Chapter 7

Production and Distribution of Organic Foods: Assessing the Added Values

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Additional information is available at the end of the chapter

http://dx.doi.org/10. 5772/52445

1. Introduction

Looking at the present food chain, concerns are related to anxiety among consumers about the quality of the food they eat, GMOs, use of pesticides and antibiotics, and industrialization of the agricultural system. Growing consumer demand for organic food (OF) is based on most of these facts [1, 2]. Although OF is generally considered to present less risk than conventional foods, this debate has been re-launched as a direct consequence of rising concerns related to risks associated with intensive agricultural production, food industrialization, and the effects of food technologies and food scares [1, 3]. An increasing number of organic brands, certification labels, and wider range of organic product categories has been observed in terms of efforts to provide higher food safety and food quality. But these factors do not seem to have increased consumers' perceived value of organic food products nor trust in OF. Moreover, consumers seem to be ambivalent about channels of distribution as trust/mistrust appears to be an important factor in deciding, not only where to buy products, but also whether to buy OF products or not [17].

From the production and supply side, there are some unique challenges to the cost and logistics of moving locally or regionally produced organic food to the market. Of particular interest are the operations size and the situation of small and medium size farms. The production of the latter is of little interest to mainstream grocery chains as it is limited to a few hundred tons. Among other factors, production methods and operations size are key here. Large-scale farming is sustained by important economies of scale while small scale farming leads to higher prices. This covers the extra costs of not using fertilizers and antibiotics. As a result, there is a wide variety of product classifications depending on the production methods and thus, the operations' size. This in turn gives raise to 2 distinct distribution systems: long channels, eg. retail chains, that add value through price and high distribution intensity,

and short channels, eg. direct from producers, that add value through their production methods and sustainable practices. Hence, discrepancies between market realities, the value chain and the value delivery system are still a challenge for the organic food sector. The main issue here is to determine the factors on which the different production methods and distribution systems rely on in order to add value to the organic food products offered. This study first presents the current literature related to the structure of the production and distribution of the organic food system and market, supported by an integrative production-distribution model. The model integrates the different levels of the production/supply side key factors. Challenges and strategies that add value to the organic food products are analyzed. These strategies are used by (i) the pre-supply, (ii) the supply/production, and (iii) the distribution channels.

2. The organic food system

2.1. Organic food product classification

From a production standpoint, there are various categories of production methods. In Canada, there are three main classes of production labels: (i) organic, (ii) transitional organic, and (iii) all other labels regrouping local, natural, pesticide-free and ecologically friendly. The first product class is well defined and regulated since 2009, while the second and third categories are neither - clearly - defined nor regulated.

The use of the term “organic” is restricted to farms, products, processors and other intermediaries in the value chain between production and consumption which has been certified by Certifying Bodies (CB). These CBs are independent and private fee-for-service agencies that are generally overseen by National Food Inspection Agencies. Organic certification is an arduous process which, if enacted on a farm previously farmed using conventional methods, requires at least three years to ensure all chemicals have leached from the soil and that organic amendments have had the opportunity to rebuild soil fertility.

“Transitional organic” is also a restricted label and describes farms which have made the commitment to move toward organic certification. For instance, the "transitional" label is applied to farms label is applied, for example, to farms which have switched to certifiable organic methods and are in the 36-month period between the last use of chemicals and the time the land can be assumed free of chemicals, and the farm can be certified organic.

Labels like “local”, “natural”, “pesticide-free” and “ecologically friendly” are not regulated and tend to be used by small farms catering to local/regional clientele. With the exception of marketing board-regulated products like dairy or chicken, production and handling of foods sold under these labels is for the most part not monitored or regulated except by governmental agencies and district health units. As a result information on farms operating outside of the organic certification system is scattered and incomplete.

Lastly, “organic” foods have to be differentiated from “functional” foods [4]. Organic foods tend to be regulated and are based on supply side value while functional foods are not very

regulated and are based on demand side value. While both types of product are marketed to achieve the same objective, i. e. healthy products, the market positioning is very different.

2.2. Organic food production

According to the Canadian General Standards Board, "Organic production is a holistic system designed to optimize the productivity and fitness of diverse communities within the agro-ecosystem, including soil organisms, plants, livestock and people. The principal goal of organic production is to develop enterprises that are sustainable and harmonious with the environment. " [5]. It is worth noting that the organic movement, which began as an alternative style of production among small farms looking both to reduce their environmental footprint and to differentiate their products from commercially produced foods, has been admitted to the mainstream market. Certification, which came about to prevent fraudulent claims, has enabled large players to get into the game, facilitating the long-distance shipping and distribution of organic products required to bring them to grocery stores and wholesale clubs. It applies within the value chain the same downward pressure on price exhibited in the conventional food value chain. This has resulted, for some small farmers concerned with the philosophical aspects of organic production, in diminished credibility of the organic standard and a refusal to participate. It has also hardened the value chain against entry by these small farmers [6].

Further, to be qualified as organic, processed foods must be processed in certified facilities. Added-value processing in Canada is limited by the small number of certified processors. Handlers of organic products must also be certified. This is the other major factor, and one that could mitigate the seasonality of foods: further processing could provide a wider market and a longer selling window for perishables. By characterizing producers' use of the value chain to get products to the consumer, we can break the organic producers down into three categories: large, small and medium-sized operations.

Large producers are characterized by organic cash crops, which are either exported or processed after they leave the farm, by livestock or field crops which are most likely to go to distributors and processors for further treatment [7]. Most dairy farms would be considered large producers in this context.

Medium-sized producers tend to produce for a smaller geographical market [7]. Limited by infrastructure, some of these producers are now working together to develop their own products, partnering up with complementary businesses to be able to expand the offerings of their on-farm market to attract more customers. Others have partnered with small regional processor/distributors to reach restaurants and specialty food retailers. Most medium producers offer on-farm markets as stationary storefronts, incorporating products sold on consignment or retailed for other area producers.

Small organic producers tend to not use distribution intermediaries. Instead they focus on direct relationships with consumers through farmers' markets and on-farm markets. They may supply some restaurants, specialty retailers, or small grocers, but these relationships are painstakingly developed and rely on niche marketing and personal relationships. These

are the small farms most likely to give up on organic certification due to the paperwork and expenses involved.

2.3. Organic food distribution

In conventional food systems, there exists between producers and consumers of food products a series of handlers involved in the processing and distribution. Since organic products have entered into the mainstream market, a similar mainstream value chain has developed for organic products being sold through conventional outlets. Traditional retail, with its focus on profit, seeks consistent supplies of products. Imports from warmer climates offer this consistency; we see California and Mexico lettuce occupying shelves year-round because, for reasons of efficiency, retailers prefer to deal with a single supplier rather than displace the year-round supplier with a seasonally-available product.

Organic food has emerged as an important segment of food retailing in recent years. The organic food industry has steadily moved from niche markets, e. g. , small specialty stores, to mainstream markets, e. g. , large supermarket chains [8, 9]. Ten years ago the bulk of OF sales were made in specialty stores (95%) while the remaining 5% were realized in mainstream stores. Nowadays, the trend has been reversed [10]. Farmers' markets among other alternative distribution channels are being used and are characterized by a direct link between the producer and the consumer [11]. In some countries, distributors are promoting their own line of OF products under specific brand names [12, 13, 14].

In Canada, the total annual retail sales of certified organic products in 2009 were approximately $2 billion, with about 45% moving through mainstream supermarkets [15], and OF retail sales represented 1% of total retail food sales. More specifically, total mass market sales of certified OF products approximated CA $586 million allocated as follow: CA $175 million through small grocery stores, drug stores, and specialty stores, and CA $411 million in large grocery chains. These figures do not account for alternative distribution channels such as farmers' markets, natural food stores, box delivery, and other channels such as restaurants. These channels totalize CA $415 million [16]. Conventional distribution channels, characterized by a longer channel where consumers do not see and interact with the producer and where the information about food is limited, is targeted toward consumers that look for a one-stop grocery shopping experience [6, 17]. These are the regular OF consumers. On the other hand, channels such as box delivery, specialty stores, and small grocery stores or even direct channels such as the farmer's market are targeted toward consumers that look to interact – socially - with the producers [11], ask them questions about their production methods, food origin and variety, and cooking tips. These are the hardcore consumers. Most of the demand is coming from Europe and North America and these two regions are not self-sufficient. The main problem for producers and growers is to supply this demand. Large volumes of organic imports, coming in from other regions, are used to balance the undersupply. US sales of organic products grew in 2009 by 5. 3%, to reach 26. 6 billion US dollars, representing 3. 7% of the food market. In Europe, sales of organic products approximated EU 18'400 million in 2009 [18]. The largest market for organic products in

2009 was Germany (5. 8 billion euros) followed by France (3 billion euros) and the UK (2 billion euros).

3. The organic food market

The organic food market is characterized by consumers buying organic food products for different motivations and values. OF consumers also have different buying processes that are not the result of one decision but a series of decisions nested in each other. Among these, decisions about where to buy is here considered as it directly relates to consumers' most used and trusted distribution channels.

3.1. Consumers' motivations to buy organic food products

Through the literature, several motivations to buy organic food have been identified and ranked. Personal health remains a strong motivating factor, organic food products being perceived as less associated with health risk than conventional food products [19]. Concerns for the environment and for animals' wellbeing appear as other reasons for buying organic food [20, 21, 22]. Issues about food quality but also "eating to enjoy" is mentioned to be important motivations for OF consumption in several countries like France, Italy and Greece [23, 24]. Furthermore, tasty and nourishing products are considered as important motivations and [25] found that most organic consumers think that organic food tastes better than conventional. Last, organic products are associated by fewer consumers with local production because they like to support the local economy [6, 26]. The cultural differences cause consumers in different countries to have various motivations with regard to OF, such as health and tradition in France vs. health and environment in Sweden [2, 27].

In their study, [29] provided an overview of the personal motivations of organic food consumption within a framework linking these motivations to Schwartz' values theory. When considering health as a motivation for purchasing organic food, it appears that consumers link it with the value of security, or safety and harmony. Good taste and eating to enjoy relates to hedonism or pleasure and sensuous gratification for oneself. The propensity to behave in an environment-friendly way (environment and animal welfare) relates to the value of universalism whereas supporting the local economy is related to the value of benevolence. But this latter is only highlighted in fewer studies. This is even more interesting as an important share of organic food is still imported because OF markets are not self-sufficient.

3.2. Trust in the organic foods distribution system

Given the prevailing climate of food-related fear and consumer uncertainty, trust indicators may have a significant role to play. Perceived risks pertaining to food consumption and lack of knowledge regarding organic products are leading consumers to rely on different indicators such as brand name, store image, label or partners like producers. Consumers' trust to-

ward the distribution channels also appear to be an important factor in deciding not only where to buy but also what to buy. This highlights the importance of examining the trust issue from the supply side. Indeed, the main OF market actors are contributing, at different levels and with different strategies to consumers' level of knowledge of, preferences for, as well as trust/mistrust in OF products. As a matter of fact, building trust in the OF supply requires tools such as quality certification or labeling that have to be established and used as a promotion strategy. Trust orientations should be studied in the context of market actors such as producers/farmers and distributors or certifying bodies. Since markets differ in how the food system is organized, each player (producers/farmers, distributors, certifiers) adds a different value to the product and requires distinct distribution flows to do so. This is very likely to be in direct relation with the type of consumers and their preferred and most used channels of distribution.

4. Objectives and framework

Whereas the majority of previous research is focusing on the demand side, this study aims to uncover variations among supply side players (producers/farmers, distributors, certifiers) with regards to the OF supply chain and factors they rely on to add value to organic products. This value needs to be determined and estimated at all levels of the channel of distribution. Further, the logistics of the value delivery network need to be investigated. This will lead to an in-depth understanding of the value added in the organic food distribution system, the current market structure, as well as the determination of the challenges faced by the major players of the organic food industry. A second objective is to identify the different distribution strategies and arrangements to market organic foods and increase trust in OF products. Building trust in the OF supply requires more than just ensuring product quality and product knowledge, labeling or setting proper pricing and communication strategies, as trust is missing at various levels of the marketing value delivery system and the food supply chain. The dimensions of trust necessary to achieve market growth have to be integrated to the OF product positioning and the distribution strategies. In their effort to rebuild consumer confidence and satisfy consumer demand, such information is important for all market participants involved in the supply food system. Lastly, to support these two objectives it is important to provide a precise and useful profile of organic food consumers in relation with their preferred channel of distribution and main trust orientations.

To address the abovementioned objectives, our approach is based on an integrative production-distribution model (cf. Figure 1). There are 3 layers of decisions in this model (i) pre-supply: this is related to certification decisions, laws and regulations related to government agencies, and finally expert opinions on the industry structure and evolution, (ii) supply: this is related to the production, production methods, imports, and sold quantities, and (iii) channels of distribution: broken down into 3 main categories, long or standard channel, short channels, and direct channels.

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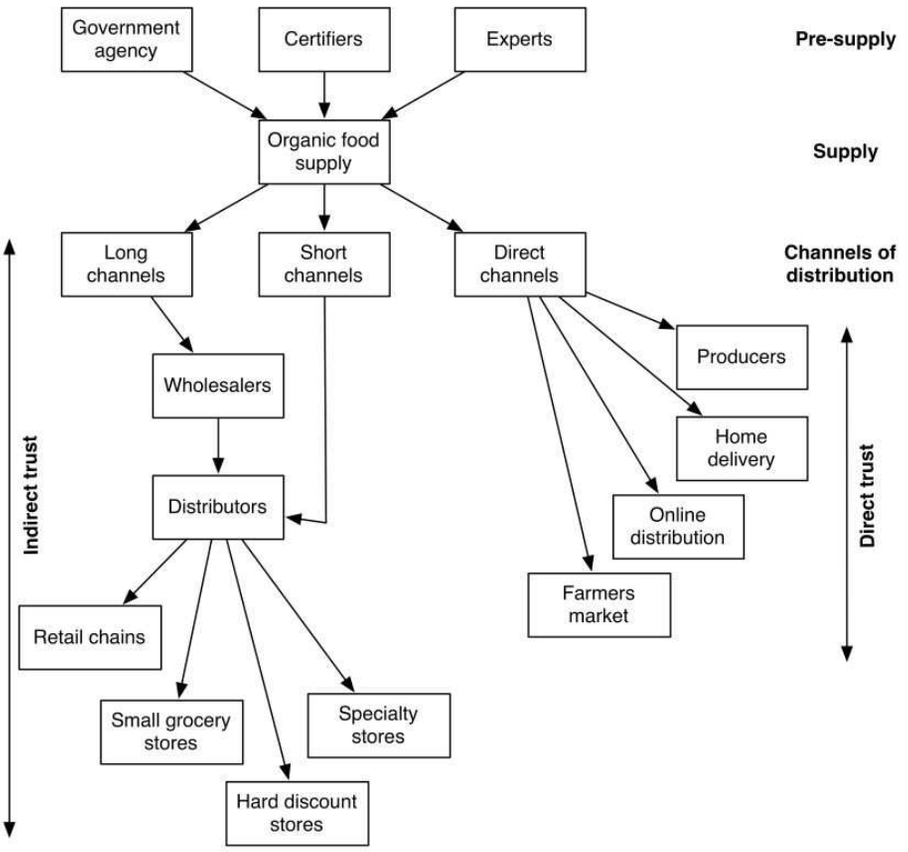

Figure 1. Integrative Production-Distribution Model

5. Design and procedure

5.1. Design

The abovementioned objectives require a 2-level design. This design determines how distributors/producers manage similarities and differences between what consumers want and what they offer them. A supply-side study has been developed to assess the production-distribution model. This in turn will lead to the development of a second model that takes also into account the demand-side (production/market model). First, in the supply-side study, secondary data on the organic food industry was collected to understand its market structure; then in-depth interviews were conducted with producers, distributors and certifiers. Distributors and producers were profiled as follow: (i) by channel size and type, (ii) by organic food products variety, and (iii) by channel position (retailer, wholesaler, etc.). Further, there is a three-prong challenge related to the interviews quality and consistency: (i) interviews had to cover a wide range of producers and distributors in the organic food industry, (ii) interviewees had to be decision makers or gate keepers in their channels of distribution/

organization, and (iii) the sample size should be sufficient enough to ensure consistency of the results without reaching any saturation.

5.2. Qualitative and quantitative procedures

Secondary data was collected in Canada using major sources of information as well as informal interviews with 14 industry key players (experts, certifiers, and government representaitves). As gatekeepers to the organic label, these key players can provide the most recent and accurate information about the numbers and types of organic farms, products and businesses, as private enterprises, are under no obligation to do so. Information obtained from these gatekeepers, while fairly comprehensive within its scope, is not necessarily accurate. This is illustrated by the example that, in order to reach various target export markets, some farms, products and businesses are certified by multiple bodies simultaneously. Lastly, 2 sets of in-depth interviews, based on 2 thematic interview guides that lasted about 30 minutes to 45 minutes, were conducted with 90 respondents (cf. Table 1). The first set of interviews focuses on the production/supply aspects while the second set focuses on the distribution/market, and hence the distribution logistics and its impact on the consumer's market. The interviews were recorded (digital voice recorder), transcribed, coded, and analyzed using content analysis [30]. This technique allows the researcher to include large amounts of textual information and methodically identifies its properties by detecting important structures of its content. Two separate judges coded the data to ensure a minimum of 80% correspondence.

Interviewees	Production/ distribution	Distribution/ market
Retail chains	0	7
Small grocery stores	0	2
Specialty stores	0	12
Organic producers/farmers' markets	15	17
Certifiers	0	8
Organic food experts	0	7
Other distributors	15	7
Total	30	60

Table 1. Interviews by Distributor Type

5.3. Research tools

The secondary data analysis led to the compilation of information coming from various sources, then information gaps were determined. These gaps relate to discrepancies between

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dollar sales and dollar production, the characterization of the value delivery system, and exports/imports of organic foods. Results from this phase have been used to design and structure both interview guides:

- The production/supply interview guide is composed of 5 sections; 3 sections related to marketing mix elements of organic foods (product, price, and place), a 4th section about the organic food market, and the last section deals with certification and labeling.
- The distribution/market interview guide is composed of three main sections. The first section probes distributors to discuss their perceptions of the current OF market and the structure of their distribution channel. The second and third sections deal with distributors' perception of consumers' concerns, trust issues related to their distribution strategies, and how consumers' concerns are addressed.

These 2 sets of interviews are complementary. Hence, the analyses have been combined for the sake of obtaining more exhaustive and integrative results. 59 keywords, clustered in 13 themes, have been generated from the interviews transcriptions. These themes are classified as follow: (i) production and supply: the section presents the challenges and issues that producers/farmers deals with when marketing their organic foods; (ii) value delivery system: value creation throughout the distribution channels; (iii) market/industry structure: this theme category covers various market trends and the demand as perceived by the supply side, (iv) distribution strategies: this section groups all distribution strategies as well as distribution logistics; (v) trust issues: these are consumers concerns regarding OF and the corresponding distribution strategies used to increase trust; and (vi) sustainability: this last category deals with the impact of sustainability on the organic food industry.

6. Findings

6.1. Production and supply

Information on the production of organic foods tends to be collected and provided in terms of acreage in production and not in final retail sales value, making it difficult to bridge between production and economic value. Retail numbers, when provided, are generally estimated based on current market values and expected yields by acre for the crops in production. They do not account for any added-value processing which may occur between the producer and the consumer. Further, because certifying bodies deal only with certified or transitional organic products and businesses, their numbers do not reflect the uncounted number of small mixed-production farms operating outside of the certification process. These farms are selling under one of the "natural" and "local" alternative labels commonly used in direct-to-customer sales at Farmers' Markets and on-farm stores.

By characterizing producers' use of the value chain to get products to the consumer, organic producers can be broken down into three categories: large, small and medium-sized operations. Like the medium-sized farming/processing operations, larger processing and distribution centers tend to co-pack with conventional products, ensuring sufficient throughout to

be profitable. These enterprises tend to be closed systems; like the large retail outlets they serve, those are interested mainly in consistency of product and supply and so they contract with large growers for their raw products. Smaller packing, processing and distribution operations are often spawned by the producers themselves as a way of making their products more marketable. This adds value and extends the selling window for their own products; basically building in forward integration of the value chain. To maintain year-round clientele these operations supplement with organic imports on a seasonal basis and retail the products of other producers.

There seems to be little overlap between large, medium and small producers at the processing, distribution and sales stages. There is very little shared infrastructure between these levels. The processing and distribution system for large producers is, for the most part, closed; it's available to those large producers only. The system for the medium-sized producers, developed by those same medium-sized producers, tends to remain closed because they are still struggling to maintain their position; they've done enormous amounts of work in establishing themselves and often consider the information and infrastructure they've developed to be proprietary.

6.2. Value delivery system

It is clear from the interviews that the organic food system tends to echo the conventional system in terms of the size and distribution of margin within the value chain - more details will be given in the upcoming sections. There are effectively three distribution chains of increasing efficiency at work in the organic food system, culminating in three types of retail. As in any distribution structure, every intermediary involved in the organic value chain must be able to add sufficient margin to cover its operating costs and generate enough profit to justify continued operation. The final price paid by the consumer reflects a share paid to each participant. This price must also be low enough to be attractive to consumers. Entry into the market of large supermarket chains has had a significant impact on price, producing downward pressure on the value chain in much the same way it has occurred in the conventional chain. While this has made organics more accessible and increased the volume of sales, the return to a focus on price has decreased the value of the organic label to small farmers.

Further to this, according to the supply side, distributors perform different distribution flows, thus creating distinct “organic values” sold through their channel of distribution. The “organic value” is directly related to the efficiency of the value delivery system. It is also clear that there are two distribution perspectives: long/medium size channels such as retail chains and small grocery stores versus short channel such as specialty stores, farmers’ market, and producers. Long/medium channels have a price/variety driven value, while short channels offer a value based on traceability and quality. This supports the importance of pricing. Prices tend to be higher in shorter channels than in longer channels as there are more flows performed by fewer channel members. Hence, shorter channels need larger margins to stay in business.

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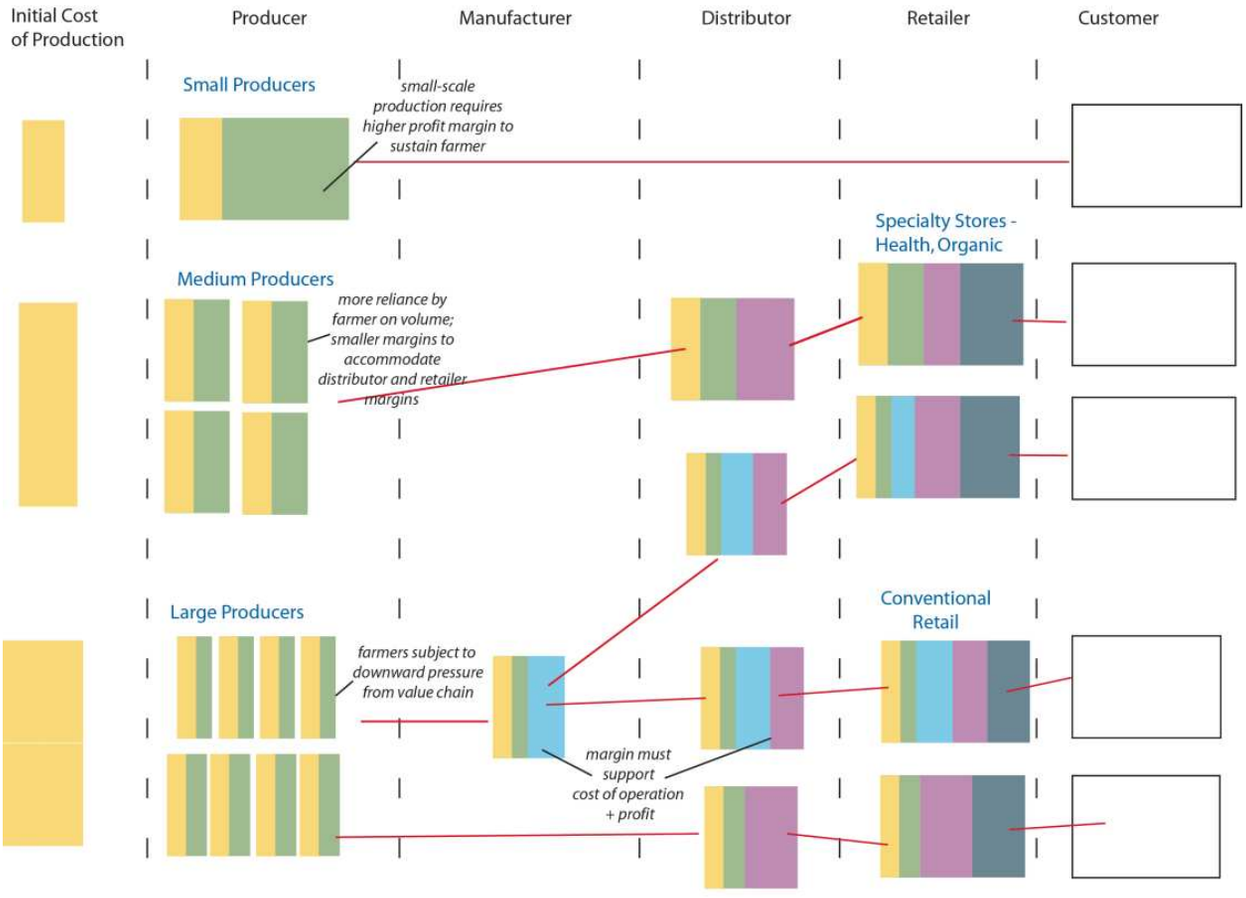

Figure 2. Organic Value Creation

6.3. Market/industry structure

In terms of product lifecycle, the OF market is not at maturity yet. Overall, distributors agree that the OF market is growing and shows substantial opportunities. More specifically they mentioned an increasing diversification of product lines and channels of distribution. Most of these distributors argued that the organic food market is demand driven; it is basically based on a derived demand, *"I am wishing, that at the retail level, we would have a better supply of it to meet the demands of our customers"*. This demand is exponentially growing, leading distributors to rely more and more on imports to compensate the under-supplied of local and national production. Further, many conventional channels are increasing their organic sales adopting conventional marketing strategies to organic food products; including organic versions of conventional brands. This is done to satisfy the needs of wider OF segments. The increasing number of distribution channels is also based on an increasing number of supermarkets and food store chains offering and widening their offer of organic foods at very competitive prices. Further, with the growth in popularity of organic food products, many wholesalers have entered the organic food supply chain. They have been encouraged by chain stores that need larger quantities at regular delivery times, and have to work through them because of high demand, *"I am wishing, that at the retail level, we would*

have a better supply of it to meet the demands of our customers". Consequently, imports from regions with large organic farming activities (eg. California) still prevails. The second major trend is pricing. All interviewees including distributors, certifiers, and experts agree that price is a key factor to enhance organic foods demand. However, price has been more discussed as a cost-control tool rather then as a market price-sensitivity issue, "*but one of the most difficult things is to make it price competitive*". It is clear that the industry is slowly moving toward a price skimming strategy. Third, all interviewees agree to say that consumers are becoming more educated and make smarter food choices. However, there are clear differences in their purchasing behavior. Producers and farmers' markets managers stated that their customers have specific needs and motivations to buy organic foods, such as health and support of local farmers. Conversely, consumers buying from conventional channels, i. e. retail chains, are looking for a different shopping and consumption experience. This is directly related to the OF adoption process. Consumers trusting the labels and certifications are in the interest-evaluation-trial phase while consumers trusting stores are in the adoption phase.

6.4. Distribution strategies

The increasing number of distribution channels seems to be mainly based on an increasing number of supermarkets and food store chains offering OF products and widening their offer of organic foods at more competitive prices. As a matter of fact, the diversification of the offer is the main driver of the market growth for supermarkets and retail chain managers. Most conventional channels are increasing their organic sales using conventional marketing strategies for organic food (like offering organic versions of conventional brands). This helps satisfying the needs of a wider number of OF segments.

From the producers and farmers' perspective, being able to expand supply is a big issue that translates into poor supply reliability and poor availability at the demand level. More wholesalers have entered the organic food supply chain with the growth in popularity of organic food products. They have been encouraged by chain stores because demand is up and they need larger quantities at regular delivery times, and wholesalers are key here. Consequently, imports from other regions with large organic farming activities still prevails. On the other hand, "local food" consumption is starting to drive the organic food demand. These products are a superior quality alternative to what is called "industrial organic" offered in supermarkets and retail chains. Producers are also making efforts in diversifying their offering and widening their product lines. It is interesting to note that direct channels offer competitive prices with regards to retail chain and supermarket. This represents a serious alternative for consumers looking to buy organic.

From the organic food specialty stores' perspective (independent stores as well as small chain stores), the organic market shows differences with supermarkets in terms of variety, price and quality. In other words, supermarkets are able to provide consumers with a larger variety, lower prices and convenience whereas specialty stores differentiate themselves with the quality and the origin of their products. The main difference between suppliers is determined in terms of short-direct/long channel of distribution, with producers offering tracea-

bility and quality. This is also related to the value offered in these channels: price versus quality.

6.5. Trust issues and distribution

6.5.1. Trust issues

Consumers have different trust orientations/levels depending on the type of distribution channel they use: trust related to labeling and certification, trust in the store selling OF, and trust in the production origin. Table 2 presents the distributors perspective on consumers' trust and ways to increase trust in organic food products.

Distributors	Trust more	Trust less	To Increase trust
Retail chains	Product labels ++ Certification labels +	Brands	Price Accuracy Consumers' education Quality
Small Grocery Stores	Product labels ++ Store reputation ++ Store manager ++	Brands	Consumer education Knowing the producer Price accuracy
Specialty stores	Product labels ++ Certification labels ++	Brands	Consumers' education Quality
			Consumers' education Knowing the producer
Organic producers	Certification labels + Production methods ++	NA	Consumers' education
Certifiers/ Experts	Certification labels ++	NA	Information on the labels Consumers' education Knowing the producer Production methods Certification process
Other distributors	Product labels ++ Certification labels +	NA	

Table 2. Trust Levels by Distributors

Retail chain managers mention – unanimously – that the product label is important. They also acknowledge that there are different types of consumers based on their level of trust. Consumers buying in these outlets feel very confortable knowing what to buy and finding all information they look for. Retail chains selling organics use intensive distribution strat-

egies, as their customers are also looking for a one-stop shopping experience. Hence, convenience and price are the main drives of the organic value here. This relegates other product attributes such as certification, brand name and country of origin to a passive role. From a strategic standpoint, retail chain managers are using conventional marketing strategies to increase their OF market share. For instance, price-skimming strategies, shelf-space and shelf life, as well as product differentiation are used to penetrate this fast growing market segment. Conversely, the organic value marketed in small grocery stores is mainly based on the relationship with the manager, the store reputation and also on the product/certification label. Managers' strategies are mainly targeted towards store loyalty; consumers trust the store hence they trust the manager, "*I would guess trust because the consumer is trusting me as a store owner*". Since the clientele base is smaller than in chain stores, managers are more approachable and they know some of their customers by name. This enhances the trust relationship between the store and the consumers, which is very important to stay afloat and in business. Further, this is a guarantee for quality and counterbalances the lack of brand effect. Lastly, managers argue that consumers buying in their store are knowledgeable and ask about specific product attributes when buying organic. As for retail chains, branding is not important.

Specialty stores managers observe that consumers trust labels, i. e. , product label and certification label. The value offered in this channel is based on the width and depth of the product lines, and also on the traceability of organic foods via certification labels. Hence, labeling is important as a source of information. Managers acknowledge also that OF consumers are more knowledgeable; thus they are able to recognize and also to evaluate the different certification labels. What is interesting though is that managers do not see any difference between consumers with regards to their trust level. It is important to note that even if brands are crucial to position the store offering, brands are not used to increase trust in this market.

Most organic producers and farmers' markets managers acknowledged that consumers trust certification. This is important, especially knowing that not all producers are certified. They say that when consumers approach them to buy organic foods, they look for certification labels. However, when producers discuss the production methods with them, when they show them around, consumers start building a trust relationship that acts as a certification seal, "*I think that's part of the trust, to open your farm and have it open for your customers so they can come and see"*. Therefore, the organic value is based on the production methods. This value offsets price sensitivity and the need for branding.

Lastly, other distributors, such as wholesalers, reiterate the importance of labeling and pricing, but they also add a new emerging and fast growing trend: local foods. The discussion revolved around several aspects of "local foods". Some relate it to organics saying that there is a clear difference between what they called "industrial organic" – sold through long channels – and "local organic" – sold through short channels. Furthermore, some said that more consumers want to buy local even if it is not organic, "*the fact that the product is organic is less important than the fact that it is direct selling*". This, obviously, deepens the divide between the market segments.

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To recapitulate, there are several market clusters based on distinct trust orientations and distinct organic values. Consumers rely on various cues to build their trust in the OF products offered in all distribution channels. Labeling – product labeling and certification labeling - plays a key role to inform consumers and strengthen trust whereas brands do not add to the level of trust in OF whatever the type of distribution channel. Last, local foods and local organic foods represent serious new trends in the industry. Trust orientations depend also on the channel length. Long channels rely on standardized organic values such as certification and pricing while short channels rely on product traceability, production methods, as well as the store/manager loyalty/reputation.

6.5.2. Distribution strategies to increase trust

The interviews aimed also at uncovering the distributors strategies used to increase trust towards organic food products and to address consumers' concerns. Results are presented by type of distribution channel in Table 2. It is clear that the common denominator to all distributors as well as certifiers and experts is consumers' education, "*If the government puts out some information, made it more available to the public, what organic actually meant, then that would increase the trust, and show people what it is supposed to achieve, and what it's not*". While almost all interviewees emphasize that education is a prerequisite to stabilize the demand and increase trust, this has to be nuanced. Consumer education can be seen from different angles: mass communication as part of a push strategy or providing information/building awareness as part of a pull strategy. These strategies are related to what has been said above regarding channel length. Hence, we can confidently associate pull strategies to short channels while push strategies are associated to long channels.

From a long channel perspective, retail chain managers suggest that price plays an important role in increasing consumers' trust. There is a lot of competition in the market and one way to differentiate the offering is to charge the lowest price to consumers; a price that reflects the organic value of what organic means to these consumers. One need to keep in mind that consumers shopping from these points of sale are not very knowledgeable about organics nor they buy organic for principle oriented reasons. According to the retail chain managers, their customers mainly buy organic for health reasons, but they also are price conscious.

Small grocery stores managers believe that trust should be increased if competition is to increase. The organic value marketed in this channel is mainly based on the relationship with the manager, the store reputation and also on the product/certification label. While pricing accuracy increases trust - if price reflects the value of OF products sold in these store - quality is not a key determinant to increase trust. Consumers associate quality with the store reputation and their relationship with the store manager, "*the consumer is trusting me as a store owner, if it says organic on my bins, and I am in turn trusting the company that I am buying it from*". It is important to note that all interviews have been conducted with independent storeowners. Hence, the involvement of the store managers/owner is more important than in retail chains. They unanimously state that consumers' education is key to increase loyalty and trust. They also argue that consumers are making smarter food choices but not all con-

sumers are knowledgeable about organics. Hence, trust is increased by providing information about the product, the producer/farmer, and pricing.

As far as specialty stores go, the value offered in this channel is based on the width and depth of the product lines, and also on the traceability of organic foods via certification labels. Hence, education is crucial to keep current consumers and attract new ones. Education means information about the products and traceability. This is related – again – to the structure of the trust relationship. It is because of the type of store (specialty store) that expectations are different. Consumers expect that the quality is there and that the products are certified. This is also seen in the arguments put forward by the managers when asked about the reason why their customers buy organic; they mainly buy organic for heath, taste and environmental reasons. This is a clear indication that some of these consumers are very conscientious. Hence, the distribution strategies used to increase trust are mainly information driven; these are pull strategies.

Producers and farmers markets managers have the simplest distribution strategy. Most of these producers use direct channels and in most cases, they have small-scale operations. We have to keep in mind that most of these producers sell at farms gate and at the farmers market. They also supply some grocery stores or specialty stores. Hence, costs and margins are higher than in conventional channels. This is the only way to sustain the production operations as producers cannot offset the cost increase in their channel; i. e. , low sales volumes, keeping in mind that the organic value offered in these channels is based on the production methods. Hence, education is the key factor to increase trust, and of course the most important element is "knowing the producer". As stated previously, they focus their activity on building long-term relationship with their clientele to increase their market base. This offsets the price sensitivity effects. It is also important to note that there are two main types of producers, those who produce organic because of health and environmental reasons, and those who do it because of market reasons (profit driven). Hence, the perception of trust may differ depending on the size of the farm operations.

6.6. Sustainability

Distributors as well as experts discussed what they call "*industrial organic*", "*conventional organic*", and "*local organic*". It is interesting to note that some distributors do not trust certification. Rather, they think that organic should be local and sustainable, especially when it comes to supporting the local economy and the farmers, "*I like supporting our local economy to that extent*". Sustainability as a differentiation strategy as well as a trust enhancing strategy is not important in Canada yet. However, most distributors said that in the future, the organic food distribution system should factor in sustainability, as it may be a condition to access the market. One could draw the parallel with green products, as now recyclable packaging is the industry norm. Conversely, other distributors and experts were skeptical about sustainability and said that for now it does not add any value to the current market and it is not a differentiation strategy.

http://dx.doi.org/10. 5772/52445

7. Discussion

This study attempts to provide readers with an overview of the structure and function of the market for organic food products in Canada based on the most current information available. In an attempt to produce a comprehensive picture, industry and government reports, academic papers, articles and personal communications have been reviewed for inclusion. Due to the difficulties inherent to the study of a relatively new market which includes players ranging from the private and not-for-profit to government and commercial/industrial, information on the Organic Food market remains partially incomplete. Further, to fill in the information gaps, a 2-prong design has been used along with a conceptual model of the existing organic processing and distribution structure. They are presented as a way to describe how the market has evolved. As can be seen in Figure 3 the production-market model takes into account the production/supply dynamics as well as the market dynamics.

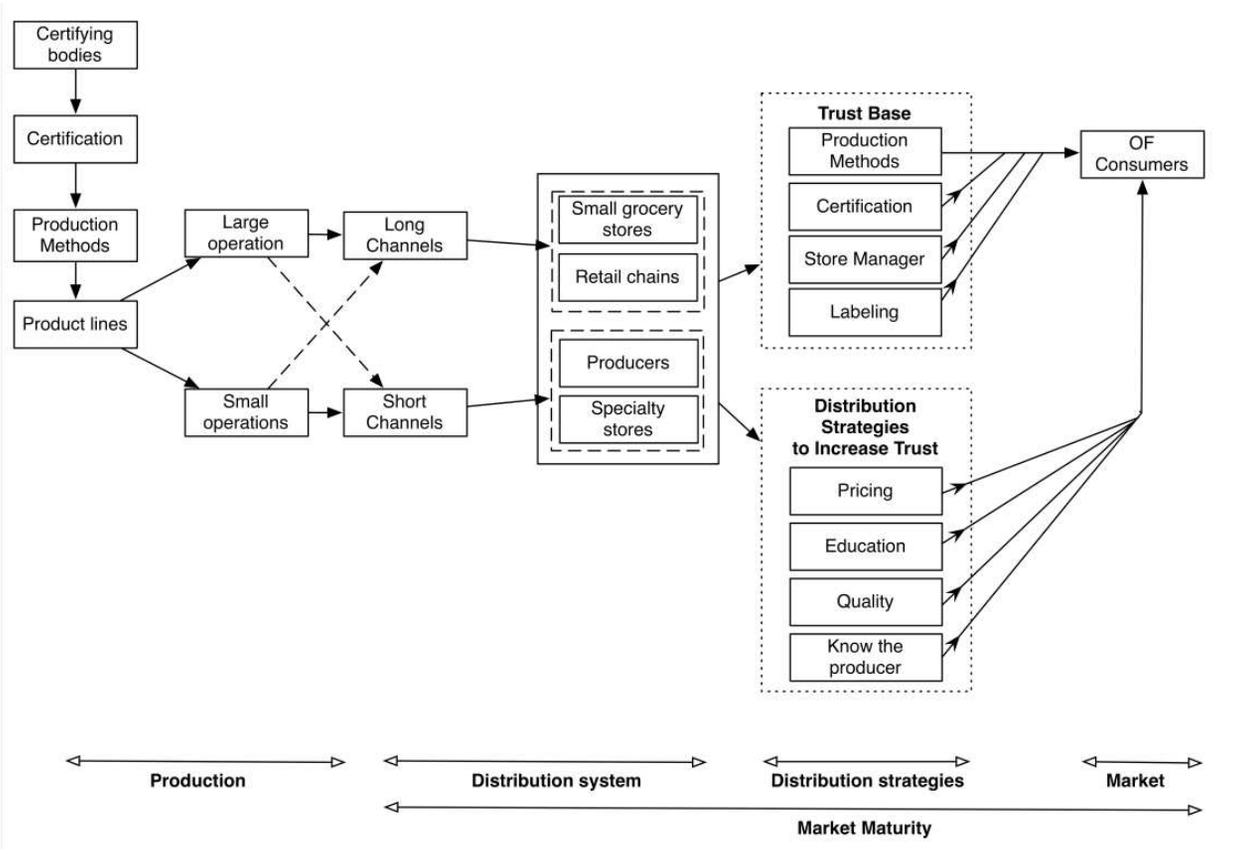

Figure 3. OF Market Model

Findings show that the organic market is the fastest growing sector in the food industry with double-digit market growth rates. Although organic agriculture is now going main-

stream, demand remains concentrated in Europe and North America. However, these two regions are not self-sufficient because production is not meeting demand. It is also obvious that the supply is not located where the demand is. Hence, large volumes of organic imports, coming in from other regions, are used to balance the undersupply. The main problem for producers and growers is not with respect to demand for organic products but being able to supply that demand. Another issue with organic foods as with any food in the value chain is the multiple dimensions attached to organic products. Not only it is production based, but it is also distribution based. In fact, there is a clear differentiation between two distinct distribution perspectives: long channels versus short size channels. This shows the current divide in the organic food supply and demand. Long channels strategies are convenience and price driven. They offer an organic value targeted toward a certain consumer profile; these are customers that buy organic mainly for health reasons. Conversely, short channels are production method driven. These channels serve consumers having a principle-oriented life style; thus the environment and the support of the local economy are the main drives of this market demand along with health reasons; but price is not a concern. The organic market is also segregated by the entry of large commercial/industrial supply chains and the lack of existing small-scale infrastructure.

All players from the supply side also mention an increasing diversification of OF products and distribution channels. Further, it is clear that the OF industry is slowly integrating new product lines. These trends are directly dependent on the product life cycle [6]. In addition, the marketing of organic foods is not at maturity yet, leading to a lack of market standardization. Ultimately this discussion converges towards store choice and store positioning. Organic foods are value-based products, thus the OF purchasing framework is different than for conventional products. It is based on consumers trust orientations. Overall, distributors link consumers' trust in OF to different factors: organic labels, product labels, brands, traceability, advice, and/or store reputation. For consumers buying from supermarkets, organic labels are mainly what they trust, not brands. This is clearly different from results presented by [30] showing that OF consumers buying in supermarkets mainly rely on organic labels as well as brands. Consumers purchasing in specialty stores trust the store itself, the sales person advice, the products' traceability (transparency of the supply chain) and organic labels they know. Hence, communication on the products quality and traceability, advices and information provided by store managers and sales persons (and store reputation) could increase consumers' trust in OF. For consumers purchasing from producers and farmers markets, traceability is the main element of trust, which is addressed through a trustful relationship established between the producer and the consumer. Because of the differences in these trust dimensions and based on consumers' specific interests and knowledge, providing standard information for all OF consumers may not be the best communication strategy.

Suppliers provided also their perception on several organic consumers' characteristics that are in direct relation with the type of distribution channel used. For most suppliers, consumers are in general knowledgeable and are looking for authentic and healthy products, quality, and taste. Their level of knowledge as well as their motivation to consume organic products seems to differ depending on the point of sale they mostly use. In other words,

consumers adopting short channels (producers/farmers market and specialty stores) are clearly looking for proximity with the producer, fresh products and quality, and a better understanding of the organic farming process. This segment shows a clear interest for the impacts of the production methods on health and on the environment. As mentioned by experts, there is a sub-segment in this target market that clearly differentiates between local food, industrial organic, and local organic. Conversely, consumers using standards channels of distribution – or long channels - are looking for convenience, healthy products and competitive prices. These consumers also seem to be confused between organic and natural products.

Lastly, certification and labeling systems serve as tools to enhance distribution and market development, create trust, and foster confidence. It is a commitment from producers/farmers to work with certain standards of production. According to [18], there are 80 countries using national standard of certification. Therefore, organic labels can be seen as an important source of trust. Several organic labels are now present on the Canadian market. This somehow induces some confusion, as some consumers do not know which one(s) to trust. Therefore, certification labels – assumed to play a central role - do not seem to have achieved that position in the OF consumers' decision-making process yet: they need to gain awareness, understanding and credibility in order to do so.

8. Conclusion

Consumers' interest in organic food has exhibited continued growth for the past two decades, which has attracted entrepreneurs and corporations seeing a big potential for this industry, and has also led to the creation of standards and regulations to guide the OF industry. Consumers are becoming more sophisticated in their purchasing decisions of OF, and companies are focusing on supply chain management in order to ensure high quality, traceability, and supply continuity. But the OF industry also faces some other challenges: (i) maintaining and increasing consumers' trust in the OF products and the OF industry in general, and (ii) facing new and fierce competition from market intermediaries and other types of "sustainable" products (e. g. fair trade products and local products). The OF industry and all its stakeholders will have to elaborate strategic responses to these opportunities and challenges that are in direct link with the supply level and the distribution structure. The results also provide an insight into the structure of the organic food industry and the determinants of consumers' trust. In fact, there are different levels of trust according to the channel members: trust related to the labeling and certification, trust related to the channel of distribution, and trust of the producer. These trust dimensions are direct consequences of the perceived added value to organic food provided by the producers, certifiers and distributors. This study has also some limitation, as results cannot be generalized. This research is exploratory and highlights the need to carry out quantitative and conclusive studies in order to generate not only conceptual clarifications but also answers regarding the Canadian organic food industry. This will in turn help to address implications of the consumer food consumption behavior for management and public policies.

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