Marketing organic products via European retail chains


Dr. Toralf Richter
1. Organic Market 2002/03
2. Leading Retailers with Organic Assortments
3. European Organic Benchmark: Switzerland
4. Organic Market Phase Model
5. Mega Trends in Food Purchase / Consumption
6. Future Challenges for Retailers
Difficulties to get valid global data / information from organic sector and retail chains

Why?

- No official statistics / estimations available
- Retailers do not like to communicate stagnation
- Retailers have not any knowledge about organic sale figures
- Estimation are often less exact or inconsistent between years
**EISfOM** is a project to analyse the current situation in 32 European countries and to develop a framework for the collection and processing of reliable and comprehensive data on organic markets.

**EISfOM seminar** in Berlin, 26\textsuperscript{th}/27\textsuperscript{th} April 2004 offers a platform for discussion on the development, harmonisation and quality assurance of data collection and processing systems.

For further information about **EISfOM** and the seminar, see: www.eisfom.org
European Organic Market 2002

Average Consumer Expenditure on Organic Produce in European Countries (2002)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>4.0 %</td>
</tr>
<tr>
<td>Denmark</td>
<td>3.5 %</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.9 %</td>
</tr>
<tr>
<td>Austria</td>
<td>2.3 %</td>
</tr>
<tr>
<td>Germany</td>
<td>2.2 %</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.2 %</td>
</tr>
<tr>
<td>France</td>
<td>1.1 %</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.0 %</td>
</tr>
<tr>
<td>Italy</td>
<td>1.4 %</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.2 %</td>
</tr>
<tr>
<td>Greece</td>
<td>0.3 %</td>
</tr>
</tbody>
</table>

Source: FiBL
European Organic Market 2002

Development of the Organic Sales-Index between 1999 - 2002

1999 = 100
### Organic Market Shares

<table>
<thead>
<tr>
<th>Category</th>
<th>Soil Association</th>
<th>ZMP</th>
<th>FiBL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>1.4 %</td>
<td>2.3 %</td>
<td>8.3 %</td>
</tr>
<tr>
<td>Meat</td>
<td>0.6 %</td>
<td>1.2 %</td>
<td>4.0 %</td>
</tr>
<tr>
<td>Dairy</td>
<td>3.0 %</td>
<td>1.6 %</td>
<td>6.8 %</td>
</tr>
<tr>
<td>Fruit / Veg.</td>
<td>2.6 %</td>
<td>3.0 %</td>
<td>9.2 %</td>
</tr>
</tbody>
</table>

*Source: FiBL Frick*
Supermarkets as Sales Channel for Organic (2000)


Source: HAMM et al., 2002
## National Organic Market Leaders

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Tegut (9.0%)**</td>
<td>2.3%</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>COOP (SE) (7.5%)**</td>
<td>2.0%</td>
<td>73%</td>
</tr>
<tr>
<td></td>
<td>COOP (CH) (7.0%)**</td>
<td>4.0%</td>
<td>71%</td>
</tr>
<tr>
<td></td>
<td>Waitrose (6.0%)*</td>
<td>1.2%</td>
<td>79%</td>
</tr>
<tr>
<td>Sweden</td>
<td>COOP (DK) (5.0%)*</td>
<td>3.5%</td>
<td>86%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Billa (4.5%)**</td>
<td>2.9%</td>
<td>72%</td>
</tr>
<tr>
<td>UK</td>
<td>Delhaize (3.0%)**</td>
<td>2.2%</td>
<td>41%</td>
</tr>
<tr>
<td>Denmark</td>
<td>Kesko (2.5%)*</td>
<td>2.6%</td>
<td>78%</td>
</tr>
<tr>
<td>Austria</td>
<td>Carrefour (160 I.)*</td>
<td>1.0%</td>
<td>42%</td>
</tr>
<tr>
<td>Belgium</td>
<td>Esselunga (2.5%)**</td>
<td>1.1%</td>
<td>43%</td>
</tr>
<tr>
<td>Finland</td>
<td>Albert Heijn (2.2%)*</td>
<td>1.4%</td>
<td>41%</td>
</tr>
</tbody>
</table>

FiBL, 2003 / 04

FiBL, 2004

Hamm et al., 2002
Country Snap Shots – Organic Benchmark Switzerland

Migros

Lebens-Freude.

COOP
Market share Organic Products (OP) by value: 4% (2002)
Market growth 2003 app. 5-10%
More than 75% of OP sold via two retailers
Main players: COOP, Migros
High percentage of regular org. buyers (app. 15%)
High percentage of occasional org. buyers (app. 70%)
Strong private organic label (“Knospe” / “Bud”)
Strong retailer brand (“naturaplan” - COOP)
Case Study – Retailer: COOP Switzerland

“İst die Milch von unglücklichen Kühen denn sauer?”

“Wenn es keine Bienen mehr gibt, wer kümmert sich dann um die Blumen?”

“Tja, auch die Wiese muss sich mal die Haare schneiden lassen.”

“Bio heisst: da ist alles echt unchemisch.”
Case Study – Retailer: COOP Switzerland

- Organic sales share 2003: 7 %; 1’200 organic items
- Organic line with high strategic relevance
- Fresh milk (47% sales share), carrots (39%) most successful
- Own team for so-called VIVA trademarks
- Intensive trademark development “naturaplan”
- Close co-operation to BIO SUISSE
- High level of consumer trust in “naturaplan” by using “Knospe” / “Bud” as Co-Label
- High level of promotion activities on all media channels
- Close relationships and funding activities for organic research
Case Study – Retailer: COOP Switzerland
Bernhard Danuser darf man ruhig einen Umweltaktivisten nennen, auch wenn er sich nicht an Demo- und Sit-ins beteiligt.

Case Study – Retailer: Migros Switzerland

- Organic sales share 2002: 3%; 840 organic items
- Organic line is not the TOP theme of Migros
- Eggs, bananas, fresh milk, carrots most successful
- Own team for organic trademark
- Close co-operation to FiBL as a research partner
- High level of promotion activities
- Mainly occasional organic buyers get attracted
Case Study – Retailer: Migros Switzerland
Europe starts to consolidate organic sales. Why?

- Many countries with established (matured) organic markets
- Only less countries with matured markets like Switzerland with continuous growth
- Stable organic consumer segments over years
- Structure problems and reduced disposable consumer income
- Retailer competition increases
- Pressure by the stock markets force retailers to short term strategies
- Media becomes less interested in organic farming
Example: Consolidation of German Organic Milk Sales

Organic Share Milk in German Retailer without (Aldi)

Source: ZMP 2003 on basis of ACNielsen Retailer Panel
European Organic Market – Quo Vadis?

Development of annual market growth expectations

Sources:
2000 - 2002: ITC
2003: OMiARD
## Prospects: Expected Annual Market Growth after 2003


<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>FR</th>
<th>DE</th>
<th>AT</th>
<th>CH</th>
<th>DK</th>
<th>ALL GRO</th>
<th>ALL EMG</th>
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</thead>
<tbody>
<tr>
<td><strong>Total market</strong></td>
<td>11.0</td>
<td>6.1</td>
<td>4.8</td>
<td>4.6</td>
<td>4.5</td>
<td>1.5</td>
<td>8.0</td>
<td>6.3</td>
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<tr>
<td><strong>Convenience products</strong></td>
<td>8.8</td>
<td>10.0</td>
<td>7.3</td>
<td>8.4</td>
<td>7.0</td>
<td>3.3</td>
<td>9.2</td>
<td>5.1</td>
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<tr>
<td><strong>Meat products</strong></td>
<td>12.3</td>
<td>10.0</td>
<td>3.1</td>
<td>3.2</td>
<td>8.0</td>
<td>1.7</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Dairy products</strong></td>
<td>8.8</td>
<td>6.5</td>
<td>6.7</td>
<td>3.4</td>
<td>1.5</td>
<td>1.0</td>
<td>7.8</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Fruit &amp; vegetables</strong></td>
<td>8.3</td>
<td>5.0</td>
<td>7.1</td>
<td>5.7</td>
<td>5.0</td>
<td>4.0</td>
<td>9.2</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Cereals products</strong></td>
<td>6.0</td>
<td>5.3</td>
<td>4.6</td>
<td>5.3</td>
<td>2.0</td>
<td>2.5</td>
<td>7.0</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Urban regions</strong></td>
<td>9.9</td>
<td>7.6</td>
<td>8.1</td>
<td>5.9</td>
<td>5.3</td>
<td>2.9</td>
<td>10.8</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>Rural regions</strong></td>
<td>6.9</td>
<td>3.5</td>
<td>4.7</td>
<td>2.8</td>
<td>3.5</td>
<td>1.8</td>
<td>6.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>
## Country classification regarding the development of the organic market

<table>
<thead>
<tr>
<th>Mature market countries</th>
<th>Growth market countries</th>
<th>Emerging market countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria, Denmark, France, Germany, Switzerland, United Kingdom</td>
<td>Finland, Italy, Netherlands, Norway, Portugal, Sweden</td>
<td>Belgium, Czech Republic, Greece, Ireland, Slovenia, Spain</td>
</tr>
</tbody>
</table>

 Classified by 129 European organic market experts in 18 European countries
### 3 Phase Model of Organic Market

<table>
<thead>
<tr>
<th>Mature market countries</th>
<th>Growth market countries</th>
<th>Emerging market countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market growth by:</strong></td>
<td><strong>Market growth by:</strong></td>
<td><strong>Market growth by:</strong></td>
</tr>
<tr>
<td>• Convincing non buyers</td>
<td>• Convincing occasional buyers</td>
<td>• Skim existing market demand</td>
</tr>
<tr>
<td>• Satisfy occasional buyers</td>
<td>• Extension of organic assortments</td>
<td></td>
</tr>
<tr>
<td>• Substitute conv. by organic products</td>
<td>• Improving access to organic</td>
<td></td>
</tr>
<tr>
<td>• Impulse purchases</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Trends in matured markets

1. Some retailer substituted conventional by organic products
   [e.g. Aldi (DE), Laurus (NL), COOP (CH)]
   - Partly consumers did not recognise the change (Aldi)
   - Partly consumers / conv. farmers protested (CCOP)

2. Some retailers increased their organic sales by optimising presentation and placement of organic products
   - Change of placement, packages, packages sizes, lighting concepts lead to clear sales increase
Importance of Retail Chains in Urban Areas (2002)

Importance of Retail Chains in Rural Areas (2002)

Difficulties to sell Organic Products in Rural Areas

Why?

- Consumers with “own production”
- “Local” more important as “organic”
- “My farmer produces conventional, but …”
- Lower awareness of differences between organic / conv.
- Lower availability as buying barrier
- Lower disposable income

Reasons for Preference of Distribution Channels

- Direct from farmer
- Organic shop
- Small shop
- Market
- Supermarket

- Good relations with others
- Feel certain
- Feel good
- Enjoy shopping
- Avoid stress
- Feel efficient
- Save time
- Have choice
- Is convenient
- Good location
- Wide product range
- Good quality products
- Pleasant atmosphere
- Fresh products
- Value for money
- Feel good
- Get product information
- Have personal relation with staff
- Have contact with producer
- Support local farmers
- Feel certain
- Feel good
- Feel efficient
- Have choice
- Is convenient
- Good location
- Wide product range
- Good quality products
- Pleasant atmosphere
- Fresh products
- Value for money
- Feel good
Mega Trends in Food Purchase / Consumption

Consumers:
- Do not waste time for cooking (Convenience Products)
- Do not waste time for food purchase (Convenient Shopping)
- Use the saved time to relax alone or to meet friends
- Look for cheapest price offers

Important issues:
- Food and Health / Food and Trust / Food and Emotions
Mega Trends in Food Purchase / Consumption

Mega Trends

<table>
<thead>
<tr>
<th>Safe Time</th>
<th>Safe Money</th>
<th>Health / Wellness</th>
<th>Trust</th>
<th>Emotions</th>
</tr>
</thead>
</table>

- Requirements for organic products
- Requirements for retailers
Consumer Prices – Top issue across Europe

Reasons:

- Discount Factor
- China Factor ("all for 1 €")
- "Ebay" Factor
- Sales prices all over the year
- Economic Crisis in many European countries
  - There is only one theme for promotion: prices
  - Retailer are assessed by their price competence
But do consumers really save money?

- Teens are more enriched as before
- Mountains of toys in children rooms
- Tonnes of electronic “garbage” (Computer, Screens, TV, Audio Systems)
- Growing number of prestige cars on European motorways
Many private investments payed by credits

- Less disposable income remains for food consumption
- Many occasional buyers reject organic consumption
- Safe money for daily expenditures
- German journal “Brigitte”: ‘We show you the products which are not worth to buy organic’
Does a broad organic assortment give certain outlets / retailers the image to be a premium price traders?

- Yes, consumers often believe, that the general price level in retailer outlets correspond to the awareness of ‘organic products’
- At the same time consumers are often not aware of real cheap prices of discount product lines in the same outlet

→ Dilemma for engaged conventional retailers to lose customer groups
How to deal with the price issue?

- Price image has a much stronger impact on the buying behaviour stronger than real prices.
- The shopping environment has to correspond to the price positioning (discounter versus delicatessen shop).
- Do not reduce added values by reducing sales prices by marginal rates.
- However, higher prices have to correspond to increased perceived values (brand development).
- In periods of recession, it has to be accepted not to keep all occasional buyers in the organic market.
- Mass markets should not communicate premium product lines too much in periods of recession (price image).
Mega Trend Health

- The more consumers get responsible for paying medical aid by themselves the more health care drives food consumption

- Confusing risks behind the food production lead to search for highest safety standards

- Consumers can choose between natural and technical produced health when buying food
Mega Trend Trust

- Caused by the complexity of daily life and information overflow trust becomes more and more important
- Trust to buy the cheapest offer
- Trust to buy a high quality
- Trust not to get cheated by label promises
- Trust to buy safe products
  ➔ Authentic sales and sales promotion as trust builders
  ➔ Make consumer’s able to check promises
Matured markets, plenty of exchangeable assortments and the spirit of competition lead to a demand of emotional addresses

- Products should have a soul
- Products should have a history
- Surprise customers by unusually offers
- Offer slow food opportunities and food communities
Solutions for future challenges are required

- How to stop overflow of new products and consumer information?
- How to survive economic pressure by retailer competition and stock markets?
- How to find solutions to reach the “mobile and hurry consumer”?
- Which market channel does commit the most “organic” customer groups?
- How to combine organic products with regional authenticity?
- How to ensure the organic product value?
- Opportunities and threats of global sourcing?
- What strategies can be applied in order to compete against discounters?
- Which strategies take into account the socio-demographic changes?
Where to find more market / retailer information?

Release: Biofach 2004
http://www.fibl.org

Release: Biofach 2003

FiBL Frick