Regional marketing for organic retailers: Status quo and capabilities

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1 Introduction

The market for organic food is still growing. The entrance of conventional supermarkets as well as discounters into the market and the increase of organic supermarkets are responsible for the organic boom in Germany and more price competition. From 1997 to 2005 the turnover of organic product rose from 1.5 billion € to 4.5 billion € (Hamm 2006). Even discounters have grown at an above average rate. They achieve turnover increases of 46 % or even 65% (Richter and Padel 2007). In addition, retail structures have changed in recent years. Whereas small organic retailers used to be the most successful distribution channel for organic products in the past (Table 1), nowadays bigger organic and conventional supermarkets sell most of the organic food in Germany.

These developments raise the question of new competitive strategies for small and medium sized organic retailers. The combination of organic and regional marketing might provide an opportunity to render small organic shops more successful again. Traditionally, small organic shops to a large extent sold products grown in the respective region. However, only few of them try to market regional products (Bolten et al. 2006), and often their attempts to do so failed. Furthermore, German organic farmers who have so far not profited much from the organic boom because of growing imports might get a chance to sell more of their produce if emphasis is placed on regional aspects. Consumers' awareness of and identification with the region might also be raised. Against this background, the research project aims to promote regionally grown organic products in retail trade by the use of new marketing tools[1].

The following paper discusses the opportunities for regional organic marketing strategies. Interviews with shop owners are still not completed. Therefore, we concentrate in this manuscript on describing theoretical aspects of regional marketing and preliminary results. First, this contribution gives an impression of the current situation and problems in the organic food branch, before continuing with theoretical research concerned with regional marketing. In the conclusion, the authors will underline different aspects with the aid of empirical results.

2 The situation of organic shops

The development of the organic market in Germany is based on the discussion of natural and healthy food, which started at the beginning of the 20th century. In the early 20th century, the first organic farmers started to farm according to organic principles. During the early stage of organic farming, the products were mostly sold in health food shops or via direct farming. In the 1970`s and 1980`s, the environmental movement to separate organic farming from conventional farming extended throughout Germany and the first purely organic shops started their business and became an important distribution channel (Spahn 2002). Currently organic products in Germany are sold through six different distribution channels (Table 1).

[1] This research project titled „Verknüpfung regionaler Beschaffungskonzepte mit innovativen regionalen Marketingsansätzen (Kooperatives Erzeuger-Handels-Konzept/KEHK)" (http://www.agrarmarketing.uni-goettingen.de) is financed by „Bundesprogramm für Ökologischen Landbau" (http://www.bundesprogramm-oekolandbau.de).

Table 1: Distribution channels for organic products in Germany (source: Hamm 2006)

Year	Turnover	Organic store	Food retailing[1]	Producer, farmer[2]	Health food shop	Handcarft[3]	Others[4]
1997	1.48 bn €	31 %	28 %	19 %	10 %	5 %	7 %
2000	2.05 bn €	28 %	33 %	17 %	10 %	7 %	5 %
2001	2.70 bn €	27 %	35 %	17 %	9 %	7 %	4 %
2002	3.01 bn €	26 %	35 %	17 %	9 %	7 %	6 %
2003	3.10 bn €	26 %	35 %	17 %	8 %	7 %	7 %
2004	3.50 bn €	26 %	37 %	16 %	8 %	7 %	6 %
2005	3.90 bn €	25 %	41 %	14 %	6 %	6 %	8 %

[1] Food retailing including discounters, fancy foods and delivery services
[2] Producer, farmers including farmers` market and delivery services
[3] Bakeries, butchers` shop
[4] Drug stores, mailing and manufacture

In 2000, organic stores lost their leadership to conventional food retailing. Five years later they only achieved 25 % of the turnover. This development demonstrates the need to find special ways to differentiate, for example, communicating regionalism.

In the past, organic shops were characterized by their small size. Mostly they supplied regional organic products. For the time being, there are three store formats in organic retailing, i.e. small organic shops, organic shops and organic supermarkets (Table 2). One thesis of our project is that the relevance of regional products might differ between these store formats. The following results underline this assumption (see chapter 4.2).

Table 2: Store formats in organic retailing in Germany (source: Bahrdt et al. 2003, Braun 2006)

	Small organic shops	Organic shops	Organic supermarkets
Sales area	< 100 sqm	100 sqm - 199 sqm	> 200 sqm
Products	2,000 – 4,000	4,000 - 6,000	6,000 - 10,000
Average annual turnover	300,000 €	420,000 €	1,500,000 €
Number of shops in Germany (level 2005)	approx. 1,100	approx. 900	approx. 415
Turnover in organic retail in 2005: approx. 1.35 bn €			
Share of sales 2005	approx. 25 %	approx. 30 %	approx. 45 %
Growth in sales in 2nd quarter 2005	+ 7.6 %	+ 2.2 %	+ 18.1 %
Growth in sales in 2nd quarter 2006	+ 9.9 %	+ 8.6 %	+ 10.5 %

3 Status quo of regional marketing

3.1 Research overview

The traditional pathway of supply and promotion of organic products was regionally bound. Organic and regional were common characteristics of products at the beginning of the organic movement, two aspects which belonged together. Later the distribution channel in organic retail became more large-area over Germany (Table 1). However, it seems that for traditional organic shops regional products are still relevant (preliminary results of interviews with shop owners in 2007) and many regional articles are listed. However, the consumer can hardly identify specific regional products, because of less communication and missing labeling. Organic shops do not use their competitive advantage with respect to regional products. While organic retailers do not promote their unique selling proposition, conventional supermarkets, especially independent retailers which have found openings to enhance their assortment by regional products and effect an improvement of their image. For example, Edeka or Feneberg try to distinguish themselves from other supermarkets and discounters by promoting regional products (www.die-regionaltheke.de; www.unsereheimat.de; Gothe 2002). Even discounters such as Plus advertise regional milk from different dairies as a trademark (www.vital-genuss.de). Regionalism is not a trend only focused on organic products, but the connection “organic and regional” might be the more credible one.

There are different definitions of regional marketing, but, in general two types can be differentiated. Type one, a qualified origin specification, based on the geographical indication of one region is especially important for the export of a delicacy (Protected Designation of Origin (PDO)). It is protected by the EU regulation (510/2006) (Thiedig and Sylvander 2000). Type two, a simple origin specification with the aim of selling products from one region in one region, “buy domestic” is applicable. The latter is important for this project. Especially direct marketing and regional initiatives are typical for this regional marketing type. For example “Brucker Land“ is one benchmark for regional initiatives (Alvensleben v. 1999, Spiller and Zühlsdorf 2006).

A literature analysis shows several streams of researches which have discussed the potentials for regional products and regional purchase coming from consumer research, marketing, and agricultural economics. Some contributions have focused on the regional supply side (Schmid et al. 2005, Kullmann 2004). The authors came to the conclusion that regional initiatives were successful when marketing concepts were integrated in local networks. Another area of research deals with regional preferences of consumers (Alvensleben v. 1999, Ittersum 2002, Wirthgen 2003, Sylvander and Kristensen 2004). The result was that consumers in general preferred regional products, but that the aspect of regionalism does not lead to high involvement. Regional products also have to be of high-quality. In addition, consumers often do not know enough about products and their producer. The analysis of the question of how retailers organize the supply of their products (Lademann 2002) shows that only few retailers stay directly in contact with producers, because transaction costs are often too high. Furthermore, they do not try to communicate the regional aspect of products as marketing concepts. The research approach “Country-of-origin” is an alternative to provide the consumer with more complete product information via country-of-origin-labels (Jaffe and Nebenzahl 2001). Another interesting research aspect is consumer-ethnocentrism, which is used for explaining consumers` preferences for regional products. The reason why people buy regional products is explained by nationalism and home country preferences (Ittersum v. 1998).

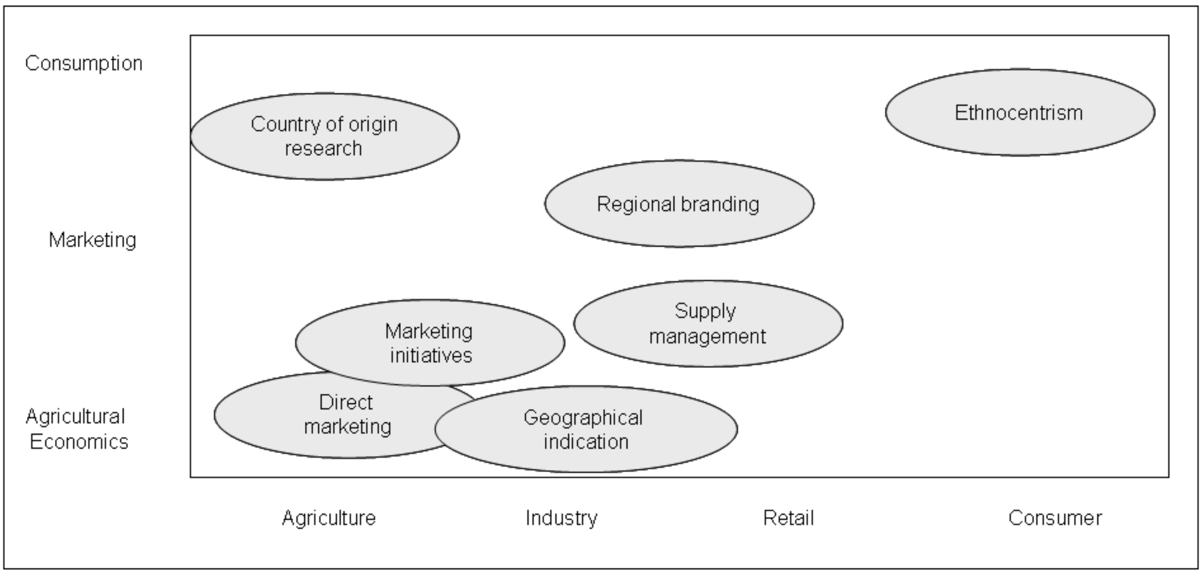

Figure 1: Research overview of regional marketing

The different research approaches, which are important for implementing this project, can be combined, as we show in the matrix above (Figure 1). The x-axis shows the supply chain whereas the y-axis represents key streams of research.

3.2 Regional marketing approaches

In general two types of regional marketing approaches can be differentiated. On the one hand product labels inform the consumer about specific regional aspects (Figure 2). There are different types of labeling, for example private labels (retailer brands), as “Von Hier” or family brands, as “Unser Land”. The latter based on a regional initiative which contains several different stages like agriculture, handcraft, consumer, church and environmentalism. Also manufacturers` brands are relevant, e. g. Upländer Bauernmolkerei. Another possibility is to offer products with geographical indication (EU-label). Different wholesalers in Germany initiate the campaign “Regional ist 1. Wahl” (“regionalism is first choice”). In that case organic shop owners get tags and poster to place in their shops.

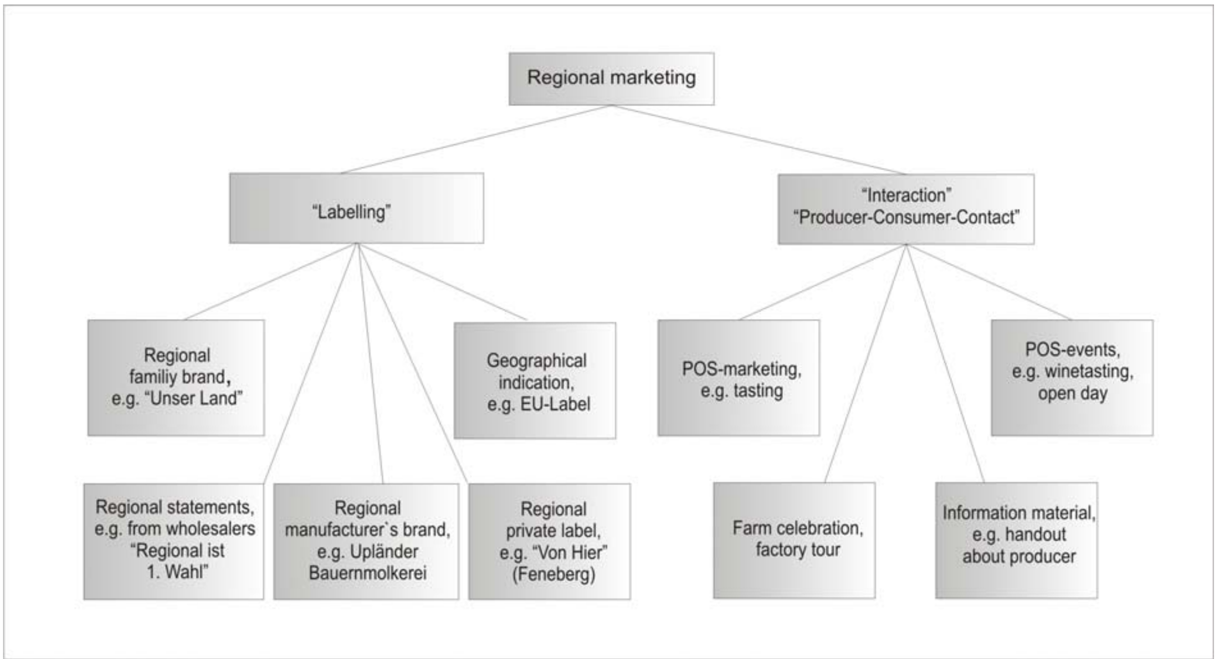

Figure 2: Regional marketing approaches

On the other hand regional products can be communicated by bridging the gap between producer and consumer. Producers may present their products in an organic shop. This is a chance for consumer to learn more about regional products, for producers to give their products a more emotional character and for shop owners to present their shop as highly involved in regional aspects. Another way to communicate regionalism is supporting farm celebrations by information brochure or posters or laying out handouts about producers. An important aspect of communicating regionalism is to reach the emotional area of consumers, for example with story telling or personal impressions. These approaches are opportunities for organic retailers to improve the regional image and to differentiate themselves from large competitors.

4 Description of methods and initial results

Between May and August 2007 an empirical study will be accomplished in which owners of organic shops in the north and south of Germany, will be interviewed concerning the status quo of regional marketing. The results of this survey will be used to identify benchmarks. In detail, we wish to establish the differences in status quo of regional marketing between south and north Germany, between metropolis and small town and with reference to the size of the organic shops. At this state of research, we cannot give a definite analysis of the interviews performed so far. However, it is possible to describe preliminary results. Furthermore, in the next chapter we summarize results of former research project which touch some aspects of regional marketing (Kennerknecht et al. 2007).

4.1 Results of customer satisfaction of regional products

In 2005 and 2006, 2,335 customers of 24 organic shops in Germany were interviewed (Kennerknecht et al. 2007). The main objective was customer satisfaction in organic shops, which contains aspects about regional products. At first sight, the consumer seemed to be quite satisfied with the assortment of regional organic products in organic shops. 56.5 % of respondents declared that they were satisfied or even very satisfied with the regional assortment. Fewer respondents think that many products come from regional farmers (30.8 %). There is a significant correlation between these two statements (0.486***). However, in comparison to the evaluation of other criteria, customers are not really satisfied with regional products. Only prices are less well evaluated (Table 3).

There are differences between types of organic shops. Consumer think smaller shops have more regional products than organic supermarkets, but their marketing activities are not as good (Table 4). These results underline previous statements concerning different relevance of regional products between store formats in organic retailing. Furthermore 2/3 of shop owners evaluate their regional assortment better than consumer do. Table 4 underlines the problem of communication on regional products. In general products from regional farmers are not obvious for the consumer (µ 0.58). Organic supermarkets have greater problems, whereas small organic shops can present regional products better or consumers think that the smaller shops probably have naturally more regional products in their assortment. All shops have in common that they have to improve their advertising, especially for regional organic food. The results for consumer satisfaction confirm the assumption that organic shops do not communicate enough about their regional profile.

Table 3: Estimate of shop performance 1 (source: Kennerknecht et al. 2007)

	µ Small organic shops (n = 449)	**µ Organic shops (n = 697)**	**µ Organic super-markets (n = 941)**	**µ All organic shops (n = 2,087)**	**σ All organic shops (n = 2,087)**
Assortment ***	1.23	1.26	1.42	1.33	0.60
Assortment of produce ***	1.15	1.02	1.14	1.10	0.72
Assortment of meat and sausage ***	0.67	0.50	0.96	0.75	0.90
Assortment of cheese and dairy products***	1.24	1.29	1.43	1.35	0.69
Assortment of regional products ***	0.96	0.72	0.67	0.75	0.84
Cheap goods ***	0.45	0.27	0.30	0.32	0.82
Freshness of products ***	1.35	1.01	1.04	1.10	0.73
Number of special offers ***	0.05	0.33	0.27	0.25	0.96
Presentation of produce ***	1.22	1.04	1.00	1.06	0.79
Information about products ***	1.11	0.94	0.70	0.87	0.85

Scale = +2: very good, +1: good, 0: satisfactory, -1: adequate, -2: deficient
*** = p ≤ 0.001 between the three store formats

Table 4: Estimate of shop performance 2 (source: Kennerknecht et al. 2007)

	µ Small organic shops (n = 449)	**µ Organic shops (n = 697)**	**µ Organic super-markets (n = 941)**	**µ All organic shops (n = 2,087)**	**σ All organic shops (n = 2,087)**
I feel comfortable during shopping. ***	1.63	1.42	1.30	1.40	0.64
This is one of the best organic shops I have ever bought products from. ***	1.02	0.76	0.87	0.87	0.91
They consistently pay attention to environmentalism. ***	1.17	0.95	0.84	0.95	0.72
I trust this organic shop. ***	1.50	1.28	1.04	1.22	0.69
These products come from regional farmers. ***	0.79	0.61	0.45	0.58	0.78
In this shop I get especially good products. ***	1.35	1.09	1.02	1.11	0.63
This shop often does promotions. ***	-0.29	0.19	0.04	0.02	0.88
Meat and sausages come from animals, which are treated appropriately for the species. ***	1.36	1.20	1.26	1.26	0.69
Scale = +2: strongly agree, +1: agree, 0: neutral, -1: disagree -2: strongly disagree *** = $p \leq 0.001$ between the three store formats					

4.2 Method and preliminary results of personal interviews

In the actual ongoing project, interviews with shop owners were carried out as face-to-face specialized interviews with a structured guideline. In early phases of research specialized interviews are advantageous compared to standardized interviews, because new ideas and detailed data can be discovered. At this stage of the project, it is important to arrive at a status quo about how organic retailers handle regional products in their daily work, because no other data exist. The questionnaire contains qualitative and quantitative questions, because aspects like regional relevance and marketing actions are often hard to evaluate (Bogner et al. 2005).

To improve the understanding of regionalism and to diminish the different regional meanings, three types of regional products are defined:

- supplied directly and the producer is of known identity,
- supplied by wholesalers and the producer is of known identity, and
- supplied by wholesalers whereby shop owners do not stay in contact with producers directly.

To present a first impression on our preliminary results we summarize the main aspects of five interviews. The shop owners` understanding of regional product is “buy domestic”. That means they do not describe PDO articles as regional products. The concept of regional specialties is not combined with organic marketing.

We identify bakery products and eggs as important regional products. These products are mostly supplied directly and the producer is of known identity. Also bakery products have most number of suppliers in comparison to other products. All respondents estimate these products to be highly relevant. Seasonal fruits and vegetables are also of high significance for three shop owners, for the others they are only slightly less important. Problematic for regional supply seem to be dry goods and dairy products. Both have the problem that dairies and producers are not often in close vicinity and sometimes shop owners doubt that products with several ingredients from different regions can be described as regional. If shops decide to sell meat or sausages these products are also relevant for regional supply as type one.

In all the commitment to regional marketing is low, because, in most cases, shop owners have not yet thought about it. Using standardized questions to obtain detailed information about their regional marketing, the answers are very different. Two of five shops signs on shelves with information about the produce or the slogan “Regional ist 1. Wahl”, a concept which was initiated by regional wholesalers (www.die-regionalen.de). Another two often offer their customers seasonal special offers, mostly fruit and vegetables for lower prizes. Flyers about regional products or producers are used by few respondents. Only one shop often offers tasting for regional products. The others offer tasting but not especially for regional products. Anyway, the shop owners underline that tasting for regional products is an important regional marketing approach to communicate regional aspects, as special taste and higher prices. The “producer consumer contact” in terms of tasting is for many organic shop owners important, when the shop size allows special arrangements and producers are communicative. All other opportunities for regional marketing, e. g. promotions, recipes, media presentations, raffles, village fairs or visits to farms are hardly used in these organic shops.

In general, we can assume that regionalism is still relevant for organic shops, but rarely communicated because often the respondents had not yet thought about it or did not know how to communicate it. They are sometimes not familiar with suitable marketing activities. In many cases they rely on initiatives of wholesalers or producers. This may be the reason why labeling is more prominent than direct interaction between stores, producers, and consumer (see Figure 2). All in all these few impressions of our interviews show that regional aspects are missing in communication and that there are potentials to advance the regional development.

5 Conclusion

This paper seeks to provide an idea of the conceptual outline of the current project. Furthermore, it indicates possibilities for regional marketing in organic shops and justifies why the authors concentrate on regional marketing. Regional marketing is an interesting challenge for this target group. Certainly organic shops have to improve. Literature analysis of regional marketing shows that there are many opportunities to standout from other competitors, but organic shops do not yet communicate regional aspects which might be possible. In face-to-face interviews, we try to discover the reasons why they hardly promote regional products and what would help them to enhance their activities. The preliminary results confirm the deficits of small organic retailers in promoting their regional profile. Further detailed analyses and specialized interviews are planned until August. The next step in this project will be to identify benchmarks in regional marketing and the suitable marketing mix for regional unique selling propositions.

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