

Summary

The price is unfair; About optimising the market value of sustainability in the organic dairy sector

Dairy farmers and processors in the organic sector are currently looking for different ways to get a 'fair price' for their milk and therefore want to explore ways of optimising the market value of the sustainability component of their products and production methods. The question is what options do they have? What demands does this impose on the chain? Is the consumer interested in a social component of organic milk production? And if so, how and what does this mean for the chain and the sector? If the organic sector manages to market its sustainability image properly along various lines (and particularly using certain marketing concepts), they could achieve substantial increases in turnover in future as well as higher prices being paid to the producers.

The aim of this study was therefore to acquire insight into the options and limiting conditions of optimising the market value of sustainability in the organic dairy chain. For this purpose, the potential of various sustainability concepts in and around the organic sector were explored to see how they could be used in the organic dairy sector. The starting point was a sales price that reflects the perceived added value which the consumer attributes to organic dairy. The added price should then generate sufficient margins for the various chain parties, with a fair distribution of these margins over the parties. Proposals and ideas for this purpose had to be specifically elaborated for Demeter-zuivel and the Boerenfairmelk initiative.

The project aimed to create an overview of critical success factors for optimising the market value of concepts for sustainability and their development, supported by the sector, specifically for organic dairy. This should also be applicable to other sectors and other (chain) actors involved.

About optimising the market value of sustainability

When optimising the market value of sustainability, two dimensions are important. Firstly, the type of playing field operated in and secondly how people approach the aspect of sustainability. By contrasting these two dimensions, four different strategies of optimising the market value of sustainability can be distinguished.

In the first place, it is about concepts which distinguish themselves in the market on the basis of sustainability characteristics, whereby optimising the market value takes place within the chain (business to business). Sales are aimed at businesses and efficiency (improvement) plays a clear role in the strategy. An example of this is Nature & More.

Secondly, it is about initiatives which distinguish themselves with respect to sustainability, whereby optimising the market value takes place by means of direct sales to the consumer, for example by raising the willingness of the consumer to pay. Known examples are bearing the distinguishing Max Havelaar logo and many organic products also belong to this category.

Thirdly, it is about concepts which are far less concerned with distinguishing themselves on the basis of sustainability, whereby optimising the market value takes place more on the basis of the chain (and efficiency within the chain). An example of this is the Goudse Boerenoplegkaas.

Finally, initiatives can be distinguished whereby sustainability characteristics support other product features which raise the willingness of the consumers to pay, for example. Examples of other product features than sustainability are brand, taste, packaging or origin of the product. An example of this is the Groene Koe brand, after the recent repositioning.

What the cases teach us

The study further looked at four cases to observe how they deal with optimising the market value of sustainability and what mechanisms are used in this. The cases chosen were Max Havelaar, Utz Kapeh, Nature & More and the initiative of the Boerenfairmelk. The following things were learned from the cases:

- do not develop and/or reinforce a sustainability concept in a new market; do it in an adult, stable market (with good response);
- communicate the story behind the product. This reflects the development that consumers do not just base their purchasing decision on ratios. Their decision is increasingly taken in a broader context where emotional aspects also play a role besides the assessment of functional attributes;
- the supermarket makes the difference. It is not the consumer, but the supermarket which is the deciding factor in breaking open the market. The supermarket channel demands a professional marketing approach;
- it is crucial that all the stakeholders involved contribute and play a role in the decision-making process;

- the price difference compared with the mainstream must not be too great to achieve volume goals.
- start modestly in the market; build up the story gradually;
- present the concept from a clearly distinguished background (BD or region);
- volume can be increased by transcending the niche market and selling the product as a non-certified brand;
- provide good and reliable information to the consumer; the consumer is an important stakeholder;
- try to cluster producers, processors and trade together in the further development of the concept.

About price mechanisms and price strategies for sustainability

This study shows that relatively little has been done so far with respect to concept development regarding price strategies and price mechanisms in organic and biodynamic farming. Traditionally, strategies which could be labelled 'The price is unfair!' were often used, where the sustainable initiative was compared with the mainstream product and the higher price communicated as fair. However, this only persuades the consumers involved. In order to win over other consumers for the sustainable product, the following strategies can be used:

- replace mainstream products. This option is mainly used when the cross price elasticity of the product category is low, as with the free range egg, for example;
- the client value strategy. This is increasingly applied by using organic ingredients for brand products and meals in the food service segment;
- the donation strategy, whereby the moment of purchase and the moment of payment for sustainability are actually separated. This strategy is not applied as frequently, but still seems to offer potential for further development.

Sustainable development is often described in terms of the three Ps: People, Planet and Profit. However, the profit dimension sometimes seems to be at odds with the other two dimensions when the traditional price strategies and mechanisms are applied automatically in a more sustainable system. Insight into the price strategies and mechanisms which enable that sustainable development helps accelerate the transition to sustainable development.

Plans of approach for Demeter-zuivel and Boerenfairmelk

In the last phase of the study, a stakeholder dialogue was organised with the parties involved for the two tracks in the project, i.e. biodynamic dairy and organic regional dairy, aimed at jointly formulating a number of actions which would lead to the desired higher price for the product. In the autumn of 2007, in collaboration with the stakeholders involved, work therefore commenced on drawing up a plan of approach about how to achieve the goal of optimising the market value of sustainability for both Demeter-zuivel and the Boerenfairmelk initiative, and the targets for each party. The following recommendations were produced:

Recommendation regarding Demeter-zuivel

For Demeter-zuivel, the following recommendations were formulated:

- it is clear that Ecomel will not be able to achieve the added value of its product in the market on its own. Collaboration in the chain is essential and the recently initiated stakeholder consultation is a step in the right direction;
- it is also important that Stichting Demeter, together with the other chain parties involved, considers how to improve or change the positioning of its products on the shelf. Specifically, this applies to the brand Zuiver Zuivel;
- it is vital that eventually Stichting Demeter discusses possible adjustment of the norms of the Demeter brand with the chain parties involved;
- communication about the Demeter brand should also be discussed further among the chain parties involved. Making clear to the public exactly what the added value is and what accents are specifically important is essential if the desired added value in the market is to be achieved;
- in the relatively short term it would be useful for Ecomel to launch a campaign using stickers on Zuiver Zuivel milk cartons to show that consumers pay an extra 5 cents to the farmers to reward them for their efforts in the field of sustainability. How that message can be communicated on the cartons is shown in appendix 2 of this report;
- in the longer term, it would be good to involve other parties in the organic chain in this initiative, for example the Louis Bolk Instituut as well as dealers like Natudis, Estafette, Kroon and the Zaaister. Firstly, however, it would be useful to develop the dairy initiative further and then look at the Demeter brand as a whole.

Recommendations regarding the Boerenfairmelk

For the initiative of Boerenfairmelk, the following recommendations have been formulated:

- for 2008, the Boerenfairmelk idea could be assessed among certain market parties and other stakeholders. The Taskforce Organic Agriculture and Food could be the main initiator in this. This could take the form of organising round table meetings with these parties, primarily addressing what they feel about this idea and whether they would contribute to its implementation;
- another idea might be to sign a covenant with the parties involved. This could be linked to the organisation of a mini symposium, focusing on the opportunities for regional marketing in the form of Boerenfairmelk. Appendix 3 of this report contains a proposal for such a symposium and the possible parties involved.