

A limiting factor:

# Organic sector supply chain issues caused by continued strong growth

By Greg Paynter and Holly Vyner

The organic industry, while experiencing strong demand, is limited by its under-developed networks and supply chains. These are needed to ensure consistency of supply for meeting market requirements. Essentially if continuity of supply can't be managed, then continued market positions cannot be held and the use of forward contracting and supply agreements can't be guaranteed.

## VALUE ADDING

The organic grains sector is an example of this. Graham McNally, of Kialla Pure Foods, and Gavin Dunn, of Four Leaf Farms, are two grain producers who have seen the potential of growing produce and value adding to it through the processing of grains and packaging of retail products under their own brands. Both have been successful and expanded accordingly. The growth in markets for their product is a positive attribute, but to maintain markets developed one also must maintain continual supply of raw materials. This becomes more problematic when drought strikes, interfering with supply of product to be processed.

## VERTICAL INTEGRATION

Vertical integration is another system that has been developed to manage the supply chain. It encompasses primary production, processing and recycling waste resources all under the same management structure. Inglewood Farms is a good example of this, rearing their chickens, growing grain for feed, processing the feed through their own feed mill and processing the chickens through their processing facility. Waste product from the processing of chickens is composted and recycled back into the farm production.

Clive Wylie says "We aim to have a closed loop production system as far as practical. This has benefits of quality control over our product, enables us to guarantee consistent supply to clients and has long-term cost benefits."

While this shows a growing maturity in the organic industry there are still limitations caused by a lack of feed for chickens. Note that BFA's *Australian Organic Standard 2006 (AOS)* requires that 50 percent of feed is produced on the farm and the remainder supplied from local suppliers, (section 5.1.28). The vagaries of Australian climatic conditions do not always make this as feasible as in Europe or the USA, noting the small number of organic grain growers/suppliers in Australia.

## RETAIL DEVELOPMENTS

Macro Wholefoods is a good example of an organic industry participant taking the initiative in setting up a chain of stores predominantly for selling organic produce. This adds competition into the market place for scarce organic product.

Pierce Cody says "The industry is in a fragmented state and

simplifying the supply chain will take time." When Mr Cody invested in Macro Wholefoods two years ago he was arranging payment each month to about 1000 suppliers, many more than conventional supermarkets handle. Further still there was the problem of educating vendors to put barcodes on their products.

However, of most importance Mr Cody recognised was "We wish to help this industry to grow and encourage existing certified growers to convert more land to organic and conventional farmers to make the switch to organic. This is our number one priority," says Pierce.

In the two years since Mr Cody opened his second store, the business has expanded to eight stores with four located in NSW and four in Victoria.

## DIRECT SUPPLY METHODS

Conversely there has been an increased level of interest in stepping out of the supply chain equation by the development of direct marketing processes e.g. through the Internet, farmers markets or through the Consumer Supported Agriculture (CSA) marketing system.

This form of marketing has become increasingly popular in Europe with direct sales to consumers making up a significant 30% of the sales of overall retail sales of organic products in 2004. (OMIaRD 2004)

## CONCLUSIONS

Fortunately there are many entrepreneurs investing in the industry that are carrying out some of the pioneering work in developing the sector and the ripple effect of their investments is providing benefits for all involved. However some strategic policy development is also needed from industry and government agencies to foster the continued growth of production of raw materials and product in the supply chain.

One way to alleviate the problem is through providing new entrants with an understanding of the complexities and requirements of organic production through training and education.

Also, growers will need to communicate with existing organic networks within regions to ensure that a critical mass of product is provided for establishing and maintaining a supply chain. This may, for example, enable a local abattoir to become certified organic to kill animals so that excessive travel is not required.

Grower groups have also been successful at providing the support needed in a region for encouraging new entrants and fostering growth. ■

*References: 2004 Organic Marketing Initiatives and Rural Development (OMIaRD) The Survey of Organic Marketing Initiatives [http://www.irs.aber.ac.uk/omiardsofar/OMI\\_SURVEY.pdf](http://www.irs.aber.ac.uk/omiardsofar/OMI_SURVEY.pdf)*