By Patricia (Trish) Corner Marcus Ho

Trade Aid:

Taking fair trade into the future

Geoff White contemplated issues that were all in a day's work for him: a global economy spiralling into serious recession, competitive challenges for the fair trade dollar, and a balancing act between commercial business principles and social mission. White considered expanding Christchurch-based Trade Aid into Australia and restructuring company ownership to give its economically disadvantaged trading partners a stake in the company, despite these issues. Can Trade Aid's global leadership in social value creation be continued despite the expected dramatic drop in retail spending?

Geoff White, General Manager (GM) of Trade Aid, just finished reading an article from The Economist about what the year 2009 might bring. He thought about the implications of a worsening world recession for his company. He considered revising his plans to increase company sales. On the other hand, he worried about how the economic crisis would affect the network of 89 worldwide trading partners the company had built over the last 35 years; many of them still living on the brink of poverty.

White had seen 2009 as the year to make two decisions crucial to the future of Trade Aid. The first was how to continue growing the business. Growth enabled Trade Aid to increase orders from trading partners and meet the company's mission to increase income for the economically disadvantaged. White saw two avenues for growth. The first was increasing the number of shops in Auckland, New Zealand's largest city. Close to one third[i] of the country's population lived in the Auckland region but only one fifth of Trade Aid's 32 shops were based there. Trade Aid had struggled to find locations for shops in Auckland that suited the company's location criteria of high foot traffic and a community feeling. Expansion into Australia was the second avenue for growth. Australia was one of the world's fastest growing economies and in 2008 continued its 17 years of economic growth despite the global recession and financial crisis[ii]. There was a long history of friendship, trade, military alliances, and visa free travel between New Zealand and its nearest neighbour. However, many New Zealand companies had expanded into Australia and failed in that market.

The second decision White considered was restructuring the organisation to give trading partners an ownership stake in the company. Trade Aid had long thought of trading partners as "owners" in the company and worked jointly to set prices for partners' products. White stated, "…logically it's a joint ownership and we want to go there. We certainly want to go there as an organisation and feel, well, this is a true partnership. So we've got to think what that means. The practical issue is how could this ownership be structured?"

The company

Trade Aid Inc. (TAI) was organised as a membership based incorporated society with charitable status and full ownership of Trade Aid Importers Ltd (a limited liability company). Trade Aid Importers worked with non-government organisations (NGOs), family groups, and democratically run agricultural co-operatives to import handcrafted and agricultural products from economically disadvantaged countries into the high value New Zealand market (see www.tradeaid.org.nz). The goal always was to generate a living wage for these collectives which Trade Aid called trading partners. Imported products were distributed mainly through a nationwide network of 32 retail shops. Retail shops were owned by local community charitable trusts whose annually elected members volunteered their time in support of fair trade.

In 2008, Trade Aid was staffed by approximately 70 full-time employees but also supported by over 900 volunteers

[i] www.stats.govt.nz/census (cited 29 November 2008)
[ii] www.tradingeconomics.com/Economics/GDP (cited 29 November 2008)

who donated their labour in the retail shops, the warehouse, the community trusts, and various committees. An Ethical Investment Trust raised funds to publish materials educating New Zealanders on fair trade issues and to support global campaigns for trade justice. The annual fair trade fortnight of special programmes and balloon handouts from shops was created to educate the public further about fair trade and social justice. Trade Aid still had the social mission it began with over 30 years ago "to build just and sustainable communities through fair trade". Trade Aid implemented this mission in three ways. First, the organisation developed long term relationships with the trading partners described earlier. Co-founder Richard Cottrell captured the essence of Trade Aid's philosophy of working with trading partners: "We choose to deal, as far as possible, with groups at the grassroots level…we try not only to find which of their products we can import and sell, but also to learn something of their aims and activities and of the people who are making the crafts." Most importantly, relationships with trading partners involved setting fair terms and prices for products. Specifically, these partners received a price that covered their full production costs, enabling them to earn a living wage. Substantial product development was done with some trading partners to ensure their handcrafted products appealed to New Zealand consumers. At least ten of the 84 trading partners were in need of further, significant product development because their product lines sold poorly and produced losses for Trade Aid. White and co-founder founder, Vi Cottrell, expressed a commitment to keep working with these ten groups because they were the poorest of all Trade Aid's trading partners. Trade Aid created additional material benefits for all trading partners by placing regular orders so production could be planned with some certainty. Trade Aid also worked with trading partners to develop equitable decision making processes within groups to ensure the protection of the rights of women and children, the health and safety of workers, and the preservation of the cultural integrity of trading partners' arts and crafts. Additionally, the company often paid social premiums on agricultural products (eg, coffee) that funded projects in trading partners' communities such as building of schools and health clinics.

Second, Trade Aid recently instituted profit sharing with trading partners. Trade Aid generated enough profit in 2005 for the first time to allow profits to be shared with trading partners in that year and 2006. Profits were a surplus of generated funds over and above income retained for capital expenditure and further trading partner development (see Exhibit 2). Third, the organisation pioneered audited social accounts in 2000 and these remain the standard in New Zealand. Accounts documented the benefits created for trading partners by their association with Trade Aid, including higher living standards in groups' communities, increased access to credit, reduced raw material costs, as well as training in money management, leadership, and organisation skills.

Organisation's history

It was the early 1970s and Vi and Richard Cottrell returned to their native Christchurch after spending two years in India helping resettle Tibetan refugees. The Cottrells knew firsthand how desperate the Tibetans were to generate an income and they wondered if New Zealand was a potential market for the refugees' handcrafted products. The couple organised a display of handcrafted carpets in a Christchurch gallery to test the New Zealand market. All carpets were sold within 15 minutes of opening the display to the public! Trade Aid thus was born; an organisation designed to import handcrafted goods from the Tibetans and other economically disadvantaged groups into the high value retail market of New Zealand. By December 1972, Trade Aid was an incorporated society with specific objectives. Vi Cottrell stated that Trade Aid would not have taken off without "a group of people who were highly motivated to do social work, to make a difference". She credited Trade Aid's relationships with other NGOs and religious agencies for helping form and support the founding and initial growth of the company.

These relationships also provided the network of shops through which imports initially were sold. The network was a loose confederation of second-hand and charitable shops. Within an individual shop, Trade Aid's handcrafted products were often on sale right next to second-hand goods. Also, many of these shops had Corso signs hanging over their doors. Corso was a charity connected with the Catholic Church. Trade Aid co-ordinated across the network of shops, as described by Vi Cottrell, "We began having annual conferences for people who ran the shops and finally they agreed to drop the Corso name and Trade Aid became the name, but for a time, we had Third World shops and all sorts of things. We even had one called Every Little Body in Wellington." The first annual conference was held in May 1975 in Christchurch. The Cottrells' goals for the conference were to further disseminate the philosophy of fair trade and to evaluate the operation of Trade Aid. From this meeting, many aspects of Trade Aid policy were established including a charter, criteria for selecting trading partners to work with, and the organisation's educational goals (see www.tradeaid.org.nz for all of these). Over time, Trade Aid began to open more shops and establish itself as an entity separate from Corso and other charitable organisations. Despite this successful start-up, Trade Aid experienced periods of upheaval and financial uncertainty over the next 30 years.

By the late 1990s, Trade Aid faced stagnation and major financial losses. The board decided to professionalise the organisation to ensure its survival. A long serving board member led the first step in this process by implementing franchise agreements with all Trade Aid shops. Franchise agreements stated that the shops would be called Trade Aid shops selling only Trade Aid supplied products. This move consolidated shops so that Trade Aid headquarters in Christchurch could streamline administrative systems and develop consistent signage and branding for retail outlets. The second step involved hiring White as GM for his business acumen; White had founded and run a manufacturing business in New Zealand for a number of years. Interestingly, White came to Trade Aid with no prior involvement with social movements but Vi Cottrell said he was open to the mission of the organisation. White implemented a number of business practices including: paid instead of volunteer shop managers; a single, central bank account for all shops (shops had separate accounts previously); and streamlined processes. Additionally, Trade Aid started importing fair trade agricultural products including coffee, tea, and spices. Agricultural products were new for the organisation because it had dealt with only handcrafted products previously. Imported coffee created yet another change for Trade Aid in that it was sold on the wholesale market to roasters and cafes as well as on the retail market through Trade Aid shops. The Trade Aid board was amazed to watch wholesale coffee sales grow to be the largest percentage of Trade Aid's sales. The success of fair trade coffee is welcomed but White shared the board's concern that this success can not overshadow other products, "board policy is that the growth in coffee which is huge mustn't be allowed to dwarf the growth in handcrafts. We mustn't spend all our resources on easy options, such as coffee because handcrafts are much harder to do and we know it reaches really poor people".

In 2008, Trade Aid imported products from economically disadvantaged groups in more than 30 different countries. Trade Aid's pioneering work in audited social accounts ensured that the organisation's drive for financial sustainability did not overshadow its social mission. Moreover, Trade Aid's authenticity in social mission had earned it the right to use the IFAT (international fair trade association) mark in its branding. IFAT was established as an international network for fair trading organisations that were monitored and certified as upholding principles of fair trade. Only 120 organisations achieved this certification globally and Trade Aid was the only organisation in New Zealand authorised to use this mark.

Fair Trade and the macro environment

Fair trade has been defined as "a trading partnership, based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized suppliers and workers. Fair Trade products are created and traded in accordance with these principles — wherever possible verified by credible, independent assurance systems" [iii]. By 2009, fair trade products were available in more than 60 countries. The year 2007 produced a 47 percent increase worldwide [iv] in the sale of certified fair trade products, equivalent to US$3.62 billion.

Australia and New Zealand mirrored this international growth with an estimated increase in retail value of certified fair trade products at 59 percent from 2006 to 2007[v]. OXFAM reported that New Zealand had the fastest growth in sales of fair trade products in the world — a 45-fold increase in just four years. This growth translated into $8 million in fair trade certified sales in New Zealand alone in 2007 (see FTAANZ, Fair Trade Association of Australia and New Zealand).

Despite recent success, White was well aware of the increasing competition for fair trade coffee and tea. Competition came from major international brands like McDonald's, Dilmah and Starbucks, as well as from other New Zealand retailers. These major brands sold coffee or tea labelled "fair trade" using huge advertising budgets. Experts often called the practice of "fair trade" labelling by international brands "fairwashing" because fair trade was implemented in a very limited way. For example, one brand labelled their coffee fair trade when in fact only five percent of the coffee sold to the customer was sourced using fair trade practices. International brands appeared to have adopted the words "fair trade" in their brands as a response to the public's growing support of fair trade products. "Fairwashing" often produced a large volume of sales for major brands because fair trade is a complex issue and consumers are not always educated about these complexities. The direct competition for agricultural products was new for Trade Aid because the competition for handcrafted products generally had been indirect given the distinctive nature of the handcrafts.

Other global trends featured for Trade Aid. Consumers increasingly demanded organic, natural products and this helped Trade Aid's wholesale business – the sale of fair trade coffee most of which was organically grown. Also, consumers showed increased interest in the ethical objectives of businesses. A recent five-country study by GfK NOP, a market research group, found that "ethical consumerism" had increased with a third of their respondents willing to pay five to ten percent price premiums for ethical products. Trade Aid appeared well placed to take advantage of this trend due to the company's clear and authenticated social mission. Finally, the idea of a community interest company (CIC) developed in the United Kingdom seemed relevant to Trade Aid. A CIC is a new type of company introduced by legislation under the UK Community Interest Act, 2004. This type was designed for enterprises with social objectives whose surpluses were principally reinvested to achieve these objectives for selected communities. Social objectives were in contrast to the objectives for more traditional companies that centered on profit maximisation for owners. The CIC company type provided the certainty of the company form but reflected special features to ensure benefits for communities.

Closer to home, Trade Aid needed to monitor the retail sector in New Zealand constantly. The sector is highly competitive and showed a six percent increase in the number of retail outlets to total 46,853 (excluding bars, cafes and restaurants) from 2006 to 2007[vi]. The March 2007 quarter saw overall retail sales easing to an average quarterly increase of 0.7 percent. This was in contrast to a quarterly average increase of two percent during late 2006 and early 2007. Core retail sales growth eased further to a quarterly average of 0.5 percent[vii] at the time of gathering data for this case. An actual decline in retail sales seemed highly likely to occur due to the global recession that manifested in 2008.

The business model

Organisational structure and governance

The original incorporated society that launched Trade Aid Inc. was composed of ten people including Vi and Richard Cottrell and others from three different Christian charities

[iii] European Fair Trade Association. (2006). Definition of Fair Trade, www.eftafairtrade.org
[iv] Fairtrade Labeling Organization International (2008). FLO International: Annual Report 2007
[v] Fairtrade Labeling Organization International (2008). FLO International: Annual Report 2007
[vi] Source: Albertson, J (2008). The Retail Market in New Zealand: An analysis 2008. New Zealand Retailers Association
[vii] Retail Trade Survey: June 2008 quarter. Statistics New Zealand

based in Christchurch. The society collectively guaranteed a $10,000 bank loan, the startup capital that enabled Trade Aid to buy handcraft products and distribute these products through a loose confederation of retail shops. Over time separate shop trusts sprang up in different communities (Raglan, Whangarei) organised by people interested in generating money for the economically disadvantaged people who Trade Aid was trying to help. A shop trust ran its local shop independently from headquarters in Christchurch prior to the professionalisation of Trade Aid. These trusts decided which product lines to include at their location and co-ordinated volunteers to staff the shop.

Exhibit 1: Trade Aid's organisational structure

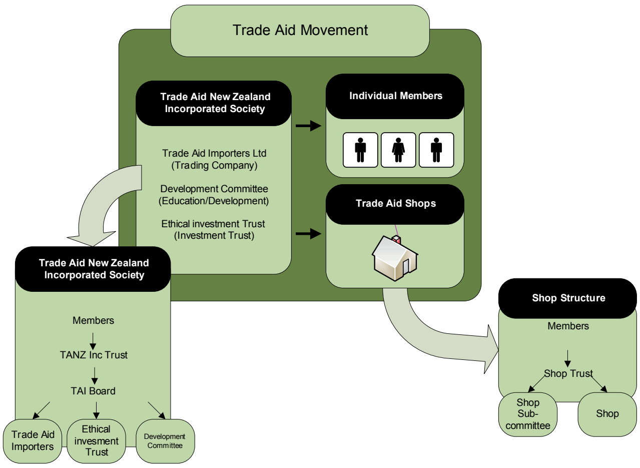


Exhibit 2: Use of Funds 2006 and 2007

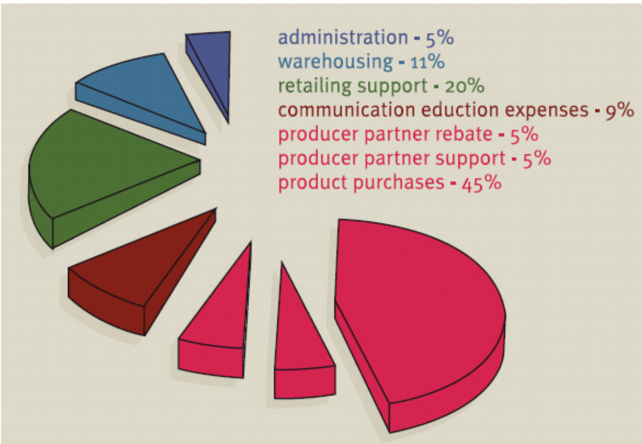
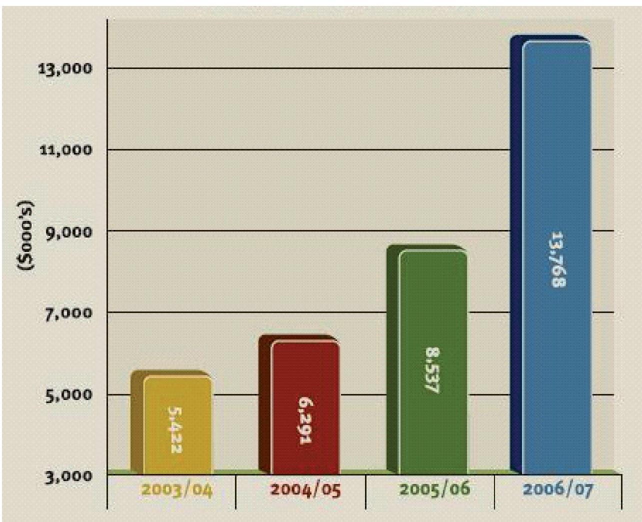


Exhibit 3: Retail sales of Trade Aid



The organisation of Trade Aid had changed somewhat by 2008, given the professionalisation process carried out in the 1990s (see Exhibit 1). Trustees of TAI were elected at the annual conference. Their role was to ensure the organisation met the vision, aims and objectives set out in the charter. The Board of Directors reported to the trustees and was responsible for the commercial management of TAI. The board appointed a GM who oversaw Trade Aid Importers Ltd and directed the commercial management of the retail shops. Retail shops were each under the control of the local shop trust. Shop trust members were elected annually and made up of people from each community interested in fair trade. However, the franchise agreements signed by these shop trusts in the 1990s gave the GM a considerable amount of influence over the retail shops. For example, a shop trust was responsible for appointing a manager for their local shop but this was done in consultation with the GM.

Retailing, marketing, and sales

The professionalising of Trade Aid involved revamping retail shops into fashionable premises with consistent signage and branding. Similarly, merchandising principles were applied to the layout of products in shops. White experimented with opening shops in commercially high end locations in Auckland with moderate success. Each Trade Aid shop had its own buyer, often the shop manager. This person decided which trading partners' products to offer in his or her shop. Christchurch headquarters did not require shops to carry all trading partners' lines or even particular product lines. White had a model developed by a retail specialist that suggested the optimal number of products lines that each shop should carry but buyers retained the autonomy to deviate from that model. Buyers made these decisions in different ways. Some buyers carried few product lines that turned over frequently in order to maximise shop sales. Others carried many product lines to experiment with what would sell in their locations. One buyer implemented the philosophy of carrying as many product lines as he could in order to widely support trading partners, even groups whose products did not sell well. He viewed this buying policy as being true to Trade Aid's mission because the poorest trading partners' products were often the worst selling.

Under White, Trade Aid conducted a study to identify its customer base. A profile of the company's target customer was generated from key environmental and socio-demographic trends uncovered in the study. Importantly, the survey identified $60 as the amount of money the typical customer wished to spend on a gift item from the store. Most products were either much cheaper or more expensive than $60. Trade Aid continued to work with trading partners to create more items at this price.

Sales increased in recent years as shown in Exhibit 3. Also, Trade Aid continued to assess the prices charged for products. The company generally used a mark-up ratio of 1:5 when setting a price for a product. For example, the retail price was set at five times what it cost the company to purchase and transport the product to New Zealand. This mark-up was the same as that implemented by discount retailers and much less than the 1:20 mark-up applied for high end craft products. Mark-up had varied for Trade Aid products based on two main factors: the origin of and type of product line. Product lines from Asia tended to have a higher margin than product lines from Africa and Latin America. Mark-ups for textile type products were low while mark-ups for jewellery were the highest of all of Trade Aid's products. High mark-up on jewellery reflected the fast-changing fashion cycles that meant more frequent writing off of stock because a new fashion look rendered the current stock obsolete.

Retailing remained an expensive business and Trade Aid assessed operational efficiency continually in order to maximise the income it could create for trading partners. Expenses associated with retail operations was a substantive percentage of overall costs (see Exhibit 2).

Leadership

In 2009, the strategic and operational leadership of Trade Aid was predominantly in the hands of Geoff White, GM. Vi Cottrell described the transformation of White since he joined Trade Aid: "He came here because he was excited by a (business) challenge, I didn't think he belonged to any social organisations. But he was open. And here's somebody who reads a huge amount and he's turned into a spokesman for the international movement." Vi Cottrell, a co-founder of Trade Aid, still worked for the company in the role of liaison with trading partners. Cottrell embodied the organisation's social mission and values due to her 37 year involvement with Trade Aid and the international fair trade movement. Cottrell had advocated the professionalisation of Trade Aid and the hiring of a business-oriented GM to ensure the survival of Trade Aid. Survival meant trading partners continued to be helped by Trade Aid at a time when well known overseas fair trade retailers like OXFAM UK were forced out of the retail business. Michaelia Ward was hired as director of education and communication in 2004. She saw her job as educating customers about fair trade issues and the need for the international fair trade campaigns in which Trade Aid participated.

Where would this leadership take Trade Aid in the future?

Expert Opinion

Dr Bev Gatenby

The Trade Aid case typifies the story of many successful charitable organisations, with its establishment by passionate leaders, growth and tenacity in the face of financial uncertainty, innovation such as the development of audited social accounts, professionalisation through the 90s, and responsiveness to changing economic times. The skills and knowledge already within the organisation will certainly be needed through the next years, as a global recession takes hold.

As for many other social enterprises, there is a tension in holding the social justice mission of the organisation and ensuring its economic sustainability. The next step in progressing its mission is to develop a workable ownership structure, reflecting the philosophy of the organisation. The trading partners continue to operate on "the brink of poverty". If the current structure remains in place then the difference the organisation can make will continue to be dependent on the passion for the mission carried by the governance group and the general manager. While profit sharing has been a significant step forward, it can only be guaranteed in the future through a shared ownership structure. Trading partners would bring to the leadership of the organisation additional skills and knowledge to assist Trade Aid to work towards both the economic independence and sustainability of these partners and the sustainability of the company. The progress of each is interwoven with the progress of the other. Trading partners need to have an equal voice in that progress, though this will be complex, political and probably time-consuming.

Trade Aid could choose to see this recession as an opportunity to build on the growing critiques of unfettered capitalism in the community, through education and advocacy for fair trade, paralleled by a marketing campaign for the Trade Aid shops. The education and communication role could provide this kind of leadership. Expanding further in Auckland may well be part of such a strategy and may be more feasible than expanding into Australia, given that the commercial competition for the shops and the competing trade paradigms in New Zealand communities are familiar to those currently leading the organisation.

At this point, the organisation may wish to think about identifying the group of people who will carry the mission into the future. Like many community organisations, the leadership of one or two visionaries, particularly Vi Cottrell and more recently Geoff White, has been extraordinary. However there may be a need to deliberately involve others, including suppliers, who will carry forward the values, business acumen and social mission.

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Professor Ted Zorn

Trade Aid is in many ways a unique and remarkable organisation of which New Zealand can be justifiably proud. Unlike many current social enterprise organisations, Trade Aid did not come lately to the idea of entrepreneurship as a response to changing trends in funding for social service organisations (SSOs). Rather, it has operated as a social enterprise—or social entrepreneur—since its inception. In many ways it has served as a model to other SSOs for how they might address the need for funds to achieve their goals in a changing environment.

The idea of social enterprise organisations—those that advance their social mission through entrepreneurial earned income strategies—has taken off in recent years, due to a number of trends. These include the decline of state-supported services, dominance of economic philosophies valuing market solutions, perceived failure of international development efforts (such as those sponsored by the World Bank and International Monetary Fund), and changes in funding practices and expectations of government and philanthropic organisations. Many SSOa have turned—often reluctantly—to entrepreneurial initiatives as a response to such trends. Trade Aid, by contrast, was created as such an organisation long before the idea was fashionable.

Trade Aid is currently experiencing a number of tensions characteristic of all growing enterprises—private, non-profit, or otherwise—as well as some that are unique to its sector. The latter are perhaps most relevant and interesting here.

Trade Aid is in many ways grappling with the consequences of success. It has grown steadily as an organisation, successfully upgraded its governance and managerial processes, and recently become profitable for the first time. Achieving these things, however, has come at a cost. Many SSOs in similar circumstances find that embracing professionalisation, managerialism, and technologisation enable survival and growth—both of which create the potential to achieve their mission more fully. However, at the same time, these trends tend to raise concerns that something of the original raison d'être is lost. There may be a sense that profits and growth are taking precedence over other values, or a perception by volunteers that their efforts are devalued as professionals are employed. Trade Aid seems to be managing these tensions well, but they will continue to surface as the organisation makes decisions about further growth.

Another tension that Trade Aid is facing as a result of its success stems from the mainstreaming of fair trade. Trade Aid's success—and the success of the fair trade movement more generally—has led to mimicry from for-profit businesses seeking to cash in on the fair trade movement. "Fair trade" has developed an enormous allure to a growing group of customers and many businesses in the private sector have taken notice. This development creates problems for Trade Aid—in terms of increased competition, from both legitimate and "fairwashing" competitors—but it also creates opportunities. Trade Aid may need to consider shifting its mission to increase the emphasis on education, communication and, perhaps, brokering. Indeed, its FTO certification and brand recognition in New Zealand give it an authority and stamp of approval that could create enormous bargaining power with businesses hoping to participate in the fair trade market.

Professor Ted Zorn teaches at Waikato Management School. His research interests include change management, staff well-being and the adoption, development and impact of new communications technologies.