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Organic marketing initiatives and rural development – lessons learned for the organic industry

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Abstract

Remarkable growth in organic production throughout Europe has provided new business opportunities for companies marketing organic products. Mostly they are small and their resources are limited. However, they have succeeded to find operational strategies, which are successful even in rural and remote areas. Earlier the high demand and low competitive situation helped many organic marketing initiatives (OMIs) to develop their operational concept. More lately markets have grown and the strategies need to be more customer oriented. Just being organic is not enough any more. Some of the determining factors for OMI success are supply policy, logistic and processing policy. Many OMIs are afraid of being dependent on one sales channel. Even though most of the sales volume goes through supermarket sales, especially in Nordic countries and UK, many still want to develop their direct sales and regional sales. The personal characteristics of the founders or managers are critical to get the owners and farmers to commit to the OMIs business vision. Organic values should be transmitted through the whole chain to consumers. Consumers need to know the advantages of organic products and they need to have trust in the actors.

Keywords: Organic marketing, success, marketing organisations

Introduction

In fifteen EU countries the organic production areas have grown annually on average 26 percent during the time period 1993-2001 (Hamm & Gronefeld, 2004). In food business this kind of growth is exceptional and creates new business opportunities for many. The main driver has been the consumers' very positive attitudes toward organic products. Organic products are considered natural, clean, safe and a healthy option in food choice (Bähr et al, 2004). The pull effect has got extra strength from each food related scandal published in media.

Organic production was very limited in the early 90's, which is seen also in the number of organisations marketing organic products. In the beginning availability of good quality organic products was the main problem for many marketers to diversify their functions. The example of the successful pioneers encouraged others to convert into organics and as the availability got better, a lot of new marketing organisations were established in late 90's. In many countries labelling systems and EU-funding and different public support systems strengthened this development. Organic action plans in several countries were introduced to support the growth of organic farming not only because of the high consumer demand but as well because it is considered as an environmentally friendly production method. This is motivated by issues like biodiversity, animal welfare and water pollution (especially ground waters).

This article is based on the results of the 'Organic Marketing Initiatives and Rural Development' (OMIaRD) research project, which has provided a publication series consisting

7 volumes (see more information http://www.irs.aber.ac.uk/omiard). The objective of the whole project has been to study development of organic markets, organisations operating in the sector and consumer motivation as well as the barriers to buy. In this short presentation we focus on organisations, which are mainly selling organic products. We call them OMIs according to the following definition: "An OMI is an organisation of actors (privately or cooperatively owned) involving participation of organic producers which aims to improve the strategic marketing position of the products by adding value to the raw product through processing or marketing". This means that our findings do not cover the whole organic business sector. There are plenty of very small businesses which are typically family based and under our minimum turnover borderline (100 000 €). In addition, there are large conventional companies, which have just taken some organic product lines into their selection and the organic business does not play a major strategic importance for these firms. Our OMIs got at least 25 % of their turnover from organic sales.

The aim of this paper is to give short overview of the OMIs surveyed through out Europe. We try to summarise their strategically important success factors. Our extensive amount of data gives us relevant information of the development stages of the OMI and the meaning of the competitive situation. The results of our consumer studies give extra value for organic industries.

Material and methods

The whole OMIaRD project consists of a remarkable amount of different types of data (market data, expert information, OMI surveys, expert and manager interviews, network analysis, consumer focus groups and laddering interviews). A short overview for the data relevant for our presentation is given in Figure 1.

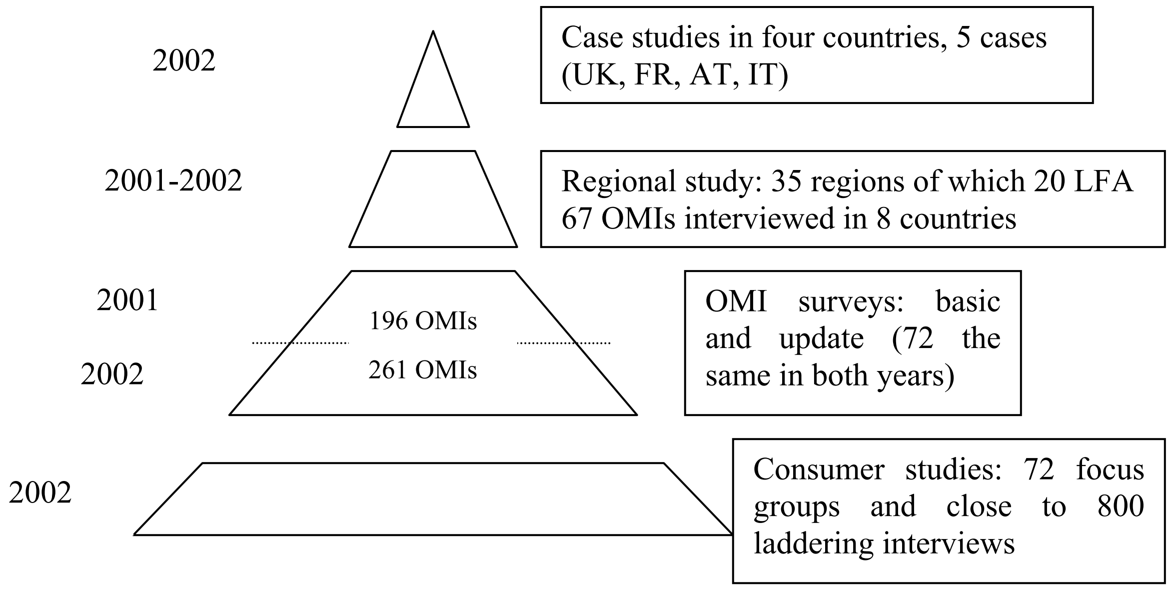

Figure 1. Overview to the data collection in OMIaRD, those related closest to OMI operations.

OMI surveys were done in 19 countries in order to investigate the basic information of marketing organisations. Such characteristics like founders, age of the organisation, size (turnover, personnel), products sold, sales channels and areas, and mission statements were analysed. A much more profound study was conducted on regional level. In all partner countries interesting areas were identified. These were at the same time representative of the organic sector in the country. So selection criteria included both regional aspects and internal OMI factors. From those 35 regions 67 OMIs were identified into a comprehensive business analysis. By using a standard framework questionnaire all the relevant business areas (4P's) complemented with personnel and history perspectives were discussed with the business managers. Finally four case study areas were included in the study. Research teams of both local and international researchers looked more in depth the businesses and interviewed close to 30 stakeholders in each area, both internal and external ones. Networking and rural development context were special focuses in this phase (Midmore et al, 2004).

Consumer studies are another main source of information to look at the organic market development. Almost 800 laddering interviews in partner countries gave a profound picture of consumer motivation in different market conditions and cultural base. Purchase barriers are issues which need to be tackled in order to get the market growth continue. Among other issues in 72 focus group discussions consumers had a possibility to take the position of the manager of our case study firms (vegetable box scheme model, meat company, mountain cheese producer and two pasta makers).

Results and discussion

A typical OMI doesn't exist. The business circumstances and country market structures are so versatile, that it seems to be that very different kind of innovative business ideas can survive and succeed. The size of organic markets is still limited and many market structures has established during the last ten years. It can be noticed that still most of the OMIs are small and their resources to take risk, invest, put own money on marketing activities are limited. The size and young age affects also to their possibilities to get into bigger sales channels. Closeness of potential markets has affected their business orientation. If direct sales are not an option, export can be. Even though many of our OMIs in the regional study are located in rural areas and even in LFA areas, the location is not a determining factor for OMI success.

In our study there seems to be some factors which have explanatory power for OMI success or failure. First of all we need to pick up the personal characteristics of the OMI founder or managers. There seems to be a remarkable amount of very strong personalities, quite often pioneers in the organic movement or otherwise very active persons in organic networks. As Sylvander states: "There is, on the one hand, the model of the inspired and charismatic founder who impresses all around and, on the other, the demographic group led by an inspiring founder. The essential feature is not so much the founder's management style, but the strength and the originality of the projects and the competences required to carry them out" (Sylvander & Kristensen, 2004).

Another highly discriminatory factor seems to be the supply policy of the OMI. Internal cohesion and the willingness to comply whit the OMI objectives need to be high. As well as the availability of raw materials can be a bottleneck in fast growing markets, the OMI should have special competencies to get also other reliable partners than just its own member farmers. The loyalty of the suppliers is critical.

Many of our OMIs are founded by farmers and their involvement is important. The starting motivation can have been just to get their organic products sold as organic and with good premium price. This causes sometimes conflicting interests between farmers and OMI managers. The willingness to invest to the OMI can be limited, if the main focus is in the organic farming itself. However, our results show that processing and logistic policy is another discriminating factor for success. Business in a larger scale implies that the managers need to solve all the difficult problems of logistics, including raw material collection, optimal storage conditions, sorting, grading, and distribution. In addition product development and processing gives the added value, which is important in customers' acceptance. Many OMIs have multiple and very demanding skills in this respect. Some others have outsourced these functions successfully.

Looking at the history and development stages of the OMIs analysed, shows how the development can be compared nicely to the product cycle theory. After a strong growth period organisations reach a phase in which the whole strategy of the organisation need to be redirected. Sometimes the original personnel are not enough any more, supply is not enough to fulfil the demand, or facilities, technology or computer solutions are inadequate. These kinds of strategic turning points have shown to be difficult for the OMIs. Flexibility and commitment to the new vision is requested of the owners. Quite often financing new investments contains a lot of risk. The new competences diverge from the original and the control pulls away from farmers. In an overall market growth situation these steps are easier to take than nowadays, when the growth has reached certain maturity and competition is harder. Just providing an organic alternative is not enough for customers anymore. The customers expect that the product concept (including service) suits perfectly to customer's own business concept.

Consumer studies clearly bring out the same issue. Consumers' willingness to pay extra price depends on their perception about the organic product. What do they know about it? What do they believe about the benefits of organic production and how do they perceive the difference between organic and conventional alternatives. This means that OMIs need to be able to mediate the organic values through the whole food-chain. The ethical objectives of OMIs should be seen in the whole concept. Economic objectives are also important but not enough.

Conclusion

Organic Marketing Initiatives have been and still are important for the expansion of organic food production. All though often neglected in the policy development of the EU smaller organic firms can play an important role as facilitator and organizer of distribution and value added products from local organic farms. A role that is very important for the continuous transition to organic farming principles.

The study of the many OMI's has also uncovered the fragile elements of such initiative. In the cases where the initiative is carried by one person, the manager, it is very crucial that the initiative seek to strengthen the internal network and communication. In remote areas – where a number of these initiatives are situated – the positive effect of the OMI on the local community can be of great importance for the area.

These positive effects of the OMI's can be promoted by national and European policymakers. Especially in connection with the development of the new EU instruments to promote rural areas, there seem to be potentials in tailored instruments like the OMI's, as they can have very positive environmental, social and economic potentials.

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