Distribution channels on the organic foods market

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Abstract

Objective - This paper aims to explore distribution channels on organic foods (OF) market. Special attention is given to advantages and disadvantages of each variant and the best choices by the farmer of the distribution channels that he will use.

Findings - Distribution has a key role in the development of the OF as one of the main obstacles to market development is the relatively low availability of OF on market. Market development depends on how farmers will know how to choose an optimal distribution channel for their products. For small farmers it is recommended keeping a closer link with the final customer, using distribution channels directly, without intermediaries such as systems "box schemes" community supported agriculture (CSA), peasant markets and shops at the farm gate. If large farms that produce crops that require special storage conditions it is recommended the use of indirect distribution channels, through which can be sold large quantities of goods. These channels are the supermarkets, organic shops specialized, processors and various intermediaries.

The practical value of work - Farmers can choose from this research work, appropriate ways of distribution for their products.

Organic farming is a rapidly growing sector in both the EU and elsewhere. Specificity is that they internalize the costs of agriculture and offers many other benefits related to health, environment and rural development. One of the many barriers that hinder market development of organic food products is the availability of OF relatively low on market. Thus, there are potential consumers who want to buy these products but cannot do it because they don’t find them in stores. This problem is particularly noticeable in countries where markets are in early stage.

Lack of distribution infrastructure on OF market (small number of distributors) is a barrier for the organic farmers who want to enter the market. One of the most important strategic decisions that the manufacturer must take refers to how their products will sell. The main obstacles to optimize DCOFM (Distribution channels on the organic foods market) refer to poor information management system, inadequate communication with consumers and divergent objectives of the members (Kottila et al., 2005).

Research Methodology

The paper is based on studying the specialty literature on distribution channels for organic foods.

Key words

organic food products, distribution, consumers, intermediaries

There are several possibilities for the classification of DCOFM (Distribution channels on the organic foods market) but the most common way of classifying branches this concept into two categories: direct channels and indirect channels of distribution. Despite the advantages offered by supermarkets and specialized stores to consumers, some consumers feel the need for more personal contact with manufacturers and choose to buy through indirect distribution channels. These methods of distribution offers the opportunity to pursue discussions face to face with producers about the production methods used, origin and quality of product (Cooley and Lass, 1998). The story becomes a very important vector of the product promotion, fact which is manifested also at the consumers who prefer to avoid supermarkets and buy OF from small specialist shops.

Supermarkets

In less developed markets, most sales of OF are achieved through specialized shops. Later, as the market matures, the share of supermarkets increases as opposed to share specialized stores that begins to decline, leading to a situation where supermarkets bear a share of over 60% of all OF sales. Usually there are a relatively small number of supermarkets that dominate the market in each country. At European level, the major supermarket chains in the market OF are Ahold, Carrefour and Tesco.
Richter and Hempfling (2002) identified three categories of supermarkets operating in the market OF:

- supermarkets with a maximal strategy, with more than 400 OF in the nomenclature of products and who are investing large sums in promoting these products
- supermarkets with a basic strategy, which have between 50 and 250 OF
- supermarkets with a minimal strategy, with up to 50 OF in nomenclature

Adopting a maximum strategy requires resources for the acquisition of technological competences and skills on how to address to new categories of customers (Danneels, 2002). On the emerging markets there are supermarket chains that decide to adopt one of the first the products, they take risks, but would attract their first customers and form a good image. There are supermarket chains that prefer to wait so that others develop the market, to draw on the experience of others but their market shares will be lower.

The importance of supermarkets for market development is very high because if the supermarkets do not invest money in promoting these products, they will have low availability and high prices and the market is delayed more in terms of development, despite some positive feelings about OF among potential consumers. This is manifested in Norway which has a share of purchase OF of the total purchases of less than 1.6% (Kjærnes and Holm, 2006).

As supermarkets gain market share increasingly large, they act for the establishment of private labels that guarantee quality and will invest in creating their own brands to ensure consumer loyalty.

The vast majority of consumers appreciate the supermarkets because they provide an opportunity to buy both food and organic food produced in a conventional manner. From this perspective, the supermarkets are easy ways for consumers to make purchases of food all in one place.

Despite the obvious advantages that entails the involvement of supermarkets in this market, there are also disadvantages related to the fact they are not satisfied the requirements of all categories of consumers. Some consumers want a closer contact with producers, want to hear the story of the product because they place their trust in those who produce and sell these products, and confidence is lower if the manufacturer is even further away.

In Denmark, users of "heavy" type (which spent for OF more than 10% of the food budget) made their purchases of OF 57% in supermarkets, while consumers of "light" type (with a share of organic purchases less than 2.5%) and "medium" (representing the organic purchases between 2.5% and 10%) spend two-thirds from the budget for organic purchases in supermarkets (Midmore et al., 2005).

When supermarkets are very active on the OF market, they will put a strong pressure on OF prices so on the OF market it will show the same situation as on the conventional food market where are favored the large agricultural holdings and many farmers are forced to give up their agricultural initiatives. Also, there will be problems related to OF appearance because there is a risk that the standards of appearance of OF to be so high that some of the OF will be considered unsatisfactory and the interests of organic farmers will be harmed.

Specialized organic stores

Consumers who prefer specialized organic stores are interested in old grocery store atmosphere and in the interaction with sales staff. On underdeveloped markets, the people who buy from specialized organic shops, are buying more regularly, are available to pay higher prices and buy a wider range of products (Santucci, 2001). In urban areas, developed countries markets, specialized stores represent the most important way of selling, after supermarkets, unlike rural areas from developed markets where direct sales, without intermediaries are more important.

Sometimes, specialized organic shops have strong links with certain organic farmers cooperatives and promote certain values with respect to consumption, environment and health (Torjusen et al., 2004). These shops attract few consumers of OF and from this point of view the main merit is of supermarkets. In this shops consumers can find special organic products that are not in supermarkets but they must be willing to adapt their program because this form of trading requires more from the consumer time resources (Schmid et al, 2004). In emerging markets, these shops first appear in the capital or in large cities, then expanding in smaller cities.

There is a striking need for small specialist retailers to implement direct marketing campaigns and promotion. Such campaigns would be more effective if it were made by these retailers because they are closer to consumers compared to producers. Store employees should be aware of their role as communicators. Small retailers must differentiate their offer through interesting concepts, innovative, so that they can tempt customers to buy from them even if prices are better than in supermarkets (Santini et al., 2010)

There are situations where retailers have expanded, opened more stores and, eventually, have developed a vertical integration, merging with large distributors of OF, such as Italian NaturaSi retailer that merged with wholesaler Ecor (Santini et al., 2010).

Processors

There are organic farmers prefer to sell their production to processors. This situation manifests itself with predilection on the developed markets, unlike markets still underdeveloped where processors are almost nonexistent. Emergence of processors on the OF market represents a factor that stimulates the production of OF.
With regard to market entry arrangements for processed organic products, were noted several ways. Thus, there are processors that operate conventional food products and create brands equivalent for conventional green lines, while others prefer to purchase OF brands that are already on the market. Some processors process only organic food products and have created their own product lines (Torjesen et al., 2004).

On the emerging markets the processors are present in very small numbers, because of lack of raw material. Some processors prefer to produce by their own raw material required while others are involved in the establishment and organization of organic farmers’ cooperatives. In this collaboration with farmers, processors are characterized by a pragmatic attitude, oriented towards profit, that sometimes falls in contrast with the attitude sometimes less pragmatic of farmers (Schmid et al., 2004). In the UK there was noted a predilection of the farmers for sale to processors especially in the case of farms that have a national orientation, compared to farms with local or regional orientation. Another way of marketing more and more used on OF market is the distribution through intermediaries such as wholesale distributors, brokers and packers, that are collecting production from farmers and distributes to supermarkets or other shops (Latacz-Lohmann and Foster, 1997). These distributors can be very useful in “pushing” farmers products to customers through the experience and network of contacts that they have. Despite the obvious advantages (lower efforts for large amounts marketing), working with wholesale distributors also has disadvantages: lower prices, restrictive conditions in terms of necessary quality and quantity, less control over the processes of adding value and bigger risk of default. From this point of view, large organic farms work better with intermediaries as opposed to small farms. On the OF market from USA in recent years it was noted that intermediaries sales fell towards other intermediaries, which is explained by the need to reduce OF prices which is an important barrier for their commercialization (Dimitri and Oberhotzer, 2009). There are retailers who prefer to buy only through intermediaries since they very well know manufacturers. Producers should not rely only on intermediaries because most of them are also based on imports, if they become cheaper than local products, will create serious problems for the local producers.

Organic restaurants
Organic restaurants were among the first customers of organic farmers. Marketing to organic restaurants significantly improves the image of farmers as consumers associate the pleasurable sensations due to food and farmer's name. Is also improved the image of the restaurant because it can be highlighted the idea that at least some of the ingredients are locally produced. Batte and colleagues say that it is necessary, especially in the case of processed OF to be a form of communication of the fact that the products are produced locally or regionally, and the probability of getting the product increases by up to 12%. This form of communication may take the form of a logo containing the region name or a special label (Batte et al., 2004).

Farmers associations can organize and open their own restaurant, which is a win-win situation for farmers but requires great effort on their part. In Britain, the proportion of OF sold by farmers to restaurants varies depending on the orientation of the farm between 1 and 2.5%. Thus, farmers who have a local orientation in terms of the OF market sale 2.5% of OF to restaurants, while the lowest percentage (1%) have farmers with regional or national market. (Lobley et al. 2009).

Farmers are able to deliver smaller quantities to restaurants and product design standards are less restrictive because not the final customer is the one who chooses the product. Among the disadvantages can be listed the following issues: high costs of transport and the time required so that the farmers to make small and frequent deliveries (Phillips and Peterson, 2007).

Fast-food chains are also potential customers for farmers who can afford to fulfill the quantity delivered and the regularity of supply (Post et al., 2008).

Direct marketing
PAE direct marketing, without intermediary has the following advantages for consumers and producers:

- are creating social networks composed of people who think in a similar manner and have the opportunity to exchange information and opinions about this type of food
- opportunity to benefit from a more varied assortment of OF, because in the distribution channels with intermediaries the price exercise a pressure in the direction of standardization and uniformity, leaving less space for certain types of OF (Cooley and Laas, 1998)
- PAE traceability can be easily highlighted

Direct marketing will increase in future due to farmers' desire to attract a larger share of the money that is circulated in channels of distribution. The most important disadvantage is uncomfortable character for the consumer because he is forced to make further efforts to enter in possession of a wide range of ecological OF (Latacz Lohmann and Foster, 1997).

Box schemes
Marketing of "box schemes" type consists in OF delivering at the consumer home by a company that is supplied by one or more farmers at a fixed price. In some cases farmers assume the role of coordination in
these systems. This type of marketing has become very important in developed markets (Netherlands, UK, Denmark etc.), where demand exceeds the capacity of farmers to produce and deliver. In developing markets there is strong growth of this method of distribution of OF. Regarding the motivations of consumers who prefer this mode of acquisition it was found that altruistic motivations are prevailing in England, while in France the quality ego-centric motivations prevail. The most important barriers that prevent local consumption are the desire to eat fruit and vegetables in extra-season in England, while in France stood out price and limited range of products (Brown et al., 2009).

Denmark and UK systems there are types of 'box schemes' where some products are imported because of the need to satisfy the demand increasingly diverse of fruits and vegetables. There are companies that deliver fruits and vegetables weekly to 25000 customers, while other companies are delivering to some dozens of customers (Torjusen at al., 2004). It is necessary for producers to associate so that they could be available to deliver more product lines in order to maintain the local nature of consumption.

Consumers requirements who prefer this system are becoming more refined and in these systems involves increasingly larger companies who are treating the issue of competitiveness in a very efficient way but who can remove the system from the original purpose, to help local consumption (Lobley et al., 2009). There are people involved in organic farming since the early stages and are unhappy about the character more and more mercantile activity of this field and begin to understand that their actions in this field must be oriented to customer, to market.

Most of those seeking "box schemes" are aged 45 years or older, have average or above average income. Despite the local contribution to consumption growth and incipient development of organic farming systems 'box schemes' are still at the stage of niche, and in order that organic farming to impose is needed the supermarkets (Brown et al, 2009).

### Community Supported Agriculture

Another system is constituting the system Community Supported Agriculture (CSA) by which a group of family are planning together with one or more farmers the fruits or vegetables to be produced and delivered during the year, having to pay in advance a part of the value so that the farmers to have money to cover production costs. Consumers are happy because they have access to fresh OF produced very close to place of residence and they develop confidence in farmers and organic farming (Cembalo et al., 2004).

CSA type systems are less common in undeveloped markets and more widely on markets more developed. It is noted that will not exceed supermarkets regarding the OF sales volume but they addresses to different categories of customers and therefore CSA systems and supermarkets can coexist in the same market. A very important aspect in the success of CSA systems is the availability of farmers to cooperate in fair risk dispersal (Hanson et al., 2004). CSA systems are supported in most countries of NGOs (non-governmental organizations) aimed at supporting peasant agriculture.

A particularly interesting aspect of the CSA system is that families who subscribe take some risks with the farmer and supports and possible losses due to adverse weather events. There is the reverse, as in most years with meteorological problems for certain crops are produced in big quantities other fruits or vegetables can be compensation for some of the damages created to families subscribed. An important advantage for the farmer is the security which he has that he will sell his products and therefore will have more time to deal with the farm (Gilman, 1999).

An important factor in the success of CSA systems is constant information for the families subscribed through a website, so that mutual trust between partners to strengthen. Also, farmers can organize recreational activities on the farm, leading to increased involvement of subscribers. Most CSA systems provide the possibility for subscribers to be able to come at the farm to harvest their products if they wish.

### Peasant markets

Peasant markets for OF have become an option increasingly important in recent years and motivation of OF buyers from these markets varies. It is interesting to find that not only the sales increased but also the number of peasant markets. There is a segment of buyers who go to markets to be seen that they have financial possibilities to buy OF.

The main benefits sought by buyers in peasant markets are:

- Fresh, healthy and seasonal;
- Stimulate the local economy;
- Develop confidence, good atmosphere that stimulates communication (Schmid et al, 2004).

As main disadvantages are:

- The long duration of time needed to achieve the purchase;
- Possibility to buy OF only in season.

It was found that the tendency to buy OF is greater among people who use to attend the peasant markets where they find agricultural products obtained in conventional manner (OECD Journal).

It is much easier to communicate to the customer the value and importance OF when marketing is done by peasant markets, unlike the situation in which trading is done by more sophisticated methods, such as supermarkets (Zander et al., 2010).

Generally, farmers who sell their OF in peasant markets are in a less stable financially situation, but in the event of exceptional situations such as turbulence on OF market, they are better positioned than farmers who rely on intermediaries.
Peasant markets are one of the first ways used for distribution in early stage markets. People who attend the peasant markets are educated and have a higher income than in average and are likely to have ecological lifestyles.

Milestad and collaborators (2010) show that in peasant markets consumers have the opportunity to learn concepts on how to use and to conserve food, taste, availability and quality of various products. Also, farmers have the opportunity to learn about consumer preferences, their tastes and their abilities to use food products provided. This learning is very useful because it can effectively guide decisions and behavior of those involved in food production and consumption. Trust, loyalty which are built constitutes premises of sustainable development (Milestad et al., 2010).

Farm shops
In order to maximize the effectiveness of these shops, it should be consider the following aspects: creating a business vision, attracting and retaining of the customers, appropriate product range and promoting. In the following years most of these stores will also have an online component and will have to focus on finding more efficient ways of communicating the value of these products. This way of trading has the following advantages:
• direct contact between customers and producers
• PAE niche can be developed
• relaxing atmosphere in a rural location
These stores must be located near cities or near highly traveled roads and need to be open evenings and in weekends.
People in higher social classes have less time to go to the farm to buy from stores there OF (Vackier et al., 2002).
Communication should focus on the sanogenetic character and environmental of the products. Unlike the peasant markets, where consumers are going more to be seen, in the case of the farm stores buyers go out of conviction, with the clear intention to buy and conspicuous component of the acquisition is less obvious (Niessen and Hamm, 2008).

Choosing the distribution channels
It is indicated for the farmer to use the distribution channels in which to interact with several customers to have higher profits. It is easier for farmers to work with fewer customers but in this case chances are that profits to be lower (Park, 2009).
According to Corsi and colleagues (2009), distribution channels have been classified into three categories: direct (sales direct from the farm), short (including farmers markets, organic stores specialized, home delivery, restaurants) and traditional (deliveries to supermarkets, sales to wholesalers or delivery through cooperatives). The level of education and professional training adversely affect farmers’ choice for traditional channels and in a positive way the choice for modern channels (direct or short).
In large farms it is noted the preference towards traditional channels, unlike small farms where production volume allows the option for modern distribution channels. The location of the farm is important because farmers from the mountains or from hilly areas prefer to sell through direct or short distribution channels because their production costs are higher and require higher sales prices to survive on the market. OF type produced on the farm also influences inclination to a method of marketing. Thus, those who produce grain or other crops on large areas of fields that can be stored and processed harder prefer traditional distribution channels. Farmers who produce products that can be sold in smaller quantities throughout the year prefer rather short and direct distribution channels (Corsi et al., 2009).
Park (2009) identified the types of farms whose products are distributed through a single channel of distribution. These are family farms, farms with a single owner, farms that made the transition from conventional agriculture to the organic, farms run by less experienced farmers and farms managing a large number of hectares.
There are organic farms where they observe a preference for the use of multiple types of distribution channels. These farms are run by experienced farmers and have a greater number of employees (Park, 2009).

Working within the DCOFM
Collaboration and trust in channels of distribution is required to overcome obstacles that prevent the market development. In the distribution channels for food, power is distributed in an unbalanced manner (Hingley, 2005). Communications taking place in these distribution channels excludes, sometimes, farmers who do not trust in retailers. A premise for developing cooperation and trust is the realization of a communication in a qualitative manner satisfactory. Also, upgrading skills and to fluently the common activities will increase trust and cooperation (Wycherley 2002).

Information flow
There are weaknesses in the flow of information to consumers. Among members of the DCOFM there is the conviction that the trademark owner must ensure the effective circulation of information to the consumer. The most important information are those regarding on sanogenetic value, ethics and environment. DCOFM efficiency could be improved by involving the interested parts both within the channel and outside the channel (Kottila et al., 2005).

Conclusions
The choice over the distribution channel is very important. Farmers can choose the channels without
intermediaries (distribution type "box schemes", CSA system, peasant markets and farm shops) or may choose indirect channels (through supermarkets, specialized organic shops, restaurants, processors and various intermediaries). Each of these options carries certain advantages and disadvantages and the choice should be based on factors such as farm size, specific of production, the degree of market development and farm location. Regardless of the main distribution method selected by the farmer, for safety reasons their use is recommended at least two types of distribution channels in order not to depend on only one version where there is a risk of syncope. Also, especially for smaller farms is good to keep a close connection with the final customer, who must and can be sensitized towards supporting local agriculture and economy. Such a close relationship with the final user will allow farmers to easily overcome problems that may arise on the OF market due to fluctuations inherent in a market such sensitive as OF.

References


24


