

The Worldstock Fair Trade Story

By Patrick M. Byrne



2001 Motorcycle Ride

Since 1983, I have spent a fair bit of my life in China, Thailand, Cambodia, Vietnam, and the Levant. Like many visiting such places, I was overwhelmed by the destitution I saw there. Perhaps as a result, my graduate studies centered on philosophy and development theory, yet over time I grew skeptical of the advice the West has offered the world's poor for the past fifty years, and of the bromides of the World Bank, the IMF, NGOs, and charities.

Years after I left such academic matters behind me to become an investor, the opportunity arose to create an Internet outlet store. From the start we designed Overstock.com with one mission: to create an e-retailer optimized for liquidation: that is, to work within fractured supply channels of numerous, scattered vendors, scooping up products in lots too small to be moved efficiently through mass retail.

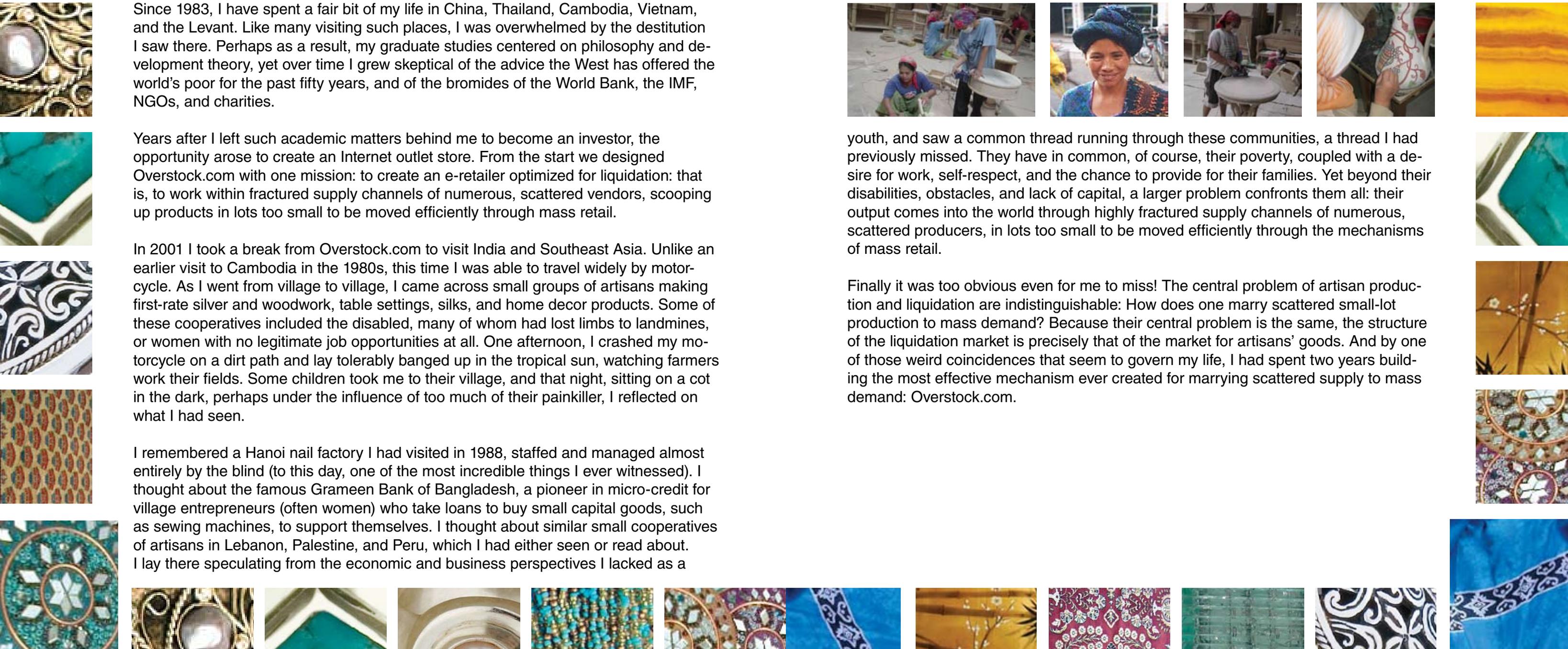
In 2001 I took a break from Overstock.com to visit India and Southeast Asia. Unlike an earlier visit to Cambodia in the 1980s, this time I was able to travel widely by motorcycle. As I went from village to village, I came across small groups of artisans making first-rate silver and woodwork, table settings, silks, and home decor products. Some of these cooperatives included the disabled, many of whom had lost limbs to landmines, or women with no legitimate job opportunities at all. One afternoon, I crashed my motorcycle on a dirt path and lay tolerably banged up in the tropical sun, watching farmers work their fields. Some children took me to their village, and that night, sitting on a cot in the dark, perhaps under the influence of too much of their painkiller, I reflected on what I had seen.

I remembered a Hanoi nail factory I had visited in 1988, staffed and managed almost entirely by the blind (to this day, one of the most incredible things I ever witnessed). I thought about the famous Grameen Bank of Bangladesh, a pioneer in micro-credit for village entrepreneurs (often women) who take loans to buy small capital goods, such as sewing machines, to support themselves. I thought about similar small cooperatives of artisans in Lebanon, Palestine, and Peru, which I had either seen or read about. I lay there speculating from the economic and business perspectives I lacked as a



youth, and saw a common thread running through these communities, a thread I had previously missed. They have in common, of course, their poverty, coupled with a desire for work, self-respect, and the chance to provide for their families. Yet beyond their disabilities, obstacles, and lack of capital, a larger problem confronts them all: their output comes into the world through highly fractured supply channels of numerous, scattered producers, in lots too small to be moved efficiently through the mechanisms of mass retail.

Finally it was too obvious even for me to miss! The central problem of artisan production and liquidation are indistinguishable: How does one marry scattered small-lot production to mass demand? Because their central problem is the same, the structure of the liquidation market is precisely that of the market for artisans' goods. And by one of those weird coincidences that seem to govern my life, I had spent two years building the most effective mechanism ever created for marrying scattered supply to mass demand: Overstock.com.





Internet Retailing Meets Artisans: Missions and Dilemmas



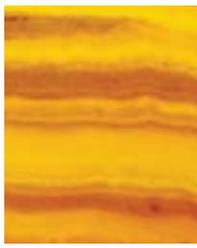
Upon returning to the States from Cambodia, I formulated plans for Worldstock, a store within Overstock.com devoted solely to carrying the works of artisans, especially disadvantaged artisans, and selling them as inexpensively as possible so as to maximize the amount of return for them. The first questions that needed to be addressed were, of course, ethical.



One obvious question concerns child labor. The essence of trade is that it is conducted by free and rational agents, yet children are not “free and rational” in any relevant sense. Children working in factories cannot meaningfully choose the condition of their employment, and so their output is morally tainted. (I decided, however, that children might legitimately help their parents in informal, cottage-industry settings, if their work were limited and they go to school.)



Beyond this, however, I found that I was stepping onto a battlefield strewn with landmines. For example, how can an American liquidator negotiate fairly with a supplier from a poor country in a context of asymmetric power, information, and capital? Would providing new economic opportunities to traditional cultures reinforce entrenched patterns of the oppression of women? Should trade be conducted with people working in countries whose governments are guilty of human rights violations, or would that support tyranny? Over time I arrived at the best set of principles I could formulate, based on my own personal observations, education, and experience. I chose them by reflecting on the products with which I hope to build Worldstock: goods whose purchase would support women, disabled people, and traditional



artisans such as Native Americans, or other disadvantaged people, goods produced through micro-credit, and goods whose production or consumption is carried out in an environmentally sound manner. The common denominator of all our Worldstock products, I decided, would be sustainability: the businesses we will support are those that sustain rather than use up people, cultures, and natural resources.





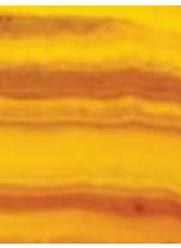
Economic Sustainability

One way goods can be socially responsible is by offering sustainable livelihoods to disadvantaged people: for example, casualties of war (such as land-mine victims and widows); aboriginals and traditional peoples bypassed by over-centralized development; and women with no viable job opportunities who have fallen on hard times. Through trade we seek to provide stable employment which is healthful enough that it does not “use up” workers in the short term, and with which people can build a life for themselves in the long term. By purchasing their products, our customers are in effect bypassing a top-heavy, hand-out approach to poverty, opting instead for an organic approach that nurtures local cultures and practices.



Cultural Sustainability

Development often causes massive cultural dislocations. For example, efforts to stimulate job creation in cities can lead to increasing urban unemployment as stimulatory effects get washed out by waves of workers forsaking traditional crafts for urban jobs. By buying the products of artisans working in traditional settings, we aim to support traditional practices while ameliorating the cultural disruptions that often accompany development.



Environmental Sustainability

Goods can contribute to environmental sustainability. For example, organizations such as the Worldwatch Institute and One World Products, Inc., aim to save the Brazilian rain forest by researching and selling replenishable products from it rather than burning it for pasture. Moreover, some goods are surrogates for commercial goods, but are produced in nonindustrial, eco-friendly ways.





Worldstock Adoptive Principles

Corporations are often accused of disingenuousness concerning the socially responsible practices of which they boast, so suspicion haunts any firm making claims such as those outlined above. Consequently, along with the foregoing principles governing what products we acquire, we are also committed to the following principles governing our pricing, negotiations, and disclosure.

Razor-thin Margin Pricing

Some retailers buy goods that contribute to economic, cultural, or environmental sustainability, but then mark them up 300% or more, with the result that only a small fraction of the sales proceeds actually gets to the producers. We have decided on a radically different course. While a small profit is necessary to afford the ever larger inventories that growth requires, my dream is to price our Worldstock goods inexpensively so as to grow the department rapidly and spread the model to as many people as possible.

Fair Negotiation

I am a capitalist. As you read this, I'm doing everything I can to edge out the competition. That's how we sell TVs, jewelry, and computers at the prices we do. But that hypercompetitive mentality is not appropriate for Worldstock. When disparities in wealth, options, and information between two parties go beyond a certain level, negotiations can no longer be fair. We do not want to chisel Peruvian widows in order to "get the goods," and I have no doubt that socially conscious consumers don't want us doing that on their behalf. Consequently, for this department, we do not negotiate roughly with suppliers, but rather remind them that if they charge us too much, we will not be able to sell their products or place reorders; lower prices to me will create higher volume for them. In effect, the buying behavior of our customers dictates how hard the producers themselves face pushback. I could think of no fairer system.

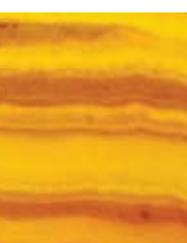
Transparency

Principled disagreement exists among proponents of fair trade.

For example, some Worldstock products are purchased from development organizations, NGOs, nonprofits and micro-credit banks, which organize producer associations and in some cases (landmine survivors, for example) provide training for producers. Some believe that socially responsible goods should be acquired only through such agencies to ensure credibility.

Others claim that limiting purchases to such agencies perpetuates a mindset of dependency, which says, "An agency, not individual initiative, offers the only way to get ahead." For example, imagine that in my own travels I find (as I have) a small workshop in a village in the Bekka Valley of eastern Lebanon, where a few women work together, making exquisite shawls. Their products do not carry the imprimatur of any UN organization or development agency, but in my view their wares are appropriate for Worldstock. Should I forgo the shawls because they lack the certification of an NGO, or should I trade in them to reward their initiative?

My answer to this dilemma is simple: transparency. We buy socially responsible products from reputable fair-trade importers, NGOs, micro-credit facilities, humanitarian organizations, and directly from artisans themselves. All producers sign a statement of principles concerning the manner in which the goods are produced, and we conduct our own investigation of such suppliers and their reputations. Therefore, a customer who trusts my claim that buying a given shawl contributes to the well-being of a village in eastern Lebanon can buy the shawl knowing where it came from. On the other hand, that customer might choose to buy only those products we acquire through formal channels, such as Rehab Craft Cambodia (an NGO building a self-sufficient business channel for Cambodians with disabilities). By providing sourcing information in our product descriptions, we minimize dilemmas about social responsibility: we are honest and transparent and let the customer decide.





Conclusion

Artisans around the world have trouble reaching their natural markets due to poverty, poor information, and the disadvantage of being small-lot producers in an age of high technology and mass distribution. Yet they are capable of making exquisite centerpiece products. These artisans could feed their families, vaccinate their babies, and send their children to school, if we in the developed world were to purchase the high-quality goods they know how to make. We realized that Overstock.com could bridge this global gap. The result is Worldstock, a store emphasizing sustainability, fairness, and transparency while empowering artisans to achieve their dreams for themselves and their families.

Sincerely,
Patrick M. Byrne
CEO

