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Organic Marketing Study – Summary

This document provides a summary of the Organic Marketing Study. The purpose of providing the summary is to give the reader an opportunity to read a brief abstract of each part of the marketing study, including the results and conclusions of each paper.

The first four papers discussed below are based on opinions from the producer survey. The rest of the papers are based on the producer, marketer and processor surveys and information from other sources.

Number 1: Organic Marketing Study – Introduction

The purpose of this paper is to introduce the reader to the marketing study. The problem situation, purpose and objectives of the marketing study are outlined in the paper, and the approach to the study is described. The layout of the marketing study is also explained.

Number 2: Organic Producer Perceptions of their Marketers

Organic producers' choice of how to sell their product is a major decision. The producer must decide where, when and to whom he or she will sell. Marketers provide several different services to producers beyond simply buying and selling. The objectives of this paper are to find out the services that organic marketers provide, assess producer views on the importance of marketers' services, and examine the performance of different types of marketers.

The results of the producer survey suggest that 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. Producers were most concerned about (in order of importance):

- 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

The results also suggest that younger, less experienced producers and producers with higher incomes were less satisfied with their marketer. Producers that use a Producer-Owned Firm (POF) were most pleased with their marketer, while producers were less satisfied with grain companies. Grain companies typically buy producers' grain, while POFs do not necessarily take ownership of grain. POFs are unique because they employ an agent to market on the producers' behalf. The results suggest that POFs excel in providing marketing information and advice to its producer members, high prices and fair marketing fees. On the other hand, non-POF marketers excel in providing prompt, assured payment. In a POF, the marketer and the producer members have more incentive to share market information. Overall, different marketer types have different advantages and disadvantages that producers must consider when they make their marketing decision.

Number 3: Organic Producer Perceptions of Organic Regulation in Canada

The Canadian organic sector is experiencing more government involvement than ever before. The main role of the government at this time is to facilitate the development of a new national organic standard. A new standard is necessary for Canada to successfully negotiate equivalency agreements with governments in countries trading with Canada. An equivalency agreement is needed with the European Union before December 31, 2005 in order for Canada to continue to export organic products to EU member states. The objectives of this paper are to find out the opinions of organic producers on issues of regulation and to evaluate the knowledge that organic producers have about Canadian organic regulations.

The results of the producer survey indicated that producers do not believe that the organic regulatory system in Canada is effective. Organic producers 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 organic producers were not aware that a voluntary national organic standard already exists in Canada. Organic producers were also unsure of the fact that Canada does not currently have an permanent advisory board for organics, although most agreed that a permanent advisory board is needed. Producers overwhelmingly believe that the development of a mandatory national standard is the most important marketing challenge for the organic grain sector. Overall, the results suggest that many organic producers are uninformed about the current regulations. These results suggest that producers need to be better informed regarding organic regulation in Canada.

Number 4: Organic Producer Perceptions of Market Information Availability

The organic market is characterized by a lack of available data on supply and demand in Canada and around the world. This situation contrasts the large amounts of data available for some conventional grain markets. Such data can help producers and other supply chain members to make be more informed about when and where to sell their organic grains. The objectives of this paper are:

- to examine the marketing problems of producers, including a lack of market information
- to find out if producers purchase any market information
- to measure producer interest in having access to more information on organic prices

The results of the producer survey indicate that producers are not very concerned about any apparent lack of price information or a relative disadvantage in market knowledge compared to their buyers. However, problems of information were rated as the most important problem that they have. Producers use farm papers, newsletters and books to provide them with market information, but no producers indicated that they purchased any information on organic market prices. There is in fact almost no published price information available to organic grain producers.

Producers were asked to rate the value of different types of market information, as well as their willingness to pay and the time that the information would save them. Producers were 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. Producers were less interested in receiving monthly market outlooks, monthly prices that farmers have recently received and inventories, and daily price offers from buyers. Overall, results indicate that 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. The unwillingness to pay for price information suggests that publicly-funded price information may be the most viable mechanism through which price information can be provided to producers at the present time.

Number 5: Organic Producer Perceptions of the Role of Certification Bodies

The main function of Certification Bodies (CBs) is to certify that firms in the supply chain are conforming to organic standards that are established by standardization organizations. Certification assures consumers that the foods they buy are truly organic. The objectives of this paper are to evaluate the importance of CB services and examine the performance of CBs in the services that they provide.

Producers were given a list of 10 functions that CBs perform. For each function, producers were asked to rate the importance of the function to the producer, as well as the effectiveness of their CB in performing that function. Producers were also asked to rate the appropriateness of CBs performing extra services that go beyond the basic service of 3rd party certification.

Overall, the results illustrate that organic producers are fairly pleased with the job that their CB is doing. The basic functions of efficient, timely, objective and affordable certification and market access were rated most important, 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 were also considered important. There were differences in total satisfaction across producers with different experience and farm size, as less experienced and larger farms were less satisfied with the services of their CB.

On average, organic producers were neutral toward the appropriateness of CBs performing extra services, although producers were 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. In conclusion, the results illustrate that there are large differences in producer opinions on the role of CBs.

Number 6: Analysis of Organic Wheat Buyers in Saskatchewan: A Vertical Coordination Approach

There are several ways that organic grain producers can market their organic wheat. Producers can choose to sell to a grain company that is a handling agent of the Canadian Wheat Board (CWB) or a grain company that is not a handling agent of the CWB. Producers may also choose an agent to market his or her grain on the producer’s behalf. Agents typically receive a percentage commission from each sale. Another option is for producers to be a member of a Producer-Owned Firm (POF), which employs an agent to market the producers’ grain. The producer can also choose to eliminate the marketer middleman and market his or her grain independently, and sell directly to processors or other companies down the supply chain. Given the various method available to sell organic wheat, it is worthwhile to compare these different types of marketing routes. The primary purpose of this paper is to discuss and measure the differences in farmgate price, costs and profit between these different marketing routes for organic wheat producers.

The results of the producer survey suggest that there were significant differences in price and producer marketing cost between different marketing routes for organic wheat. Overall, marketing costs predictions were larger than those assumed in government publications.

The POF and direct-to-processor marketing routes both employ tighter vertical coordination between producer and marketer. The POF marketing route was found to provide the greatest profit per tonne, while sales to processors provided little additional profit per tonne compared to grain company sales. This result contradicts the common idea that it is best to “direct market” and eliminate the middleman whenever possible. The marketing middlemen of the organic wheat supply chain perform important functions, and producers that market directly to processors do not always gain a large increase in price in return for their efforts. One must remember that different marketing routes all have advantages and disadvantages that must be considered when choosing a marketing route.

Number 7: Contracting in Organic Grains

Contracts are an important aspect of marketing for organic producers, marketers and processors. The objective of the paper is to describe the nature of contracts being used to buy and sell organic wheat, oats, flax and lentils.

Contracts are used in transactions for three main reasons: to provide certainty for the parties, to help avoid and settle disputes, and to balance the risks. Although contracts come in many forms, there are two major types of formal contracts used in organic grains: the delivery contract and the production contract. A delivery contract specifies the time, place, quality, quantity and price of the transaction. Both delivery contracts and production contracts require delivery of product. A production contract is different because it is usually made before the product has been grown. Organic producers use production contracts in about 15-20% of wheat, flax and lentil sales. Organic marketers and processors use forward contracts in about one-third of wheat, flax and oat purchases and sales.

Results of the producer survey suggest that production contracts generally provide a lower price than selling after the crop is 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.

The survey results suggest that production contracts and forward contracts are used in response to a desire by producers to ensure demand and a desire by marketers and processors to ensure both supply and demand. Despite producers' common use of production contracts, producers are mainly dissatisfied with the price that they receive and the terms of the contract. On the other hand, processors and marketers speak much more favorably about using forward contracts in their purchases and sales. 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.

Number 8: Priorities and Problems in the Organic Grain Supply Chain

It is important that firms in a supply chain understand their customers' priorities and problems. Likewise, it is important that customers understand their suppliers' situation and problems. A clear understanding between buyer and seller can help to facilitate a smoothly functioning supply chain, where goods are transacted efficiently and effectively.
The first objective of this paper is to assess product attributes that are most important to organic wheat and flax buyers. The second objective of this paper is to assess the marketing problems that are experienced by organic producers, marketers and processors. All respondents have been given identical questions, which allows for "mirror-image" comparisons across the different groups to examine if they see eye-to-eye on their priorities and experience similar problems.

The results of the producer, marketer and processor surveys illustrate that product 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. These results suggest that efforts must be made in order to emphasize the importance of the audit trail for producers.

Processors stated that inadequate quality was their biggest problem with buying organic wheat and flax.

Agronomic research and extension may help to increase the quality of organic grains available to processors.

Producers consider a lack of information on markets and prices to be their biggest problem. Providing producers with enhanced information on prices and markets would allow them to make more informed decisions on when and where to sell. The results suggest that organic marketers have a much better idea of their customers' priorities than organic producers, and they do not suffer from the problem of poor market information that afflicts producers. Marketers stated, however, that they have difficulty estimating supplies of producers' grain before harvest. This situation could be aided by the formal collection of information on organic crop planted acreage and yield. Marketers' comments emphasized the involvement of the CWB as one of their biggest concerns. Most marketers would prefer the CWB to not be involved with organic wheat and barley.

To conclude, the results suggest that the marketing relationships in the organic grain supply chain could be improved in several ways. An increase in information and understanding throughout the supply chain will help to increase its effectiveness and efficiency.

Number 9: Organic Regulation in Canada – Perceptions of Producers, Marketers and Processors

The Canadian organic sector is experiencing increased government involvement. The federal government is currently working with the organic sector to develop a mandatory national organic standard. 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. The objectives of this paper are to find out the opinions of organic producers, marketers and processors on issues of regulation and to evaluate the organic industry's knowledge of Canadian organic regulations. This paper is similar to article number 3, *Organic Producer Perceptions of Organic Regulation in Canada*, but includes the responses of marketers and processors in addition to the producer responses.

The results of the producer, marketer and processor survey suggest that many stakeholders in the organic sector are unaware that Canada presently has a voluntary national standard. Moreover, stakeholders generally understand that a mandatory national organic standard in Canada is important, but they are unsure of some of implications of a mandatory national organic standard. For example, some stakeholders do not understand that a mandatory national organic standard would protect domestic consumers against fraudulent selling of non-organic products as organic. In addition, many stakeholders are unaware that there is no permanent advisory board related to the creation of organic regulations. Overall, it appears that processors are the most knowledgeable group of stakeholders. These results suggest that producers need to be better informed regarding organic regulation in Canada. Since organic producers are stakeholders in the regulatory system, it is important that they be given the ability to inform themselves about current and future organic regulations.

In addition to measuring knowledge, the results also highlight the opinions of several stakeholders on organic regulation. First, the survey has shown that producers, marketers or processors do not believe that the organic regulatory system in Canada is effective. 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. Second, the survey has shown that there is no clear preference for a government or industry regulated mandatory national organic standard by producers or processors, but marketers clearly exhibit a preference for industry regulation. 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 of the organic grain industry. Given the lack of knowledge that exists regarding the state of organic regulation in Canada, there may be a role for certification bodies, sector organizations or government to increase awareness of organic regulations.

Number 10: Information in the Organic Market

The organic grain market is characterized by a lack of available data on supply and demand in Canada and around the world. This situation contrasts the large amount of data available for commodities such as wheat and canola in the conventional grain industry. Market data can 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. This paper is similar to article number 4, *Organic Producer Perceptions of Market Information Availability*, but includes the responses of marketers and processors in addition to the producer responses.

The results of the surveys suggest that almost no public or private price information exists for organic producers. The surveys indicate that producers are somewhat interested in having more price information and they would experience substantial time savings if they had that information. Producers are clearly not willing to pay very much for price information, which poses a problem for any private delivery of these services. The producer responses likely indicate some doubt that the information will benefit them. On the other hand, marketers and processors rated the market information sources higher than producers. Marketers and processors may have rated the market information sources higher than producers because they already know the value of information. In contrast, producers have relatively less information and thus may not fully understand its value. 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. Increased information on supply can also decrease risk for buyers, which can assist in planning purchases from a given region and facilitate investment, which is a benefit to the entire supply chain.

One can conclude from the results that there may be a role for public or private price information organizations in the organic wheat sector. The lack of willingness to pay for price information suggests that the role of private firms to provide price information may be limited.

Number 11: The Performance and Role of Certification Bodies

Certification Bodies (CBs) are very important institutions in the organic foods supply chain. The main function of CBs is to certify that firms in the supply chain are conforming to organic standards that are established by accreditation organizations. Certification assures consumers that the foods they buy are truly organic. The objectives of this paper are to evaluate the importance of CB services to producers, marketers and processors, and to examine the performance of CBs in providing these services. This paper is similar to article number 1, *Organic Producer Perceptions of the Role of Certification Bodies*, but includes the responses of marketers and processors in addition to the producer responses.

The survey results illustrated that opinions on the importance of CB functions differ across the three groups (producers, marketers and processors). Marketers were the most critical of the effectiveness of CBs and believe that the extra services of CBs are unimportant. This contrasts the views of producers and processors, who value these extra services. Overall, the results suggest that organic producers, marketers and processors seem satisfied with the role and effectiveness of CBs and do not seem very concerned that CBs typically provide additional services.

Number 12: Costs in the Organic Grain Supply Chain

Organic grain production and marketing is very different than conventional grain production and marketing, and hence so too are the costs. Exactly how these costs differ has not been fully studied. Although a few studies have examined the cost of organic grain production, there are other important costs, such as marketing, handling and certification that have not been examined to date. The purpose of this paper is to assess these costs in the organic grain supply chain and to compare them to corresponding costs in the conventional grain supply chain. The cost of the conventional supply chain can serve as a useful point of reference in order to see where organic costs are relatively higher or lower.

Overall, the paper has shown that 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.

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. This analysis conflicts the results of the producer survey, which suggested that producers think that organic wheat costs about the same to produce as conventional wheat, and organic flax is cheaper to produce as conventional flax.

Marketing organic grain is a cost for producers, marketers and processors. Record-keeping costs, which are present for all levels of the organic grain supply chain, are higher compared to conventional record-keeping costs. Organic certification is also an extra cost that producers, marketers and processors must pay. 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. 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.

Number 13: Organic Grains and the Canadian Wheat Board

The effect of the Canadian Wheat Board (CWB) on the organic wheat market in the prairie region of Canada is fiercely debated among members of the organic wheat sector. Some organic producers and marketers believe that the CWB has a negative effect on organic wheat marketing, while others believe that the CWB does not substantially affect the organic wheat market. Since the CWB does not market organic wheat or barley, a Direct Sale (PDS) is necessary, which is a transaction that allows wheat and barley producers to market outside of the CWB. An analysis of the effects of the CWB, with a focus on the effect of the PDS, may help to resolve this debate. The objective of this paper is to discuss the effect of the CWB on the marketing of organic wheat in the prairie region of Canada.

The impact of the CWB on organic wheat and barley can be summarized into five potential effects:

1) *Market Power Spillover*

   Organic spring wheat, durum and malting barley are predominately sold into markets where the CWB has been shown to extract higher prices.

Organic wheat, durum and malting barley prices may be positively affected by the marketing strategy of the CWB.

2) *Added Costs*

Added costs include a transaction cost of $1.50 per tonne for the PDS. This cost is paid by the organic wheat producer.

3) *Sales Timing*

The PDS can introduce different incentives to selling organic wheat because it compels the producer to maximize the difference between the organic price and the CWB price, instead of just maximizing the organic price.

4) *Price Risk*

The PDS may increase or decrease day-to-day price risk, depending on the relationship between the CWB daily asking price and the organic price.

5) *Choice*

The effect of the CWB on marketing choice is mainly philosophical.

The $1.50/tonne cost of the PDS is the most definitive effect of the CWB, while the effect of sales timing, price risk and market power is less clear. The CWB contends that the PDS has a "profit neutral" effect on the organic market, but it is difficult to test this statement. The profit neutrality of the PDS depends on the assumption that organic and conventional wheat prices move up and down together. In addition, it is difficult to test if CWB market power has a spillover effect on organic prices. Overall, the lack of understanding of the relationship between organic and conventional grain prices is a limitation that merits further investigation.

Three quarters of the 58 producers in the producer survey reported that they do not want the CWB to become more involved in marketing organic grains. This result is mirrored by comments made by marketers and processors.

Number 14: How Retailers Procure Organic Products – Opportunities for Saskatchewan

The distribution of organic food products is an integral part of the organic supply chain. Consumer's tastes dictate what goes on retailers' shelves and what does not. It is thus very important that producers and other suppliers understand the requirements of retailers and distributors. It is also important for producers of organic products to understand how the distribution system functions. This purpose of this paper is to describe how retailers source organic products.

Retailers have very close contact with organic consumers and are the last step in the chain of companies between the producer and the consumer. The main function of the retailer is to sell products to the consumer. Many retailers procure organic products through distributors, who procure products from manufacturers and processors. A distributor is an important gatekeeper of the organic retail market, as they have a great deal of influence on whether a particular product is put on a retail shelf or not.

Distributors and retailers want to provide organic food products that their customers will want. There is an entire bundle of attributes that are necessary, such as attractive packaging and consistent quality. Distributors and retailers also want smoothly-functioning, manageable relationships with their suppliers. Suppliers must be aware of labeling regulations, registration requirements and the potential for advertising and promotion commitments. It is thus important that suppliers understand their own business and the business of their customers. Distributors and retailers appreciate professional, service-minded suppliers that are accessible and prompt in returning phone calls and providing necessary paperwork.

There are plenty of opportunities for Saskatchewan farms and manufacturers to succeed in finding organic distributor and retail customers. 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. In the case of organic bulk grains, there may be opportunities for more Prairie-produced and Prairie-packaged bulk grains to be shipped directly from the grain growing regions to the major markets.

Number 15, 16, 17, 18: Profiles of Organic Wheat, Oats, Flax and Lentils

The supply chain for organic grains in Saskatchewan involves production, processing, and the distribution of grain and products made from grain to a variety of locations around the world. The organic grain supply chain encompasses all activities occurring between the production of flax and its final use by consumers. The main objective of these papers is to provide an overview of the supply chain for organic wheat, oats, flax and lentils, including their products and their uses, a description how each grain is organized in its various distribution channels, and issues related to market access. The purpose of each paper is to identify information that can increase the efficiency and effectiveness of participants in the supply chain. Understanding how the supply chain works and identifying its various issues and opportunities is critical to analyzing the profitability of each component of the organic grain supply chain, and the entire chain as a whole.

Number 20: SWOT Analysis, Major Findings and Recommendations of the Marketing Study

This document draws upon the analysis in papers 1 through 18 to conclude the marketing study. A SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) if first given, followed by a summary of the major findings in the marketing study. A list of recommendations for the organic sector conclude the paper.

The recommendations include:

- Minimize Trucking Costs
- Improve Information flows
- Increase Agronomic and Breeding Research
- Educate Producers on Various Marketing Options
- Educate Producers about the Importance of Record Keeping
- Increase Education about Organic Regulation in Canada

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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