

## **Uncertainty in Spanish Organic Products: A Global Analysis from Consumer to Entrepreneurs**

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## Uncertainty in Spanish Organic Products: A Global Analysis from Consumer to Entrepreneurs

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### Abstract

The organic market is a very particular one. Starting from the premise that organic products are confidence and credibility products which cannot be easily differentiated from the rest, we find that consumers face a risk when purchasing them. In Spain, the marketing chain does not follow the conventional stages in most of the cases, so there is always some uncertainty about how the products will be sold. In addition, the great majority of the Spanish organic production is marketed abroad. In this paper we show some of the results of an investigation project in this topic.

**Keywords:** *Organic, risk, chain, producer, consumer*

### 1. Introduction

Organic products are increasing their importance in almost every country. The land devoted to organic agriculture has experimented a significant growth worldwide and its available products range from clothes to all kinds of food products.

When we mention the term “organic”, we are not only referring to a certain product or group of products, but also to the process that the specific product has followed, from the production methods to the processing, packing, transport, etc. On one hand, the increase in growth of the organic market has attracted supermarket chains, food manufacturers, natural food grocery stores, mail order and Internet retailers to enter the organic produce market. On the other hand we may consider the rise in consumer concerns with Food Safety and standards, negative environmental impact of conventional agriculture, GMOs, and also other aspects such as hormones and antibiotics present in food (Armah, 2001).

When producers decide to adopt the organic cultures and leave aside the conventional methods, they are running the risk of losing the market they already know and they face the uncertainty of a new open market. In many cases, organic products are not sold following the traditional food chain, they are sold through specialized shops such as herbalist stores or natural food shops.

Organic products differ from the rest of food products, due to the characteristics that make them different. These products cannot be distinguished from the conventional ones at first

glance, and most of the times, it is hard to tell the difference even after the consumption, what may originate an unquestionable level of uncertainty along the food chain.

In this paper we will present an overview of the organic food chain and the Spanish situation, and also some of the conclusions that arose from a study carried out by the Politechnic University sponsored by the FAME foundation (Fundación Alfonso Martín Escudero), where we studied the food chain of organic products focusing on both sellers and consumers.

## **2. The Organic Food Chain**

The greatest problem for the modern alimentary system is to establish the exact relation with the consumers, being difficult to assign to the acquired food the correct commercial value which corresponds to the real quality of the product. As a consequence, the definition of "quality" becomes a determining element for the election of products on the part of the consumers. The strategy of choosing the products is influenced by the budget and by the cost of the perception of the expected quality of a certain product.

Organic fruits and vegetables are the ones that have been produced according to ecologically based practices, (such as biological pest management and composting, produced on land that has had no prohibited substances applied to it for at least 3 years prior to harvest, etc), have been processed, stored and shipped following the organic regulations required for their certification (Dimitri, Green, 2002). There are all kinds of organic products, from the well-known fruits and vegetables, to ice-cream, herbs, baby food or clothes made of organic cotton.

If we follow the product classification done by certain authors (Nelson, 1970), we may find three categories of attributes: in first place, the search attributes, in second place the experience ones, and at last, the "credibility and confidence" ones. The first two categories refer to properties that may be fully or partially identified once the product has been consumed. Nevertheless, the third type of attributes can only be partially detected after the consumption; there is no way to tell the differences between organic products and conventional products from their external appearance (Darbi, Karni, 1973). In this case, as consumers are not able to judge the intrinsic qualities of the product, they will mainly base their election in the indications of the producer. Organic products belong to this category, so, at first, it cannot be distinguished a product coming from this type of agriculture from one coming from the conventional systems, and the confidence of the consumer is fundamental at this point.

This entails a state of uncertainty and vulnerability for the consumer, since he has to rely on the label and on the indications of the seller and trust what it says, without any possibility of proving they are truly organic products.

That is why the organic market growth has also meant changes in the regulation of organic production and label standards to assure consumer confidence and overcome that uncertainty condition. An organic label has to accomplish the task of providing the consumers with information about the environmental, agricultural and social impacts of what they buy and help them take the decision on their shopping. It also indicates to the consumer that a product was

produced using certain production methods. In other words, organic label is a process claim, rather than a product claim (Armah, 2001).

Essentially, organic foods play various roles in mediating different bodily, moral and community beliefs and values. Purchasing decisions are most often based on perceptions of bodily and moral risk (Hartman, 2004).

Consumers' sense of impending risk is driven largely by discourse disseminated through media and social networks, where the purchase and consumption of organic foods is an active attempt towards managing risks, giving consumers illusions of control. Some studies also show that consumers believe that farmers who grow and distribute organic foods are more likely to be honest and truthful about the benefits of consuming organic foods. These beliefs ultimately overlap, giving consumers the impression that they are thinking and behaving morally and responsibly (Hartman, 2002).

Nevertheless, there is still a risk of a little ethical conduct of the producers, so to avoid this situation and to reduce the lack of confidence of the consumers, the goods that belong to the category of "goods of confidence and credibility" require that the confidence is guaranteed by the mark of the manufacturer or a "seal of quality" emitted by the competent organism.

The European Regulation 2092/91, that regulates the protection of the geographic origin of foods and denominations of origin of agricultural products, shows that the called "asymmetric information" can be avoided. By these norms, the EU legislators guarantee to the consumer the origin of the raw material and the methods of production of the product that he has acquired, by means of a system of transparency guaranteed by a public organism. In the EU the inspection system applied to organic farming includes a detailed record keeping. Several initiatives designed to improve the collection of agricultural statistics have been developed by Eurostat, the EU's official data's agency. All these analytical tools serve, not only to assist policy-makers by indicating trends and pinpointing the risks and opportunities in agricultural activities, but also to provide information for consumer groups interested in the production and processing of foods.

In Spain, the control system applied to organic food products is based on the European Regulation 2092/91. Organic operators are inspected by both private and public control and certification bodies.

Regarding the distribution link, traditionally, organic products have been purchased apart from the conventional channels. Farmer's market, directly from the producer, through herbal stores, small specialized stores, etc., were the common places to purchase organic products. In addition, most of the processing and packing of the products was done by small or medium sized companies, instead of large ones (Next Generation Organics. Datamonitor, 2001).

In the last decade, due to the growing market, more and more stores are offering organic products among their regular supplies. Consumer concerns in food products are focused on

several areas, organic production, animal welfare and products manufactured in a “natural way” (Brunso et al. 2002).

It is not anymore a risky option in many countries. In the USA, for example, from the year 2000, more organic products are sold through conventional stores (such as supermarket or hypermarkets) than through specialized stores (Dimitri, Green, 2002). However, it is not the same scene in all the countries. In Spain, though it is one of the main producers at European and at world level, the consumption is still marginal, compared to similar European countries.

The fact is that, as soon as the distribution channels change and the organic products are available at hypermarkets, the consumption may reach higher levels. Anyway, it is a growing market that faces the future with great expectations and a great potential of consumers.

### **3. The Spanish Organic Market**

The Spanish organic agriculture is practically focused on the foreign market, around 90% of its production is destined to export (Fundación Grupo Eroski, 2003). The importing regions of Spanish organic production are mainly from the European Union (around 60% of the exports), but there are also other importing regions like Japan, which is a great organic olive oil importer. Around 40% of the exports are olive oil, and almost 99% of all the organic fruits and vegetables grown in Spain are destined to foreign countries (González, Rodríguez, 2004).

The Spanish organic domestic market only swallows up around 10-20 percent of the total national production. This reality could be an incentive to stimulate the domestic demand, and as a consequence, to have a strong national demand would diminish the risks carried out by the producers.

The market of organic products in Spain is developing and growing at a very fast rate. Its annual growth rate reaches over 20%, which makes it a unique sector in the agricultural market. Even though the consumption of organic products at a national level is increasing, it is still at a low level if we compare it with other European regions, like Germany, Finland, Denmark or Austria (Willer, Yussefi, 2004). However, the organic production still cannot satisfy the demand, as it happens to organic products in Europe, Japan and North America.

Nevertheless, the solution is not so simple. Spanish consumer it is no use to buy organic products for several reasons. The first one is the difficulty to get them in the market. Organic food chain has not consolidated in a significant way. As a result, there is an uncertainty about the future domestic market and the reaction of the stakeholders in the chain.

We have studied the organic food chain in Spain, focusing on retailers and consumers. Retailers seem to be the weakest link on the chain and consumers are the ones that clearly decide on the future of the products.

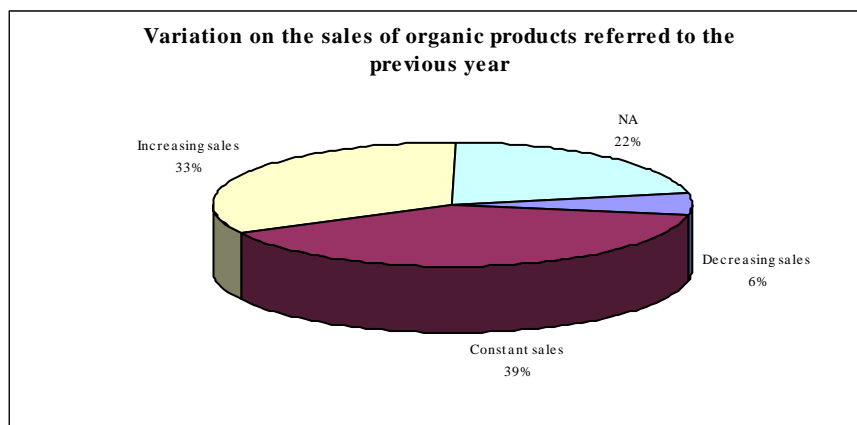
To have a general appreciation of the current situation that the retailers face, in 2003 we made 340 surveys to different types of shops where organic products are sold. The interviews were

made through personal meetings; visiting supermarkets, specialized health food stores and herbalist stores in seven Spanish cities.

Among the questions that sellers were asked we should put special emphasis on the answers to the problems and solutions that the organic sector faces. The high percentage of unanswered questions (42,6% of the interviewees did not know about the problems, and 72,4% did not know about possible solutions) show that the retail sector is not truly involved in the issue. Only the specialized food stores did know about organic agriculture and gave answers to the questions (71,5% of the interviewees in specialized stores). On the other hand, the herbalists shopkeepers were the ones less informed about organic agriculture and its current situation (46% did not answer).

Among the problems of organic agriculture quoted by the shopkeepers, most of them mentioned the high prices of organic products, the lack of information and promotion of these products and, above all, the distribution problems. In Spain, besides the production that is destined to export, the organic sector is composed of small producers scattered around, so the transportation of the products is expensive due to the limited quantities and the long distances. This makes the distribution and the supply very difficult, not only in quantity but also in variety. The supply is not constant so consumers are not used to buy regularly these products, so sellers are assuming an additional risk if they offer perishable organic products (Briz, T., 2005).

However, most of the retailers were confident on the market and were sure that running the risk of offering organic products was worth it (94% of the retailers planned to offer them the following year). In addition, they agreed their sales in organic products had increased, or at least, remained similar as the previous year (see Figure 1).



**Figure 1.** Variation on the sales of organic products referred to the previous year Source: Authors

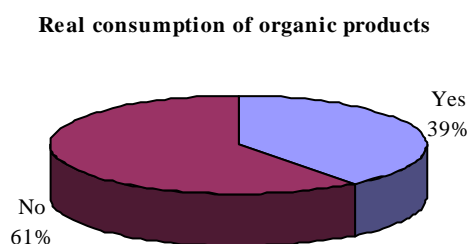
Regarding the knowledge of the seals of quality and certification, there was a significant proportion of sellers that answered they have offered products without the certification label (13,8% of the sample). This risky custom is not permitted, and it generates a state of confusion

among consumers, who are not sure of what they should require when buying organic products. Since organic producers are not allowed to sell without the certification seal and they are frequently inspected (with high fines and serious consequences), this suggests that some retailers offer conventional products as “organic”.

Regarding the consumer’s attitude, the habits and the knowledge of the Spanish people versus organic products, surveys to general consumers were made.

The interviews, which reached a total number of 1,003, were carried out by telephone from May 20th to May 30th, 2002. Consumers asked were at least 18 years old and covered all the age ranges. The surveys were carried out in the whole Spanish territory. In addition, the interviews were made in different towns, ranging from less than 10,000 inhabitants to more than 500,000 inhabitants.

In our survey, when asking about the consumption of organic products, 39% of the people interviewed affirmed that they consume or have consumed organic products, and 61% denied having consumed them (See Figure 2).

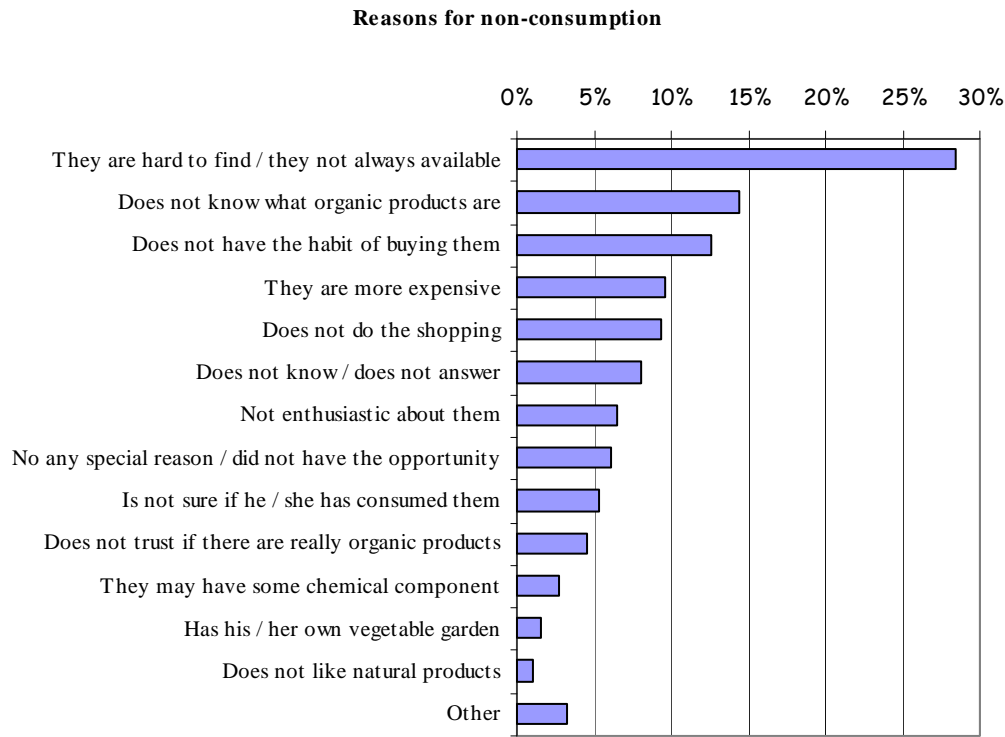


**Figure 2.** Real consumption of organic products Source: Authors

Although the interviewed consumers gave varied answers as reasons for not consuming organic products (see Figure 3), we can summarise them two:

1. In first place, lack of knowledge of these products and lack of confidence of what they are buying. When they were asked about the reasons for buying/not buying organic products, there were answers such as ‘I do not know about them, I am not informed’, ‘they may have some chemical component’, or ‘I am not sure if I have consumed them’. The lack of confidence is more patent in answers like “I do not trust organic products”, and consumers do not want to run the risk of getting what they are not asking. This lack of confidence is specially acute in older people and in people that belong to low or medium-low classes.
2. In second place, the absence of these products in the consumers’ frequently visited shops. This part of the interview included answers like ‘They are hard to find or they are not easily available’. This answer was ratified in a high

percentage by women, and also, by residents of smaller towns. In addition, the answer 'I did not have the opportunity to buy them' was given by middle-aged people residents in populated areas.



**Figure 3.** Reasons for non-consumption Source: Authors

#### 4. Conclusions

There is a lack of knowledge of the organic sector in Spain at all levels. At the retail level, many sellers do not know about organic agriculture or about the peculiarities of the products. Nevertheless, they know they are running a risk offering these products to consumers but they are confident on the growing market.

The knowledge of organic agriculture is a previous requirement to be a buyer, so, unless a strong advertising and promotion campaign is carried out, many consumers will still not know the characteristics and the origin of these products. Many consumers declare they know what organic products are, but since they do not know about the certification seals or regulation norms, they do not trust the products that are offered in shops and, consequently, do not buy them.

The increasing consumer concerns on environmental issues and quality of food should also be used as a starting point to educate consumers about the value of organic consumption. And, apart from these points, there is a necessity to foment the expansion of organic agriculture through its seal of guarantee, obtaining the active and visible presence in the linear of the great surfaces, since merchandising is constituted like a reasonable tool of communication that benefits both producers and distributors.



The Spanish production faces a great risk being so dependent on the foreign market. The domestic demand should increase to have a backup. It is difficult to know the final consumer and the consumer's preferences when most of the production is destined to export. Besides, the organic food chain is longer, and this entails a risk, with more stakeholders involved.

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