

The retail debate

Ethics in organic retailing

By SCOTT KINNEAR
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As organic food expands across the globe and enters traditional market sectors, it is timely that we examine the opportunities for altering the traditional marketing habits of retailers.

The key point to make about large retail models is that they have contributed to declining returns for many producers and processors. Supermarket chains across the world maximise market share by often claiming, first and foremost, that they are cheaper than their competitors.

They achieve lower prices through short-term contracts and by encouraging larger production volumes and supply chain efficiencies.

This has led to a continuing decline of real returns to many farmers through the competitive market price system. Farmers who have publicly complained about reduced returns are often 'sent on a holiday' by the supermarket chains and their contracts are not renewed.

There has been sporadic resistance to the reduction of farm returns and the devastating impact that withdrawal of contracts can have. As I write, Tasmanian potato farmers are taking their case to mainland Australia, outraged that McDonald's has chosen to cut potato purchases from Tasmania by 50%. Despite this resistance, farm incomes in real terms have declined steadily over the past 100 years and show no sign of improving.

The 180,000 farmers left in Australia in 2005 will continue to leave the land over time, if drivers for change are not introduced within the retail sector. The South Australian Farmers Federation surveyed its farmers and found that 80% are considering leaving the land.

I believe what is needed is a complete paradigm shift where positive social and economic outcomes are given high priority in supply contracts. Many people think that the organic sector does this; but unless pressure is applied urgently, the growth of organic food sales within the supermarket and large processor sector, I believe, will result in reduced returns for many organic producers and processors.

An example of competitive price campaigning has already begun in the organic large

retailer sector with a press release from Macro Wholefoods posted on its web site on July 16 2005.

Pierce Cody from Macro states in this press release:

We want all Australians to have access to high quality organic food. We consider accessibility to be a two-part equation; convenient locations and competitive pricing.

The Macro statement goes on to say:

Macro has been working closely with growers to increase the volume of goods they produce, in an effort to bring the price to their customers down and it's working. This is an ongoing process but the following was indicative of this positive trend last week;

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THINK ABOUT IT: SUGGESTIONS FOR AN ETHICAL ORGANIC RETAIL CODE

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| <p>1. Buy local as a preference. Reduce food miles and greenhouse gas emissions.</p> | <p>retain rural vibrancy and social sustainability.</p> | <p>retool and find a new buyer if needed.</p> | <p>6. Consider offering staff ownership options in the business model – perhaps through shares.</p> |
| <p>2. Buy first from small producers and processors in preference so their efforts are rewarded. Pay them more than larger businesses in recognition that they do not have the economies of scale or capitalisation. Value "small is good". Otherwise we drive the destruction of rural communities where we need more farmers, not fewer to</p> | <p>3. Buy first from producers or processors that pay according to accepted award structures or above award. Do not support piece rates for organic workers.</p> | <p>5. Offer protection in contracts so that if producers or processors are hit with forces outside their control, such as drought or disease, they are supported, not penalised. Prices must go up in these circumstances and retail prices must be averaged to give the retailer a fair profit and to ensure that customers share responsibility for supporting producers and processors that are suffering.</p> | <p>7. Price foods for sale fairly, and avoid the use of low prices and 'loss leaders' to entice customers. In doing this support true sustainability for all.</p> |
| <p>4. Offer long-term contracts – five years with a clause to renegotiate after three to four years so if things don't work out, the producer and or processor has time to</p> | | | |

A dozen organic eggs cost only \$2.99, inexpensive even when compared to battery eggs.

Major price specials are now being made available rotating around all sections of the Macro store from dairy to bread to produce."

\$2.99 per dozen organic eggs is a fabulous price. I have never seen such a low price for organic eggs in the 15 years I have retailed organic foods. The use of such incredibly low price specials reminds me of supermarket price campaigning and concerns me greatly. I urge Macro to consider the implications of the signal it is sending to producers and food buyers alike.

Furthermore I hope that organic retail will not engage in the practice of using 'loss leaders' to promote lower prices to food buyers. A loss leader is the deliberate sale of goods at cost price or below and is an attempt to get food buyers to form a view that a particular brand of store is cheaper than its competitors. I would like to see the practice of loss leader pricing removed as a key ethic for organic food retailing. The constant trumpeting of lower prices within the conventional food industry has enabled the larger retailers to take over the supply of 80% of foods in Australia. The direct result is the loss of small grocers and family businesses throughout the country. I am keen to ensure that we take a different path within the organic sector.

I believe the large supermarkets and Macro will expand the opportunities for organic growers in the short term but I remain concerned about the longer term. By pursuing larger volumes from larger growers as a prime means of reducing prices, and then using this to lure food buyers, I fear the result will be to reduce real returns for many smaller producers and processors.

Even though the organic market is small, prices are predominantly determined by the supply and demand of the market. There is already plenty of evidence to show that organic farm returns are coming under considerable pressure. There are winners and losers in the market system and the winners today can easily become the losers tomorrow as larger economic business models enter the organic sector and lower the market price of organic foods. The drop in price might suit the supermarkets, which are aiming at a 30% premium for organic foods over conventional, because at that level it has

been shown overseas that organic food sales take off. However, we need to be mindful of the losers along the way.

In response to these market trends I urge Coles, Woolworths, Macro and other supermarkets, along with all organic retailers, to develop a completely new organic retail ethic that pays a premium price for product produced by a small enterprise, compared to product from a larger enterprise. In this way I hope we can provide profitable returns for small family-operated organic businesses, enabling them to thrive alongside the larger operators.

Many people are drawn to organic production because they hold strong values about environment, health, animal welfare and, in many cases, social and economic sustainability. Organic producers in Europe are finding that the introduction of their products into supermarkets is cutting their margins. In North America many organic producers who built the industry are dropping out of certification and refusing to supply corporate processing and retail sectors, preferring to focus on local sales to small retailers, restaurants and markets. While this may be a positive outcome in some cases, many other smaller organic producers are doing it very tough in the same way that smaller operators in the conventional food industry have historically struggled for many years now.

I believe it is urgent that we debate the ethics of organic retailing. To assist this process, I have compiled a list of suggestions for organic retailers to consider (see box).

I urge organic retailers of all sizes to use an ethical code of practice to articulate a comprehensive holistic message to food buyers. In my view we should be aiming to educate food buyers to be prepared to pay more for food, not less. In this way we can build sustainable futures for the organic sector and lead the way for the broader community. The organic sustainable message is good news. Food buyers who understand our comprehensive philosophies will not go back to the lowest common denominator of cheap food; instead they will further spread the word of quality and sustainability.

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I look forward to this debate proceeding throughout the organic community and especially around the board tables of Coles, Woolworths and Macro. ■



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