

Staff Paper

Demand Overview for Organic Produce

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TABLE OF CONTENTS

	EXECUTIVE SUMMARY	...1
I.	Introduction	...2
II.	What is “Organic”?	...2
III.	Overview of the Organic Market	...4
IV.	Consumer Issues	...7
	A. Customer Value	...7
	B. Market Segmentation	...10
	C. Market Segments for Natural Products	...12
V.	Marketing Channels	...15
	A. Farm Markets (On-site)	...16
	B. Farmers’ Markets	...18
	C. Distributor	...19
	D. Retailers	...21
	E. Restaurants	...23
	F. Processor	...25
	G. Concluding Comment	...26
VI.	References	...27

EXECUTIVE SUMMARY

The market for organic food has been growing 20% per year for the past nine years. Fruits and vegetables are a large part of the organic market, accounting for more than \$670 million in retail sales annually. This presents an opportunity for entry of new agricultural producers, and the expansion of existing organic growers.

Similarly to other businesses, organic producers will succeed by providing customer value. The best opportunity for organic growers to achieve this is to focus on increasing the perceived benefits of the product. Examples of benefits for organic growers to focus on are: favorable environmental impacts, positive health benefits, and positive effects on the local economy.

Since the market for organic fruits and vegetables is currently small relative to the overall food market, a market segmentation strategy is advisable. Two market segments, the “True Naturals” and the “New Green Mainstream” have been identified as the core market for natural products. Marketing efforts should be focused on appealing to one (or both) of these groups.

Six major marketing channels were considered, with positive aspects and barriers/potential pitfalls given for each. The two easiest channels to enter, in terms of lowest financial capital and networking requirements, are farm markets (on-site) and farmers’ markets. These alternatives may have limited volume potential, however. The upside of marketing to distributors, retailers, and restaurants is the potential to market a substantially larger volume than would be possible through marketing direct to consumers. Significant barriers must be overcome to market to these more complex buyers, however. The best way to enter these channels (i.e., distributors, retailers, and restaurants) is for growers to pool resources and work together as a group.

I. Introduction

This report was prepared for the Organic Growers of Michigan (OGM), Southwest Chapter. It is part of a larger effort to assess the feasibility of a marketing cooperative for organic produce, funded by a USDA Rural Business Enterprise Grant (RBEG). Data for the report were obtained from two sources. Secondary data were gathered through a review of relevant trade and academic journals. In addition, more than a dozen directed interviews were conducted with key informants from industry, universities, and government. These were mostly telephone interviews, although some took place at the 2000 Natural Products Expo - East in Baltimore, Maryland.

The report addresses four issues. The first topic covered is a brief description of organic agriculture, including a definition of “organic.” Next is an overview of the market for organic food products. This section focuses on the nature and level of organic demand, both in the U.S. and abroad. The third section contains an analysis of consumer issues. It begins by building a conceptual foundation, and includes a concrete example of how these concepts may be applied to marketing organic produce. The final major content area is a description of potential marketing channels for organic produce.

II. What is ‘Organic’?

Organic agriculture has been practiced in the United States for over half a century. It involves working with natural systems, rather than trying to control them (Klonsky and Tourte). Organic methods involve harmonizing with nature (Gilroy, *et al*). Citing a United Fresh Fruit and

Vegetable Association task force report, Hall and Edwards present the following definition of “organic”:

- Organic food production systems are based on farm management practices that replenish and maintain soil fertility by providing optimal conditions for soil biological activity.
- Organic food is food that has been determined by an independent third party certification program to be produced in accordance with a nationally approved list of materials and practices.
- Organic food is documented and verified by an accurate and comprehensive record of the production and handling system.
- Only nationally approved materials have been used on the land and crops for at least three years before harvest.
- Organic food has been grown, harvested, preserved, processed, stored, transported, and marketed in accordance with nationally approved materials and practices.
- Organic food meets all local, state, and federal regulations governing the safety and quality of the food supply.

To protect producers and consumers, several states have developed systems to regulate labeling of organic products. These systems typically involve production standards that distinguish between acceptable and unacceptable farming practices based on whether certain restricted inputs were used (Klonsky and Tourte). Beyond the prohibition of synthetic materials, accredited certifying agencies require a holistic farm plan for ecological soil management. In fact, soil and pest management are the primary areas of difference between organic and conventional production practices. These topics (soil and pest management) are emphasized by Gilroy, *et al.*

III. Overview of the Organic Market

While the definition in the preceding section focuses on supply side issues such as prohibited inputs, the demand side implications of the term are at least as important. Simply put, the word “organic” has emerged in the marketplace to differentiate agricultural products based on production methods (Klonsky and Tourte). The key point is that “organic” has positive brand capital in the collective consciousness of consumers.

At present, U.S. consumers buy \$6 billion worth of organic products annually (Janoff). And by all accounts, the demand for organic food is growing rapidly. Although organic products make up less than 5% of the total retail market, organic sales have grown at greater than 20% per year for the past nine years (White). The rapid growth rate of organic sales during the 1990s is confirmed in Thompson. This growth clearly outshines the rest of the conventional grocery industry which has recently experienced growth of 3% to 5% annually. The Organic Trade Association (2000a) cites the following statistics from a 1995 Food Marketing Institute report:

- Percentage of mainstream stores carrying organic produce: **42 percent**
- Percentage of shoppers who buy natural or organic foods at least once a week from supermarkets: **25 percent**
- Percentage of retail senior management who believe that organic and natural foods are an upcoming trend: **75 percent**

Fresh produce is currently the largest segment of the organic market. Glaser and Thompson report that organic produce sales at natural and mainstream supermarkets have topped \$670 million per year. Among the more than 5,000 U.S. farmers that were using organic methods in 1995, the majority were producing fruits and vegetables (Organic Trade Association, 2000a). However, the variety of organic foods available at retail in the U.S. has expanded to include baby food, meat, dairy, and prepared/convenience foods (Thompson). While in the past organic food has been distributed primarily in coops and natural food stores, sales in mainstream supermarkets continue to increase (Janoff).

Organic foods are also popular in food service distribution channels. According to the Organic Trade Association (2000b), organic items are now offered by about 57% of restaurants with per person dinner checks of \$25 or more and 29% of restaurants with prices in the \$15 to \$25 range. Chefs can provide a substantial influence on the perceptions and preferences of consumers. The Organic Trade Association (2000b) reports that 76% of chefs actively seek out organically grown ingredients.¹ Penetration of organic food into the food service industry is critical because U.S. consumers are spending an increasing fraction of their food budgets on meals eaten away from home.

Consumer demand for organic food is not strictly an American phenomenon. Lohr indicates the approximate retail value (U.S.\$) of organic markets in three major countries is as follows: France (\$508 million), Japan (\$500 million²), and the U.K. (\$445 million). Trends and events in Western Europe are sometimes viewed as harbingers of what will occur in the U.S. It is

¹ Citing *Food & Wine* magazine's 1997 chef's survey.

² Fresh produce sales only.

interesting to note, therefore, that demand for organic products in the U.K. has grown 40% per year. The organic market in Europe tripled in size during the 1990s, amounting to \$5.2 billion in 1999 (Janoff). The British food retailer Iceland is a prime example of a business committed to organic food sales. Iceland recently invested \$13.2 million (U.S.) to secure 40% of the world's organic vegetable supply and introduced a private label line of organic produce. A major German food retailer recently announced that 10% of sales chainwide will be organic by 2003 (Janoff). These trends, along with findings reported by Lohr, indicate that there will be ample exporting opportunities for U.S. organic producers in the future.

The overall evidence suggests a promising market for organic food. But the question of how to tap into this expanding market remains. According to basic marketing principles, it is important that business decisions are based on customer needs. For this reason, consumer behavior will be examined in some detail in the next section.

IV. Consumer Issues

A. Customer Value

When consumers make a purchase decision, they do not focus solely on price. Rather, they are concerned with *value*, which is a broader concept. Allen and Pierson introduced the following expression for customer value:

$$\text{Customer Value Perception} = \text{Perceived Benefits} \div \text{Price}$$

Following is a list of perceived benefits for consumers: appearance, consistency, convenience, distinctiveness, environment, excitement, freshness, information, nutrition, quality, safety, social issues, taste, trust, and variety. Organic produce growers can emphasize a number of different benefits to increase the perceived value of their products. Two important benefits relate to the fact that synthetic pesticides and fertilizers are not used in organic farming. One result is that organic farming does not contribute to water pollution through pesticide runoff (an environmental benefit). Another perceived benefit related to organic production practices is that consumers do not have to worry about pesticide residues on fresh produce. This is a food safety benefit. These issues can be emphasized in face-to-face communication with neighbors and customers, or by making presentations at local schools or civic organization meetings, or in other public promotional opportunities.

If fresh fruits and vegetables are marketed locally, marketers can emphasize the freshness

of the produce. Further, consumers who purchase locally-grown produce are supporting the local economy (a social issue). Consumers can be reminded of this benefit by using point-of-purchase materials stating “From Local, Michigan Farms.”

The same basic expression (i.e., perceived benefits divided by price) represents retailer and wholesaler value perceptions, except the relevant perceived benefits are different. The set of perceived benefits for retailers and wholesalers is as follows: advertising and promotional support, competitive advantage, consumer acceptance, continuity and tradition of relationships, dependability of supplier, in-store merchandising support, purchasing efficiency, quality and consistency, reliability of transport and logistics, strategic alliances/partnerships, and terms of trade (Allen and Pierson). Organic produce growers who choose to market their products through these channels should be mindful of these benefits. For example, growers need to demonstrate the quality and consistency of their fresh produce.

Building a relationship based on trust is important, and this does not happen over night. Growers can demonstrate the quality of their produce and build trust within the supply chain in different ways. One way is to implement meticulous production practices to prevent pest- and disease damage.³ The grower can also inspect the produce and send the best quality to customers with especially high standards. This may mean that some of the lower quality produce should be left in the field. Sometimes, in a short crop year customers may “really need” produce and be less sensitive about quality. It may be acceptable in these cases to supply less-than-perfect produce, as long as the grower is open and honest about what (s)he is supplying. Distributors can often find a buyer for different grades of products, but to do this, they must know what they are selling.

³ It is always better to “build quality into the product” than to try to “inspect it in” later.

Since price is a unidimensional variable, it may be evaluated more easily (than perceived benefits). The valuation of perceived benefits is comparatively more complex. As indicated above, there are fifteen types of perceived benefits for consumers and eleven types of perceived benefits for retailers and wholesalers. Agribusinesses have traditionally emphasized reducing price (Peterson). An alternative with greater potential to improve competitiveness, especially for organic agricultural producers, is to increase the perceived benefits of the product. With this strategy, firms add value by providing additional (or increased levels of) benefits to customers, whether they are channel customers or final consumers (Peterson). This alternative is somewhat more complicated and difficult than reducing costs and price, however. First of all, identifying which are the relevant benefits of a product to consumers is not a straightforward exercise. This demand discovery process requires agribusiness decision makers to develop new, more creative ways of thinking and marketing.

The demand discovery process is further complicated by the fact that consumers are not all alike, and differences in needs can be evaluated in several alternative ways. For example, the wants and needs of teenagers are different from those of senior citizens. Likewise, the products and services demanded by people living in rural Latin America will be vastly different from those demanded by Midwesterners, even when age is held constant. A tool called “market segmentation” has been developed to effectively deal with the issue of markets comprised of diverse members. It involves identifying the most promising group (or groups) of potential customers, and focusing marketing resources and efforts on the selected group(s). Market segmentation will be described in the next section.

B. Market Segmentation

Markets are seldom homogenous. For example, buyers differ in terms of their wants for product characteristics, price, distribution channels, and service (Hill and Jones). Different actions on the part of marketers are required to successfully reach and sell to different types of customers. It is useful, therefore, for marketers to divide the overall market for their product into groups of buyers with similar purchasing characteristics. This process is called market segmentation.

Perhaps the earliest use of the term “market segmentation” appears in Dean. In his managerial economics text, Dean emphasizes the necessity to identify market segments that have homogenous qualities for pricing, distribution, and promotional problems. Hanan defines a market segment as “a group of needers whose predictable reactions to a product or service benefit will be similar: they will either accept it or reject it en bloc Conversely, a market segment may be regarded as a group of needers of a specific benefit who remain when all groups of needers of marginally different benefits have been subtracted from it...”(p. 5 and 7)

A five step process for implementing a market segmentation strategy is given in Arndt. The steps are listed below.

- “1) identification of segmentation opportunities,
- 2) evaluation of the economics of market segmentation versus market aggregation as a major strategy,
- 3) development and choice of market programs specifically tailored to the demand structure in each target segment,
- 4) implementation of the market programs, and

5) control of performance in each target segment...”(p. 9-10)

The first step, identification of segmentation opportunities, is critical for a successful market segmentation strategy. To effectively accomplish this, marketers must select an appropriate segmentation base. Four categories of segmentation variables (i.e., geographic, demographic, psychographic,⁴ and behavioral) are described in Kotler. Examples of each of the four segmentation variables are given in Table 1 below.

Table 1: Major Segmentation Variables for Consumer Markets (Source: Kotler).

<i>Type of Variable</i>	<i>Examples</i>
1. Geographic	Region, county size, city or standard metropolitan statistical area size, population density, climate
2. Demographic	Age, sex, family size, family life cycle, income, occupation, education, religion, race, nationality
3. Psychographic	Social class, lifestyle, personality
4. Behavioral	Occasions, benefits, user status, usage rate, loyalty status, readiness stage, attitude toward product

In a study of published agri-food niche marketing case studies, Phillips and Peterson find that geography⁵ is the most common segmentation base used. Since geography is a relatively simple segmentation method, it can be implemented by firms without a great deal of marketing

⁴ Psychographic segmentation uses attitudes and values to categorize consumers.

⁵ For example, “local buyers.”

resources. For a smaller firm (or a group of smaller firms) embarking on a segmentation strategy, it may be advisable to stick with a simple segmentation base, such as geography, or a combination of geography and income. As experience is developed, firms are able to effectively implement more sophisticated methods.

C. Market Segments for Natural Products

This section describes a segmentation scheme developed specifically for marketers of natural products. It is covered in considerable detail because it is particularly relevant to the focus of this paper on organic demand.

The Hartman Group, a marketing consulting firm, was commissioned to study the “earth-sustainable agricultural product” market from a consumer perspective. A conclusion of the report is that: “There is significant market potential for earth-sustainable products. It is not a niche market and it is a market that is still untapped.”(p. 1) They list five core purchase criteria for consumers: price, taste, quality, availability and/or convenience. Notably, environmental issues are not part of the core purchase criteria of most consumers. But if consumers perceive that “quality” is enhanced in the earth-sustainable products they are considering for purchase, they may alter their purchase behavior to include such products.

A contribution of the Hartman Report is a mapping of market segments for earth-sustainable food products. The report also gives the size and market potential for each segment. The market segments were established “based on attitudes, psychographics, and behaviors relating to the market for earth-sustainable products.”(p. 8) The groups of consumers with similar characteristics and the defining characteristics of each group are listed in Table 2. It should be

noted that not every member of these groups exhibits all of the characteristics listed for his/her particular group. Rather, the characteristics listed are more predominant among members of that group than among the general U.S. population.

Table 2: Defining Characteristics of the Market Segments for Natural Products (Source: Hartman Group).

<i>Market Segment</i>	<i>% of Market</i>	<i>Defining Characteristics</i>
1. True Naturals	7%	Formerly married, female, highly educated, lower and upper income
2. New Green Mainstream	23%	“Heartbeat of America,” interested in environment, lack opportunity, need a “reason”
3. Affluent Healers	12%	Well educated, upscale, well being focused, family and goal oriented
4. Young Recyclers	10%	Young recyclers, never married, reject paying a premium
5. Overwhelmed	30%	Not optimistic, economically “just getting by”
6. Unconcerned	18%	Apathetic, reject that chemicals harm the environment

Several implications may be drawn from Hartman’s market segmentation scheme. Two groups, the Unconcerned and the Overwhelmed, do not represent potential markets for natural products such as organic produce. Either they do not believe the environment is in danger (the

Unconcerned), or they are preoccupied with their own economic survival (the Overwhelmed).

Together, these two groups make up nearly half of the total U.S. population (48%).

Two other segments, the True Naturals and the New Green Mainstream, make up the core market for earth-sustainable products. The True Naturals are already converted, and their purchasing behavior reflects “their passionate commitment to saving the planet.”(p. 9)

Interestingly, the True Naturals are the only segment for whom the environment is the driving factor in their purchase criteria. This segment is relatively small (7%), and is not expected to grow significantly in the short run.

The New Green Mainstream, on the other hand, represents a comparatively large bloc of consumers (23%). They are already buying some natural products, and they offer a great deal of potential to expand their purchases. Except for their concern for the environment, this group’s demographic profile mirrors the rest of the U.S. Members of the New Green Mainstream want to help the environment, but they do not know much about it. Further, they are confused by the mass of (sometimes contradictory) environmental messages they receive. It is through consumer education that increased sales to this group will be realized.

The other two segments, the Young Recyclers and the Affluent Healers are secondary markets for natural foods. Due to their age, the Young Recyclers do not have a substantial amount of purchasing power, and they tend to be less concerned about food and nutrition than the other groups. It is anticipated that as members of this group age, they will move into either the True Naturals or the New Green Mainstream, though. The Affluent Healers care most about their own well being, and that of their respective families. They care about the environment, but tend to be cynical about over-promoted environmental product introductions. This group has high

purchasing power, however, and can act as opinion leaders for the rest of society. They may be attracted to high quality, substantive, genuine (not gimmicky) earth-sustainable products.

Besides the segmentation scheme described above, the Hartman Report includes general information from their consumer survey research. For example, 37% of respondents reported buying an environmentally friendly product in the past month, and 10% reported buying an organic product. The most important issue related to agricultural methods was water protection, followed by absence of pesticide residues on food. Other issues (i.e., use of natural fertilizers, limited use of pesticides, use of beneficial insects, soil conservation, and elimination of pesticide use) were rated important by far fewer respondents. Finally, consumer concern for the environment is growing, and consumers will forgive mistakes, but not deception.

V. Marketing Channels

Six major marketing channels for organic fruits and vegetables from Michigan are considered in this section. Specifically, the positive aspects and the barriers or potential pitfalls that may inhibit the commercial success of growers who use each of these marketing channels are included. This is not meant to be an exhaustive list of marketing alternatives, rather a consideration of the primary opportunities.⁶ Growers typically use more than one distribution

⁶ Other marketing alternatives for organic produce growers are establishing a Community Supported Agriculture (CSA) enterprise, the wholesale markets in Benton Harbor and Detroit, catalog sales, Internet sales, and U-pick. To market processed products, a grower could build a processing facility (or buying an existing facility) or use a custom processor (Ricks).

channel. For example, a grower could sell at a farmers' market and deliver directly to retailers and restaurants.

A. Farm Markets (On-site)

Positive aspects:

It is easier and quicker to become established in this marketing channel, compared to selling through a distributor or retailers. Due to the proximity of the sales area to the farming operation, transportation is minimized. Likewise, less commuting and transporting time is required. The on-site marketing option provides the best alternative for family members to get involved. The grower receives the full consumer price of the products sold. Further, the grower can meet customers personally. This provides an opportunity for consumer education into topics such as how the crops are produced, how to prepare the produce, etc. The grower can also use the opportunity to build his reputation as a producer of high quality produce and as a steward of the environment, and to obtain feedback.

With farm markets, the grower has control over product marketing. For example, the grower controls the presentation of products. Products can be marketed as "organic" or "transitional," and the display can be made visually appealing. Finally, the grower has control over the days and times that the farm market is open.⁷

⁷ An implicit tradeoff should be noted. The longer the hours of operation, the more time consuming it is for the person running the farm market. Revenues will be roughly proportional to the length of the hours of operation, however. It is easier to build up customer loyalty and repeat business if customers are confident that when they stop by the market they will find it open and stocked with whatever it is they expect to find.

Barriers/potential pitfalls:

Probably the most important limitation of marketing through a farm market is that success depends, in large measure, on the quantity/quality of the traffic in front of the grower's farm.⁸ More generally, a farm market provides the opportunity to sell from one location. Dealing with distributors or retailers, on the other hand, provides access to multiple sales outlets. If the grower sells only the produce grown on site, (s)he may only be able to offer a limited selection of products. This lessens the appeal of the farm market compared to a farmers' market or other retail location with a broader selection of fresh produce. This barrier can be overcome if a group of growers establish a sharing arrangement that allows them to sell produce grown on different farms.

Establishing and operating a farm market is not without costs. Investment in fixtures such as tables and a canopy will likely be required. Further, if the grower operates the farm market with a person constantly present at the sales booth, an expense is incurred. The expense may take the form of wages to a paid sales clerk, or the opportunity cost of an unpaid family member's time. Either way, this expense should be accounted for explicitly. Problems may arise with zoning restrictions. Finally, the grower's neighbors may become upset with the activity involved with a farm market, such as customers pulling on and off the road.

⁸ Relatedly, direct-to-consumer enterprises tend to be more successful in well populated areas, where there is not a lot of competition (Ricks).

B. Farmers' Markets

Positive aspects:

The most important advantage of selling at a farmers' market compared to an on-site farm market is the built-in traffic. At any properly run and promoted farmers' market, a steady flow of customers pass by the sales booths. The customers at a farmers' market will likely be more desirous of locally-grown produce than a typical retail produce shopper is. In other words, customers will be "pre-sold" on the products offered by local growers. Further, customers at farmers' markets will buy produce that is not acceptable to some distributors/retailers, for example, produce outside of size tolerances.

This marketing channel is substantially easier to get into compared to selling to distributors or retailers. The benefits arising from consumer contact listed for farm markets above also apply to farmers' markets. With this marketing alternative, there is an opportunity for several growers to pool their investment (i.e., for booth rent and fixtures), products, and sales efforts together. A group of organic growers in Michigan's Thumb successfully implemented this type of plan. These growers hired two students to operate the booth and they supervised on alternating days. By the end of the summer, the students were able to operate the booth without supervision.

Barriers/potential pitfalls:

Incremental costs arise from transporting products from the farm to the farmers' market. Time, fuel, and vehicle wear and tear should all be accounted for. In addition, farmers' markets

have limited days and hours. A grower who wants to sell at farmers' markets on multiple days per week will probably have to sell at more than one market. In doing this, such growers will be required to travel long distances, thus incurring higher transportation costs. Growers have to pay for space at farmers markets. This means that higher overhead is required compared to the farm market alternative. The transportation and overhead costs must be deducted from the sales revenue received, driving a wedge between what consumers pay and the amount available to cover production costs and provide a profit. With respect to pricing, farmers' markets are more competitive than farm markets, since consumers can "comparison shop."

C. Distributor⁹

Positive aspects:

First and foremost, selling through a distributor provides the opportunity for a grower to market a much higher volume than is possible through farm markets or farmers' markets. With this marketing alternative, the distributor takes over some of the essential marketing functions, such as selling and delivering to retailers. Marketing through a distributor saves growers from having to spend a lot of time communicating with several direct business customers (e.g., retailers and restaurants).

⁹ There are a number of different types of specialized middlemen that operate in the fresh produce supply chain. These include contract brokers, packers, shippers, packer-shippers, etc. A discussion of the positive aspects and barriers/potential pitfalls of each one of these types of entities is beyond the scope of this paper. Here, the term "distributor" refers to an organization that obtains fresh produce from growers, and delivers it to retail outlets and/or food service operators.

Fresh fruit and vegetable distributors also contribute a number of resources and skills to the supply chain. Some of the more important ones are distribution and logistical experience, and a reputation for service. The distributor's network of buyers (retail, food service, and institutional, as applicable) is also a valuable contribution.

Barriers/potential pitfalls:

As mentioned in the section on the customer value expression above, wholesalers have their own needs in addition to what is required by the consumer. Examples of these needs include uniform product size, packaging, and labeling, etc. For most small growers trying to establish a sales relationship with a distributor, meeting specific needs/requirements will involve overcoming major barriers. First, distributors may not be willing to deal with low-volume growers. One distributor mentioned that his smallest supplier has a twelve-acre operation. Another distributor indicated a willingness to deal with small growers. But, he said that growers who supply less than \$10,000 worth of produce per year are charged a higher sales commission. It is possible that a group of smaller growers could "combine forces" to overcome these barriers. They could work together to assure that every grower is aware of the quality requirements and the best methods to meet them. They could also pool their produce and supply it to a distributor as one lot. This way, from the distributor's viewpoint it would be like dealing with one larger grower.

Distributors may not be willing to deal with growers who can only supply for a limited (short) time. Established distributors already have a group of growers whose products they handle. Growers who want to break into the distribution pattern of a distributor will have to displace other growers who have traditionally provided the supply during that time period. This

is not an insurmountable obstacle, but growers trying to break into the distribution pattern have to demonstrate that they can do *even better* than the distributor's current suppliers. For example, perhaps a grower can supply better looking or better tasting produce, or can supply new crop a little sooner than other growers can. Distributors must be convinced that new growers can supply adequate quality and quantity. Trust can only be built over time, so it is unlikely that a distributor will distribute a grower's entire crop the first year. Establishing a viable marketing relationship with a distributor may require a grower to visit several to explain his or her capabilities and to offer samples of produce. This process can be time consuming. In order to distribute through this channel, however, these networking and promotional activities probably cannot be avoided.

One distributor cautioned growers to watch for "hidden costs," e.g., for stickers and labeling. Packaging costs can quickly get out of hand. When growers sell through distributors, they receive a wholesale price for their produce. This is generally, but not always, less than the price received when selling directly to consumers (Ricks).

D. Retailers

Retailers are not homogenous. There are publicly traded (e.g., Kroger) and closely held chains (e.g., Meijer.) Some stores are single unit, stand-alone entities, and others are part of multi-unit chains. Some are self-distributing, while others use distributors. They also vary by breadth of line (i.e., a large-scale supermarket vs. a natural foods cooperative vs. a Honey Baked Hams outlet.)

Positive aspects:

Similar to selling through distributors, growers can sell a substantially larger volume of produce through retailers than they can sell directly to consumers. From a broad perspective, retailers save growers from the investments and operating expenses required to sell directly to consumers. For example, this alternative does not involve the time commitment for monitoring the sales area and transacting with individual consumers that is required to sell at farm markets or farmers' markets. Other direct-to-consumer marketing costs that may be avoided when selling through retailers include investment in fixtures and expenses for rent, wages, etc. Finally, retailers supply customers and marketing skills and experience.

Barriers/potential pitfalls:

Retailers have their own needs, beyond those of the consumer. These needs correspond generally with those mentioned in the "Distributor" section above, with the added need for convenient delivery. Further, retailers that sell produce already have produce suppliers. So to get into the store, a new supplier will probably have to displace the current supplier. This is particularly a problem for growers who can only supply for a limited period of time, say, for six weeks.¹⁰ Getting produce into a retail store with an established supplier base also implies disrupting established relationships, which may cause conflicts. Many retailers only buy through distributors. Basically, it would be impossible for a smaller grower to sell his or her produce directly to retailers with this policy. A supplier must be in business twelve months per year to sell to a major retailer like Kroger. Further, sometimes retailers charge suppliers a "slotting fee" to get new products onto their shelves.

¹⁰ One Michigan product with a relatively short availability that has been introduced into retailers is sweet corn, however. This product, in particular, has an "in season, locally-grown" appeal.

As with the “Distributor” alternative discussed above, selling to retailers requires the establishment of a relationship. Retailers must build trust in the grower’s ability to supply acceptable quality produce, in the agreed upon volume, at the correct time, on a price-competitive basis. Maintaining relationships with retailers involves an investment in time. For example, selling to retailers requires time to coordinate quality issues and delivery (e.g., phone calls, faxes, etc.) Smaller growers may find that by working together, they can overcome the barriers to selling to retailers. If they pool their produce, they can divide the promotional efforts and delivery time and costs. With a larger, pooled volume it will be easier to establish a reputation for quality and delivery performance. To implement such a plan, however, a monitoring and enforcement system for quality must be developed to prevent free-riding.

E. Restaurants¹¹

Positive aspects:

Restaurant buyers are not as price-sensitive as distributors and retailers. This means they are likely to pay more for fresh produce. In addition, restaurants are more amenable to accepting unusual varieties and small quantities. Some of the more upscale restaurants may demand locally-grown, in season produce. Products sold to restaurants generally do not have to look as good as do products destined for markets where the consumer selects the fruit/vegetable. This marketing channel provides an opportunity for consumer education by the restaurant operator. An

¹¹ As with retailers, restaurants are not homogenous. They may be divided into categories based on type of menu, whether or not they are part of a chain, etc. Smaller organic producers would not have a reasonable chance to market their products to quick service restaurants such as McDonald’s and Burger King. The consideration of restaurants in this section focuses on upscale, high quality, single-unit restaurants that tend to be located in major metropolitan areas.

example is the White Dog Café in Philadelphia, Pennsylvania. This restaurant buys directly from local farmers and spreads a message of environmental activism to its customers (Bogo.) This may encourage new consumers to purchase locally-grown, organic produce through other channels.

Barriers/potential pitfalls:

Selling to restaurants requires a lot of time in relation to the volume of product delivered. This alternative involves frequent deliveries of small quantities. Kazmierczak and Bell mention high delivery costs and delayed payment of accounts as drawbacks to this marketing alternative. Restaurants that demand high quality, organic produce tend to be upscale establishments located in urban areas. To sell to these restaurants, growers who are not located nearby must incur substantial transportation costs and delivery time. Once again, there is scope for collective action among a group of smaller growers to successfully sell to restaurants. Growers could work together to jointly market and deliver their produce to several restaurants and/or institutional customers.

F. Processor

Positive aspects:

One positive aspect of selling to processors is that growers may be able to market some fruit that does not look good enough for fresh sales.¹² Perhaps more importantly, selling to processors provides the opportunity for growers to market a much larger volume of produce than

¹² Even within the processing market, there are multiple quality grades. For example, there are three quality grades for some berries. In declining order of quality, these grades are: individually quick frozen (IQF) grade, preserves manufacturing grade, and juice quality.

is possible through “direct to consumer” channels, such as farm markets and farmers’ markets. In addition, growers may be able to get a purchase commitment from a processor prior to planting. Another advantage is that there is little marketing responsibility for the grower (Ricks).

Barriers/potential pitfalls:

In order for the processed product to be labeled “organic,” the processor as well as the grower must be certified organic. This typically involves a number of requirements, such as paying a certification fee, developing and submitting an organic processing plan, and passing an on-site audit conducted by an accredited certifying agency. There are currently only a limited number of food processors that have met these requirements and become certified. Perhaps the most significant barrier for selling organic produce to processors, therefore, is the scarcity of certified organic processors.

If payment is not received at the time of delivery, there is a risk of non-payment. Selling to a processor involves transporting the product, possibly over substantial distances. Transportation costs must be incurred, therefore. A processor may close or change product lines, which gives rise to the possibility of a lack of a market for the grower’s entire crop (Ricks). This is an issue primarily with perennial crops. Organic fruit and vegetable markets are thinner than conventional markets, which magnifies the problem if a processor cancels a product with an organic fruit or vegetable ingredient.¹³

¹³ For example, suppose there is reason to believe that a major ready-to-eat cereal manufacturer is planning to introduce an organic product that includes a certain dried berry. Many organic growers react by planting a substantial amount of this crop. If the manufacturer makes an abrupt decision to kill the product, these growers may be left “holding the bag.”

As with the other channel customers discussed above, marketing efforts will be required to sell to processors. This would probably involve making sales calls and delivering samples. Smaller growers could work together to jointly market their capabilities to processors. They could also coordinate shipments so that transportation costs are reduced.

G. Concluding Comment

To succeed in the organic fruit and vegetable business, growers must have the capability to produce quality products at an acceptable cost. This requires agro-ecological conditions that compare favorably to other producing regions along with a complement of production skills, financial capital, suppliers of organically-approved inputs, etc.

But these production related factors are not sufficient to assure success. Each of the marketing channel alternatives described above requires a certain level of marketing activity. Further, the channels that allow for greater volume¹⁴ have more complex and demanding requirements than direct to consumer alternatives. To succeed in these complex and demanding channels, a willingness and ability to engage in marketing activities (e.g., networking with potential customers and other promotional activities) is even more essential.

¹⁴ I.e., distributors, retailers, restaurants, and processors.

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