



# Value based supply chains to meet the expectations of organic consumers- a case study from Austria

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**Abstract** –This contribution revisits the results of a case study conducted in 2009, eliciting quality aspects within a midscale-value based supply chain. Its main objective is to show how organic values can be combined with new forms of relationships in enlarged regional food supply chains beyond direct marketing. Actors along the supply chain employ similar quality argumentations and a similar understanding of fairness and social sustainability. Moreover their perceptions comply to a large extent with the expectations of consumers. Regional embeddedness and spatial proximity is a key element to achieve this synergy.

## INTRODUCTION

For about thirty years, the global food chain has bifurcated into agricultural industrialization with “food from nowhere” on the one hand, and regional and value oriented “food from somewhere” (Mc Michael, 2009) on the other. These global trends are mirrored within the organic sector development, which was originally trying to focus rather on quality aspects combining a set of features, (i.e. small scale, animal welfare, regionality etc.). Direct and local marketing initiatives with low volumes but high consumer trust are juxtaposed to organic bulk products in large retailer chains, characterised by globalisation, conventionalisation and growing anonymity in production.

Midscale value based supply chains are proposed as a way out of this development. According to Stevenson et al. (2011) they handle substantial volumes of high quality differentiated products, involve a number of producers and associate values not only with their products, but with their relationships along the supply chain.

The case study focuses on dairy supply chains of the organic producer co-operative Bioalpin, which operates their own brand “BIO vom BERG” in the dominating regional (family owned) supermarket chain (MPreis) in the Tyrol (Austria). The cooperative was established in 2002 and assembles 40 organic farmers and small scale processing units (e.g. local dairies, bakers and butchers). About 500 farms

within the region are involved as suppliers. The brand has been very successful and growing steadily over the last 10 years.

The investigations combine two perspectives of the supply chain. The first one (Schermer et al., 2010) identifies the different perceptions of quality along the supply chain in general, adding value to the production. The second one (Steinlechner and Schermer, 2010) focuses on how the different actors along the supply chain relate to factors of fairness and social sustainability. Finally the view of the consumers completes the picture.

## METHODOLGY

The case study involved a qualitative investigation by semi-structured interviews of 16 actors along the supply chain and a focus group discussion with organic consumers. The interview partners were farmers (5x), dairy processors (5x) representatives of the marketing cooperation Bioalpin (4x) and representatives of the retailer (2x). The focus group discussion included nine consumers (five women and four men). All interviews as well as the focus group discussion were transcribed verbatim and then analysed by using qualitative content analysis method. All investigations were conducted in 2009.

## RESULTS

Concerning perceptions of quality, the farmers, the processing managers as well as the representatives of the marketing cooperative Bioalpin and the retailers, unanimously mentioned the same points as characteristics of mountain and organic quality products. Consistently they related quality to the origin of raw materials - as far as possible - from the local mountain region and highlighted the unique composition of the fodder (i.e. silage free, less concentrated feed, composition of plant species etc.). They perceived this as a base for further transformation, which further enhances quality by the small scale structure of the processing units and their traditional artisanal methods. Other quality criteria that were named by several actors refer to animal welfare, short transportation chains or the specific taste. Especially in the experience of the retailer this is a crucial indicator because consumers evaluate and connect quality largely to the taste of a product.

Actors were also asked about the relationship to their partners. They emphasized the importance of

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amicable and friendly partnerships and a functioning communication between supply chain actors.

Besides, the representative of the retailer explained in detail how new products were developed in a joint process, which can be understood as a sign of cooperation which exceeds usual business relations.

Regarding the expectations of the different actors into the concepts of fairness and social sustainability, farmers and processors listed social recognition via direct feedback, personal development and the ability to earn a living as decisive factors. The importance of society's appreciation of their high-quality organic and silage free milk was considered being an important social criterion regarding satisfaction with work. Additionally, as farmers are members in the small dairy cooperative, they also feel a certain kind of co-ownership.

The retailers pointed out the regional provenance of dairy products as an important factor. As a result, the added value remains in the province and jobs are secured. This interpretation of fairness reflects the supermarket chain's efforts to establish itself as the largest supplier of regional products in the Tyrol.

The issue of fair prices came up as an indicator, not only for farmers but also for the cooperative managers. As selling regional products implies the willingness of consumers to buy them, prices for dairy products have to be orientated towards the market price. This implies that the price demands of the suppliers have to be reasonable. The price negotiations between the cooperative and the retailer were described by both sides as consensual and fair.

The issue of communication was raised by the marketing cooperative and the retailer, both of them classifying personal relationships and open communication in the fairness concept. Moreover for both of them short transportation chains and transparency among the actors are central points, linked to social sustainability.

Additionally, the study also included a focus group discussion with consumers to make out their perceptions and expectations with regard to social values. However, the focus group discussion did not specifically refer to "BIO vom BERG", but rather to a general supply chain for organic dairy products.

Consumers mentioned affordability and availability of organic dairy products as one aspect of fairness. They appreciate the fact that organic products are no longer reserved to well-to-do persons and are available in most supermarkets in Austria. Additionally, labels assure that dairy products are produced and processed with GMO-free and organic ingredients.

There was a general consensus that farmers currently do not receive fair prices for their products. Some participants agreed to pay higher prices, but associated this willingness with regional provenance, high quality, specifically GMO-free production and organic origin as minimum quality standards. Others demand fresh milk (no 'extended shelf life' milk) and silage free milk. Furthermore the consumers re-

quested that retailers and processors hand on the price premium to farmers without any deductions.

#### CONCLUSION

Strikingly enough, all actors along the supply chain emphasised the same quality characteristics, referring to traditional practices and breeds, silage and GMO renunciation etc. Furthermore, the relationship between the different actors seemed to be exceptionally amicable and on an equal basis.

The results exhibit a high consensus between the expectations of the consumers and the ability of the case study initiative to comply with them, when providing high quality organic products in the supermarket without compromising fairness and social sustainability.

In the case study presented, regional embeddedness appears to provide the key to achieve the goals of midscale value based supply chains. It successfully allows adding value to the product and maintaining respectful and fair relationships along the supply chain.

Regional embeddedness and proximity allow frequent personal communication, interaction and feedback between actors on different levels of the supply chain. Personal relations of trust lead to collectively shared perceptions of factors that are decisive for high product quality. A mutual respect and appreciation is finally a precondition for an equal distribution of added value and profit.

Additionally, the results indicate, that a collectively shared conception of quality is a precondition for long term growth and success. After all, the success of the supply chain depends on the degree of ownership that farmers feel over the final product in the supermarket shelf. Furthermore this identification is necessary for the willingness to produce, promote and sell a high quality organic product. This can be seen as a precondition for the success of regional marketing cooperatives such as "BIO vom BERG".

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