

Industry comment

» Wholesalers comment on margins obtainable in the marketplace for organic product in comparison with conventional.

'Are the existing margins sustainable for organic product? What is your opinion on challenges at both ends of the supply chain?'

Alister Ferguson, manager, The Organic Meat Company

'The Australian organic market is still in its infancy and pricing for cattle and beef currently reflects a lack of supply, with greater margins being received at the primary production end, however slimmer margins at the trade and retail end.

'Our focus is to continue to find the highest-paying market for each particular cut, which will hopefully enable us to maintain the premiums we pay to our producers.

'We also need to closely monitor our supply and ensure we are growing our existing markets and accessing new markets once supply is sufficient to support these for the long term, both domestically and internationally. Now we are in a position to maintain supply to supermarkets this has been excellent for growth and will keep demand growing.

'As supply increases whether margins are sustainable will be reliant on whether the industry can produce a quality product and how well this product is marketed. Consumers expect a high-quality meat, which is in addition 'clean and green'.



Alister Ferguson.

Maximising the marketing advantage that organic has over conventional will ensure that a reasonable premium is maintained at both ends of the supply chain.'

Don Lazarro, managing director, Pureharvest

'It is difficult to generalise when speaking about margins. Margins vary from product to product and are dependent on various market forces, competitors and the degree of difficulty growing the product. For commodity driven products, which aren't difficult to grow and without a distinct peculiarity, there will always be pressure to maintain margins. For niche products that are more difficult to access, margins will be better protected.

'For the grower, there will be increasing environmental challenges to combat, and the organic grower has fewer quick solutions available with which to deal with these.

'At the other end of the supply chain, scale is the greatest challenge. Costs are relative to scale in allowing greater efficiencies. Good management and the constant monitoring and improving of efficiencies will also assist in keeping margins reasonable and therefore sustainable.'

Philip Rougon, managing director, Eco-Farms Pty Ltd

'The answer is far from black and white as margins are dependent on many variables. Supply and demand has always been the dictator of margins. Because the economy of scale is different for every product, margins will also be different.

'With organic being such a small segment of the produce market, it does not take much to flood or to shorten a market – just one area with frost or drought, or simply a new entrant to the market for a particular produce line.

'There are several challenges with organics and the main challenges come down to consistency and quality. This applies to grains, in regards to consistency, as well as



Juan Pablo Campos.

horticultural produce. There are a lot of excellent growers that produce in most cases as good as, if not better quality than, conventional produce. Cold chain distribution remains a challenge in maintaining temperatures from the farm gate through to retail. These challenges all have an effect on the price of produce and in turn margins.'

Juan Pablo Campos, president, Daabon Organic

'It is crucial for the organic movement to preserve its principles in order to remain sustainable over time. Regardless of the pressures from the mainstream food industry to take on organics, growth needs to take place in harmony with the environment, with respect for local communities and through sustainable economic schemes. If the balance in any of these areas is broken, the whole movement is jeopardised.

'Price premiums are part of a sustainable economic equation and thus need to be preserved as well. Trade volume will enable efficiencies and thus cost reductions, but we shouldn't be misled in thinking that organic food products can remain wholesome while getting rid of price premiums, as that is a contradiction.

'Therefore, I believe that existing margins will narrow over time as the industry consolidates, but a price premium for organic over conventional food products will always remain.'

