77 per KG</b>
Malawi Supply Costs				
Transport to UK	<b>\$2.50</b> <b>£1.38</b>	£1.38	£1.38	£1.38 per KG
Handling Fees	<b>\$0.10</b> <b>£0.06</b>	£0.06	£0.06	£0.06 per KG
UK Transportation Costs	<b>£2.50</b>	£2.50	£2.50	£2.50 per KG
Total Direct Costs	£5.23	£5.05	£4.87	£4.71 per KG
<b>Profit to Microloan</b>	<b>£2.62</b>	<b>£2.52</b>	<b>£2.44</b>	<b>£2.36 per KG</b>
<i>Profit Margin to Microloan</i>	<i>50%</i>	<i>50%</i>	<i>50%</i>	<i>50%</i>
Cost to Retailer	£7.85	£7.57	£7.31	£7.07 per KG
<b>Retailer Margin %</b>	<b>35%</b>	<b>40%</b>	<b>45%</b>	<b>50%</b>
	£2.75	£3.03	£3.29	£3.53 per KG
<b>Retail Price (Average FT Retail Price)</b>	<b>£1.06</b>	<b>£1.06</b>	<b>£1.06</b>	<b>£1.06 per 100 g</b>
	<b>£10.60</b>	<b>£10.60</b>	<b>£10.60</b>	<b>£10.60 per KG</b>

**APPENDIX E: REFERENCES FOR PRODUCT ANALYSIS**

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“Agricultural Sector Business Opportunities in Malawi”. Malawi Confederation of Chambers of Commerce and Industry. [www.mccci.org/agricultural\\_sector.asp#fruit](http://www.mccci.org/agricultural_sector.asp#fruit)

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Interview. Nigel Wreford-Brown.

## APPENDIX F: COFFEE CUPPING OVERVIEW

*Source: The Coffee Geek. <http://www.coffeegeek.com/guides/beginnercupping/stepbystep>*

The cupping process was conceived as a means for evaluating and comparing different coffees on a level playing field. Because the differences between great coffees can be very delicate, observations about the characteristics of those coffees (flavour, body, finish...) can be easily influenced by small variations that occur as part of most brewing methods. By eliminating some of these variables, a carefully prepared cupping allows the coffees being tasted to compete on the basis of their own intrinsic merits.

### Step by Step Instructions

1. Measure the whole bean coffee into cups or glasses, keeping track of which is which. Use two glasses per coffee being evaluated, and choose a ratio of water to coffee that you find enjoyable. Typically, 12 grams of coffee for 6.5oz of boiled water.
2. Start your water kettle at this point so that your boil times close to when your cupping table is set up and ready to go (i.e., after steps 3 and 4 are complete). If possible, use fresh, filtered water.
3. Grind each cup **individually**, making sure to brush out the grinding chamber and completely empty the grinder between each sample. Simply dump the coffee from your tasting cup into the grinder, grind all of the coffee, then pour the grinds back into the tasting cup.
4. Reset your table as you grind (try to grind as quickly as possible so your coffees don't stale). You may choose to cup **blind** (an industry term meaning the cupper does not know what coffee he or she is evaluating). This is where the labels on the bottom of the cup make sense. Or you could cup knowing what each coffee is (keep the bag behind each cupping setup). Most cuppers prefer to cup blind because it protects your subconscious from influences and biases.
5. Many cuppers use this time before the kettle is boiled to sniff and evaluate the ground coffee from each sample. For beginners, this is an optional step, but you can certainly do it (and make mental notes about the smell of each sample) prior to pouring the boiled water.
6. When the water is done boiling, remove it from heat (or after it shuts off), and wait 25 seconds before pouring. In the pro world, the ideal pouring temperature is 202F; you just have to be close. Also pour in the order you ground your coffees - the oldest grind gets water first.
7. Pour slowly and methodically, making sure all the coffee grounds are saturated - try to avoid any dry clumps on the top of the coffee. Remember to use your desired amount. You can know this by first doing a dry run: measure out 6.5 oz of water, and pour it into one of your cupping glasses that contain the 12 grams of coffee. Note the level. When you're doing the real pouring for the real cupping, just pour to the same level.

8. When you start the pouring, mark the time, either by looking at the clock or by starting a timer. Wait 3 to 4 minutes (most pro cuppers give 4 minutes) as the coffee grounds start to settle, and then it's time to start evaluating the coffee.
9. Now it's time to get down and dirty. Get your face close to the cup; because you're about to do something called "breaking the crust". In the four minutes the coffee and water have interacted, a thick "crust" of grounds will be sitting on the top of the sample cup. Get your face close to the cup, take your cupping spoon and puncture the ground crust while inhaling the aromatics that will waft up. The most common action while doing this is to place your spoon horizontally to your face, near the forward "lip of the cup", dip it into the crust, and drag it to the back portion of the cup. Soak up those aromas!
10. Repeat this for each sample. If you are cupping alone, do both cups for each sample. If others are involved, let everyone get the chance to "break the crust" on at least one cup. The others can still go to each cup and further "break the crust" and evaluate the aromas. Keep things moving fast here, but make sure you sample every cup.
11. Once the breaking of the crust ritual is done, it's time to skim off the remaining top grounds. Pro cuppers traditionally do this by taking two cupping spoons, placing them into the cup near the back of the cup, then in a fluid, relaxed motion, drag them forward around the edges to meet again at the front of the cup, then scoop up just taking out grounds, leaving as much liquid behind as possible.
12. Clear your head! Temporarily forget the aromas and such, and get ready to taste.
13. Begin tasting the coffees, taking a spoonful at a time and "slurping" it into your mouth while inhaling gently. The goal here is to have each liquid sample coat your entire tongue, but also the inhaling allows aromatic elements to exert their full effect. Put another way, the goal is to "spray" the coffee across your palate while getting some aroma retro-nasally.
14. Always rinse your spoon in the water-filled pint glasses between each cup. The goal is to avoid cross-contamination of the samples.
15. Move around the table, sampling every cup. Then go back and forth to each coffee several times as the coffees cool down to room temperature. Be sure to evaluate each coffee with a fresh perspective each time you sample it. You want to see how the coffees fare at different stages in their cooling down, but don't be overly influenced at this point how a specific coffee may taste at one temperature vs. another temperature.
16. It is perfectly acceptable to spit out your "slurps" of coffee as you go along, but you should also swallow some of the tastings to evaluate the aftertaste and finish.

During a cupping session, most pros like to keep silent until everyone has finished. The mind is incredibly susceptible to suggestion. Once the cupping is finished, then you can discuss, argue and debate the merits and comparative qualities and characteristics of the coffees with your friends. Take notice of where you agree and disagree, or how you've managed to describe the same qualities using different sorts of descriptions.



**APPENDICES**

**Sample Coffee Cupping Form**

<- Date		would you prefer a crate or a barrel, sir?			
aroma notes	Coffee:				
	Sweetness:	Acidity:	Body:	Finish:	
	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	
	Comments:				
aromatic intensity					rating->
aroma notes	Coffee:				
	Sweetness:	Acidity:	Body:	Finish:	
	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	
	Comments:				
aromatic intensity					rating->
aroma notes	Coffee:				
	Sweetness:	Acidity:	Body:	Finish:	
	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	
	Comments:				
aromatic intensity					rating->
aroma notes	Coffee:				
	Sweetness:	Acidity:	Body:	Finish:	
	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	5 6 7 8 9 10	
	Comments:				
aromatic intensity					rating->

## APPENDIX G: SUMMARY OF ANNUAL TRADE FAIRS FOR GREETING CARDS AND GIFTS

EVENT	DESCRIPTION	VENUE	2006-2007 DATES	EXHIBITORS	VISITORS	CONTACT DETAILS
<b>Spring Fair Birmingham</b>	The UK's largest retail exhibition. general and volume giftware to design-led products; stationery and greeting cards to pictures and prints; jewellery and collectibles to china and glass; home and decorative accessories to housewares	NEC Birmingham	First Sunday in February	4,000 exhibitors from over 50 countries	78,000 of the world's highest spending buyers	<a href="http://www.springfair.com">www.springfair.com</a>
<b>Autumn Fair Birmingham</b>	general and volume giftware to design-led products; stationery and greeting cards to pictures and prints; jewellery and collectibles to china and glass; home and decorative accessories to housewares	NEC Birmingham	First Sunday in September (3-6 Sept. 2006)	Over 2,000 exhibitors, from major global suppliers and British brands to independent designers	32,500 retailers from across the world	<a href="http://www.autumnfair.com">www.autumnfair.com</a>
<b>Top Drawer Spring</b>	Leading event for design-led gifts and accessories featuring a wide range of products including greeting cards and gift stationery, jewellery, gifts, toiletries, home accessories, and soft furnishings.	Earls Court 2	January (14 - 16 Jan 2007)	Estimated 750 exhibiting companies	Estimated 10,000 visitors	<a href="http://www.homeandgift.co.uk">www.homeandgift.co.uk</a>

## APPENDICES

EVENT	DESCRIPTION	VENUE	2006-2007 DATES	EXHIBITORS	VISITORS	CONTACT DETAILS
<b>Pulse by Top Drawer</b>	Home accessories and gift trade event, where buyers can preview the trends for autumn and winter	Earls Court	May (21-24 May 2006)		Over 11,200 visitors attended Pulse 05, of which 80% were genuine buyers and 10% were interior designers	www.homeandgift.co.uk
<b>Top Drawer Autumn</b>	Leading event for design-led gifts and accessories featuring a wide range of products including greeting cards and gift stationery, jewellery, gifts, toiletries, home accessories, and soft furnishings.	Olympia	September (10-12 Sept. 2006)	Approximately 800 exhibiting companies	10,000 visitors, 79% have direct purchasing responsibility and 82% are genuine buyers	www.homeandgift.co.uk
<b>Home &amp; Gift</b>	Showcase ranges of products including general giftware, design-led products, home and decorative accessories, stationery, greeting cards, jewellery, and volume giftware	Harrogate Show Halls and Marquees	16-19 July 2006	Almost 1,000	12,500 buyers, Interior Designers, Agents, Wholesalers, Exporters and Press.	www.homeandgift.co.uk

Source: Greeting Card Association. Trade Fair Websites.

## APPENDIX H: SUMMARY OF INTERVIEW CONTACTS

<b>Name</b>	<b>Company</b>	<b>Topic</b>
<b>Frank Dee</b>	Retail Consultant	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• UK Retail Sector</li> </ul>
<b>Nigel Wreford-Brown</b>	Retail Consultant	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• UK Retail Sector</li> </ul>
<b>Keith Herrman</b>	Durham Business School	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• Malawi development and product experience</li> </ul>
<b>Alfred Nkhoma</b>	MLF consultant	<ul style="list-style-type: none"> <li>• Malawi Supply Possibility</li> </ul>
<b>Ros Lister</b>	Fair Trade Retailer, Chiswick	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> </ul>
<b>Rob Donnelly</b>	Traidcraft	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• Malawi development and product experience</li> </ul>
<b>David Wainwright</b>	Tropical Forest Honey	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• Distribution of new products</li> </ul>
<b>Stephen Hurst</b>	Coffee Importer, Coffee Hunter	<ul style="list-style-type: none"> <li>• UK Fairtrade Coffee</li> </ul>
<b>Michael Simpson-Jones</b>	Waitrose Grocery Buyer	<ul style="list-style-type: none"> <li>• UK Fairtrade Retailing</li> <li>• Distribution of new products</li> <li>• UK Grocery Requirements</li> </ul>