

Organic sector's beating heart

The demand for organic food at a retail level has been generated by a variety of consumer influences – foremost, those directly related to health and diet concerns, including: food safety concerns relating to pesticide residues; GM foods; artificial additives; environmental issues; and overall lifestyle benefits. As more products come onto retail shelves sales will grow simply because the products are in the face of the consumer. This will in turn impact on the organic supply chain.

Supply chain diversity

A supply chain represents the flow of materials, information and finances as they move from supplier to manufacturer to wholesaler to retailer to consumer. As figure 1 shows, the organic supply chain is diverse and complex.

Many organisations are looking to supply chain optimisation as a means of gaining significant competitive advantage. An example of a global integrated supply chain is Daabon Organic (www.daabon.com.au). Daabon is a producer, processor, wholesaler, exporter and importer. Some smaller operations are seeing the need to diversify. Born Organic (www.bornorganic.com.au), based in Canningvale, Western Australia, is a wholesaler that is currently becoming certified as a processor for grocery and dairy lines.

Large supermarket chains are targeting

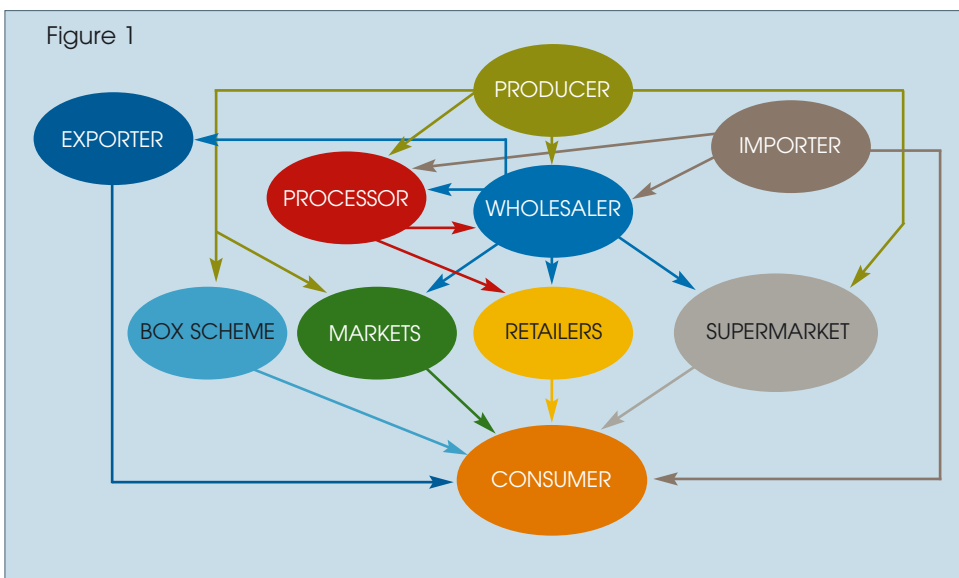
» The wholesale and distribution sector of the organics industry is the epicentre of the organics supply chain. A quick search on the Internet reveals how diverse the industry is, depending on location, competition and customer base, and the differing impacts on the supply chain. Story by Adam Birkby.



the producers directly to source produce. These large retailers are becoming involved in many levels of the supply chain, as an opportunity to gain efficiencies and ensure supply uninterrupted. Sergio Correa of Daabon Organic states, 'Many operations get a product one month and then struggle the

next. Being involved in the entire supply chain [means that] we can guarantee a reliable supply on a permanent basis.'

Producers are using the demand for organics to target consumers directly. Farmers' markets and box schemes are continuing to be outlets for producers to sell their products and are examples of even greater supply chain optimisation.



Current influences

Supply of products to retail outlets requires the maintenance of alternative and consistent lines. Inconsistency of supply is occurring throughout the wholesale market and is seen as potentially the greatest threat to sustainability. Inconsistency can be due to:

- **Environment and seasonal variations:** Grain producers in central Queensland for example are planting crops months later than usual. Quentin Kennedy of Kialla Pure Foods comments on the direct effect this has on the market when he states, 'There is consumer resistance on price levels for wheat derived products, which is all a result of poor seasons and climatic conditions.'
- **Location:** The majority of producers are in the eastern states, which has an effect on

supply in the western states. Tom Benson of Bossy Boots, an organic producer and wholesaler based in Western Australia, has problems obtaining supply from local growers. 'There is a terrific market for organic produce in Western Australia; the trouble is there are just not enough growers to supply this demand,' he says.

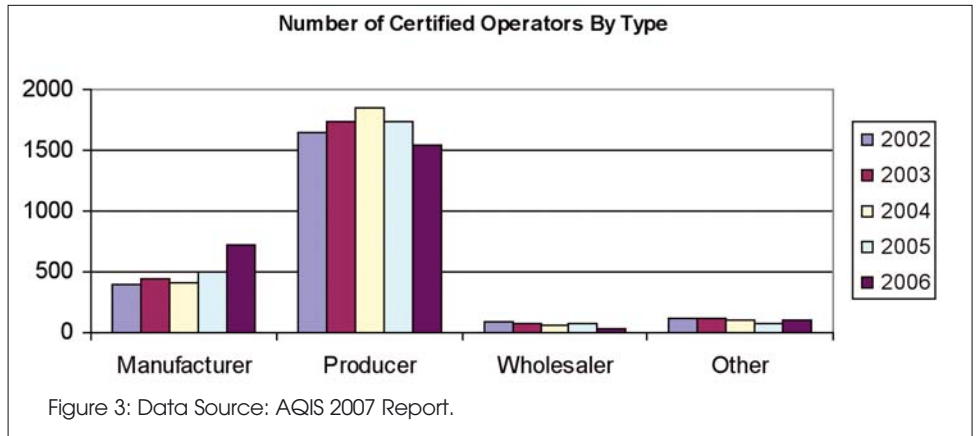
• **Competition:** In Victoria there is the need for larger numbers of certified retailers to sell organic products. Melba Fresh, a fresh produce wholesaler based in Victoria, has been dealing with conventional produce for over twenty years, and chose to trade in organics five years ago. Owner of Melba Fresh, Mick Ponte, is currently experiencing the issues related to supplying a small customer base stating, 'There is a limited number of buyers to serve at the moment, and as more produce comes onto the market next year and in the years ahead there is going to continue to be problems with placing it.'

It is a necessity for all businesses to concentrate on consistency of supply. This particularly applies to the production sector because of the continuing effect of environmental and seasonal factors on supply from producers.

Opportunities

According to certifier, Australian Certified Organic (ACO) there is reasonable growth in the numbers of new wholesalers, particularly in the eastern states. (see figure 2)

The percentage of certified wholesalers in comparison to producers is significant (see figure 3). This data indicates that there is possibly an opportunity for more wholesalers



to enter the industry and figure 2 reflects this trend.

The decline in the number of organic wholesalers could be a result of competition as well as the exiting of smaller players. (see figure 3) The percentage breakdown of certified operators for 2006 is: manufacturers 30 per cent, producers 64 per cent, wholesalers 1.5 per cent and other 4.5 per cent.

Certification

Most wholesalers deal with only certified organic product. As the pressure from retailers to supply only certified organic product increases, wholesalers are following suit. Certification is ensuring that all stages of production, processing, wholesale and retail are subject to guidelines and audits that guarantee the integrity of the product for consumers. For further information on certification requirements for wholesalers, importing and exporting please refer to the ACO website. Visit www.aco.com.au and follow the links.

Premiums

The price premiums that organic produce receives over conventional market prices are similarly diverse. Daabon Organic says that premiums are influenced by various market pressures and demands. Premiums are usually at around 30 per cent, but can range between 20 to 100 per cent, depending on the market. Whilst this is an extraordinary range, it again demonstrates the diversity and complexity of the organic supply chain. However, it is interesting to note that at present some fresh fruit and vegetables are priced similar to conventional produce. Colin Parks of Parks Fresh Produce confirms this when he states, 'Premiums have dropped; organic produce is receiving the same as conventional prices at the moment.' Ross Cowling of United Organics agrees and emphasises that in some cases organic produce is achieving better prices when it is sold on the conventional market. 'In some lines organic would be cheaper than conventional at the moment or pretty much the same price.

It is clear that the organic supply chain is specialised, diverse and complex. While many may be surprised to see the emergence of such a supply chain, those operating within it see it as a reflection of the continual growth in maturity of the organic sector.

The diversity that typifies organics is highlighted by how simple the supply chain can be when looking at the direct marketing processes of produce by growers, through the Internet, farmers' markets and box schemes.

It is obvious that there is no one model or correct way to market and distribute organic produce. The overriding aim of the various approaches to the organic supply chain is to provide good quality, nutritious organic food products to consumers as directly and efficiently as possible, while also maintaining continuity of supply.

There are challenges ahead for the organic supply chain, particularly with continued poor climatic conditions, but it is encouraging to see a growth in those entering the industry and continued success of business and industry as a whole.

