

The Social Enterprise Case Study Series provides an insight into how different types of social enterprises are currently operating in Australia. Social Traders has developed this series by consulting closely with individual enterprises to capture an inside perspective on the development of the enterprise and their challenges and successes.

Fair Trade:

Fair Trade Coffee Company

Summary

The Fair Trade Coffee Company was established in August 2006 as the first fair trade-exclusive café in Sydney. Fair trade is a global movement which aims to alleviate poverty while empowering producers in developing countries.

The Fair Trade Coffee Company is a subsidiary of Palms Australia. All profits are reinvested into Palms, an independent organisation placing skilled international development volunteers, at the request of communities, around the world. As a social enterprise, the café is a natural fit with Palms' ideological commitment to promoting a more just and fair world, and encouraging everyday people to play a role in securing social and economic justice with simple acts, such as purchasing fair trade tea or coffee.

Despite operating in a competitive restaurant environment, the Fair Trade Coffee Company has established a niche in providing high quality fair trade tea, coffee and chocolate, as well as a gathering place for community members with similar values and a shared concern for fair trade with developing countries around the world.

Establishment Costs	\$270,000 provided by parent company, Palms Australia
Years to break even	1
Annual Turnover	\$500,000
Annual Profit	Varies: break even in 2006-2007; \$20,000 in 2007-2008; break even in 2008-2009.
Staff	14 (5 FTE)
Social Outcomes	Contribution to sustainable development in developing countries; \$20,000 reinvested in Palms Australia since establishment
Support	Free Board of Directors



Background

Palms Australia (Palms) was founded in 1956 to recruit, prepare and support skilled volunteers for placements, at the request of local communities, in developing countries in the Pacific, Asia, Indigenous Australia and Africa. Palms had a history of running a successful retail business prior to opening the Fair Trade Coffee Company. Founded in 1971, Palms' retail shop, New Guinea Arts, showcased artefacts from Papua New Guinea. About sixty percent of their customers were tourists from overseas. Following the attacks of September 11, international travel declined, and with it, their sales. New Guinea Arts closed in 2002, but a sizeable profit had been generated and set aside. Palms Australia owned a warehouse which was sold that same year. Given some flexibility and assets on their side, the Board of Directors gave thoughtful consideration to the organisation's next strategic investment.

The idea to open the Fair Trade Coffee Company was born out of early conversations initiated by the Chair of the Board of Palms in 2003. He wanted to investigate opening a fair trade café to serve as a vehicle to expose a broader public to the values of Palms, as well as to generate income for their work. After discussions at the Board level over two years, a small subcommittee of the Board of Directors was established, along with Palms' Executive Director, and staff, to write a business plan and assess the feasibility and prospects of opening a café.

Feasibility and Establishment

The Board subcommittee and staff were joined by an adviser with extensive experience and success in the café and restaurant business. Together, they diligently researched the success rates of cafés in greater Sydney. Given the organisation's values of economic and social justice, they were keen to learn about trends in fair trade markets. They learned that customers who are educated working professionals are more likely to patronise fair trade enterprises.

As a result, they narrowed their possible markets to two: the neighbourhoods next to the University of Technology, Sydney, and the University of Sydney, each within a few kilometres of the other. Within these neighbourhoods, they honed in on streets with bustling foot traffic and a competitive café strip. When they identified a pre-existing business up for sale in Glebe, it was a natural fit:

- Neighbourhood census data indicated the target customer base would be ripe for fair trade;
- The business was located on a bustling café strip; and
- Very few modifications were required to open for business.

Before opening their doors, they market-tested nine varieties of fair trade coffee, selecting the most popular variety: Sacred Grounds (a subsidiary of Voodoo Coffee Company), which is certified organic and fair trade. They knew any cup they sold would not retain customers because it was fair trade alone; it also had to taste great. Given Palms' previous business' profits, they were in a comfortable financial position and did not need to borrow any capital to start-up the café. These profits covered the \$270,000 start-up capital required to purchase



and open the Fair Trade Coffee Company. The Board of Directors were confident the café's benefits and value would exceed its cost over time as the business plan projected the café would break even in the second year and generate \$100,000 in profit by its fourth year in operations (2009-2010). Once the café has reimbursed Palms for the start-up costs, all café profits will directly support Palms Australia's overseas volunteer programs.

From idea to business planning to start-up, after four years of debate, deliberation, and analysis, the café opened its doors for trade in August 2006.

Company Strategy

The Chair's vision of taking Palms' work 'to the streets', to mobilise awareness about everyday people's role in alleviating poverty was achieved with the establishment of the Fair Trade Coffee Company café in Glebe. The café provides consumers with ethical choices for enjoying coffee, tea and chocolate, and simultaneously creates a physical presence for Palms Australia in a high-traffic venue.

“Palms Australia wanted to promote the ethic and value of overseas development into the community a little more and introduce people to broader ideas of overseas development through the notion of fair trade, as fair trade is a first sort of introduction to the concept of living mutually around the world. This has allowed us to bring more of the ethics and values that we've always had in our core business to more people.”

Roger O'Halloran, Palms Australia Executive Director and Fair Trade Coffee Company General Manager

Palms Australia and the founders of the Fair Trade Coffee Company were very deliberate in the naming of the café. Leaving nothing to the imagination, any consumer deliberately seeking out fair trade coffee easily locates the Fair Trade Coffee Company online. The café believes it is important to model fair labour practices and pays award wages to all staff.

None of the products sold at the Fair Trade Coffee Company come from exploited labour. All goods produced overseas are certified fair trade, including tea, coffee, chocolate and chocolate powder. They also have textiles available for purchase from a women's cooperative in East Timor - rather than generate much income, the sale of these textiles serves as another vehicle to raise awareness about Palm's volunteer programs and overseas development. All other goods are grown or made with Australian, and whenever possible, organic and local ingredients.

Given Palms Australia's commitment to creating partnerships with local communities in developing countries around the world, their enterprise similarly reflects the value of partnership - between producers and consumers. By purchasing and selling fair trade-exclusive coffee, tea and chocolate, the Fair Trade Coffee Company and its consumers are contributing to:

- Sustainable development by creating improved trading conditions with producers in the developing world; and
- Securing the rights of marginalised workers and producers, ensuring they earn a fair wage for their work.



As a fair trade social enterprise, the Fair Trade Coffee Company embodies the shared values with Palms Australia of fairness, economic justice and poverty alleviation. In addition to fair wages, fair trade producer organisations receive a Fair Trade Premium, which dedicates additional income to community development projects, such as the construction and maintenance of schools and health care facilities in growers' communities. According to the Fair Trade Labelling Organisations International (FLO), the Fair Trade Premium contributed over 12 million Euros to fair trade coffee farmers alone in 2008¹.

Company Structure and Governance

Palms Australia is a not-for-profit company limited by guarantee. In contrast to their first venture, Arts New Guinea, the Palms Board of Directors explicitly created the Fair Trade Coffee Company as a subsidiary of Palms. After thirty years of running two separate businesses, with separate Boards of Directors and books, they were interested in streamlining their operations and elected to open the Fair Trade Coffee Company underneath the parent company Palms Australia. As such, the Fair Trade Coffee Company does not pay tax on their earnings, given Palms' status as an overseas development agency. Financial records of each entity are kept separate in order to regularly monitor independent profit and loss. This enables Directors to keep track of how each entity is faring from year to year. Records are reported together as required by the Australian Securities and Investments Commission (ASIC).



There are currently nine Directors of Palms Australia, with members serving three-year terms. This Board oversees the strategic direction of the Fair Trade Coffee Company, and has delegated the responsibility of day-to-day management to Roger O'Halloran, who serves as General Manager of the café and Executive Director of Palms Australia, balancing each role at roughly half-time.

Veronica and Celina, 2008 hospitality interns from Timor Leste, with Alexis from the Fair Trade Coffee Company

Marketplace

The Fair Trade Coffee Company is located in a busy café district, and is one of three cafés on a single street. Located close to the University of Sydney, the café draws, in part, from a local customer base which is somewhat seasonal, fluctuating with school holidays. Surveys indicate that the Fair Trade Coffee Company is also a destination café for customers, who go out of their way to patronise a fair trade coffee provider. This contrasts with early surveys conducted in 2006, when a majority of customers indicated they did not know the meaning of fair trade.

¹ [http://www.fairtrade.net/single_view1.html?&cHash=9064807e2d&tx_ttnews\[backPid\]=646&tx_ttnews\[tt_news\]=105](http://www.fairtrade.net/single_view1.html?&cHash=9064807e2d&tx_ttnews[backPid]=646&tx_ttnews[tt_news]=105)



The company has taken advantage of space in the rear of the café to provide a venue for hire and a community meeting space for a range of discussion groups. They hope to market this space as an event venue and increase income through booking fees and associated food and drink sales over time.

The Fair Trade Coffee Company regularly participates in a wide range of community events to promote their business and increase their customer base as a fair trade-exclusive café. Their ongoing commitment to providing good customer service, creating an atmosphere conducive to the socially-conscious consumer, delivering high quality ethically-sourced food and beverages at competitive prices, and their prime location in a busy café district, have led them to expand patronage over time.

The Alternative Media Group awarded the Fair Trade Coffee Company 'the best coffee in Sydney' award in October 2008.

“Be genuine. Customers have a healthy scepticism and will detect pretence. Any deception or poor quality product, even if fair trade, will only give fair trade a bad name.”

General Manager, Roger O’Halloran

Financials

In line with its commitment to ethical trade in developing countries, the Fair Trade Coffee Company is dedicated to paying their own staff award wage plus nine per cent superannuation. This translates to costly overhead expenses, which puts a strain on the overall business bottom line. In comparison, many other cafés pay minimum wages.

Labour costs account for at least forty per cent of their overall expenses. Half of the Palms Executive Director/Coffee Company General Manager’s salary and half of the Palms/Coffee Company accountant’s salary are paid by the Fair Trade Coffee Company.

Since their first year in operations, the café has consistently turned over \$500,000 annually. Given customer fluctuation over the course of each day, the appropriate level of staffing is difficult to achieve. Demand increased in the café’s third year of operations (2008-2009) and staff numbers were subsequently increased. However, full utilisation was not achieved and the café broke even in that year, not matching its \$20,000 profit of the previous year. So far, all profits generated have been dedicated to repay the financing provided by the parent organisation, Palms Australia. Once the initial investment is paid off, every dollar of profit will go into Palms Australia’s volunteer programs.

Despite the fair trade component of the business, Fair Trade Coffee Company customers do not pay a premium in comparison to neighbouring café prices. The Fair Trade Coffee Company’s coffees prices are squarely average for the busy Glebe café district in which they are situated.



Challenges

The Fair Trade Coffee Company has experienced difficulties hiring and retaining a strong general manager and qualified cooks. The high demand for experienced restaurant managers and skilled cooks translates into cost-prohibitive salary standards, and has led them to hire managers with less experience. After several managers failed to meet sales targets or customer service expectations, Roger O'Hallaran, Executive Director of Palms Australia, was appointed General Manager of the café. While it can be difficult to juggle all the tasks associated with these two very different positions, this dual role is considered the most cost-effective way to manage the café at this time. Once the café has a two-year track record of turning over substantial profits, the Board will re-evaluate management options for the enterprise.

The profit margin on food is small in a casual dining environment. Even with rising prices of produce and milk, the business has had to maintain menu prices at a relatively stable level to maintain competitiveness with other restaurants on the same street.

The Fair Trade Coffee Company's strong relationship with their coffee supplier, Sacred Grounds, has resulted in competitive coffee prices which helps absorb the cost of the fair trade premium into the business.

The Fair Trade Coffee Company is pleased with their ability to raise awareness about fair trade, however they have had less success in achieving their original objective of raising awareness about the work of Palms Australia. Details about Palms Australia and its international development programs are featured in menus, a Palms Australian banner is hung in the café, and the walls profile some of their volunteers and their experiences of international development work overseas. Yet, despite these place-based marketing efforts, customer surveys indicate Palms Australia's profile has not been substantially improved since the opening of the café.

Success Factors

Palms Australia was in a unique position to self-finance the start-up costs associated with opening the Fair Trade Coffee Company. Assets available to feed into a new enterprise clearly facilitated their ability to be thoughtful and selective about the café's location, and deliberate in their planning. Their previous business experience with New Guinea Arts gave them a head start on developing and implementing marketing and promotion strategies and linking these with their international development work. After a few challenging months at the start, delegating the café's and Palms' management to one person has ensured that the enterprise and organisation's values are aligned. Involving multiple stakeholders, such as members of the Board of Directors, potential coffee customers, business advisers and key staff fed into the development of a comprehensive business plan which ultimately contributed to their success.

An unanticipated benefit is that the Fair Trade Coffee Company has enabled Palms to complement its skill exchange program with the participation of students from a Timor Leste vocational school in three-month internship placements at the cafe. The internship program



fosters a reciprocal exchange of skills between the developing world and Australia, and is planned to become a part of Palms' regular training program moving forward.

The café has distinguished itself from the other icons on their street (one café being a neighbourhood staple for over thirty years, and another for twenty) by selling exclusively fair trade coffee, tea and chocolate.

So far, the Fair Trade Coffee Company continues to see a rise in sales, despite the fact one café on their street recently closed. They have a strong and loyal customer base, but proactively seek opportunities to grow that base. They continue to raise their profile through participation in community and fair trade-specific events, and through a current initiative to refresh their website. They are committed to ensuring all fair trade products they sell are of the highest quality and freshness.

As the sole café providing uniquely fair trade coffee, tea and chocolate in Sydney, the Fair Trade Coffee Company is well-positioned to grow over time.

For More Information

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