

## **Growth, business logic and trust in organic food chains: an analytical framework and some illustrative examples from Germany**

S. V. MUENCHHAUSEN (SUSANNE.VONMUENCHHAUSEN@HNEE.DE)  
HNEE UNIVERSITY FOR SUSTAINABLE DEVELOPMENT EBERSWALDE (WWW.HNEE.DE) AND K. KNICKEL,  
INDEPENDENT ANALYST AND CONSULTANT (KARLHEINZ.KNICKEL@GMAIL.COM)

Key words: organic, food, growth, business, strategy, Germany

### **Abstract**

*The organic food market in Germany has been growing significantly. While expanding, businesses and food initiatives face challenges. The paper focuses on the challenge of maintaining the added values of organic farming and consumer trust. Both are key assets in organic food chains, and both are difficult to secure when volumes grow and distribution channels change. When producers, processors, sales businesses and consumers are less closely connected, direct communication and transparency tends to be limited. We present an analytical framework that can be used to better understand these connections. Focus is on changes in business logic and chain organisation. Three case studies of organic value chains in Germany are used to illustrate the application of the framework. The analyses indicate that business logic and management and marketing instruments tend to be adapted in processes of growth, and that these adaptations can have a major impact on the organisation of the businesses, the linkages between chain partners as well as communication and marketing.*

### **Introduction**

The German market for organic products is growing significantly. Since 2000, the volume of organic sales has tripled, reaching 7 billion Euros in 2012. Maintaining consumers' trust is essential for businesses and food initiatives – in general and in particular during periods of rapid growth. This paper addresses the related challenges in terms of business logic, strategies and instruments. It presents an analytical framework that helps to answer the following questions:

- What business logic, strategies and instruments are used by businesses and initiatives for managing 'added organic value' and trust?
- How are business logic and strategies changing in times of rapid growth in turnover?
- What strategies and instruments are used for securing the added values of organic farming? In other words, how is growth successfully managed?

The particular focus of this paper is on the connections between producers, processors, sales businesses and consumers, and the way they are managed. In this respect, the analysis goes far beyond simply an analysis of marketing strategies. An analytical framework is presented that can be used to better understand business logic, chain organisation and coordination. It is illustrated through three case studies in Germany.

### **Background**

The growth process of the German organic food market was so significant that 3.5% of total food expenditures and 3.9% of total agricultural sales were organic in 2012 (Koepke et al. 2013). However, the organic land area grew at a slower pace with only +50% from 2004 to 2011 (Koepke et al. 2013). The increasing demand for organic food and the growing gap between consumption and domestic production contributed to the development of much more globalised organic market structures (Koepke et al. 2013). Large-scale chains and operations mean that larger volumes can be provided. The development of larger and more globally integrated structures also means that the 'distance' between producers, processors, sales businesses and consumers has increased significantly. Large chains tend to provide standard qualities with a related loss in 'added organic value'. Other critical factors are anonymisation and lack of transparency (Baum 2013).

Recent events throughout Europe, such as elevated dioxin levels in organic eggs in 2012, EHEC germs on organic sprouts in 2011 and below base rate wages of an organic retail business in 2010 have arguably contributed to a growing scepticism toward the mainstream organic food system. Simultaneously, the progressive conventionalisation of the organic sector, especially in the processing and marketing structures, has become controversially discussed in the media. These major organic food scandals and the general decrease in trust found in related surveys are an expression of the fact that the communication along the

chain is no longer optimal and demonstrates that chains have become less transparent. The Oekobarometer 2013, a survey conducted by the Federal Programme for Organic and Sustainable Forms of Agriculture (BOELN), analyses market trends and consumer views:

- This year elderly consumers bought less organic foods than last year: in 2012, 26% of the 50 to 59 year old consumers purchased organic food regularly, but this group decreased significantly to only 19% in 2013. In addition, the share of elderly consumers who stated that they will never buy organic increased (+9 percentage points.).
- Nineteen percent of all interviewees refuse to purchase organic products which are four percentage points higher than in the preceding year. (BOELN 2013)
- The regional origin of food products is of increasing importance for the elderly consumers (BOELN 2013). There are indications that the reason for this shift is an increasing lack of trust in organic food within at least this consumers group.
- The Oekobarometer ranks the motives for organic purchases as follows: firstly, regional origin of food products with 87% of all interviewees; secondly, animal welfare with 85%, and thirdly, a low level pesticide contamination with 83%. More than half of organic consumers (59%) buy organic due to the lower number of food scandals but this figure has been shrinking from last year (-5 percentage points) (BOELN 2013).

Organic products are sometimes characterized as "trust goods" because the consumer does not have the skills or the information to fully evaluate the quality of the goods (Wieland et al. 2012). The assumption is that the additional value of organic products (positive impact on biodiversity, reduced impact on water qualities etc.) is implemented through the business logic and the business strategies. The challenge is to maintain, and communicate, these values along the entire chain from the producer to the consumer. Organic food businesses with their original claim of shared values seem to be predestined for business and management logic that go beyond pure profiteering. Such an approach is described by Porter and Kramer (2011) as "creating shared value" which involves creating economic value in a way that also creates value for society. Shared value opportunities can be realised by a) reconfiguring products and markets, b) redefining productivity in the value chain and c) enabling local cluster development. Value chain business logic place emphasis on both, the values associated with the particular food quality and the values associated with the quality of business relationships within the chain (Stevenson et al. 2011).

## Methodology

Two levels need to be distinguished in order to improve our understanding of the related processes and mechanisms: first, the business logic and second, the business strategy and the instruments used for the implementation of the particular strategy. A basic condition is that businesses and initiatives have to be economically viable in the long term, i.e. they need to (re)cover their full costs and ensure a minimum level of liquidity (economic sustainability). Additional strategic orientations and aspects vary between cases. They could for example be:

- differentiation in the 'market place' via particular product or process attributes,
- altruistic motivations influencing the business logic vis-à-vis profit maximisation goals,
- minimisation of 'distance', in particular between producer and consumer,
- local or regional embedding of business or initiative.

Differentiation in the 'market place' is probably the most common strategy but the other three can also be found. The implementation of the business strategy and its evolution during the growth process is also important. A range of instruments is used for the implementation of business strategies. Contracts and strategic alliances, for example, might often play a key role.

The application of the analytical framework uses business and chain level data. Different data sources will often need to be combined. The main data sources are (in order of importance): interviews with key actors, annual business reports and business communications, and a workshop with decision-makers from the chain's initiatives and/or businesses. The data gathered allows for the identification, description and assessment of business logic and management concepts as well as strategies and instruments.

## Illustration of the application of the framework

The business logic tends to be grounded in and representative of the entrepreneur's value system and or an initiative's over-arching and unifying idea like product or process differentiation. It drives the development of the organic chain.

Table 1 shows how the business logic is supported by a business strategy which in turn is expressed in the kinds of instruments used, such as local labelling, animal welfare, artisanal production, the conservation of old varieties, adherence to social or ecological standards etc. Altruistic motivations, for example, can be expressed in paying above average wages or prices; or by providing particular support to small business partners.

High expectations rest on local or regional organic food as a way to reconnect producers and consumers (Padel et al. 2010). German consumers tend to relate organic with regional (BMELV 2013). This is a challenge for organic food chains that grow out of the local (niche) market. The minimisation of distances or local embeddedness is – if applicable for the particular business – often chosen as the business strategy.

**Table 1: Examples of business strategies and related instruments**

Business logic	Business strategy	Instruments used in implementation
Differentiation in the 'market place'	Process quality	Local labelling based on tagging of vegetable boxes, ear-tag numbers on meat; participation at the Marine Stewardship Council etc.
Altruistic motivations	Fairness between chain partners	Higher product prices for farmers; Higher wages for employees and other contracts within businesses/initiatives and between chain partners
Minimisation of 'distance'	Low impact on climate change	CO <sub>2</sub> footprint; 'food miles'; local/regional labelling; regional window (' <i>Regionalfenster</i> ') etc.
Local embedding	Product origin "from the neighbourhood"	Local labelling, information on primary producers on produce, only typical products of the region, sponsoring of regional/local sports clubs or cultural events

Table 2 contains three cases of organic value chains in Germany that illustrate the application of the framework. In all three cases, it is a declared aim to maintain the added organic values. Well-working cooperation and communication within businesses and between chain partners is a key factor. The instruments supporting the cooperation between the members of the chain (e.g. contracting, integration of nodes, communication/marketing tools) and the internal organisation of the businesses or initiatives such as participation of employees in decision-making or the management structure are highly relevant for securing organic values and trust.

**Table 2: Illustration of business strategies and their implementation for three cases**

Case study	Business logic	Business strategy	Characteristics of the chain
I: Healthy/wellness food: Herbal tea production and marketing	Very strong focus on consumers' wellbeing ('feel fit and healthy')	"Growing together": close cooperation between product development (health experts), plant production, processing and marketing	Short chain, niche market, "reliable" partnerships within the chain, strict control routines, transparency through the chain and of cooperations, good/open communication
II: Retailer: Organic supermarket	Local embedding, fairness between consumer and producer	"Regionality"; producers and consumers cooperate	Association of producers, contracted deliveries, risk reduction for farmers, stable group of costumers, transparency of producer prices
III: Processor: mill and bakery	Fairness between farms and processor; high quality products and processes	"Openness"; open for internal improvement, new ideas	Fairness between primary producer and processor (contracting), daily processing, professional supply for organic bakeries, proven hygiene standards, fresh delivery

The three cases represent successful organic food chains that have gone through a significant development process in the past. Two of the cases have grown from local niche production to businesses handling significant volumes. The development was successful due to clearly defined business strategies aiming to realise and ensure the distinct values adapted to the chain and the type of product. The analysis shows that successfully grown organic food chains have managed to adapt management strategies and instruments to the new requirements while at the same time continuing to emphasise the process and product quality, differentiation in the market-place, and engagement with consumers' interests and views.

The application of the analytical framework helps to better understand business logic, business strategy, and the related instruments which can differ significantly between chains. It also supports learning from those businesses and chains that have managed the growth process successfully. Based on this understanding and information, small food businesses and initiative can improve their own business strategy and use of instruments. Stakeholders in the field of organic food production, processing, and marketing (such as organic food associations, and organisations) can also profit from the analysis of business logic and strategies resulting from a better understanding of the particular challenges and the instruments for managing growth processes in the organic food sector.

## Conclusion

The way business logic, strategies and instruments change in periods of (rapid) growth is a highly relevant success factor at business, chain and sector levels. Business logic and strategies are expressed in the connections between producers, processors, sales businesses and consumers, and in the way they are managed. Therefore the related analyses need to go far beyond simply an analysis of marketing and communication strategies. The analyses illustrate how business logic and strategies are implemented through a particular set of management and/or marketing instruments and how they drive the internal organisation of the chains, as well as individual businesses. Business logic and management concepts differ from chain to chain; they impact on decision-making and shape the evolution of organic food value chains. The analyses highlight that business logic, strategies and instruments are critically important for an improved understanding of the development of the organic sector.

## References

- Baum CM (2013): Mass-Produced Food - the Rise and Fall of the Promise of Health and Safety. <ftp://papers.econ.mpg.de/evo/discussionpapers/2013-03.pdf>
- BMELV Ed. (2013): Ökobarometer 2013. Repräsentative Bevölkerungsbefragung der TNS Emnid Bielefeld im Auftrag des Bundesministeriums für Ernährung, Landwirtschaft und Verbraucherschutz (BMELV).
- BOELN, Federal Programme for Organic and Sustainable Forms of Agriculture (2013): Oekobarometer 2013. [http://www.bmelv.de/SharedDocs/Downloads/Ernaehrung/Oekobarometer\\_2013.pdf](http://www.bmelv.de/SharedDocs/Downloads/Ernaehrung/Oekobarometer_2013.pdf)
- BOELW, Bund Ökologische Lebensmittelwirtschaft (2009): Bio gedeiht trotz Wirtschaftskrise. [http://www.boelw.de/uploads/media/PM\\_BOELW-Bilanz-Presskonferenz\\_2009\\_090114.pdf](http://www.boelw.de/uploads/media/PM_BOELW-Bilanz-Presskonferenz_2009_090114.pdf)
- DESTATIS, Federal Statistical Office (2013): Population. <https://www.destatis.de/DE/ZahlenFakten/Indikatoren/LangeReihen/Bevoelkerung/lrbev01.html>, retrieved 28.9.2013.
- Federal Government (2011): Nationale Nachhaltigkeitsstrategie, Fortschrittsbericht 2012. [www.bundesregierung.de/Content/DE/Publikation/Bestellservice/2012-05-08-fortschrittsbericht-2012.pdf](http://www.bundesregierung.de/Content/DE/Publikation/Bestellservice/2012-05-08-fortschrittsbericht-2012.pdf)
- Koepke U & Kuepper M (2013): Marktanteile im Segment Bio-Lebensmittel - Folgen und Folgerungen. In: <http://www.gruenebundestag.de>, retrieved 28.9.2013.
- Padel, S., K. Zander, K. Gössinger (2010) Regional production' and 'Fairness' in organic farming: Evidence from a CORE Organic project. 9th European IFSA Symposium, 4-7 July 2010, Vienna (Austria), pp. 1793-1802
- Stevenson GW, Clancy K, King R, Lev L, Ostrom M & Smith S (2011): Midscale food value chains - An introduction. *Journal of Agriculture, Food Systems and Community Development*, 1(4), 27-34.
- Wieland J & Fuerst M (2005): Moralische Güter und Wertemanagementsysteme in der Naturkostbranche. <http://orgprints.org/5211/1/5211-04OE024-uni-oldenburg-2005-ethikmanagement.pdf>.
- Willer H & Lernoud J (2013): The European Market for Organic 2011. <http://orgprints.org/22345/19/willer-2013-session-european-market.pdf>, retrieved 28/09/2013.