

Comparison of marketing strategies of retailers of organic beef

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ABSTRACT

In Belgium there are a handful of retailers that are offering a gamma of organic products in their supermarkets. Three of these retailers are more important in supplying the product. Analysing the commercialisation of organic beef for these three retailers, we remarked important differences. This paper describes the different strategies of the retailers and explains why they are different. For one of the retailers organic products are seen as a strategic market. This retailer is supplying differentiated high quality products and organic food is one of them. Therefore investments are done to promote these products. For an other retailer organic products have no special significance, they offer it in order not to loose consumers who really want to buy it, but no special efforts are done to promote it.

Keywords and JEL-classification

Organic markets; vertical integration (L14, L22); Marketing strategies of retailers (L11, M3)

1 Introduction and structure of the paper

In this paper we compare strategies of retailers in the marketing of organic beef. Both the marketing mix and the organisation of the supply chain are considered. We will notice that there are some important differences between the strategies of the retailers. In order to understand why the retailers do have different strategies we need to have a basic understanding of the strategy of the retailer in general. Therefore in section 2 a general description of the retailers is given. The differences in the strategies concerning the product quality, the price setting, efforts for promotion and placement of the organic products in general are presented and discussed. In other words we compare the marketing mix of the retailers.

In section 3 we look at the strategies of the retailers when organising the supply chain for organic products in general. In section 4 we look at the way the supply of organic beef is organised by the retailers. Then the following questions are addressed:

- (1) how important is the impact of the retailer in the organisation of the supply chain;
- (2) how important is the effort and how large are the costs spent by the retailer in organising the chain.

The answers on the above questions give us an idea of the importance that the retailer attaches to “organic beef” as a strategic product.

In section 5 we discuss some points and conclude. In section 6 some ideas for further research are given.

2 Main characteristics and strategy of the retailers

In Belgium there are three main retailers of organic food. Further in this paper we refer to them as D1, D2, and D3. Besides these three there are some other retailers selling organic products but to a more limited extent. These others will not be described in detail in this paper. We remark that the third retailer group has three supermarkets where only organic products are sold. We will also discuss this further in the text. We refer to these three “only organic supermarkets” as D3-bio.

2.1 General characteristics of the retailers

In

Table 1 we present the main characteristics of the retailer groups. In general there characteristics are similar. The total number of super- and hypermarkets in Belgium and the turn-over is more or less comparable. One difference that is noteworthy is that group D2 has also an important number of hypermarkets (>2500 m²), where D1 and D3 only have supermarkets (< 2500 m²). Another difference of group D2 is that it has an important section of non-food articles, where this is limited for D1 and D3.

Table 1: General characteristics of the retailers - F1+F2 (*), overview

<u>GENERAL CHARACTERISTICS</u>	D1	D2	D3	D3-bio
hyper (F1) and/or super (F2) ?	F2	F1+F2	F2	F2
specialisation	Food	Food+Non Food	Food	Food
# points of sales (F1+F2) 2004, B	125	56+78	170	3
average surface (m ²)	1400	4000 + 1700	1400	700
turnover 2003 (billion EUR)	3,7	4,6	3,6	
% of total sales volume F1+F2	20%	31%	20%	

sources: interviews, press, internet, ... ; (*) F1: >2500 m²; F2: 650-2500 m²;

In Table 2 below, we summarise some characteristics of how the different groups position themselves.

The strategy of D1 can be described as providing a large gamma of high quality food products in a very pleasant atmosphere. Special attention is given to offering a gamma of several “emerging” markets. Organic products is one of them, “fair trade” and “convenience food” are others. D1 tries to be the first in organising the supply of such products. The prices of the products are however on average 20% higher than those of the concurrence.

The strategy of Group D2 is to offer food and non food in both super- and hypermarkets, providing a large gamma of food products at a relative low price in comparison with D1. The shopping atmosphere can be called pleasant. The number of servants available for assisting clients however is smaller (especially expressed per m2). Although D2 is also claiming to offer the lowest price for some products, on average the prices are intermediate between D1 and D3 (+9% with respect to D3).

Group D3, has a strategy of offering products of “okay” quality and this always at the lowest price in the region.

Table 2: Strategy of the retailers F1+F2 (*), overview

MARKETING MIX	D1	D2	D3	D4	D5	D3-bio
food prices (strategy)	high: 119 (=>+19%)	lower: 109 (=>+9%)	lowest: 100			low
assortment of food	very large	large	large			large
quality (subj.)(**)	+++	++	++			+++
shopping atmosphere (subj.)(**)	very pleasant	pleasant	basic / ok			pleasant
service, # servants in shop	++	+	++			++

sources: own research; (**) subj. = subjective

3 Retailers characteristics supplying organic products

In this section we compare the supply of organic products for the three retailer groups.

D1 has started offering the first organic products already in 1985 (bread, ...). We see that Group D1 is offering a very large gamma of organic products in comparison with D2 and D3. D1 is placing the organic products on visible places, attracting even more attention towards them using signalling flags in a systematic way. Also promotion for organic products is made in the weekly “flash”. Also an “organic products” week has been organised. Due to this combination of instruments D1 has succeeded to increase its share in the total sales of organic products in super- and hypermarkets in Belgium to 50%, while the overall sales of food products for D1 is much lower. This is succeeded while the average price of organic products is respectively 17 and 6% higher than D3 and D1. We have seen above that D1s prices for conventional products are on average 19 and 9% higher than for D3 and D2 respectively.

The strategy of group D2 can be seen as offering a basic gamma of organic products, in order not to loose clients who really want to buy some of these products. However very little effort is done to stimulate the sales of organic products. Organic products have no favourite places concerning visibility aspects. Sometimes flags indicate where organic products are, but as group D2 is using about 5 different flags for signalling different other types of products, we

can not speak of a favourable signalling for organic. Certainly not because organic products are not signalled for systematically. Also promotional effort for organic products is very limited.

Group D3 is offering an important amount of different organic products. For group D3 organic is seen as part of its “green line” products. The “green line” products for D3 accentuate its willingness to promote an environmentally friendly production and distribution. Starting from the basic concept that no “superfluous” costs may be done, the green line concept is translated as “investments for environmental friendliness can be made if they pay back”. Group D3 however is creative in finding such a solutions (logistics of transport limiting miles per product, recycling, etc. ...). The organic products are attributed good places and are well visible. Like some other green-line products they are recognisable with a green price ticket on the shelves. Most common products have white tickets. Red price-tickets are attributed for the cheapest products in the product category. An effort is made for promoting the organic products. Where D3 has a history of offering basic products and higher quality products, in the last ten years a lot of the higher quality products were replaced by an organic quality product. It is important to note that in contrast to D1 and D2, D3 is not offering organic fresh meat. This is explained by different factors: (1) D3 has a very well organised high quality conventional butchery in all of its shops, which is played out as an asset to attract clients. According to the “organic reference” it is necessary to strictly separate between conventional and organic. Therefore offering organic meat in this butchery is not allowed. (2) Offering pre-packed organic meat would not fit in this concept. When one argues that the conventional meat supplied is already of very high quality it may have an antagonistic effect to offer a more expensive organic meat. Why would one pay more if the quality of the conventional is already very high? (3) We indicated that D3 has also supermarket with only organic products. In these “bio planets” organic fresh meat is offered. D3 argues that it would not make sense to open “only organic” supermarkets if all the organic products can also be found in the normal supermarkets.

Table 3: Strategy of the retailers, when supplying organic products in general

	D1	D2	D3	D3-bio
assortment, or # org. products	650	200	350	3500-7500
org. fresh meat, cheese	available	available	not available	available
org. vegetables, fruit, dairy, bread, juice, coffee, wine, dried products	available	available	available	available
retailers own org. mark and label	yes	yes	yes	yes
omzet (mio EUR)	78,6 (2,1%)			
placement of org. products (subj.)(**)	good not best	moderate	good	only organic
flags / signaling (subj.)(**)	very visible flags	less visible	visible	only organic
promotional effort (subj.)(**)	a lot	limited	yes	
prices of organic products	117 (=>+17%)	110 (=>+10%)	100	112 (=>+12%)
% of total sales organic by supermarkets	50%			
year of introduction of org. products	1985		1991	2001: open

data collected from multiple sources: interviews; press: De Standaard (24/03/2004); internet; (**) subj. = subjective

4 Organising the supply chain of organic beef

4.1 Differences between retailers

In table 4 below, different aspects of the supply of organic meat for the different retailer groups are presented. As said before D3 is not supplying fresh organic meat in its normal supermarkets, however it is in the three “only organic” supermarkets.

Group D1 is by far the most important supplier of organic beef. Supplying 76% of the total volume of organic fresh meat provided by the supermarkets and hypermarkets in Belgium. This percentage is even higher than the 50% of the overall organic products it was supplying. The reason however is similar. D1 is doing an important effort not only in promoting organic beef, but also in organising the supply chain. It has started cooperating with a cooperative of organic beef producers in 1997. Working together with the cooperative towards a high quality organic product, with standards that go further than the organic reference. It has asked the farms that they would only fatten animals that were born on the farm itself, this to secure the chain. Animals introduced from unfamiliar farms otherwise incorporate a risk. In order to motivate the farmers to take these steps, they are paid a very good price. This while at the other end the price asked from the consumers is relatively low. It is only 5% higher than the consumer price asked by D2, where we saw before that the price asked for organic products in general is about 6% higher than D2s and the price for conventional products is about 9% higher than D2s.

D2 is investing little effort and less money in organising the supply. In practice it has outsourced the organisation of the supply to the transformator who is also collecting the animals with the organic farmers, with whom he made a contractual agreement. The price paid to the producers of D2 is also about 20% lower than the price that is received by the producers of D1.

As said D3 is only offering organic beef in the three “only organic” supermarkets. Therefore the offered volume remains very small.

Table 4: Characteristics of retailers when supplying organic beef

	D1	D2	D3	D3-bio
sales volume (kg per week), 2004	5800	1300	-	245
% of total sales in F1+F2, 2004	76%	17%	-	3%
start of supply of organic beef	1997	1997	-	2001
role in chain organisation	important role	outsourced to transformator		moderate
effort in chain organisation	high	low		moderate
agreement on future producer price	fixed	market dependent		
price paid to producers	very high	moderate		
consumer prices	105 => (+5%)	100		? 105 => (+5%)
profits				
risk in case of low demand	for producers	for producers		
country of origin	Belgium	Belgium		

source: own research; interviews, ... ;

4.2 The structure of the organic beef sector

Figure 1: Structure of the organic beef sector in Belgium

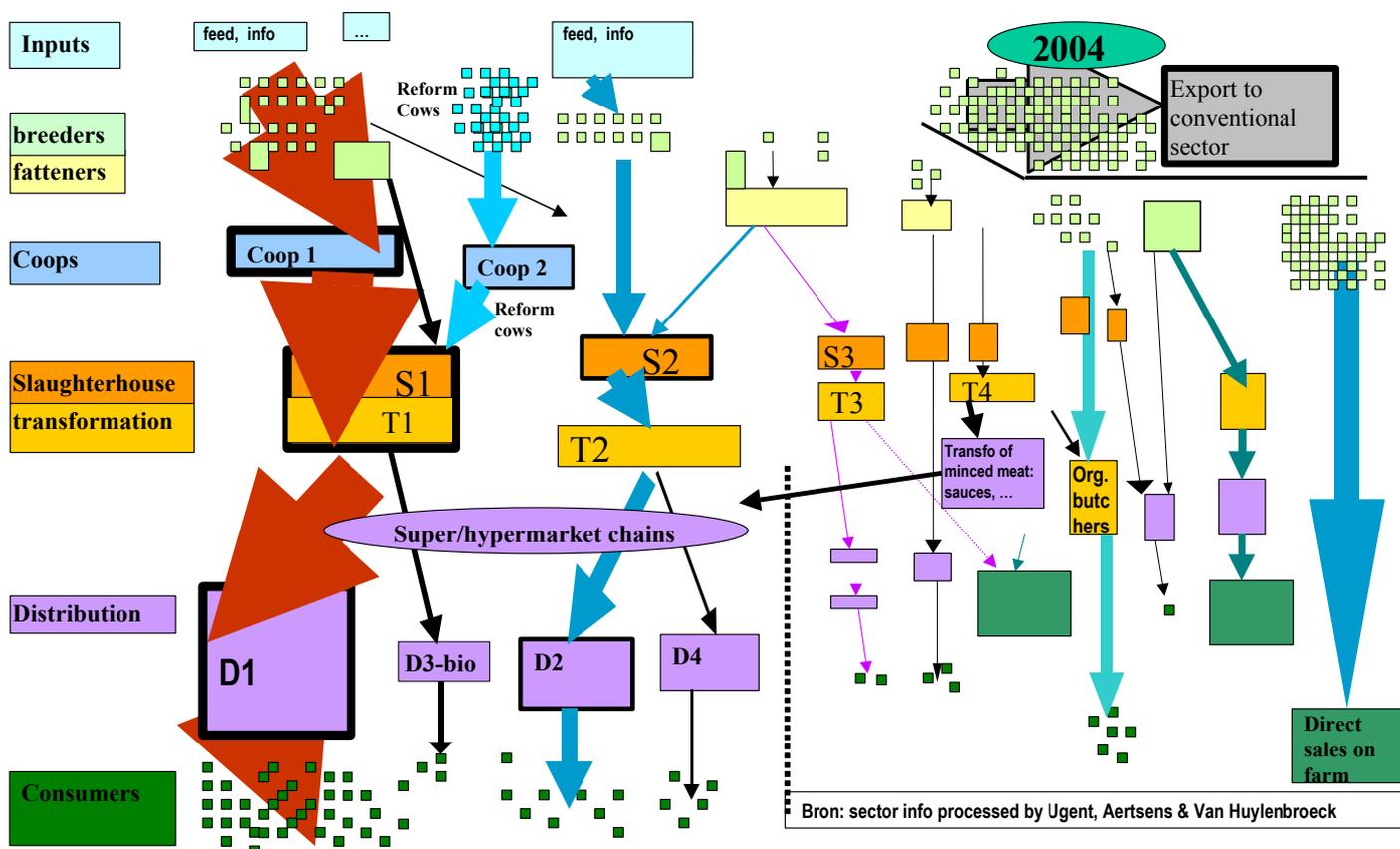


Table 5: Sales volumes of organic meat for the different channels in Belgium, 2004

CHANNELS	kg / week	%
A. Super/Hypermarket chains - total	8099	52%
D1	5804	76%
D2	1300	18%
D3-bio	245	3%
D4	250	3%
B. Direct sales on farm - estimation!	4500	29%
C. Butchers	1555	10%
D. Minced meat for other channels	1200	8%
E. Reform- and bioshops	160	1%
F. Restaurants	90	1%
G. Other channels	980	6%
Totaal	15604	100%

Source: interviews, 2004.

5 Discussion and conclusion

The two super/hypermarket-chains that are most important in providing organic beef in Belgium have a completely different strategy. Our study reveals an important difference in the strategic importance attributed by each of the two retailers to the commercialisation of organic beef. This results in important differences in effort and time spent in the organisation of the supply chain, as well as in the implementation of the marketing mix (product quality, place, promotion, price) and in turn it results in huge differences in volumes of organic beef that are sold by these chains.

In the terms of an analysis of Richter and Hempfling (2002) who studied the main development paths of retail chains in 11 European countries with respect to organic products, the first retailer we studied can be considered as a “Leader” while the second retailer can be better defined as an “Adapter” or follower.

Richter and Hempfling define “Leader” as those enterprises which try to keep or to reach the national or at least the regional market leadership in selling organic products and emphasise their organic product line in the company communication (mostly in a close relation to their strong environmental and social engagement). Often these retail chains also have been the pioneer in marketing organic products in their countries. These companies are mostly very engaged, highly creative and strongly engaged in developing their organic assortment. (Some of these last concepts also apply to retailer D3).

Retail chains which orientate their offer of organic products according to current trends in demand or just as a reaction to the strategy of main competitors can be named as “Adapter”. In fact they sell organic products, but without strong active engagement or effort. The organic assortment is no important part of the communication and organic products often are not clearly pointed out at the point of sales. They are quite passive in the organic market development and adopt their marketing strategy to the market environment.

Richter and Hempfling (2002) also list factors for a successful marketing of organic products: (a) visions, objectives or strategies referring to organic products are defined and regularly controlled; (b) active networking within the organic sector; (c) an independent team for the development of the organic assortment; (d) staff education concerning organic products; (e) conducting of market research referring organic products; (f) offer of an attractive size of the organic assortment; (g) good quality of organic products; (h) outstanding role of the organic assortment within the communication; (i) clear pointing out of organic products at the point of sales; (j) Moderate price premiums. In the paper both supply chains studied are compared on these points in order to emphasize differences in organisation of and cooperation within the chain. Figure 1 indicates the main points to study within such a chain perspective.

“Strategy and organisation of the leading distributor”

In the first supply chain analysed, the retailer attaches high importance to the commercialisation of high quality products. According to Sans (2003), this strategy could be called a differentiation strategy. And the retailer indeed confirms that this is the case. The nice atmosphere, the large gamma of high quality and differentiated products is attracting consumers willing to pay more for a better quality.

In line with this general strategy, the retailer in this chain attributes a huge importance to the commercialisation of organic beef, which is considered a strategic product with other than just economic value. It may (a) enforce the retailers image as a distributor of high quality products and (b) attract new consumers. This was especially relevant in the past four years, when consumers were looking for “safer” beef after the dioxin and BSE crisis in the meat sector in respectively 1999 and 2000/2001. As the consumer confidence in conventional meat has been restored, promoting organic as safe is less relevant, however positioning it as a high quality product may still be very relevant.

Therefore a lot of effort, time and money has been invested in developing an own supply chain of high quality organic beef. Already in 1997, before the increase in demand for organic beef, the retailer made an agreement with a cooperative of producers of organic beef. The agreement specified: (i) a good price for the producers, that is respected already for seven years now; (ii) a mutual priority in the relation between the producers cooperative and the retailer, (iii) the characteristics of the product and the production process to assure for a high quality product (age, preferred breed, high quality in SEUROP-classification, weight), (iv) the slaughterhouse with processing unit with which they would cooperate (the retailer works together with it for supplying conventional beef), (v) that the contacts between the cooperative and the slaughterhouse should be supple and that conflicts should be solved internally; the whole chain should represent an image of good cohesion, stability and respectability to the outside world.

By paying a good price to the producers of the cooperative and cooperating for more than seven years an important degree of trust is created with the producers of the cooperative. This is an important aspect for the farmers when taking otherwise too risky decisions in the process of developing high quality organic beef, applying higher quality standards than prescribed by the (inter)national reference on organic production. For example the trust built up helped the farmers of the cooperative to change to a breed with more potential in the organic market, but a breed which made a return to conventional farming very costly and thus in practice sometimes impossible.

This seems to fit in with the recent literature on new institutional economics. The number and nature of contacts between actors in the food chain have been changing. Open, impersonal spot markets are being replaced by hybrid forms with negotiated, personal arrangements and sometimes closed contractual linkages. Increased interdependence among the entities that deliver the final product, which has often to fulfil high quality standards desired by the consumer or imposed by legislation, has major implications for the efficiency of the food sector, the independence and power of various entities, and the sharing of risks and rewards from food production and distribution (Boehlje and Schrader; 1998).

The strategy of the retailer also makes a lot of sense in the frame of Mickwitz (1959). According to Mickwitz in the introduction phase the most important is to provide a high quality. This is exactly what the retailer has been doing. This retailer was the first among Belgian retailers to market organic beef, starting in 1997. In the seven past years the retailer put most importance on providing a high quality by specifying process and product criteria to its supplier (homogenous breed, age, ...). The extra price given to producers is not totally charged to the consumers. The retailer is rather making small losses than profit, the price strategy can thus be defined as a market penetration strategy (and certainly not a skimming strategy). In the second or growth phase also promotion becomes important. The retailer is following this logic. As the automatic growth of organic beef consumption is stagnating, the retailer starts to put more effort in promoting the organic beef product, inter alias by telling the story of the organic beef supply

chain in the monthly edition info brochure which is spread among the regular clients. The investments of this retailer in marketing organic beef certainly pay off in terms of market share. This chain has a market share of at least 75% of the total sales volume of organic beef sold by hypermarkets (F1) and supermarkets (F2). As the share of sales of organic beef of F1+F2 accounts for about 50% of the market, the large distributor has a market share of about 38% of the total sales of organic beef in Belgium.

Although D1's costs of investing time and money in developing organic beef may not be covered by the consumer price of organic beef. Seen the large gamma of 650 organic products in D1's points of sales the positive effect of the superior quality of organic beef may also radiate to these products and even beyond. On the other hand the fact that D1 has such a large gamma of organic products can be considered as a "sword cutting at the two edges", because D1 is also inclined to make an extra investment in securing the supply chain of organic beef, because if there would be a problem with one of the organic products, this may also cause harm to all the other 649 organic products and again beyond these.

Calculations are probably made on a longer time horizon. Where the costs in organising the supply of organic beef may not be covered on a horizon of 5 years, they might be paid back on a horizon of 10 to 15 years.

"Strategy and organisation of the adapting distributor"

The second chain is organised around a retailer (D2) who in general provides a broad range of products at low competitive prices and is trying to compete the real discounters. This second retailer therefore is also applying a different strategy in supplying organic beef, investing much less time in developing the supply of organic beef itself. In practice this second retailer is outsourcing the organisation of the supply of organic beef to a large cattle dealer/transformator who works together with a feed supplier. It seems that this distributor departs from a strategy to provide organic beef only in order not to lose consumers, who would go elsewhere if no organic beef is provided. The second retailer is therefore not interested in strong promotion of organic beef. For the organic products this second retailer has on average prices that are 6% lower than the first retailer, this is about the case for organic beef (5%). As the prices that this second retailer is paying to the producers are 20% lower than what the first retailer is paying the margin is higher for this second retailer (about 10%). Due to the fact that less effort is paid in attracting producers and of course also due to the more moderate prices paid, this distributor is providing much less organic beef. This is okay for the distributor, as the targeted segment of consumers from the overall population is different. One may say that the second retailer is aiming at a "broader public than the first" and less targeting at consumers that are willing to pay more for high quality, therefore making much less efforts in promoting these products or placing them on the more visible places. The market share of the second retailer is only 17% of the organic beef sold in F1+F2.

6 Future research

It may be interesting to develop a model that indicates/calculates what kind of investments pay off for distributors (cf. marketing literature). Such a model should take account of beneficial effects that investments in one product may have on other products (e.g. the investments of organic beef for D1). Also the time horizon that is used will matter. Investments may only pay off over a longer period of time. It seemed to us that D1 and D3 are more calculating over longer horizons, while D2 may be more short-sighted.

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APPENDIX:

Figure 1: Motivations of producers, retailers and consumers in a chain perspective

