



EXPORT PROMOTION OF  
ORGANIC PRODUCTS FROM AFRICA

# Organic Exporter Guide

*Hands-on help  
for organic exports from Africa*



February 2006



EPOPA (Export Promotion of Organic Products from Africa) is a development programme initiated by the Swedish International Development Cooperation Agency, SIDA, in 1997.

EPOPA offers African smallholder farmers opportunities for improved livelihoods through the development of organic products for export.

The programme has been evaluated twice and has been proven to be a valid instrument for African exporters desiring to improve their businesses and for thousands of farmers wanting to improve their livelihoods.

For more information about EPOPA visit: [www.epopa.info](http://www.epopa.info)



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# 1 Introduction

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## 1.1 Scope and focus of this guide

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There are many guides and textbooks on marketing and exporting. This guide is different in its focus on export marketing of organic agricultural products. Finished consumer products and other concepts of certification such as Fair Trade and EurepGAP are briefly discussed as well. The guide is written for African exporters starting with organic exports. It may also be useful for business supporters involved in export marketing.

The guide has been kept short and to the point. A more general discussion of export marketing from developing countries can be found in CBI's Export Planner (2004).

## 1.2 The EPOPA approach

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The EPOPA approach of developing organic exports is based on established exporters. Before the project, they already have conducted conventional exports. After the project, they act as supply-chain managers, and they also hold the organic certificate. This approach has the advantage of making use of an existing export structure, reducing the time and effort needed to reach the market.



It is important to compare your products with competing products on the market.

EPOPA exporters procure their organic produce either directly from farmers or from farmer organizations. As a development project funded by the Swedish International Development Cooperation Agency (Sida), EPOPA aims to promote the livelihoods of small producers and sustainable agricultural practices.

#### **Exporters in the EPOPA programme**

There are two groups of exporters in EPOPA: producer organizations and private companies. Producer organizations include cooperatives and cooperative unions and other organizations of different legal makeup. Private companies include

- Subsidiaries of international trading houses
- Foreign entrepreneurs
- Settled foreigners
- Joint ventures between foreigners and nationals
- National entrepreneurs (Van Elzakker 2005)

### **1.3 Structure of this guide**

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After this introduction (chapter 1), we discuss in chapter 2 the fundamentals of an organic export venture. Chapter 3 concentrates on the marketing aspects of such a project, providing ingredients for the export marketing plan.

A short overview of organic markets is given in annex 2. Since market information becomes outdated very quickly, it is not included in the main text of the report. Organic markets are covered extensively in the *Organic Market in Switzerland and the European Union* by FIBL and SIPPO (2004), and the *EU Market Survey: Organic Food Products* by CBI (2005).

Summaries of EPOPA market surveys are available on the website [www.epopa.info](http://www.epopa.info).

## 2 Organic exports: the fundamentals

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Starting organic exports brings about changes in key areas of your company, among them production, purchasing, administration, management, and marketing. Organic exporting also requires a certain amount of idealism. Many importers want to be assured that your organic business is about more than facilitating the necessary paperwork; they like to see your company “making a difference”.

Exporters going organic generally see the following areas affected:

- a) Market strategies: some are more compatible with organic exports than others.
- b) Market requirements: the specific requirements of the organic niche are different from requirements in the general market and are often unknown to general exporters.
- c) Internal control and external certification: the major condition for organic exports. It will make the company much more transparent, and partly dependent on the certifier.
- d) Technological requirements: The organic standards limit the processes and inputs that can be used.
- e) Supply-chain management: Most EPOPA exporters had to change the way they relate to suppliers (farmers). Since organic certification requires traceability, suppliers have to be registered and become part of a long-term relationship with exporters.

In this chapter, each of these aspects will be discussed. In the final paragraph, a synthesis is made, indicating the pros and cons of organic exports.

### 2.1 Organic market strategies

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The decision to address organic export markets has to fit in well with the company's general marketing strategy. According to marketing textbooks, only three types of strategies are viable in the long term: cost leadership, differentiation, and focus (see box). If companies do not choose one of these strategies, they risk getting stuck in the middle.

Organic exporters follow either a focus or a differentiation strategy. Cost leadership is hardly an option, since organic volumes are small and the costs relatively high. Nevertheless, cost efficiency as such is important for all companies.

The focus strategy is probably the most appropriate, since it takes full stock of the particularities of the organic-market niche. Companies applying this strategy take advantage of their superior knowledge of their niche or niches by offering tailor-made propositions. The downside of this strategy is that they are also more dependent on that niche, and they are vulnerable when market dynamics change (for example, when buyers start demanding lower prices).

Moreover, they cannot build on the economies of scale found in the general market.

The differentiation strategy is used by general commodity exporters that diversify into organic markets. In this case, the organic-product range is just another line of their business. Although these are experienced companies in their business domains, they are often surprised by the particularities of the organic-export channel. This is the most common situation for EPOPA exporters.

Some exporters combine a cost-leadership strategy for their general (conventional) business with an additional focus on organic markets. This approach easily leads to contradictions, however, since the small volumes of highly demanding organic products have to be fitted into a general system based on quantity, low cost, and minimum effort.

#### Generic marketing strategies, according to Porter

After extensive research among American companies, Porter found that successful companies applied one of only three strategies. These marketing strategies were classified according to two parameters: the benefits of the products and the approach to the market (table). Under a broad market approach, there are only two options: cost leadership and differentiation. Under a focus or niche market strategy, only a small segment of the market is addressed. This small segment may be addressed with either a cost-based or a quality-based strategy.

|                                |       |                              |                        |
|--------------------------------|-------|------------------------------|------------------------|
|                                |       | Key benefits of the product: |                        |
|                                |       | Low cost                     | Unique product         |
| Unique approach to the market: | Broad | <b>Cost leadership</b>       | <b>Differentiation</b> |
|                                | Small | <b>Focus</b>                 |                        |

Source: adapted from Mandour et al. 2005.

In the cost-leadership strategy, a business aims for the lowest production and distribution costs so that it can set the lowest market price and gain a large market share. Companies following this strategy must be good in hard business skills such as engineering, purchasing, manufacturing, and distribution, but they need less skill in marketing (Kotler 2003).

In the differentiation strategy, a company concentrates on making a superior (in benefits valued by the customers) proposition to a large part of the market. This type of company will focus on the best product components, careful assembly and inspection, and effective communication (Kotler 2003).

In the focus strategy, a company addresses one or more niches in the market where it is more competitive. A cost-based focus strategy is, for example, practiced by budget airlines focusing only on business travellers. A quality-based focus strategy is followed by most manufacturers of organic products.

## 2.2 Organic market requirements for the agricultural exporter

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The demands of the organic market for exporters can be summarized as follows:

1. Certification: this is the one, overriding demand for gaining access to the organic market.
2. Product: product quality is often less differentiated than in conventional markets, but it should be at least as good as conventional. At the high end of the market, high-quality (gourmet) products are traded.
3. Place/distribution: for most products, there are either specific organic importers or conventional importers with an organic line. For most products, shipments by the container are now common. Smaller or seasonal products may be transported by air.
4. Promotion: building a personal relationship based on trust is even more important than in conventional markets. Many organic buyers also want additional information about the origin and producers of a product (the story behind the product).
5. Price: organic import prices tend to go down when markets develop, to reach equilibrium at about 10 per cent to 50 per cent above conventional prices (depending on the product).

This scheme is, of course, an oversimplification. Depending on the product group, there may be additional demands and legislation. Exporters are generally affected by legislation both in the country of origin and in the destination country. Exporters are generally advised to try to know their specific market better than anyone else.

## 2.3 Internal control and external certification

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The need for an internal control system (ICS) derives from the requirements regarding group certification in the organic standards. Small farmers can be certified as a group in order to save costs. To ensure the organic integrity of the products, the group itself then needs to have internal monitoring. In the EPOPA projects, the ICS is owned and managed by the exporter. Its development is supported by EPOPA.

External certification, however, involves more than just the ICS. The external certifier wants to have detailed insight into the relevant business processes. For that, extensive information has to be provided, and specific follow-up is often needed to the requirements and according to the recommendations of the certifier. The organic certificate is issued for only a year, and the company will therefore be reviewed every year to see whether conditions are still being met. Should there be problems or reasons for suspicion, additional inspections may be required during the year.

Organic certification is a time-consuming process. Managing your relationship with the organic certifier is similar to managing customer “accounts”. Generally, the organic certifier should be involved in a project as early as possible, allowing for maximum time for implementing his requirements and recommendations. An early relationship may also contribute to building trust

with the certifier and creating a working relationship, which will then make the inspection process easier (Grolink, n.d.).

For more information on the choice of an organic certifier, please see chapter 3.3.

## 2.4 Technological requirements

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From an initial focus on farming, organic standards have evolved to address processing issues. Processing standards most directly affect the work of exporters, while farmers are most affected by production standards.

Organic processing is affected by three major requirements:

- the need for traceability
- the need to keep organic and non-organic products separate
- limitations on the inputs, agents, and technologies allowed

Depending on the situation of a company, these requirements will result in additional costs or savings. For example, tighter quality control may reduce the amount of defects and thus create savings. On the other hand, alternative organic technologies and inputs may be more costly than the conventional ones. Separate handling will normally also involve additional costs.

## 2.5 Building a stable supply chain with smallholders

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EPOPA exporters predominantly use two types of supply chain for their organic projects:

- a) buying from smallholder farmers or producers on an individual basis
- b) buying from producer organizations



Farmer and her family in Bundibugyo, Uganda, she has a contract with ESCO for delivering organic cocoa and vanilla. The high prices and stable relation to the exporter makes her life easier.

In their conventional operations, these exporters may also buy from large farmers and private intermediaries. Although neither of these options is prohibited under organic certification, they are not part of the EPOPA programme.

Under organic certification, there needs to be full traceability of the products. Farmers, therefore, need to be registered, and the supply chain needs to be clearly defined. This calls for a buying system in which farmers and buyers are committed to a long-term relationship. This is an important change for most EPOPA exporters, who used to depend on a looser trading approach. Farmers now expect the exporter to buy their products every year, and the buyer expects farmers to deliver. Traceability, by the way, is also increasingly demanded in general food markets to ensure food quality and safety.

Farmers and exporters may feel reluctant to enter into a long-term relationship, even if they have a common incentive to do so. Such a relationship involves a substantial investment of time, money, and reputation from both sides. Disagreements may endanger the relationship. A certain business maturity is required for managing it, although there will also be an element of trial and error. The common ground in the relationship should be stressed. Sufficient time should be dedicated to sensitive problems such as price-setting and other trading conditions. Proper communication is needed, and trust should be built between the parties.

Through supply-chain analysis, financial costs and benefits can be established for all activities and actors along the chain. Inefficiencies may be detected, and it may be possible to reduce them, for example in a cooperative approach among various actors. If the buying costs are reduced, for example, everyone will benefit. It is often the exporter who takes the lead in this, but other organizations may also play this role.

There is a high administrative cost attached to buying from many individual farmers, as some EPOPA exporters can attest. Increased organization of farmers might offer a solution to this problem, provided that they can manage the primary processes of collecting, bulking, and grading more efficiently than the exporter.

#### Different ways of trading

Trading is often understood as something similar to what happens at auctions and commodity exchanges: the simple buying and selling of goods. Buying and selling, however, is only one face of trading. It is certainly not the situation of most exporters of organic products. To the contrary, most exporters try to build a stable supply chain for the longer term, by investing in the relationships with their suppliers and incorporating mechanisms to guarantee quality, quantity, timeliness, and price. Key word: *investing*. Time, money, and your reputation are invested in building this supply chain. This is why trading involves a long-term commitment. Incidentally, most importers and manufacturers operate in the same way, aiming to build long-term relationships with reliable suppliers.

## 2.6 Synthesis: pros and cons of organic exports

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Evaluating an organic export project involves more than financial costs and benefits. In this chapter, a three-stage approach is proposed:

1. a strategic-fit analysis
2. a financial analysis of costs and benefits
3. an evaluation of ethical factors

### The strategic-fit analysis

It is important to verify that organic exports fit into the general mission, culture, and strategies of the company. This can be done considering the major areas of change discussed in this chapter. For marketing, the fit with the general market strategy is especially important. Companies seeking cost leadership probably should not get into organic exports. Companies with a focus strategy are best placed, while those with a differentiation strategy should carefully evaluate the compatibility of the organic market activity with the general business.

In addition, there could be beneficial side effects to organic certification, among them improved public relations, improved access to support networks (NGOs, for example), and easier certification against other standards such as ISO, Fair Trade, and EurepGAP.

### Financial cost and benefit analysis

The bottom line for any commercial project is that financial benefits should exceed costs. Most companies further refine this criterion by requiring a sufficient return on their investment. They apply financial criteria such as return on investment (ROI), net present value (NPV), and economic value added (EVA). For all methods, clear insight is needed in the costs and benefits of the project, on the basis of cash flow.

| Area   | Benefits   | Costs  |
|--|--|--|
| Marketing  | Higher sales prices ("organic premium")                            | Additional marketing costs due to limited volumes, different requirements, and separate channel  |
|  | Higher sales price due to improved quality (quality differential)* |  |
|  | Increased sales volume due to additional market                    | Lower quality differential if the specific product quality is not well rewarded in the organic niche (a problem for producers with very high or very low quality)* |
|  | For starting exporters: easier market access                       |  |
| Internal monitoring and external inspection      | Possible savings due to increased monitoring                       | Cost of external inspection and certification  |
|  |  | Cost of internal control system (ICS)**  |
| Technological requirements                       |  | Cost of separate processing and technical limitations  |
| Building a stable supply chain with smallholders | Possible savings due to increased control and no intermediaries    | Increased cost of raw materials due to farmer premium and higher quality demands<br>Not possible to buy from other farmers if own farmers fail to supply.          |

\* Whether the quality factor has a positive or a negative effect on the sales price depends on the market and the exporter in question. Organic markets generally have a lesser differentiation by quality.

\*\* In the context of organic certification, the term *internal control system* (ICS) is used both for the in-company controls and the controls extending to farmers under group certification.

As this chapter has highlighted, an "organic conversion" affects many areas of the company. Costs and benefits are related to the very same areas discussed in the table above.

### Ethical factors

The decision to go organic is often not purely commercial. Most organic operators consider organic agriculture a superior production system. They would claim that it has less environmental impact, makes a positive contribution to biodiversity, and is more responsible toward producers and workers. However, these claims are not undisputed. In the social area, for example, organic certification also implies a loss of opportunity for farmers to use productivity-enhancing inputs. It is recommended to keep one's eyes open to both the positive and negative effects of an organic project.

## 3 Organic export marketing

This chapter addresses the marketing aspects of export planning. It is organized around the four p's of the marketing mix: place, product, promotion, and price. There are also sections on good management and strategic marketing planning, two major conditions for successful exports. Certification is treated separately, as a central element of organic marketing.

### 3.1 Your market (the p of place)

The marketing p of place (read: distribution) has two distinct elements. The first element is the choice of markets and buyers: whom are you selling to, and into which channels. The second element is how to organize your physical distribution, or flow of goods.

#### 3.1.1 Which regions and countries?

The choice of an export market depends on many factors. These are some of them:

- a) existing freight connections (for shipping the products, either by sea or air)
- b) existing travel connections (for personal visits)
- c) market demand (in terms of volume, quality, potential growth)
- d) level of competition
- e) custom duties and non-tariff trade barriers (including quotas)
- f) other trade regulations
- g) existing trade contacts
- h) language and ease of communication
- i) knowledge of that market

Most African organic exports are directed to Europe. Connections between Africa and Europe are generally much more developed than those with the United States or Japan, both for passengers and freight. There are often also personal connections to European countries.

Although a major organic market, the United States is attractive mainly for speciality African products. A clear case is organic, single-origin, gourmet coffee, which is valued much more highly in the United States than in Europe.

#### To export or not to export?

Domestic and regional markets are usually much more accessible than export markets. They should normally be considered before starting with overseas exports. This is especially so for finished-product manufacturers, who will find very strong competition in Western markets. For bulk products, there will usually be a market; the question is whether that market is sufficiently rewarding and whether conditions can be met. For some products, domestic prices are higher than export prices, as when a country is a net importer of that product. It is then more sensible to compete for a position in the local market instead of exporting. For exporters of commodities, the major challenge is meeting market demands. There are usually clearly defined product standards. Other aspects to consider are the greater need for cash, the shelf life, and the risk of non-payment.

Buyers in the United States source less unusual and differentiated products more easily in Latin America and Asia.

Japan is not a very transparent market, and the organic sector is small. Nevertheless, specific products such as Kilimanjaro coffee are well-received there. Another option is semi-organic products, which have a much larger market.

In choosing a country, economic factors should be more decisive than cultural ones. Nevertheless, French imports are still predominantly from French-speaking countries, such as Madagascar, a former colony. English-speaking countries often have good contacts in the United Kingdom. France, Germany, the Netherlands, and the United Kingdom are the major destinations for overseas organic products in Europe, serving most other European markets. Switzerland is considered a very difficult country for imports, since the organic standards applied by importers are very strict. Italy has very complicated import procedures that discourage organic imports from outside the European Union.

Emerging organic markets in middle-income countries such as Brazil, Egypt, Mexico, and South Africa also provide opportunities, and competition is still limited. These countries, however, tend to depend primarily on their own organic production. The high-income markets in the Middle East, for example the United Arab Emirates, rely heavily on imports and may therefore be more promising. Since these markets are not (yet) regulated for organic trade, there are fewer problems with certification.

### 3.1.2 Which channels, buyers, and market segments?

For most organic commodities, the number of importers in each region or on each continent is limited. The importers typically serve customers in several countries. These importers, however, may serve very different market segments, and therefore have different demands. It is very important to find the importer who is best placed to promote your particular type and quality of product and who is also eager to do so (see box).

#### A marketing approach to selecting channels

A marketing approach means looking at the end uses of your product and analysing the channels leading there. By so doing, you can select the most attractive channel for your product. For instance, if you have a small volume of gourmet honey, there is no point in selling this to an importer whose business is blending huge volumes of honeys into a few standard types. Likewise, if you have jumbo peanuts, which are preferred in the conventional snack market, you should not expect a high price from importers specializing in the processed-peanut segment (e.g., for peanut butter). You may even find that in the organic market this specific quality is not preferred at all, or that the market still needs to be developed. Another example is shea butter, which has two clearly distinct end uses in either cosmetics or food (as a cocoa substitute). Channels and quality demands for each of these markets vary.

You can investigate a small number of importers and even try to meet the most important of them personally. You should try to collect information about their position in the market, their requirements, and their interest in your offering. You should also assess their reliability and financial strength. The personal chemistry between you and the importer may also play a role (see also 3.4). After this analysis, you need to choose with whom to work. Importers and exporters prefer to limit the number of partners, since limits make more sense economically. Some importers may request exclusivity for a certain country or region. They may not like seeing your product offered to their customers through various channels, with various conditions attached. If they regard their work with you as an investment, they will want to be properly rewarded.

### 3.1.3 Physical distribution

The physical distribution of your products should fit neatly with your choice of buyers and their stage in the supply chain. Since for exporters the minimum economic quantity to deliver is usually a full container load, it will be impossible to supply small customers regularly. That is why, of course, there are importers out there in the first place. You deliver containers, and the importer breaks these down into smaller quantities, for example pallets or boxes. While your container will usually arrive by ship, the importer will often use transport by truck to send the smaller quantities to his buyers.

The objective of your physical distribution should be to deliver your products on time, undamaged, in the right amount, and at the right place. Moreover, you want to achieve this as economically as possible. In Africa, this is a difficult job, requiring your almost permanent attention.

#### Logistical difficulties for African exports

Sea and air freight are the two major forms of transport for overseas exports of agricultural products from Africa. For most African countries, both types of transport are available, although each has its limitations. Landlocked countries such as Uganda and Zambia rely on ports in other countries. In some countries, there are only a few direct cargo flights with Western destinations, limiting the options of exporting perishable goods by air. Prices will also vary. With some destinations, shipping lines maintain only irregular services. The ship may pass without docking.

Logistical difficulties are not limited to international shipping. African exporters also face major challenges in internal transport from the farm to the ship. The state of infrastructure and the quality of services are generally weak. This translates into a lower reliability of export services, more time between buying and selling of goods (and therefore exposure to price risk and capital costs), and much management time dedicated to this area.

## 3.2 Your product

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### 3.2.1 Your product and quality

The choice of quality or qualities is a major decision in your business planning. Demands on quality are generally increasing; low-quality producers risk being shut out of the market. But quality differentiation also presents a major opportunity for agricultural exporters (see box).

When it comes to quality, the image of Africa is not good. Prices, therefore, are lower, and trading conditions are poorer. To correct this, African exporters will have to pay extra attention to quality. Their aim should be to perform better on quality and service than the global average. The benefits of such a strategy are improved market access, improved prices, better sales conditions, and fewer quality rejects. Whenever there are quality disputes, moreover, the quality system will help to sustain your version of the story.

Buyers are interested only in exporters with a clear quality conscience, expressed in quality programmes in the company (see also chapter 3.3.2 on quality certification). They are also concerned with other quality aspects, such as packaging and service. Increasingly, markets are interested in intangible quality aspects such as its origin and the “story behind the product”. This is especially the case with organic, fair-trade and other sustainable markets.

#### Quality differentiation and standards

In commodity trading, products from one supplier are easily interchangeable with products from others. To facilitate such trade, there are product-quality standards for any commodity. These standards may have been formalized by international organizations such as the Codex Alimentarius, governments, sector organizations, commodity exchanges, or by traders themselves. So if someone buys a lot of coffee of Guatemalan origin, strictly hard bean, European preparation, he knows what to expect.

While governments set legal standards for some (vulnerable) products (meat and fish, for example), in many sectors standards are created by the traders themselves. Individual traders may also apply a stricter standard than the general one. But even then, many aspects of the product quality are embedded in legislation. Governments are especially concerned about wholesomeness and safety of the product. Importers should know the details of legislation. It is useful to request product specifications from your buyer.

Commodities are on one side of the spectrum; products such as jewellery, perfumes, cars, fashion, consultancy, and, indeed, most other services are more unusual. In the food sector this is especially the case for all branded products. The brand reinforces, or even creates, the distinctiveness. But even commodities are not as uniform as they seem. A closer look reveals much differentiation by quality. The Guatemalan coffee cited above is different from lower-grown Guatemalan coffees and from coffees with other origins. For its better quality, it is rewarded with a premium, called a quality differential. Quality differentials exist in all commodity markets, just like quality standards. In some cases, producers have managed to create a (consumer) brand image for a commodity: for example, Chiquita bananas, Del Monte pineapples, and Tasty Tom tomatoes.

### 3.2.2 Your grading and processing facilities

In addition to managing your supply chain, grading and processing facilities are an essential element of quality management. Bulking, cleaning, grading, and packing are basic and essential processes performed by exporters. Depending on the product, other processing steps may be necessary. Bourbon vanilla, for example, requires a six-month, labour-intensive curing process. Under global competition, supply chains are continuously re-invented. Most importing and manufacturing companies like to receive a product ready for further processing; they prefer not to bother about additional cleaning and grading.

Minimum requirements must always be met. There is no export sector where cleaning, grading, and packing facilities are not needed. But additional steps may add value to the operation, while strengthening your position as a quality supplier.

### 3.2.3 Packing and preparing for export

Buyers often have strong preferences about the method of packing of your products, since they are keen on increasing their efficiency. As a rule, Western companies prefer to use machines, not manpower. If manpower is used, there are legal limitations to the weight that workers may lift. Most importers also do not like to repack your products. They prefer to shift them around without opening them. As a consequence, they want you to supply the right packaging, not only for themselves, but also for their customers. This also has implications for the imprints on the packages. Being able to supply your products in the right packaging is an important part of your marketing mix.

### 3.2.4 Options for adding value

There are many opportunities for adding value to your products. This is due to the continuous restructuring of supply chains, a consequence of global competition. Value addition basically means that the sales value of your products increases through the offering of additional services or product benefits. Exporters, for example, may offer more advanced and differentiated grading and packing options. They may offer year-round delivery, taking over from buyers the need for bulk storage. They may also consider offering more finished products, thus moving on one or more steps in the supply chain (see also the next paragraph). The following general options are available:

- a) You may differentiate your product qualities.
- b) You may provide additional services.
- c) You may find more attractive market niches (using certification, for example).

Any value-adding option will involve additional costs as well as benefits. These should be evaluated to determine whether the investment make sense economically. Moreover, any option will have to be evaluated with buyers. The projects are viable only if they fulfil market demands.

### 3.2.5 Bulk or finished products

Producing finished products for export seems like the ultimate way of adding value. There are two ways: packed for retail or catering. However, you are also entering a different market. The retail and catering markets have requirements completely different from those of commodity markets. With a finished product, you will be competing directly with established manufacturers for shelf space. You will also need to consider branding, or becoming a “loan packer”, a company producing for other companies’ brands (or private labels). While the focus of the first group is primarily on consumer branding, the second group is focused on production technology and customer management. Another major difference is the frequency and volume of delivery.

### 3.2.6 Your volume and scale

Size (sales volume) is an important element of your marketing mix; it also determines your economies of scale. A minimum sales volume is needed to make your offer attractive to buyers. Otherwise, the administrative hassle and management time dedicated to your account outweigh the benefits. This also means that you have to limit the number of buyers. In bulk trading, moreover, shipments generally consist of at least a full container load. When products such as fresh fruit have to be supplied at short intervals, many subsequent shipments will be needed over a certain period. This will require large suppliers. When markets are too small to be supplied regularly by ship, they may be supplied by air, as is still the case with organic limes, for example.

Size is also a major determinant of your cost price. Many organic projects are too small and therefore not competitive. When sales prices are a given, a high cost price translates into a small profit margin, which, to make things worse, is to be multiplied by a smaller volume to arrive at your total profit. In addition to size, your cost price is, of course, also determined by the efficiency of production (productivity). Except for “gourmet” market niches, which are primarily driven by quality, organic commodity markets are sensitive to price. It is, therefore, very important to be competitive in your costs.

## 3.3 Your certification

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### 3.3.1 Organic certification

The choice of certifier follows the choice of markets, channels, and customers. Some certifiers are not accredited (“accepted by the competent authorities”) to certify all standards in all countries. Moreover, in some markets, it may be advisable to also use a specific certification logo, against a licence fee. If you plan to address markets that require different organic standards, you will need a multiple certification body.

In addition to the primary concern of the acceptability of a certifier in your target markets, other important aspects in choosing a certifier are

- a) the transparency, efficiency, and credibility of the certification process
- b) the service attitude and types of services offered
- c) the price

For more information on organic certification, you may refer to the Basic Certification manual and the training courses provided by Grolink ([www.grolink.se](http://www.grolink.se)).

### 3.3.2 Food-safety and quality certification

As of 2005, external certification of quality and food safety was not yet required for most organic exports, but this may change. There is a strong tendency in the European market towards stricter requirements. For products of animal origin (honey, fish, meat), legal hygiene requirements (based on EU law) are already in place. In the general fresh fruit and vegetables trade, EurepGAP and similar private schemes have, in effect, become a condition for market entry (see box).

Even when it is not externally required, internal quality assurance is necessary, on the basis of a well-known methodology such as HACCP or ISO 9000 (see box). External certification is a possible additional step, with both internal and external benefits. Internally, it may help to ensure motivation of management and staff, while externally it provides a clear signal to the market that quality is taken seriously.

#### Some quality and food-safety standards

Introduced by European retailers, EurepGAP is a quality and food-safety programme for fresh produce (fruit, vegetables, fish, and meat). The majority of European retailers now require this system from their suppliers of fresh produce. EurepGAP is also becoming a requirement in the organic fresh-food trade (see [www.eurep.org](http://www.eurep.org)).

HACCP (Hazard Analysis Critical Control Points) is a legal requirement for all EU food operators. It starts from an analysis of food-safety hazards in the production process, after which control points and measures are designed to prevent such hazards occurring.

ISO 9000 ([www.iso.org](http://www.iso.org)) is a management system widely used by companies all over the world. The new Food Quality Management Standard ISO 22000 is an integration of HACCP and ISO 9000.

### 3.3.3 Fair-trade certification

Like organic, fair trade offers a quickly growing market niche, currently in 18 countries. Fair-trade certification is increasingly considered by EPOPA exporters. The option is available only for certain, mostly agricultural, products--as well as jeans and footballs. The certification requirements differ greatly from organic requirements, although there are initiatives to streamline these somewhat (e.g., through the ISEAL initiative: [www.isealalliance.org](http://www.isealalliance.org)). Fair trade focuses on the social benefits to “disadvantaged producers” (either workers or small farmers) and less on the production and environmental aspects of the products. Fair-trade certification can be obtained only if the exporter works very closely with his producers and accepts transparency and some influence from their side. More information from [www.fairtrade.net](http://www.fairtrade.net).

### 3.4 Your promotion and communication

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Promotion is any communication that supports your sales. Promotion is a two-way process. In addition to sending out messages, it is equally important to receive them. Receiving and processing feedback from customers are essential for adapting your products and your general business offering to the demands of the market.

The personal contact is of primary importance in organic export marketing, even more so than in general exporting. Most buyers want you to show a long-term commitment. To keep your relationship up to date, it is best to meet your main buyers every year.

In planning your communication, you may distinguish four elements (CBI 2004):

- the message (its content)
- the form of the message (how to tell it)
- the media (which channels)
- how to organize it

In trading, a simple, clear, and straightforward type of presentation is usually preferred. The focus should be on the content of your message. Direct communication (personal selling) is often supported by standardized information in brochures and on a website. Advertising in professional magazines or other media may also be useful, to reinforce the other means. To meet new and current customers, EPOPA exporters are encouraged to participate in trade fairs.

A unique selling proposition (see below) is helpful to structure the content of your communication. This should create awareness of your products and company and communicate their benefits. Business communication should also (CBI 2004) communicate the following:

- the availability of your products
- the terms and conditions that apply for obtaining it
- any specifications and directions for its proper use

#### 3.4.1 Unique selling proposition

Your products stand out because they are better, cheaper, or targeted to a specific market niche, depending on your market strategy (see chapter 2.1). The particular mix of core benefits of your products for customers is called a unique selling proposition (or value proposition). It is the basis for the promotion of your products. Or rather: products and services, since in commodity trading services are the most important area for differentiation. Your service will make the difference, especially when the product itself is undifferentiated.

## Examples of unique selling propositions

For an exporter with a quality focus:

- superior products for niches A, B, and C (e.g., gourmet coffee for organic, fair-trade, and conventional gourmet niches)
- fully reliable delivery
- feeling for organic concerns
- extensive service (providing background information, for example)

For an exporter with a differentiation strategy:

- a full range of coffees of all types (and, for a multinational, all origins)
- organic coffee is offered as a service in addition to conventional coffee
- extensive, state of the art grading and classification facilities
- year-round delivery, both large and small volumes
- additional service facilities tuned to the needs of buyers (in contracting, financing, and pricing, for example)

Once stated, the unique selling proposition should be brought to the attention of customers.

### 3.4.2 Branding and labelling

Branding and labelling are ways of differentiating your product from others. In consumer markets, branding is a major point of attention for manufacturers. For exporters of bulk materials, consumer branding is unnecessary, but it may be useful to consider an industrial brand or label. This is especially the case if your company follows either a focus or a differentiation strategy (which are both based on quality). The industrial label can help differentiate your products. Basically, the label involves naming and differentiating your products of a certain quality. An interesting example of industrial labelling is provided by the Costa Rican cooperative CooCafe, which follows a focus strategy (see [www.cooCafe.com](http://www.cooCafe.com)).



### 3.4.3 Communication and sales

Personal communication being the cornerstone of your promotion, it should be well-organized. With current telecom and internet infrastructure, it is perfectly possible for African exporters to be in constant connection with their customers. As a matter of fact, Africa is better placed for communication with Europe than Asia or Latin America, since the time difference is small or zero.

In a small company, only a few people usually hold decision-making power. If those people are travelling, the question is whether they will delegate this authority to others or remain within reach for urgent decisions. In general, enquiries from customers and potential customers should always be answered quickly. **This translates into an immediate answer within 24 hours and a full answer within a week, unless it is a very complicated matter.**

## 3.5 Your price

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In commodity markets, prices depend on the market in two ways. First, the general price level (base price) is constantly changing, following market developments. Second, your relative position to the general level is defined by how the market rewards your particular quality. In the relatively advanced coffee market, this latter element is called the “quality differential”. But even when the term is not used, there will always be quality differentiation.

Your pricing policy will thus have to answer two questions:

1. How should you position your products in terms of quality (quality differential)?
2. How should you respond to changing market prices?

The answer to the first question is probably the easiest. It will depend on your general market strategy. If that is focused on quality, your price should underline that aspect. A quality product should not be priced too low. If you have a standard product, you will not be able to charge more than your competitors. If your market strategy is based on lowest costs, your products should be priced lower than your competitors’.

However, your margin of choice is limited. Just like the base price, the quality differential is defined by the market. Any changes in your quality differential will have to be negotiated with your buyers. The market defines quality in the broadest possible terms, including origin, service, volume, and reliability of the exporter. This means that exporters from unknown or unpopular origins are punished with lower differentials, even if they themselves supply an excellent product.

The answer to the second question is called price-risk management. Although an important tool, in organic markets it is not systematically applied. This is probably because organic markets usually have provided some shelter to price trends. Eventually, however, organic traders cannot escape from price trends in the general markets. This goes for exporters, who will have to be competitive with conventional buyers in their origins, and for importers, who need to stay

in tune with their end markets. An introduction to price-risk management is given in annex 3.

### 3.5.1 Organic premium

The organic premium is defined as the price difference between an organic and a conventional product of the same quality, at the same stage in the supply chain. A major importer of organic commodities, for example, aims for an organic premium of not more than 20 per cent on all his commodities. This reflects the preferences of manufacturers and multiple retailers, who offer organic products in addition to conventional ones. In practice, the organic premium shows a much wider range, often between 10 per cent and 50 per cent (at import level), depending on the commodity. But the organic premium may be much higher, especially on minor and technically complicated products. In the case of canned pineapple, for example, the organic premium has been as high as 200 per cent (import prices). It recently fell to 100 per cent “only”. This also indicates that when the premium is very high, there is a larger risk of a fall.

Many organic markets are increasingly behaving like proper commodity markets themselves. They are less sheltered from general market developments. This means the following:

1. Organic prices change with supply and demand; due to the smaller market volume, relatively minor events may have a large impact on the market.
2. Organic prices are becoming more closely linked to conventional prices, with the premium coming down to a level that justifies additional production, certification, and marketing costs.

## 3.6 Strategic marketing planning

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Any company will have to go through a marketing planning cycle regularly. Such a cycle will include the following stages:

- problem definition (e.g., through SWOT)
- drawing up the plan (objectives, targets, activities, tools, and budgets)
- monitoring and evaluating the plan

Market information, analytical skills, and creativity are major inputs in this planning process. Marketing planning should always involve the management. Larger companies may employ specific marketing people, who may also be responsible for promotion and brand management. These are people other than the sales staff. In small and medium companies, there is usually no specific marketing staff, but the marketing function will rest with management and sometimes sales (the export manager, for example).

### 3.7 Good management and risk

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Organic export projects are risky from many other angles than price. To name just a few:

- lack of availability of raw materials (through crop damage and loss, for example)
- damaged transport facilities (road, trucks, railways, trains), causing delays
- product damage during transport, storage, or processing
- theft
- lack of availability of essential inputs (packing materials, for example)
- lack of availability of trained labour
- tax increases
- market closure, lack of buyers
- buyer bankruptcy or fraud; no payment

Most of these risks are manageable. Even government taxes can be addressed through a collaborative effort of exporters. And farmers can be encouraged to plant drought- or disease-resistant plants, if drought is a major risk. Many risks are part and parcel of the company's own business operations. Transport, storage, processing, packing, shipping, and selling are core activities of an exporter. Managing these risks requires, first and foremost, proper management. According to an experienced exporter from Africa, producers (and exporters) will secure a better deal in the long term only through first-class management, and not simply through higher prices on the world market (Lefroy 2005).

#### SWOT and other strategic planning tools

One widely used tool to analyse a business is the SWOT analysis. SWOT stands for strengths, weaknesses, opportunities, and threats. SWOT analysis is comprehensive and flexible, and it allows participation of management and staff. If done properly, SWOT creates a focused result. However, the SWOT analysis can only be as good as the data that go into it: if the participants do not have access to accurate information on market, legal, and technological developments, the analysis may not be useful.

Many other strategic planning tools are presented in marketing textbooks. Some of the best known and most widely used are: the Competitive Forces Model (or Five Forces Model); the Value Chain Analysis; the Boston Consulting Group (BCG) Matrix; and the General Electric (GE) Matrix (or MABA Analysis: Market Attractiveness Business Assessment) (Kottler 2003).

## 4 Checklist: how to be successful in organic exports

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- Strategic fit: changes in technology, internal monitoring, external certification, supply-chain management, and marketing are compatible with the general mission, strategy, and culture of the company.
- Marketing fit: organic market strategy fits in with the general market strategy.
- Supply-chain management: farmers are interested and the area is suitable for certification.
- Financial costs and benefits: careful analysis shows that there will be sufficient profit.
- Good management: the company is well-managed and healthy.
- Strategic marketing planning: this is done regularly. Market information is collected regularly.
- Product: there is an exportable product of the right quality. Investments have been made in grading, processing, and packing facilities. Quality assurance has been developed.
- Certification: there is proper organic certification for the target markets. The contact with the certifier is well-managed.
- Place (customers): customers have been identified and an initial selection has been made. There have been initial contacts with positive results. Even better: general agreements have been made with one or two selected buyers.
- Place (distribution): proper logistical arrangements have been made, in line with the demands of customers and the market.
- Promotion: a market strategy and a unique selling proposition have been developed. These are communicated to the market in a consistent way. There are clearly defined mechanisms for receiving feedback from customers and other stakeholders.
- Promotion (customer management): major customers or potential customers are visited regularly. You have a keen eye and ear for their needs and demands, and look for ways to improve or add to your service.
- Communication: the company can always be reached by email, phone, and fax, and it responds rapidly. There are clear arrangements for decision making when key staff members are travelling. Key buyers are visited regularly.
- Pricing: prices are set in accordance with market conditions and the market strategy. If your pricing is dynamic, there are clear and efficient procedures on how to define prices (in buying and selling). There is a consistent policy on handling price and exchange risks. The company is in touch with the latest market and price developments.

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## Annex 1 Other sources of information

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[www.agroeco.nl](http://www.agroeco.nl)

[www.cbi.nl](http://www.cbi.nl)

[www.epopa.info](http://www.epopa.info)

[www.eurep.org](http://www.eurep.org)

[www.fairtrade.net](http://www.fairtrade.net)

[www.grolink.se](http://www.grolink.se)

[www.ifoam.org](http://www.ifoam.org)

[www.intracen.org](http://www.intracen.org)

[www.itf-commrisk.org](http://www.itf-commrisk.org)

[www.twin.org.uk](http://www.twin.org.uk)

## Annex 2 A bird's-eye view of organic markets

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### Size and growth

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Organic markets have experienced alternating periods of high growth and stabilization, but they still constitute only a small percentage of the food markets in developed countries. This is why they are considered niche markets. The United States, Germany, and the United Kingdom are the biggest markets, but Sweden, Switzerland, and Denmark have the highest per capita consumption. The Japanese organic market is small for the size of its economy, although there is a large volume of uncertified organic products. Middle-income countries such as Mexico, Brazil, and South Africa have seen their markets grow as well. Middle Eastern countries with a lot of spending power, such as the United Arab Emirates, have also picked up the organic message and offer attractive opportunities.

### Market structure

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Typically, organic producers have used specific outlets, such as farm sales, health-food stores, and box schemes. In most countries, however, multiple retail sales (through supermarkets and hypermarkets) have gained in importance. In some countries, such as the United Kingdom and Sweden, which have few specialized organic shops, multiple food sales account for about 80 per cent of the organic total, while in others, such as Germany and the Netherlands, it is about half. These differences also reflect the degree of interest taken in the organic segment by the multiple retailers, which is relatively high in Sweden, Switzerland, and the United Kingdom.

While wholesale and retail distribution is organized per country, importers and manufacturers are often organized at the regional level. Many European importers of organic products are in France, Germany, the Netherlands, and the United Kingdom.

Manufacturers are based throughout Europe. Although the number and size of the players in the organic-food industry is smaller, the organic-food industry, like the conventional-food industry, produces a broad variety of products. The food industry is an important channel for exporters of organic ingredients. It is mostly supplied through importers.

### Market shares differ per product group

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Market shares differ strongly by product group. Fresh produce, including dairy, fruit, potatoes, and other vegetables, generally have the highest shares, sometimes as much as 5 per cent to 10 per cent. The organic selling point is apparently stronger with those products, probably because people believe themselves to be more exposed to pesticide residues.

The cosmetics industry is also a user of organic ingredients. According to the BDIH, natural cosmetics constitute 19 per cent of the market of natural and

organic products in Germany (IPD Nieuwsdienst 2005). It is unclear, however, how much of this is organic.

## Market requirements

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Organic consumers look for healthful, high-quality, and environmentally friendly products. Some of them also stress value for money. Convenience is also an issue, although not as much as in the general food market. Food safety is important as a “dissatisfier”: it is noticed only when it is not there. It is therefore difficult to use food safety in consumer-oriented promotion. In business-to-business promotion, however, it is important.

These consumer needs trickle down to the trade in many ways. The environmental aspect, for example, creates a negative bias towards air transport, redundancy in packaging materials, and a preference for recyclable packaging and non-exploitative production technologies. Sometimes international transport as a whole is viewed negatively. There is a strong preference for traditional and often regional products. For production in developing countries, the social aspect (fairness) is also considered important. Organic consumers may be concerned about possible competition of exports with local food needs. They are also concerned about labour conditions on organic farms and in factories, expecting excellent performance in that area as well.

The concern about health creates a preference in the organic market for natural and healthful products. The interest in alternatives to saccharose sugar (made from cane and sugar beets), healthful juices, mueslis, and honey are but a few examples of this. In many cases, the health-food channel has acted as an initiator of larger food trends.

The organic market is itself also differentiated. At least three different strategies are used by manufacturers to address this market:

- a. Strategies based on superior product quality (gourmet), which is underlined by the organic certification. Top end of the market.
- b. Strategies based on original product development for acceptable prices. Middle end of the market.
- c. Strategies based on copies of conventional products at a competitive price. Low end of the (organic) market.

Again, such manufacturing strategies translate into demands from traders and importers. Importers supplying manufacturers focusing on a and b type strategies will be more concerned about quality. Traders supplying c type manufacturers will be most concerned about price. Other traders as a general policy want organic products to be no more than 20 per cent more expensive than their conventional counterpart. Although that is not yet realistic, it creates a strong market dynamic towards lower prices. Once lower prices are available, even quality-concerned importers will be reluctant to pay much above that bottom market price.

## Outlook

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Positive factors: support from governments, organic increasingly links up with other government policies promoting sustainability. Public demand for healthy, safe food continues to grow.

Negative factors: organic products continue to be more expensive. Concern of consumers over purchasing power and general economic outlook. Competition from other certification schemes such as EurepGAP, and general food laws ensuring food safety.

Since supermarkets are more exposed to the difficult economic climate that started around 2002, the growth of the organic market is again in the health-food channel. Before that, multiple retailers had made an important contribution to growth.

## Annex 3 Price risk management

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In commodity markets, with their daily fluctuations in price, producers and owners of stock are exposed to price risk. The price of the goods one owns may go down (or up, but that is less of a problem). Especially when margins are tight, or fluctuations are large, these price fluctuations easily can lead to big losses and even bankruptcy.

Monetary risks occur when your costs are in a different currency than your sales. In that common case, changes in the exchange rate have the same effect as changes in market prices. They are therefore managed in a similar way as general price risks. The major difference is that exchange rates follow different patterns from commodity prices, and thereby complicate your analysis.

The key objectives of price risk management are to increase sales revenues while limiting risks (Twin 2002). Between those two objectives there is tension. People have a tendency to wait for the best possible price instead of accepting a somewhat lower price that would earn them a secure profit. A basic rule is that traders should not become speculators. A strategy for price risk management is needed precisely to avoid that eventuality. Unfortunately, that is no simple matter, which is probably why many exporters deal with it in a rather intuitive fashion. And that, of course, is risky.

Price risk management should be tuned to needs of the company and the dynamics of the market. It also depends on the management tools available to you. Some companies largely avoid price risks by trading “back to back” (see box). Another way is to apply a system of first and second payments, used widely by cooperatives but also by some traders (e.g., fruit and vegetable importers). Most exporters, however, choose a strategy of taking price risks in a conscious and controlled manner. Some of the tools at their disposal are introduced in the box. For a more comprehensive treatment, you may refer to the Price Risk Management Manual from Twin (2002) ([www.twin.org.uk](http://www.twin.org.uk)).

Managing price risk is closely related to your ability to read the market. If the market price is low, the risk of a price drop is lower, and vice versa. If the market price is high, you may want to lock in that price. The most difficult situation is when the market is neither high nor low but somewhere in between. Twin (2002) generally recommends adjusting your price-management policy to the level of the market. There is a thin line, though, between reading the market and becoming a speculator.

### Tools for managing price risks

Traders avoid price risks when they sell “back to back”. This means balancing the flow of purchases with the flow of sales. Provided that they know the market (sales) prices at any time, they will not pay too much for the product they buy. They will use the following basic calculation to convert sales prices into purchasing prices:

Purchasing price x your gross margin x exchange rate = sales price

In this calculation, your gross margin should cover all costs (including allowances for risks) from the point of purchase to the point of sales and profit. Many traders, both exporters and importers, work this way. They make a living from the margin they take, not by speculating on market prices.

The opposite of trading back to back is having a position: you will either be “short” (you have sold more than you possess), or “long” (you possess more than you have sold). If you have a position, you are exposed to price risk.

A major strategy for limiting your price risk is limiting the volume with which and the time during which you are exposed. Taking a loss on one container is not as bad as taking a loss on your entire annual export volume. Again, this means finding a balance between when you sell and when you buy. To minimize the time between buying and selling, you need efficient internal processes and proper information systems. As soon as you know that your company has purchased X tons of produce, with an estimated quality, you can start selling it, even if it has not yet been processed. However, it is dangerous to sell a product that is not yet in your possession. If the market price increases, you may be forced to buy high.

Another possible strategy is to allow for price risk in your trading margin. Your general margin should compensate possible losses on some transactions. This calls for improving your general margin. You will need to control costs. There is no general rule about what a reasonable margin is, but you can try to calculate it if you can estimate your risk (by using a historical price record, for example).

Cooperatives often apply a system of first and second payment, in which the second payment is dependent on the sales price realized. In this system, the exporter’s price risk is limited to the amount paid as first payment. The downside is that farmers now absorb this price risk. In addition, they are faced with the risk that the cooperative will not pay as promised. But in a well-managed situation with a lot of trust in the cooperative, this can be an attractive option.

More advanced tools for price risk management are forward selling (hedging) and options. Forward selling means that you fix a price now for a delivery of goods at a later date. This way, you may be able to lock in an attractive price. You may be able to agree on such a mechanism with some buyers. Options are not yet available for most organic exporters, although institutions such as the World Bank promote their availability for both producers and exporters in developing countries (more information at <http://www.itf-commrisk.org>).



## Development through organic trade

Since the early 1960s there has been a growing market in Europe, Japan and the USA for products grown in a sustainable manner and without the use of agro chemicals. The organic market has grown from US\$ 13 billion in 1998 to US\$ 25 billion in 2005. This is due to the increasing environmental concerns by the consumers in these developed countries. As such, they are willing to pay premium prices for certified organic products. Slowly but surely, governments, as well as development cooperatives, are recognising the contributions that organic agriculture can make to environmental, health, bio-diversity and food security issues.

The aforementioned situation made for an ideal opportunity for African countries to find premium export markets. Thus, the EPOPA programme – Export Promotion of Organic Products from Africa – was birthed by SIDA in 1997.

The first two phases of EPOPA-programme from 1997-2001 and from 2002-2004 proved to be successful. In 2004, more than 29,000 smallholders participated. It is encouraging to note that the first two projects initiated by EPOPA, involving another 30,000 farmers, are self-sustaining to this day.

The price that the farmers receive for their cash crops is 15 to 40 percent higher. Many farmers report a significant increase in productivity due to more intensive crop management measures. The farmers also produce their own food organically.

The farmers also appreciate the extra attention given to them by the extension workers and generally respond to that by caring more about farming.

The higher prices are not achieved by the organic qualification only but also by better quality products and in some cases, by more direct trading structures. In one project, the exporter is also on the fair trade coffee register. These three aspects together resulted in a 50 to 100 percent increase in income.

Read more about EPOPA at: [www.epopa.info](http://www.epopa.info)



EXPORT PROMOTION OF  
ORGANIC PRODUCTS FROM AFRICA