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## What Works

### **Making It to McDonald's: How Fair Trade coffee moved out of its niche and into the most mainstream market of all** By Kirsten Olsen

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## Making It to McDonald's

### How Fair Trade coffee moved out of its niche and into the most mainstream market of all

by Kirsten Olsen

It's a typical Monday morning. Across the Northeastern United States, people head in droves to their nearest McDonald's for their morning cup of coffee and a bite to eat. But thanks to an innovative joint venture, their coffee isn't simply a tasty source of caffeine.

Instead, their purchase is helping thousands of family farmers in developing countries make a better living.

Last November, McDonald's announced that it would sell only Fair Trade Certified coffee in 658 of its restaurants across the Northeast. Behind this change was Green Mountain Coffee Roasters Inc., which in an earlier deal agreed to source, roast, and package the coffee for Newman's Own Organics. The two companies then convinced McDonald's to sell the exclusive blend in its restaurants.

"McDonald's decision to offer Fair Trade coffee is a great data point to prove that there is a growing market for Fair Trade, and that it is starting to reach critical mass – beyond traditional socially responsible customers," says Paul Rice, president and CEO of TransFair USA, a Fair Trade labeling organization.

The Fair Trade movement helps small-scale farmers in developing countries gain access to international markets. It also aids them in building the business skills they

need to compete in the global marketplace. By learning how to market their harvests, Fair Trade farmers can grow their businesses and receive a fair price for their products. This leads to higher living standards, healthier communities, and more sustainable farming practices. In addition, most Fair Trade Certified coffee in the United States is organic and shade-grown. This means that the products maintain biodiversity, provide shelter for migratory birds, and help reduce global warming.

Fair Trade began in 1988 when world coffee prices fell sharply, triggering the birth of the first Fair Trade certification initiative. This initiative encouraged mainstream coffee

industry players to adopt standardized Fair Trade criteria, such as paying fair wages and providing healthy and safe working environments. In 1997, Fairtrade Labelling Organization International (FLO), an umbrella organization for Fair Trade labeling, brought together Fair Trade certification efforts in several countries.

Because Fair Trade farmers earn a higher price for their efforts, consumers pay a little extra for Fair Trade products – a fact that has often relegated them to the socially responsible ghetto of specialty food stores. Green Mountain and Newman's Own Organics, however, were able to get their Fair Trade product into perhaps the most mainstream retail channel of all: McDonald's. How they did so provides lessons for other socially responsible businesses that want to move their products into mass markets.

### Quality First

McDonald's decision to switch coffee vendors started with a clear sign from its customers. Its restaurants in the



**With McDonald's as a customer, Fair Trade coffee growers now have access to one of the largest retail channels in the world.**

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Northeast were competing with Dunkin' Donuts and Starbucks for market share, and they were losing. This prompted the "Breakfast Committee," a group of McDonald's franchise owners, to find a better source of coffee.

Green Mountain was one of several firms that bid for the McDonald's account. Green Mountain's first insight was to downplay its social responsibility hook in favor of what McDonald's was most concerned about: taste. "We knew that we couldn't win the bid just by emphasizing the socially responsible qualities of the product," says Rick Peyser, director of social advocacy and public relations for Green Mountain. "So instead we emphasized the high quality of our product."

Quality in Fair Trade products is not merely coincidental. "There is an elegant link between quality and Fair Trade prices because you get what you pay for," says Rice. "If you are paying low wages, then you will get a lower-quality coffee."

Appealing to quality worked. According to McDonald's spokesperson Donna Proud, "The main reason we chose Green Mountain and Newman's Own Organics was because they adhered to our strict quality standards."

If a socially responsible company is trying to reach a mainstream audience, then it must address the concerns of that audience. "While we believe that consumers care about Fair Trade issues, they probably care most about whether their coffee tastes good," says Peyser.

## Good Partners

McDonald's second criterion for selecting its coffee vendor was that it needed to be a brand name. If the company was going to compete with other specialty coffee makers, it wanted to leverage a brand that had a proven track record among its customers. McDonald's had already seen successful results from selling Newman's Own salad dressings, and so the company was more receptive to the bid from Green Mountain and Newman's Own Organics. "We saw their coffee bid as a natural extension of our existing relationship with Newman's Own," says Proud.

Although Green Mountain Roasting Company is a relatively well-known brand, it is not nearly as widely recognized as Newman's Own Organics, with its celebrity founder Paul Newman. "Newman's Own Organics was a perfect match because they had a credible brand with a great social mission behind it," says Peyser.

Newman's Own Organics was likewise keen on a partnership with Green Mountain. Company co-founder (and Paul Newman's daughter) Nell Newman saw it as a way of moving her organic sub-brand into the mainstream market. "I never thought I'd see the day when McDonald's got so excited about organics," says Newman. "When we went out to visit the Northeast restaurants it was amazing to see how enthusiastic the franchisee owners were about Fair Trade and organic."

## The Right Price

The price premium of socially responsible products often scares mainstream customers away, and so McDonald's goal was to offer the specialty coffee while maintaining its historically low prices. Green Mountain decided to reduce its profit margin for the opportunity to work with McDonald's. "We realized that to increase volume, we needed to cut some of our margins," says Peyser. "The benefit to our farmers and our business overall has made the sacrifice on margins well worth it."

McDonald's customers have absorbed some of the higher cost of the Fair Trade coffee. McDonald's was unwilling to disclose exactly how much the cost of its coffee has increased, but Rice guesses that "the price of coffee by the cup would probably not be more than 2 to 3 cents more." He adds, "Even starving students will drop \$3 on a latte, so a couple of cents more at McDonald's won't matter." Rice also speculates that because most people don't have much time to do something about the world's problems, "if you give them something easy to do, they will. Paying a few cents more for a cup of coffee is certainly easy."

Over the past couple of years, mainstream retailers such as Costco and Sam's Club have started to sell Fair Trade coffee. Although these venues sell more of the coffee than does McDonald's, the fast-food giant does a better job of raising its visibility. Other socially responsible vendors may likewise raise consumer awareness of Fair Trade products by partnering with more mainstream companies, rather than just by preaching to the choir of socially conscious consumers. □



## MOVING FAIR TRADE TO THE MAINSTREAM

- Emphasize the product's quality
- Partner with a well-known brand
- Minimize the price premium