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## Article

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## MANAGEMENT | RESEARCH ARTICLE

# Exploring the supply chain management of fair trade business: case study of a fair trade craft company in China

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**Abstract:** For two decades, fair trade has served as an alternative approach of trading that encourages minimal returns, sustainability, and ethics, by offering producers in developing countries better trading conditions and secured rights. This movement has emerged recently in China, with companies involving domestic trading between richer and poorer regions. However, lack of third-party certification, standardization, process control, public awareness, and brand recognition continue to be challenges. To understand the current fair trade business in China, this paper investigates important decision-making areas from a supply chain management perspective. With the nature of empirical studies, an in-depth case analysis of a fair trade craft company has been conducted along with the purchasing and supplier relationship management, internal operations, and marketing and customer relationship management. This company currently combines the role of fair trade organization and retailer, by implementing an in-house certification system and vertically integrating the supply chain. Findings also highlight risk at each stage of supply chain. Compared with the western society, the unique features of Chinese fair trade business are captured with prioritized areas for improvement. This research contributes to the fair trade literature by providing exploratory study into emerging issues in the supply chain, particularly inside

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Miss Kaifeng Zhang is currently a business consultant in Singapore. She previously studied at the Graduate School of Economics, Kyoto University, and Business School of Xi'an Jiaotong-Liverpool University. With interest in social innovation and fair trade business, she conducted case studies on fair trade coffee shops and craft organizations for this research.

Dr. Zheng Liu is a lecturer at Business School, University of South Wales, and research fellow at Centre of Innovation and Development, Nanjing University of Science and Technology. She previously worked at Xi'an Jiaotong-Liverpool University and Kyoto University. Her research interests include responsible innovation and sustainability.

Miss Ping Wang is a deputy Director of finance department, Henan Investment Group co., Ltd. Graduated from Ximen University, her studies and working experience focus on investment opportunity, merger and acquisition, and financial control.

### PUBLIC INTEREST STATEMENT

This paper analyzes the supply chain management of fair trade business, an emerging issue in China. While most studies explore fair trade practice in the developed countries, we provide exploratory investigation inside developing countries with an in-depth case study. Our findings highlight the importance of producer supply management and customer relationship. The proposed conceptual framework can help fair trade companies to identify supply chain-related challenges and make improvement. We also suggest that policy support, collaboration with international fair trade organizations and NGOs, and community engagement can further promote ethical consumption, especially in areas where the concept of fair trade is unfamiliar to the public.

developing countries. The recommendations also create value for policy-makers and practitioners of fair trade companies.

**Subjects:** Supply Chain Management; Corporate Social Responsibility; Business Ethics

**Keywords:** Fair trade; social enterprise; supply chain management; China

## 1. Introduction

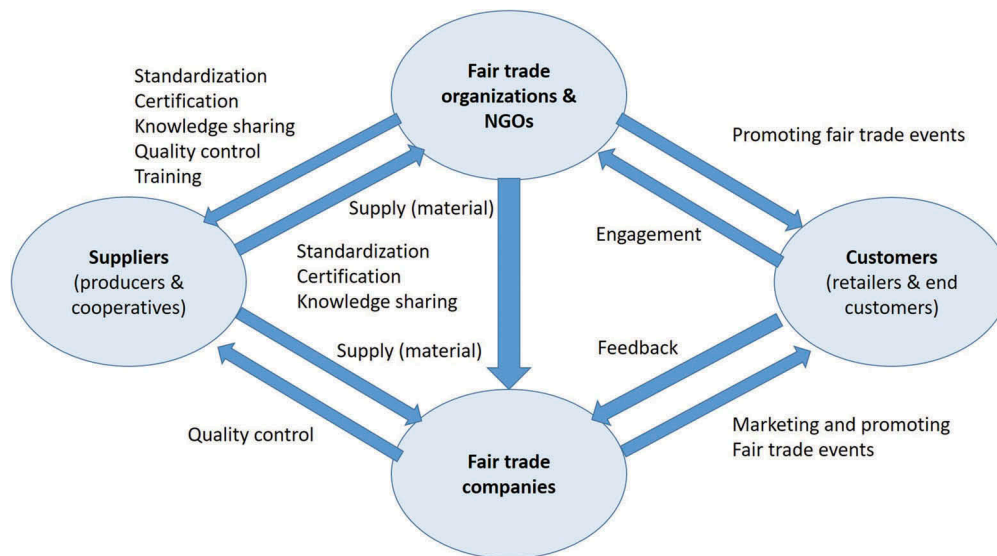
For two decades, fair trade has served as an alternative approach of trading that encourages minimal returns, sustainability, and ethics, by offering producers in developing countries better trading conditions and secured rights. In western companies, there are good practices of efficient supply chain management, with suppliers, fair trade organizations, focal companies, and customers highly coordinated. However, fair trade is still a new concept in China, only emerging in the recent 10 years (Carter & Easton, 2011). Fair trade originated in the 1940 s and 1950 s from a general dissatisfaction with the unfairness that capitalist system generated towards small-scale producers in developing countries. In the 1940 s, groups such as Oxfam started to help handicraftsmen in poorer countries sell handicrafts to consumers in richer countries. During the 1950 s, European trade organizations including Fair Trade Organ began to import handicrafts and agricultural products from developing countries with the aim of improving the living conditions of local craftsmen and farmers. From the 1960 s to 1970 s, fair trade movement focused on the notion of “trade, not aid”, forming a preliminary operations system, while the market witnessed significant growth in Europe. A large number of “worldshops” were opened in Western European countries. Since the 1980 s, the number of fair trade organizations and companies increased. Certification system was then formed by widely recognized organizations, especially Solidaridad from the Netherlands and Fairtrade Labelling Organizations (FLO) International, setting product standards and providing support for producers.

Along the fair trade supply chain, key players are normally producer cooperatives, fair trade organizations, wholesalers, retailers, and consumers. In general, fair trade organizations help producers form cooperatives to obtain bargaining power and make collective decisions. They are also engaged in certifying products and monitoring supply chain activities. Main fair trade organizations include FLO International, World Fair Trade Organization (WFTO), Fair Trade USA, Network of European Worldshops (NEWS!), European Fair Trade Association (EFTA), and FAIR Trade Federation (FTF). Wholesalers and retailers, usually referred to as fair trade companies, purchase certified products directly from producer groups or through importers on the basis of offering producers a price premium. This simplified supply chain benefits producers by cutting the expenses of middlemen and guaranteeing fair price. In addition, fair trade organizations provide producers training and market contacts. Figure 1 illustrates a typical fair trade supply chain, with each actor playing a specific role.

Since 2004, fair trade market has witnessed significant growth internationally with an annual growth rate over 30%, and sales growth rate of coffee products has reached 50% in certain countries (Raynolds, Murray, & Taylor, 2004). The annual sales of FLO certified products were 3.5 billion USD in 2008 (UNEP, 2011). By 2013, over 1.5 million farmers in more than 70 developing countries benefited from fair trade movement, receiving a total of over 70 million dollars from fair trade premium (Wang, 2013). Latest industry reports indicated global sales of FLO labelled products rising by 8%, accumulating nearly 9.2 billion USD in 2017 (Fairtrade, 2018). UK, Germany and USA are currently the largest fair trade market (Fairtrade, 2018).

Fair trade business started in China in 2003. Rather than international trade, it is more like an intra-national trade between richer and poorer regions of the country (BTC of The Belgian Development Cooperation, 2013). Though fair trade business is growing gradually, most Chinese people are not familiar with its specific concept (Wang, 2013). So far Chinese fair trade companies are mainly from food and beverage sectors, with a few covering crafts and skincare business (Table 1). Cafe shops and restaurants also incorporate fair trade products in China. For instance, Pacific

**Figure 1. International fair trade supply chain.**



Coffee offers the special coffee product *Crema Scura*, sourced from fair trade. Companies selling fair trade handcrafts also emerge, with examples of Danyun, CaiHeJia, and Unconstrained Art. In spite of the achievement, fair trade business in China faces many challenges, among which is the supplier and customer relationship management. Without a mature certification system and the participation of international fair trade organizations, companies integrate and control key parts of the supply chain. Meanwhile, some companies establish in-house fair trade scheme and provide support for producers, acting both as fair trade organization and retailer. Fair trade only takes up a minuscule market share in China, receiving limited attention and support from the public, government, mainstream companies, and investors. Without experiences, financial support and customer awareness, the supply chain management of Chinese fair trade companies face more difficult than western companies, with many issues unexplored yet.

While business practice shows new phenomenon of fair trade movement in emerging markets such as China, currently literature mainly focuses on the western society. Meanwhile, studies explore either the supply and resource factors of fair trade such as social entrepreneurship and business alliance, or the demand and market issues such as branding strategy. There is a need to reconcile supply and demand sides, conducting a holistic view over the whole value chain. As articulated in Table 2, this paper aims to provide a new scope of research, identifying critical issues in the fair trade supply chain through in-depth case studies. Specifically, the following three questions are to be answered.

**Table 1. Main fair trade companies in China**

Product Category	Company Name
Coffee	Danyun Fair Trade Company; Hong Kong Fair Taste; Hong Kong Fair Trade Power; Fair Globe China; The Green Room; Pacific Coffee Company; Jian HAUS; isLibrary; In Coffee
Chocolate and Cocoa	Hong Kong Fair Taste; Hong Kong Fair Trade Power; Fair Globe China; The Green Room
Tea	Danyun Fair Trade Company; Hong Kong Fair Taste; Hong Kong Fair Trade Power; Fair Globe China; The Green Room
Skin Care Products	Hong Kong Fair Taste; Hong Kong Fair Trade Power
Crafts	CaiHeJia Trade; Unconstrained Art; Danyun Fair Trade Company

**Table 2. Innovation and characteristics of this research**

Literature	This paper
Research scope	
Resource and supply e.g. social entrepreneurship, alliance and network Demand and market e.g. brand image, consumer behavior	Supply chain—a holistic view covering the whole fair trade value chain, highlighting the most critical decision making areas
Country studies	
Mainly developed countries e.g. USA	Emerging market (China)
Method	
Questionnaire survey, exploratory case studies	Exploratory case study and an in-depth main case study

What are the key decision-making areas of fair trade business in China?

What are the positive practices and challenges at each stage of the fair trade supply chain, including supply management, internal operations, and customer relationship management?

What are the priorities for supply chain improvement in China’s fair trade business?

## 2. Literature review

Literature covers a range of disciplines including economics, marketing, rural studies, and development studies (Moore, 2004). In general, fair trade supply chain has demonstrated different dimensions from traditional trade, particularly in terms of supply factors such as network and alliances, demand and market factors, and other environmental issues such as country characteristics.

From supply and resource aspects, case studies in the USA suggest that shared values and desire to help can be driving forces for social entrepreneurs to consider fair trade (Cater, Collins, & Bela, 2017). Motivation factors of fair trade business are direct relationships with producers, support for social issues, preserving craftsmanship, and sharing aesthetic products (Cater et al., 2017). Small fair trade companies need the support from fair trade community and family member involvement (Cater et al., 2017). Case study on fair trade agricultural sectors suggests that certification affiliations playing an important role in the supply chain management (Burmeister & Tanaka, 2017). Entrepreneurship and alliances with wholesalers and retailers, aggregation of market channels can help farmers maintain high standard in terms of producing premium quality products (Burmeister & Tanaka, 2017). Studies on the fine jewellery supply chain including products using fair trade labelled materials emphasizes an inclusive business model engaging firms, trade associations, NGOs and consumers to overcome corporate responsibility challenges (Carrigan, McEachern, Moraes, & Bosangit, 2017). Researchers have recognized the essential role that fair trade plays in improving sustainable supply chain management. Based on extensive secondary case studies, Auroi (2003) identified problems of main contributors in fair trade system, farmers, consumer associations and international organizations, and emphasized the importance of adopting consistent international agenda for implementation. Davies (2009) conducted a longitudinal study on three large fair trade food and beverage companies in UK, identifying three types of benefits (competitive developments through virtual integration, intellectual development through sharing, and ideological developments) from fair trade alliances and networks, along with three managerial factors (partner choice, partner use, and partner management) that influence these benefits. Reed (2009) found that increasing forms of corporate involvement carry risks, especially in terms of compromising of fair trade movement value and original social economy goals. Karjalainen and Moxham (2013) highlighted the managerial implications derived from differences between fair trade and traditional supply chain. Moxham and Kauppi (2014) discussed changes that fair trade brought to supply chain management and the competitive advantages it generated. Moore (2004) found that fair trade industry structure

involves four types of organizations, namely producers in developing countries, buying organizations in developed countries, umbrella and certification bodies such as NEWSI, and conventional organizations including supermarkets. Though certification organizations provide standards of fair trade practice, researchers argued this is against the natural interests of business people who need to control supply chain (Hira & Ferrie, 2006), and the certification cost can be high (Moore, 2004). Reed (2009) analysed four types of fair trade value chain, comparing the benefit and risk. Firstly, fair trade without corporate participation shows consistency with the principles of fair trade movements, direct sourcing, and helping suppliers (Reed, 2008). This model can be improved through public purchasing policies, distribution outlets, and social marketing (Reed, 2008). Secondly, fair trade with corporate retail participation contributes to the market expansion (Reed, 2008). However, the fair trade brand is largely impacted by the reputation of retailers, and some retail companies gradually develop their own-labelled products (Reed, 2008). Thirdly, fair trade with corporate licenses shows companies' greater control of the value chain, especially in terms of quality and cost (Reed, 2008). However, these corporates may treat smaller producers as resources for cost concern, rather than integrating them in the whole value chain, and thus against fair trade concepts of developing long-term relationship (Reed, 2009). Fourthly, fair trade with plantation production can provide benefits for agricultural workers, promoting the growth of fair trade on a larger scale (Reed, 2008). Nevertheless, the expansion of this type of value chain may challenge consumer confidence, squeezing small producers out of the market (Reed, 2009).

Another stream of literature can be seen from demand and market perspectives. It is found that value-belief-norm and value-identity-personal norm are important factors of fair trade product consumption (Schenk, 2019). Through online survey on Dutch consumers, it is shown that the determinations of fair trade product purchase intention are moral obligation and self-identity (Beldad & Hegner, 2018). Based on the findings, institutions such as government agencies, consumer groups and non-profit organizations need to highlight the sustainable benefits and promote a potential market (Beldad & Hegner, 2018). In fact, public ethical consumption choices can be prompted, once the positive beliefs about purchasing fair trade products are established (Beldad & Hegner, 2018). Through cross-country examination, it is found that certifications can enhance product valuations (Vera Heredia-Colac, Do Vale, & Villas-Boas, 2019). Consumer ethical behaviour can be influenced hugely by the fair trade product brand eligibility through certification, especially in matured market such as the USA (Vera Heredia-Colac et al., 2019). Based on questionnaire survey, results reveal that trust in fair trade organizations and perceived effectiveness of these organizations will positively influence consumer purchase intention towards fair trade products. Case studies in the UK's fair trade companies indicate that ethical consumers can be an agent to promote moral action, co-operation, consumer demand and citizen consumers (Anderson, 2017). Studies on Chinese consumers show the impact of consumer mindset and moral identity on purchasing fair trade products (Yen, Wang, & Yang, 2017). In terms of branding and marketing, Nicholls (2002) examined the key drivers of fair trade, finding that retailers can take the opportunity to develop corporate social responsibility profile, and identify new niche market. By studying three craft organizations, Randall (2005) suggested that fair trade business should improve quality, customer service and products. The limited distribution capability focusing on small niche market should be extended to widen customer base (Randall, 2005). Price is a fundamental element, but branding building and information dissemination (Nicholls, 2002), ethical concept, high quality, health and organic features, environmental credentials, standards and certification, and locally produced food (Valkila, Haaparanta, & Niemi, 2010) should also be emphasized to increase consumer awareness and understanding of fair trade (Moore, 2004). For fair trade business to approach mainstream, five aspects should be highlighted, which are business organizational culture, business strategy, small business performance, artisan work and development, and cultural product meaning for consumers (Littrell & Dickson, 1999). By investigating the fair trade company Cafedirect, Davies (2009) summarized that partnership with cafes, restaurants, long-term relationship development with supply chain partners, working with charities can help to reach mainstream market. Based on multiple case studies in Switzerland, Bezencon and Blili (2009)

suggested that mainstream actors such as supermarkets can contribute to fair trade global sales, but they cannot convey the message of fair trade to the customers effectively.

From macro-environmental level, current literature covers the roles of government policy, culture, media, third-party agencies, NGOs and religions. Studies in the UK show that NGOs, networks between fair trade organisations, and stakeholders can drive changes towards fair trade product consumption (Anderson, 2017). Studies on Dutch consumers illustrate the relationship between different religiosity and social attitude towards socially responsible products (Graafland, 2017). Third-party certification can reduce the risk related to consumer purchasing sustainable products (Brach, Walsh, & Shaw, 2018). Recent research links fair trade purchase with the motivation of social media (Han & Stoel, 2017). At regional and national levels, in USA and Canada, there are obstacles of certification and awareness of fair trade, whereas in Europe particularly the Netherlands, UK and Switzerland, fair trade has already reached the mainstream market (Hira & Ferrie, 2006). Europe's success also benefits from legitimation (Hira & Ferrie, 2006). By assessing Brazilian nut fair trade organizations, Diniz and Fabbe-Costes (2007) identified that lack of organizational supply chain is a major weakness. Smith (2010) found that UK supermarket involvement in fair trade results in both benefit and threats to fair trade development, due to their relationships with fair trade suppliers. Based on extensive fieldwork in Nicaragua, Ruben and Zuniga (2011) found that fair trade offers coffee producers better prices, while other certification schemes outperformed fair trade in yield and quality. Ozcaglar-Toulouse, Beji-Becheur, and Murphy (2010) interviewed fair trade innovators in France, and mapped the involution stages of fair trade business models from early "chartable trade", to "alternative trade", "viable competitive enterprise" meaning fair trade becoming a market segment, and now towards "sustainable fair trade" where organizations share resources through media events, network, and interpersonal relationship. Ingenbleek and Reinders (2013) examined fair trade coffee market in the Netherlands and found that retailers' and coffee roasters' decision can significantly influence market creation and maintenance. These decisions can be viable due to the customer loyalty from this small segment and multiple sustainability standards. Existing literature shows the practice of fair trade companies and organizations in developed countries, whereas studies on fair trade business in emerging markets such as India, Brazil, and South Africa are still under-represented (Anderson, 2017). As for fair trade business in China, Yang and Qi (2009) suggested that Chinese fruit industry should join international fair trade movement to better regulate trade along the supply chain, and to improve the living conditions of Chinese fruit growers. Liu, Yang, Wu, Guo, and Xu (2011) showed the feasibility of fair trade as a poverty alleviation strategy in China and addressed the importance of local government support. Wang (2013) suggested that Chinese farmers need fair trade to generate sustainable competitive advantage. Huang and Xiang (2013) explored the implications of fair trade in the context of China's agricultural industrialization, and suggested three dimensions of improvement, establishing effective monitoring and coordinating system to ensure benefits, promoting the notion of fair trade to enhance corporate societal responsibility and consumer awareness, and relying on farmer cooperatives to develop fair trade.

Current literature shows theory frameworks and practical cases from either the supply and resources aspects such as alliance, or the demand and market side. However, there are relatively few studies investigating the whole industry value chain, combining resource with market and highlighting the critical decision-making areas along the supply chain. Studies so far mainly focus on the ethical purchasing and consumption in the developed countries, whereas fair trade movement in the emerging markets including China are under-presented. Compared with food and beverage sectors, research on fair trade craft sectors are limited. Furthermore, though increasing more studies on China can be found, they are based on either secondary cases or document reviews, instead of exploratory methods. Thus, this research aims to contribute to the theory of fair trade, by exploring details of fair trade supply chain with focus on China, highlighting its structure, process, key decision-making areas, the strength and weakness at each stage.



### 3. Research methodology

Exploratory research can investigate insights of behaviour and reveal values (Malhotra & Dash, 2011). In particular, qualitative method with case study can explore real-life events which are not identified before (Yin, 2003). As fair trade business is a new phenomenon in China, and the craft sectors are underexplored in current literature, exploratory approaches can provide insightful details and fill the research gap. To achieve the research aim, document reviews were conducted for two secondary case studies of western fair trade craft companies, followed by interview as the main in-depth case study on a Chinese craft company. Table 3 shows the features of the case companies.

Secondary case studies aim to highlight the critical decision-making areas of fair trade supply chain management in western companies. Research highlights purchasing and supplier management, marketing and customer relationship management, which has already been pointed out in companies' industry reports and journal papers. The main case study focuses on a Chinese fair trade craft company named Unconstrained Art, for the reasons that:

This company follows the principles of international fair trade, implementing an in-house fair trade scheme, and integrating the whole supply chain, which represents the business model currently in China.

There are clear stages along its supply chain from supplier selection, internal operations to customer relationship management, each showing positive practices and areas for improvement.

The company has experienced business expansion and sales increase, becoming competitive in the niche market. Its business model can potentially be implemented to other Chinese fair trade companies.

With technology advancement, the company has established online stores in addition to its offline stores, which indicates a new trend of fair trade business.

The company is from the craft sector, which are underexplored in current literature. The in-depth study can contribute to the theory of fair trade.

The company data is accessible. The managers are willing to share the business strategy, supply chain decision-making details, and comment on the business performance and challenges.

For data collection, 4 semi-structured interviews were conducted with the general manager, the supplier manager, and the marketing manager during 2014 and 2015, each lasting 2 h. Interview questions covered key areas of supply chain including supplier selection, purchasing and supplier relationship development, product and service design, inventory management, logistics, order fulfilment, marketing and customer relationship management. Besides, data were also collected through emails, social media, and the company online store. Data were analysed against three main categories: Supplier Relationship Management (SRM), Internal

**Table 3. List of case companies**

Company	Business sector	Data source
Unconstrained Art (China)	Craft	Interview (general manager, supply manager, marketing manager) <a href="https://www.weibo.com/u/1,949,858,920?is_all=1">https://www.weibo.com/u/1,949,858,920?is_all=1</a>
Ten Thousand Villages (Canada)	Craft	Secondary document review (Randall, 2005) <a href="https://www.tenthousandvillages.com/">https://www.tenthousandvillages.com/</a>
Trade Aid (New Zealand)	Craft, Coffee, Chocolate	Secondary document review (Randall, 2005) <a href="https://www.tradeaid.org.nz/">https://www.tradeaid.org.nz/</a>

Supply Chain Management (ISCM), and Customer Relationship Management (CRM) (Chopra & Meindl, 2015). They were further subdivided into seven areas: crafter cooperatives management, and packaging manufacturer management for SRM; demand forecasting and production, and inventory management for ISCM, order management, marketing and sales management, and customer service management for CRM (Lambert, 2010). Key stages, processes and activities were identified, with further confirmation from the company. In addition, customers' review from the online shop and social network were also considered as prioritized areas for improvement. Comparing the main case with exploratory cases, a conceptual framework was proposed, linking to the literature and suggesting future research areas.

#### 4. In-depth case study—Unconstrained Art Ltd

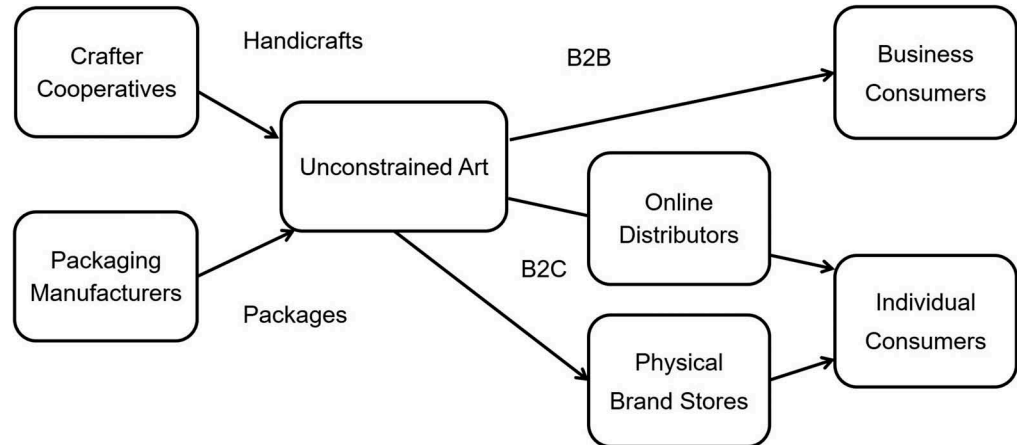
Founded in 2010, Unconstrained Art Ltd. is a Beijing-based small fair trade company. It sells handcrafts from two villages in the South-eastern Qian Autonomous Prefecture of Guizhou Province, a poor region in China. The company has built the product brand “Hand Affection”, featuring designed handmade fine silver jewellery. It focuses on domestic market, reaching individual and business customers through physical stores and online channels. For business customers, Unconstrained Art provides customized products and service. So far it has three online stores and two offline stores in Beijing. Meanwhile, it collaborates with other fair trade organizations and companies in China, promoting its image and providing training to crafter groups in China's rural areas. Unconstrained Art adopts an in-house certification scheme, in compliance with the principles of fair trade (WFTO, 2017):

- Fair prices: Crafters who work for Unconstrained Art receive at least 20% of the net profit, which is above the market price. For each trade, it ensures a payment of social premium (3% of the net profit) which is used to improve the welfare of local craftsmen. Additionally, the company covers transportation cost.
- Fair labour conditions: All job roles are available to male and female, adults of all ages, who are willing to work for Unconstrained Art voluntarily. Health and safety is emphasized in the working condition.
- Direct trade: Unconstrained Art purchases directly from the two crafter cooperatives to eliminate unnecessary middlemen and ensure a fair price.
- Democratic and transparent organizations: All job roles are open to male and female of all adult ages. Crafter cooperatives select representatives to communicate regularly with the company's supplier manager. Price and cost of Unconstrained Art are specified and tabulated clearly.
- Community development: Unconstrained Art provides producers assistance instead of just purchasing the products. It bridges crafters with the market by helping them build cooperatives and communities to share information and arrange production and resources effectively. Collaborating with local community and college, Unconstrained Art provides training for producers to enhance their techniques, computer skills and market-related knowledge.
- Environmental sustainability: Ingredients, production process, and finished products are environmentally friendly. All products are handmade from natural raw materials.

By 2011, Unconstrained Art had paid crafters over 117,500 RMB and held a series of training projects, maintaining a 10,000 RMB annual income increase per person. By 2013, its revenue had achieved 200,000 RMB. Now it can provide training and education to 300 craftsman, increasing their income with 10,000 RMB more annually per person. Most profits are used for business improvement and supporting the lives of crafters in rural areas. The company plans to open 17 more physical brand stores in Beijing, Shanghai, and Shenzhen, which are among the richest cities in China. In addition, it plans to establish a specialized training school for local crafters, cooperate with more crafter cooperatives, and expand its market to the UK.

Figure 2 demonstrates Unconstrained Art's supply chain. Crafter cooperatives are responsible for raw material sourcing. Unconstrained Art purchases products from crafter cooperatives, and packages from

**Figure 2. Supply chain of Unconstrained Art.**



a manufacturer. The company vertically integrates the supply chain, and operates according to its in-house fair trade scheme, which is consistent with international fair trade principles. Unconstrained Art decided to build crafter bases, instead of working with fair trade certified crafters cooperatives because. According to the general manager, “among the large number of Chinese crafters, only a few has been certified by fair trade organizations, which is far from enough. We want to absorb more qualified crafter groups into fair trade to benefit their lives”. Operating business without the involvement of third-party certifier can provide effective benefit to the crafters, and simplify the business. However, for further business expansion and better brand recognition, the company will consider working with certifiers in the future. As the general manager replied, “we are working with local crafters actively, seeking chances to become a WFTO member. We think we can do better with the help of fair trade organizations”. In fact, some of its competitors from China (e.g. CaiHeJia Trade), previous implementing self-established fair trade program, are now on the way to be certified by third parties. Unconstrained Art believes that this growth path is a trend of China’s fair trade business.

## 5. Findings and discussion

### 5.1. Supplier management

#### 5.1.1. Crafter cooperatives

Unconstrained Art encountered three main problems once established. Firstly, some crafters did not accept the prices that the company offered, even though prices were higher than the mainstream market. Secondly, product quality varied from person to person. Some suppliers insisted on equal payment regardless of the actual quality, while others who provide better quality required 20% increase of the agreed price. Thirdly, some crafters could not complete orders on time, especially during the harvest time. Living in rural areas, producers did not understand the market system. Being not aware of the fair trade concept, they did not trust Unconstrained Art.

To solve the problems, Unconstrained Art invested into a long-term partnership. It helped the crafters to form cooperatives, conducting market research in nearby cities and informing crafters the market rules. To build mutual understanding and trust, the company was actively involved in local community development projects. Continuously looking for new ideas, it engaged crafters in product design, offering training by collaboration with a local community college. These actions enabled Unconstrained Art to persuade crafters accepting the prices and setting quality standards together.

The above issues indicate the importance of laying a solid foundation for a long-term supply relationship. Without supporting organizations and public awareness of fair trade, this can be a time-consuming process requiring high levels of human endeavour and capital investment. As the supply manager

recalled, it took the company two months to reach agreement with the crafters on supply items' details. Through training and continuous improvement, Unconstrained Art has now achieved mutual trust with the existing suppliers. For market expansion and product diversity in the future, it will consider sourcing from multiple suppliers.

#### *5.1.2. Packaging manufacturer*

Unconstrained Art outsourced the packaging stage to a company in Zhejiang province. Due to industry cluster effect in that area, manufacturing and logistics cost are relatively low. This helps Unconstrained Art to focus on its core competence. As the supply manager explained, "it is now very convenient to talk to the packing supplier virtually anytime through instant messages and phone calls".

However, given the numerous available options of packaging companies, the selection process is also complicated. As the supply manager notified, "we ended up the relationship with the previous supplier, because the packages it offered the second time were of much lower quality than the first time; we lost lots of money because of it". In addition, using just one packaging manufacturer is less flexible and risky in case of emergency. This is especially the case for business clients, whose requirement of package varies significantly. So far, Unconstrained Art has not achieved strategic sourcing, as package suppliers are not prioritized in the supply chain improvement.

### **5.2. Internal supply chain management**

#### *5.2.1. Demand forecasting and production*

Unconstrained Art forecasts demand and plan production in a simple way. For B2 C market, it makes production plans on a monthly basis, using previous sales records as key indicators. For B2B market, there is no demand forecasting, but instead implementing Build-to-Order (BTO) method. This approach costs little, allowing the company to focus on supplier management and market development, regarded as "the top priorities" by the general manager.

Though simplified, the system suffers from relatively low forecast accuracy, as nearly 70% monthly supply exceeds the actual demand, resulting in more inventory cost. In addition, this is a top-down production plan process where customer requirement is ignored. The challenge of matching production with demand can be more as the company expands geographically.

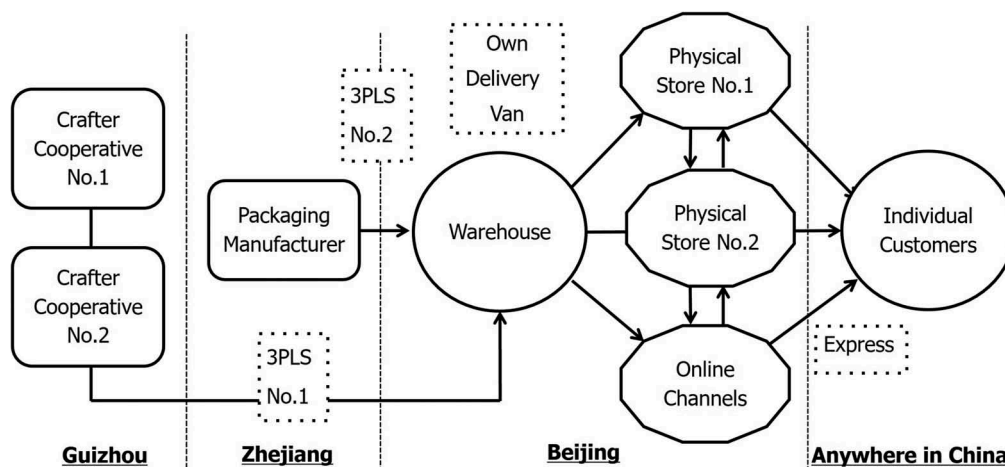
#### *5.2.2. Inventory management*

Unconstrained Art adjusts inventory management in accordance with the two customer groups. It has established an inventory record system using Excel, in which information is recorded and checked by crafters, warehouse keepers, and sales staff. Initially, crafter cooperatives stored finished goods in their warehouses, and wait for orders from the Unconstrained Art headquarter.

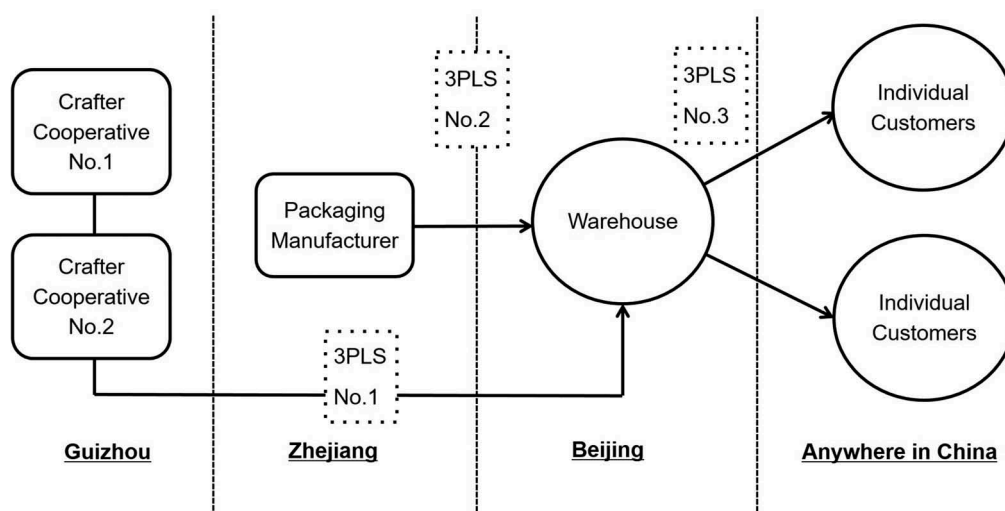
As Figure 3 illustrates, for B2 C market, products and packages are transported to Unconstrained Art's warehouse centre in Beijing through two different contractual third-party logistic service providers (3PLS: No.1 and No.2). The establishment of central warehouse enables the company to respond to the market timely in a cost-effective way. From the central warehouse, items are then distributed to physical shops using Unconstrained Art's own vans, since currently shops and the warehouse are all in Beijing. Warehouse keepers and sales staff in each shop check and update inventory information twice a day. Meanwhile, the company utilizes a contractual express company to deliver products to online customers to "cut unnecessary cost".

Figure 4 shows Unconstrained Art's inventory management of B2B products. It relies on another 3PLS (3PLS No.3) to reach business clients in various places in China. Given the limited resource and budget, the adoption of local 3PLSs and express companies allows Unconstrained Art to minimize transportation cost and focus on its core competence. As the general manager stated, "all these actions help us respond quickly to demand change, while managing inventories efficiently".

**Figure 3. Unconstrained Art management activities for the B2C market.**



**Figure 4. Unconstrained Art management activities for the B2B market.**



There are some potential problems with the inventory management system. Although fair trade supply chain management emphasizes mutual trust between companies and producers, it is still risky to rely on crafter cooperatives to purchase raw material and manage inventories of finished goods. Meanwhile, using 3PLSs does not guarantee reliability and quality of the service. Given the condition that Unconstrained Art uses three 3PLSs, its business growth will lead to increasing logistics cost. The Excel-based inventory system and single warehouse may become less efficient with the increasing demand and new stores in different cities. Moreover, the unsystematic demand and production planning approach can result in risk and uncertainty to the whole supply chain.

### 5.3. Customer relationship management

#### 5.3.1. Order fulfilment

Unconstrained Art benefits from a “hybrid BTO” order fulfilment strategy, combining Build-to-Stock (BTS) and Build-to-Order (BTO). For B2 C market, it utilizes BTS where silver jewellery are made according to monthly demand forecasts and sold to individual customers from the finished goods stock. As the general manager explained, “the changeover times during production are lengthy and stock-outs are

costly, especially for the physical stores". For B2B market, the company adopts BTO where customized handicrafts are made according to customers' requirement. Unconstrained Art generates a high level of customer satisfaction, by decreasing stock obsolescence risk.

Despite the benefits, the "hybrid BTO" method brings some risk. With the continuous introduction of new product lines, BTS is less feasible for managing the individual market segment. It can drag cash flow and cause accumulation of obsolete stock, particularly when the demand is not stable. Although applying BTO to manage B2B orders can solve the above problems, it will reduce facility utilization, resulting in conflicts between the B2B and B2 C orders. Meanwhile, it is difficult to balance BTO and BTS to maintain stock levels. According to the general manager, the company will consider adopting a professional e-system for order management in the future.

### 5.3.2. Sales and marketing

Unconstrained Art aims to generate competitive advantage in both B2 C and B2B markets. Using social network and digital media, the company promotes its image as social enterprise engaging in fair trade, caring about lives in the poor rural areas. It communicates the business idea to potential customers by attending exhibitions and trade fairs. To create word-of-mouth effects, it provides continuous training for sales and customer service staff, updating their knowledge of fair trade. Unconstrained Art also emphasizes its adoption of the "contribution margin-based pricing strategy", where fair payment for crafters is guaranteed and all related cost, payment and profits are transparent to the public. These initiatives help the company build its brand image and create value for customers.

For B2 C market, Unconstrained Art targets middle and upper-class consumers. Based on its market research involving 500 people from the segment group, 73% participants preferred silver jewellery to other fair trade crafts. Thus, the company decided to focus on designed fine silver jewellery. To position the brand as premium, stylish and green, Unconstrained Art restrictedly select five intermediaries (two physical brand stores, one online brand store, and two online dealers) to distribute its products. The stores are located in middle and upper-class shopping malls, accessible to the target customers. For B2B market, Unconstrained Art actively approach organizations from tourism, foreign trade, international exchange, and culture sectors. As the general manager explained, "over 80% of our business customers are from these categories". Through communication with customers, the company provides customized products.

Currently, Unconstrained Art faces challenges in sales and marketing. Paying a large amount of social premium to producers, the company's net profit (approximately 25% of the revenue) cannot cover its business expansion. It is difficult to attract more consumers while keeping the marketing cost down. According to the marketing manager, the "original plan of opening 15 more brand stores by 2013 failed due to the unexpected high cost of distribution channels". Meanwhile, the company also finds it hard to maintain long-term relationships with the business customers.

### 5.3.3. Customer service

For individual customers, Unconstrained Art offers free toolkits to clean and repair the silver jewellery. The online customer service staff and shop assistants in physical stores are responsible for solving customers' inquiries and complaints. Customers are encouraged to express their comments about products and service through the social network. Sometimes customers interact with the managers directly. Business customers can directly approach the marketing manager via email and phone to communicate product specifications. As the marketing manager said, "customer service staff record the customer feedback, which is valuable for our service improvement".

Unconstrained Art has received individual customers' complaints regarding the ineffective management of websites, slow response from online customer service staff and the lack of call centre. Although the company has adopted software for each sales channel, it fails to build a synthesized e-system to manage customer relationship-related data. This seriously affects the efficiency of integrating sales information and customer feedback to improve the product and service.

From the above analysis, strength and weakness of Unconstrained Art's supply chain management can be summarized as Table 4, with stages of crafter cooperative, packaging supplier, demand/production, inventory management, order management, marketing and sales management, and customer service management.

#### **5.4. Towards a framework of fair trade supply network**

The in-depth case study of Unconstrained Art reveals that fair trade companies in China face challenges and risk along with the value chain. While internal management is similar to the operations of small business in general, crafter/producer cooperative supply and customer relationship management are most critical, as confirmed with the company's managers. To further investigate these issues, a comparison of Unconstrained Art and the two western companies from the secondary case studies can be made as Table 5.

The fundamental principle of fair trade business is sourcing from producers and cooperatives, in order to support their lives. Thus, it emphasizes direct supplier relationship (Moore, 2004). While western organizations and companies regard fair trade as alternatives to conventional international trading, within China fair trade bridges the rich and poor regions. Without an established certification system in China, Unconstrained Art represents a model of setting up in-house fair trade scheme, organizing producer cooperatives, providing training, and purchasing directly from producers. It integrates the traditional role of fair trade organization and retailer with strict control over the value chain, which demonstrate different features from the western companies.

In the west, fair trade organizations are usually engaged in training and providing certification, while fair trade companies and retailers control the product and service quality. Companies can source from multiple suppliers globally (Ten Thousand Villages, Trade Aid), or even establish factories (Trade Aid). For example, though keeping long-term relationship with some suppliers, the UK fair trade craft company Tradecraft also switches to new suppliers who can clearly co-generate development objectives (Moore, 2004). As Unconstrained Art combines the role of fair trade organization and company, it nurtures long-term strategic relationships with a limited number of producer cooperatives, by participating community development projects, and involving crafters in product design and supply chain improvement continuously. Since fair trade is a new phenomenon in China, the strategic relationship between producers and focal companies is a co-evolution and co-learning process. Unconstrained Art's plan of establishing a specialized school can also improve the suppliers' skill, which in return satisfy the customers in the long term.

As for the downstream side, fair trade business emphasizes helping producers, and there is a need to communicate the message to customers (Nicholls, 2002). This makes marketing strategy different from other business sectors. In the west, fair trade concept and product promotion is conducted jointly by fair trade organizations and companies (Trade Aid), or through franchised stores (Ten Thousand Villages). However, in China it is entirely the responsibility of focal companies who often have limited marketing budget. With the trend of information technology and social media, Chinese fair trade companies can adopt CRM software system, integrating sales information and customer feedback. They can also launch social network-based campaigns to influence the society (Gillin, 2007). In the case of Unconstrained Art, a combination of online and offline stores has attracted more individual and business customers. To improve service quality, fair trade companies also need more trainings, emphasizing the fair trade concept promotion techniques.

Already there are collaborations among Chinese fair trade companies through joint events and forums. However, currently there is lack of agreement on the certification procedure, and the cost of international certification is high. Companies are also worried about losing control of the supply chain through third-party certification. Unconstrained Art operates in compliance with principles of fair trade, using an in-house scheme and integrating the role of fair trade organization and retailer. However in the long term, the company wants to work with international fair

**Table 4. Unconstrained Art's strengths and weaknesses in its supply chain management**

Supply Chain Management		Strength/Benefit/Good practice	Risk/Weakness/Comments
SRM	Crafter cooperative	<ul style="list-style-type: none"> <li>- Supplier engagement in product design</li> <li>- Long-term strategic relationship through helping to form cooperatives, training, learning and sharing information, continuous improvement.</li> <li>- Collaboration with single supplier</li> <li>- Supplier selection based on industry cluster effect.</li> </ul>	<ul style="list-style-type: none"> <li>- No fair trade organization support and public awareness</li> <li>- Negotiation cost a large amount of time, capital and efforts.</li> </ul>
	Packaging supplier		<ul style="list-style-type: none"> <li>- Using single supplier is less flexible and risky.</li> <li>- Lose control of quality sometimes.</li> <li>- Supplier shows no commitment of supply chain continuous improvement.</li> </ul>
ISCM	Demand/ Production	<ul style="list-style-type: none"> <li>- Use simple demand forest and production plan approach to control cost and focus on core business</li> </ul>	<ul style="list-style-type: none"> <li>- No demand and production forecasting for the B2B market</li> <li>- Lack a powerful demand forecasting software system</li> </ul>
	Inventory management	<ul style="list-style-type: none"> <li>- Adjust inventory management in accordance with individual and business customers.</li> <li>- Involve crafter cooperatives, warehouse keepers, and sales staffs in inventory management</li> </ul>	<ul style="list-style-type: none"> <li>- It is risky to rely on crafter cooperatives to check and record inventories</li> <li>- Using 3PLS cannot guarantee timeliness and quality of customer services</li> </ul>
		<ul style="list-style-type: none"> <li>- Provide timely supply in a cost-effective way (using its own delivery vans within Beijing; establishing the central warehouse</li> <li>- Working with 3PLS</li> </ul>	<ul style="list-style-type: none"> <li>- The simple Excel-based inventory management system and the single warehouse may become less efficient as the company grows</li> </ul>

(Continued)



**Table 4. (Continued)**

Supply Chain Management		Strength/Benefit/Good practice	Risk/Weakness/Comments
CRM	Order management	<ul style="list-style-type: none"> <li>- Implement a "hybrid BTO" order fulfillment strategy (BTS for B2C market to save cost, BTO for B2B market to satisfy different customer needs)</li> <li>- Conduct market research to support decision-making</li> </ul>	<ul style="list-style-type: none"> <li>- Hard to balance BTO and BTS to maintain stock levels appropriate to the market requirement and operations stability</li> <li>- Limited marketing budget and methods of promotion lead to low level of brand recognition among consumers</li> <li>- B2C: hard to approach larger consumer groups in cost effective way</li> <li>- B2B: hard to find long-term clients</li> <li>- Slow response</li> </ul>
	Marketing and sales management	<ul style="list-style-type: none"> <li>- For individual customers: offers free toolkits to clean and repair the silver jewelries</li> <li>- Online customer service and physical stores</li> <li>- Customers can interact with company managers via social network</li> <li>- Use feedbacks for services improvement</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of a call center</li> <li>- No synthesized e-system to record and manage customer data</li> <li>- Slow pace of integrating sales information and customer feedback</li> </ul>
	Customer service management	<p>The wealth gap between urban and rural residents creates great opportunity for developing fair trade in China</p>	<p>Difficult to synthesize supply chain management while managing performance in a cost effective way</p>
Other issues			

**Table 5. Producer supply and customer relationship management of case companies**

	<b>Producer supply management</b>	<b>Customer relationship management</b>
Unconstrained Art	- In-house certification scheme	- Online shop to approach market
	- Training and education, though direct investment and collaboration with local community college	- Off line shop for service development
	- Direct and long-term relationship with a few suppliers	- Market research and brand position
	- Quality control	- Product design differentiation for individual customer and commercial customers
	- Product co-design and production	- Attending trade fairs and specialized events - Social media, social network, events to promote fair trade and brand image
Ten Thousand Villages	- Working with international fair trade certification (e.g. WFTO)	- Franchise arrangement (300 specialty store sells its products)
	- Quality control	- Promotion events (e.g. bringing artisan to site; tours to producer countries)
	- Better presentation of products (product design)	- In-store advertising to build customer loyalty
	- Partnership with other fair trade organizations	- Online store
	- Training, capacity development, spurring innovation and designs	- Social media to promote fair trade and brand image
	- Product design collaboration	- Social media to promote fair trade and brand image
Trade Aid	- International fair trade certification (WFTO)	- Education magazine to communicate with customer
	- Multiply sourcing from 27 countries and 66 trading partners	- Public relations campaigns
	- Apart from trading and sourcing, it owns a chocolate factory	- Store design to reflect contemporary image
		- Retail store and wholesaling products
		- Online store
- Wide range of product (crafts, coffee, chocolate)		
	- Promoting overall image through manufacturing its own chocolate with organic features	

trade organizations, for better brand recognition, process standardization and international business expansion. Self-certification is easy and direct to start with, whereas third party certification can help business improvement at later stages. Due to the fact that fair trade is a new concept in China, the demonstration of product novelty and social impact also needs local government support. Direct public sector involvement can increase public awareness, promote standards by legitimization, monitor and improvement, as shown in the success of Europe fair trade business (Hira & Ferrie, 2006).

Based on the above findings and discussion, a conceptual framework is developed as Figure 5 to illustrate fair trade network in China. Compared with typical western fair trade supply chain (Figure 1),

**Figure 5. An extended supply network of fair trade business in China.**



focal companies in China vertically integrate the supply chain, actively engaged in producer selection, training, quality control, and customer service. International fair trade organizations/NGOs can be certification partners in the future to provide standardization, guidance and knowledge to fair trade companies and producer cooperatives. International fair trade organizations are experienced in labelling, training process, quality control and marketing, which can help Chinese fair trade companies to standardize towards international level. Meanwhile, the unique practice of Chinese fair trade business can also help international fair trade organizations to develop new framework and research themes. In addition, NGOs can expand the social impact of fair trade products widely. While promoting the social impact of fair trade product, other factors such as design and premium quality also need to be highlighted. Government can be an important player in promoting the fair trade concept. Currently in China, the scale of social enterprise and fair trade business is still small, with many facing financial challenges. On one hand, numerous farmers and crafters in the less developed areas can be involved in the fair trade supply chain through government education and promotion. With market information sharing, training, direct help from fair trade companies, direct subsidise and indirect support from the government, there is a potential from the supply aspect. On the other hand, according to Unconstrained Art, the majority of the public have limited awareness of ethical consumption. Thus, a support from the government to promote ethical purchasing in the society can be helpful. Apart from supply support and demand stimulating, the government can further improve the regulations, facilitating social enterprises to share knowledge and connect with other business. A top-down subsidise solution in combination with bottom-up social innovation promotion policies can be considered. With the digital platform, technology advancement, and use of social media nowadays, information sharing becomes easier. Suppliers' profile, materials, product design and development, certification procedure, production, logistics, market research, and sales data can be coordinated online. Fair trade supply chain emphasizes strategic relationship among suppliers, companies, and customers, which can be further expanded towards the boarder stakeholders.

## 6. Conclusion

Fair trade business has shown increasingly more impact in recent years. While literature mainly focuses on its business performance in developed countries, this paper investigates the current and future trend of fair trade in China from supply chain aspect. The paper has examined the strength and weakness of the fair trade supply chain, with in-depth case study of a Chinese fair trade craft company—Unconstrained Art. Without public awareness and well-recognized certification system, the company adopts in-house program consistent with the fair trade principles, and vertically integrates the whole supply chain. Findings suggest that producer supply management

and customer relationship management are the most critical decision-making areas. Direct and long-term supplier relationship can be achieved through training, quality control, learning and sharing knowledge, co-design and development of new product, and engagement with local colleges and community. From market and demand aspect, using social media, a combination of online and offline stores, product customization, service development, and customer engagement can increase public awareness of fair trade and ethical consumption. The study has also compared the main case with western fair trade craft companies. It is suggested that though the Chinese company Unstrained Art currently adopts in-house certification scheme, to further expand its business internationally and improve service quality, it needs to collaborate with international fair trade certification bodies for standardization, knowledge absorption, and brand recognition. Meanwhile, an extension of China's fair trade supply network also includes local government, NGOs, customers, and other stakeholders.

While most studies explore international trade between developed and developing countries, this research contributes to the fair trade literature by providing an exploratory investigation into the structure and key issues of supply chain management, emphasizing fair trade business inside developing countries. Meanwhile, as craft sector is generally underexplored, the research can enrich the existing findings. As a fair trade craft company, Unconstrained Art has achieved competitive advantages in supply management and product design, but still faces challenges in different stages of its supply chain. It is recommended that fair trade companies can adopt e-system to synthesize resources and activities, emphasizing a bottom-up feedback collection process to encourage customer engagement. Findings including the conceptual framework can help fair trade companies to identify supply chain-related problems, and make improvement. This can be particularly helpful to small companies who are in the early stages with limited resource and seek for growth opportunities. Findings also suggest that policy support, collaboration with fair trade organizations and NGOs, and community engagement can promote ethical consumption, especially in areas where the concept of fair trade is unfamiliar to the public. A combination of online platform including social network, and offline social events can help to share the information.

There are some limitations of this research. Findings are mainly based on a single case study on a craft company, which cannot represent the whole fair trade business in China. Also, the two western exploratory cases are reviewed from secondary resources. Without details of live-real data, they provide limited information about the companies' brand management, supply network, and marketing strategy. To enrich the findings, more empirical studies and in-depth longitudinal case studies on the fair trade business across various sectors are needed.

As for the future research, a number of themes can be considered. (1) This paper brings attention towards the difference of fair trade value chain in developed countries and emerging economies. However, a single case from one sector cannot represent the whole fair trade business in China. To enrich the findings, more case studies need to be conducted covering fair trade coffee shops and other sectors. (2) From the proposed conceptual framework, the collaboration among government, companies, international fair trade organizations and the society is highlighted. More studies can explore details of the interaction mechanism along with the evolution of fair trade business, especially in areas where fair trade movement is still at early stages. (3) With the use of the internet and social media, business models have changed. More exploration can focus on how technology evolution can influence fair trade business in terms of supply relationship management, knowledge sharing, and customer engagement.

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