

ORGANIC¹ FOOD IN IRELAND: A SUPPLY CHAIN PERSPECTIVE

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Introduction

The organic market in Ireland is at a crossroads. Demand is growing; however domestic production is not growing sufficiently to meet this demand. It is estimated that 70% of market requirements are currently imported (Bord Glas, 2000). A 1999 Dutch study (Van der Grijp and den Hond, 1999), in which the EU countries are categorised into four groups based on relative share of total agricultural production and growth rate of organic agricultural production, confirms this crossroads status (see **Figure 1**). The first group, where organic production is “booming”, consists of countries with organic production acreage representing a high relative share of total agricultural area as well as a high growth rate. Countries in second group are those that have passed the “boomers” phase and growth rates are stabilising. The third group consists of countries with a low relative share and a high growth rate. This group is for countries with the highest potential and includes Ireland. In a few years, Van der Grijp and den Hond expect that these countries will either become “boomers” or “laggards” – the fourth group consisting of those countries that are lagging behind.

¹ According to EU regulations, “Organic” can be used on a label when the product contains a minimum of 95% organic ingredients. “Made with organic” can be used when a product contained 70-95% organic ingredients. The actual percentage of organic ingredients used in the product must be shown on the label.

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FIGURE 1: STATUS OF ORGANIC AGRICULTURE PRODUCTION IN EU COUNTRIES

Growth rate of organic agriculture production			
	LOW	HIGH	
Relative share of total agriculture production	HIGH	<u>Group 2: Stabilisers</u> Austria Germany Finland	<u>Group 1:Boomers</u> Denmark Finland Italy
	LOW	<u>Group 4: Laggards</u> France Belgium Luxembourg Netherlands UK	<u>Group 3:Potential</u> Greece Ireland Norway Portugal Spain

Source: Van der Grijp and den Hond, 1999

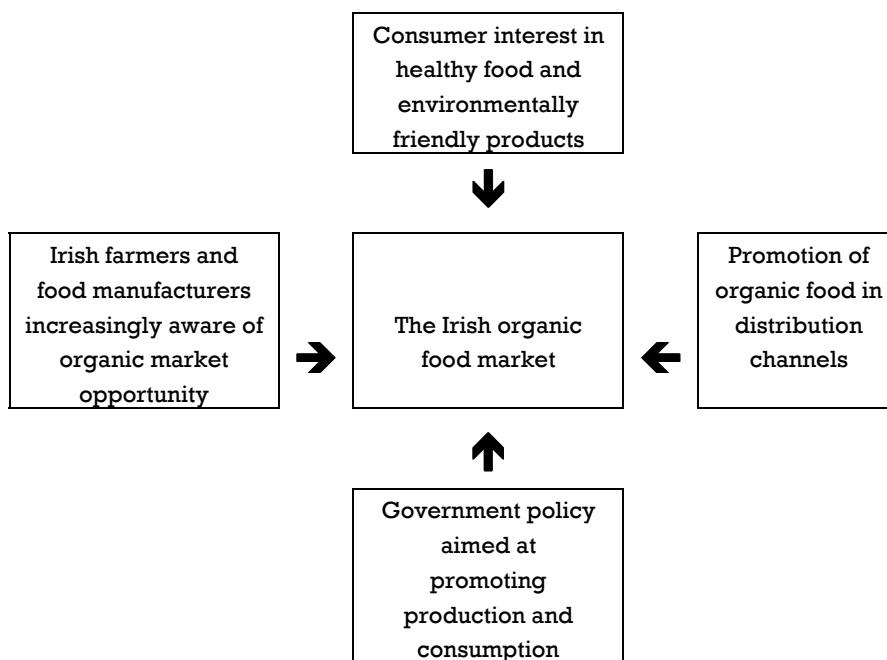
Evidence from the UK (Latacz-Lohmann and Foster, 1997) has shown that multiple retailer involvement can hinder the development of the supply base by limiting farmer margins. However, the same authors also claim that evidence from Germany shows that, to bridge the gap between actual and potential demand, it is necessary to make organic products more readily available through multiple retailers. This paper describes the current situation with regard to organic food supply chains in Ireland, expected future developments in this area and issues that need to be addressed to deal with these developments. To set the context, the paper initially outlines the market for organic food in Ireland, including an identification of the forces shaping the market. The paper is based on key informant interviews with members of various supply chains and two workshops with organic industry stakeholders, supplemented by literature where available and is based on some aspects of the research from a report prepared by The National Food Centre for the Western Development Commission (WDC).

The market for organic food in Ireland

Factors Influencing the Organic Market in Ireland

In common with many other EU countries, there are a number of forces driving the market for organic food in Ireland. These include consumer demand, supply of raw materials and food products, promotion of organic food in distribution channels and government policy for organic food (see **Figure 2**).

FIGURE 2: DRIVERS OF GROWTH IN THE ORGANIC FOOD MARKET IN IRELAND



Source: Cowan et al., 2001

Positive consumer factors driving the organic food market are consumer concerns regarding GM foods, pesticides, antibiotics and additives, food safety scepticism resulting from food scares and environmental and animal welfare concerns (Datamonitor, 1999, Bord Bia, 2000). Cowan et al. (2001) claim that consumer concern for personal health and food safety is of greater importance in Ireland than consumer concern for the environment or animal welfare.

Limiting factors on the consumer side are price sensitivity, importance of the appearance of food and the strength of substitutes (Datamonitor, 1999). Other limiting factors are insufficient supply of products available and limited product range (Bord Bia, 2000). A recent survey of Irish consumers found that, when prompted, 68% of non-organic buying consumers said that the reason that they did not buy organic food was because it was too expensive (Bord Bia, 2000). Six per cent of consumers who do not purchase organic food spontaneously listed that it was because of the appearance of the produce. The quality and appearance of some organic food products can seem inferior to the equivalent conventional food products. The presence of "half-way" products that claim to be produced naturally and in an environmentally friendly way can be confusing for consumers. Such products can also seem more attractive as they generally have lower price premiums than organic products.

Other important forces shaping the market include retailers and government. To date, retailer push of organic foods has been limited in Ireland. They cite problems with supply, quality and price as reasons for reluctance in the past. However, the ability to secure supply will boost the activity of the multiples and has the potential to push what is currently a niche market into a mainstream market. In the UK, many of the retailers have undertaken initiatives to secure quality supply sources. For example, Sainsbury's developed the SOURCE programme (Sainsbury's Organic Resourcing Club). The idea behind this group is that, through a confidential web-based service for its network of 18 UK organic suppliers, it can provide immediate access to valuable industry information, contacts and news for its members (Bord Bia, 2000).

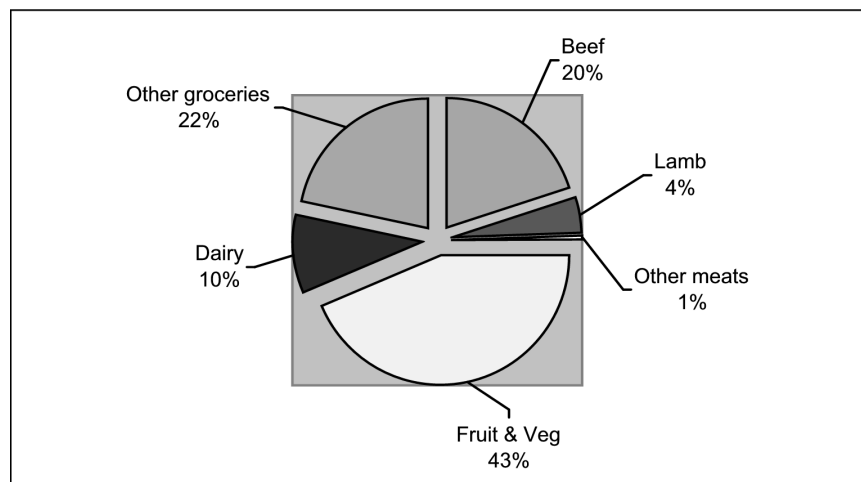
A very limited government policy and strategy currently exists on organic agriculture and food production in Ireland. It is generally confined to production support measures under EU Common Agricultural Policy. However, the Department of Agriculture, Food and Rural Development (DAFRD) recently convened an Organic Development Committee to redress this and to address a number of key issues in developing the sector. It has also introduced a support scheme for production and marketing. Thus, in the short term at least, the market will be driven by consumer concerns about conventional food production, particularly the use of pesticides and GMOs, and its potential impact on their health and food safety.

Organic Market Size

The market for organic food in Ireland is still very much in an early stage of development. Cowan et al. (2001) estimate current domestic market size to be £18 to 20 million (€22.9 to €25.4 million), which represents a mere 0.4% of the retail value of total food consumption in Ireland. This compares to an EU average of 2%, around which there is a large variation. For example, organic food accounts for 1.5% of the retail food market in the UK, 2.4% in Germany and 9.6% in Austria (Leatherhead Food RA, 1999).

Fruit and vegetables represent the most important organic product category in Ireland, accounting for 45% of the market by value (Bord Glas, 2000). A significant proportion of this category is imported, for climatic reasons. In the meat category, organic beef is by far the most important with a 20% share (authors estimates). Lamb follows this at 4%, with other meats (pork and poultry) at 1%. Imports of meat products are very low, in part due to a lack of organic meat elsewhere in Europe. "Other groceries" mostly comprise branded further processed organic food products, many of which are imported. Imports are also important in the dairy products category which has a 10% market share overall.

FIGURE 3: IRISH MARKET FOR ORGANIC FOOD (% BREAKDOWN BY VALUE)



Source: Cowan et al., 2001

In comparison with the EU, the relative importance of organic fruit and vegetables is somewhat similar (43% of total organic food sales in the EU). However, organic meat is significantly more important in Ireland at about twice the EU average, whilst dairy sales are almost half of the European average.

Future Organic Market Size

There is a lack of market data relating to organic food over a number of years in Ireland. However, Cowan et al. (2001) report industry estimates that suggests a growth rate of the overall organic food market between 1996 and 2000 as being in the region of 25 to 30% per annum. Given increased consumer demand for organic products, recent and imminent government initiatives and greater retailer involvement, it is anticipated that such growth rates will continue for a number of years. These authors project that the market could more than triple in size from £18 million (€22.9 million) at present to £68 million (€86.4 million) by the end of 2006, assuming a growth rate of 25% with beef, vegetables and lamb representing the main growth opportunities. Exports of organic food are very limited at present and largely confined to meat. However, export market opportunities are available, particularly in the UK, which could be further exploited in the future.

Organic Food Supply in Ireland

Producers of organic produce either sell their produce directly to consumers in short chains or indirectly through a range of intermediaries in longer chains. Several variations exist around these two broad routes. The direct sales routes include sales through market stalls, box systems, country markets, farm sales, direct sales to food service outlets, mail order catalogue and the Internet. Sales through intermediaries generally involve sales through wholesalers or processors to the multiple retail outlets or symbol groups and sales to independent retailers (including butchers, greengrocers, delicatessens and health food shops) through regional or national distributors.

The importance of these channels varies somewhat by product with, for example, sales through multiple retailers being the dominant channel for dairy products but direct sales through local markets and box systems being of significance for horticultural products. Furthermore, individual consumers may use more than one channel as

their normal point of purchase for organic products, as highlighted in a recent study by Bord Bia. This study found that 50% of purchasers of organic meat use the supermarket as their normal point of purchase, 52% use butchers, with about 1% of purchasers using farm box schemes and a further 1% market stalls² (Bord Bia, 2000). The study found that supermarkets are very much the dominant channel for liquid milk, accounting for the normal point of purchase for 96% of consumers who purchase organic liquid milk. For fruit and vegetables, independent retailers, i.e. green grocers become important accounting for the normal point of purchase for 26% of purchasers of organic fruit and vegetables. However, the supermarket still dominates with 67% of purchasers using it as their normal point of purchase.

This study did not address the importance of these channels by value or volume, merely by normal point of purchase. These authors submit that the relative importance may change to increase the importance of direct sales channels if such analysis was conducted on a value or volume basis. They contend that consumers who purchase through direct sales channels generally tend to buy all organic fruit and vegetables whereas consumers who purchase through the supermarket may purchase only some organic fruit and vegetables and some conventionally produced produce.

This section will now describe the main direct sales routes, the potential for future expansion in these routes and identify some issues that need to be addressed to secure success. It will then follow with a description of the main sales routes through intermediaries and issues that need to be addressed in developing sales through this channel. It should be noted that there is opportunity for major expansion of both types of distribution channels. In fact, the development of both types of marketing structures is necessary for the long-term development of the organic sector in Ireland as highlighted in the introduction.

Current Direct Sales Routes

As outlined above, several variations exist on direct sales, however the basic premise is that the producer is also the retailer and thus has direct contact with the consumer. From an environmental perspective, the direct sales route appeals strongly to many organic producers as it can reduce packaging, reduce the distance travelled by the

² This sums to greater than 100% because consumers cited more than one outlet as their normal point of purchase.

produce and reduce wastage (Lange, 2000). In terms of marketing, it also allows producers to be quite market-focused as they are provided with instant feedback on the products that sell well and those that do not. In addition, closer contact with consumers provides an opportunity to educate consumers about organic systems, thus encouraging them to accept vegetables that do not fit rigid supermarket specifications and to consume mainly produce that is in season. From an economic perspective, it is not uncommon for direct sales channels to yield the highest premiums for producers, as less marketing and distribution costs are incurred. In addition, payment is immediate and in cash. Finally, it allows the producer greater independence and autonomy in planning crops, harvest schedules and selling and displaying produce than if they were tied to yearly contracts with processors, retailers or wholesalers.

However, such channels do not suit all producers for a number of reasons including:

- Lack of proximity to suitable markets with a large potential consumer base
- Insufficient volume or range of produce to direct sell as individuals
- Insufficient production, business and communication and interpersonal skills
- Insufficient time or inclination to become involved in retailing.

Some of these obstacles may be overcome by collective direct marketing initiatives.

Market stalls. A small number of organic producers sell their produce in market stalls in local urban markets as well in key markets in larger urban areas such as Dublin and Cork. These markets generally operate one day per week; however, at least one operates daily, while another operates on the first Sunday of every month. The stall operators themselves produce most of the produce that is offered for sale. However, some producers supplement their range by selling produce from other Irish organic producers and imported organic produce. Supplementing their own range allows stall operators to offer a wider range to consumers and to have produce to sell for most of the year.

The main products sold in these markets are organic horticultural products, particularly vegetables. Meat is also important in the Temple Bar Market in Dublin. Many producers also sell small volumes

of organic eggs, organic poultry, organic wine and some products containing organic ingredients, which are not certified, e.g. bread made with organic flour. In addition, one organic food processor sells their range of grocery products in a stall in the English Market in Cork. From a survey of market stall operators conducted by The National Food Centre, it is estimated that nationally total sales of certified organic product through market stalls is close to £500,000 (€635,000) per year.

Box systems. There are a number of small but successful box systems, the majority of which are locally-based, others which are located in the larger markets such as Dublin. Those operating in urban areas such as Dublin are generally larger schemes that deliver more widely and offer a wide variety and choice. Vegetables account for the vast majority of sales in this channel, with most of the remainder being made up of meat sales. In a number of cases organic eggs were also included in the boxes. A survey of organic box schemes indicates that they account for £250,000 (€317,500) of sales annually.

The usual practice for box schemes is for customers to pay a fixed price for a box of in-season fruit and vegetables, and accept in return the mix and quantities that are delivered. Several box schemes allow customers to nominate vegetables that they would not like to buy. In a number of instances, the box scheme operator supplemented their own produce with that of other local producers. During the production season, most boxes are made up of locally-produced produce but, in the winter months, it is often necessary to source imported produce through wholesalers. The boxes may be collected from the farm but, in most cases, are either delivered to the customer's home or a central collection point (often a place of work).

According to the box scheme operators surveyed, customers of box schemes are generally well-educated and seek to purchase safe and healthy food. They are not very price-sensitive. Also, organic box scheme customers are quite loyal and can generally guarantee sales for the producer. In this sense, they are very important for producers in the early stages of development of direct sales.

The disadvantages of box schemes are the high initial start-up costs and the high demands placed on labour. Box scheme operations require boxes and suitable storage facilities. In terms of labour requirements, a lot of time can be spent receiving orders from customers, collecting payment, packing boxes according to customer

specifications and delivering boxes. The requirement to supply a wide range of products to customers is a further pressure. In addition, some operators felt that their long-term prospects were being threatened by greater availability of a wider range of organic products in supermarkets. In this respect, box scheme operators felt that there was a need to promote local direct sales schemes to consumers and to outline their benefits.

Country markets. Country Markets Ltd operate most of the country markets in Ireland. These markets are usually run on the basis of a half-day per week. Members pay an annual fee of £12 (€15.24) per year that includes public liability insurance.

The rules of the company state that members are not allowed to import produce, i.e. they can only sell produce from their own farm, which could limit consumer choice. In addition, members are only supposed to sell the surplus from the farm/garden rather than selling a commercial volume of produce through this outlet. Thus sales through this channel are likely to be limited and are of much less importance than sales through either market stalls or box systems. Nonetheless, such an outlet can provide a significant supplementary income for organic producers. For individual producers, sales through individual country markets are generally less than £4,000 (€5,040) per annum. The company estimates that less than 10% of the 75 country markets in operation in Ireland sell organic produce. Total sales of certified organic produce through this channel is estimated in the region of £20-25,000 (€25,400-31,750) per annum.

Farm sales. Ireland does not have a strong tradition of farm sales. However, some organic producers sell fruit and vegetables and meat directly from the farm and there is one registered organic farm shop in county Sligo. There are a number of legislative issues that such producers need to address, e.g. food safety issues, particularly in relation to meat. It was not possible to quantify the importance of this outlet for this paper.

Direct sales to food service outlets. While the vast majority of hotels and restaurants do not use any organic food in their menu, a small number are making efforts to source some organic food, especially when it is in season. There have been a number of champions of organic food in the restaurant sector, such as well-known restaurateurs and food writers, and a number of producers have built

up regular business with hotels and restaurants in their local area. These customers offer producers the opportunity to receive attractive premiums and to sell locally. This route is particularly suited to producers in important tourism areas, as hotels and restaurants are often open on a seasonal basis and tourists augment local demand. Produce sold directly to this sector includes specialist herbs and salads as well as more mainstream in-season fruit and vegetables. At present, overall sales remain quite small but there are signs that demand has increased significantly since the beginning of this year.

As a direct sales channel, foodservice outlets benefit producers. First, unlike box schemes and market stalls, foodservice outlets do not usually require as wide a range of products. Foodservice outlets are often willing to accept four or five different products from a local supplier. A smaller number of varieties facilitate better farm enterprise planning. Second, in terms of logistics and labour, foodservice outlets are more efficient to service. A single delivery to a restaurant can be the equivalent of a significant number of boxes. Third, many restaurants only require organic produce during the summer season, thus facilitating seasonal production. Market stalls and box systems require produce on an all-year basis.

Mail order catalogue and Internet. One company that produces a range of branded grocery products sells through a mail order catalogue, targeted at the export market. It offers a range of “packs”, ranging in price from £14.50 (€18.41) (“Organic Preserves and Relishes Collection”) to £162.00 (€205.74) (“Complete Organic Kitchen Collection”). Orders may be placed by phone, fax or e-mail. It is currently developing a web-site that will expand their home shopping business.

A salmon-smoking company sells conventional and organic oak smoked salmon, as well as craft products via the Internet³. Complicated logistics means that this channel will generally be restricted to products of high value.

Future Development of Direct Sales

Market stalls. Future development of various direct sales channels varies in terms of potential. It is accepted that the market stall is an important channel for organic producers. However, getting access to

³ Website: www.burrensmokehouse.ie

a market stall, due to a lack of available stalls, is a critical limiting factor in the development of this channel.

Box systems. It is unclear how much potential demand there is for box schemes in their current form, as they run contrary to the general consumer trends that require convenience and choice. However, of the box scheme operators surveyed for the WDC study, all felt that there was sufficiently strong demand from consumers to encourage them to increase the numbers of boxes that they sold. Several respondents said that they were currently investigating the possibility of sourcing produce from other organic growers in their locality as their own production limitations constrained potential expansion. In other cases, box scheme operators have found that their sales have been expanding in other channels, particularly in local greengrocers and restaurants, and viewed this route as a more desirable way to expand their operations. In terms of distribution costs and labour, these producers found that it was generally more efficient to sell to greengrocers than through box systems.

The geographically-dispersed nature of a large proportion of the population in Ireland sets some constraints on the potential of box systems. Nonetheless, they will continue to offer a growing market for organic food products, particularly in the Western Region, where more consumers appear to have a preference for purchasing from local food producers.

Farm sales. Legislation regarding processing and handling of foodstuffs is likely to limit this outlet for organic meat. However, the fact that urban consumers are increasingly interested in where their food comes from indicates that there is potential for the establishment of farm shops in close proximity to urban centres. The drop in farmer incomes, which has created an impetus towards alternative farm enterprises, means that small/medium-sized farms could be viable if organic production systems are combined with a retail outlet and possibly an open-farm/tourism venture.

Country markets. The future potential for country markets is limited. The philosophy of the company means that volumes will be limited and the limited "opening hours" of the market mean that it is not a convenient outlet for many potential consumers. Nevertheless, producers located in tourism areas may find a ready market for their seasonal surplus in the summer months through this outlet.

Foodservice. It is considered by many producers that the direct to foodservice channel will continue to grow and there is potential to capitalise on the links between the environment, organic food and tourism that exist in a large part of Ireland.

To develop this channel further and to build on the link between organic food and tourism, there are three key issues. First, catering outlets are a price-conscious group and a commitment to paying organic price premiums is often difficult to maintain in the long run. Second, caterers tend to prioritise freshness and local produce above organic food imported into the region, especially where there is a significant premium. And third, the inconsistent availability of fresh organic foods makes promoting a restaurant on the basis of organic menus difficult.

Mail order catalogue and Internet. The growth in home shopping generally means this channel has growth potential. In addition, the Internet can be used to facilitate a more flexible box system. However, the high cost of logistics means that sales will be either localised or for high value products. Food safety issues will also be important in this channel.

Issues for Developing the Direct Sales Channel

Given the early stage of development of the Irish organic food sector, coupled with the quest of many to sell their produce locally, it is likely that local markets will play a key role in the expansion of the sector. Local sales will be particularly important for small-scale horticultural producers. For some organic producers, producer proximity to many of the direct sales outlets offers them some advantage, in terms of transport cost and freshness, for example, over larger scale producers, either elsewhere in Ireland or abroad. To be able to benefit from this advantage and compete successfully against multiple retailers, several issues will have to be addressed. These include:

- **Increased access to market:** Opportunities for producers to sell their produce through market stalls are limited due to difficulties accessing key markets. There is a need to increase the spaces for organic food producers in existing markets or develop a new organic food market.
- **Training requirements:** Producers who become involved in direct sales must broaden their skill base to include business planning, marketing and sales and bookkeeping.

- **Improve supply:** To increase and retain customers in the direct sales channel, it will be necessary to increase the level of supply and lengthen the season during which this supply will be available to customers. This may require co-ordination of production between producers located in the same region.
- **Innovative approaches:** There is a need to develop many of the direct sales schemes currently in operation to meet more closely the requirements of consumers for convenience and choice. For example, at present, most box scheme operators offer a basic service. Often there is no choice for consumers. Cases of good practice from Europe and the US could usefully be documented and complementary training programmes developed.
- **Foodservice market opportunities:** From a small base, this market is now beginning to emerge strongly. There is potential to build on this trend by making foodservice outlets aware of the potential of organic food as a promotional tool and providing information on sources of organic food in their locality.
- **Relationship marketing:** Traditionally, many of the small direct sales outlets have had long-term relationships that extend beyond issues of healthy eating, food safety and quality to embrace shared concerns for natural production, environmental sustainability, animal welfare, fair trade and community values. These epitomise some of the central concepts of relationship marketing, such as trust, commitment and mutually beneficial associations. As the multiple retailers continue to move into the organic market, these direct sales operators need to work to continually enhance relationships with existing customers and to attract new ones.

Current Sales through Intermediaries

Distributors. A number of national distributors distribute some branded organic grocery products to a range of outlets, including multiple retailers, as part of a range of generally ambient products. Other distributors focus on the health food shop sector and also sell organic products as part of a range.

There are a number of organic horticultural wholesalers in Ireland. Some are dedicated to organic produce. However, others offer it as an addition to their conventional lines, as a service to their multiple retail customers.

Independent retailers and specialist shops. Organic food has been available from health food stores for many years and most stock a range of organic products. By and large, ambient food products dominate the product offering available in these stores and most product is sourced through wholesalers and comprises a large proportion of imported product. Frozen produce tends to be supplied by a wholesaler based in Scotland. A smaller number of stores sell meat, dairy products and fresh vegetables that may be sourced directly from producers. Size of store is the main barrier to expanding the volume and range of chilled and frozen products. The Irish products available in some health food shops include Glenisk dairy products, Luhrs bread, Ballybrado biscuits and flour, and Inisglas flour.

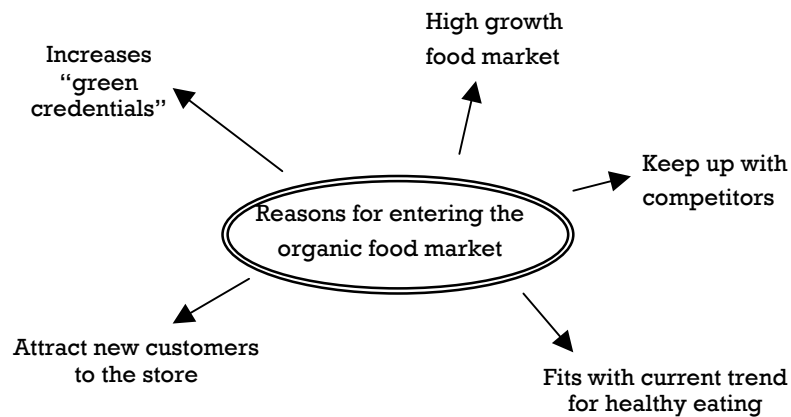
In general, the health food store channel is in decline in the Irish food market, a trend that mirrors developments in most European markets. However, it may have a role to play in certain local areas.

In the Dublin area, there are two independent butchers of importance. There are several other organic butchers operating in different parts of the country. Bunlun operate a dedicated organic shop in Skibbereen in West Cork.

Multiple retailers. Despite the popularity of box schemes and market stalls among regular customers, the multiple retailers have a key role to play in expanding the organic market, since it is likely that the majority of consumers will wish to purchase organic food in the same way that they shop conventionally (i.e. from the supermarket). Tesco, Dunnes, Superquinn and Musgraves/Supervalu all now stock a reasonable range of organic produce. Tesco claims that it can already offer a completely organic household from organic herbs and spices to organic chocolate. They have all had promotional campaigns for organic food products. Current in-store promotion includes end of aisle displays, point-of-sale information literature and “two for the price of one” offers. Additionally, there has been some promotion of organic food in retailers’ own magazines, however in-store promotions and merchandising has been inconsistent between different stores. While retailers are slow to increase their marketing activities until they see increased activity from food processors and increased and more consistent supplies, the introduction of private label organic product ranges, for example from Tesco, should result in increased promotional activity.

While retailers are initially attracted to the organic food market by its status as perhaps the fastest growing sector in the food market, many seek to exploit other benefits associated with having a position in the market (see **Figure 4**). For instance, having organic food in the store may attract new customers, such as those customers who do all or some of their food shopping in natural food stores and other specialist stores. Organic food also impacts positively on the “green credentials” of a retailer and is particularly attractive for retailers that seek to differentiate themselves on the basis of quality and choice. For this reason, some retailers tend to over-emphasise their organic lines in their advertising in relation to their sales of organic food.

FIGURE 4: REASONS FOR MULTIPLE RETAILERS TO ENTER THE ORGANIC FOOD MARKET



Source: Promar, 1999

Key Role of the Multiple Retailers

In countries where the organic food market is not driven by consumer demand or government support, retailers have had a key role in developing the organic food market. For example, in the UK, where government aid is relatively low, retailers have been very active in promoting increased levels of organic farming and have even provided support to farmers during the conversion process.

The emergence of retailers as the most important distribution channel for organic food has resulted in a number of key

developments regarding the level of supply and demand within the sector. These include:

- introducing organic food to a larger market;
- presenting consumers concerned with the safety of conventional food with an alternative;
- building relationships with food producers and processors to develop the range of organic food products;
- highlighting to farmers and government the supply problems that exist within the sector; and
- importing significant volumes of organic food to meet consumer demand and broaden the range of organic food products available to consumers.

Producer-retailer integration has not been more evident in any sector of the food industry in Europe than it has been in the organic food sector. In the more established organic food markets across Europe, retailers have been instrumental in the development of the sector and a supply base to allow them meet market demand.

Relevant Developments in the Multiple Retail Sector

Several important developments are currently taking place in the multiple retail sector that will impact on organic food product suppliers, as well as suppliers of conventional food product lines (Cantillon et al., 1999). These are:

- **Concentration of retail sector:** Barriers to entry in the Irish grocery sector have increased because food companies need much greater resources and capabilities at an earlier stage in their existence in order to access shelf space among the grocery companies in Ireland that dominate the market.
- **Growth of own-brand:** The possible consequences of own-brand for indigenous small food producers are numerous. One consequence is that they could try to become an own-brand supplier. However, in order to become an own-brand supplier, the food-producer has to pass a stringent initial audit and have the necessary resources to meet the own-brand volume requirements of the major grocery chains. Another consequence of own-brand is the increasing pressure on shelf space. As retailers are pursuing a strategy of increasing their own-brand penetration, constraints on space are likely to increase. There are also price implications, with

own-brand products putting downward pressure on organic products in general.

- **Centralisation of purchasing and distribution activities:** This has a number of implications for organic food-processors. First, most of the centralised distribution depots are located in Dublin and Cork – thus there is a logistics cost disadvantage imposed for food processors in more peripheral areas. (A limited number of companies are permitted by Tesco to supply only their own local stores directly with speciality/organic foods). Second, with the implementation of centralised procurement practices, it may no longer be possible for organic processors to sell their product directly to retail symbol stores, such as the local Super Valu, Centra or Mace. Centralised purchasing is gradually taking this autonomy away from these supermarket owners. Instead, organic processors will be required to deal with centralised buying teams operating a much more stringent set of purchasing guidelines. Third, centralised purchasing and distribution trading relationships will require greater performance and investment of suppliers in terms of information-communication-technology and logistics capabilities. Management capabilities will become increasingly important criteria for retailer assessments of potential suppliers.
- **Rationalisation of supplier bases:** There is a trend towards rationalisation of retail supplier bases. This trend will see retailers seeking to establish closer relationships with their suppliers, with a view to increasing efficiencies in their business. This will have important implications for organic food processors. In the organic sector, these effects are already taking effect. Already, most of the major retailers have preferred suppliers for the main organic products and refer new supplier inquiries to these suppliers. Retailers require small-scale organic food processors to distribute their product to them *via* distribution companies such as Boyne Valley. While these distributors generally provide a good service for the small food enterprises their margin can often be quite high.

Issues for Developing the Retail Sales Channel

As most consumers buy their food in supermarkets, it is expected that the most significant increase of the organic food market will take place in this channel. Organic food is considered a niche by the main players and represents a very small share of the total retail sales in

each product category. However, retailers are keen to offer a comprehensive organic range as a customer service.

Regarding further development of organic food in the retail market in Ireland, retailers identify several issues of central importance. Food producers/processors that can manage these issues are likely to succeed. Most of these are relevant to processors and producers supplying to independent retail outlets and specialist health food stores as well. These issues can be summarised as:

- **Retailer strategies:** Retailers need to be encouraged to integrate organic products into their business strategy, not only their product strategy. Most supermarkets do not give organic food ranges the support necessary for success. They tend to introduce a few high-turnover organic food products rather than build organic food product lines into their overall category management plans. Poor placement, poor quality, and poor pricing decisions exacerbate this situation. These practices also create a danger of retailers abandoning organic food product lines before they have a chance to be accepted by their consumers.
- **Continuity of supply:** There is a need to increase the level of all-year-round supply of dairy, meat and fruit and vegetable products to the extent that seasonality allows. At present, retailers can get over this problem by importing products but they have a preference for sourcing Irish produced food. Research, advice, training and education as well as producer groups have a role to play in this.
- **Consistency of quality:** Retailers are not satisfied that they are receiving consistent levels of quality, particularly for fruit and vegetables sourced in Ireland. There is a preference for taking product from producers that have completed the Bord Glas quality assurance programme and suppliers are encouraged to enter the programme.
- **Market opportunities:** Retailers are becoming increasingly satisfied that they are able to offer staple food products in organic form to their customers. In the future, market opportunities for new organic food products are going to be in line with market opportunities for conventional products and consumer trends underlying the market for food in general. These trends include consumer demand for convenience, luxury, variety, taste and health. In addition, there is a need to increase the range of longer shelf-life products currently available.

- **Organic price premium:** Retailers are unanimously of the view that, if the market is to grow to its full potential, organic price premiums must become more stable throughout the year and current seasonal variations must be levelled out. In the long term, they do not consider current premiums sustainable. In addition, retailers believe that the high organic price premium will serve to limit demand for organic food, particularly in rural areas.
- **Promotion:** There is a need for greater generic promotion of organic food. Currently, promotion levels are very low and there are concerns that the market is not reaching its potential in terms of consumer demand and awareness of organic food. Retailers also are of the view that different organic symbols serve to fragment the marketing effort and even confuse the consumer.
- **Information:** At present, retailers have very little information on, and knowledge of, the performance of organic food product lines. The demand and performance of some organic food product lines is still very difficult to predict. Uncertainty over which organic food product lines are likely to be successful reduces the attractiveness of organic food for retailers. This reflects a general lack of information on the Irish organic market and the Irish organic consumer.

Conclusions

It is expected that the market for organic foods will increase threefold over the next five years. Government and retailer initiatives and greater producer co-operation may accelerate this expected growth. While the multiple retailer is the dominant source of organic food in Ireland, direct sales schemes are popular in rural areas. Both channels need to, and should, be developed in the future but the direct sales channels will require a greater level of public sector intervention and support if they are to offer any significant competition to multiple retailers. A number of issues that need to be addressed in developing the channels have been outlined above. Among the most important for direct sales are increased market access and developing producers' skill bases. For sales through intermediaries, issues include improving consistency of quality, reducing the price premium for organic foods and providing more information to consumers. However, supply issues remain critical to the development of all channels at this stage of the industry's development in Ireland.

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Note: This paper was presented at the Irish Academy of Management conference at the University of Ulster in 2001 and was planned to appear in Volume 23 (2002), issue 1.

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