Biofach 2007

Retailing organic food in Europe

data -
challenges -
major players -

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Outline

1 H. Willer: European organic market data

2 T. Richter: Trends conventional retailer sector

3 T. Vaclavik: Trends organic retailer sector

4 S. Garibay: Role of big food companies for the organic sector development

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» Trends on the conventional distribution channels for organic food «

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Toralf Richter

Outline

1 Retailing of organic products - overview

2 Snap shots on selected countries

3 Conclusion

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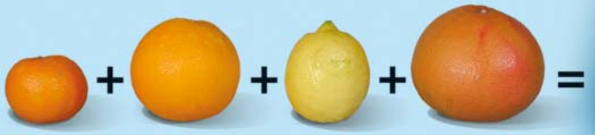
Bio Plus AG

What we do:

Provider for organic marketing services in Switzerland



Our Mission:

Increasing customer frequency and average sales in Organic Retailers

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Sources

AT – Peter Gnant/Ralph Liebing (Bio Austria) & Micaela Schantl (AMA)

CH - Toralf Richter (Bio Plus)

DE – Paul Michels (ZMP)

IT – Roberto Pinton (AssoBio)

NL – Johan Bakker (LEI)

UK – Sally Williamson (Soil Association)

Further information and fotos:

Kai Kreuzer (www.biomarkt.info)

Erich Margrander (Biopress)

1

General remarks

- ☆ General: **Less possibilities** for conventional retailers **to grow – organic** assortment one of the less **promising product lines**, provide growing prospects
- ☆ Therefore **conventional retailers driving forces** for organic market development
- ☆ **Discounters** enforce organic competencies
- ☆ **Conventional brands** develop organic items for the conventional retailer market
- ☆ Discussion: ‘Is there already a mechanism of conventionalism in the organic market/sector?’

Overview: Organic Market Share & Organic Sales via Conv. Retailers

Country	National Market Share (2005)	Organic Sales (%) via conv. Retailer (2005)
Germany	3.0%	55%
Switzerland	4.5%	80%
UK	1.3%	76%
Austria	3.0%	65%
Italy	1.6%	39%
The Netherlands	1.8%	43%

1

Organic market leader among conventional retail chains

Country	Market Leader related to Share in Organic Sales:
Germany	Tegut
Switzerland	COOP
UK	Waitrose
Austria	Billa
Italy	Esselunga
The Netherlands	Albert Heijn

2

Country Snap Shot - Austria

- ☆ Market growth 2006/05: +18%
- ☆ Share organic sold via conventional retailers: 65%
- ☆ Discounters which provide organic: growing
- ☆ Growing awareness of "regional" organic products in discounters
- ☆ Biggest chain (REWE/Billa) promised change from price to quality oriented marketing policy
- ☆ **Trend Assortments:** convenience; frozen food; natural cosmetics

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Country Snap Shot - Austria

Sales development of organic food in different retail formats per annum:

in Supermarkets: -10% ; +-0 ; +5% ; +10% ; **>+10%**
in Discounters: -10% ; +-0 ; +5% ; +10% ; **>+10%**
in Hypermarkets: -10% ; +-0 ; +5% ; +10% ; **>+10%**

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Country Snap Shot – Germany - Retailer

- ☆ Organic Market Sales 2006: app. € 4.5 billion
- ☆ Growth 2006: app.15%
- ☆ Share organic sold via conventional retailers: 55%
- ☆ Altogether the market penetration of organic food grew tremendously over the last two years
- ☆ All discounters provide between 20 – 50 organic items
- ☆ Discounters not only provide they just promote organic as the most relevant theme next to the price issue (e.g. Lidl, Plus, Aldi Sued)
- ☆ Conventional retail chain REWE with 3 organic supermarkets (Vier Linden)

2

Country Snap Shot - Germany

Sales development of organic food in different retail formats per annum:

in Supermarkets:	-10% ; +-0 ; +5% ; +10% ; **>+10%**
in Discounters:	-10% ; +-0 ; +5% ; +10% ; **>+10%**
in Hypermarkets:	-10% ; +-0 ; +5% ; +10% ; **>+10%**

Case study Organic in German Hypermarkets: ‘Marktkauf’ (Bielefeld)

Organic items: 2.500
Organic sales: € 2 million per year
Share organic sales: 7%

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German discounters become green & clean…

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Country Snap Shot – Germany - Products

- Supply shortage for many product groups most challenging issue
- Therefore international sourcing (in many products groups sales grew much stronger via imports than domestic supply)
- Most product groups grow on all distribution channels
- Staple products like carrots or potatoes grew in the discounter markets whereas they decline in the organic food shops
- **Trend Assortments**: natural cosmetics and care products, aquaculture items, fruits & vegetables, dairy products

2

Country Snap Shot - Switzerland

- ☆ Market growth 2006/05: app. +5%
- ☆ Share organic sold via conventional retailers: 80%
- ☆ Discounters which provide organic: (slightly growing)
- ☆ Just Aldi Suisse with small organic range
- ☆ All drugstores start to provide organic food
- ☆ **Trend Assortments:** natural cosmetics and care products; cheese

2

Country Snap Shot - Switzerland

Sales development of organic food in different retail formats per annum:

in Supermarkets:	-10% ; +-0 ; **+5%** ; +10% ; >+10%
in Discounters:	-10% ; +-0 ; +5% ; +10% ; **>+10%**
in Hypermarkets:	-10% ; +-0 ; **+5%** ; +10% ; >+10%

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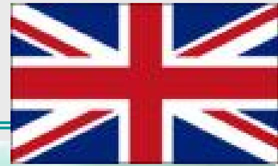
Country Snap Shot - UK



- ☆ Market growth 2005: app. +30%
- ☆ Share organic sold via conventional retailers: 76%
- ☆ Multiple retailers with 31% growth organic market engine
- ☆ Organic box schemes with 22% growth also important
- ☆ Nearly all multiple retailers start with own organic home delivery services
- ☆ 66% of multiple retailer sales from domestic sources
- ☆ **Trend assortments:** snack foods (+75%); wholefoods (+54%) natural cosmetics and care products (+49%); ready meals (+46%); organic textile products

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Country Snap Shot – The Netherlands

- ☆ Again growth in 2006
- ☆ Share organic sold via conventional retailers: 43%
- ☆ In last few years the on price (negative impact on organic sales). major retail companies competed heavily Since summer 2006 competition is slowed down. Organic sales is increasing again, and the price premium for organic is decreasing.
- ☆ Discounters which provide organic: growing
- ☆ New approach: Shop in Shop of organic supermarkets within conventional hypermarkets
- ☆ Imports needed, like for organic milk and potatoes.

2

Country Snap Shot – The Netherlands

Sales development of organic food in different retail formats per annum:

in Supermarkets:	-10% ; +-0 ; **+5%** ; +10% ; >+10%
in Discounters:	-10% ; +-0 ; +5% ; +10% ; **>+10%**
in Hypermarkets:	-10% ; **+-0** ; +5% ; +10% ; >+10%

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Country Snap Shot – The Netherlands

- Governmental funded price experiment to explore the ‚real demand‘ for organic food
- **Duration:** April to August 2006
- Significant price cut (60% to 35% price premium) for 8 items in 11 supermarket chains in 10 Dutch towns
- Price cuts were advertised at PoS
- **Research question:** Do consumers buy more at a permanently lower price?
- **Result:** volume and sales increased on 7 from 8 products
- **Products with high price elasticity:** eggs, minced beef, mushrooms, muesli
- **Products with low price elasticity:** rice, milk, potatoes, pork

2

Country Snap Shot – Italy

- ☆ Again growth of the organic sales in 2006: + 9%
- ☆ Sales development via retail chains in 2006: + 2%
- ☆ Share organic sold via conventional retailers: 39%
- ☆ Supermarket chains consolidate / downsize organic assortments
- ☆ Reduction of organic promotions at PoS, a consequence of the economic development in the last few years which led the big chains to push cheaper products harder than premium/organic food ("third week syndrome“)

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Country Snap Shot – Italy

No country for discount chains

- ☆ Discounters are quite far away from Italian way of food culture (Italians use to invest for good food and are in doubt when food is too cheap)
- ☆ Discounters are the preferred channel only for very low income people and to buy pet food
- ☆ No discounter sells regularly organic products

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Country Snap Shot – Italy

Sales development of organic food in different retail formats per annum:

in Supermarkets:	-10% ; **+-0** ; **+5%** ; +10% ; >+10%
in Discounters:	-10% ; **+-0** ; +5% ; +10% ; >+10%
in Hypermarkets:	-10% ; **+-0** ; **+5%** ; +10% ; >+10%

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Conclusion – No common European organic market

Oscar Pizzi, the managing director of an Italian fruit and vegetable wholesaler took the export route to the UK and Germany to compensate slowdowns in the domestic supermarket chains. He describes his observations:

"We've seen that what buyers abroad demand in a product and its qualities is very different from what our Italian buyers look for.

In Germany, for example, the emphasis is on safety and residue-free products, where discount chains focused more on price and the big chains more on quality.

In the UK we've had to deal with very rigorous quality standards but price is no problem."

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Conclusions - Challenges

- ☆ The share of sold organic food via conventional chains is permanently growing.
- ☆ Discussion: 'Is there already a mechanism of conventionalism in the organic market/sector?'
- ☆ Answer: 'Yes it is. It is a consequence to bring organic out of the niche. But also first conventional chains move to the sustainable edge of retailing.'
- ☆ Sources for European organic food get rare year by year, when policy and market actors will not wake up and start to influence the organic farming sector in a positive way (financial incentives, ethical trade, …).
- ☆ Consequence: 'The main retailer competition field of tomorrow will be how to bind and contract reliable organic producer groups.'

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