

HealthyGrowth: How can organic supply chains grow without losing their added value?

Results and recommendations

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Background

Companies that produce process or market organic food often emerge from niche markets. In their early years many companies realise that organic food production is highly valued. Health, ecology and fairness are seen as being intrinsic to organic food production. However, rapid sales growth can sometimes lead to compromises that weaken some of these values.



Dottenfelder Hof (2002) Photo archive oekolandbau.de
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Higher values

Value added organic food refers to both the product quality, that is the use of the best possible raw goods, and processing quality. Processing quality is defined by the type of production and conditions, such as environmental impact and animal welfare. The guarantee of higher quality and the transparency and reliability along the value chain pose special challenges.

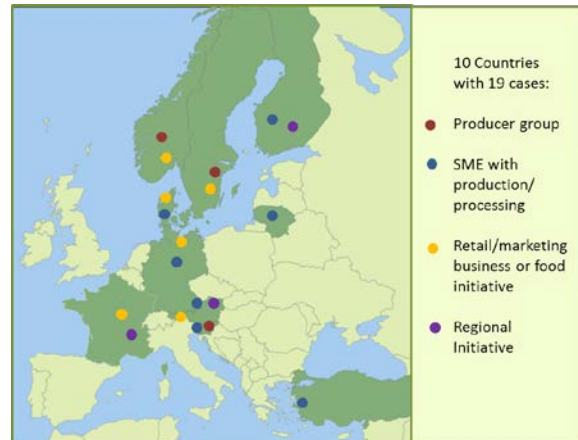
The goal of “HealthyGrowth”

The HealthyGrowth Project’s goal was the analysis of growth processes in the organic food sector. It examined how to safeguard the integrity and transparency of the value chain despite the increasing ‘distance’ between the producer and the consumer. It examined businesses and food initiatives that succeed in balancing growth, maintaining value added products and convincing the consumer that a higher price is justified. HealthyGrowth recognises that policy funding schemes of many countries already address some of the suggested measures such as information and training courses, support of advisory services, and public procurement procedures etc. The following recommendations aim to reinforce the success of existing schemes but also emphasise the potential to promote values-based growth processes in the organic sector in a more comprehensive way.

Case studies and comparative analysis

Case studies were undertaken by 10 national research teams studying 19 cases, critically examining the differences in business growth, in organic farming and food (production). These formed the basis for actions and recommendations relevant to practice and policy.

The comparative analysis reveals six key points and shows the benefit of strengthening values-based growth for businesses and value chains.



Partner countries and types of case studies

(I) Cooperation and effective communication for organic value chains

Long-term cooperation based on trust plays a central role, in the implementation of agreed standards for labelling, development of joint logistics systems and the comprehensive integration of value chains. However it is not unusual for tensions to emerge with the rapid growth of value chains. Tensions can be related to product and processing qualities, physical proximity (regionally), management of seasonal supply and the need for cooperation with traditional processors or trading companies. Changes and adjustments affect both individual companies and also cooperation throughout the chain.

Suggestions for practice

It is crucial to use appropriate organisational and governance structures to manage and control these tensions and foster development. Adjustments often affect all business partners. Recurring problems must be overcome jointly to maintain good business relationships.

Openness and participation help to build and retain trust. This concerns the relationship among the business partners, as well as the relationship of the businesses with the consumer and the wider community.

Discussion about the core values and business goals that the businesses depend on is a prerequisite for values-based growth.

Specific starting points

- Use of informal meetings to exchange and inform each other. Events such as summer festivals or plant visits are important for these informal exchanges. Though often underrated, they are useful.
- An organisation can bring their partners in the chain together using these events, for example, with an Open House Day.
- Organising regular discussion groups, to reconfirm formal agreements (crop expectations, agreements for storage, logistics, and so on); it is important for value chains to have the involvement of processors, dealers, marketers and possibly even consumers.

(I) continued: Cooperation and effective communication for organic value chains

Long-term, successful cooperation is based mostly on a combination of formal (written contracts) and informal agreements. Reliable delivery and payment, for example, strengthen mutual trust.

- Publication of minutes from these meetings to strengthen the culture of transparency along the chain and to decrease the risk of possible doubts about competition between the partners.
- With serious communication problems: timely support using advisors or neutral moderators.

Policy suggestions

Good cooperation among business partners and along the value chain makes it possible to reach targets more efficiently. Support can include providing contacts for contractual advice, moderation of the process, mediation, consultation on schemes to fund support programmes and maintenance of online portals (network coordination, cluster/innovations manager).

It is possible to support mergers or informal agreements between agricultural enterprises and SMEs. However, bureaucratic hurdles and the high risk of penalties can be a barrier to the use of subsidies.

Specific starting points

- Developing contacts (network coordination, cluster management) for example, for contractual advice, moderation of the process, advice on support payments, online tenders.
- Supporting producer groups that aim to establish more formal associations, Operational Groups, networks and possibly also consultants (rural development programmes).
- Assistance for SME cooperation, for example, development of economic clusters through business development (EFRE).
- Creating a strategic fit, for example, coordination with programmes such as ELER, EFRE or transnationals.

(II) Use of consultation for the management of organic enterprises

A number of case studies show that there are significant differences in rates of growth and development trajectories. Deficits in management are apparent in many agricultural and food businesses with limited investment in teams, knowledge and skills. Many managers say in hindsight that they could have avoided many mistakes if they had access to professional management expertise. Instead, they acquired this gradually, often through trial and error.

Typical challenges are:

- Developing strategic goals consistent with short and long term planning whilst taking into account specific values;
- Knowledge of the market situation and competitive advantages;
- Leadership style, efficient decision-making and successful adaptation to growth;
- Organisation structure and restructuring, e.g. developing new 'departments', such as a production or sales area, and applying professional planning techniques;
- Establishing suitable approaches for personnel management;
- Financial control regarding middle and long-term liquidity and financing.

It is apparent that those enterprises enlisting professional input e.g. to set up quality management systems at an early stage were considerably strengthened by that input.

Suggestions for practice

Regarding investment planning, businesses should target costs for planning and advice.

If professional support for management is neglected, the effect can show years later, if, for example, personnel policy has not kept up with production development.

Certification suitable for business development in the organic sector is available.

Specific starting points

- Allocate financial accounting and market monitoring to external service providers.
- Timely use of service providers for participative strategy processes or individual coaching for management teams.
- Management style: cooperation and participation should always be considered.
- Reorganisation: Use professional planning techniques.

Policy suggestions

Farmers or SMEs involved in processing or marketing have often wanted management-level professional support. Suitable advice and coaching for managers and employees in key areas (personnel, finances) should be a fixed part of support programmes.

Specific starting points

- Increase offers of relevant advice and training to farmers and entrepreneurs for example, using targeted advisory modules.
- Investment support only on presentation of company-specific, strategic development plans (ELER/EPLR, business development).
- Support for management coaching.
- Targeted (compulsory) training for advisors in managing organic production and processing.

(III) Staff training for the organic value chain

Effective thinking, control and adaptability are required for growth, positive business development and cooperation along the organic value chain. All the case studies showed that colleagues, producers, sellers and customers all benefit when they communicate, manage effectively and professionalise the related activities. Ongoing training for employees in production, processing and sales are also important for success.

The range of quality factors in the food sector has increased markedly making sufficient knowledge about a wide range of aspects of organic production such as geographic origin or fair trade especially important. This is significant in the case studies of businesses such as bakers, butchers, brewers etc. and of trade (specialised shop assistants, wholesale and retail trade etc.)

Those in central positions rather than employees generally are best suited to understand and safeguard special products and their processing specifications. Also where growth occurs employees' training needs to adopt the requirements relevant to the new areas of production, procurement, marketing, finances and management.

Suggestions for practice

Many organic business entrepreneurs see education and training for new employees as part of their investment for business growth. New staff often participate in specific training.

Our case studies show that more targeted training is necessary about the growing and varied requirements of the values-based food sector.

Specific starting points

- Develop in-house education and training ideas (in agreement with business partners).
- Greater use of external, national education and training offers.
- Organisation of regular groups for information sharing among organic farmers, processors and marketers through association and federation networks.
- Incorporating information about the differing requirements relating to the values-based food sector into the teaching and vocational training of farmers.

Suggestions for policy

Publicly funded education and training should be strongly geared to the present and future requirements of practice and markets.

Adapting education and training becomes a challenge for those involved in education policy and administration if they are not connected with the values-based food sector. In the interests of society, (especially concerning health and environmental costs) these connections should be strengthened.

Specific starting points

- Strengthening and further developing training modules to match the special requirements of values-based production, processing and sales in education and training institutions (vocational schools, teaching and research institutes, technical colleges, colleges and universities).
- Involvement of government, public-private and private organisations with relevant expertise in the development of education and training.
- Support for networks of best-practice examples, which foster knowledge exchange among colleagues.

(IV) Public procurement – organic catering in public institutions

With growing awareness of the value of sustainable production and processing of food, expectations about procurement of goods and services are increasing. The public sector can directly promote the demand for organic, animal-friendly or seasonally produced food if those responsible for purchasing apply the appropriate criteria for public procurement procedures. Our findings however often point to a wide discrepancy between socio-political claims and an overview of the administrative implementation of public catering. It is better that the procurement of sustainable catering services is both legally and socio-politically feasible. However in practice regarding its implementation for schools, kindergartens, retirement homes and other institutions of a public nature, this is often not the case.

The European-wide procurement law - the so called Green Procurement Standards – created the basis for sustainability in public procurement procedures. The following criteria are relevant: organically produced food, short regional transit routes, avoiding waste, use of environmentally-friendly equipment and cleaning agents, compliance with social standards and support for innovative, small and medium-sized businesses (in rural areas).

Suggestions for practice

New providers can obtain targeted information about tendering from public administration, associations, federations, Chambers (of Commerce) or potential suppliers.

Outside the public sector, there are also commercial food businesses which could be interested in a safe and values-based supply.

Specific starting points

- Specifically seeking information regarding the criteria and procurement practice regionally and nationally.
- Registration with the official administrative procurement portal.
- Agreements with other businesses or associations and the use of professional support for developing tenders.

Suggestions for policy and administration

The policy and public procurement requirements vary between regions and municipalities. This applies to tenders for supplies for schools, kindergartens and other organisations involved in public catering.

The procurement of sustainably produced food products is not yet compulsory. However, EU procurement law explicitly allows the use of sustainability criteria in public tenders. It suggests that the appropriate policy intentions apply to administration. Some countries are writing tenders for the procurement of catering services on the basis of EU Green Procurement Standards. The approaches in regions and municipalities vary, which may lead to a promising exchange of experiences of sustainable procurement procedures.

Specific starting points

- Definition of the term 'sustainable procurement practice' to establish clarity for the management of tenders, including a list of verifiable criteria for practical implementation.
- Develop compulsory sustainability criteria for public catering tenders!
- Disseminate information and advice to decision makers and those responsible in local public administration offices.
- Endorse a 'sustainable' fixed price per meal that allows caterers to implement sustainability goals.
- Tenders in smaller lots (for each school or other institution) so that smaller local caterers will be able to make an offer.

(IV) continued: Public procurement – organic catering in public institutions

It is also possible before tendering for administrators to hold talks with caterers to communicate and discuss deliverable quantities of seasonal, organic products, thus making added value food provision more feasible.

- Flexible menu planning. Providers must often commit detailed menus months in advance, sometimes including seasonal vegetables that will not be available.
- Relevant proposals need a definition of the term 'regional' (for example, a geographical area, region or district). European law demands free access for all businesses. The place of origin of the goods is the criterion, rather than the location of the company.

(V) The legal framework for organic values chains for meat and meat products

Production, processing and consumption of meat and meat products have a special status for individuals as well as for the public. Aspects of animal care and welfare relate to their rearing, fattening, and their transport and slaughter. Species-appropriate methods of animal husbandry are relatively well established on the basis of specific animal welfare labels or organic farming standards. Transport and slaughter are subject to a European-wide legal framework, but its interpretation varies greatly between member countries, regions and counties.

Veterinary authorities have a central role in the interpretation as they are responsible for approving small-scale and mobile slaughter and processing facilities. Butchers or farmers who want to build up a values-based meat chain often fail at the approval process stage. The problem intensifies if slaughter and meat processing companies must be integrated as a service in the chain. Since processors can process organically and conventionally, this leads to a huge problem for integrated values-based chains, as many service providers cannot be integrated into a chain's overarching concepts.

Suggestions for practice

Farmers benefit from premium prices if the added value over the chain is successfully implemented and communicated to the consumer. In values-based chains the inclusion of slaughterhouses and processors is challenging but important.

Farmers with their own slaughter or processing plants as well as those who have contractual partnerships with independent businesses can guarantee a values-based chain. However, slaughter is subject to numerous legal regulations, which is a particular challenge for values-based meat chains.

Specific starting points

- Regular communication among livestock owners, abattoirs and marketers, and a constructive working relationship with veterinary authorities in particular, helps to sound out available opportunities.
- Obtaining information about variations in the interpretation of guidelines for artisan slaughter and better use of existing opportunities.
- Setting binding standards, agreements and certification provides transparency and fosters consumer trust.

Suggestions for policy and administration

The legal framework for slaughter and processing has changed significantly since 2004. Subsequent closure of local abattoirs (small and medium-sized) had an adverse impact on regional supply chains.

In addition, more flexible interpretation of relevant legislation, information and advice can significantly strengthen regional, values-based meat chains.

Specific starting points

- Advisory services for relevant parties.
- Support for agreements among farmers and processors (economic clusters, networks, and so on); ELER, EFRE and others. Moreover, better coordination of investment support for production, processing and marketing (ELER, EFRE, and business development).
- Education and training about what is acceptable to approving authorities.

(VI) Social commitment to values-based food and nutrition

The research shows that social commitment to values-based food and nutrition varies strongly among countries and between cities and rural areas. The ideal of sustainable consumption is the linchpin for consumer-producer communities.

For many organic value chains which have grown from niche to medium-sized corporate structures, social or environmental commitment also has great significance often in cooperation with associations, organisations or foundations. German case studies in particular show that cooperation is strengthened by supporting local conservation, youth initiatives or, cultural projects. Overall however the respective cultural context seems to be of central importance. Caution is needed when transferring experiences and innovative ideas from one country to another.

Suggestions for practice

Relatively open governance processes involve targeted stakeholders and enable businesses and initiatives to strengthen their central values and the implementation of their strategic goals.

Discussions with community organisations call for intensive and often personal involvement. This provides/ensures the basis for a long-term trust based relationship.

Openness about the extra cost of production and processing backs up appropriate food pricing.

Specific starting points

- Particular importance of transparency of the flow of goods and processing procedures.
- Introduction or improvement of participation processes for civil society groups.
- Cooperation with environmental and conservation groups can support sustainable business goals and open new options for internal and external communication.
- Open communication with consumers and community groups can be learned. Cost and added value must be credibly conveyed.

Suggestions for policy

Mutual support in principle between businesses and community groups is well known. In the organic food industry there is also a close and growing connection with relevant community groups locally, regionally and nationally.

Joint action almost always originates at the enterprise or food initiative level, but political decision-makers can also initiate or support community food projects.

Specific starting points

- Strengthening the engagement of civil society groups with targeted measures.
- Such measures can also benefit organic businesses.
- To summarise, all public organisations and policy makers that are important for strengthening sustainable food production and the food industry are eligible for assistance.

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More information on the HealthyGrowth project with all case study reports and comparative analyses are available at www.hnee.de/HealthyGrowth or www.coreorganic2.org/healthygrowth

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