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THE ORGANIC FOOD MARKET IN POLAND – OBSTACLES AND DEVELOPMENT OPPORTUNITIES IN RETAIL

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Abstract

The aim of the paper is to present and discuss the state of organic food market in Poland as well as limitations and opportunities for further development of the market, occurring in the retail sphere. The condition of the organic food market in Poland was characterised in the paper as well as the results of the research conducted between 2011 and 2012 on retail of organic food. The study covered 131 specialist shops, 109 general grocery outlets and 179 supermarkets. The investigation proved that only part of the specialist stores offered complete organic food product range. One of the obstacles of the improvement of the retail sphere is weak offer of the providers and dispersion of producers and distributors. Collaboration between retailers and other distribution sphere participants may contribute to the overcoming the developmental barriers.

Keywords: *development,market, obstacles, opportunities, organic food, product range, pricing policy, retail, supply sources*

JEL classification: *D22, M31, Q13*

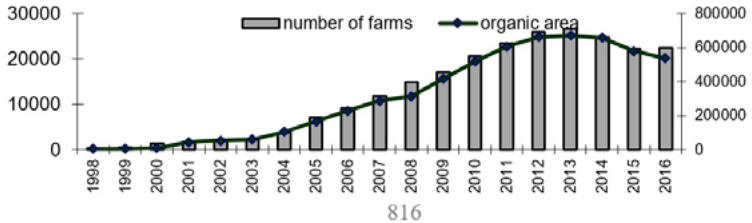
1 Introduction

Poland has good conditions for development of organic farming and therefore this production method may become a significant element of further sustainable development of rural areas. First, organic farming is labour consuming and

it could maintain part of workplaces on rural areas. Second, obtaining higher prices for organic products and subsidies to organic area contributes to growth of farmers' incomes. Third, Polish organic food has export opportunities on the European market, because of competitive advantage resulting from lower production costs.

Organic farming in Poland has been developing since the 90's of the last century. Introduction of subsidies to the inspection cost in 1998 and to organic area in 1999 caused increase of interest in organic production methods. A significant growth occurred in 2004, when Poland joined the EU and organic farmers had the opportunity to use wider support in frames of agrienvironmental programme. At that time, the organic area increased significantly. In spite of some decline in recent years, in 2016, 22 435 farms ran organic production on the area of almost 537 thousand ha (Figure 1).

Figure 1 **Organic area and number of organic farms in Poland between 1998 and 2016**



Source: Author's own elaboration based on AFQI data.

Despite the progress on the supply side, production volume and the offer in retail remained quite narrow. On the other hand, consumers look for diverse product range with the low prices, respectively to the incomes. The solution to this problem is effectively functioning organic market that would justify further development of organic methods in agriculture. Meanwhile, the market is still in the initial stage of growth.

The value of organic market in Poland in 2015 was estimated at 167 million euro and is supposed to reach 250 million euro in 2017. Moreover, it is only 0.5% of the entire food market in Poland (in 2016) (IMAS International, 2017) – for comparison in Denmark it is 8%, in Austria 6.5 % or Switzerland 6.9% (Juhl, Fenger andThøgerson, 2017). It results from the fact that high growth dynamics of organic area in Poland has not resulted in high dynamics of supply volume increase. Significant part of the converted farms does not deliver goods on the market. Additionally, domestic production is characterized by low level of

processing. In 2016 only 705 companies processed organic food, therefore imported processed products have great share in the offered product range, which results in higher price level. Moreover, a problem of organic food market is the fact that organic farms are dispersed all over the country, which is accompanied by lack of solutions assuring efficient flow of products.

The prices for organic food are much higher than the prices for the conventional ones. The price premiums are different for diverse product groups – they range from a dozen in vegetable and cereal products to a few hundred in case of highly processed products (Łuczka-Bakuła & Smoluk-Sikorska 2010). It hinders the organic food market development, because price is still the most important factor in purchasing decisions of the Polish consumers, although their awareness is growing. The most important motives of organic food purchase are healthiness, environmental protection, food safety and higher quality of food (Bryła 2016). In Western European countries, prices play less significant role and more important are environmental issues. Apart from the motives, the consumers in these countries spent much more from their budgets on organic food (O'Doherty Jensen, Denver, and Zanoli 2011, Średnicka-Tober, Kazimierczak and Hallmann 2016).

As far as distribution sphere is concerned, direct selling to individual consumers has been so far the most important distribution channel on the Polish organic food market, because it generates lower costs and margins, due to which it is possible to offer products at competitive prices. Simultaneously the risk of damage and decay of products is lower. Direct selling to individual consumers is profitable, but on condition that farm is located in the neighbourhood of main markets such as agglomerations. It is gainful for both consumers and producers, although it requires diverse product range and good storage conditions on farms. However, a disadvantage of this form of selling is the fact that it occurs only on rural areas. Therefore, it involves more engagement on the customer side (e.g. transportation) (Czubała, 2003).

The results of research conducted by Każmierczak & Zgiep (2013) on producers organic fruit confirm that direct selling is the most common distribution channel, particularly in case of pome and stone fruit. Although in the farmers' opinion it is the most important selling option, the highest demand occurs in large cities, where buyers hardly have access to organic farms. Moreover, consumer studies indicate that specialist shops and supermarkets are the basic supply sources of organic food in cities and other forms are of little importance (Łuczka-Bakuła, 2007, Pilarczyk & Nestorowicz, 2010).

Nevertheless, in most European countries, organic food has become an important segment of retail in recent years and it has moved from niche to mainstream markets (Jones, Clarke-Hill, Shears and Hillier, 2001). Supermarkets are

currently the main distribution channel of organic food. The market share of retail networks in total sale of organic food is in the interval between 60% and 90% in Austria, Belgium, Croatia, Czech Republic, Luxembourg, and the UK. In Italy, France, Germany and the Netherlands the organic food offer share ranges between 40% and 60%, because in these countries traditional organic retailers (specialist shops) are still important market participants (Meredith & Willer, 2016).

This situation is a consequence of the advantages of supermarkets. They sell at lower prices, offer a wide product range, have sufficient space, good equipment and may conduct promotion actions (Richter & Hempfling, 2003; Pilarczyk & Nestorowicz, 2010). On the other hand, shallow and incomplete product range, low environmental awareness and knowledge on organic food among the selling staff, may be recognised as their downsides (Doležalova, Pícha and Navratil 2009).

Supermarkets may be efficient market players on mature markets of organic food. They require supplies of homogenous quality and large quantities. In Poland this may be a problem, because organic food is produced in small farms in low volumes, therefore the resources of supply are limited and unstable. Consequently, large retail networks very often import organic food, which results in relatively higher prices (Wier & Calverley, 2002).

Nevertheless, in countries like Poland with immature organic food markets, large share of organic food is still sold thorough specialist shops (Atănăsoaie, 2011). Specialist shops are important for consumers, who expect close contact with salespersons. They require from the staff full information on organic products. Moreover, specialist retailers have to be innovative, develop new concepts, improve their offer and attract new customers, so that they could compete with supermarkets (Santucci, Marino, Schifani and Zanoli 1999). Moreover, according to the report of the Global Agricultural Information Network (2016) a major driver for the increase in organic food sales was the development of specialist stores in recent years.

The number of specialist shops is estimated at over 1000. Currently in big cities, one may observe a growth of units dealing with organic food only. These are generally self-service stores that assure satisfaction of almost all consumers' needs; however they offer much higher prices than supermarkets. Some specialist shops also run internet sale. In countries with mature organic market, supermarkets have become the main distribution form. Recently in Poland this retail form, as well as grocery stores, have been becoming more and more active participants of the organic market.

2 Data and Methods

The objective of the paper is to discuss the state of organic food market. The paper also aims to indicate opportunities and obstacles for organic food market development occurring in the retail sphere.

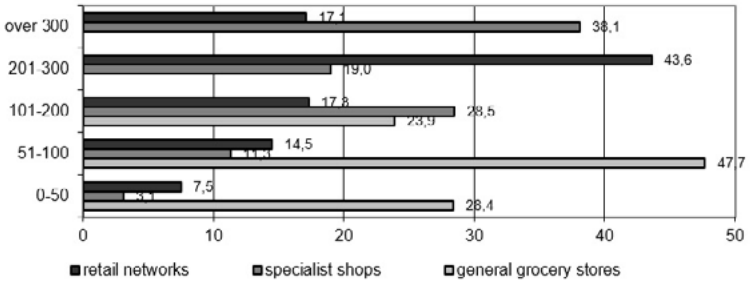
In order to achieve this goal, between 2011 and 2012, the research on retail units dealing with organic food was conducted. It covered 131 specialist stores, 109 groceries and 179 units of retail networks. The investigated shops were located in the eight largest agglomerations in Poland, i.e. Warszawska, Górnośląska, Krakowska, Łódzka, Wrocławska, Poznańska, Gdańska and Szczecińska agglomeration. The units were chosen using purposive selection (each unit offered at least three different organic product groups). The research was carried out in form of in-depth interview based on standardised questionnaire (Paper and Pencil Interview method, i.e. "face to face" questionnaire interview allowing to include more complex questions in the form) and covered such problems as organic food product range, supply sources, marketing tools and strategies as well as pricing policy.

The review of the literature concerning organic food market was conducted in the paper. The data concerning organic farming in Poland between 1998 and 2016 provided by Agricultural and Food and Quality Inspection were used as well. Basing on the literature review and obtained data, the methods of rational economic reasoning were applied, including induction, deduction method, comparative analysis as well as the analysis and critics of literature.

3 Results and discussion

The investigated outlets in Poland differed in width of the offered product range. Much broader assortment occurred in specialist shops, because over 57% of them had more than 200 different organic products (Figure 2). It is worth mentioning that in 2/3 of the specialist outlets, the organic offer constituted at least 80% of the all available products. As it comes to general groceries, the stores offering up to 100 articles (over ¾) dominated. None of the groceries had over 200 organics. In the retail networks, the most units offered between 200 and 300 organic articles, but it was only a small part of their whole assortment.

Figure 2 **The structure of the investigated outlets in regard to the size of the assortment offer (%)**

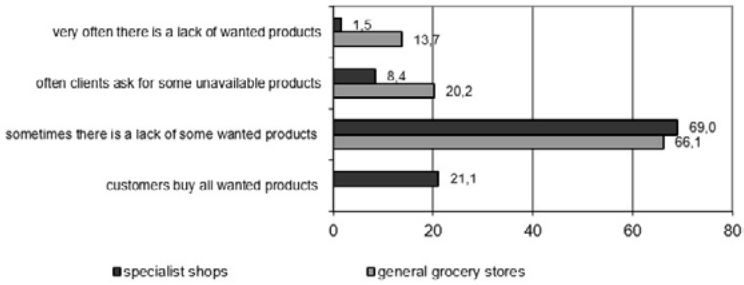


Source: Author's own research.

As it comes to the width of the product range, the most specialist outlets offered cereal, fruit and vegetable products, dairy and spices. In turn, in grocery units, cereal fruit and vegetable product as well as spices mostly occurred in the assortment. In retail networks processed products dominated and hardly any network had fresh products, i.e. vegetables, fruit and sausages, whereas none of them offered meat. The deepest assortment occurred in case of spices, cereal, fruit and vegetable products and the shallowest – in meat and sausages, wherein the offer of the specialist shops was much deeper than in the other types of retail units. Such assortment structure is determined by processing of organic food, because the most organic processing companies deal with cereals, fruit and vegetables, whereas the least with meat. Insufficient number of this type of processors contributes to the appearance of market lacks. It is not a favourable phenomenon from the point of growing consumer interest in organic meat (Łuczka-Bakuła 2007). However, specialist distributors make some efforts to remove this obstacle hampering the organic food market development and try to satisfy the demand. This engagement causes that the price for the wanted products, such as organic meat is much higher than the conventional one (price premiums amount to a few hundred percent) and only consumers with the highest incomes can afford it.

The retailers of organic food see the problem of lacks in their offer. Almost 70% of the investigated specialist and general grocery outlets claimed that sometimes there is a lack of some wanted products (Figure 3). Only in the opinion of every fifth specialist retailer, their offer completely satisfies consumers' needs, whereas in over 1/3 grocery outlets often or very often there is a lack of wanted products. The frequency of lacks leads to discouragement and dissatisfaction of clients. Therefore, the retailers tried to fulfil the purchasers' needs. About ¾ specialist shops and ¼ groceries made individual orders for customers.

Figure 3 **Level of product range complexity of the inquired outlets (%)**

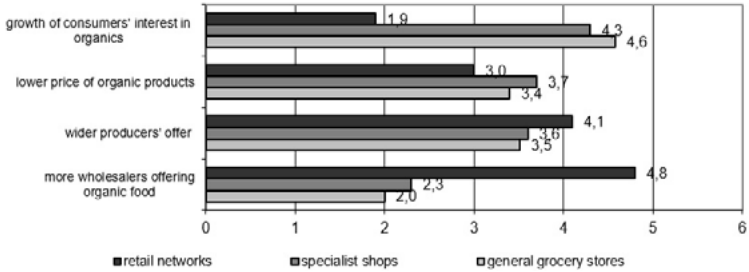


Source: Author's own research.

The retailers were also asked about the main reasons for shallow assortment of the organic food. They named limited offer of the suppliers and high price of the organics. The specialist retailers paid more attention to the seasonality of the supply and growth of consumer interest. The first factor originates from the necessity to assure wide assortment of the organics and their seasonal lacks in the suppliers offer. It is linked with the need for seeking for alternative supply sources as well as with higher costs and more distributors' engagement. For the retail networks lack of consumer interest and high price are the most meaningful. Quite significant reason is also limited offer of suppliers, which originates from the fact that generally, supermarkets are not active participants of the organic food market and therefore they have only a few, but stable, providers of organic food.

A fact that almost 93% specialist shops, over 60% general grocery stores and 56% units of retail networks aimed to widen their product range in future, which may be perceived as a factor for further market development. However, they condition that with particular factors, such as demand growth, price decrease and wider offer of the suppliers (Figure 4.)

Figure 4 **Factors determining widening of the organics offer**



The surveyed retailers assigned ranks from 1 to 5 depending on importance of the option
Source: Author's own research.

A retailer has two ways of supply: directly from producer or through other trading companies. The study proved that they mostly use indirect purchase, which was supply at wholesaler's, particularly in case of processed products and less in dairy, fruit and vegetables or eggs. However, on the other hand, specialist outlets and groceries bought fresh products on farms. Processing companies were also quite important providers in direct purchase. Producers' groups, which deliver products regularly, have some significance for retail networks. In relation to this advantage, producers' group should play more and more significant role on the Polish organic market, similarly to the Western Europe.

The investigated distributors appreciated broader offer of wholesalers, compared to farmers and the fact that they are not very distant. Farms were the second important source of supply for retail stores. In turn, the most important advantages of purchase on farm were freshness of products and confidence in provider, which results in maintaining collaboration with farmers. Processors (fruit and vegetable processing plants, cereal processing plants, bakeries, meat plants etc.) are quite important group of providers, especially for retail networks and specialist shops. A disadvantage of this supply source is dispersion of the enterprises and related to this – distance and transportation cost.

This gap is partly filled by brokers that are quite important providers of specialist shops. Apart from transportation of products, they carry out a number

of operations such as accepting orders, creating clients database, collaboration with customers regarding volume and frequency of deliveries as well as gathering information on market demand. They take care of continuity of deliveries and quality of products. It is worth mentioning that they usually charge lower commissions comparing to wholesale margins (Czubała, 2003). Due to contact with a number of producers, brokers may contribute to improvement of the market product range, which in consequence may be a factor fostering organic market development.

As it was mentioned before, one of the most important obstacles of the efficient supply of retail outlets in organic food is dispersion of providers, which shifts the transportation costs. Motor transportation, that is cost-consuming but elastic, dominates. The conducted research proved that average distance from the specialist shop to wholesaler totalled nearly 146 km, and to general grocery shop almost 160 km.

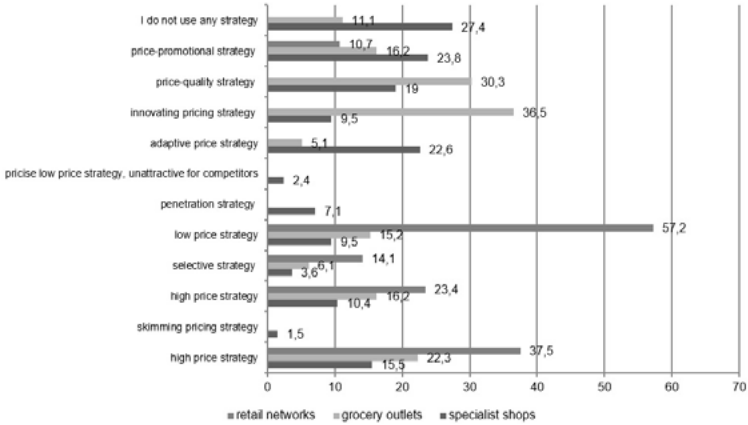
Quite significant differences were observed in case of distance to processors, because it amounted to almost 170 km (specialist outlets) and 52 km (groceries). Groceries are provided by processors generally when they are placed in the neighbourhood. The same is in case of deliveries from farms – they were located 101 km away in case of specialist shops and 76 km away from grocery outlets.

Longer distance between specialist shops and suppliers, compared to groceries, generally result from the necessity to assure more diverse product range as well as the need to search for suppliers offering varied assortment. In case of retail networks, the situation is different, because the purchase is usually made for the entire network at wholesalers' distant between 20 and 70 km and processing plants placed up to 300 km

One of the obstacles hampering organic food market development may be also the fact that the retailers, especially specialist, apply high margin on organic food. It is justified to some extent, because they provide specialised service and therefore have higher operational costs. One should also remember that when applying margins, price elasticity of demand ought to be taken into account as well. If the margin and simultaneously the price are too high, the demand and revenues will be low. Most of the investigated specialist and general grocery shops apply margins in the interval of 21-40%, which means that they use high price strategy as they consider organic food as goods of higher order (Figure 5.) The specialist and grocery outlets also use innovative pricing strategy and price-quality strategy. It proves that retailers pay some attention to quality of the offered organic products and highlight advantages of their offer.

In turn, retail networks declared margin up to 20%, which is in line with their declared low price strategy for the entire assortment. Only the supermarkets offering delicatessen indicated high price strategy addressed to the purchasers with high incomes.

Figure 5 **Pricing strategies applied by the investigated retailers (%)**



Source: Author's own research.

4 Conclusion

The organic market in Poland is still in the initial phase of growth. Despite some improvement that has been lately made, the structure and size of the market still deviates from the ones in Western European countries. The most significant

problems of the market are small supply volumes delivered to the market, low level of processing and dispersion of organic food market participants accompanied by lack of solutions assuring efficient organic product flow.

The conducted research proved that one of the main developmental obstacles occurring in retail of organic food are lacks in product range, which limits the accessibility of these goods. Part of the surveyed outlets, mainly belonging to the retail networks as well as groceries do not dispose such product range that would assure complexity of the offer. Nevertheless, it should be underlined that the investigated retailers are willing to widen their offer of organic food in future.

The lacks in the assortment mostly result from the narrow offer of the providers. The main suppliers of the specialist stores and groceries are wholesalers, farms (in fresh products) and brokers. However, the limitation of the sufficient distribution is dispersion of suppliers and the related to this distance between retailer and provider. This reflects in higher cost of delivery and simultaneously margins and price for organic food. In turn, high prices cause drop of demand quantity for most consumers. Only the segment of buyers with highest incomes, for whom the high price strategy may be applied, may afford to buy organic food. However, apart from the segment of high incomes, organic food should also be available for consumers with medium incomes, so that the development of organic farming and market of its products as well as the support for organic farms would be fully justified.

In the distribution sphere, collaboration and integration both vertical (between producers, intermediaries and retailers) and horizontal (e.g. producers groups or common purchase made by retailers) may be factors influencing development of the organic food market. This would also contribute to growth of efficiency of organic food distribution and simultaneously to decrease of its price level.

In addition, wholesalers should engage more in gaining market information or carrying out consumer studies. They also ought to participate more in promotion of organic food, particularly trough collaboration with retail chain and supporting actions towards popularization of organic food. That would help to increase the demand for organic food.

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