

# Analysis of the Different Sales Channels on Organic Food Market

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## SUMMARY

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The national ecological production is highly export orientated. The development of the inner market is a very slow process the reasons for which are incomplete knowledge, limited solvent demand, wrong approach and limited purchase possibilities. In the supply of the few organic stores we can only find about 10% organic food which is compensated by the wide choice. Organic foods aren't able to get into supermarkets because of the limited goods provision and the high production costs, low supply characterises them, their attract is due to their special quality and traditionality. The development tendency of the organic market in Hungary moves in the direction of home delivery service and local market, these enterprises reach considerable initial success and their further development can be expected. Eco-tourism means possibilities in opening eco-restaurants and hotels where organic meals are served.

## KEY WORDS

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organic food, sales channel, consumer behaviour, special expectations, high demand

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## INTRODUCTION

The rate of organic lands is remarkably increasing in the whole world. The most important reasons are the changes in the nutrition habits, displacement of the self-confident consumer behaviour in the direction of healthy, high quality and free from GMO food, therefore the market is demand oriented

An increase in the demand results in the surge of the organic land, which is indicated by an increase of 250% in two years. Australia has most organic land where 10.5 million ha was observed in a survey in February 2003. In Europe Italy outstands with an area size of 1,23 million hectares, which means 7,94% of the total agricultural land (Yussefi and Willer, 2003).

This overall development reached Hungary, too. In December 2002 the estimations showed 103.672 ha and within this 54,497 ha was registered as approved organic area. It means 1.7% of total agricultural land (Biokultúra, 2003).

## MATERIALS AND METHODS

The methods of obtaining both primary and secondary data can be used in this research. They are different from one another in type of information.

Substances of secondary marketing research are to use written information and numerical data from another aspect. From its possibilities we used the processing of national and foreign bibliographies, statistic databases, internet and participation on scientific conferences and exhibitions

Primary marketing research means data self-collection from the methods of which we used observation and questioning (Szakály, 1991).

- We observed regularly the supply of national and foreign supermarkets, eco stores, drogeries, local markets, exhibitions, pharmacies and farms.
- We carried out interviews with managers of supermarkets, eco stores, home delivery services and we visited up farmers in their home and at the market. We didn't select with a random sampling method because they are simply available and the data are reliable because of the existing connection. First we questioned in spring 2002 and we repeated our research this year again to control how the organic market has changed.

## RESULTS AND DISCUSSION

In Hungary there have been considerable changes in the sale of food during the past 5 years. The usual little and middle-sized stores were changed by super- and hypermarkets, where customers could choose from a huge supply by their wish (Nagy, 2001).

But on the market of organic food the rates are completely different. In the volume of sales bio and

reform food shops stand on the top. Home delivery services and direct sales of farmers have a smaller part, which can happen from home or on the eco market. Some organic products can be found in little quantities in smaller drogeries or in bigger drogeries (DM, Rossmann). Nowadays supermarkets pass the smallest rate from the total turnover in our country.

If we look around in the European countries, we can see different positions independently of their geographical facing and economical development. But as a common tendency in the whole world we can observe the greatest demand on organic vegetables and fruits.

### Bio and reform food shops

Nowadays we can find lots of bio and reform food shops in every city in Hungary. But they are difficult to compare because of their dimensions and supply. The rate of eco food on their shelf remains below 10% in almost every shop due to ignorance of proprietors and business consideration. Another influencing factor is the proprietor or salesman's responsiveness to organic foods, which has an impact on the customers too.

We have thoroughly analysed a bio shop, whose proprietor belongs to this vocation group. It is a lucky fluke that the rate of organic foods is higher here than in other shops.

In the wide choice of organic foods bakery products, cornflakes, corns, wheat and rye meal, oil, honey, drinks, powdered soup, stock, ketchup, cider, margarine, soja drinks, drinkable rise and vegetarian can we found in this shop. We could observe an important increase of proportion of the processed foods and import products compared to last year. Most of the foods available are being purchased from wholesalers, while others are being bought directly from the producer. The sale of milk products will be planned in the near future.

Organic products give about 9-10% of the supply of the shop but their income is higher, about 17% due to rash turning speed. A typical extra charge of organic foods is 20-40%, a bigger difference can be only found at some special quality foods. This shop has regular consumers who visit it because of their illness. The proportion of regular consumers buying organic food multiplied compared to last year.

It is characteristic of the Hungarian bio and reform food shops in their supply that they mostly serve vegetarians and people who suffer from food-intolerance, the ecological origin of the product comes only second. It can be very disadvantageous for the market in the long run, even if it results in a prompt boom. Deformed habits can easily be formed while most of organic food customers come out of people with average consumer habits in ideal case.

The external appearance of shops rarely reflects the interior content and the serve floor often beams esoteric character. They make a negative impression on the increasing number of consumers, as well as the development of market. Another problem is that organic foods don't get any different marking only well-informed people can choose them.

In many European countries almost organic foods are sold in specialised bio and reform shops for example in France, Germany, Belgium or Spain. Very interesting is the Netherlands where organic foods are sold only in these kind of stores (Yussefi and Willer, 2002). Their supply of approved organic foods is almost 100% compared to less than 10% in Hungary. Bio and reform food shops are in a disadvantageous situation compared to supermarkets because of their small size.

Consumers of special shops are conducted by the idea of conscious nutrition, they don't believe in mass produced organic foods with smaller extra charge. They need reliable quality, concentrated supply of organic foods completed with consultation with the salesperson.

#### Chain of retail shops

The super- and hipermarkets, discounts, retail networks where wide choice of foods, detergents and household goods are sold on big sales floor, with low margin and self-service are called retail trade by us (Kotler, 1999). Chains of these shops are growing year after year, the most famous one are Tesco, Cora, Metro, Interfrucht, COOP, CBA and ÁFÉSZ.

There are sold fewer types of organic products: only vegetables, sausages and wine. Since reform corner has been formed, the consumers are able to find some approved organic corns and dried vegetables. But their price is 20% higher than in bio and reform shops and that does not attract customers. Vegetables and sausages are purchased from producers, other products can be bought from wholesaler. The turnover of these products can't be shown in price and quantity. Organic foods can't always be found here. Customers are looking for these products due to their special character rather than for ecological reason. These foods are sold only to widen the variety in supermarkets, their price is calculated by quality parameters, which are independent from organic origin. They have tried to sell fresh vegetables experimentally but these foods often become rejects in spite of their high purchase price.

According to our interviewed partner the appearance of organic foods cannot be expected in the supermarkets in the near future due to their high price. He said the income of the local people would not grow to great extent and the reservations of eco products are not economical.

In Western European countries like Portugal, Sweden, Denmark, Finland, Great Britain, Austria, Switzerland and Norway traditional chains of retail shop have sold most organic foods since the beginning (Yussefi and Willer, 2002). In these countries eco products have higher proportion from total food market due to the wider consumer circulation (Hamm and Michelsen, 2000).

We should talk short about Germany where we can find more than 3500 eco products exclusively in organic quality in the chains of Basic supermarkets. Consumers from all Germany are able to purchase in these shops (Frühwald, 2000).

#### Home delivery service

Due to the accelerated information flood new marketing channels appeared that had not been known before the second half part of the last century. One of them is the home delivery service. Consumers get a box of organic food in their home or at an appointed place once a week. Nowadays most of the time this sale channel is chosen because of its new character besides comfort.

We interviewed the manager of a developed farm. They have about 200-250 customers. Vegetables are mainly sold by them, but we can find fruit, milk products and meat in supply too. All products are only certificate organic quality. The production of these foods is seasonal, so in winter only processed products like jam, bottled fruit, wine, honey and zakuszka (national food from Transylvania) are sold. Consumers are able to choose from about 70 goods by their wish. Products get to the customers in boxes in case of weekly order, delivery of large amounts happens in sacks. They deliver in 30 km zone from farm, they have calculated economicality in advance. They have own land where vegetables and fruits are grown, cattle, mangalica pigs and poultry are raised. The number of regular customers is only 80 families (1/3 of the total amount), others order boxes only occasionally. The customers of this farm cannot be classified in united groups, we can find among them businessmen, young mothers, managing directors, pensioners and cancer patients. They have higher salary than the average people do, although extra charge exceeds only with 10-20% the price of conventional foods without delivery.

In summer they organise picnic parties on the farm to increase their sale. They invite customers and acquaintances to cook and roast something, to relax while they show the farm too. After this weekend they always have multiplied turnover for some months.

The undeveloped information channel is characteristic not only of this farm. It is vital to have an access to the delivery service of the farm on the Internet so that consumers can get information about the farm, supply

and they can order organic foods easily, quickly and comfortably. Packing should be solved too.

### Sale at the eco market

In Hungary we can find an eco market in Budapest on Marczibányi square twice a week. In other towns we can find only seasonal markets because of the fluctuating demand. The main characteristic features of this marketing channel are:

- The products have to be controlled and they can only be sold separated from conventional markets
- The market place should be in a distinguished quarter of capital where solvent demand is high
- The same market place in the same time

There is a wide supply: vegetables, fruits, honey, wine drinks, herbs, bakery products, cow- and goat milk, milk products can be found. Besides food sellers some craftsmen have appeared on the market too.

Composition and number of consumers are always changing on this market too due to the periodical demand. The eco market provides healthy foods for the intellectual people of the capital and those who prefer healthy foods due to the chosen area below the Rózsa domb, and the place is easy to reach. Young mothers, pensioners and patients (cancer patients on Gerson diet) come to purchase here besides rich consumers.

The price of certificated organic products is the highest on the market. Extra charge can reach 100% but habitual shoppers get reduction everywhere. Prices of the same foods vary at a high extent different at sellers with similar supply. This competition has not favoured consumers yet. Further differentiating factors are on look of the foods and the personality of the sellers.

### Possible marketing channels in the future

In this chapter we try to introduce short the possible marketing channels of organic foods.

Farm shops are popular where families cultivate plants and raise animals in quiet natural environment far from cities and they sell products in a shop of their house. More foods can be sold with ordering some other goods. The advantage of this channel is a direct connection with the farmer, which can guarantee best the organic quality.

Western European countries usually run eco-restaurants and hotels where the menu consist of certificated organic products. But they not only try

to make dinner in an environmental friendly way, but also supply eco services and equip the hotel consciously. Further organic foods can be found on the menu card of famous hotels and restaurants that would like to complete their variety. So the invested risk will be also smaller.

In restaurants of Budapest are initiatives too, where organic menu is served besides usual foods. Their emphasised problems are the seasonal availability of the products and the small variety. No doubt this sale category promises the highest profit because of the high additional value, but its recovery is slow and without intensive marketing research the market cannot be "conquered".

### CONCLUSION

According to our researches the best way of development is the home delivery service. It could mean a great leap forward, if more products were integrated in a delivery service to widen variety. The small customer circle who are not influenced by the price of goods can be aimed at successfully with this marketing channel. Foods produced in small quantity, with high quality and in extreme packaging can be sold especially well.

Summarising we should determine: Good food has to be not only produced, but sold as well! In our opinion this is the main aim from the point of view of the development of the national eco markets.

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