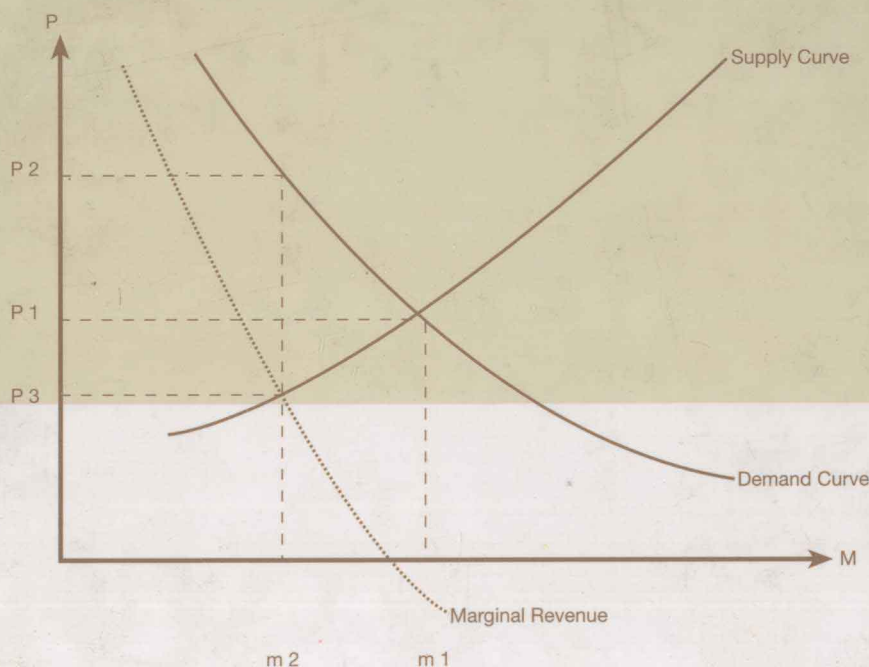


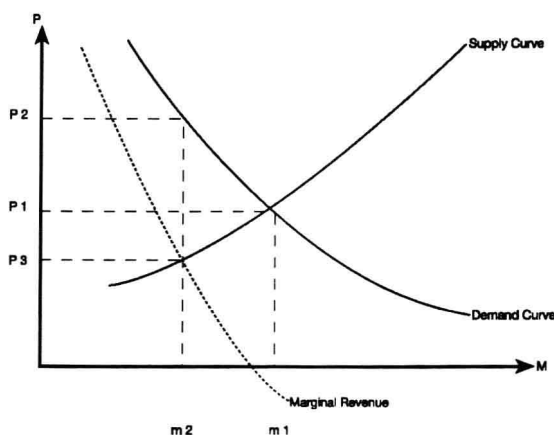
Marketing Trends for Organic Food in the 21st Century



Editor

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FOREWORD

Marketing of organic products, as in the case of food products, is viewed as a significant link between production and consumers, thereby facilitating the distribution of these relatively new quality products. The roles that marketing can play in this domain are varied and include:

- Identification of appropriate markets and opportunities for organic food and quality products.
- Provision of sufficient customer service through the understanding of consumer needs and changes enabling the appropriate adjustments of business strategies.
- Support of organic products through advertising and sales promotion.

It has become obvious that companies could orientate organic production and influence consumers' purchasing behaviour through the employment of the appropriate marketing strategies.

Taking the above into consideration, the present book was written in the framework of exploring the marketing trends through the analysis of those elements that contribute to the extension of the organic food and quality products market, thus aiding marketers to encounter the challenges that the organic food sector will face in the future.

PREFACE

Organic products have indisputably entered the food market while market demand for such products has expanded rapidly over the past decade. People throughout the world, especially those with a high standard of living, seem to prefer foodstuffs that are produced and processed by natural methods. Consumers are becoming more and more sensitive and, at the same time, demanding, when it comes to their nutrition. Moreover they are beginning to opt for products of organic origin, where available (Nucifora and Peri, 2001).

Unfortunately, until recently, consumer demand for quality products was not taken as seriously in the food sector, as in other sectors of the economy. Producers cared more about the production volume and as far as consumers were concerned, all that mattered was the provision of products at reasonable prices (European Union Council, 2000). However, the situation has changed and customer satisfaction is beginning to play an increasingly significant role, since producers now have to face the demand for safe and good quality food (Kinsey and Senauer, 1996).

Market Outlooks

Organic products first appeared in Europe in the 1920's, but at that time the financial difficulties constituted a barrier to entry in the market. It was not until the 80's that organic agriculture started to gain acceptance and international standards were set. Consumer demand for quality and natural products increased and, thus, the number of farmers increased considerably, not only in Europe, but also in the United States (Lampkin and Padel, 1994).

As the International Trade Centre (ICT) revealed, the retail sales of organic products throughout the world reached \$20 billion in 2000 (IFOAM, 2001). The European Union, the USA and Japan are currently the market leaders. Since the mid-1980's, France, Japan and Singapore have been experiencing annual growth rates that exceed 20%. Developing countries, such as China, Egypt and Brazil, have also started showing interest in the organic industry (De Haen, 1999).

Organic farming in Europe showed an increasing trend during the 90's. The greatest development was observed in the Scandinavian and Mediterranean countries, with Italy holding the first place. In most European countries, the market of organic products has not yet been developed. It is estimated, nevertheless, that organic products will gain a market share of 5-10% by 2005 (Sgouros and Laskari, 2000).

It should also be mentioned that the European Union is the only market that has developed a specific legislative framework concerning organic farming. However, the EU scheme is based on the International Federation of Organic Agriculture Movements (IFOAM), which set the minimum standards (Geier, 2001).

Producers' Attitude

The organic sector is indisputably growing and is structuring itself very fast, especially in industrialized countries (FAO, 2000), a fact which is reasonable since organic farming offers many benefits, both from an environmental and a socio-economic point of view. The most significant advantages according to Lehmann (2000) are the following:

- *Protection of the environment* through non-use of chemicals during the cultivation techniques.
- *Economic advantages.* From the producer's point of view, organic products are sold at a higher price (at least 10-20%, even 40% in some cases), than the price of conventional ones, thereby reaping in significant profits.
- *Protection of producers' and consumers' health.* Biological products are products with no pesticide residues. In this way, all their nutritional substances are preserved thereby offering products of high nutritional value.

Nevertheless, there are some constraints making producers hesitant to get involved in organic farming. First of all, farmers experience some loss in yields during the phase of conversion to organic farming, especially in countries with highly intensive agriculture. Sometimes it takes too long to restore the ecosystem to the point where organic production is possible. Farmers should therefore be prepared to receive lower net returns in this initial period than when organic farming has been established. What could be done in this case is to convert farms "in installments", in this way lowering the risk of the entire operation.

The high cost of production is another obstacle for the farmer. Organic agriculture requires greater labour input and specific processing operations that are more costly than in conventional agriculture. As a result, the prices of organic products are higher. Financial support is a very serious factor since it becomes an incentive for the farmers to continue investing in organic farming.

The lack of information which exists in the field of organic farming is yet another obstacle. There are still producers unaware of organic conversion, since in some countries, insufficient institutional support, is offered throughout production, post-production and marketing processes. Thus, adequate information and education for farmers is considered to be absolute necessity.

Consumer Behaviour

In general, the overall image of organic products seems to be positive from the consumer point of view, since they are considered to be healthier, better tasting, more environmentally beneficial and their quality is as good as that of traditionally grown products (Nucifora, 2001).

However, there are some constraints regarding the purchase of these products. On the one hand, there is no appropriate information background. That is, consumers are unaware of the existence of organic products or the specific attributes that differentiate organic products from conventional ones. On the other hand, marketing problems related to the supply, distribution and promotion of the product, exist. The majority of consumers consider organic products to be difficult to find, so they need either to contact organic producers directly or obtain the product from specialized retail outlets and a limited number of supermarkets. Apart from that, consumers cannot easily distinguish these products from the conventional ones, as they are not so well informed about the proper labelling of organic products.

Consumers of organic products could be segmented into four groups, according to their purchasing behaviour (Fotopoulos, 1996):

Environmental militants—consumers associate environmental and ethical values with organic farming. They are usually middle-aged, married with children and deeply concerned and committed to a greater protection of the environment and a more sustainable usage of natural resources. They are well informed of the positive environmental impact of organic agricultural practices. That is why they are regarded as “consumers by choice” (FAO, 2000). Price and quality are of no importance to them.

Traditional—consumers, are concerned with flavour and authenticity. They are interested in products of traditional quality and bear in mind the concept of returning to old style farming. Price is of no importance to them.

Dietary—consumers with “careful” nutritional values. What is of utmost importance to them is their health. Moreover, they are very influenced by medical research. They search for therapeutic products with balanced trace elements rather than the true organic ones. Dieters do not seem to be very well informed.

Youthful—young, impulsive consumers interested in their health and physical condition (fitness). They are modern consumers, looking for flavour and quality and pleasure, concerned with dietary and environmental safety (ecologists).

Distribution Networks

The distribution network used for marketing organic products is the same as in the market of conventional products, but there is a difference in the shares. Thus, the

goals of a distribution network for retailing organic products should be to gain new market shares and improve the image of these products.

Organic products are available mainly through the following channels (Santucci et al., 1999):

- The organic producers themselves, who sell their products at local markets (once per week/once per month) or directly at the farm gate (selling at the farm). This channel favours the development of a direct relationship between consumers and producers eliminating the middlemen and improving the cash flow.
- Health and natural food shops, depending on the interest of the shop owner and the ability of several organic farmers to launch their products as products of higher quality (e.g. wine, fruit, vegetables). Non-packaged products are offered and consumers can be informed about the products. Nevertheless, the small number of shops, the limited purchasing power and the high cost are among the drawbacks of this kind of channel.
- Specialized retail outlets, which buy and sell organic products on a wholesale basis (Van der Smitten, 2000). It is an intermediate category between health food shops and supermarkets. Non-packaged products are offered and information about them is available to the customers. Unfortunately, the high cost, as well as the inability to stock organic products during the whole year, seems to be a disadvantage.
- Supermarkets, which account for the majority of organic sales, but mainly rely on imports. The low cost, the good infrastructure and administration are the main reasons why supermarkets are selected as a suitable marketing channel. On the contrary, the limited number of products, the confusion of labels (organic, natural, ecological, traditional, etc.) and the inability to provide information are serious drawbacks. However, it should be noted that supermarkets have begun to sell organic products in a special "organic" section, where all organic products can easily be found.

It is obvious that there are alternative marketing channels for producers to enter into the market. In general, the distribution and delivering of organic food products follow the routes below (Siskos, et al., 2001):

- Producer—consumer
- Producer—retailer—consumer
- Producer—wholesaler—retailer—consumer
- Producer—broker/agent—wholesaler—retailer—consumer

However, according to a number of studies that have been conducted examining the purchasing behaviour throughout the world, consumers seem to be dissatisfied with the distribution of organic products. Since customers want easy access to the products, the selection of the optimal distribution channel is one of the most important decisions producers have to make. Customer satisfaction should be the major criterion for judging the success of the organic sector (Doyle, 1995).

Potential Marketing

According to Kotler (2000), the basic strategies that should be followed, in order for a product's market share to increase are the following:

Market Penetration. New methods should be initiated to increase the market share of organic products. More specifically, there are three ways of achieving that. Firstly, the already existing consumers or “consumers by choice”, should be motivated in order to continue consuming organic products through the years. Next, the “traditional” as well as the “dietary” consumers, who seem to be satisfied by these products, should be won over. Finally, the “youthful” consumers should be convinced of the benefits of organic products. It should be noted that the enthusiastic consumers take the variety of organic products for granted and consider the price to be less important. On the other hand, for occasional consumers the availability and the price of the products are significant. Market penetration is therefore a strategy, which is mainly based on lowering prices in order for the market share to increase.

Product Development. This strategy includes the development of new products and the improvement of the existing ones. Several studies confirm that consumers want and expect new and improved products (Rudder, et al., 2001). These new products could lower cost. Nevertheless, it is a strategy that would not lead to expansion of market shares, since the price reduction is not the aim, according to relevant consumer strategies.

Market Growth. The distribution of organic products, through the increasing number of market outlets is emphasized by this particular strategy. For occasional consumers the same considerations as in the case of market penetration exist. Supermarkets and specialized shops should have the same quality products as for conventional products. Knowledge about these products can be obtained through proper promotion. Of course, this strategy could not lead to cost minimization of organic products. Hence, the only chance of obtaining the desired share is by ensuring that these products will be available throughout the entire year.

Differentiation. This strategy aims to find a product's unique features which set it apart from its competitors. Product, price, promotion and place (the marketing mix) are important elements. Following this strategy is a guarantee for a satisfactory market share in the case of organic products, but it requires great investment in promotion and product development.

Judging from the above, it should be mentioned that a dual strategy must be followed, so as to secure a satisfactory market share. The strategy of market penetration should first be applied (Fotopoulos, 1996). Hence, all efforts should focus on consumers who obtain the specific products via the existing distribution channel either on a permanent or an occasional base (“environmentally militant”, “dietary” and “traditional”). Subsequently, efforts should be made to take over those consumers who do not use organic products, such as the “youthful”, target

market who usually shop from supermarkets and specialized food shops. This will be accomplished through the market growth strategy.

The Marketing Mix

The market of organic products, is a market of differentiated, quality products and primarily requires long-term strategic policies and tools in order to establish effective market conditions. One set of marketing tools that a company could use to pursue its marketing objectives in the target market is the *Marketing Mix*. These tools are classified into four major groups, known as the four Ps: product, price, place and promotion (Kotler, 2000).

Special Product Characteristics: The product is the first and most important element of the marketing mix. It is really important to choose the right product that satisfies the needs of the target market (Graeff, 1995). The decisions regarding product have to do with:

- The selection of a product or a product line
- Branding (sponsor, quality, family brand, brand name)
- Packaging (size, shape, materials, colour, text, brand mark)
- Labelling (description, identification)
- Customer service

Organic products should be produced according to specific conditions that guarantee their qualitative characteristics, such as “high quality” and “unique flavor” (Kyriakopoulos, 1998). Packaging should be ecological, modern and attractive. The label should include all the necessary information and guarantees associated with the organic origin and certification of the products, based on reliable analysis (Davies and Wright, 1994). Consumers should not be confused by technical terms placed on the label. On the contrary, since label information seems to affect consumers’ purchasing decision, the information appearing on food package labels should be unambiguous (Baltas, 2001).

Price formation: A price policy could be developed, according to the type of the product. To properly set prices, of course, is a matter that needs to be carefully examined, since it affects consumer behaviour (Mulhern, 1997). Great attention should also be paid whenever price analysis and comparisons with conventional products are made. Previous studies have shown that in order to create an effective market, the price of organic products cannot be more than forty percent higher than the corresponding conventional ones, in order to create an effective market. More specifically the rise in price could range from 10-20% higher on average reaching 40% in certain cases.

Distribution: Distribution channel decisions are among the most important ones. A number of previous consumer surveys have revealed that a product is not good enough unless it is available wherever and whenever customers want.

Supermarkets, set aside a special "organic" section where all organic products can easily be found and distinguished from the conventional ones. This serves to emphasize the fact that a product should be located in such places where it can easily be acquired.

Promotion: It concerns any method that makes the product familiar to the consumers. This marketing mix has to convince consumers, through building their loyalty, of the benefits of organic products among which are quality, flavour, ecology, pleasure and security (Duffy, 1998). The "traditional" and "dietary" consumers are more likely to become customers of organic products. Thus, good communication is essential. A very effective way of approaching the consumer is through advertising and sales promotion. Indeed, in order to make commercial progress regarding the image of these products, advertising has a significant role to play in shaping consumer perceptions (Loader and Hobbs, 1999). Newspapers, magazines, posters, T.V, radio and Internet are the most common tools of advertising. Internet can provide significant benefits both to B2C and B2B commerce, such as lower transaction cost and easier penetration to the international food markets (Baourakis G., et al. 2002). The key issue is to attract the attention of potential consumers, who will spread the information among other consumers. Repeating information is a necessary condition to transmit the attributes of organic products. Personal communication at retail outlets becomes an interesting strategy to get the products known to interested consumers. The repetition of messages is a useful policy to generate the correct identification of organic food attributes to consumers.

Of course, further and more intensive research is needed in order to design the proper strategies and suggest a successful implementation of the marketing plan for organic products. The fact that there are segments such as, the "traditional", the "dietary" and the "youthful", which have yet to be fully exploited, leads to the conclusion that there are great margins for expansion of the market of these specific products.

Challenges

All recent studies conclude that the market of organic products is growing, especially in the industrialized countries. However, the share of organic products, even in large markets, rarely exceeds 1-2% of the total market (Hamm and Michelsen, 2000). This implies the removal of certain constraints, in order for the market of organic products to be further developed (FAO, 2001). The limitations the specific market is facing are the following:

- Consumers are unaware of the specific attributes that differentiate organic products from conventional ones, as well as certification standards.

- Producers are unwilling to become involved in organic agriculture either due to lack of information throughout production, post-harvest and marketing processes or due to lack of financial support during the first stages of transformation from conventional to organic (Papadopoulou, 1997).
- Marketing problems related to the supply, distribution and promotion of the product exist. Consumers need either to contact organic producers directly or obtain the product from specialized retail outlets and a limited number of supermarkets.
- Prices are much higher than those of conventional products.

Judging from the above, it should be noted that adequate information about the importance of organic products is absolutely necessary. Official training, including an organized system of specialized extended services in order to educate organic farmers and new entrants, as well as subsidized seminars on organic agriculture could prove useful. Action should also be taken in order to support consumer confidence. Reliable systems of monitoring and verification for certifying the organic nature of the products could also contribute towards this direction (De Haen, 1999).

The second step would be the existence of policy initiatives and standards to encourage farmers to adopt organic agriculture. The introduction of national standards and a clear definition of organic farming are also important. This could be accomplished through a favourable political environment including subsidies and financial support. The example of the European Union offering subsidies to the farmers so as to help them attain substantial percentages of agricultural land is worth noticing.

Finally, the identification of potential and successful markets, including effective strategic marketing for penetration, is significant. A sufficient distribution network for better access to the products is necessary. There is also a need for better promotion of quality characteristics, as well as a more efficient production process and certification of organic products.

In conclusion, the organic industry offers many opportunities despite the significant obstacles encountered. The main challenge for the time being is the establishment of the authenticity of the organic claim. However, before any of the above actions are taken, marketers should further analyze the behaviour of consumers and find out all the constraints that prevent them from purchasing organic products. It is therefore imperative for a number of studies to be conducted in the field of organic products, in order to draw up the strategic plans, which will contribute to the successful widening of the market of organic products.

Outline of the Book

This book aims to present the recent advances in the marketing of organic food, while at the same time places emphasis on market aspects related to food quality products. The included papers are refereed by renowned researchers in the areas of marketing, management, supply chain, e-commerce, economics, agricultural economics and related topics.

The contents of the book are organised into the following sections:

- The Market for Organic Food
- Supply Chain of Organic and Food Quality Products.
- Organic Food Marketing Trends

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