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Product Information and Willingness-to-Pay: A Case Study of Fair Trade Coffee on Chinese Market

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Introduction

Fair trade is an organized social movement and market-based approach to help producers in developing countries obtain better trading conditions and promote sustainability. Arnot, Boxall, and Cash (2006) and Pelsmacker, Driesen, and Rayp (2005) found that coffee consumers in developed countries were willing to pay a premium for fair trade coffee.

Coffee consumption in China has increased rapidly in recent years. Companies such as Seattle's Best and Starbucks have not suffered any margin loss in Chinese markets during 2008 and 2009 (Sanchanta 2010). This study poses a unique opportunity to compare results to previous research on fair trade coffee.

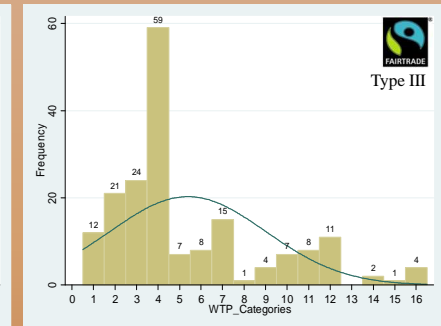
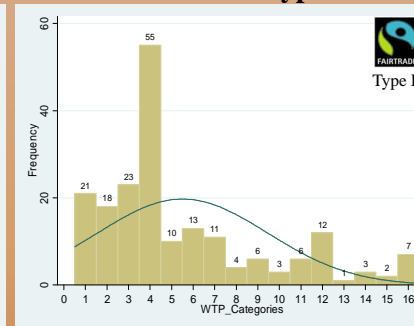
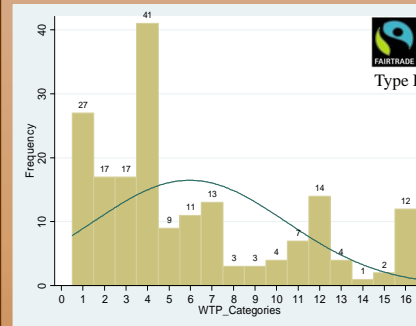
Research Questions

- ❖ Do consumers in different countries, particularly those that have not been traditionally exposed to much of the fair trade products, have the same purchasing behavior as developed countries?
- ❖ Do Chinese consumers pay enough attention to product information that links to real-life implications of fair trade coffee?
- ❖ Does more product information lead to higher WTP?

Data

- ❖ Data used in this study were collected from 564 respondents by a face-to-face survey in Wuhan city in China during October and November, 2008.
- ❖ In order to know whether more product information leads to higher WTP, three different types of product information on fair trade coffee was provided in the questionnaire and only one type of information was randomly given to each respondent.
- ❖ Type I (Basic definition about fair trade coffee)
 - ☑ Coffee traders have agreed to pay a fair price to marginalized coffee farmers, specially for developing countries in Asia, Africa, Latin America, and the Caribbean.
- ❖ Type II (Type I plus specific information about the sustainability and environment)
 - ☑ With Type I information, additional information on helping farmers to be sustainable and improving environmental conservation are shown.
- ❖ Type III (Type II plus additional information on societal benefits)
 - ☑ With Type II information, more information such as how farmers can benefit from fair trade labeling is provided.

The Distribution of WTP for Each Type of Product Information



Category List: 1: (¥0); 2: (¥0-¥0.99); 3: (¥1-¥1.99); 4: (¥2-¥2.99); 5: (¥3-¥3.99); 6: (¥4-¥4.99); 7: (¥5-¥5.99); 8: (¥6-¥6.99); 9: (¥7-¥7.99); 10: (¥8-¥8.99); 11: (¥9-¥9.99); 12: (¥10-¥10.99); 13: (¥11-¥11.99); 14: (¥12-¥12.99); 15: (¥13-¥13.99); 16: (¥14 or more).

❖ Interval Regression Results for WTP: Type I, II, and III

Variables	Type I	Type II	Type III
male	-0.324	-1.291 **	-1.119 **
age	-0.115	-0.006	-0.137 *
family size	0.520 *	0.0001	0.759 **
married	1.934	-0.948	2.057 **
made coffee before	1.939 **	1.898 **	0.115
buy mostly from shop	1.419 *	-0.502	1.176 **
usually drinks black coffee	-0.914	0.445	-1.157 **
amt. consumed in a week	-0.043	0.030	0.077 *
beginning drinker	-0.760	-0.795	-1.552 **
plan to inc. consumption	1.758 **	1.061	0.259
plan to dec. consumption	-3.905 ***	-0.550	-1.394
known Fair Trade coffee	0.596	0.152	-0.208
known Organic coffee	-0.779	-1.046 *	-0.455
constant	4.345 *	3.247	6.246 ***
Log-likelihood	-473.401	-503.329	-466.967
Wald χ^2	41.390	26.590	36.810
Number of obs.	185	195	184

Note: * = 0.10, ** = 0.05, and *** = 0.01

❖ Predicted Premium of WTP for Fair Trade Coffee under Different Consumer Profiles

	Type I	Type II	Type III
Male Consumer			
Did not make a cup of coffee	<u>¥0.33 /</u>	<u>¥2.12 /</u>	<u>¥1.14 /</u>
Did not buy coffee from coffee shop	<u>\$0.05</u>	<u>\$0.32</u>	<u>\$0.17</u>
Female Consumer			
Make a cup of coffee	<u>¥4.02 /</u>	<u>¥4.81 /</u>	<u>¥3.55 /</u>
Buy coffee from coffee shop	<u>\$0.60</u>	<u>\$0.72</u>	<u>\$0.53</u>
Female Consumer			
Make a cup of coffee	<u>¥2.60 /</u>	<u>¥5.31 /</u>	<u>¥2.37 /</u>
Did not buy coffee from coffee shop	<u>\$0.39</u>	<u>\$0.80</u>	<u>\$0.36</u>

Note: The exchange rate during survey was about \$0.15 per yuan. ___ and ___ represent the lowest and highest premium, respectively.

Conclusion

- ✓ In general, Chinese consumers are willing to pay additional amount for fair trade coffee. When more product information is provided, more consumers would like to pay a premium for fair trade coffee.
- ✓ The amount of product information provided and consumer WTP do not follow a linear relationship.
- ✓ Marketers can target young female consumers who are married and have larger family size by using comprehensive product information for fair trade labeling.
- ✓ Most Chinese consumers are occasional coffee drinkers who like to try out featured (non-regular black) coffee.
- ✓ When product information are related to the concern of sustainability and environment, female consumers who make coffee by themselves are willing to pay the most (\$0.80) for fair trade coffee.

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