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Marketing of Organic Products: Marketing Function and Market Structure

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1. Marketing in the 21st Century

The 21st century has brought about major challenges to world business, such as extremely high productivity, improvement in the telecommunication technologies, internet and computers, rapid growth of global trade and the end of the cold war. Such changes caused some serious threats as well: poverty, religious conflict, environmental degradation, and corruption. Leaders who must plot the function of their companies are challenged to find a path that makes sense. Change is occurring at an accelerating rate. Marketing managers and policy makers should focus on monitoring the rapidly changing environment and be able to analyze major macro-environmental trends that affect industry performance.

2. Structure-Conduct-Performance Paradigm

The structure-conduct-performance paradigm offers a framework to aid in comprehending the industry's performance in the context of changing environmental conditions. The paradigm suggests that basic conditions, such as demand and technology determine market structure. The structure of the market determines the conduct of the firms, which in turn affects market performance. The emphasis is on the nature of the market and not on the firms within the market.

The **structure** of a market is the set of conditions and characteristics that describe and define the market type. To describe market structure, economists consider the number and size distribution of firms; the extent of product differentiation; the effectiveness of barriers to entry; and the degree to which the industry is vertically integrated.

Conduct refers to the behavior, policies, and strategies used by the firms in the industry. To describe firms' conduct, economists consider the strategies used by firms as they affect pricing; production; promotion; and distribution

Performance refers to the economic outcomes that result from the market structure and the firms' conduct. To evaluate an industry's performance, economists consider allocation efficiency, production efficiency, equity, and technological advancement.

3. Analysis of the Turkish Organic Food Markets Using Structure-Conduct-Performance Paradigm

3.1. Structure

Number of Products:

- The number of organically produced goods has increased over time: 8 products in 1990 and 92 products in 1999. Product variety has increased as well and products are categorized under food and non food items.

Product Differentiation:

- Organic agriculture allows producers to engage in specialized markets where there are opportunities for marketing variety of products.
- Importers in the importing country provide feedback for product specification and product differentiation (size, color, taste, labeling).
- Differentiation variables: Product, services, personnel, channel, image.

Barriers to Entry:

- A market's attractiveness varies with the height of its entry and exit barriers. The most attractive segment is the one in which entry barriers are high and exit barriers are low.
- Entry barriers are moderately low in organic markets.

The degree to which the industry is vertically integrated:

- Companies find it advantageous to integrate backward or forward.
- Vertical integration lowers costs; the company gains a larger share of the value added stream.
- Vertically integrated firms can manipulate prices and costs
- Organic food market: Vertically integrated production system

3.2. Conduct**Pricing:**

- Price premium: Varies between 5%-25% when compared with conventional counterparts.
- Production costs: Majority of costs is due to consultancy services and certification.
- The price premium may not be as profitable when compared to conventional production methods.

Labeling:

- According to the Turkish Food Codex, ecological products should have the following information on their label:
- Organically produced food/produce
- Logo of the certification issuing firm
- Certificate serial number
- Code of the certification firm
- Content
- Inclusion of the non-organic ingredients (if product is of mixed food)
- Turkish origin
- Expiry date, production date

Certification:

- 7 Controlling firms (6 international, 1 Turkish)
- Starts with planting and continues through shelving in the supermarkets
- Due to small scale firms in Turkey, the exporter works with a group of farmers in the project
- It is relatively easy for the small scale firms to switch to ecological production (due to already low levels of chemical use)

Problems with Certification:

- Farmers also produce conventional products.
- Size of the domestic market is small. Restricts the possibilities for extending the area for organic production
- Small scale production
- No record keeping
- Coordination across certification firms

Packaging and Promotion:

- Packaging must be in conformance with environmental standards
- Promotion
- Demand in domestic market is low
- There is always room for promotion (advertising, sales development, public relations and personal selling)

3.3. Performance**Matching of supply and demand**

- Contracts in the organic food market (farmer, wholesaler, exporter) specify the amount, time, quality and place of delivery.
- Contract coordination reduces uncertainty and allows for synchronization of demand and supply.
- However, demand in international markets and demand in the domestic market should be considered separately.
- Synchronization of demand and supply in export markets is realized in both stages of the marketing channel.
- The first stage involves the transfer of the product from the farmer and exporter.
- The second stage is the transfer of the products to the foreign markets.
- Does demand match supply in domestic market?
- We have to estimate the Turkish consumers' willingness to pay for organically produced foods: Results of a survey study.
- Some demographic information about the sample:

- 77.7 % of the sample is women.
- Average household size is 3.8 persons.
- 47 % of the sample has a monthly household income of below 400\$.
- 10% of the sample has a monthly household income of above 1000 \$.
- 44% of the individuals have acquired a 5 year education at the primary school level.

Consumer Preferences About Foods

- 75% of the consumers consider nutritional quality and absence of residues in foods when making food-purchasing decisions. Only 12% of the consumers think that price is the primary factor when purchasing foods.
- The majority of the consumers think that the safety of food supply has deteriorated over time.
- Income is positively correlated with willingness to pay (wtp).
- As expected, as price of certified products increases relative to price of conventional products, wtp decreases.
- Age and education are positively correlated with wtp.
- Household size is negatively correlated with wtp.
- Willingness to pay is positively correlated with perceived health risks due to residues in foods.
- On average, the consumers are willing to pay a 2% price premium for organically produced tomatoes.
- Consumer health risk perception is a significant determinant of willingness to pay.
- The findings of the study indicate a potential willingness to pay for products certified to contain no pesticide residues.

Potential Consumers have the following characteristics:

- High income
- Middle age and above
- Sensitive to health risks

To Attract New Segments

- Inform potential consumers related with health benefits of consuming products certified to contain residues not harmful to human well-being.
- Develop concepts to communicate organic product's core characteristics.
- Understand consumers' perceptions and understandings of the concepts

Stability of Outputs, prices and profits

- Interviews with the exporters and farmers show that the production over the years has been stable and that more producers are expected to participate in food increases.

- The profitability of organically grown foods is assessed by using the data collected from the raisin producers. The survey covers only one production year and is limited to a small geographic area. However, it is the only data available that can be used for comparing the two alternative farming methods.
- Survey results reveal that for raisins, the average yields under conventional and organic production methods are not statistically different. The yields are 4500-4800 kg per ha on average. Cost comparisons under the average yield level show that both farming systems operate with a loss. Yields higher than the average give organic farmers a profit advantage as high as 7,900 T.L. per kg. of raisin in March 1997 prices (in March 1997, 1 US dollar = 130,000 T.L.).

Equity

- Equity in the market can be assessed by determining whether the market participants receive a fair share from the marketing activities they have performed.
- We cannot determine the equity in the market for organically produced raisins by using the available data. The next best alternative may be to compare the prices received by the farmers and the prices received by the exporters.
- The price that the exporters receive is almost 20% to 30% higher than the price that the producers receive over the four-year period. The exporters state that the cost of the certification procedure is very high and this price difference should be considered as normal

Sub sector Adaptability to Changing Market Conditions

- Marketing research studies reveal that the market share of organically produced goods in the world will grow as much as 30% over the medium term.
- Consequently, the export demand for organically grown products in Turkey will also increase.
- The exporters state that they plan to increase their production capacities to meet growing demand with respect to both quality and quantity.

4. Prospects

- The demand for organically produced goods is expected to grow, especially in the developed countries where consumers' disposable incomes are high enough to afford the price premium.
- The market for health foods and therefore for organically grown foods has been steadily growing since the late 1980s. Although the percentage of farmers practicing organic farming is small, consumer demand is expected to be a major driving force in the expansion of the market as the environmental and food safety concerns increase.
- With the expansion of the EU market, more farmers are expected to use organic methods.
- Another important issue for the expansion of organic farming in Turkey is the availability of domestic consumers who are willing to purchase organically produced goods.
- The farming practices in some sensitive zones in Turkey (for example the Göksu delta protected area (a wetland whose biological diversity is to be maintained) have to be converted to environmentally friendly methods.

- The presence of domestic consumers who are willing to purchase organic products would provide incentives to the farmers in such protected regions to practice non-conventional agricultural methods.
- The adoption of organic farming methods depends partly on the availability of the markets for organically produced goods and the profitability of the farming system.
- There is a growing demand for organically grown products in the EC, where Turkey exports most of its organic products.
- There is a potential domestic demand for organic products in Turkey as well.
- Therefore, the availability of the markets is not likely to pose a problem for the expansion of organic farming methods, at least not in the near future.
- We also conclude that, practice of organic farming through contracts positively affect the welfare of the producers.

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