

Consumer Perspectives on Fairtrade Prices

Monica M. Popa Sârghie

Edwards School of Business, University of Saskatchewan
sarghie@edwards.usask.ca

John Pracejus

University of Alberta
pracejus@ualberta.ca

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Abstract

Worldwide consumer support of disadvantaged producers from developing countries has been encouraged through a variety of options, including the acquisition of Fairtrade-certified products. Prior studies showed that consumers' purchases of Fairtrade products are driven by moral incentives and economic factors. Among the economic factors, only cursory research attention has been paid to a key aspect influencing purchases: the specific price of the Fairtrade item as compared to the price of non-Fairtrade items in the same product category. The price difference between Fairtrade and non-Fairtrade items can range anywhere from 0% to 70% or higher. This aspect is becoming ever more important in light of recent calls toward setting a price premium level of 100%, up to 200% in some categories, to reflect the changes in producers' working conditions and living standards triggered by the global pandemic. Our studies suggest that such increases may not have the desired outcome. We hypothesize a negative relationship between the price premium and consumers' willingness to pay (WTP) for Fairtrade items, testing this proposition in six cross-cultural studies. Our studies involve surveys administered to cross-sectional samples of consumers from the United States, from Canada, and samples of students from large North American universities. The surveys assessed consumers' willingness to buy Fairtrade products using 7-point Likert scales (1 = "very unlikely to choose the Fairtrade product"; 7 = "very likely to choose the Fairtrade product" at the specified price premium level), for various product categories. Linear mixed-effects models for repeated measures (within-participants data) were employed for the key analyses. The significant finding of a negative relationship between the price premium and WTP supports our Hypothesis in each study, underscoring that as the Fairtrade premium is set at increasing levels (from 0% to 2%, 10%, and 25% higher price for the Fairtrade items), consumers' average willingness to pay is significantly diminished, decreasing from 6.43 (MWTPat0%premium) to 5.56 (MWTPat2%premium) to 4.19 (MWTPat10%premium) to 2.95 (MWTPat25%premium) in Study 1; from 6.15 (MWTPat0%premium) to 5.37 (MWTPat2%premium) to 4.08 (MWTPat10%premium) to 2.98 (MWTPat25%premium) in Study 2; from 6.16 (MWTPat0%premium) to 5.34 (MWTPat2%premium) to 3.89 (MWTPat10%premium) to 2.27 (MWTPat25%premium) in Study 3, and from 6.39 (MWTPat0%premium) to 5.62 (MWTPat2%premium) to 4.45 (MWTPat10%premium) to 3.22 (MWTPat25%premium) in Study 4. These findings highlight actionable policy implications of marketing Fairtrade products to consumers, with a focus on the price component of the marketing mix. From a theoretical perspective, our research sheds light on the less-than-straightforward consequence of Fairtrade premium increases: we propose and show that the economic model is more applicable than the contributions/donations model in the context of Fairtrade. We emphasize that Fairtrade should not be regarded conceptually as just a special case of social contributions, because general helping theory is not able to account for the particularities of Fairtrade. Also, the impact of the price premium level on Fairtrade purchases is shown to have a different direction compared to the field of cause-related marketing purchases, revealing notable conceptual and empirical distinctions between these fields.

Keywords: Fairtrade, Fair Trade, marketing mix, consumer behavior, price.

JEL classification: M31, M30, M20, M14, L31, L32, L38.

1. Introduction

The Fairtrade system is part of the series of solutions designed to address the sustainability problem at the global level (Arnould, Plastina, and Ball, 2009; Popa Sârghie and

Pracejus, 2021). Based on socio-economic equity principles, Fairtrade encourages respect toward the farmers and producers from marginalized countries who provide a significant part of the worldwide food supply and manufacturing. These producers receive inadequate compensation in the free trade system, which results in their precarious or sub-standard living conditions, and their inability to invest in farm renovations or technological/process innovations (Knöbelsdorfer, Sellare, and Qaim, 2021; Zhu et al., 2021). Without momentous improvements, the existing global system of commercial transactions is prone to volatility, food shortages and social tensions (Lyon, 2021). Fairtrade has gradually gained popularity on the background of the wider trend toward “ethical consumerism” (Davies and Gutsche, 2016; Low and Davenport, 2009): consumers from wealthier regions can pay a higher price for Fairtrade items, and part of the price premium is directed to enhance the farmers/producers’ standard of living. The premiums are also used for community projects selected by the farmers, for their children’s education and healthcare initiatives (Fairtrade International, 2022a).

The importance and success of the Fairtrade labeling system who is now certifying over 30,000 products and helping more than 1.8 million farmers/workers internationally (Fairtrade International, 2022b) has sparked keen research interest. A wealth of studies on Fairtrade have been amassed to date within and outside the marketing field (Loureiro and Lotade, 2005; Mar, De Los Salmones and Pérez, 2019; White, MacDonnell, and Ellard 2012; Witkowski, 2015). While many of the studies have examined consumers’ behavior and attitude toward Fairtrade (Balasubramanian and Soman, 2019; De Pelsmacker, et al., 2005; Pérez and De Los Salmones, 2018; Steinrücken and Jaenichen, 2006), only cursory attention has been paid to a key aspect influencing purchases: the specific price of the Fairtrade item as compared to the price of non-Fairtrade items in the same product category (Basu and Hicks, 2008; Didier and Lucie, 2008).

In recent years countries have either introduced or consider introducing minimum levels of the Fairtrade premium (the *minimum price* that must be paid by buyers to producers for an item to become certified against the Fairtrade Standards; Fairtrade International, 2021). In this process, each country is contemplating the adequate level of the premium from multiple perspectives. Moreover, there are calls for dramatically increasing the *average price* premiums post-pandemic such that the Fairtrade price might become double the market price in the case of coffee, to reflect the needs of farmers and the dire realities they are confronted with (Vanbrenda, 2020).

The important policy issue of deciding what level of the price premium should be set to maximize involvement with Fairtrade is a rather puzzling question, given the scarcity of research in this area. The few existing studies tend to be focused on coffee as the product category, conducted predominantly with European consumers, and published more than fifteen years ago (De Pelsmacker, Driesen and Rayp, 2005; Maietta, 2003). We provide a more detailed, updated perspective focusing on consumers from the United States and Canada (who tend to be a major target in the Fairtrade system due to their buying power).

From a theoretical perspective, the impact of the Fairtrade price premium on consumers’ willingness to pay is not necessarily a straightforward relationship. According to classic economic theory based on utility-maximization, when consumers are confronted with price increases for a standard good, their willingness to pay (WTP) for the product tends to decrease (Swait, Popa & Wang, 2016). Therefore, a negative relationship between the Fairtrade price premium and WTP could be predicted. Yet, it is necessary to keep in mind that the Fairtrade item is in fact a bundle of a standard product purchase and a donation toward sustainable/fair production (Steinrücken and Jaenichen 2007; Low and Davenport 2009). Consumers’ willingness to contribute to Fairtrade could be described by theory concerning donations, such as the Schwartz model of altruistic behaviour (Schwartz, 1970) or the amended model of impure altruism in social contributions (Andreoni, 1989). Studies testing the classic conceptual

accounts of altruistic behaviour showed that individuals can be insensitive to increases in requested contribution levels or even positively responding to such increases in terms of their willingness to pay/contribute to public goods solicitations (Guagnano, Dietz and Stern, 1994). From this lens focused on helping behavior, a positive relationship between the Fairtrade price premium and WTP could be suggested. This possible occurrence of a positive relationship is further echoed by research in cause-related marketing (CRM).

Buying cause-related marketing products is similar to buying Fairtrade products because in both instances the consumer pays a higher price for a regular product and part of the price premium is given to a disadvantaged party or social cause (Pracejus & Olsen, 2004). Both Fairtrade and CRM purchases allow consumers to satisfy their economic/functional needs while at the same time making a contribution that benefits society and helps them feel better on an emotional level (Popa Sârghie & Pracejus, 2021). CRM research has generally found a positive concave relationship between the price premium and consumers' WTP (Elfenbein & McManus, 2010; Popkowski Leszczyc & Rothkopf, 2010). For example, in one of the multiple studies by Koschate-Fischer, Stefan and Hoyer (2012), the buying decision involving chocolate cereal bars revealed an increase in consumers' WTP as the CRM contribution increased from 1 to 40 cents (the contribution level was manipulated in increments of 5 cents: 1, 5, 10, 15, 20, 25, 30, 35, 40, as appropriate to the product category and in line with prior CRM research). Note that despite the overall positive relationship reported in such studies, a segment of consumers was not willing to pay the premium for contributing to the cause (in this specific case, 12.6% of the sample was unwilling to pay the CRM premium).

To ascertain the direction of the relationship between the Fairtrade price premium and consumers' WTP, an overall consideration of five types of consumer motives for buying Fairtrade products is pertinent. Firstly, an altruistic motive would focus on helping farmers, producers, and their families, along with the wider societal benefits resulting from the total sum contributed to Fairtrade. If consumers are driven exclusively by the altruistic motive, it can be expected (in line with the previously discussed research) that as the price premium increases, consumers' WTP increases as well.

Secondly, a prosocial component distinct from altruism could include the fairness motive envisioning the social justice achieved with the Fairtrade system (White, MacDonnell, and Ellard 2012). From this standpoint, as the price premium is increased up to a certain threshold considered "fair" by consumers, WTP should be increasing as well.

Thirdly, according to the impure altruism model (Andreoni, 1989), an egoistic motive would focus on the ability of the Fairtrade purchase to make the individual feel better about him or herself (i.e., feeling the "warm glow"). It could be argued that simply buying the Fairtrade product (even at a low level of the price premium) is sufficient for experiencing the "warm glow"; paying higher premiums for the product may not be necessary to achieve the positive feelings. From this perspective, increases in the Fairtrade price could generate either a constant or a negative WTP.

Fourthly, extensions of impure altruism point to a further egoistic motive resulting from an increase in reputation and/or prestige when buying socially esteemed products (Koschate-Fischer, Stefan and Hoyer 2012). From this perspective, it is unclear if the increased reputation is contingent on a higher premium level. It is possible that the mere purchase of the Fairtrade product (regardless of the price premium level) is perceived as a reputation booster; if so, increases in the Fairtrade price could either have no impact or could decrease consumers' WTP.

Finally, the economic motive of utility-based benefits from buying the Fairtrade product would dictate, as previously discussed, that when the price premium increases, consumers' WTP would decrease.

Pondering this range of motives, we are emphasizing the fact that the Fairtrade purchase is still a marketplace behavior that entails buying a product. While prosocial/altruistic motives are certainly likely to emerge, particularly for specific sub-segments of consumers (e.g., consumers who are more empathetic or more aware of the impoverished conditions of the producers/farmers; consumers who tend to take more personal responsibility for ameliorating social injustices; Guagnano, Dietz and Stern, 1994), in general consumers would not completely lose sight of the economic impact of their purchase on their own budget. As such, we propose that their behavior would be more in line with the economic model than with the donations/contributions model when it comes to their willingness to purchase Fairtrade products. Formally, we put forth the following proposition:

HYPOTHESIS: There is a negative relationship between the Fairtrade price premium and consumers' willingness to pay (WTP) for the Fairtrade product.

2. Research Methodology

We empirically examine consumers' willingness to pay the Fairtrade premium across four studies presented below. Sample characteristics such as gender and age are reported wherever demographic data was collected. Respondents participated voluntarily in the studies and were paid a small compensation in USD or CAD, appropriate for the type of panel or research participation pool they were involved with. The data collection typically entailed the bundling of our focal study with other studies for which responses were collected at the same time from the respondents. All studies received research ethics approval from the relevant Research Ethics Boards.

Prior to the start of the actual study respondents answered questions regarding their familiarity and previous involvement with Fairtrade products. Due to space limitations a detailed account of the intricacies of these measures and their impact on WTP for each study is not feasible herein. In general, the studies included participants of various levels of familiarity with Fairtrade; some of the participants purchased Fairtrade items in the past and others did not, with a similar distribution on these factors across the four studies.

To ensure adequate grounding (particularly for participants who were less familiar with the Fairtrade system) and a common understanding of questions, we provided a brief introduction at the beginning of the survey in each of the studies, based on the information available on the Fairtrade labeling organization website: "Fair Trade certified products guarantee that the people who produce the product receive equitable and stable compensation for them". Further information was provided using an image typical in Fairtrade promotions (e.g., the image of a truck carrying farming goods through the fields), with the Fairtrade logo and a description (e.g. "Fair Trade allows more children to go to school instead of working in the fields. Fair Trade money is invested in school buildings and materials. Premiums can also be invested in better health services for children. Choosing Fair Trade products improves education and health care for thousands of children").

2.1. Research Methodology – Study 1

The first study simply focused on Fairtrade rice as the product category, and four possible price premium levels: 0%, 2%, 10%, 25% premium. The study involved one hundred and thirty-one students from a large Canadian university (74 females, 57 males, average age 20 years old). They completed a survey that included the introductory Fairtrade description and the main dependent variable, WTP. The willingness-to-pay question was presented to participants repeatedly for each premium level as follows: "If Fair Trade rice costs 0% [or 2%, or 10%, or 25%] more than other rice, how likely is it that you would choose Fair Trade rice?".

Thus, each participant completed four WTP questions, one for each premium level. Responses were recorded on seven-point item scales (1 = very unlikely, 7 = very likely).

2.2. Results – Study 1

We used a linear mixed-effects regression model (LME model; Yu et al., 2021) for the analysis, to account for the fact that each participant evaluated the Fairtrade product multiple times (repeated measures). The dependent variable was WTP, and the within-subjects factor was the premium level. The results of the LME model indicated a significant negative effect of the price premium, supporting the Hypothesis: as the premium for Fairtrade increased, consumers' willingness to pay the premium decreased significantly ($\beta = -0.13$, $t = 29.7$, $p < .0001$) from 6.43 ($M_{WTPat0\%premium}$) to 5.56 ($M_{WTPat2\%premium}$) to 4.19 ($M_{WTPat10\%premium}$) to 2.95 ($M_{WTPat25\%premium}$) - see *Table 1* for means and *Table 2* for standard deviations.

Table 1. Studies 1-4: Means of the WTP (Willingness to Pay) the Fairtrade Price Premium at Different Premium Levels

Study	Sample	Product	N	Mprem 0%	Mprem 2%	Mprem 10%	Mprem 25%
1	Canadian university students	Rice	131	6.43	5.56	4.19	2.95
2	Canadian university students	Rice	23	6.22	5.09	3.74	2.70
2	Canadian university students	Chocolate	29	6.10	5.59	4.34	3.21
2	Canadian university students	Total St2	52	6.15	5.37	4.08	2.98
3	Canadian consumers panel	Chocolate	76	6.21	5.54	4.11	2.37
3	Canadian consumers panel	Flowers	76	6.01	5.08	3.49	2.13
3	Canadian consumers panel	Rice	77	6.31	5.55	4.04	2.39
3	Canadian consumers panel	Sugar	77	6.12	5.18	3.92	2.19
3	Canadian consumers panel	Total St3	306	6.16	5.34	3.89	2.27
4	U.S. consumers panel	Rice	58	6.43	5.79	4.53	3.17
4	U.S. consumers panel	Chocolate	58	6.34	5.45	4.36	3.26
4	U.S. consumers panel	Total St4	116	6.39	5.62	4.45	3.22

Note: WTP (Willingness to Pay) was measured on 7-point Likert scales (1 = “very unlikely to choose the Fairtrade product”; 7 = “very likely to choose the Fairtrade product” at the specified price premium level)

Table 2. Studies 1-4: Standard Deviations of the WTP (Willingness to Pay) the Fairtrade Price Premium at Different Premium Levels

Study	Sample	Product	N	StDpre 0%	StDpre 2%	StDpre 10%	StDpre 25%
1	Canadian university students	Rice	131	0.95	1.31	1.62	1.63
2	Canadian university students	Rice	23	1.13	1.62	1.63	1.66
2	Canadian university students	Chocolate	29	1.01	1.21	1.34	1.50
2	Canadian university students	Total St2	52	1.06	1.41	1.49	1.58
3	Canadian consumers panel	Chocolate	76	1.31	1.45	1.51	1.50
3	Canadian consumers panel	Flowers	76	1.22	1.55	1.58	1.26
3	Canadian consumers panel	Rice	77	1.08	1.43	1.60	1.38
3	Canadian consumers panel	Sugar	77	1.26	1.60	1.68	1.42
3	Canadian consumers panel	Total St3	306	1.22	1.50	1.59	1.39
4	U.S. consumers panel	Rice	58	1.01	1.36	1.72	1.69
4	U.S. consumers panel	Chocolate	58	1.13	1.55	1.70	1.77
4	U.S. consumers panel	Total St4	116	1.07	1.46	1.71	1.72

2.3. Research Methodology – Study 2

Study 2 followed the same approach as Study 1, with the exception of the fact that two Fairtrade products were examined: rice and chocolate. Each respondent evaluated either Fairtrade rice or Fairtrade chocolate. The study included fifty-two Canadian university students (31 females, 21 males, average age 21 years old).

2.4. Results – Study 2

A linear mixed-effects regression model was conducted with the Fairtrade premium as the within-subjects factor, product type as the between-subjects factor, and WTP as the dependent variable. Similar to Study 1, the results supported the Hypothesis, indicating a significant effect of the price premium: as the premium increased from 0% to 2%, 10% and 25%, consumers' willingness to buy the Fairtrade product decreased significantly ($\beta = -0.10$, $t = 4.98$, $p < .0001$), from 6.15 ($M_{WTPat0\%premium}$) to 5.37 ($M_{WTPat2\%premium}$) to 4.08 ($M_{WTPat10\%premium}$) to 2.98 ($M_{WTPat25\%premium}$). There was no significant main effect or interaction of the product type. The WTP means and standard deviations for each premium level and product are listed in *Table 1* and *Table 2*.

2.5. Research Methodology – Study 3

The third study was similar in procedures to the previous two, with the following notable differences: instead of university students, this study involved a cross-panel of Canadian consumers from an online consumer research panel; four Fairtrade products were examined (rice, chocolate, sugar, fresh-cut flowers); one hundred and fifty-three consumers participated and each respondent completed the WTP questions for two product categories instead of one (for a total number of 1224 observations of WTP).

2.6. Results – Study 3

A linear mixed effects model with the Fairtrade premium and product category as the within-subjects factors, revealed a significant main effect of the price premium level on WTP. Similar to Study 1 and Study 2, this main effect supports the Hypothesis and shows that as the premium for Fairtrade increases, consumers' willingness to buy the Fairtrade product decreases significantly ($\beta = -0.15$, $t = 49.7$, $p < .0001$), from 6.16 ($M_{WTPat0\%premium}$) to 5.34 ($M_{WTPat2\%premium}$) to 3.89 ($M_{WTPat10\%premium}$) to 2.27 ($M_{WTPat25\%premium}$).

The interaction effect between product category and premium level was not significant, suggesting that the negative WTP response to premium increases is similar across the products examined. There was however a significant main effect of the product category ($\beta = 0.13$, $t = 3.13$, $p < .01$); this effect was driven primarily by the newly examined products of sugar and flowers (see the WTP means from *Table 1*), suggesting that in general consumers are less ready to select the Fairtrade option in these categories compared to the categories of rice or chocolate.

2.7. Research Methodology – Study 4

Study 4 replicated Study 2 in terms of measures and product categories, but it involved a sample of United States consumers from an online U.S. research panel. One hundred and sixteen consumers (88 females, 26 males, 2 undeclared) answered the WTP questions for either Fairtrade rice or Fairtrade chocolate.

2.8. Results – Study 4

A linear mixed effects model with the Fairtrade premium as the within-subjects factor, product as the between-subjects factor, and WTP as the dependent variable, produced a significant negative effect of the price premium, similar to the first three studies' results. In

line with the Hypothesis, when the premium for Fairtrade increased from 0% to 2%, 10% and 25%, consumers' willingness to pay the premium decreased significantly ($\beta = -0.14$, $t = 8.48$, $p < .0001$), from 6.39 ($M_{WTPat0\%premium}$) to 5.62 ($M_{WTPat2\%premium}$) to 4.45 ($M_{WTPat10\%premium}$) to 3.22 ($M_{WTPat25\%premium}$). There was no significant main effect or interaction of the product factor. The WTP means and standard deviations for each premium level and product are shown in *Table 1* and *Table 2*.

Consumers' average WTP in all four studies is illustrated in *Figure 1*.

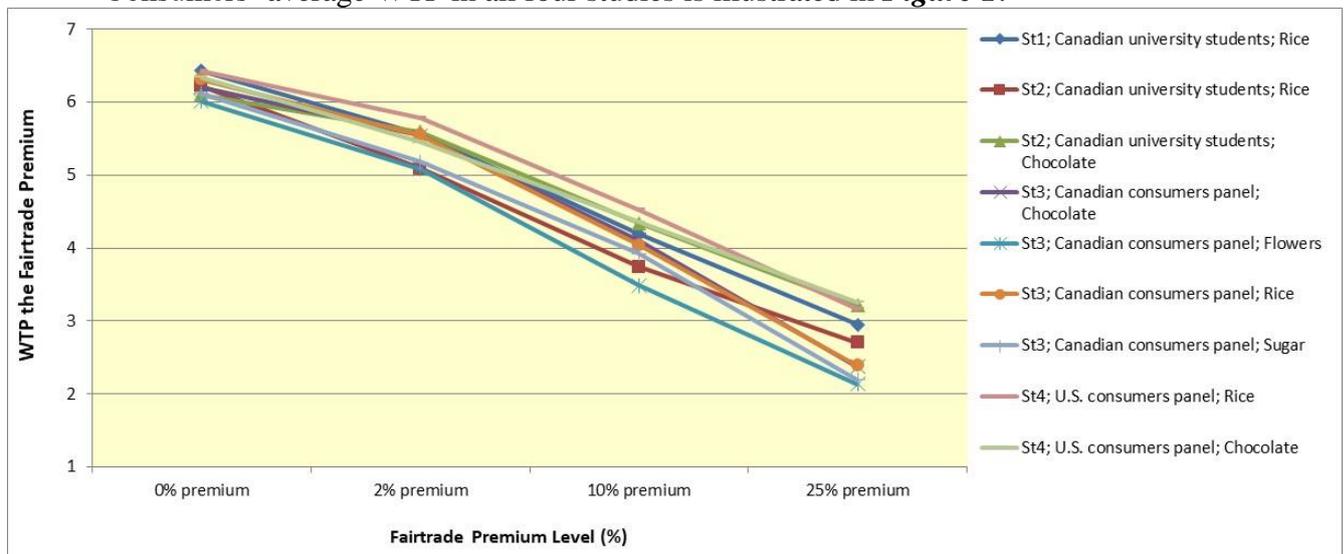


Figure 1. Studies 1-4. Canadian and United States Consumers' Willingness to Pay the Fairtrade Premium at Different Premium Levels for Various Product Categories. WTP Scale from 1 ("very unlikely to choose the Fairtrade product") to 7 ("very likely to choose the Fairtrade product") at the specified premium level.

3. Discussion

In four empirical studies we provided consistent support for the hypothesis that an increase in the Fairtrade premium level will bring a corresponding decrease in consumers' willingness-to-pay, with certain premium levels being more effective than others (as further elaborated below). The willingness-to-pay results were very similar across samples of U.S. and Canadian consumers for different product categories, suggesting the robustness of observed effects. While the support for our proposition is consistent with economic utility theory, it is not aligned with the contributions/donations models that characterize socially-minded contributions or purchases of cause-related products. Thus, even though the Fairtrade system purportedly has social underpinnings and aims to help producers from developing countries through contributions embedded in the price premium, consumers' willingness to buy Fairtrade items is still better described by marketplace models than by contributions models. Also, even though Fairtrade could be considered a special case of cause-related marketing (where the cause for which the premium is paid in this case would be helping disadvantaged producers obtain fair compensation for their work), our results indicate that Fairtrade and CRM should be treated as conceptually distinct fields when it comes to the role of the price premium in WTP.

Our studies offer much needed data and insights to help the policy decisions of setting price premium levels for Fairtrade. The few studies published more than fifteen years ago suggested that an adequate price level of the Fairtrade premium might be around 10% over the market price. Maietta (2003) found that Italian consumers were willing to pay a price premium of 9% for Fairtrade coffee. Belgian consumers were willing to pay on average 10% more for Fairtrade-labeled products (De Pelsmacker, Driesen and Rayp, 2005); at the time of the study

the price premium in Belgium was 27%, and only ten percent of the surveyed sample was prepared to pay that price.

Recent calls to action point to the need of raising the Fairtrade premium to more than 100% over the market price (e.g., the perspective published by Fairtrade Canada – see Vanbrenda, 2020), given the current situation and the impoverished conditions of Fairtrade producers. Such recommendations may not be feasible in light of our studies' findings. While a very narrow segment of Canadian and U.S. consumers might be prepared to pay steep premiums, our results suggest that on average across consumers the most appealing premium level would still be around 10%. Depending on strategic objectives, premium levels of 25% can be occasionally considered, with the knowledge that these levels will still deter a substantial segment of consumers.

A limitation of our studies is the use of discrete premium levels in the questionnaires and analyses (i.e., 0%, 2%, 10%, and 25% price premiums). Future research can examine more continuous and unlimited Fairtrade premium options, perhaps self-generated by consumers, and complemented with observations of actual behavior. The data from our studies was collected pre-pandemic. It will be interesting to monitor and compare the evolution of consumers' willingness to pay the Fairtrade premiums in the post-pandemic landscape.

Our focus was on one element of the marketing mix, specifically the price component. Future research could provide the beneficial addition of other marketing mix variables in order to understand at a deeper level the strategic effectiveness of Fairtrade options in terms of consumers' WTP. Finally, future work can explore marketing mix variables in conjunction with psychographic and demographic characteristics of the consumer, as many features of the buyer could influence intentions to purchase Fairtrade products and the overall Fairtrade behavior in the modern marketplace.

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