# A Study on Organic Food Retailing: A conceptual framework

**Mr. Hawa Singh**
Senior Research Scholar, Institute of Management Studies & Research, M.D. University, Rohtak (Haryana).
Email - hawasinghimsar@gmail.com, hawasingh2009@gmail.com

***Abstract:*** *Indian Organic Food industry is presently at its nascent stage and has been experiencing growth in past few years. The country's organic food market is transforming into world's fastest growing organic food market. The Indian economy is still relying on agriculture and it contributes nearly 14% of the country's gross domestic product and almost 60% of the population is dependent on agriculture. The trend of organic food that was initiated in the developed regions such as Europe and North America has expanded to developing countries like India and China. The purpose of the paper is to explore the values that underlie consumers purchasing decisions of organic food and focuses upon the full understanding of the consumer-decision making process with regard to organic product. This work indicates the complexity of the consumer-decision making process and impact upon the probability of deviation between different product categories .Future research should consider tradeoffs that consumers make between values and product as well as consumer segmentation.*

***Key Words:*** *Organic, consumer-decision making, Food Market Forecast.*

## 1. INTRODUCTION:

Food consumption patterns are rapidly changing nowadays as a result of environmental issues, concern about the nutritional value of food and health issues. Issues such as quality and safety in food attract consumer interest in organic food that is free from pesticides and chemical residues (Childs and Polyzees, 1997; Zotos et al., 1999;Baltas, 2001; Fotopoulos and Krystallis, 2002).Although the concept of "organic food" seems to be well known to many consumers(Roddy et al., 1996; Von Alvensleben, 1998), the proportion of consumers who purchase organic foods on a regular basis is low (Grunert, 1993; Wandel and Bugge, 1997; Roddyet al., 1996; Fotopoulos and Krystallis, 2002).To better protect consumers from harmful and fake organic food, knowing the factors affecting consumers' consumption of organic products is therefore important. Through investigation, the profile of buyers and non-buyers of organic products can be figured out. This can be very critical for designing organic food labelling certification, improving public health and enhancing the profitability of the food industry (Drichoutis etal., 2005).

Dramatic changes are occurring in the way retail establishments deliver food to consumers, largely in response to dynamic and diverse trends in American lifestyles. Fundamental changes in demographics, labor force participation, and income distribution continue to dictate changes in the food system. The most successful food firms are organized to deliver the most desirable combination of food and service to consumers. Basic production, processing, logistics and marketing strategies in food and agribusiness companies are geared to producing goods and services that "bring the consumer back." New forms of integration and coordination between companies in various parts of the food system are based on information systems that start with the retail customer.

## 2. DEFINITION OF ORGANIC FOOD:

There is no common definition of "organic" due to the fact that different countries have different standard for products to be certified "organic". In simplest words, organic foods are minimally processed to maintain the integrity of the food without artificial ingredients, preservatives or irradiation. Organic products are obtained by processes friendly to the environment, by cultivation techniques that consider both the attributes of the final product and the production methods (Chinnici et al., 2002).

Generally speaking, Organic meat, poultry, eggs, and dairy products come from animals that are given no antibiotics or growth hormones. Organic food is produced without using most conventional pesticides; fertilizers made with synthetic ingredients or sewage sludge; bioengineering; or ionizing radiation (United States Department of Agriculture National Organic Program, 2000).

Organic foods were historically grown on small, family-run farms, limiting the sale of these goods to small grocery stores and farmers' markets. Natural foods are now much more popular and widely available, as evidenced by the growing number of natural/organic retailers like [[Whole Foods Market (WFMI)]] and [[Wild Oats Markets (OATS)]]. The sales of organic and natural foods have boomed as well, significantly outpacing the growth of conventional food sales.

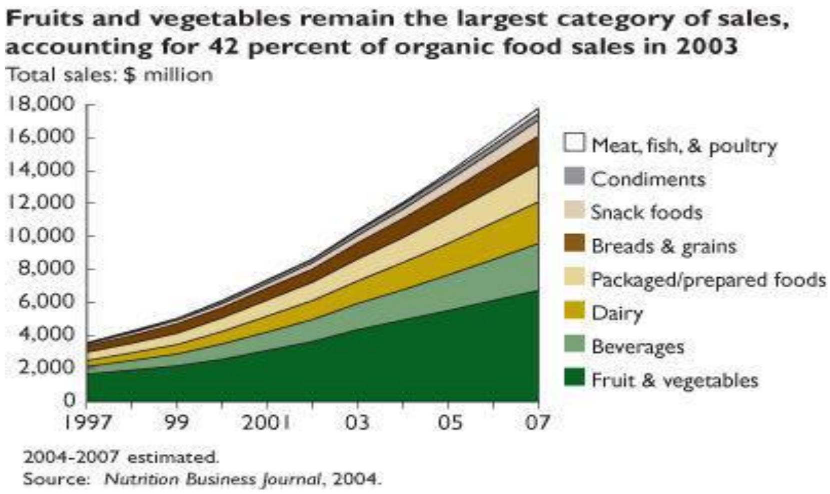


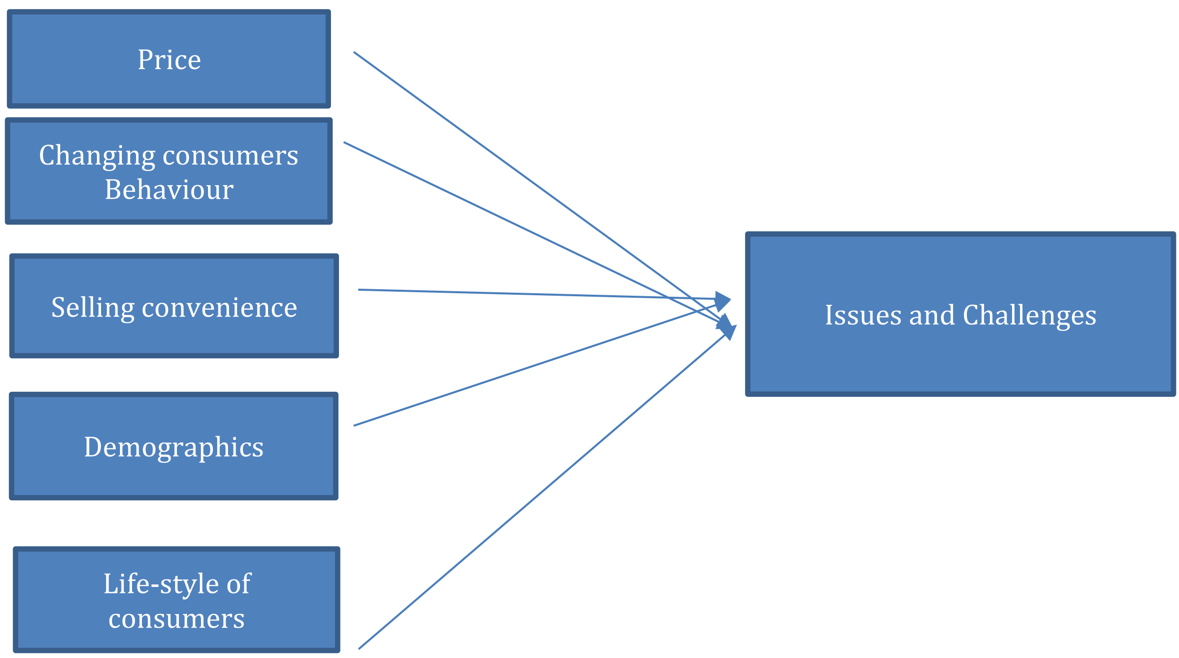

**Fig.1 scale**

**3. ORGANIC FOOD RETAILING:**

The organic food market has been increasing at approximately 20 percent per year since 1990, when total organic food sales were $1 billion, compared to $17 billion in 2006 (Dimitri and Greene 2002; Klonsky and Greene 2005; Organic Consumers Association 2007). Consumers are attracted to organic foods because of their characteristics, such as being environmental-friendly and pesticide free (Dimitri and Greene 2002). Recent increases in organic food demand can be attributed to the increased availability, which lowers search costs, and increased selection and variety (Dimitri and Greene 2002). Supplementing the traditional sources of organic food (i.e. farmer's markets and natural food stores), conventional supermarkets accounted for 47 percent of organic sales in 2003 (Oberholtzer, Dimitri, and Greene 2005). The decision by Wal-Mart to feature organic foods in their super-centers will undoubtedly increase the market share of organic food sales by supermarkets (Warnier 2006). In addition, many major food manufacturers, such as Kellogg's, Kraft, and Dean Foods, are developing or acquiring organic product lines (Dimitri and Oberholtzer 2005).

The profits associated with organic foods have also attracted producers to this market. The 1.45 million acres of certified organic cropland in 2003 were 3.6 times the level of 1992 (Dimitri and Greene 2002; Klonsky and Greene 2005). The main factors that prevent conventional farmers from shifting to organic farming include certification costs, the time required for transition from conventional to organic status, lack of understanding of organic production technologies, and generally higher labor costs for organic products (Greene and Kremen 2003). Although the high cost of organic foods can be covered by their higher prices, organic farmers are required to use organic production methods for a three-year transition period prior to being certified organic. During this period, they cannot enjoy the price premium of organic foods, and this can result in substantial reductions in farm income (Dimitri and Greene 2002; Oberholtzer, Dimitri, and Greene 2005).

Figure: 2 Model showing implications in organic food retailing



## 4. IMPLICATIONS:

### *4.1 Organic Food and Consumer*

The retail market has grown from an estimated £605 million in 1999 to £1.1 billion in April 2004 (SA, 1999). The development of the organic sector in the UK has been largely driven by three factors:
Growing interest of consumers; retailers, especially the multiples, which have had a key role in further in growth, promoting products, increasing range and aiding farmers to convert; and Conversion support available to producers (Michelsen et al., 2001).

Growing consumer demand has been attributed to a response to various food-scares including widespread concern and resistance to the introduction of genetically modified organisms in the food chain (MINTEL, 1999; SA, 1999; Farodoye, 1999; Michelsen et al., 2001).

Leading UK market intelligence companies have regularly surveyed purchasing of and shoppers' attitudes to organic food in the UK using nationally representative samples (e.g. Datamonitor, 2002; MINTEL, 2003; MORI, 1996; TNS, 2004). The surveys have covered a number of issues, such as socio-demographic aspects and shopper typology, frequency, availability and place of purchase, motivations and perceptions, barriers, and information about organic labels (summarised in the following section) supplemented by panel data in relation to actual purchasing behaviour of consumers in relation to organic food (TNS, 2004; SA, 1999).

### *4.2 Changing Consumer Behaviour*

There has been a sea change in the demographics and lifestyles of American consumers. In a capsule, they include a slower growth in population, greater ethnic diversity, an aging population, more women in the labour force, and slower growth in income and a widening disparity in its distribution. The population growth rate which was over 1.7% per year during the post-war baby boom (1946-64) is now only about 1.0% per year. The Census Bureau projects that by 2025, Hispanics will constitute the largest minority group with 57 million, representing 17% of the population versus 10% now. Asians are the fastest growing ethnic group and their population is projected to reach 26 million by 2025. Together, African-Americans, Asians, and Hispanics will constitute over 38% of the population by 2025 versus 27% today (U.S. Dept. of Commerce).

No wonder then, that the fastest growing segment of the restaurant business has been fast food, and drive-through sales have been a major factor. Their sales doubled between 1984 and 1994 capturing 52% of all restaurant sales (Price). More generally, consumers now spend almost one-half (47%) of their total food dollars for the 37% of their food (by volume) that is consumed away from home (Food Institute 1996b, p. 7; Manchester and Clauson). Clearly the value of time for many consumers is higher than the extra costs of purchasing food ready to eat. In terms of the theory of household economics, wage rates exceed marginal productivity of household production (of food). This, in combination with the fact that the real cost of food to U.S. households has fallen by about one-third since 1960, leads to a great demand for value-added services in the food sector. Take-out food combines value-added services (cooking) with freshness, variety, and the comfort of eating in your own home. It is obtained from a variety of types of restaurants, delicatessen shops, and grocery stores. The Food Marketing Institute (FMI) reports that shoppers buy 48% of their prepared take-out food at fast food places, 25% at other types of restaurants, and only 12% at supermarkets (Food Institute 1996a). Real GDP per capita rose 36% from 1973 to mid 1995 but real hourly wages of nonsupervisory workers fell by 14%.

### *4.3 Organic Food Retailing Changes among Consumers*

Traditional supermarkets are facing serious new competitive challenges from super centers at the price-conscious end of the market and from "home meal replacement" providers at the convenience-oriented end. Supercenters with an average size of about 150,000 sq. ft. devote about 40% of their space to grocery items and the rest to discount general merchandise. Supercenters accounted for only 2.0% of all groceries by commodity volume in 1994, but that is projected to grow to 7.4% by 1999. There were 380 supercenters operating in 1994 with a projection of 1,200 by 1999 (Food Institute 1996b, p. 125). The major supercenter operators are WalMart, K-mart, Fred Meyer, and Meijer Stores. Traditional supermarkets are very concerned about the level of efficiency, and hence price competition, supercenters bring to the grocery business. A major motivation behind the "efficient consumer response" (ECR) initiative is to get ready to compete with these new competitors, especially Wal-Mart.

The average grocery retailer has operating expenses equal to 21.8% of sales, whereas Wal-Mart's operating costs are only 17.5%. Even after full implementation of ECR, operating costs for the average grocery retailer are estimated to be 19.3% (Blattberg).Food expenditures as a percentage of household income after taxes were 34.8% for those with incomes of $5,000- $9,999, 24.2% for $10,000-$14,999, 21.0% for $15,000-$19,999, and 17.3% for $20,000- $29,999, but only 8.5% for those with incomes of $70,000 and over in 1993 (Putnam and Allshouse). The "convenience-oriented" group contains many families with dual-income earners, in which both the husband and wife have professional positions. Characteristics of those who report time being a tighter constraint on their decisions than money include being age thirtyfive to forty-nine, married, white, earning over $50,000 per year, having a professional or white collar job, and staying home most Saturday nights (Crossen and Graham). Some 51% of households with incomes less than $15,000 report looking in newspapers for grocery specials "pretty much every time they shop" versus only 30% with incomes over $50,000 per year. Likewise, 39% buy store or lower-price brands and 9% shop at discount or warehouse stores for grocery items compared to 16% and 5%, respectively, in the higher-income group (FMI 1995, p. 29).

***4.5 Selling Convenience***

The concept of convenience is to save consumers time. Reducing the preparation required prior to actually consuming a product is one form of convenience. In this vein, sales of pre-washed, pre-cut produce, such as carrots and celery, and ready-to-eat packaged salads have grown rapidly (about 15% per year in a typical supermarket). Most consumers are certainly aware they are paying more, but obviously they are willing to pay for the value-added in terms of increased convenience. There are at least two other dimensions to convenience from the food shopper's perspective. One relates to the number of tasks that can be accomplished during a single shopping trip or in a single store, and the other relates to the time required to shop. To improve their one-stop shopping appeal, supermarkets have been adding new services, such as banks, florists, video rental, and pharmacies, even though the proportion of shoppers who use these specialty departments remains small. Only 13% make a purchase from in-store pharmacies and only 4% make a floral purchase (FMI 1991). To make it easier and quicker to shop, supermarkets are changing their interior designs or floor layouts. Newly designed or remodelled stores are expanding their prepared foods/deli into a "food court" with perhaps even a sit-down-to-eat area. The customer is able to walk directly to the departments like dairy, deli and produce without walking through all the dry and canned goods. This will help them compete with convenience stores. Supermarkets are also trying to improve their overall ambiance with amenities like fireplaces, carpeting, and entertainment for children. The ultimate convenience is home shopping in which consumers give their order by phone, fax, or even using their home computer after looking at a catalogue or visiting a web-site. Peapod Inc. is a home shopping service initially operating in Chicago and San Francisco in which the customer can browse "electronic aisles." Peapod employees then go to designated supermarkets to fill orders (Food Institute 1995, p. 186). Twenty-four percent of stores offer home delivery and 3% of customers currently use it (Food Institute 1996b).

## 5. CONCLUSION:

This analysis examines the challenge of understanding the complexity of organic food consumers has benefited from numerous research activities. There is a general consensus in the literature on the reasons why people buy organic food. These have remained stable over time, and, although there are some slight differences between countries and for particular products, the main reasons, in order of priority, are: issues associated with personal health; product ‘quality’; and concern about degradation of the natural environment.

However, interestingly, there is a gap between consumer perception of the superior health features of organic food and the scientific evidence. There is also a gap between those consumers who have a positive attitude toward organic food and their relatively low level of actual purchases. Again, there is a general consensus that this is because of the higher price and limited availability of organic food. The results from investigations into who buys organic food have been disappointing, as they remain elusive to the commonly used market segmentation tools such as demographics. However, research has identified that most consumers buy organic, but only some of the time, and hence they switch between organic and conventional on a regular basis.

In conclusion, consumer research remains a fertile area for further investigation as researchers grapple with its inherent complexity. Organic food does not appeal to a coherent segment of the market as ‘beyond the two poles of the converted (regular consumers) and the sceptical non consumers who would never consider buying organic, there is a large body of consumers who buy organic food on a more occasional basis, but lack the knowledge, financial resources, conviction, or simply the inclination to buy more regularly’. With this in mind, further research on the role that food plays in consumers’ lives, along with investigating their purchase context, is required to complete our understanding of organic food consumers.

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