

International study of retail chains with regard to their activities in the marketing of organic products

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Introduction

For a long time in most European countries the dominant market channel for organic food has been the traditional natural food store. For many consumers these stores were associated with poor product presentation, small range, unreliable continuity of supply and quality and rather high price levels. For these reasons the consumers of organic foods tended to be those committed to the philosophy of the organic movement.

Today, market channels for organic food are quite different. The traditional natural food store has been joined by organic food supermarkets and conventional retail chains as the most popular channels for selling organic goods. Even more recently, box schemes, direct sales and internet sales have grown in popularity as market channels. Channels have largely diversified, the consumer base is broadening and the supply of goods is becoming better managed. In sum, the retail chains, whether conventional or organic, are becoming a very significant channel for the marketing of organic foods.

In the context of such a rapid change in the marketing of organic foods, the Research Institute of Organic Agriculture (FiBL) conducted a study about the role of retail chains in the marketing of organic foods. The study involved a review of the major retail chains in all major European countries and the USA. This includes the major conventional retail chains as well as organic supermarkets. The principal focus was on capturing their experiences with organic foods and identifying any innovative strategies they have used.

Why focus on retail chains? The organic movement is promoting market development as a more sustainable way of maintaining an economic incentive for farmer conversion. In this context, the retail chains are extremely important. Whilst they may not currently account for the largest volume of sales, they are the venue where existing non-buyers can be converted to buyers of organic foods. Therefore, retail chains are an important part of boosting demand for organic goods and will consequently play a significant role in advancing the cause of the organic movement. For those market actors interested in enhancing market share of organic food sales, this study provides a clear picture of current trends and practices in organic retailing.

Materials and Methods

The study was conducted using four methods: a literature study, written questionnaires to representatives of selected retail chains, country profiles and expert questionnaires. Initially a literature study was undertaken which identified all relevant secondary documentation relating to the involvement of retail chains with organic foods. This literature was used to select those retail chains that should be included in the study.

Selecting supermarket chains for case studies

Supermarket chains were included as a case study if they were able to satisfy the following criteria. The *size* (total food turnover, number of stores, number of employees) and the *market position* (general) of the company was a prime factor in selection. It was possible to determine these characteristics from external observation and industry publications. It was also important to include those chains amongst large retailers that have fulfilled a *pioneering role* with respect to organic marketing and had to illustrate a *commitment to organic food* or have an *original approach* to marketing organic food. It was considered that this criteria would provide the most important and interesting cases. Where possible, in each country a dedicated "Organic Supermarket" was chosen for inclusion.

Based on these criteria, the following leading conventional and organic supermarket chains in the following countries were selected (see Table 1 and Table 2 respectively).

Table 1. Conventional supermarket chains included in the study

<i>Country</i>	<i>Retail Chain</i>
Germany	Tegut, Metro, Rewe
Austria	Billa, Spar
Denmark	FDB, Dansk Supermarket
Italy	Esselunga, CO-OP Italia, Finiper
France	Carrefour, Auchan
England	Waitrose, Sainsbury, Tesco

Table 2. Organic supermarket chains included in the study

<i>Country</i>	<i>Retail Chain</i>
England	Planet Organic
France	Satoriz
Germany	Alnatura
United States of America	Wild Oats, Whole Foods

For each of the case studies, interviews with the people responsible for the organic product line were conducted if it was possible¹. Additionally store checks were conducted in outlets of each of the case study retailers. The kind of outlets were chosen in a city area, supposed to be representative for the retail chain. In some countries (like Austria and Denmark) 2 types of outlets per retail chain were analysed (medium size and large size). These store checks were designed to see how the retailers implemented their communicated "organic commitment" and to look for the main success or failure factors in marketing these products.

Country profile on the organic market

A profile of the national organic market was elaborated for each country. The profile included an overview about the most important trends in the national organic markets as well as the main results of the individual case studies for the selected major retail chains. Each retail chain case study aimed to discover the general enterprise characteristics. This included turnover, breadth of organic range, employment levels and store numbers. The nature of the social and organic commitments of the retail chains was also an important characteristic. The way in which organic products were marketed was the subject of a great deal of attention in the study. A description of promotional, distribution, pricing and product policies of the chain was undertaken. Finally, the expert view of scientists, associations or certification bodies from each country were included which complemented that information received from the retail chains themselves.

The study also collected the personal points of view of the retailers. This included their perceptions of their consumers, their suppliers and of the organic market in 2005.

Results

The results are reported in five sections. The first identifies different strategies adopted by conventional supermarkets when marketing organic products. The second section outlines the trends in the marketing of organic products in conventional supermarkets. The third section identifies the particular experiences of organic supermarkets and their attitude and knowledge concerning organic standards. The fourth section examines the vision of the organic market in 2005. The final section provides a brief overview of the situation with respect to US organic supermarkets.

¹ We had no possibility to survey people from REWE (Germany) as well as any Italian or US retailer.

Strategies of Conventional Retail chains

From the results of the country studies it was possible to identify three main strategies employed by conventional supermarkets with respect to the marketing of organic goods. These three strategies have been called the maximum, basic and minimum strategies. Table 3 shows which of the most important conventional retail chains in Europe adopted the Maximum Strategy and the Minimum Strategy with respect to marketing organic product.

Table 3. Conventional supermarket chains with *maximum* and *minimum* organic strategies

COUNTRY	Retailer with <i>Maximum Strategy</i> > 400 organic products	Retailer with <i>Basic Strategy</i> 50 – 200 organic products
Germany	⇒ <i>Tegut</i> (1.000) ⇒ <i>Karstadt</i> (450)	⇒ <i>Rewe</i> ⇒ <i>Metro</i> ⇒ <i>Edeka</i> ⇒ <i>Tengelmann</i>
Austria	⇒ <i>Billa</i> (400)	⇒ <i>Spar</i>
Denmark	⇒ <i>FDB</i> (800)	⇒ <i>Dansk Supermarket</i>
United Kingdom	⇒ <i>Waitrose</i> (600) ⇒ <i>Tesco</i> (550) ⇒ <i>Sainsbury</i> (540)	⇒ <i>Marcs & Spencer</i> ⇒ <i>ASDA</i> ⇒ <i>Safeway</i>
France	No retailers	⇒ <i>Carrefour</i> ⇒ <i>Auchan</i> ⇒ <i>Monoprix</i>
Italy	No retailers	⇒ <i>Esselunga</i> ⇒ <i>COOP Italia</i> ⇒ <i>Finiper</i>

(Number of several organic products)

The *maximum* strategy involves expanding the range of organic goods beyond 400 articles. The range includes a comprehensive assortment of dry products, convenience products, fruit and vegetables, milk, cheese and meat. The following success factors were associated with this strategy. Stores using this strategy frequently make their organic commitment a significant part of their advertising and promotional campaigns. The sales staff need to be motivated and educated about the characteristics of organic food. This is particularly important as customers of conventional stores typically have little knowledge on organic food characteristics and they therefore rely heavily on staff assistance when making purchase decisions. The quality of the assortment is as important as the quantity for the success of this strategy. The absence of quality in the organic range is obvious to consumers as they can easily compare with conventional products. The buying atmosphere is also extremely important to attract a bigger consumer group with an interest in organic/premium products into your outlet (friendly sales staff, sufficient space for relaxed shopping, generally attractive product presentation - above all in the fresh product range). In-store signage and public advertisements promote the environmental credentials of the chains using its commitment to organic agriculture as evidence. Chains with this strategy tended to experience an increase in customers and turnover because of their demonstrated and visible professionalism in the area of organic products.

The *basic strategy* involves settling on a range of approximately 50-200 organic articles. This range is reduced to a core of primarily non-perishable goods. This suits stores that have high sales volumes but mostly low levels of staff involvement and commitment and therefore low levels of customer assistance. In these stores there are frequently insufficient personnel to manage a large range of fresh articles such as organic fruit and vegetables which have a slow turnover. In relation to marketing, a key success factor in the basic strategy is to replicate those instruments that work in equivalent conventional offerings (e.g. trend products such as convenience or frozen goods) or to adopt successful parts of competitors strategies. Frequently the main suppliers give marketing assistance, so that the organic product management within the retail chains can be kept lean. Frequently this basic strategy is conducted in conjunction with a low price policy on staple organic products. Often milk and bread prices were lower compared with other organic products to attract customers to the organic range.

The *minimum strategy* is usually the one adopted initially by conventional supermarkets who are not entirely familiar with, nor have made any significant commitments to, organic foods. The range is usually less than 50 items. It is primarily made up of dry products (such as tea coffee, breakfast cereals), hence minimising the staff commitment to the organic product range. Given the small range, organic food does not figure prominently in the public relations activities of supermarkets that adopt this strategy.

General trends in marketing of organic goods in conventional supermarkets

From the results of the case studies it was possible to discern a number of trends in the marketing of organic products by conventional retail chains. The majority of these trends are adopted by retailers with the maximum strategy, whilst only some are partly adopted by those retailers with minimum or basic strategies. These trends have been described under the general headings, product, distribution, communications and price policy.

Product policy

Amongst the case studies, there was an identifiable trend to enlarge the organic range, particularly in the frozen and convenience food lines. Products such as ketchup, pizza, pre-cooked foods and cola are all products that also attract the 'normal' conventional consumer. It is precisely these customers that conventional retail chains target with such food products. The second trend in product policy is creating quality assurance processes that guarantee the quality of organic food is comparable to conventional foods. This is crucial given that in a conventional format customers can easily choose between organic and conventional products.

Distribution Policy

With regard to distribution policy, almost all retail chains sell organic products, with the large retail chains often having their own organic label. Whilst all stores typically stock organic products, the range tends to vary with the market type and local consumer characteristics (age, education, disposable income and other demographic characteristics). It has become increasingly apparent to conventional chains that all product groups in the organic range need to be made available all year to ensure customers are retained. This is important in order to maintain the pattern of consumer purchasing given the ease with which they can revert to conventional products.

Communications Policy

Many conventional chains who are developing significant organic ranges are capitalising on this by making their organic commitment the basis for their entire public relations campaign. The content of this communication frequently has an increasing emotive element (e.g. elements of giving a good feeling on buying these products). In store taste tests are sometimes used as a way to illustrate the taste benefits of organic food to consumers. This is an important element in justifying the organic price premiums. Clear signage is installed which enables customers to locate organic products more easily. Salespeople are often specially trained so that they can effectively point out to customers the special characteristics of organic food. Many organic products have the labels of both the retailer and the farming or certification association in order to add credibility and to make the organic assortment appear more professional.

Price Policy

The primary factor in dictating the prices for organic products is the customers willingness to pay. That is, the additional price a consumer will pay for a product above that price asked for a comparable conventional product. That means there is no fixed sales margin. The margin tends to be higher for dry products and lower for fresh products (above all milk products). However, there is no strong rule for all checked markets and over the whole year (above all for regional versus imported fruits and vegetables). The sales margin of course does not account for an increase in farm gate prices due to seasonal factors that affect supply. In general, evidence suggests the additional price on organic staple foods is being incrementally lowered to meet that of conventional goods.

Problem of Implementation

In the implementation of all of these policies, one central problem has arisen. Whilst the strategies have often been well designed, frequently they have been poorly implemented by staff in individual outlets (above all in companies with a basic strategy in selling organic products). This suggests efforts need to be made to fully train frontline staff in the marketing of organic products. Chains should consider appointing dedicated staff to the range and treating it as a specific range that requires special care with respect to marketing. One German retailer for example recognized this problem and tried to solve it with unannounced internal store checks.

Organic supermarkets

An interesting trend is the development of dedicated organic supermarket chains. In this study five such chains were studied. From the case studies it was possible to identify the strategies and success factors of these enterprises.

The principal strategy of organic supermarket chains is to attract dissatisfied organic buyers from Natural food stores and the organic buyers from conventional supermarkets. It is the belief of the people of organic chains that significant numbers of organic buyers are dissatisfied with traditional natural food stores. The dissatisfaction arises from frequently high prices, poor food quality, a small product range, and in some cases unfriendly staff and an unpleasant store atmosphere. On the other hand, customers of conventional supermarkets are looking for a retail outlet that has credibility with respect to sales of organic food, exhibiting professionalism and stocking fresh produce in a supermarket atmosphere.

There are a number of success factors that are important in implementing the organic retail chain strategy. In order to attract customer from the conventional chains the organic supermarkets must be able to provide a one stop shopping experience. Therefore, they must have a *deep and wide organic range*. Organic chains tend to make *Unique Sales Propositions (USP)* out of fresh and trend aspects of the organic products. The organic chains stores provide services that both the conventional chains and natural food stores could not. They provide *lower prices as in natural food stores* and have *higher staffing levels than the conventional supermarkets*. Therefore the organic retail chains address the deficiencies of both competitors. These stores are often located in *central city locations and provide convenient parking places*. The *store atmosphere* is very attractive. Most organic chains try to attract their customer through attractive shelving, added organic snack bars or restaurants or creating a feeling like in the large marketplaces one typically associated with Mediterranean countries.

Delivery system are adequate to conventional or organic supermarkets

Most of the conventional and organic retail chains have developed quite well structured delivery systems. Many tended to have a large number of suppliers in the fresh food range. In contrast the dry selection is typically provided by a small number of suppliers. The recent trend has been to reduce the number of suppliers in the fresh range as much as possible. Interestingly, the suppliers are increasingly doing more than just delivering produce. In many cases the supplier has taken over part of the responsibility for training the sales people from the retail chains and conducting in-store taste tests. Despite the emphasis in some organic circles on reducing food miles, there is only a partial preference amongst organic retail chains for domestic production. In most cases the chains search out the most professional European wide supplier.

Used organic standards and knowledge

Standards are crucial to assuring consumers that they are receiving what they are paying for. Where possible, products standards of organic associations are used. However, chains with broad organic product ranges stock products with national/EU-standards as well as products with the standards of organic farming associations or private certification organisations. Amongst the organic retail chains themselves, sometimes there is a lack of knowledge about the difference between EU and farm association standards.

Organic consumer profiles

In all countries, the mainly scientific experts as well as the market actors consulted paint a similar picture of the typical organic consumer in their country. Their consumer research identified consumers to on average be young families with small children, have above average incomes, a higher education standard and live in cities. Research indicates there is one overall motive for buying organic: healthy eating. But what does it mean concretely? What does it take into account? For marketing this is a very diffuse dimension. The motive of healthy eating dominates all others including concern for the environment or about animal welfare.

Given the rising supply of organic foods and the falling prices, the unregular buyer of organic food is purchasing more often. That is, the number of regular buyers is increasing. The conversion of non-regular to regular buyers means that increasingly the organic buyer exhibits a buying behaviour not dissimilar to that of conventional buyers. Therefore, increasingly retailers will be able to market organic goods in a similar way to a conventional trend product.

The ongoing demand for organic food will be driven by the desire of consumers for healthy food that comes from animal friendly production systems. Additionally, many consumers, largely due to highly publicised food safety scares, do not trust conventionally produced products. The growing awareness of the prevalence of GMOs in

food and the growing awareness of the scope of environmental problems further heighten the consumers preference for organic food.

Not only are consumers being scared away from consuming organic food, they are being attracted to organic food. Consumers are becoming more conscious of the better taste and quality of organic products. This is helping to overcome the initial experience of non regular buyers with organic produce from traditional natural food stores which tended to be of very variable quality.

A Vision of the Organic Market 2005

Those responsible for planning the future of these organic supermarket chains were asked to look forward and share their vision for the organic market in the year 2005. In all countries, without exception, a doubling of the market share of organic product was predicted. Researchers and representatives of farmer associations predicted rates of increase even beyond these levels. It was the view of the organic retail chains that supply of quality organic food items will not be the limiting factor on sales growth. However there is no confirmation of this thesis from relevant scientists. The consensus of scientists and market actors is that the market growth will most likely be channeled through the large retailers such as conventional and organic retail chains.

In relation to product development, the organic supermarket chains believe that trend products currently in the conventional range will make their way to the organic range. The principal example given was that of functional foods. Pricing is considered to be an important policy area in the context of increasing organic sales. Informants believe that the additional price paid for organic products will come closer to that of conventional equivalents. The organic retail chains believe that the number one buying motive for organic buyers into the future will be 'healthy eating'. However they also consider that flavour will increase as a motive for organic buying. This is reflected in their current use of in-store taste tests to promote sales. This approach uses 'flavour' as a selling point.

Organic in the US supermarkets – What is differing?

Many consider the US market as an indicator for the future of organic marketing worldwide. Whether one entirely agrees with this view or not, organic retailing in the US certainly offers some innovative ideas for European counterparts.

Perhaps the most identifiable difference between the US and Europe is the concentration of the organic supermarket trade in the hands of two large chains. Two companies dominate, Whole Foods Markets and Wild Oats Markets. They account for approximately 10 per cent of the total retail organic sales. Unlike Europe, where chains tend to have emerged around local or regional markets (from the ground up), both these companies have emerged from the rapid acquisition of small regional chains. This is best evidenced by the fact that both companies operate under six and seven different regional names respectively. The process of acquisition and expansion continues. Interestingly, as yet competition between the chains only takes place in seven US states.

What is interesting is that the US market for organic goods has grown in the absence of national governmental standards/regulation and labeling laws. This is also surprising given the confusion between natural and organic goods, both of which are stocked by the two companies. This possibility of confusion perhaps explains the reason why the marketing of products has emphasized healthy eating and lifestyle as opposed to the specific agricultural processes involved in organic production. This being said, the advertising still emphasis the 'clean' nature of organic products.

The emphasis on lifestyle is also reflected in the structure and layout of the stores. Both companies have outlets with a coffee and juice bar, massage centre and consumer information booth. Linked to the theme of healthy lifestyle is a concern about social responsibility. Both companies emphasize social responsibility in the advertising. Both publicise contributions to local charities and their adoption of 'democratic' models of internal organisation and decision making. The linking of healthy food, environmental care and social responsibility is prominent in the advertising of both companies. It is also worth noting that the companies tend to favor in-store promotion and information distribution (both have regular store magazines) to promote their product range as opposed to public advertising through the general media. This reflects the stated strategy of word of mouth advertising that is locally based and suits local market conditions.

Both companies operate their own product manufacturing and processing plants for fresh and baked products. Their product purchase and distribution is undergoing further rationalisation and centralisation, reflecting a need

to capture economies of scale. It also reflects a need to ensure that a broad range of good quality products are available the whole year round. Both organisations have developed their own brands. This is an attempt to create some brand loyalty in a market where brands proliferate and therefore brand loyalty has been hard to generate.

It is no mistake that the organic retail chains mimic much that has made the conventional sectors successful. Both operate large sized outlets with a very broad range. Most are located in very central locations, with customer parking and an inviting store atmosphere. This reflects the belief that the biggest growth in the organic market will be from increasing the frequency of the purchase of the infrequent organic consumer. Research has illustrated that these consumers are typically from urban areas and are professionals with higher than average incomes. This in turn explains why price is reported to be less of a feature in the buying decision.

The conventional supermarkets have not missed the consumer trends towards healthy eating. Companies such as Wal-Mart have invested in a wide organic range. However, as the experience of Wal-Mart shows, marketing organic goods requires a different approach to a conventional range. The Wal-Mart stores initially adopted a basic strategy in all of their outlets. However, the company has a heavy presence in small regional centres where the demographics suggest organic goods are least popular. This proved to be the case. Wal-Mart has since reoriented its strategy and is currently developing plans for a minimum strategy in most stores building to a maximum strategy in some city based stores where sales data suggest it can be successful.

The market channels for organic goods in the US, as in Europe, is broadening. However in the US the competition is becoming quite intense. The conventional and organic retail chains are at present fighting for the new organic consumer. Similarly, many of the traditional natural food stores are increasing their range, creating more customer friendly store layouts and addressing the need for better presentation of the items. The growth in the adoption of a maximum strategy has led to an increase in the integration and rationalisation of the distribution chains for organic goods. Further, it has led to the organic chains themselves vertically integrating into food processing and manufacturing industry. Finally, the chains have developed their own brands in an effort to create customer loyalty.

The innovations in the marketing of organic marketing from the US experience are an increased emphasis on store atmosphere and presentation. Both chains are exceptionally good in making shopping an 'experience'. Having attracted customers in the store they have successfully settled upon a recipe for creating customer loyalty. This is through heavy in-store advertising, promotions and taste testing. It also involves developing their own brands and ensuring constant supply of a broad range that can compete with the conventional brands (including non-food items). Further, the use of loyalty programs and clubs creates an additional linkage between customer and supermarket. Finally, staff training is taken very seriously. Wild Oats has a 'Wild Oats University' for staff training. However as with many European countries, the implementation of staff training is sometimes patchy.

Apart from, the organic retail chains other areas of innovation are the increasing use of the internet. Some companies market directly through the internet, whilst others use it as a way of direct promotion to consumers. The use of email to send targeted product information is one way to keep reaching your target audience regularly. Research indicating that organic buyers are more frequent users of the internet suggests this is a sound strategy.

Conclusion

The survey of leading organic and conventional retail chains involved in the marketing of organic products illustrates that the organic market is likely to grow further and that this growth is likely to come from conventional supermarket chains. The growth in the market will be driven by three major sources. The first is that more and more conventional retail chains enter into the organic market. The second is that the distribution density and the range of organic products in the outlets will increase. The third is that the buying frequency of existing and future consumers will increase. This reflects the availability and visibility of organic goods in more outlets, therefore raising the ease of access to such products by consumers.

Despite some common perceptions to the contrary from the organic responsible people in some retail chains, there may be a supply deficit in organic goods in the medium term. In general the marketing of organic foods is attaining the professionalism that has characterised the marketing of conventional foods for a long time. Further, the quality of organic food is incrementally drawing closer with that of conventional food. Reflecting cost reductions at the production level, the sale price of organic foods is falling.

Together, the increase in both food quality and marketing professionalism and the fall in prices has provided a good package to increase the market share and volume of organic food products. However, the study also

revealed that despite good strategies being developed for organic food marketing, they were often poorly implemented in individual outlets. This indicates a pressing need to train frontline staff in the nuances of organic food marketing.

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