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# Marketing strategies and organisational structures under different organic certification schemes

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## **INTRODUCTION**

The paper compares the organizational structure and marketing strategies in organic supply chains operating under three certification schemes in developing and transition economies. A value chain management approach needs to be considered when analysing the requirements associated with supplying certified organic products. Regardless of the scheme, complying with organic standards and procedures involves making managerial decisions at the production, processing, certifying and marketing levels. A modern and transparent organizational structure should be developed along the chain in order to ensure lasting organic quality.

In recent years, organic trade has experienced an outstanding expansion, mainly driven by consumers' concerns regarding safe food and environmentally-friendly production. Certification provides consumers with the confidence that organic products ensure food integrity, from seed through sale. Certification also guarantees that production and processing are managed with a holistic approach that enhances ecosystem health.

In developed countries economic incentives and enabling policies and regulations have boosted the establishment of organic standards. In developing and transition countries, on the other hand, smallholders still face institutional and economic constraints to become certified organic producers. Farmers seeking to sell organic products must hire an organic certification agency to annually inspect their farms and confirm that they adhere to the standards established by various trading partners. Smallholder group certification is envisaged as an alternative to reducing certification costs while enhancing capacity building. Another alternative explored is the Participatory Guarantee System, an initiative also largely coming from the developing world.

The schemes analysed are three. The first one is the third party certification for individuals, a well-known and internationally-recognized certification system. The second scheme is also a third party certification in which small-scale farmers may be certified in groups under the so-called Internal Control System (ICS). The third scheme corresponds to participatory certification, also called Participatory Guarantee System (PGS).

The case studies selected were: (i) organic grains for export, two for Basmati rice from India and two for jasmine rice from Thailand, all complying with ICS; (ii) organic fruits and vegetables for export and/or domestic markets in Hungary and Czech Republic to illustrate

compliance with third party certification systems as individuals; and iii), and organic fruits and vegetables for local markets (Ecovida Network) in Brazil using PGS.

## ***METHODOLOGY***

The case studies were selected taking into consideration the ample participation of small-scale farmers in certified organic food chains linked to export or domestic markets. All five countries selected for the case studies (i.e. India, Thailand, Brazil, Hungary and the Czech Republic) have different legislation and organizational structures relating to organic certification, allowing the illustration of different alternatives.

The overall study aimed to better understand the alternatives in organic certification and the economic implications for farmers and their supportive organizations (Santacoloma, 2007). This paper presents the findings of the study on the organisational structures that need to be in place to get organic certified products under different certification schemes and the success factors and limitations to reach the targeted markets.

The analytical approach used takes into account that organic chain actors (farmers, processors, manufactures, exporters and importers) should be interconnected through ruled procedures in the organic quality assurance system. All these actors must have certified their compliance with organic standards and regulations. Certification and accreditation bodies are tools within the quality assurance systems to ensure that organic standards and procedures are followed. In addition to the policy and institutional framework, to facilitate organic certification at the national level is essential to set up well-functioning quality-assurance systems and to provide financial and technological services as well as services for improving managerial and technical skills at different levels. This approach differs from previous studies where the emphasis was placed on the impact of social and environmental certification, either from a farm-economic (Dankers and Liu, 2003) or a macro-economic (Wynen, 2004) point of view.

Research tools included standardized questionnaires for farmers, farmer group surveys and key questions for particular stakeholders. Field data was cross-checked with available records whenever possible. Key persons were also interviewed, including staff of NGOs, certification agencies, local and regional government institutions, farmers' associations and private technical assistance providers. The information was entered into a relational data management system and subsequently processed. Reports of the results were written for each case study.

## ***RESULTS***

### ***Marketing strategies and organisational structure***

The choice of market strategy determines the selection of the certification scheme to be followed. The choice could be domestic or export markets. In the domestic markets, there are various channels for organic produce, including direct membership schemes, weekly markets and fairs, occasional markets, retail health shops, specialised health supermarkets, modern trade supermarkets and even organic restaurants. Major export markets are Europe the United States, Japan and other high-income countries, particularly in Asia. The case studies are clustered in two groups for easier analysis: the first group considers the Thai and Indian case studies on organic fragrant rice for export, while the second group analyses the Brazilian, Hungarian and Czech cases in fruits and vegetables targeting mostly domestic markets.

In the organic fragrant rice cases, the stakeholders participating in the supply chain are similar: farmers, the processor, the exporter or development programme, the inspection-

certification agency, and the importing country. In all these cases, stakeholders are certified under ICS. However, substantial differences are found in the structure and governance of the organic chains as shown in Table 1. Lead organizations in the supply chain deliver different types of services to the farmers and have different arrangements with other chain actors. These lead organizations may be trading firms like Top Organic Products and Supplies Company Limited (TOPS) from Thailand and Sunstar Sunstar Overseas Ltd (Sunstar) from India, producer organizations like the Bak Rueva Farmer Organization (BRFO) from Thailand or central/regional government initiatives like the Uttaranchal Organic Commodity Board (UOCB) from India. The major traits of the structure and governance of the four organic grain chains studied are detailed below.

TOPS, a subsidiary of the registered Thai company CRC, together with its Italian commercial partner, Riseria Monferrato, identified the export of organic rice as a business opportunity. CRC contracts CWA, a local rice mill, to provide extension services to the targeted group of farmers and to organize the milling of the organic grain. CRC packs the organic rice under subcontract with TOPS, while TOPS does the marketing. Currently, TOPS sells organic rice locally under Thai brands and exports organic rice overseas, mainly through its Italian trading partner. The certification is granted by Bioagricert Company (BAC), an Italian-based company accredited by IFOAM since 1996. A public research station is responsible for the development of the organic production technology.

Sunstar has complete control over various stages of the chain in order to ensure product quality. This Indian company has a strong agro-input distribution network and invests financial and managerial resources to provide support for all major stages, including production, certification, procurement, storage, processing and marketing. Sunstar is part of the ICS. Farmers are collectively certified, but sell individually to the firm. The inspection and certification is done by Swiss SGS and German ECOCERT, following the European Union standards for inspection and certification. The certification belongs to Sunstar. Farmers have 5-year contracts with the firm.

Table 1: Comparison of organizational structures in the Asian organic rice case studies

	<b>TOPS case study 1 Thailand</b>	<b>BFRO/GNEN cast study 2 Thailand</b>	<b>Sunstar case study 1 India</b>	<b>UOCB case study 2 India</b>
Internal Control System (organization and farm control)	TOPS and farmers' organization	Farmers' organization with support from GNEN	Sunstar and farmers' organization	Farmers' organization UOCB support
Infrastructure (transport/data processing facilities)	TOPS	BFRO supported by GNEN	Sunstar	UOCB (data processing facilities)
Extension services (training/technical assistance)	Sub-contracted to governmental agencies	GNEN	Sunstar	UOCB-COF
Processing (monitoring product flow)	Sub-contracted to CWA with assistance from governmental agencies	BRFO mills the paddy with technical assistance from GNEN	Sunstar	Local certified mill
Packaging	Sub-contracted to CRC	RFC	Sunstar	COF
Marketing	TOPS	Green Net Cooperative	Sunstar	COF-Rapunzel

Source: Own elaboration based on Katyal and UOCB from India and Panyakul from Thailand

BRFO is a Thai registered producer group that has its own rice mill and an organic conversion scheme to support its members to convert to organic rice production. The BRFO's

organic rice project is part of a larger national organic network called Green Net-Earth Net Foundation (GNEN)<sup>1</sup>. GNEN helps build the capacities of BRFO's extension staff, sets up the project's ICS, provides technical assistance and monitors the product flow through processing and packaging. BRFO, then, mills the paddy with GNEN's technical assistance and delivers milled rice to the Rice Fund Organic Agriculture Cooperative (RFC), which is sub-contracted by Green Net to pack the organic rice. All of the organic rice from BRFO is exported by Green Net. Certification is done by the Organic Agriculture Certification Thailand (ACT), the local Thai non-profit foundation that IFOAM has accredited since 2000.

The Government of the Uttaranchal State, India, has over 1 200 bio-villages under UOCB that have matured into organic commodity production units covered under ICS. The Centre for Organic Farming (COF), set up by the largest national funding organizations, plays a technical and marketing support role. The Uttaranchal State Seed and Organic Production Certification Agency (USS & OPCA) carries out internal inspection and certification. The UOCB supports processing with the only certified rice-processing mill and monitoring product flow for export. COF facilitates the export of organic Basmati rice through a contract with the German company "Rapunzel".

The organic horticultural chains are analysed through examples from a participatory certification scheme in Brazil and the third party certification for individuals in Hungary and the Czech Republic. These supply chains have little in common. The first corresponds to a short chain that supplies local markets where consumers and producers participate in the quality assurance system. The later case studies correspond to traditional chains where individual farmers market individually to middlepersons, the quality assurance system is government-driven and organizational structures hardly exist. A summary of the characteristics of the organizational structure of these chains is presented in Table 2.

Table 2: Organizational structures in the organic horticultural chains studied

	ECOVIDA Brazil	Hungary	Czech Republic
Internal Control System (organization and farm control)	Consumer and farmers' organization	No	KEZ o.p.s.
Infrastructure (transport/data processing facilities)	Farmers' organization	Farmers	Farmers
Extension services (Training/technical assistance)	NGO+ farmers' field schools	Biokultura Association	KEZ o.p.s.
Processing (monitoring product flow)	Farmers + farmers' organization	Agro-processors firms/farmers	Agro-processors firms
Packaging	Farmers' organization Farmers +	Agro processors firms/farmers	No
Marketing	Farmers + farmers' organization	Agro-processors firms/farmers	Farmers

Source: Own elaboration based on Václavík from the Czech Republic, Juhász from Hungary and Santacoloma, from Brazil

The Ecovida Network in Brazil integrates more than 2 300 farmer families, 20 support organizations, 15 consumers' cooperatives, 8 market enterprises and 7 agro-industries from

<sup>1</sup> The Green Net-Earth Net Foundation is formed by Green Net, a cooperative that markets organic and natural products, and Earth Net, a NGO that promotes organic agriculture. See [www.greennetorganic.com](http://www.greennetorganic.com)

Southern Brazil. Its area of influence covers 170 municipalities in the Rio Grande do Sul, Santa Catarina and Parana States. The basic unit of the Ecovida Network is the “nucleus” or a group made up of farmers and consumers. Each nucleus establishes an ethical council, which is a technical decision-making body where technicians also participate. The functions of the nucleus comprise inspection, monitoring, evaluation and advice to member farmers. Non-government support organizations offer a wide range of technical services such as technical advice, agro-ecological research, social organization, generation of technology, agro-processing and commercialization. Technical support is also provided by local government extension staff. Ecovida provides certification as well as the right to use its logo. The organic produce is marketed in more than 100 ecological fairs and other alternative distribution channels such as consumers’ and/or producers’ cooperatives and specialized stores to cover the regional market’s demand.

In Hungary there are two types of organic farmers: small farmers with a wide product range (horticultural and animal products) that supply the domestic market, and large monoculture farmers (usually growing cereals and industrial crops) that export to the EU market. The most important distribution channels of organic foods are the organic shops and markets. The main organic market is located in Budapest, it is called Ökopiác and is a non-profit organization founded and operated by the Biokultura Association. Ökopiác opens twice a week and offers a wide range of products. Farmers/ processors/traders pay a minimum fee to hire a stall. Organic-shops are small retail outlets that sell organic and other health food. They are limited in number and consumers must travel far to reach them. Most of them are settled in Budapest and only a few can be found in larger country towns. Organic products have to be controlled and labelled as organic food. The national certification body, Biokontroll Hungaria Kht founded by the Biokultura Association, acts in compliance with Hungarian regulations and the EU Council Regulation, and has been IFOAM-accredited since 2004.

The organic fruit and vegetable production in the Czech Republic is still in its infancy and encompasses less than the 0.3 percent of total agriculture production. 40 out of the 814 organic farmers are engaged in horticultural production. A significant part of the vegetables produced is sold directly in local markets, particularly through farmers’ markets and retail outlets, although box schemes, direct sales from the farm, distribution centres and other schemes are also in place. Kontrola Ekologického Zemědělství (KEZ) O.P.S. (Organic Farming Control) is in charge of the inspection and certification of organic food products. An ICS supported by KEZ controls compliance with the law at the farm level, although there is not any organic farmers’ organization involved in organic certification. Producers are authorized to use the Czech Republic organic logo, officially registered with the Czech Government since 2005.

From the case studies, success and constraints factors were identified:

#### *Success factors*

- ⇒ The stable market access to the European Union is guaranteed by European importers in the vertically integrated supply chains like TOPS, Sunstar and BRFO.
- ⇒ Efficient division of responsibilities in the organizational structure is essential to comply with organic certification standards and procedures, both in terms of the conformity assessment system, and business and technical development services.
- ⇒ Having contractual relationship with lead organisations like Sunstar, TOPS and BRFO facilitates small-scale farmers’ participation.

- ⇒ Collaboration between private and public agencies is beneficial to support technical and financial activities as in the case of the UOCB and TOPS experiences.
- ⇒ Networking activities to strengthening horizontal and interdependent relationships among producer and consumers, as the ECOVIDA case in Brazil, are key in creating long-lasting local markets.
- ⇒ The development of managerial and business skills to implement business and marketing plans together with measures for enhancing farmers' capacities to ensure the organic quality attribute of their produce are essential. Such may vary according to the certification scheme and characteristics of the supply chain. In the ICS third party schemes, for instance, great emphasis is placed on planning and project management to guarantee success. In PGS, on the other hand, it is far more relevant to empower participants in the network to take an active role in understanding agro-ecosystems and building social organization.
- ⇒ Support for institutional development and set up of norms and standards conducive to organic agriculture's growth is required. In the particular case of Brazil, PGS is a legally-accepted alternative certification. In Hungary and the Czech Republic, governmental institutions control compliance with national and the European Union Council's regulations.

### ***Constraints factors***

- ⇒ Domestic markets represent untapped potential for the expansion of organic agriculture. In the countries studied, health concerns drive the increase in domestic demand for organic, but the price premium attached to the organic certification makes these products affordable principally to urban, educated and more affluent consumers.
- ⇒ High costs of the supply chain, i.e. payment of premium during conversion period, transportation costs, processing costs may undermine organisations' sustainability
- ⇒ Lack of available technologies in pest and fertiliser management as well as organic post-harvest and processing are very restrictive both for farmers and lead organisations.
- ⇒ Appropriate financial mechanisms to cope with the particularities of organic production, like the conversion period, and research of post-harvest and processing technologies, are lacking.

### ***Recommendations***

The following recommendations to enhance the competitiveness of the certified organic food sector and to promote farmers' participation in it are offered to the diverse implementation agents.

**For governments**, priority should be given to supporting institutional development and setting up national norms and standards to facilitate small-scale farmers' inclusion.

**For supportive organizations (government, buyers and NGOs)**, i) intervention strategies on technology development should be implemented with a long-term view; ii) Financing mechanisms should be established to support the initial phases of organic projects; iii) Market development should be supported in three major areas: strengthening of value chain linkages, development of information technologies and development of local markets; iv) Strategies should be implemented to reduce costs of training activities in order to improve efficiency.

**For development organizations:** i) Cost-effective technologies should be investigated and disseminated among farmers to help them meet certification requirements; ii) Assistance should be given to incorporate small-scale farmers in the organic supply chain; iii) Training should be provided on management and market development along the organic food supply chain in order to increase transparency and better the linkages between actors, and to improve specific managerial skills for better production planning and market development.

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