

Department of Agricultural Economics

Project on Organic Agriculture



Number 20

April 2005

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SWOT Analysis, Major Findings and Recommendations from the Marketing Study

1. Introduction

This paper discusses the strengths, weaknesses, opportunities, and threats in the Saskatchewan organic industry, and presents major findings of the Organic Marketing Study carried out by the Department of Agricultural Economics Project on Organic Agriculture. In addition, the paper makes a series of recommendations that can help to improve the efficiency of stakeholders in the organic supply chain and the supply chain as a whole. The purpose of the marketing study is to examine in detail the current supply chains for four organic commodities produced in Saskatchewan and to identify issues, opportunities and challenges for further organic industry development.

2. SWOT Analysis

SWOT is an acronym for strengths, weaknesses, opportunities, and threats. The purpose of the SWOT analysis is to identify and analyze characteristics of the organic industry as determined from the survey results and analysis performed in this marketing study. Results of the SWOT analysis can be taken into consideration when developing an strategic plan for an individual business in the organic sector or for the government in making policy decisions that are designed to assist the organic industry. Strategies resulting from SWOT analyses will seek to maximize strengths and opportunities, while minimizing potential weaknesses and threats.

Strengths

- *Institutions and Industry Organizations* – exporting of commodities is facilitated by Canadian Grain Commission, the Canadian International Grains Institute, and other well established legal institutions.
- *Demand* – the demand for organic livestock and grain products produced on the prairies is expanding rapidly and products are now being marketed in mainstream retail outlets.
- *Supply* - the prairie region has the ability to supply large quantities of organic grains and livestock.
- *Producer Groups and Certifiers* – there is an abundance of small organizations and groups that provide producers with an opportunity to share production and marketing ideas and remain connected to other industry stakeholders (e.g. marketers).

Weaknesses

- *Industry Organizations* – there are a lack of organizations that are dedicated exclusively to facilitating the production and marketing of organic products and furthering the development of the organic industry.
- *Transportation* – because Canadian organic producers are dependant on export markets, transportation costs can be high for organic grain and livestock products. A lack of economies of size in organic grain transportation, handling and cleaning result in higher costs relative to some conventional grains.

- *Market Information* – there is a lack of organic price and marketing information available to producers and a lack of market research being carried out.
- *Agronomic Information* – there is a lack of formal research resources dedicated to organic production techniques. (Note: this has improved in recent years with increased public research and extension)
- *Costs of Production* – costs of production are high compared to China and Eastern Europe because of low labour costs and the availability of cheaper land in these developing nations.
- *Objectivity of Certification* – certifiers compete for clients by providing services that may compromise the objectivity of 3rd party certification.
- *Supply* – individual producers have an inability to provide consistent supply for processors, distributors, and retailers.
- *Consumer Education* – there is a lack of consumer education being carried out by the organic industry pertaining to the benefits of eating organic foods and the beneficial effects that organic farming has on the environment.

Opportunities

- *Co-operation between Producers* – there are opportunities for producers to co-ordinate crop production in order to grow a load and reduce transportation costs.
- *Direct Selling to Distributor* - there are opportunities to increase primary processing, consolidation, and selling of grain products directly to distributors in major market.
- *Canadian Standard* – Canada has an opportunity to introduce a mandatory national standard and differentiate “Canadian quality” through trademarks or logos.
- *Producer-owned Marketing Firms* – there are opportunities for producers to increase returns by creating or joining producer-owned marketing firms.

Threats

- *Cost of Production* – lower costs of production in developing countries has the potential to lower organic prices.
- *Fractionalized Industry* – inability of industry (specifically producer groups) to agree on philosophical issues threatens the creation and development of organizations that can deal effectively with industry policy, expand research, and carry out consumer education and promotion of organic food.
- *Barriers to Trade* – high potential for trading partners to use organic standards as trade barriers. Impending deadline for equivalency with the EU threatens major export market.

3. Major Findings

This section of the paper highlights some of the major conclusions that can be drawn from the marketing study. Some of these conclusions result in recommendations made in the third section of the paper, while others simply provide information that industry stakeholders can utilize to increase their own efficiency.

Certification

1. Organic producers are generally pleased with the job that their certification bodies (CB) are doing. The basic functions of efficient, timely, objective and affordable certification and market access were rated as the most important activities performed by certifiers, although extra services such as helping to connect with buyers, providing marketing and agronomic information, performing and distributing research, and participating in the creation of standards are also considered important.
2. There are differences in total satisfaction across producers with different experience and farm size, as less experienced and larger farms are less satisfied with the services of their CB.

3. In aggregate, organic producers are neutral regarding the appropriateness of CBs performing extra services, although individual producers are divided on this issue. For example, several producers “strongly disagreed” with CBs helping farmers to connect with buyers, while several producers also “strongly agreed” with CBs providing this service.

4. Opinions on the importance of CB functions differ for producers, marketers and processors. Marketers are the most critical of the effectiveness of CBs and believe that the extra services provided by CBs are unimportant. This contrasts the views of producers and processors, who value these extra services.

Marketers and Market Information

1. Organic producers are generally pleased with their marketer in the 16 functions that were analyzed. Marketers tend to be most effective at the functions that matter most to producers including:

- providing prompt payment after delivery
- providing assurance of payment
- providing marketing opportunities throughout the year
- providing high prices, given the realities of the market
- “fair” marketer fees

2. Different marketer types have advantages and disadvantages that producers must consider when making marketing decisions. For example, there are significant differences in price and producer marketing cost between different marketing routes for organic commodities. Producer-owned firms (POF) were found to provide the greatest profit per tonne for producers, while sales to processors provided little additional profit per tonne for producers over sales to small and large grain companies.

3. Producers consider a lack of information on markets and prices to be their biggest problem. This places producer at a disadvantage in dealing with buyers and when attempting to make informed marketing decisions. Providing producers with enhanced information on prices and markets would allow them to make more informed decisions on when and where to sell.

4. Organic marketers have a better idea of their customers’ priorities than do organic producers, and they do not suffer from the problem of poor market information that afflicts producers.

5. Producers are not willing to pay more than \$20 per year for price information, which is not enough to entice private firms to provide this information. Producers are most interested in receiving weekly price offers from organic grain buyers, and reported that they would save approximately one hour per sale in marketing effort if such information was available to them.

6. Increased information on the supply of commodities can decrease risk for buyers, which can assist in planning purchases from a given region and facilitate investment, which is a benefit to the entire organic supply chain.

Organic Regulation

1. Many organic stakeholders are uninformed about the current organic regulations in Canada and abroad. Organic stakeholders generally understand that a mandatory national standard is important for continued trade with the European Union and for protecting Canadian consumers against fraudulent selling of non-organic goods as “organic”. However, many stakeholders are not aware that a voluntary national organic standard already exists in Canada. Organic stakeholders are also unsure of the fact that Canada does not currently have an permanent advisory board for organics, although

most agree that a permanent advisory board is needed.

2. Producers, marketers and processors currently believe that the organic regulatory system in Canada is ineffective. This result has important consequences for government, as it indicates that there is a problem with the current state of organic regulation, or it indicates that the benefit of current regulations are not being conveyed to the industry.
3. While many stakeholders are unsure that a mandatory national standard will increase the profitability of their operation, they indicated that the creation of a national standard is the main challenge facing the organic grain industry.

Contracting

1. Production contracts and forward contracts are used by producers to ensure demand and by marketers and processors to ensure both supply and demand.
2. Marketers and processors contracted between a third and a half of their wheat purchases and sales, and about a third of their flax purchases and sales. Marketers contracted about a quarter of their lentil sales. Marketers forward contracted about 10 percent of their oat purchases, and none of their oat sales. Processors, on the other hand, forward contracted about a third of their oat purchases.
3. Production contracts generally provide a lower price than selling after crops are harvested. In the cases of organic wheat, flax and lentils, production contracts earned prices that were lower by \$9.82/tonne, \$54.94/tonne and \$46.94/tonne respectively.
4. Despite producers' common use of production contracts, they are mainly dissatisfied with the price that they receive as well as the terms of the contract.
5. Processors and marketers speak more favourably than producers about using forward contracts in their purchases and sales.
6. The difference in satisfaction between producers and their buyers suggests that producers do not understand the benefits of contracting, or they bear a disproportionate share of the disadvantages.

Costs

1. The costs to produce and market organic grains are generally higher than conventional grains. These differences are driven by two main forces. First, the production, handling, record-keeping and certification costs that are required for certified organic grains are higher than the conventional grain supply chain costs. Second, the lack of economies of size in organic grain transportation, handling and cleaning result in higher costs relative to some conventional grains.
2. Organic spring wheat and flax are slightly less costly to produce on a per-acre basis but significantly more costly on a per-tonne basis than conventional spring wheat and flax.
3. Transportation costs are generally greater for organic grains than for conventional grains. The small number of organic cleaning facilities and organic elevators results in long trucking distances and thus high trucking costs. The problem of not selling enough to fill a truck further increases the costs of transportation.
4. While some of the increased costs of the organic supply chain are a necessary part of producing an "organic" product, many of these costs could be lowered by achieving economies of size.

General Findings

1. Canadian distributors prefer Canadian brands, although it is not always possible for them to find Canadian suppliers that can provide them with the products they need at a good price.
2. Agronomic information that can lead to higher and more stable yields would benefit the entire organic supply chain by reducing the uncertainty associated with supply of organic commodities.

4. Recommendations

The purpose of this section of the document is to provide a list of recommendations for the organic sector based on the results of the marketing study. Some of the recommendations are based on specific survey results or analyses and are addressed to a specific group of industry stakeholders, while others are general recommendations that affect and are addressed to all stakeholders in the organic supply chain.

1. Minimize Trucking Costs

- a. *Grow a Load* – Growing a load of individual organic crops can reduce transportation costs and increase the price that producers receive for their crops. Organic crops are typically transported from producer to processors and marketers by truck. If a full truckload is not produced at one location, the truck will have to travel to other locations to obtain a full load. This will increase transportation costs and therefore decrease the final price per unit received by producers for their crop. For more information on transportation costs of organic products, refer to report Number 12: Costs in the Organic Supply Chain.
- b. *Work with Neighbours to Grow a Load* – In the case of organic flax and lentils, it may be difficult for an individual farmer to grow a load without devoting a large proportion of his / her land to producing that commodity. As an alternative, producers could increase the marketing potential of their crops by

co-operating with neighbours to collectively grow a load.

2. Improve Information Flows

- a. *Price and Quantity Information* - The organic grain market is characterized by a lack of available data on supply and demand in Canada and around the world. Organic grain producers currently rely on personal communication with other producers and buyers in order to determine current and future prices. This situation contrasts the large amounts of data available for commodities such as wheat, canola and other crops in the conventional grain industry. Producers can directly benefit from having a market information service because if it allows them to save time and helps them to more effectively negotiate a market-clearing price for their products. Market data can also help producers and other supply chain members to make forecasts of price changes and thus make more informed decisions on what to grow, when to sell and where to sell their organic products. Improved price discovery information can decrease the volatility of prices and allow buyers to better predict supply, which can assist them in planning their purchases from a given region. Uncertainty of supply may discourage some buyers from sourcing from particular regions and may hinder the ability of buyers to establish long-term relationships with sellers in those regions. In the surveys, several processors emphasized the importance of ensuring consistent supply to maintain consumer interest in organic food.

One can conclude from these results that there may be a role for public or private price information organizations in the organic industry. The lack of willingness to pay for price information suggests that the role of private firms to provide price information may be limited. Publicly available price information may be the most viable mechanism to transmit price information to firms in the organic grain sector at the present time.

b. *Quality Traits Demanded by Buyer* - Firms at each stage of the supply chain can increase the price received for their products by providing buyers with products that have desirable attributes. For example, producers of organic flaxseed can increase the prices they receive by growing specific varieties of flaxseed that processors want and by taking steps to maximize the oil content of that flaxseed. Results of interviews with processors indicate that price is positively affected by oil content, and that some varieties are more important to processors than others. Producers, processors and marketers should be prepared to contact downstream buyers in advance of production and/or processing to ensure that desirable product attributes are well understood and can be provided.

3. Increase Agronomic and Breeding Research-

Organic production is often characterized by variable yields that are typically lower in comparison to conventional production. This makes it difficult for producers, processors and marketers to forecast the yearly supply of organic crops, a situation that can complicate the process of contracting throughout the entire supply chain. The uncertainty associated with supply can cause reluctance among all industry participants to enter into supply contracts for their products in case they cannot fulfill them. In the long run, this can lead to an underinvestment in the organic industry. Agronomic information that can lead to higher and more stable yields would therefore benefit the entire organic supply chain.

4. Educate Producers on Various Marketing Options -

Different marketing routes have several different characteristics that should be considered when choosing a buyer. The results of the marketing study suggest that there are significant differences in producer price and producer marketing cost between different marketing routes for organic HRSW, and that differences in profit between

different marketing routes can be quite large.

Producer-owned firms (POFs) are perceived to excel in providing marketing information and advice to their producer members, high prices and fair marketer fees. On the other hand, non-POFs excel in providing prompt, assured payment.

5. Educate Producers about the Importance of Record

Keeping - It is clear from the survey questions that quality and the audit trail are of utmost importance for marketers and processors. While producers understand the importance of quality, they are surprisingly unaware of their customers' emphasis on the condition of the audit trail. The audit trail that follows all shipments of organic grains is an integral part of organic marketing, as it gives assurance that the grain is indeed organic. A problem with the audit trail at any point can jeopardize an entire sale. Therefore it is imperative that marketers and processors explicitly convey the importance of audit trails to producers.

6. Increase Education about Organic Regulation in

Canada – The results of the surveys suggest that although many organic producers, marketers, and processors understand the implications of having a mandatory national standard on market access, many stakeholders do not know that a voluntary organic standard exists in Canada, and do not understand how organic regulations work in general.

Regulations such as a mandatory national standard can have a profound effect on organic producers, marketers, and processors due to their implications for trade. It is therefore important that these stakeholders understand the regulatory process that is occurring in the organic sector. It is also important that stakeholders' opinions on the matter are heard by one another in the sector and by government.

There are many potential avenues through which regulation information can reach the organic grain industry. Certification bodies or industry organizations could provide information on regulatory issues as part of their services to producers. Government could also take the lead in providing organic regulation information to those that are interested. Increased information on current regulatory efforts may improve stakeholders' perceptions on the effectiveness of the regulatory system.

Note: The authors would like to acknowledge the financial support of Saskatchewan Agriculture Food and Rural Revitalization (SAFRR) for this project. The authors would also like to acknowledge the Canadian Wheat Board (CWB) and the Social Sciences and Humanities Research Council of Canada (SSHRC) for their support of graduate student research related to this project.

The authors would also like to thank everyone who filled out questionnaires or agreed to be interviewed. Their participation is very much appreciated.

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The marketing study consists of the following papers:

- Number 1: Introduction*
- Number 2: Organic Producer Perceptions of their Marketers*
- Number 3: Organic Producer Perceptions of Organic Regulation in Canada*
- Number 4: Organic Producer Perceptions of Market Information Availability*
- Number 5: Organic Producer Perceptions of the Role of Certification Bodies*
- Number 6: Analysis of Organic Wheat Buyers in Saskatchewan: A Vertical Coordination Approach*
- Number 7: Contracting in Organic Grains*
- Number 8: Priorities and Problems in the Organic Grain Supply Chain*
- Number 9: Organic Regulation in Canada: Opinions and Knowledge of Producers, Marketers and Processors*
- Number 10: Information in the Organic Grain Market*
- Number 11: The Performance and Role of Certification Bodies*
- Number 12: Costs in the Organic Grain Supply Chain*
- Number 13: Organic Grains and the Canadian Wheat Board*
- Number 14: How Retailers Procure Organic Products – Opportunities for Saskatchewan*
- Number 15: Organic Wheat Supply Chain Profile*
- Number 16: Organic Oats Supply Chain Profile*
- Number 17: Organic Flax Supply Chain Profile*
- Number 18: Organic Lentils Supply Chain Profile*
- Number 19: Summary*
- Number 20: SWOT Analysis, Conclusions and Recommendations*