DEVELOPING LOCAL MARKETING INITIATIVES FOR ORGANIC PRODUCTS IN ASIA

A Guide for Small & Medium Enterprises
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FOREWORD

The IFOAM trade conference organised from 5 - 8 November 2003 was an opportunity for local market initiatives to update themselves on developments worldwide affecting the organic sector. It was also an opportunity for local market initiatives to present their achievements, discuss their problems and learn from each other. Lessons that have been learnt in the relevant panels of the conference, in a special one-day workshop on November 9 and the experiences of ten Asian local marketing initiatives (case studies) are summarised as a guide for SME organic marketing initiatives in developing countries.

Participants in the workshop on November 9, 2003 came from the following countries: Thailand, Palestine, India, Nepal, China, Malaysia, Singapore, Cambodia and Vietnam. Most of the participants had prepared a case study to serve as basis for discussion during the workshop as well as for this Guide. For full details of the participants, please refer to Annex 1.

This Guide is thus based on the experience of a number of local organic marketing initiatives (in the document mostly referred to as the "initiatives") and the result of the discussion on November 9, 2003. Some existing literature was also used to complete the information from the case studies.

The Guide was compiled by Koen den Braber from Hanoi Organics, Vietnam. Ong Kung Wai from Humus, Malaysia and Vitoon Panyakul from Green Net, Thailand reviewed the draft document and assisted in the final editing of the document.

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PART 1.

BACKGROUND, MARKETING STRATEGY, ORGANISATION AND PRODUCTS
1. INTRODUCTION

This first chapter provides general information for the Asian region in general and the case study countries in particular, on the domestic agriculture market scenario, domestic organic market (including some statistics, major players, export oriented and domestic marketing initiatives), availability of certification, and applicable legislation.

ORGANIC CULTIVATION IN THE REGION

For most Asian countries, agriculture plays a vital role to the national economy. Many countries, for example Indonesia, have large numbers of small farmers practising organic agriculture to reach self-sufficiency in food or to improve soil fertility. However, in Asia organic agricultural is in general mainly practised for export.

Although Asia has a very active organic movement (around a quarter of IFOAM’s 703 members are from Asia), the area under organic cultivation remains relatively small. Among the more significant countries producing organic products are China, India, Indonesia, Sri Lanka as well as Israel. Many farmers in Table 1 summarises data available from Asian countries and some selected countries from other continents on the number of farms and area under organic production. For many Asian countries, no precise figures are available, but it may be assumed that no country (except Israel) has reached one percent yet. The total organic area in Asia is now just over 400,000 hectare (of which 75% is in China). This is comparable to Canada and France, but smaller than Germany, Italy or the USA. (Yussefi & Willer, 2003)

Table 1: Land under Organic Management and Number of Organic Farms in Asia (SOEL-Survey, February 2003 in Yussefi & Willer, 2003)

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Number of organic farms</th>
<th>% of all farms</th>
<th>Organic cultivation area (hectare)</th>
<th>Organic as % of total agricultural area</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2001</td>
<td>2,910</td>
<td></td>
<td>301,295</td>
<td>0.06</td>
</tr>
<tr>
<td>India</td>
<td>2001</td>
<td>5,661</td>
<td></td>
<td>41,000</td>
<td>0.03</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2001</td>
<td>45,000</td>
<td></td>
<td>40,000</td>
<td>0.09</td>
</tr>
<tr>
<td>Israel</td>
<td>2001</td>
<td>7,000</td>
<td></td>
<td>7,000</td>
<td>1.25</td>
</tr>
<tr>
<td>Japan</td>
<td>1999</td>
<td>5,083</td>
<td></td>
<td>5,083</td>
<td>0.09</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1998</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep. of Korea</td>
<td>1998</td>
<td>1,237</td>
<td></td>
<td>902</td>
<td>0.04</td>
</tr>
<tr>
<td>Laos</td>
<td>2001</td>
<td>150</td>
<td></td>
<td></td>
<td>0.01</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2001</td>
<td>17</td>
<td>0.01</td>
<td>250</td>
<td>0.07</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2001</td>
<td>27</td>
<td></td>
<td>131</td>
<td>0.002</td>
</tr>
<tr>
<td>Nepal</td>
<td>2001</td>
<td>26</td>
<td></td>
<td>45</td>
<td>0.001</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2001</td>
<td>405</td>
<td>0.08</td>
<td>2,009</td>
<td>0.08</td>
</tr>
<tr>
<td>Philippines</td>
<td>2000</td>
<td>500</td>
<td></td>
<td>2,000</td>
<td>0.02</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2001</td>
<td>3,301</td>
<td></td>
<td>15,215</td>
<td>0.65</td>
</tr>
<tr>
<td>Syria</td>
<td>2000</td>
<td>1</td>
<td></td>
<td>74</td>
<td>0.001</td>
</tr>
<tr>
<td>Thailand</td>
<td>2001</td>
<td>940</td>
<td>0.02</td>
<td>3,429</td>
<td>0.02</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2001</td>
<td>38</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>SUM ASIA</td>
<td></td>
<td>60,083</td>
<td></td>
<td>418,585</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>3,236</td>
<td></td>
<td>430,600</td>
<td>0.58</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>10,364</td>
<td></td>
<td>419,750</td>
<td>1.40</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>14,703</td>
<td></td>
<td>632,165</td>
<td>3.70</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>56,440</td>
<td></td>
<td>1,230,000</td>
<td>7.94</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td>6,949</td>
<td></td>
<td>950,000</td>
<td>0.23</td>
</tr>
</tbody>
</table>

In most Asian countries, the local markets are just emerging. In almost all Asian countries, local distribution is a huge problem and often a price premium cannot be achieved. A number of countries, such as Israel, Japan, Malaysia and the Philippines have specialised organic stores or markets.
From only a few countries, some data on the local markets are available. In India, the total organic production is about 14,000 tons but domestic sales account for only 1050 tons (7.5%). However, the domestic market is still growing through a number of recently launched marketing initiatives and sales are therefore likely to increase to around 1500 tons by 2006-07. In China food safety issues have become a growing concern in the last few years, resulting in the growth of the domestic organic food market. Together with a continuing economic growth, demand for organic products is likely to continue to increase, possibly rising to 2% of the entire food sales in China. (Yussefi & Willer, 2003).

The total annual organic sales of fresh produce in Singapore are estimated to be more than $1 million. The volume of local organic fresh produce is estimated to be 150 tons per annum, up from approximately 30 tons in 1999. Some of the organic products are produced locally and the rest is imported, mainly from Malaysia. All produce supplied to local market is for domestic consumption and there is no surplus for export. In the Philippines, the estimated value of organic sales is around 6.2 million dollars, of which 2.5 million dollars come from the domestic market. Annual growth rate is 10 – 20 %. Also in Malaysia the local market is small but strongly emerging, with a small export to Singapore. The domestic market includes certified local fresh produce and certified imported dry and processed products.

In a number of countries, such as Thailand, Vietnam and Singapore, organic products, especially vegetables, have to compete with products grown with a limited use of chemical fertilisers and pesticides, such as IPM vegetables or "safe" and "hygienic" vegetables. Consumers are often greatly confused about the differences between these different kinds of products, because these low-chemical products are often promoted as being organic. Moreover, because these "pseudo-organic" are in many cases promoted by national governments, this creates an even more difficult situation for the organic producers and traders.

**National Initiatives to Develop the Organic Sector**

Many Asian countries have a high grassroots level involvement in the development of organic agriculture and many NGOs have programmes to assist farmers in converting to organic agriculture, to markets organic products or to lobby for organic agriculture. However, large-scale and national programmes are still rare. The only country with a reported government programme to develop the organic sector is India. However, this APEDA (Agricultural and Processed Food Products Export Development Authority) programme is aimed primarily at building up the export market and not much attention is being paid to build the markets domestically. APEDA is working along with the Ministry of Agriculture for carrying out the following measures:

- Training programmes for producers and certification agencies;
- Improving quality of research and development;
- Promoting certification programmes;
- Developing national policies for organic production;
- Improving quality of products, packaging, logistic infrastructure and technical support;
- Promoting Indian organic products at international fairs.

**National Organic Regulations**

In the last few years, several Asian countries have developed national regulations for organic agriculture. This development is related to not only export but also to increasing domestic consumption. In India, Israel, Japan, Lebanon, South Korea, Taiwan and Thailand these regulations are fully implemented. Malaysia has also finalised its national regulations, but they are not fully implemented yet. The Philippines, China, Indonesia and Vietnam are in the process of drafting their regulations. (Yussefi & Willer, 2003). First steps have also been taken to develop Nepal’s national standard for organic agriculture products.

In India, the National Programme for Organic Production (NPOP) was launched in April 2000. The national standards for organic production and processing have been framed and the certification measures have been established. Regulations for use of the trademark "India Organic" have also been put in place.
In the Philippines, the Department of Agriculture has recently signed an Executive order endorsing the Philippine National Standards, as the standards for standards in crop and livestock production. These national standards were adapted from the standards developed by the local certifies OCCP. OCCP is a non-profit organisation, with a membership composed mainly of NGOs, academics, local government units, the media, the organic private sector and some consumer groups. In other countries, such as Thailand, Malaysia and Vietnam NGOs and the private sector are also involved in the development of national standards.

**AVAILABILITY OF CERTIFICATION**

Together with a lack of national organic regulations, the lack of certification is leading to consumer confusion in many Asian countries.

Most organic products in Asia are certified by foreign certification agencies, such as NASAA (Australia), Ecocert (France), IMO (Switzerland), BCS (Germany), OGBA (USA), Krav (Sweden), SKAL (Netherlands), Naturland (Germany), ACT (Thailand) and OCIA (USA). In a few countries, such as India and Japan, these foreign certifiers have to be accredited by national accreditation agencies.

China (OFDC, CGFDC), Israel (Agrior), Japan (JONA), Thailand (ACT, Organic Thailand), India (Indocert) and the Philippines (OCCP) have established local certification bodies. In addition, many foreign certifiers have opened branch offices in a number of countries, operated by local staff. This could further lower costs.

In Singapore, the national authorities do not distinguish organic produce from conventional ones. Food can be imported and sold into Singapore as long as it satisfies the "Safe Food" requirements as stipulated. The national authority uses the Codex as the reference guideline for food standards.
2. UNDERSTANDING THE CHALLENGE

In this chapter, a summary is provided of the different initiatives' perceptions of the challenge at the time of establishing the initiative, e.g. consumer attitudes and demands, market trends (global and domestic), competition, etc. Also addressed is the question whether the nature of the challenge as earlier perceived remains true today, including lessons or misconceptions learned.

Many of the companies involved in marketing and trading of organic products in Asia are very young, less than five years old. (For details, see Annex 2.)

All companies were at their time of establishment operating in a newly emerging sector. Therefore, the main challenge for all was to develop a local market for organic products from scratch. However, many of the companies’ founders had a high deal of idealism and a great drive to try to develop organic agriculture in their country. Great potential was seen because of the general concern among many consumers about the high pesticide residues in many foods, such as vegetables, as well as the interest in organic food among people seeking healthy foodstuffs because of an ailment. In addition, in some countries several food scandals contributed to this increased concern for food safety.

As pioneers, these companies faced a number of initial challenges in a variety of areas. Apart from the problem that idealists/NGO workers do not always make good businessmen/women and all the "normal" difficulties in setting up a company (staff training, financing, etc.), there are a few issues more particular to the development of a local organic business organisation, such as consumer awareness, market development and product (quality) development. Some of the main issues are listed below:

Consumer level:
- Consumers' lack of information about organic products.
- Lack of consumer awareness. Therefore, much effort needed on consumers' education.
- Organic products unable to compete with conventional products, as most consumers are unknown to organic products and their benefit to nature, just compare the prices.
- Constant communication to customers would be ideal, but is time consuming.
- Consumers' perception: Organic = IPM or "safe".
- Number of organic consumers is very small and operators are competing for the same people.

Market development:
- Limited expertise in marketing.
- Supermarket challenging - pricing, variety, global trends.
- Organic suppliers being smaller than conventional ones, wholesalers tend to discontinue slow moving items - continuous disruptive supply.
- No labelling laws exist in the country.
- Influx of pseudo-organic and "organic claims" (and a lack of regulations from government bodies)
- Competition is tough from unscrupulous competitors. No cooperation among operators.

Product (quality) development:
- Lack of confidence in organic farming on the part of the farmer.
- Supply growing faster than the demand.

However, it seems that the main problems encountered in the market place are price competition and logistic arrangements. Certified organic products have to compete with self-claim and hygienic/safe products on price,

Four friends started with RM 35,000 (around 8000 US$) for a franchise and products. With no planning, with only one staff who claimed to know about organic food. Loss in the first year was tremendous. A change of partnership and management took place. One year later an additional outlet was opened - good location, good sales

Sally Wong, Organic Health, Malaysia
product varieties and regularities. With high cost and smaller logistic infrastructure, it is difficult for many local marketing organisations to offer certified products competitively in market places. Moreover, many organisations also fail to purchase all fresh produce from the producers. This creates a burden for the producers because they then have to find their own market channels. This means sometimes competition at the supplier side as well.

**Box 1: Initial perceptions and challenges - Keystone, India**

Keystone began work with indigenous communities in 1995 with an aim to work in the field of environment conservation and livelihood enhancement of indigenous communities. One of the primary concerns has been to provide support to the community on the marketing front. This is because:

- Low prices are offered to the indigenous people from traders/intermediaries;
- There are unfair practices in terms of weights and measures;
- They do not have a good bargaining power and have to sell their produce in a matter of days/weeks;
- They were dealing with forest produce, which had a direct relevance to conservation of natural resources;
- Incentive needed to be given to "organically" produced homestead products.

The entry point for work was bees and honey. At the time of establishing the enterprise, one of the primary concerns of the organisation was to increase the prices/returns for the indigenous honey hunters. The second challenge was to improve the honey quality. Since it was an item of barter and local consumption, the quality parameters got determined at a local and basic level. If the product had to be packaged and marketed to a wider audience, many parameters would have to be redefined.

Some of the principal challenges faced by the organisation when it began marketing at the local level were:

- There was no concept of forest honey: honey sold in the market had no identity that related it to the source.
- Processing of honey: honey is normally always processed in which it undergoes a process of "flash heating", the purpose of which is to kill the bacteria, which in turn will prevent the formation of yeast, and hence fermentation will not take place. The problem that occurs is that there is a change in the composition of honey - it then does not have the qualities or properties that is inherent in it.
- Wild honey collection was illegal according to law.
- Self-perception of tribal people about their activity was low: since honey was always perceived to be produced only from bee boxes, it assumed a very urban and sophisticated image. Hence, though the honey was collected from the wild, it would always be portrayed as having been extracted from the bees that were kept around the house.
- Market system very obscure and fuzzy: As with most forest products, the whole market is very closed and highly depressed. Local traders and intermediaries take maximum advantage of the fact that access to "remote areas" and "tribal people" work to their advantage.
- Medicinal value: in the Indian context, honey has always derived its value from its medicinal properties. Thus, the marketing of honey never had positive tones. This barrier had to be broken - honey had many varieties, tastes and could be part of a normal diet.
- Customer's perception at a local level: tribal product is equal to low price
- Honey is not a table item: It never had a table value except in the hilly areas where honey was consumed with the local diet. Honey was never a mass consumption item

Matthew John, Keystone, India

**PERCEPTION OF CHANGES IN CHALLENGES TODAY**

Many of the organisations in the case studies would have chosen the same direction when they would start their business again today. However, in some cases adjustments would have been made because of a better understanding of the consumers, changing market situations or some achievements made through the efforts of the organisation. For example, the work undertaken by Keystone (see Box 1) and likeminded organisations have resulted in that major brands in the country are now marketing their honey under the banner of "forest honey". There has been a complete turnaround in the marketing strategy of large companies marketing honey. They have "grabbed the opportunity" of marketing goods that can use the USP of forest products. It is accepted today that such products are valuable and can be sold.
Changes in knowledge about the consumers and changes in the market are illustrated in the Table 2.

**Table 2:** Initial and current perceptions on consumers and completion (Thai Organic Food).

<table>
<thead>
<tr>
<th>Initial Perception:</th>
<th>Current Perception:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Target market: domestic upper class people</td>
<td>▪ Target market: domestic educated people and upper class people</td>
</tr>
<tr>
<td>▪ Concern: target market’s growing demand of food safe</td>
<td>▪ Target market’s misperception of the concept of food safety</td>
</tr>
<tr>
<td>▪ Consumers’ lack of information about organic products.</td>
<td>▪ Target market perceives safe food = IPM.</td>
</tr>
<tr>
<td>▪ Consumers’ perception: Organic = IPM</td>
<td>▪ And IPM = no dirt, no soil</td>
</tr>
<tr>
<td>▪ Educating target market would result in: Organic &gt; IPM</td>
<td>▪ Target market perception: Organic ≤ IPM</td>
</tr>
<tr>
<td>▪ To be organic is to be prevalent</td>
<td>▪ To be hydroponics is to be prevalent</td>
</tr>
<tr>
<td>▪ After being educated: Best Organic Standard = International standard</td>
<td>▪ At present, indirect competition is more serious than direct competition</td>
</tr>
<tr>
<td>▪ Competition: increasing number of direct competition (IFOAM certified organic vegetable producers)</td>
<td>▪ Direct competition is becoming more serious because of the growing of ‘Organic Thailand’ (Thai Organic Standard)</td>
</tr>
<tr>
<td></td>
<td>▪ Thai culture: Government certification = Best</td>
</tr>
</tbody>
</table>
3. SET UP CONSIDERATIONS

This chapter summarises the factors that influenced the set up of the business model, i.e. actual reasons that lead to decisions on the size of operation (initial set up), structure of organisation, location, infrastructure and equipment, staffing of key personnel, marketing plan (focal target markets). Included is also a reflection on what the initiators would do (similarly or differently) if they were starting up new again today.

SCOPE AND STRUCTURE OF THE OPERATION

In general, a local organic marketing initiative’s set up and operating strategy should match its scope. The adopted choice will depend on the country, the location, nature and availability of product range, scale of intended operation and prevailing market/sector conditions. (Ong Kung Wai, 2000)

Often being the idea of one or a few individuals it was difficult for many organisations to recruit people with the same mindset during and after the establishment of the organisation. In addition, for many it was (an is) not possible to offer competitive salaries to attract and retain staff. Because of that, staff turnover is in some companies quite high. Especially at the start up, financial constraints often result in staff taking on multiple tasks and roles. Although this could be positive as one learns the organisation from different perspectives, it can also result in the inability to focus and to give total dedication to specific tasks.

Initial funding available seems the key factor in the decision what level the organisation will decide to get involved in rather than other factors. Most initiatives start with a basic capital contributed by a few individuals. Because of the lack of a local organic market, securing external funding from commercial sources is often impossible. If it becomes available, it may only after a long period, sometime two years or more.

Few pioneering local marketing organisations start with large funding available and many look for ways to match the level of investment with an appropriate scale of operation. Some opt to start with direct marketing, for example home delivery, mobile markets or “organic bazaars” (see Box 2) which would not require much in terms of equipment, staff, overhead costs, etc. In terms of promotion, direct promotion (“word of mouth”, targeting specific events) is often selected. When enough initial funding is available, distribution of organic food through specialty shops is also a common choice at the initial development stage of the domestic organic food market. However, at whatever scale an organisation operates it is crucial to have sufficient funding/investment for production, marketing, logistics and the management team.

Most local marketing initiatives favour a scope of operation, which can cut off some intermediary links and lower the cost of organic food, thus arousing the interest of potential organic food buyers and improving the income of the producers.

Another important lesson is that in cases where the operation could be "scaled up" through non-commercial outside funding, for example NGO support, this outside funding should be accompanied with an increase in the company's own investment capital. With the operation at a higher level also often come all kind of (unexpected) financial demands and once the outside funding stops, the funds should be matched from the company's own sources, especially when the company's income does not yet match the higher expenditures.

Again, because of financial constraints, some companies do not have a proper office set-up at the beginning. They operate from the farm or home or "sit in" with another organisation, such as an NGO. Although this has some financial advantages it is not advisable in the long run because of its limitations when the organisation expands and needs to house more staff, equipment, stocks, etc. Operating from home or a farm may also have the risk that many people do not have a high impression about the professionalism of the organisation.
It is also important to determine the range of products to trade in. It may seem important to offer consumers a variety of organic products which is as large as possible, but in many cases organisations have found that a reliable supply of even a few, high-quality items is sufficient to attract consumers. Many local initiatives start with fresh produce, particularly vegetables, and then later add other item. The success of one item, such as vegetables, could lead to other initiative developing other products.

Some organisations also decide to sell "IPM" or "safe" quality of items, which are not available as organic yet. However, this has the disadvantage that consumers are often confused when the differences between these products are not clearly explained to them.

Finally, price setting is important. Many organisations have taken the decision to use a differential pricing system. A policy of one price across all areas and different types of customers would not be fair to customers, especially to the local market where they are trying to build the customer base.

Quite a few of the initiatives were set up with the intent to form a "bridge" between producers and consumers rather then just being a "normal" trader. In case this plan is not properly discussed with the producers it could...
lead to much unnecessary frustration among both farmers and the organisation's management and staff. For example, as in the case of Hanoi Organics in Vietnam the producers had a completely different outlook on who would be responsible for the marketing of products then the organisation's management. After a series of disappointing (from the organisation's perspective) meetings with the producers, the organisation had to change its mode of operation soon after it began buying the produce from the farmers. Instead, it decided to take on the responsibility of buying directly from the farmers and then selling the produce without any responsibility in the sale to consumers for the farmers.

Other organisations stated that, in retrospect, they would have started directly with their own farm instead of buying from (contracted) producers. This would have given them more control over production issues, such as quality, quantity and variety. Being self-reliant on the production aspect they found to be key to developing a reliable trade relation with consumers and other buyers. However, this issue is often hotly debated by persons in the organisation with an NGO background and the more business-oriented people.

It is positive is that some NGOs across the Asian region are making efforts to be involved in the marketing of organic and indigenous products which helps in the overall development of the organic market. However, the idea of a NGO moving into commercial areas does often not sit well in the NGO environment and many people feel that the commercial aspects are best left to entrepreneurs and that NGOs should address "socially relevant issues" only.

Some NGOs, however, have made serious attempts to go into business themselves but eventually they all encountered conflicts between their commercial and their social and development operations. It seems that the two simply do not go well together since they require very different working attitudes and organisational cultures. Cases in which the NGO has set up a completely separate business unit appear to be more successful.

Lessons Learned 1: Scope and structure in relation to market environment

- Size of operation: keep scope realistic to minimise overhead costs.
- Crucial to have sufficient own funding/investment, even if outside non-commercial financial support is available.
- Establish direct contact with producers and reduce the intermediaries.
- Decide on appropriate business set up.
- Build the initiative around one (or few) key products
- (At start) focus on organic only or sell natural and/or "clean"/IPM products as well?
- Differential pricing system.
- Agree on being a facilitator of trade (for a fee) or operate as "business".
- Work with producers or set up own farm? (Better control of quality, quantity, variety control)
- Difficult for NGO to decide to go into business (they should do "social things")
- For NGO: set up separate business entity?

LOCATION

Some people say that there are three things important to sell organic products: location, location, and location. In other words, the importance of location cannot be emphasised enough.

Criteria for the selection of a location mainly include accessibility for customers and the minimisation of logistical bottlenecks in the delivery of the produce.
In case of organic food specialty shops, it is wise to first locate them in residential areas with a relatively higher level in education and consumption because it will not only contribute to publicity of organic food, but also help attract consumers. Organic food, however, is not an "elite" food and consumers with relatively low income may grow interested in organic food. Once organic food develops to a certain level and prices become more down to more reasonable levels, organic food specialty shops can be set up in other residential areas and attract and serve a wider variety of consumers.

With regards to (mobile) markets, such as organic bazaars, the location of the bazaar is a crucial factor for its success. The location should ideally have the following characteristics:

- Accessible by private, commercial and public transportation.
- Parking should be available.
- Visible by passers-by.
- Available year-round.
- Close proximity to commercial or office areas will increase potential customers.
- Sufficient space for current needs, as well as to allow for future expansion of the bazaar.

Hosting the bazaar along thoroughfares or near other bazaars may enhance the convenience for customers, and thus sales. It may also be necessary to organise the bazaar in varying parts of the city, since people may not be willing to travel long distances to purchase food.

**Lessons Learned 2: Considerations for location**

- Accessibility (Consumer to product or product to consumer?).
- Accessibility in relation to produce (for packaging, etc.).
- Locate organic food shops first in residential areas with a relatively higher level in education and consumption.

**Marketing Strategy**

Many organisations decided to refrain from large advertising campaigns to announce their operations. This is again because of financial reasons but also because it was often felt that when there is only very little consumer awareness direct communication and exposure is much more effective in transmitting the complex message of the principles and benefits of organic agriculture.

Instead, the organisations rely on word of mouth sales and marketing, actively conducted lunchtime talks at companies and corporations to promote awareness or different other ways to work at grassroots level, for example with associations, community clubs and schools for farm visits. Direct contact with the customers also helps in getting immediate feedback on products, which in turn helps in developing the products further. It could also be useful when the shop manager has knowledge and the ability to cook and use the ingredients sold in the shop and even monthly cooking demonstrations could be organised. In countries, such as Malaysia, where many people buy organic products for health reasons it is important for the proprietor to update him/herself on the latest alternative medical knowledge and general medical knowledge.

It is also worthwhile to establish linkages with the mass media and many journalists are willing to publish about organic agriculture because it is a novelty or because it links well with health or environmental issues. A good article by a journalist can do more than a paid advertisement and comes at no cost! (But not in all countries!)

In terms of marketing strategy it is important to know the culture and some basic "habits" of the target consumers, for example where they do their shopping and at what times of the day and also how they get their information about food, health issues, etc. This knowledge is not only important in order to identify the
main channels to provide information to (potential) customers but also to decide on where to sell the organic products, what to sell, at what time of the day to sell, etc. This in turn has consequences for the purchase and delivery of the organic produce from the producers.

Many organic marketing initiatives have developed their own logo at a very early stage and have found that the use of a logo improves the communication about the products and the company. In some countries, the company’s logo has become almost synonymous for organic products.

Finally, it could be said that, if opportunities exist, it could be worthwhile to focus on both the domestic market and the export market. The successful export of one organic item could serve as an important money generator for the development of the domestic market, for example the export of organic jasmine rice in the case of Green Net in Thailand.

<table>
<thead>
<tr>
<th>Lessons Learned 3: Marketing strategy</th>
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<tbody>
<tr>
<td>- (At start) publicity through word of mouth.</td>
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<tr>
<td>- Interpersonal contacts are important, also to get feedback on products.</td>
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<tr>
<td>- Work with grassroots (associations, community clubs, schools) for farm visits.</td>
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<tr>
<td>- Use interest of mass media to publish on new and trendy issues.</td>
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<tr>
<td>- Base marketing strategy on knowledge of culture and habits of consumers.</td>
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<tr>
<td>- Use (strong) logo for communicating the products and the company.</td>
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<tr>
<td>- Focus on both local and export market (export market as money generator for local market development).</td>
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4. PRODUCT LINE MANAGEMENT

This chapter elaborates on how product availability and quality (supplier policy, procurement, pricing, etc.) influenced initial and current product lines. Future product development plans and lessons learned from starting up with regard to product line management are included.

PRODUCT AVAILABILITY AND QUALITY: GENERAL CONSIDERATIONS

The majority of organisations that contributed to the case studies trade in fresh organic produce, particularly in vegetables and herbs. Therefore, this section deals primarily with the management of fresh produce. However, additional information is provided on other commodities from the few contributing organisations that deal with a wider range of products, such as rice, pulses, spices, tea, honey, and bees wax products.

There is really no difference in marketing organic or conventional fresh produce in terms of products related quality, variety and consistency. Product qualities have to meet the target market expectations. Whilst there will be some who will buy organic produce even though it is not of good quality, in general organic produce need to meet or even exceed acceptable quality standards, i.e. the appearance and taste of organic produce must be just as good as conventional produce or better, to make a real market impact.

There has to be as wide a range available to meet general consumption preferences. It is difficult to market just a few types of organic vegetables or have many types that few people consume and little of the types most people consume. Many consumers think that the offer of organic vegetables should be similar to that on the conventional market. Diversity is a critical issue and it is important that in the initial stages organic producers and traders can ensure that the range of product varieties meets the demands of the consumers.

As stated in many of the case studies, organic products encounter three basic problems, i.e. non-continuity of fresh products, poor product quality, and limited product varieties.

Fruit and vegetable production continues to suffer from failure to deliver on a regular basis as well as lack of product diversity. The problems can be attributed to various reasons, such as limited technical skills, unpredictable weather and natural calamities, unavailability of good organic seed, lack of soil improvement techniques, etc. Therefore, there is only a limited range of vegetables and often over- and under production. With this problem, marketing is constrained and cannot be expanded because it is impossible to find a market for products, which are available only for a few months. Even when there are more producers, the problem often cannot be solved because the coordination with the various producers to produce different crops is very difficult. Quality control during transportation and storage also becomes increasingly important when volume builds up. Cool storage and cool truck may be necessary but with high investment costs.

Knowing these problems, some organisations therefore decide to start with a subscription or box scheme, in which the subscribers have little choice in what they receive in their weekly or biweekly bag or box. Another option would be to target for example schools, who only need a few kinds of vegetables per week that are in the season. However, when these problems cannot be overcome it is very difficult to expand and to reach more critical customers, such as supermarkets, restaurants and hotels.

For other non-perishable products, most of them are also harvested once a year. Existing extension efforts by NGOs (as well as government officials) often do not interface with marketing work, causing over-supply in some product while products highly demanded by markets do not receive extension supports. Quite often, 

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A survey conducted among the customers of the Nanjing Planck Organic Vegetable Specialty Shop found that about two-thirds of the respondents thought that the range of vegetables offered was not large enough. Actually, the specialty shop has 15 or so different varieties of organic vegetable on its shelf every day.

Zhou Zaijiang, OFDC-China
farm extension is determined by the interest of local extension organisations without consideration of market situation. When the produce is harvested, then sale channels are sought. This creates problems for the marketing organisation and even more for the producers themselves. Some organisations, such as Green Net (Thailand) and Hanoi Organics (Vietnam) therefore decided to organise their own extension network or to employ their own extension staff. This would help to guide producer groups to better plan their production (i.e. to be more in line with consumer demand) to reduce the problem of over-supply and unnecessary competition among organic producers. However, setting up such extension activities requires an additional level of funding and the organisation undertaking such activities should be careful to develop a good strategy to recover the costs for the extension activities.

Product quality also deserves a great deal of attention from producers and the marketing organisations. Organic products with already a higher price than conventional products would need to be of “high quality” as well. It is normal that consumers buying organic products for health reason would expect it to be clean/hygienic and has a quality which is equivalent to conventional products. Often in the initial period, there is not a good idea about the quality parameters, but these have to be developed and built into the system as soon as possible. It is also important that the marketing organisation is quite strict about the implementation of the quality standards.

Some organisations also adopted the initial strategy to start with crops that the farmers are technically able to grow and then later, when confidence with organic production techniques increased, to add other crops and varieties and to introduce off-season planting. However, the addition of new crops and varieties should be done relatively soon after the start of organic production to quickly be able to offer a wide range of crops to the consumers. It is very important that customers are able to continually access the products when they need them.

Another critical area is product development, especially for processed products. When the market becomes more mature, consumers start demanding a wider product range. Developing new products requires long-term investments, in terms of recipes, processing technologies, and processing facilities. Often external assistance and collaboration are required as pioneer marketing organisations are too small to make such investments by themselves.

**PRODUCT AVAILABILITY AND QUALITY: SUPPLIER POLICIES, PROCUREMENT AND PRICING**

In terms of pricing, several of the marketing organisations took the price proposed by the farmers as starting point and then added their margin. Margins could be different for different consumer groups, lowest for schools, highest for home delivery. Following the principles of fair trade, pricing is best done in very open way, involving all farmers within a group and both producers and marketing organisation being clear about their margins.

The marketing organisations use their margin for their operational expenses, such as salaries and office running costs, and in some cases also to generate a special fund for their extension activities and for future market expansion.

Some organisations apply different premium prices for organic and in-conversion products to encourage farmers to convert to organic agriculture. Hanoi Organics, for example, has set the price for organic products 10 – 15 % higher than that of the in-conversion products and both are much higher than the conventional prices. Another strategy followed is to apply a lower margin (in percentage) on the lower-value products compared to the more high-value ones.

In most cases, the marketing organisation buys directly from the producers, often based on long-term contracts. Some organisations, such as Keystone, have a specific policy not to buy through intermediaries.
unless their credentials can be verified. This has allowed the procurement to expand into new areas where people are hearing about the organisation and its basic principles and philosophy.

Some organisations have set up more than one producer group within one category of products, for example tea or vegetables, so that there is more reliable availability, a bit of competition among the groups to stimulate an increase in product quality and to reduce the risk in case of natural disasters, pest/disease outbreaks and other calamities. However, it seems that this strategy is not that effective in creating “friendly” competition among producer groups so that they will “naturally” improve their quality.

**CURRENT PRODUCT LINES**

As mentioned in the first part of this chapter, most market organisations contributing to the case studies deal with fresh vegetables. Some, such as Thai Organic Food, have an assortment of more than 100 varieties of vegetables. Other organisations deal with a wider range of products, also including rice, cereals and beans.

Some organisations also sell inputs for organic farming, such as EM, biofertilisers and biopesticides. Organiconepal is also planning to produce organic vegetable seeds from next year for domestic use and export.

Keystone is specialised in honey and honey by-products. They have pure honey from *Apis cerana* and *Apis dorsata* as well as spiced and flavoured honeys (ginger, cardamom, pepper, saffron, lemon, rose, pineapple and orange). Bees’ wax is made into candles and balms.

A special case to be mentioned is for the organic bazaaars (IIRD, India). The selection of the product range for the organic bazaaars depends upon consumer preference and available of local production. Marketing strategies should be applied to the selection of products before they are planted. Although crops should be planted according to local conditions, consumer demand must also be taken into consideration.

**FUTURE PRODUCT DEVELOPMENT PLANS AND LESSONS LEARNED**

Many of the organisations remarked that they would not make any change in their product lines. However, within each product line there could be a readjustment in the number of items within each line. Table 3 presents the plan for 2004 from Thai Organic Food to reduce their number of varieties.

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<tbody>
<tr>
<td>Salad Lettuces</td>
<td>35%</td>
<td>55%</td>
<td>High margin and demand</td>
</tr>
<tr>
<td>Leafy Green Vegetables</td>
<td>50%</td>
<td>20%</td>
<td>High demand</td>
</tr>
<tr>
<td>Fruit-type Vegetables</td>
<td>15%</td>
<td>25%</td>
<td>High demand and low maintenance cost</td>
</tr>
</tbody>
</table>

Main issues mentioned that would need more attention are initial product quality and pricing and possibilities to expand to other products. Another issue is that initial products should have a good enough quality to start with and that there should be enough capacity and possibilities of the farmer to convert the whole farm to organic.
PART 2.

MANAGEMENT
5. ORGANISING THE SUPPLY CHAIN

This chapter describes the current supply chain management systems of the different initiatives, including general product process flowcharts. Key contract provisions are highlighted. The section concludes with some lessons learned and ideas of the different initiatives on future improvements of their organisation as well as what would have been done (similarly or differently) if they were starting up today.

**Supply Chain Systems**

Supply chain management is one of the key issues to the success of developing a local organic market. Efficiency and quality management are determining factors and need particular attention. Key issue in quality development is the establishment of a quality assurance system throughout the supply chain. This involves quality of raw materials, procurement control system, processing quality, packaging, and stock management. Both the marketing organisations and the producers need to apply a Total Quality Management (TQM) for their operation so that product quality is continuously maintained.

Based on their set up and product lines, different marketing organisations manage their supply chain in different ways. For the organic bazaars supply chain management is accomplished in association with local committees and linked to extension programmes. Farmers intending to supply a forthcoming organic bazaar submit an application to their local Community Learning Centre. After receiving the applications from the farmers, volunteers of IIRD visit the farms and assess the quantity and quality of the products to be sold and to verify whether the crop has been produced organically. Selection is then based on an analysis of supply and demand. Detailed descriptions of the procedure for supplying to bazaars are provided to the farmers in the organic production manual supplied to the farmers who are registered with IIRD. These include:

- Agreement with farmers.
- Calendar of training for the farmers.
- Organic bazaar manual.
- Farmer-consumer workshops.

Selected farmers are then required to sign an agreement with IIRD containing a declaration of organic integrity. Channelling supplies for organic bazaars is a complex process involving multiple stakeholders. Organic market schedules are announced for a period of three months, giving the IIRD volunteers adequate time for facilitating supplies. IIRD sends out detailed circulars inviting organic farmers to sell at the organic bazaar.

For organisations involved in wholesale, retail or operating home delivery systems, a basic flowchart is as follows:

![Supply Chain Flowchart](image)

Although not in all organisations with the same thoroughness, all organisations apply quality control measures at the different levels of the supply chain. In addition, most organisations have a recording system to monitor...
product flow. Such systems are essential since they will allow the organisation to plan production as close as possible with sales (and vice versa) and to identify inefficiencies in the system, such as high waste.

For processed goods, the input supply chain is different for each product that is dealt with. For the raw materials, the procurement is most often directly from the producer.

As far as the packing materials are concerned, they are often procured as and when required, reducing the amount of stock. This might not seem be a bottleneck but several organisations had initially problems finding appropriate materials or, due to a shortage of funds and limited purchase capabilities, could only buy second-hand materials. These items had their limitations in terms of breakages and durability.

**KEY CONTRACT PROVISIONS**

Apart from the organic bazaar system and when organic produce is sourced from an own farm, most organisations sign (long-term) contracts with their suppliers. Usually, these contracts include compliance to organic agriculture, terms of delivery and payment, and prices. Production and harvest is the responsibility of the producers, while the marketing organisation is usually responsible for collection of products, packing and delivery to customers. Prices are often fixed for longer or shorter periods (but at least for the duration of one season). However, it is often difficult to meet farmers’ expectations of sales volumes at desired price. To provide further assurance to producers, many organisations have developed advance purchasing schemes.

Some organisations have the policy that they will purchase all products produced by the farmers. However, when sales cannot be guaranteed (or if the policy cannot be funded from other sources) this could become a big financial burden for the organisation. In some cases, organisations therefore later changed this policy to a system of giving the farmers a guaranteed minimum that will be bought from them.

**LESSONS LEARNED**

Organising the supply is not simple, particularly when dealing with fresh produce such as vegetables and with different (contracted) producers. Contact with the producers is sometimes not easy (lack of reliable telephone connections, farmer groups not well organised) and sometimes last-minute orders from customers cannot be included.

In some countries, the increasing demand for organic products cannot be served because of poor collection channels, insufficient production of organic products, poor transportation facilities and (in case of processed goods) lack of proper processing facilities. A well-documented supply chain management system cannot solve these problems, but could serve as an important tool to identify the essential bottlenecks and prioritise the issues to be tackled.

Quality control remains a difficult area. Although many organisations have developed clear quality standards, often together with the farmers, and have included them in their contracts, it is difficult for the staff directly involved in purchasing from the farmers to always be strict, especially when farmers have no other sales outlets and put some pressure on the staff to accept all their produce. In addition, when amounts are not similar to what was ordered it may be difficult for the staff to find the balance between quality and having enough product. Separating the ordering and paying from the collecting could be one solution that is being tried out. Other organisations have tried to solve this issue through a process of staff confidence building but also through a system of rewards.

Training of farmers is also a key element in improving quality control. Training does not only increases farmers’ technical knowledge and skills but also their understanding about the importance of this issue. Technological development of producers is also important to improve production efficiency, which will result in a lower cost of production. Lower production costs are essential in the long-term since it is unlikely that the
current high premium prices for organic products can be sustained in the long-term. Many organisations have been able to secure some funding from NGOs or bilateral projects to implement training for farmers.

**FUTURE IMPROVEMENTS**

Several organisations plan a number of future changes. These changes relate to improvements in the distribution (setting up own cold room, purchasing air-conditioned truck for transportation) and the packaging (packaging done fully by company staff, setting up specific packaging centre). Another main issue is to have better control over quality and availability, for example by establishing quality control at each point in the supply chain.

Because of difficulties to source and manage contracted farms, companies such as Agri-Bio (Singapore) and Thai Organic Food plan to increase the production from their own farm. One company, Organiconepal, is planning to create a separate business entity for farming and supply of organic products, which will work closely with farmers and support the marketing business. This entity will have the facilities to forecast the market demand, production lines, computing cost of productions, supply management, proper documentation like purchase and/or supply orders, accounting etc. At the beginning, this system will be introduced to the non-perishable products like, cereals and herbals only.

**Lessons Learned 4: Supply chain management**

- Follow “conventional” supply chain (but difficult in case of organic business).
- Direct business relation.
- Quality is key (⇒ quality assurance scheme, TQM).
- Plan sales in line with production.
- Difficult to meet farmers’ expectations of sales volumes at desired price.
- Develop advance purchasing scheme (assurance to producers).
- Provided training to producers.
- Technological development important to improve efficiency ⇒ lower cost of production.
6. HANDLING AND STOCK MANAGEMENT

This chapter describes some of the issues related to stock handling and management practice. Included are general descriptions of inventory management and documentation, highlighting key handling infrastructure (equipment) and procedures as well as key stock inventory planning procedures. Lessons learned and ideas for future improvements are indicated.

GENERAL DESCRIPTION OF HANDLING AND STOCK MANAGEMENT

As post-harvest chemicals and processing additives are generally to be avoided, good and quick post-harvest handling as well as accurate stock flow management is important to maintain quality, longer shelf life and minimise waste. Any loss due to deterioration is loss of potential income as well as increased cost.

For fresh produce, the produce should be cooled (if possible), packed and delivered or sold as quickly as possible. If possible, additional waste from further handling and consumer selection through loose retailing could be prevented by offering pre-packed items or standard bunches. However, this may be difficult to implement if consumers have strong habits to by loose products.

Stock control procedures are important in order to accurately manage the flow of products, including purchase, sales and waste, so that informed decisions can be made on planning of production, prices and purchase amounts and timing. Stock control procedures are also essential to prevent mixing, particularly when the organisation is handling different grades, for example certified organic, in-conversion organic and conventional produce, in the same product category. (Ong Kung Wai, 2000)

Similar to the supply chain management, total quality management should be implemented during handling and stock management. Critical control points should be identified and control criteria developed.

KEY HANDLING AND STOCK INVENTORY PLANNING PROCEDURES

Some initiatives do not have any stock because they are able to sell all their produce within the day or do not have any facilities to keep stock and therefore have to discard any leftover produce at the end of the day. However, all initiatives keep records on their product flow.

While conducting organic bazaars, stock management is delegated to the community as much as possible. However, the managing team of the organic bazaars keeps records of stocks available in each village and overviews its storage. Specific documentation and accounts concerning product availability for the organic bazaar system have been developed. Planning is done with the farmers groups and the related teams in the organic bazaar management.

In general, all organisations receive the products from their producers and store these in their own storage areas. Upon delivery or pick up of the produce, farmers receive a receipt from the organisation. Payment could be on the stop or after an agreed period, for example once a month.

Most organisations have a centralised record for all products in the storage, usually handled by the marketing managers or another specific staff. No organisation reported the use of stock inventory planning procedures.

Documentation is generally very crude based on simple forms and a regular, mostly monthly, inventory based on the average monthly sales of the products. Some organisations use a spreadsheet computer application, to record and summarise the information generated. However, sometimes this consolidation is done with some delays, which makes the actual use of the information generated less effective.
For processed goods, such as honey and tea, often a batch coding system is applied and mixing of batches is avoided during handling and storage.

**Lessons Learned and Future Developments**

Handling and stock management is very important in the proper management of the organic product flow. It is not only important to prevent mixing of produce, but could also serve as an important planning tool. However, many organisations struggle with keeping their information up to date and, as a result, the information generated is not always used as effectively as could be. The use of computer applications could improve this situation but most organisations use simple spreadsheets only since specialised software packages are not available or too expensive.

Some organisations that are not having any stock currently are planning to implement a computerised stock management system when they expand to non-perishable organic goods.

For unsold stock that cannot be stored (mostly fresh produce) many initiatives give these away to a hospital, orphanage or to small hotels in their city. Leftovers are sometimes also given away free as a promotion. Such contingency plans helps to eliminate wastage.

For reordering packaging materials and packed products, it is useful to set a reorder level for each item, at which the purchase process is initiated.

**Lessons Learned 5: Handling and stock management**

- Total Quality Management also essential in handling and stock management.
- Important to monitor purchase, waste, and sales so that informed decisions can be made on planning of production, purchase amounts.
- Make the system effective and use the data generated!
- Have contingency plan for waste (promotion at same time).
7. MARKETING (PROMOTION) AND SALES MANAGEMENT

This chapter describes current business and marketing models (e.g. direct, retail, wholesaling), market communications (include copies of labels, promotional material) and customer service policies. Key supporting management aids, e.g. documentation, software and procedures are highlighted. Lessons learned and ideas for future improvements are indicated.

CURRENT BUSINESS AND MARKETING MODELS

Among the marketing organisations contributing to the case studies four different business and marketing categories could be distinguished:

- Direct Sales/Farmers Markets, for example the organic bazaars organised by IIRD.
- Retail
- Wholesale/Retail/Export:

The Organic Bazaars organised by IIRD (India) are representative of the first category.

Green Net (Thailand) is very developed into the third category. At present, it sells through four channels:

- Its own shop in Bangkok.
- Wholesale to Green Health shops in Bangkok and other provinces. These shops can be specialty shops selling mainly organic products or convenience shops having organic products in one shelf.
- Export of rice to European fair-trade groups.
- Direct sale, but only of small quantities of product.

Most organisations fall into the second category, but some organisations also do wholesale or low volume exports. PARC (Palestine) has organised and equipped three shops for organic farming of about 200 m². Nanjing Planck (China) and Organic Health (Malaysia) have their own shops. Organiconepal (Nepal) and Hanoi Organics (Vietnam) also operate their own shop(s) and operate a home delivery service on a membership basis. In addition, Hanoi Organics exports small amounts of organic tea. Keystone (India) sells its products directly or through dealers and it has opened two own shops.

Thai Organic Food sells to supermarkets and produces vegetables for its own restaurant. Agro-Bio (Singapore) sells wholesale to organic speciality shops and distributors, but also sells direct through home delivery.

MARKET COMMUNICATIONS

Organic market development can be compared with a public education campaign. Convincing consumers of their interest to support additional production and social requirements is a long-term affair. Often consumers are initially mostly attracted to organic because of personal reasons, but the challenge is in communicating and cultivating the consumers' primary enthusiasm to get their support for the non-direct consumer benefits. Some assurance of compliance with organic standards will be necessary. (Ong Kung Wai, 2000)

Generally, the different marketing organisations emphasize firstly the direct benefits of organic agriculture to consumers. Sometimes, they add an explanation of the differences between organic products and other "safe" products, such as IPM, in order to convince the consumers that organic products are better. Secondly, the benefits to the producers are emphasized, often painting the picture of "the person behind the product". To that end, organisations such as Green Net (Thailand), have established an information database on their producer groups to support Green Net's publicity activities.

Green Net previous’ market promotion strategy was to encourage "product trial" so that consumer were introduced to organic product and could try some products as a trial.
There is no special means or formula for success, but form the beginning the organisation should be clear on the message and the expectations for the specific activity. The different marketing initiatives apply a wide range of methods to communicate their products and organisations to consumers. The following is a list of the most common methods applied:

- **Consumers meetings.** IIRD, for example, organises consumers meetings in association with women’s groups and social clubs like the Lions, Rotarians, etc. to discuss the importance of organic agriculture, food security and health. While providing information about upcoming organic bazaars, the IIRD also discusses strategies on how citizens may decrease environmental pollution.
- **Invitations letters** to directly invite individuals or organisations to activities and special events.
- **Printing and distribution of leaflets.** Promotional materials are printed in mass quantities and distributed, providing information about the organisation, products, and sometimes activities. The format is generally a one to two pages leaflet.
- **Mass media.** Articles are published in the printed media such as newspapers and magazines, describing the benefits of organic agriculture. Many organisations maintain relationships with journalists who are interested in the issue and support the organic movement. Press conferences are sometimes held and press releases are another way to further the local organic movement.
- **Advertisements.** Several organisations regularly advertise in local newspapers that have wide circulation. Placing banners in strategic locations within the city may also be attempted. In addition, stills or moving ads may be broadcasted through local TV network. This is, however, a relatively expensive strategy and may not always bring the anticipated results. However, Green Net continues to adopt a policy of no-advertisement.
- **Direct marketing.** The bazaar, market or shop itself presents a forum for person-to-person marketing of organic products. This forum allows consumers to inquire about organic products or agriculture directly from the producer or staff of the marketing organisation. Direct marketing may also be undertaken through door-to-door campaigns or over the phone. However, the latter methods are time consuming and labour-intensive.
- **Word of mouth:** Publicity may also be generated through personal interactions among consumers. If consumers are satisfied with the organic bazaar, market or shop and their purchases, they may recommend it to their friends and colleagues. This would also help to spread information about organic agriculture and the organic movement in general. Many organisations have benefited from this kind of "advertisement" in their start up phase.
- **Field visits.** Many organisations organise regular meetings between consumers and organic producers. By sharing experiences and offering suggestions, these meetings have been found to be useful to both parties.
- **Consumer newsletter.** Some organisations send regular newsletter to their members or regular customers. These newsletters include information about upcoming events, articles about organic agriculture or health issues, recipes, etc. To this end, these organisations have prepared a consumer register with the names of regular consumers and members.
- **Display information and photographs.** Keystone, for example, produced a video on honey collection, which is shown in their shops to sensitise the customers about the people behind the product.
- **Participation in trade and food fairs.** Organic producers could display and sell their products at these events, which are regularly organised in most countries at both the national and local level. While some countries have specialised fairs for "safe" agricultural products, only the Philippines has an annual event, which showcases organic and Herbal products (Biosearch).

Another important means of communication is the organisation's packaging and logo. Packaging should be attractive and be in line with the organic identity of the products. When possible, recycle materials, such as paper, should be used, but in some countries, such materials may be expensive and not always be readily available. Some commonly used packaging materials are plastic bags (transparent), paper, carton and locally made containers like bamboo crates.
A strong logo is also important. A good logo is attractive, easy to recognise and confirming the organic identity of both company and products. Many organic marketing initiatives have developed their own logo at a very early stage and have found that the use of a logo improves the communication about the products and the company. In some countries, the company's logo has become almost synonymous for organic products.

**CUSTOMER SERVICES POLICIES**

Organic food specialty shops of various types (including other types of distributors of organic food) should be staffed with managers and salespersons that have knowledge about organic farming and organic food and can explain to customers and make publicity of organic farming and organic food. As organic food is a newborn baby, not until the consumers get to know the characters and functions of organic food will they spend money on it.

Some organisations, such as IIRD, have a formal system to document customer feedback through the availability of a suggestion box or a notebook kept by the farmers.

Keystone (India) has a policy to immediately replace any product with a defect or complaint. This is noted down in their shops where the customer can write down his/her problems. This is then relayed to the processing centre where the problem is identified and if possible, remedial measures taken.

An interesting experience of some marketing organisations is that although the households ordering organic products are often the relatively wealthy and educated ones, it is not these people but their housekeepers who buy the product. Therefore, a marketing strategy only focussing on the wealthier families may attract many customers, but would fail to keep them if the person buying the products is not serviced in a satisfactory way.

**LESSONS LEARNED**

Marketing organic products is an educational process and it takes many years to educate people. Marketing efforts are related to both the social and ecological aspects of the product. In doing so, a lot of effort has to go into capacity building, production related issues, quality parameters and the logistics of procuring products from sometimes remote and inaccessible areas. However, in most cases the products sell more because of their quality and competitive pricing, rather than the social marketing. The key is quality of produce; it is the fundamental criteria to secure the market position and product branding

There are many marketing constraints, which make the task for a small organic marketing initiative even more challenging, for example:

- Lack of supportive policies from the government to encourage organic production.
- Governments supporting domestic market development for semi-organic products such as "safe" or "IPM".
- Lack of infrastructure/equipment to produce high quality products.
- High certification costs.
- Lack of market information.
- Producers are not organised and/or do not have a central handling facility.
- No sufficient economy of scale to reach the market.

Organic certification is also becoming increasingly important in relation to marketing, as there are many self-claimed green products on the market. Consumer confusion and loss of confidence of organic product can create long-term implications for future market. This is especially true for new consumers who have little knowledge about organic products. However, certification is an expensive exercise, but it is essential to gain consumers' trust, especially if the produce is not sold directly by a farm but through third parties, such as retail shops.
The organisation needs to be creative and innovative in communicating its message. Getting together with similar initiatives or NGO advocacy groups for generic promotions may save costs as well as reach a wider audience. GN: More cooperation with other organic trading organisation is necessary in order to promote organic consumption. The joint publicity campaign in which different traders contribute can create more impacts among consumers compared with individual efforts.

Supermarkets are potentially attractive channels for the sale of organic products. However, they are often very demanding in terms of product quality, availability and price. Usually, supermarkets, dictate the type of packaging material for the products they will purchase, which creates additional expenses for the marketing organisation or the producers.

**Lessons Learned 6: Market communication**
- Be pro-active with certification (expensive, but essential to build consumer trust).
- Good packaging with clear (corporate) identity.
- Product development (in maturing market consumers ask for more products).
- Strategy (benefits organic agriculture → product benefits).
- Collaboration with other in organic sector for generic promotion activities.
- Use the media (organic TV and Radio).
- Message: quality, organic is better way, health, fairtrade, help indigenous people, direct from producer (but may change over time as market develops).

**Lessons Learned 7: Customer servicing**
- Get constant feedback of customers on product and service.
- Provide information about product, sales (location, timing).
- Staff in contact with customers should have knowledge on organic farming and be able to explain philosophy of the operation.
- Find ways to build trust, not always need (particularly at start) for certification.
- Never take the customer for granted (continuous education/feedback).
- Upper class people may have the money but the housekeeper buys the product.
- Supermarkets: interesting market but very demanding (ready for it?).
- Staff in contact with dealers should have knowledge on organic farming and be able to explain philosophy of the operation.

**Future Improvements**
For the next marketing development, Green Net will focus on new package design with corporate identity. This will create good impression for the Green Net's products and organisation. However, professional package design requires substantial investment and priority is given to products from certified organic sources. Future market promotion should include "product benefits". This is linked with a sales strategy in which the target group is the non-user consumer. To have access to this new consumer group, creative publicity activities are needed. Again, product quality becomes a critical issue as product benefits also include product quality. Quality development is therefore a key to market success.

Other organisations also plan to set sales target for each major products as part of their future strategy. This information will be communicated to producers so that they can also plan their production accordingly. Green Net is also developing an advance purchase scheme in order to give producers an assurance of product quantity trade with the organisation.
Many consumers express that the taste of organic vegetable is clearly better than that of conventional one, which is an encouragement to organic producers and traders. It is suggested that more research be carried out on this issue to find out its theoretic basis to reinforce the purposefulness of the production of organic vegetable. Moreover, the improvement in the taste of the organic vegetable can also be used as a meaningful reference for other organic food. Other organic food should also have a better taste like organic vegetable as long as operators master the rationale and keep on practicing.
8. COST, MARGINS, PRICE SETTING AND VALUE ADDITION

This chapter gives information on cost structures and price policies. Key management instruments for cost control and pricing are highlighted, giving a few typical examples of product cost calculation and market margins. Lessons learned and ideas for future improvements are indicated.

GENERAL PRICE POLICIES AND COST STRUCTURES

In general, an organic marketing initiative is expected to build in or carry more costs in contrast to conventional marketing. This is largely because of the "additional" environment management and social responsibility it wants to carry. Organic marketing initiatives therefore have a distinct cost disadvantage against conventional businesses, which do not internalise equivalent environmental and social costs, in the market for similar products categories. (Ong Kung Wai, 2000)

Many organic marketing organisations implement fair trade principles in their price setting policies. One of these principles is that the price at which the producers sell their products should at least cover their cost of production. However, there are only few situations were farmers and/or traders have calculated actual production costs. In addition, no external studies on organic production costs have been done so far, which could be used as framework for price setting. Hence, organisations, such as Green Net and Hanoi Organics, have decided to follow a price setting policy in which the producer groups are allowed to determine the prices for their organic products. However, producers rarely make a comparison with conventional products, making the organic prices often substantially higher than chemical products.

Alternatively, Organiconepal follows a system, in which it ensures the farmers' investment costs, including land rent, farm inputs, labour costs, packaging, operational costs, delivery costs etc. According to this policy, consumers or their representatives are involved while computing the cost of production.

Masipag (Philippines) applies the strategy that before a price is negotiated, product quality is evaluated based on organic standards and post-harvest quality. Prices for different products are calculated as follows:

- Paddy: The sum of the highest prevailing price/contract price, multiplied by the post harvest quality rating.
- Milled rice: The price is based on production costs, current market price and desired cost benefit ratio.

Studies showed that pesticides-free white rice is more expensive to produce because of the 13% lower milling recovery compared to brown rice. This difference is caused by the fact that brown rice is polished and is significant enough to make brown rice more profitable than white rice.

For the organic bazaars, different options are available for the purchase and storage of organic products:

- Direct purchase from the farmers by the bazaar operators and sale to customers. Purchases could be made at a premium price compared with the prices offered by intermediaries and traders. The bazaar operator is required to maintain the stocks. The farmer representatives are present during the bazaars and incentive return is additionally provided to the farmers based on sales of their products.
- Non-purchase strategy. The bazaar operator facilitates the supply of organic products through the participation of farmers in the bazaars, ensures the organic integrity of products and provides the required extension support and market development activities. The operator receives service charges to cover his costs.
- Combination of purchase and non-purchase system. The bazaar operator can combine the direct purchase and non-purchase systems in order to maximise advantages and tide over constraints. In this method, the operator could decide for direct purchase for a limited range of products depending upon the advantages and availability of funds.

Each option has its specific advantages and disadvantages; mainly related to financing, profit levels, stock management, packing/grading, supply chain management, and interaction with consumers.
Local Marketing of Organic Products - A Guide for SMEs

Table 4: Information on margins and other price information from the different case studies.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri-Bio, Singapore</td>
<td>Retail price organic 3.3 times higher than conventional. Wholesale price is 40% higher than cost price; retail price is 85% higher.</td>
</tr>
<tr>
<td>Hanoi Organics, Vietnam</td>
<td>Retail price 40% - 120% higher than farm-gate price, depending on type of customer.</td>
</tr>
<tr>
<td>Keystone, India</td>
<td>Profit margin of 25-30%. For detailed cost structure, see Box 3.</td>
</tr>
<tr>
<td>Nanjing Planck, China</td>
<td>Price organic vegetables 50 – 150% higher (100% on average) than conventional vegetables</td>
</tr>
<tr>
<td>Organic Health, Malaysia</td>
<td>Profit margin is between 20 - 50%, but most items fall between 30 - 35%</td>
</tr>
<tr>
<td>Thai Organic Food, Thailand</td>
<td>Initially priced their products by adding 30% margin to the cost of production, handling, and packing. Currently, in order to be competitive, they charge at market price (= price of IPM vegetables), which yields them barely any margins</td>
</tr>
</tbody>
</table>

Box 3. Example of price calculation (Indian Rupee) for honey - Keystone, India

Product: HONEY (Apis dorsata - sweet)

A. DIRECT COSTS

<table>
<thead>
<tr>
<th>Item</th>
<th>1 kg</th>
<th>500 g</th>
<th>250 g</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>68.00</td>
<td>34.00</td>
<td>17.00</td>
</tr>
<tr>
<td>Freight inward (estimate)</td>
<td>1.00</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>Filtration loss (8%)</td>
<td>5.44</td>
<td>2.72</td>
<td>1.36</td>
</tr>
<tr>
<td>Bottle</td>
<td>2.50</td>
<td>4.23</td>
<td>3.47</td>
</tr>
<tr>
<td>Lid</td>
<td>1.50</td>
<td>2.37</td>
<td>2.09</td>
</tr>
<tr>
<td>Labels</td>
<td>1.50</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>Stickers</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Glue</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Wages</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
</tr>
<tr>
<td>Misc. costs</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Carton &amp; Packing tape</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>85.29</td>
<td>50.42</td>
<td>30.77</td>
</tr>
</tbody>
</table>

II. FIXED COSTS

Assuming sales of 5 tons during this year, allocation of FC per kg = 14.50

III. TOTAL COSTS

<table>
<thead>
<tr>
<th>Item</th>
<th>1 kg</th>
<th>500 g</th>
<th>250 g</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct costs</td>
<td>85.29</td>
<td>50.42</td>
<td>30.77</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>14.50</td>
<td>7.25</td>
<td>3.63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>99.79</td>
<td>57.67</td>
<td>34.40</td>
</tr>
</tbody>
</table>

Transfer Price (24%)

<table>
<thead>
<tr>
<th></th>
<th>124</th>
<th>72</th>
<th>43</th>
</tr>
</thead>
<tbody>
<tr>
<td>NLG dealers (20%)</td>
<td>86</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>MRP@25% - o/s dealers</td>
<td>165</td>
<td>95</td>
<td>57</td>
</tr>
</tbody>
</table>

Sales terms and conditions are as follows:

- Prices for goods are inclusive of sales tax
- If goods are supplied on a consignment basis only, they will be taken back. Otherwise, after a period of three months, they will be treated as sold.
- If goods are damaged or found defective on delivery, information should be provided within a period of one week. Any delay would mean acceptance of the goods.
- Credit is provided for a period of one month only

Mathew John, Keystone, India
LESSONS LEARNED AND FUTURE IMPROVEMENTS

From its 10-year experience in organic marketing in Thailand, Green Net believes that consumers could accept up to 10 - 15% price differentiation. This assessment is very much in line with the development seen in more mature organic markets, such as in some European countries, where surveys show market receptivity for an average of 20 - 30% higher price for organic products. (Ong Kung Wai, 2000) However, most local marketing organisations in Asia operate at much higher prices then the conventional prices, some times as high as 150% (see Table 4). A price restructuring in relation to the prices of conventional product is therefore unavoidable, in which both traders and producer groups must together find an acceptable agreement.

The price of an organic product has a direct impact on sale. Currently, organic products are purchased mostly by (upper) middle-class consumers whose decision to purchase is not so much influenced by price. However, many local marketing organisations have the aim to expand to other consumer groups and the price would then definitely become a critical factor for market success. This is illustrated by the results from a survey among organic vegetables buyers in Nanjing, China (Box 4).

Box 4: Findings on consumer income and price of organic vegetables - Nanjing Planck, China

The survey showed that 40% of the respondents held that the shop offered a reasonable price for its organic vegetables. This proportion is quite close to the percentage of the respondents whose income was over 400 USD per month. The other 60% thought the price was too high or a bit too high. This percentage coincided with that of the respondents with an income below 400 USD. About half of the group felt that it was proper to have organic food sold at a price of about 20 – 30% higher than conventional one and one quarter held that 40 – 70% more was acceptable. The survey further showed that 80% of the consumers could accept a price premium of 10 – 30% while the rest mentioned a price premium of 40 – 90%.

Based on the study it is thought that initially consumers can accept a price premium of 50–60%. However, under conditions of undersupply, a price difference of 100% or more could initially be acceptable in cities with a medium consumption level, such as Nanjing. But from a long-term point of view, with the organic producers gradually improving their cultivation technology and hence yield, and with the supply of organic vegetable in the market improving in quantity and diversity, it is reasonable and realistic to eventually set the price of organic vegetable 50–60% higher than that of conventional one. Of course, differences in variety will inevitable lead to difference in the magnitude of price premium. In short, we hold that it is more advisable for the organic producers and traders in Nanjing to readjust their long-term expectation of the price of organic vegetable to 50 – 60% higher than conventional one.

Zhou Zejiang, OFDC, China

The failure to make a price comparison with conventional products in the past created marketing problems for several organisations. The need to review the price of organic products is even greater when the local economy is in recession and more producers turn to organic production, as happened in the last few years in many countries in Asia. The faster an organisation can restructure its organic prices, the better its chance is to capture more market share from other competitors.

Although consumers preferring to buy organic products are willing to pay the additional cost, they often want some reassurance of the organic status of the products. Therefore, marketing organic products with standard packaging and a logo or statement confirming the organic status adds to the value of the products in terms of quality and social benefits, etc. Building consumer trust in other ways is also essential.

Organic farmers largely assume that the produce from an organic farm will command a premium price. The inflated prices often reflect the usually small scale of production and the underdevelopment of the market. One way to lower organic prices is to increase production yields. Higher yield can stem from either increased productivity or production that is more efficient. In this respect, technological development is an important
factor for future organic growth. In addition, it is important to start field research to study organic production costs in order to provide guideline for price setting and production supports.

Other cost cutting measures could also be implemented, such as minimising the number of intermediaries. Many organisations integrate the production and sales of organic products and are therefore able to operate with no or only few intermediary links as compared to conventional production.

Additionally, many organisations initially operate only small volumes, making for example transportation and extension services relatively expensive. Increasing volumes would therefore also bring down these costs on a per kilo basis. It is very important for starting organisations to relatively soon reach the economy of scale to operate on a sustainable basis.

Making money is not the sole objective of devotion of the organic operators to the industry of organic food. Organic food producers, especially the traders, should handle properly the relationship between production, consumption and price and offer a reasonable price by taking into account the actual consumption level of the consumers and cost of the production and operation. Moreover, they should also have a right prediction of and get fully prepared in mentality for the long-term developmental trend and final positioning of the organic food price so as to ensure durable, stable and healthy development of the organic food market and create effects beneficial to both the operators and consumers.

Lessons Learned 8: Cost, margins, price setting and value adding

- Initially, basic price determined by producer, but in future should do more specific cost-benefit calculations for organic production.
- Set price organic in relation to conventional (need make that comparison).
- What premium for organic is acceptable in mature market (10-20% only is possible?).
- Reaching economy of scale is important for sustainable development.
PART 3.

SECTOR DEVELOPMENT
9. MARKET ASSURANCE AND CERTIFICATION

This chapter gives an overview of the prevalent market assurance systems (formal & informal) in the different market situations, in general. Some key issues are discussed in more detail for different country market situations, such as how organic products are differentiated in general, the market assurance schemes available for organic labelled products and systems adopted by the different organisations. Ideas are also presented for development of the different organisations internally as well as for the organic sector in their countries in general.

PREVALENT MARKET ASSURANCE SYSTEMS

Confidence and trust are crucial elements to address for market success. A marketing organisation has to assure the consumers that the claims it is making are true. Establishing credibility is particularly crucial when promoting alternative qualities in a competitive market environment. (Ong Kung Wai, 2000)

Despite the fact that several Asian countries, such as China, India, Thailand and Malaysia, have developed national regulations for organic agriculture, there is no effective regulation yet controlling the use of the terms "organic" in these markets. This also applies to all countries where organic regulations are not yet in place. Some local certifiers, both private and governmental, are operating in these countries but the use of their services is still mostly on a voluntary basis.

Governments in China, Thailand and Vietnam have established market assurance systems for other types of "clean" agricultural produce, such as the Green Food scheme in China, the Pesticide Safe and Hygienic Vegetables' schemes in Thailand and the Safe Vegetables scheme in Vietnam. In the presence of such schemes, the absence of clear regulations on the use of the term "organic" may have the effect that there is no differentiation in being organic in the market.

In Singapore, the local authority does not distinguish organic produce from conventional ones. Food can be imported and sold into Singapore as long as it satisfies "Safe Food" requirements as stipulated. The local authority uses the Codex Alimentarius as the reference guideline for Food Standards.

Organic certification is also becoming increasingly important, as there are many self-claimed green products on the market. Consumer confusion and loss of confidence in the organic product can create long-term implications for the organic market. This is especially true for new consumers who have little knowledge about organic products.

Trust and information exchange can be built through different ways depending on the operating environment where the organisation is situated as well as is scope of activities and set up. Examples of direct relations, internal control systems and independent third party certification will be given below based on the case studies prepared by the different local organic marketing organisations. (Ong Kung Wai, 2000)

Direct involvement and personal relations

In a Teikei or Community Supported Agriculture (CSA) scheme, understanding and trust develops from a high level of interaction between consumers and producers. Consumers in many of such schemes are directly involved in production matters as well as price setting. Direct involvement and personal relations offer the strongest means of building understanding and trust. (Ong Kung Wai, 2000)

Organiconepal has introduced a member based business scheme in Nepal based on the Japanese Teikei system. This scheme is functioning based on trust developed between the producers and consumers. Hanoi Organics used farm visits and other exchange activities to build understanding and trust between producers
and consumers. Although it has now established a formal internal control system and it has obtained external certification (see below), it remains committed to developing the direct producer-consumer relationships.

In the current Indian market situation, very few labelled organic products are available in the market. The Indian producers are very much oriented towards the export market. The products that are available in the Indian market are primarily based on a system of local guarantee, which operates through a network of organisation and individuals.

The present system followed by Keystone is therefore primarily based on a local guarantee system, but it is slowly moving towards certification of village farms. Late 2003, it has begun an experiment with one village. Internal control system would be more appropriate and cost effective as tribal farms are scattered, remote and not so market oriented.

The system of organic bazaars is also an excellent means of developing personal relationships between producers and consumers. However, IIRD has now also developed its own internal quality assurance scheme (see below).

Third party certification
In an open market situation, there will generally be the need for independent third party organic certification. Whilst the need may not arise initially, the sceptical and competitive nature of the market will eventually raise such a need. Besides consumers, market partners such as wholesale distributors and retailers and overseas buyers, will also need independent quality assurance to carry the products. (Ong Kung Wai, 2000)

As mentioned in Chapter 1, there are only few local certification organisations in Asia and few Asian countries have regulated the use of the term "organic" for the local market. However, several marketing organisations have voluntarily opted to demand for certification from a national or international certification body to provide quality assurance to the local market. Green Net and Thai Organic Food are both certified by ACT (Thailand), Nanjing Planck is certified by OFCD (China) and Hanoi Organics is also certified by ACT. (See also Annex 2.) In the case of Hanoi Organics the main reason for certification was for the export of their tea, but it demanded ACT for certification of its vegetables as well to have better position selling these on the local market where a large number of consumers are familiar with the government's "safe" vegetables scheme but not with organic vegetables.

Some of the local marketing organisations are also active themselves in the establishment of local certification bodies. Green Net is a founding member of ACT, while Masipag is a founding member of OCCP (the Organic Certification Centre of the Philippines). A team of PARC (Palestine) team was trained in 2003 in the Centre of Organic Agriculture in Egypt (COAE), and PARC got the official use of the logo of this Centre until PARC will establish the Centre of organic agriculture in Palestine next year.

Internal Control Systems (ICS)
Some local marketing organisations have installed an Internal Control System (ICS) to assure organic quality of their products. The ICS are either set up to "stand alone" or are linked to the certification by a third part certifier, but are in all cases compatible with internationally accepted principles of smallholder group schemes.

The different ICS operated by the marketing organisations have the following common components:
- An ICS operation manual, including ICS internal organic standards and ICS regulations.
- Forms for farmer ICS registration and to maintain farm documentation.
- Regular inspection visits by trained ICS inspectors/monitors.
- Review of inspection/monitoring reports.
Names and other relevant details of registered farmers are normally kept in a database and are annually (or more frequently based on the number of ICS monitoring visits) updated.

A number of organisations also organise extension activities as part of their ICS. These activities include technical advice as well as (assistance with) the provision of organic inputs, such as seeds and materials to make compost.

LESSONS LEARNED AND FUTURE DEVELOPMENT
Many organisations say, with hindsight, that they should have been more pro-active in obtaining certification. Although it is an expensive exercise, it is essential to gain consumers’ trust, especially if produce is not sold directly from the farm, but through third party such as retail shops. Alternatively, farmer-consumer relationship is essential.

Self-inspection systems, which involve both producers and consumers, should be recognised. Organic consumers often have good knowledge of organic agriculture. To carry out inspections themselves with an inspection chart is not difficult and it will deepen their interest for organic agriculture. Self-inspection may open the new possibility of organic movement.

Some organisations, such as Keystone (India) who market, which are either harvested in a sustainable manner from forests or from small forest-gardens (homesteads), find that an organic (or chemical free) label is not enough. It is necessary to understand the ecological significance of these harvesting methods and the number of species that they conserve/give a habitat for. These factors are not well understood by any certification body yet, who are mostly working on the model for large farms as those found in Western countries.
10. SECTOR COOPERATION AND MARKET NORM BUILDING

This chapter presents the prevalent systems (formal & informal) for cooperation between market actors in the different local market situations. Examples are given how organic market operators cooperate with each other in different countries, including critical areas for cooperation and market/trade norms in the organic sector (also in comparison with conventional operators). Ideas are also put forward for development of the different organisations internally as well as for the organic sector in their countries in general.

PREVALENT SYSTEMS FOR SECTOR COOPERATION

Although an organic marketing initiative is generally supposed to focus on sales, ensuring constant supply is just as important. For an organic marketing sector to develop and grow, initiatives and the sector as a whole, have to consider securing a full array of services for production support as well as for the full chain of custody, from farm to table. (Ong Kung Wai, 2000)

The development of the organic movement in many parts of the world, as also in the case of Asia, has been that of a grassroots movement. Therefore, many norms of the movement are similar to the norms of NGOs and people's organisations. Today, as organic agriculture gains wider scientific and market acceptance, those that had earlier opposed it, are now eager to join. The inclusion of new players brings in different interests, priorities and challenges. As the mainstream now move closer to embrace ecological and social values, governments and other vested interests will increasingly seek to influence and direct the related movement. (Ong Kung Wai, 2000)

In a number of countries, different actors have developed mechanisms for collaboration. In the Philippines, for example, Masipag has pooled different actors in the organic community together to be an effective marketing force, in the form of producer groups and trade associations. Each member can now sell the product of other members provided they are of a different product line. Masipag's member organisations have identified areas of cooperation in terms of marketing. Formerly there are crossovers in the marketing schemes due to the unpopularity of organic products. If one of the member organisations cannot fulfil the market needs in their area, other organisations can bring their surplus products to them. Pricing is one area of cooperation, where formerly there are big differences in prices of organic products.

In other countries, however, the number of players in the organic market it is so small, that there is not much possibility for collaboration. Some of the exporting companies are also not that interested in collaborating with organisations focussing on the domestic market. Sometimes, where there are a few pioneering organisations in a country, they also are not eager to collaborate because of distrust or trying to keep their unique image as pioneer. In larger countries, it is also logistically difficult for small local organisations and individuals, with fewer funds and geographically distant from each other, to work together.

LESSONS LEARNED AND FUTURE DEVELOPMENT

More cooperation with other organic trading organisations is necessary in order to promote organic consumption. Joint publicity campaigns in which different traders contribute can create more impacts among consumers compared to individual efforts.

With steady development of the Asian national economies, the demand for organic food is rising up with each passing day in the country. As long as the producers, processors, traders, consumers, competent government departments and every sector of the society will join their hands and give full support, the cause of organic food will surely develop rapidly and healthily.
11. THE IFOAM ORGANIC GUARANTEE SYSTEM

This final chapter presents an overview of the IFAOM organic guarantee system. IFOAM, the International Federation of Organic Agriculture Movements, is the global umbrella organisation of the organic movement. Founded in 1972, it listed 730 members from 100 countries in its Directory of 2004.

THE IFOAM BASIC STANDARDS (NORMS)

There were no standards or regulations in earlier times of the organic movement. Producers, processors, scientists and consumers, were simply guided by ideological principles, i.e. to improve soil fertility. As practical experience and scientific knowledge developed so did a more definite understanding of what constitute organic methods of farming, processing and management.

IFOAM publishes the IFOAM Basic Standards for Organic Production and Processing. It represents over 25 years of practical fieldwork and scientific research of member organisations worldwide. The content, structure and language of the document have evolved over time. Early versions, as most existing organic standards at the time, were simply structured, including general principles and description of farm practices. Standards drafting has grown more thorough and complex as practical and scientific knowledge developed, but also in keeping with consumer expectations and developments in inspection and certification procedures.

The IFOAM standard setting process is highly participatory and democratic. Amendments or additions go through 2 - 3 year consultation process (in- between general assemblies), drawing input from the membership as well as others concern. Motions are prepared by the IFOAM Standards Committee for open debate before a vote at the IFOAM general assembly.

IFOAM is listed as an international standard setting body by ISO. The IFOAM Basic Standards is widely accepted by the organic movement worldwide. It was the only international organic standards available until recent publication of the Codex guidelines on organic production. It is an NGO document, but because it represents a global consensus, it has been used as a reference for many governments in organic legislation, e.g. the EU, Argentina.

The IFOAM Basic Standards are standards for standards and serves as a framework for certification programme worldwide to develop their own national or local standards. It is the reference Standard for the IFOAM Accreditation Programmes (IAP).

IFOAM does not insist on uniformity in organic standards. It is antithesis to the movement, founded to respect the diversity of natural organic systems against mono-cropping systems. The IFOAM Basic Standards support local standards development by highlighting the need for local determination of appropriate specific requirements.

THE IFOAM CRITERIA

Besides the Basic Standards, IFOAM also publishes the IFOAM Criteria for Organic Certification. Whilst based on ISO guide 65, IFOAM's Criteria are drawn from the experience of the movement and are specifically developed for organic certification.

Amendments or additions to the IFOAM Criteria also go through a consultation process with interested parties. Drafts are prepared by the IFOAM Criteria Task Force for approval by the IFOAM World Board.

THE IFAOM ACCREDITATION PROGRAMME

IFOAM itself is not involved in certification. However, it is concerned to maintain unity in diversity and a level playing field for all stakeholders in the practice and development of organic agriculture. The IFOAM Accreditation Programme (IAP) was established by IFOAM in 1992 to further strengthen the organic quality
assurance system. It offers the global oversight, which was lacking, for organic certification for domestic as well as international trade.

The IAP is a voluntary programme open to all organic certification body, private or state. It is operated by the International Organic Accreditation Service (IOAS). The IOAS accredits local, national or international certification bodies, based on application. The majority of certification bodies are operating internationally but not all organic certification bodies are IFOAM accredited.

- **The International Organic Accreditation Service (IOAS)**
  To implement the IAP as a professional service, a separate entity, the International Organic Accreditation Service, Inc. (IOAS) was established by IFOAM in Feb. 1997, to operate the IAP. The IOAS is incorporated as a non-profit corporation in Delaware, US. The office is in North Dakota, USA. It is run by an international Board, which is appointed by the IFOAM World Board.

- **The IFOAM Seal**
  An IFOAM seal has been launch to be placed on products. Operators certified by IFOAM accredited certification bodies may use the IFOAM seal in combination with their certification body’s certification mark on their product.

**PRIVATE VOLUNTARY NORMS AND GOVERNMENT LEGISLATION**
IFOAM acknowledges the useful role of governments in enforcement, i.e. protecting the consumer from fraud and misleading labelling. It believes, however, that organic standards setting and criteria for organic certification are better handled by the organic community in the private sector domain.

The organic sector encompasses producers, processors and consumers worldwide. It is also market driven. National regulations by nature of their scope, face difficulties in harmonising with each other to accommodate the dynamic and international nature of the organic sector. No “official” international system is currently in place to assess equivalence between organic certification bodies operating in as well as out of different countries. The IOAS provides such a service through the AIP.
PART 4.

ADDITIONAL INFORMATION

AND ANNEXES
ADDITIONAL LITERATURE AND REFERENCES


### ANNEX 1. CONTRIBUTORS OF CASE STUDIES

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<thead>
<tr>
<th>Name participant</th>
<th>Country</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Mathew John</td>
<td>India</td>
<td>Keystone Foundation</td>
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<tr>
<td>Sanu Tamrakar</td>
<td>Nepal</td>
<td>Organic Agriculture Research and Production Co.</td>
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<td></td>
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<td>(Organiconepal)</td>
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<tr>
<td>Thameen Hijawi</td>
<td>Palestine</td>
<td>PARC / Arab Agronomist Association (AAA)</td>
</tr>
<tr>
<td>Alex Daniel</td>
<td>India</td>
<td>IIRD</td>
</tr>
<tr>
<td>Song Ning</td>
<td>China</td>
<td>Nanjing Planck Organic Food Co.</td>
</tr>
<tr>
<td>Pia Tan</td>
<td>Singapore</td>
<td>PBI</td>
</tr>
<tr>
<td>Armand T. Aquino</td>
<td>Philippines</td>
<td>Masipag</td>
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<tr>
<td>Anotai Gongvatana</td>
<td>Thailand</td>
<td>Thai Organic Food Co.</td>
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<tr>
<td>Koen den Braber</td>
<td>Vietnam</td>
<td>Hanoi Organics/Ecolink</td>
</tr>
<tr>
<td>Boonjira Tanruang</td>
<td>Thailand</td>
<td>GreenNet</td>
</tr>
<tr>
<td>Sally Chong</td>
<td>Organic Health</td>
<td>Malaysia</td>
</tr>
</tbody>
</table>

**Additional participants workshop November 9:**

<table>
<thead>
<tr>
<th>Name participant</th>
<th>Country</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitoon Panyakul</td>
<td>India</td>
<td>GreenNet</td>
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<tr>
<td>Ong Kung Wai</td>
<td>Malaysia</td>
<td>Humus</td>
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<tr>
<td><strong>Detlef Kalus</strong></td>
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<tr>
<td>Alida Laurence</td>
<td>Cambodia</td>
<td>Danida IPM Program</td>
</tr>
<tr>
<td>Polo Yech</td>
<td>Cambodia</td>
<td>Srer Khmer</td>
</tr>
<tr>
<td><strong>Fred</strong></td>
<td></td>
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<tr>
<td>Zhou Zejiang</td>
<td>China</td>
<td>OFDC</td>
</tr>
</tbody>
</table>
## ANNEX 2. CONTACT INFORMATION CONTRIBUTING ORGANISATIONS

| Name: Agri-Bio Group of Companies, Singapore |
| Address: |
| Contact person: Ms. Pia Tan |
| E-mail: |

The Agri-Bio Groups of Companies was incorporated in 1999 by Mr. Masatoshi Yamaguchi, a businessman based in Osaka, Japan. He incorporated two companies:
- Agri-Bio Singapore Pte Ltd. This company was set up to transfer the technology of the Takahama Compost System (TCS) to a pioneer organic farm in Singapore and, secondly, to market the fresh produce from this farm.
- Agri-Bio Asia Pte Ltd, to transfer of TCS technology to other Asian countries.

Agri-Bio Singapore sources its products from its own farm in Malaysia for bulk sale directly to wholesalers and from an associated local farm for packaging and sale to retailers and for home deliveries.

| Name: Green Net Cooperative, Thailand |
| Address: 183 Regent House, Rajadamri Road, Patumwon, Bangkok, Thailand |
| Contact person: Ms. Boonjira Tanruang |
| E-mail: export@greennetorganic.com |

Green Net Cooperative is a social business organisation dedicated to fairtrade and organic trade. Founded in 1994, Green Net offers market access services to Thai small-scale organic producers and other fairtrade benefits. The trading operation includes home-delivery, wholesale distribution, and export. Green Net has received internationally recognised organic and fairtrade certifications from Organic Agriculture Certification Thailand (ACT) and Fairtrade Labelling Organisation (FLO). The range of products offered by Green Net include fresh and processed fruits and vegetables, rice, grain, eco-textiles, and herb. Its business benefits more than 1,000 farming families all over Thailand.

Green Net Coop is a member of IFOAM and IFAT.

| Name: Hanoi Organics, Vietnam |
| Address: 12A Hang Chuoi, Hanoi, Vietnam |
| Contact person: Mr. Koen den Braber |
| E-mail: koenhuyen@hn.vnn.vn |

Hanoi Organics is a private company set up in 1999 by two Vietnamese and a Dutch person living in Hanoi to develop a local market for organic products. Hanoi Organics supports small farmers in converting to organic agriculture and also deliver the products from these farms to restaurants, hotels and individual costumers through a subscription scheme.

Hanoi Organics has a network of around 50 farmers producing fresh vegetables and herbs, green tea, fruits and rice. Most of these products are sold locally in Hanoi, but some of the tea is also exported. It received certification in 2003 from ACT Thailand.

Hanoi Organics is a member of IFOAM.

| Name: Institute For Integrated Rural Development (IIRD) |
### IIRD

**Address:** Kanchan Nagar, Nakshatrawadi, AURANGABAD 431002 (Maharashtra) INDIA  
**Contact person:** Dr. Alexander Daniel  
**E-mail:** iirdind@yahoo.com

IIRD is a national level networking organisation in the field of organic agriculture in India. The primary thrust of the organisation is rural development through the instrument of organic agriculture. The organisation is working since 1987 and has played an important role in influencing policies in favour of sustainable development and is the recipient of SARD Prize 1999. IIRD has nearly 700 women organic farmers as active players in its project area around Aurangabad. In the field of local marketing IIRD is working for the past 8 years and implementing a culturally suitable local marketing programme known as Organic Bazaars. The local marketing is based on local certification through eco-volunteers of IIRD. Currently IIRD is involved in the promotion of organic bazaars in six cities of India in cooperation with other NGOs which have expressed solidarity for community based local marketing.

IIRD is a member of IFOAM and also a member of IUCN

### Keystone Foundation

**Address:** Groves Hill Road, PB 35, Kotagiri 643 217, Nilgiris District (T.N.), India  
**Contact person:** Mr. Mathew John  
**E-mail:** mathew@keystone-foundation.org

Keystone Foundation is a trust working with indigenous communities and one of it's primary activities apart from various rural development projects, is to help value add products and then provides marketing support. Keystone hopes that this effort will go towards addressing key issues of livelihood and conservation.

Keystone works with a honey hunters network of around 200 groups, collecting honey and bees wax from them. From other tribal farmers it procures agricultural products like coffee, pepper, etc. It is also now working with non timber forest products. More than 60% of the products are sold within the district. Keystone has also established 2 shops which retail these products and which are now mentioned in the Lonely Planet Guide.

### Masipag, Philippines

**Address:** 3346 Aguila Street, Rhodas Subdivision, Anos, Los Banos, Laguna 4030, Philippines  
**Contact person:** Armando T. Aquino  
**E-mail:** armand@masipag.org, Info@masipag.org, Rmanaqui@yahoo.com

Masipag is a farmer-led network of people's organisation and scientist, working towards the sustainable use and management of biodiversity through farmers control of genetic and biological resources, agricultural organic production and associated knowledge. Masipag supports small farmers through installation of Internal Quality Control Systems and marketing of organic products. Masipag was established June 27, 1987.

Masipag has a network of 474 people's organisation, 26 church based groups and 28 non-government organisations. Most of the products are organic rice, vegetable, chickens, coconut products, banana products, fruits and some herbs. There are also processed products like fashion fruit juice, muscovado sugar, banana chips and coconut processed products like jams.

Masipag is a founding member of the Organic Certification Center of the Philippines, the lone certification body in the country. Masipag is a member of IFOAM.
Local Marketing of Organic Products - A Guide for SMEs

Name: Organic Agriculture Research & Production (Organiconepal) Pvt. Ltd.
Address: Ananda Marga, Bharatpur Municipality-4, Chitwan, Nepal
          PO Box 8975, EPC 915, Kathmandu
Contact person: Mr. Sanu Bhai Tamrakar & Basanta Rana Bhat
E-mail: organiconepal@yahoo.com

Organic Agriculture Research & Production (Organiconepal) Pvt. Ltd. is a private company set up in 2001 by five Nepalese Agriculture and Management specialist to develop a local market for organic agricultural products. Organiconepal supports farmers/producers in converting to organic agriculture by providing organic inputs, training and transferring technologies. It also helps the farmers/producers to sell their organic agricultural products to consumers through organic consumers' clubs. It has been working closely with Nepal Permaculture Group, local chamber of commerce and groups of agro-entrepreneurs for the promotion of organic agricultural products and organic inputs that needed by the consumers and farmer/producers respectively.

Organiconepal has a network of five vegetable grower's cooperatives and few herbal farmers that producing fresh vegetables, rice, legumes and herbs. Most of these products are sold locally in Chitwan and Kathmandu, kingdom of Nepal.

Organiconepal is in the process to become member of IFOAM.

Name: Organic Health, Malaysia
Address:
Contact person: Ms. Sally Wong
E-mail:

Name: PARC - Palestine Agricultural Relief Committee
Address: P.O. Box 25128 Shufat, Jerusalem
Contact person: Dr. Thameen Hijawi
E-mail: thameen@pal-arc.org

PARC started in the field of organic farming in Palestine in 1997, by encouraging the farmers to produce safe product without using fertilizers and huge quantities of pesticides. This was through training the farmers to use new methods for plant protection like using Al shash in the protecting process from the white fly. And using Al Tayoon which is an extraction extracted by PARC team experience from different plants in order to be used for spraying the fruit trees as plant protection material. In the year 2000 we got fund from the Italian ministry of forieng affair in order to establish and improve the organic farming systems in Palestine, running of the project was very difficult because of the abnormal political situation in the region, but even that we had three pilot farms in the West Bank and Gaza strip. In addition to that we started also in farm re conversion for 100 traditional farms in the Palestinian Territories. In the year 2003 we started officially the farm re conversion based on the EU regulation and having the Inspection and certification body.

PARC is a member of IFOAM.
### Planck Organic Fields Co., Ltd.

**Name:** Planck Organic Fields Co., Ltd.  
**Address:** 301# Building 41, Nanjing Agriculture University, Nanjing 210095, China  
**Contact person:** Mr. Song Ning  
**E-mail:** Xuming-okok@sohu.com

Planck Organic Farm Co., Ltd. was established in Jan. 2000 as a private company. The purpose of setting up this company is to develop a local market for organic vegetables in Nanjing the capital of Jiangsu Province with an urban population of 4 million. The Company has rented 33 ha of farmland from local small farmers and then hires the farmers to work for the farm. The farm started its conversion in 2001 and has been certified as organic in conversion for 2 years. It is expected to be fully certified as organic in summer of 2004 by OFDC-CHINA the most authorized and IFOAM accredited organic certifier in China. The company has its own retail organic vegetable shops distributed in different parts of Nanjing. All the vegetables sold in the shops are produced by the company’s own farm. The vegetables are also delivered to restaurants, hotels, schools and individual costumers through its own distribution system. The company is going to set more retail shops in Nanjing and possibly in other neighbouring cities. The company is considering of joining IFOAM soon.

### Thai Organic Food Co., Ltd., Thailand

**Name:** Thai Organic Food Co., Ltd., Thailand  
**Address:** 976/17 Rimklongsamsen Rd., Hwaykwang, Bangkapi, Bkk., Thailand.  
**Contact person:** Ms. Anotai Gongvatana  
**E-mail:** a_anotai@hotmail.com

Thai Organic Farm owned by a private company set up in the year 2000 as a family bussiness to develop a local market for organic produces and products. Thai Organic Farm supplys our organic produces and products mainly to local supermarkets and restaurants.

Thai Organic Farm has got 2 contract farmers producing organic vegetables, herbs, and rice supply to our market. Most of these products are sold locally in Thailand. It received certification in 2001, from ACT Thailand.

Thai Organic Farm is a member of IFOAM.