# Marketing channels related to organic products

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FOOD CONSUMER SCIENCE IN THE BALKANS

SEVENTH FRAMEWORK PROGRAMME

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# Marketing channels on organic products in general

- Usually manufacturers use set of intermediaries to make their products available for the use or consumption (Kotler & Keller, 2006).
- Intermediaries smooth the flow of goods and services by providing several advantages to producers as the large number of producers lack the financial resources to carry out direct marketing and intermediaries have many contacts and experience to offer the producer more than it can achieve on its own. (Coughlan et al., 2001)
- The analysis of the literature on distribution channels of organic products suggests that there is no common classification of distribution channels of organic products

- Distribution is crucial for the growth of the organic sector.
- An "organic" supply chain is not always available and/or efficient.
- At the retail level, an initial phase was driven by small food specialities shops and health food stores.
- Large food retail chains (selling mainly conventional products) entered the market and are gaining market share, but the growth is slower than expected (the quota of organic food rarely exceed 1-2%).
- The opening of specialised large retail shops for organic food is an emerging trend in many EU countries.
- Direct and alternative distribution is still important: box scheme, farmers market, on-farm sales, etc.,

| | Market share (per cent)[a] 2001 | 2005 | Average growth rate (per cent)[b] | Organic versus conventional share (per cent)[c] |
|---|---|---|---|---|
| Supermarket | 49 | 60 | +5.3 | 90 |
| Specialised shop | 32 | 20 | −10.5 | 90 |
| Other[d] | 19 | 20 | +2.9 | 190 |

**Notes:** [a]Based on expenditure *per capita*. [b]Average growth of market share yearly, 2001 base year. [c]Data for vegetable products. [d]Other: markets, on-farm sales, box schemes and others

**Sources:** [a]VLAM, 2006; Baecke *et al*., 2002; [c]Mondelaers and Van Huylenbroeck, 2005)

**Table I.**
Market share, growth rate of share and ratio organic versus conventional share for different sales channels

Three main types of sales channels are used for marketing organic food (Michelsen et al., 1999):

a) direct sales from producer to consumer via farm shops or weekly markets (advantages: the contact btw producer and consumer, low costs because there are no other participants in the supply chain, increasing level of eco consciousness

b) specialised shops

since 1980s c) supermarkets (to be important partners in developing sales as they represent the entrance to the mass market, have the capacity to provoke domestic production by securing large sales; to participate in defining new products in terms of range and degree of processing; to increase and target marketing efforts and – via economies of scale; to keep consumer prices low relative to producer prices, an important vehicle for consolidating organic food markets

Virtual markets such as home delivery may include

Internet-based purchases, through to purchases that occur due to established relationships, such as a producer delivering directly to a customer

EU market could be divided into (Vaclavik, 2009):

- Matured organic markets (Austria, Denmark, Germany, etc)
- 5% growth level and the decline in the sale volume of organic food products
- Supermarkets and traditional retail are dominated channel of distribution (more than 50% on average per country)
- there are small number of retail chains and organic food products distributers

- Growing organic markets (Italy, Netherlands, Portugal and France)
- 5-15% growth level and steadily growth in the sale volume of organic food products
- Specialised retail and direct distribution are dominated channel of distribution
- specialised retail experience the stagnation in the sale comparing to the increase in the sale volume of organic food products in supermarkets.

- Emerging organic markets (Czech Republic, Greece, Poland, Spain)
- Specialised retail is dominated channel of distribution,
- last decades charecterizes the growth of importance of conventional retailers
- in pioneer phase and most retailers follow basic assortment strategy with organic products.

# Markets overview

Bosnia and Herzegovina

**Subjects involved in organic market (Marković, 2006, FAculty of agriculture Banja Luka)**

| Name | Typology |
|---|---|
| Elmar | Processing of wild medicinal and aromatic plants. Productions of essential oils and liquid extracts |
| Mushroom d.o.o. | Buying and processing of mushrooms and wild forest fruit for export |
| Roing | Production, processing and packaging of food products |
| Andelic d.o.o. | Purchasing, processing and exporting of medicinal and aromatic plants. Production and sales of essential oils. |
| Faveda | Producing of teas, tinctures and extracts, creames, ointment and plant capsules. |
| GM prirodno bilje | Production, collection&purchasing of wild medicinal plants&wild forest fruits, distillation of essential oils, processing and packaging of medicinal plants and production of tea beverages |
| Flora d.o.o. | Medicinal and aromatic plants and wild forest products |
| Heljda Eko | Primarily involved in the cultivation and processing of buckwheat |
| Hercegovina bilje d.d. | Purchasing, processing and selling wild medicinal aromatic plants and production of herbal teas |
| Smrcak d.o.o. | Buying, processing mushrooms is entirely export oriented |

27 organic farms → 1586ha

Exports 250.000EUR : Canada, USA, France, Belgium, Israel, Germany, Italy, Switzerland

Market channels: a) specialised shops

b) supermarkets

# WP7– Markets overview - Macedonia

- 50 farms in conversion with 1586ha
- Organic production is still not developed sufficiently in volume and diversity as to be able to implement real marketing activities.
- Most of such activities were aiming at the national promotion of organic food
- In Prilep, Bitola, Rosoman, and Skopje, organic marekt stands were opened where organic food was sold under the logo “Tasty Organic Food”.
- With the purpose to promote organic food among consumers some events were organized, such as the Organic Day in Strumica.

- Other activities include selling freshly squeezed fruit juices in several cafe bars and direct selling of selected products (e.g. honey, bread, fruits) from farmers to supermarkets.
- there is no continuous supply of domestic organic processed products in adequate quantities and it not is possible to set attractive selling points
- difficulties to process small and not standardized quantities of organic products
- Biosan brings together 8 local organic associations from Valandovo, Gevgelija, Strumica, Pehčevo, Sveti Nikole, Kumanovo, Skopje and Gostivar and its activitiesare mainly focused on:

a) Establishment of distribution links and common purchase of allowed inputs;
b) Educational and training,
c) Marketing of organic products on domestic and foreign markets, etc.

# WP7– Markets overview - Montenegro

- In 2008, the total turnover with organic products was estimated to be 55'000 Euros. Currently no organic products are exported (http://www.organic-world.net/montenegro.html)
- production for direct sales on green markets prevails.
- Commercial market production, except for wine (also the most important export product) and partly dairy sector is at the very beginning
- In 2008, the NGO 'Production of Organic Food' established the first organic shop -Biomontenegro-, in order to develop and promote organic agriculture. It serves as purchase center for organic products produced in Montenegro
- Today there are two companies that are involved in the marketing and processing of organic products: a) Biomontenegro, a specialised shop from Podgorica and
  b) INSPE, which collects and processes medical plants, from the municipality of Bar municipality work in organic sector in Montenegro.

# WP7– Markets overview - Serbia

- around 218 certified organic farmers
- Total organic production accounts about 30,000 tons of organic products.
- Total market value of organic products is about $55 million.
- Imported organic products can be found on supermarket shelves and in specialized stores. At present, more than 90 percent of all organic production is exported. (http://zunia.org/post/organic-agriculture-in-serbia-2009/)
- Farms distribution (Acimovic, 2006): 368091ha → 0,16% arable land
  99,84% wild collection

# WP7– Markets overview - Serbia

- Market aspects: export & import

- Import (Musli, Rice, organic spagetti, baby food): Macedonia, Germany,Slovenia)
- Export (fruits, vegetables, fruit juices, fruit concentrates, jams, mushrooms, essential oils, medical herbs): UK, USA, Belgium, Germany, Austria, Switzerland

(Davčik, 2004): till 1970-ies: organic farms and green markets

- Specialised retail stores, so-called "healthy nutrition shops" (those which sell not only organic products but both conventional food that are proved to be more healthier than other food products in other retail).
- Supermarkets (43%) (Gfk, Market, 2009)
- Hypermarkets (so-called bio corners)

# WP7– Markets overview - Slovenia

- Farm numbers (Slabe, 2006): 1220 certified + 498 in conversion
- on-farm sales (direct distribution)
- eco open air market : Ljubljana, Maribor, Kranj, Naklo, Celje, Novo mesto, Bled, Kamnik, Tolmin (http://www.zveza-ekokmet.si/strani/ekoloke_trznice/index_ekoloske_trznice.htm)
- Restaurants
- Eco-tourism (http://www.zveza-ekokmet.si/strani/Green_holiday/index_turizem_na_eko_kmetiji.htm)
- conventional retail (Mercator, Tuš, Hofer, Interspar, ...)
- On-line shops (http://www.eko-kmetije.info/predstavitev.asp)
- schools, public institutions, kindergarten
- Specialised retail stores
- stands on events
- MLIJEKOMATI (the way of offering fresh milk directly from organic farms)

# WP7– Markets overview - Croatia

- Farm numbers (Matotan, 2006): 280 = 64 certified + 207 in conversion + 9mixed
- Market aspects:
  - exports (pumpkin seeds, fresh vegetables = EUR100000)Netherlands
  - Imports (baby food, cereals, legumes, fruits = EUR500000) Bosia&Herzegovina, Austrai, EU, etc.

- Fruit and vegetables are mainly purchased in open-air markets
- Among consumers living in urban areas, there is a strong conviction that fresh produce sold in open markets is home-grown, thus healthy and safe
- Supermarkets and hypermarkets are gaining an increasingly important role, especially in Zagreb and Rijeka
- Small specialized shops seem to have a substantial share of the purchase of products such as fresh meat and fish (butcher's and fishmonger's) or bread and similar products (baker's).

Direct distribution of organic products:

a) on-farm sales or farmers markets (fresh fruit and vegetables, Bjelovar, Osijek and Vinkovci)
b) door-to-door selling (box schemes, Internet, phone selling) (farm Sever-green eco basket, Grbić, Zrno)
c) open air markets (Zagreb: Dolac, Trešnjevka, Utrine, etc.)
d) fair sales (seasonal character, Zagreb fair, world fairs)
e) farm shops (Zlata Nanić Zrno in Zagreb)

Intermediaries: wholesaling and retailing.

- Wholesaling: Biovega – cooperation with local organic food producers, distribution through own specialised stores , retail chains, exports

  Pretti – distribution of imported organic products through drogeries, specialized stores and retail chains

- Retailing:

a) traditional retail formats (hypermarkets and supermarkets),
b) specialised retail (dm – local organic food producers' products, Sever and Hladnić oil, Gea, Bio&Bio)
c) organic supermarket (Garden – domestic organic food products)

# Notes about conducted Retailers interviews

# WP7– Literature


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