

The challenges organic food processors meet at small emerging market – Estonian case

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Abstract

Estonian organic food market is still in emerging stage and the main bottleneck is lack of organic processing. The main purpose of the study was to find out the current situation of organic processing companies in Estonia: what are the structure and characteristics of companies; how do they evaluate organic processing certification procedure; what are their main problems and how do they see the future of organic market. 27 organic food processors were questioned in spring 2013. Most of the organic processors are micro- and small-scale companies. One of the main obstacles for organic processors is higher price of products. Weak points are unstable production chain, high logistics costs, and lack of modern/new equipment, investments, know-how and advisors. Organic certification process was considered "rather easy" for most of the respondents. More strategic planning and cooperation at the local and national level are needed to secure balanced development of organic processing sector.

Introduction

Organic farming is a growing trend all over the world (Willer et al., 2013). In Estonia the share of organic land is 15% of all agricultural land and the number of organic farmers is growing (Vetemaa and Mikk 2013). Estonian organic food market is still in forming stage. At the end of 2012 there were 158 certified processors, but most of them are just packaging or storing, not producing new products (Agricultural Board). Market share of organic food products is marginal - 1,6% of food market in 2011 (TNS Emor 2012a) and significant share of organic production is still processed as conventional food. The main purpose of the study was to find out the current situation of organic processing companies in Estonia: what are the structure and characteristics of companies; how do they evaluate compliance with legal requirements related to organic processing; what are their main problems; how do they see the future of their business and organic market.

Material and methods

To find out the situation of organic processors, a questionnaire of 24 up to 26 open and closed questions was conducted for different types of companies. Studied companies included 1) companies who process mainly their own produced raw materials (farmers), 2) companies who buy in all raw materials and process organic products (some of them produce both conventional and organic), 3) companies who are certified for some organic products beside conventional processing, but actually are not marketing, 4) companies who had backed out of organic certification in 2013. All the studied companies were certified for producing new products (those who are just packaging or storing were not included). During March and April 2013, 27 processing entrepreneurs were questioned.

Results

Most of the studied companies were micro- (67%) and small-size (22%) enterprises. The number of employees in micro enterprises is most commonly (78%) from 1 to 5. Availability of organic raw material in region was considered "satisfying" for 52% of respondents, "poor" for 20% and "good" for 28% respectively. Availability of processing equipment and handling materials was considered "good" by 59% of respondents, "satisfying" for 37% and "poor" for 4%. Most of the companies had "used" or "combination of used and new equipment" (85% of companies) when they started organic processing and only 15% of companies used new equipment. Mostly universal type of production lines were used (70%), which provides more flexibility and variety in production.

Half of the companies have used financial support scheme and/or bank loan in addition to self-financing, for 38% of cases two different financial support/loan combination were used. Currently there is no specific financial support for organic processing available in Estonia. Availability of financial support was considered "poor" by 39% of respondents and "good" by 15%, while 46% did not answer to this question.

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Availability of necessary know-how was considered “satisfying” by 58% of companies, “poor” by 15% and “good” by 27%. Currently there are no advisors who are specialized in organic processing in Estonia.

Access to marketing channels was considered “good” by 62% of companies, “satisfactory” for 17% and “poor” by 21%. Main obstacles of marketing are considerably higher price of organic food, also limited access to bigger chains and shortage of financial support. Currently most organic goods are sold via direct marketing and specialized organic stores in Estonia (TNS Emor 2012a). Supermarkets have generally lower proportion in sales of organic goods in most European Union member states (Wier et al., 2008), but increased availability of organic goods would promote regular consumption of organics (Zagata 2012).

The number of substitute products in the market is considered “big” by 45% and “small” for 36% of respondents, while 19% did not answer. Processing volume is based on orders (38% of respondents), it shows that production is not planned in long-term. The actual capacity is bigger than production and actual market potential is still not used. The competition between organic processors was mostly considered “average” (50%) or “small” (38%). Based on study in 2011, some organic farmers (23%) are ready to start organic processing and preparation of organic products for the market (The Agricultural Research Centre 2011).

A direct need for legislative amendments related to organic processing was not identified. Organic certification process was considered “rather easy” for 72% of companies and “rather complicated” for 28%. Respondents were not very optimistic about the growth of organic sector. The future prospects were considered “good” or “very good” by 48% of companies, “satisfying” for 30% and “weak” by 22% of respondents. On the other hand organic farming and demand for organic goods is continually rising (TNS Emor 2012a). Main factors that hinder business activities according to respondents are: substantially higher price of organic food and smaller demand; problems with marketing; availability of high-quality local raw material with competitive price; lack of financial support. The availability of raw material is hindered by transport and logistics costs, because organic farms are often small and located all over Estonia.

Consumer research in 2011 showed that Estonian consumers are very price sensitive and 53% of respondents were not willing to pay higher price for organic goods. Only 3% of consumers are willing to pay extra 20% price for organic goods (TNS Emor, 2012b). Also according to international study in 2011, main obstacle in organic food consumption is its higher price: consumers are not willing to pay more than 15% extra for organic food (OECD 2011). Main factors that favour organic food business activities according to Estonian organic food processors are: positive attitude towards organic farming, organic farming as a rising trend and consumer demand. 85% of respondents see a good perspective in sector cooperation, especially in product development and marketing.

Discussion

One of the main obstacles for organic processors is considerable higher price of end product compared to conventional food and small purchase power of local consumers.

Weak points are unstable production chain, high logistics costs, lack of modern/new equipment, shortage of know-how, lack of advisors and investments. Poor availability of organic raw products and know-how is especially highlighted by the companies who are certified but have no products available on market yet.

Organic certification process was considered “rather easy” for most of the respondents. Fear of bureaucracy in connection with organic certification is often mentioned by conventional food companies as obstacle. More information on certification legislation and presentation of good examples of organic processing companies would obviously lead to new organic certified companies.

Strategic planning and cooperation is required at the local and national level to secure balanced development of organic processing sector.

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