

Economics of agriculture

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## ORGANIC FOOD SUPPLY CHAIN – THE CASE IN MACEDONIA

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### ***Abstract***

*The organic sub-sector in Macedonia follows an industrial model of agriculture and its development is mostly based on expectations of market price premiums. The organic farming community is very small and at the very beginning of the learning curve. In these circumstances supply is seen as the biggest problem of developing a market. The research involved analysis of consumer's perceptions and needs of organic agriculture, also. It focused more closely on potential for export market development, but based on opportunity of developing a domestic market.*

*Farmers are not ready for export yet and any potential initiative should be taken with organization of collective capacities. The success of any endeavour highly depends on the increase of transparency within the organic community. Development of the domestic market should be given more priority at this point as it has more chances of short term success and would serve as a foundation for eventually accessing an export market. Main focus in this paper is put on organic supply chain in Macedonia and preferences of domestic consumers' about demand of domestic organic products.*

**Keywords:** *Macedonia, organic, potential, market, supply chain, domestic.*

### **Introduction**

The organic agricultural production as a concept of the farm in which all the **components: the soil, the plants, the animals are affecting the maintenance of the stable coexistence.** .

It could be identified several driving forces that motivate people to initiate organic production as follows:

1. The organic production is usually motivated by the consumers and market. The consumer in this case dictates how the food supposes to be produced, processed manipulated and sell. The products are clearly identified, certified and labelled.

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2. This could be stimulated by the state and its institutions. In the EU there are subsidies generating abilities for the environmental safety as well as the reduce of the pollution of the surface water or creating of areas with the particularly biological diversity.

3. The third stimulation for the organic farming is when it is initiated by the farmers themselves. Some of the farmers do believe that the conventional production is unsustainable so they've created alternative methods production with an aim to improve their family's health and the farms economy. The products are not always sold on the market, or it is selling without price differentiation without certificate. In developed countries the small farmers are using the direct distribution of non-certificate organic products to the consumers.

Usually manufacturer's use set of intermediaries to make their products available for the use or consumption (Kotler & Keller, 2006). Intermediaries smooth the flow of goods and services by providing several advantages to producers as the large number of producers lack the financial resources to carry out direct marketing and intermediaries have many contacts and experience to offer the producer more than it can achieve on its own. (Coughlan et al., 2001) The analysis of the literature on distribution channels of organic products suggests that there is no common classification of distribution channels of organic products.

Supply chains of organic products are often considered as alternative supply chains, which are shorter, more locally oriented, and in which the producers and consumers are more tightly connected to each other than those in the conventional food supply chains. In spite of this, the involvement of retailing groups into the organic supply chain has increased the market share of organic product in many European countries (Fin food 2003a, Hamm et al. 2002).

Usually world wide organic products are selling across the channels with low demand, like specialised shops for healthy food or directly from farm. Besides the fact that this sector is the fastest growing food sector in the world it is very important developing of other distributive channels. Historically looking, organic food was available only in row products like grains, meat, milk, eggs, fresh fruit and vegetables and in low processed products like dried fruit and vegetables, dried spices plants etc. In this moment is very important to mention that structure of organic food distribution is mainly in special healthy food part of big supermarkets (50%). Important channels are specialised shops for healthy and organic food (45%), and the rest of the organic food are distributing across direct marketing (5%) for catering in restaurants, hospitals, hotels etc.

Low offer of organic food by quantity and assortment, didn't allowed some important marketing strategies to the development of organic sector in Republic of Macedonia. Low domestic products are limitation for production of organic products in Republic of Macedonia and from the other side low offer are limitation factor for exporting. In this moment, the main motive for organic food production is subsidizing of organic production from the government. If the government stop with this subsidizing, producers will be unmotivated for organic food production. Insufficiencies of organic

products by domestic production are limitation factor for possibilities of using of more attractive distributive channels on permanent base.

### **Specification of organic food supply chain in republic of Macedonia**

This paper is result of project ordered by Ministry of agriculture. This project was researched completed supply chain management from farm to the fork and all participants in this chain, from suppliers to the consumers. The main aim of this project was to identify weaknesses of the chain and to detect reasons for low dynamic of organic production development. The main advantages of organic production in Republic of Macedonia are very satisfactory yield crops, protection of nature and landscape, almost the same agro technical measures like conventional products, higher market prices, toward future oriented production etc.

The biggest weaknesses of organic production are: expensive production compared with yield crops, low price for organic food, low quantity which not allows export, bad eating habits, low cooperation between producers and other parts of distributive network, week market organization, low level of education etc.

There is many problems along the chain, from the suppliers till consumers. Like main problems in production process were mentioned supply of organic fertilizers and organic protection materials. Another problem is unavailability of biological materials and that why is important to have allowed list of materials appropriate for using in organic production. For solving of these problems it is necessary establishing of specialized shop for organic materials and protection instruments.

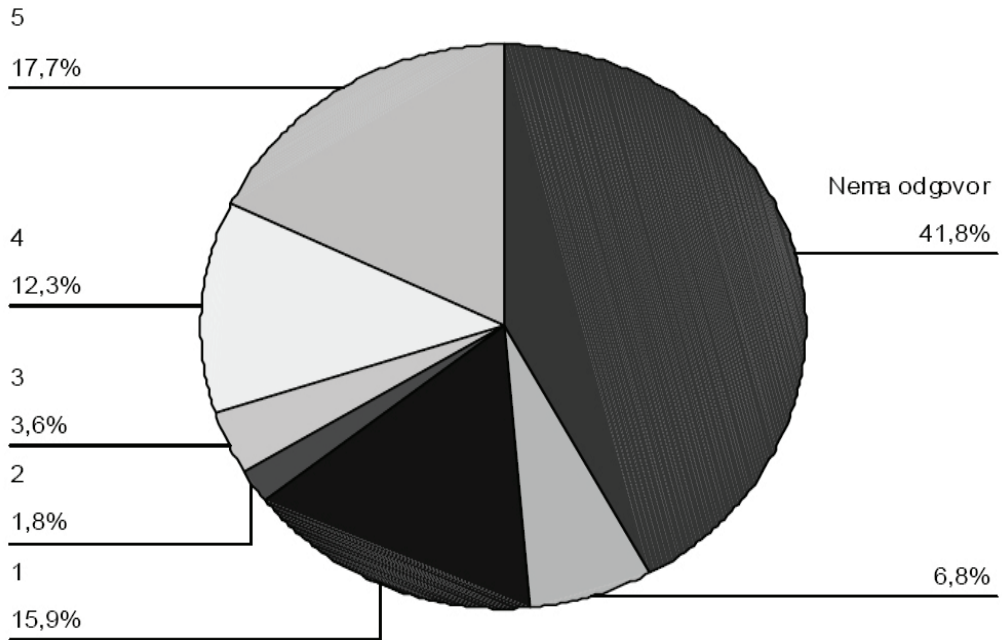
Organic fertilizers and protection instruments are not regulated in this moment, but in the moment are preparing the rule book about organic fertilizers. In meantime it is very important finding way to register imported organic fertilizers. Additional problem is higher price of these fertilizers and other materials. Another problems regards organic production is certification process and production price. Certification process is very complicated, expensive and long term. Besides the fact that ministry of agriculture pays 50% of the certification price, this process is still expensive for the farmers.

When we talking about production cost, evident is that Macedonian farmers don't know how much organic production compared with conventional production of the same product cost. According to some farmers organic production has lower productivity 30-50% compared with conventional products productivity. Representatives of distributional network approved that Macedonian market can't absorb price higher then 30% plus of the same conventional products price. The fact that organic products in Macedonia are selling in the same prices like conventional products, besides their lower productivity, are strongly demotivation factor for Macedonian organic producers.

Low quality products appearance in the market, and their inappropriate sanctioning, causing problems to the regular producers. For example, honey made by glucoses putting down the price of organic honey. In general, organic production is not so bed, because conventional production is facing problems, too. Very big problem is processing and selling of organic products. The most important problem of organic supply chain is organic products

distribution. Macedonian organic products are very unavailable in distributional network. That it is very difficult to find domestic organic food in the shops thinks 17,7% of interviewed consumers which marked with mark 5 (very difficult to find in shops) the question about organic food availability.

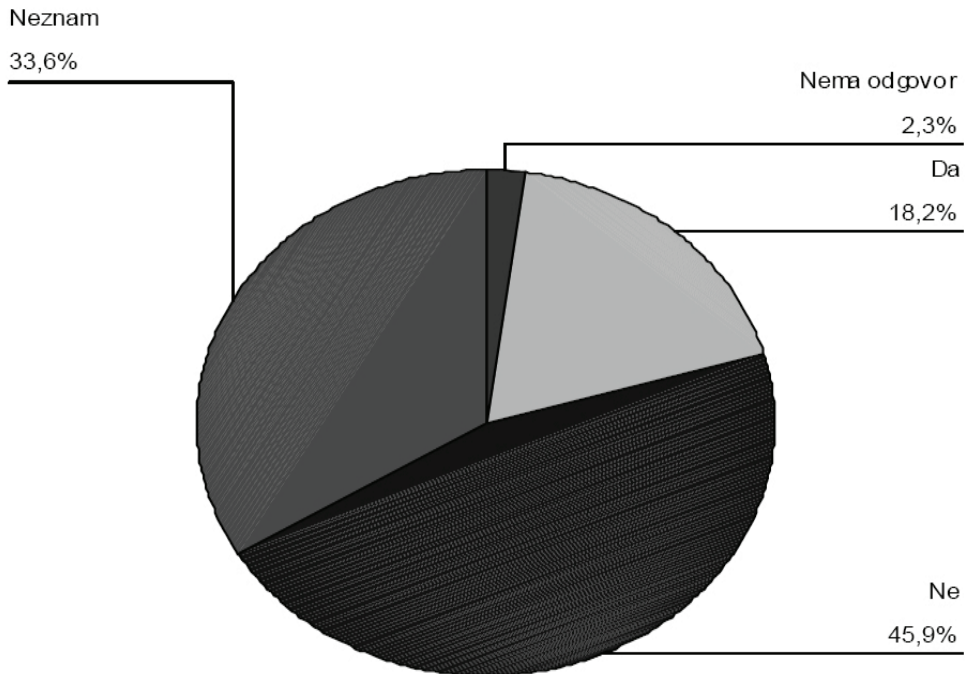
*Graf No.1 - Availability of organic food in the shops*



*Source: Personal research*

Representatives of distributional network indicate many problems which are important for this segment of supply chain. Their biggest problem was quality control and very weak organization and unification of organic products offer from the farmer's side. If consumers pay more for organic food, they should be sure in the products quality. The consumers understand value of organic food, but the quality, assortment of the organic products and their continuity are problems. Distributors was prepared to organize presentation and degustation by their own, but only if they have continuous supplying. Organic logo is also, very important and it should be known to the consumers. It is very important to know who guarantee for the quality with this logo. Distributors can guarantee display of the organic products, but not packaging and certificating. For this reasons trust building is necessary.

The dilemma is how to recognise and buy organic food from the huge supermarket chooses? Ministry of agriculture was prepared some logo, so the next question to the consumer was:

*Graf No. 2 - Are you familiar with organic food logo*

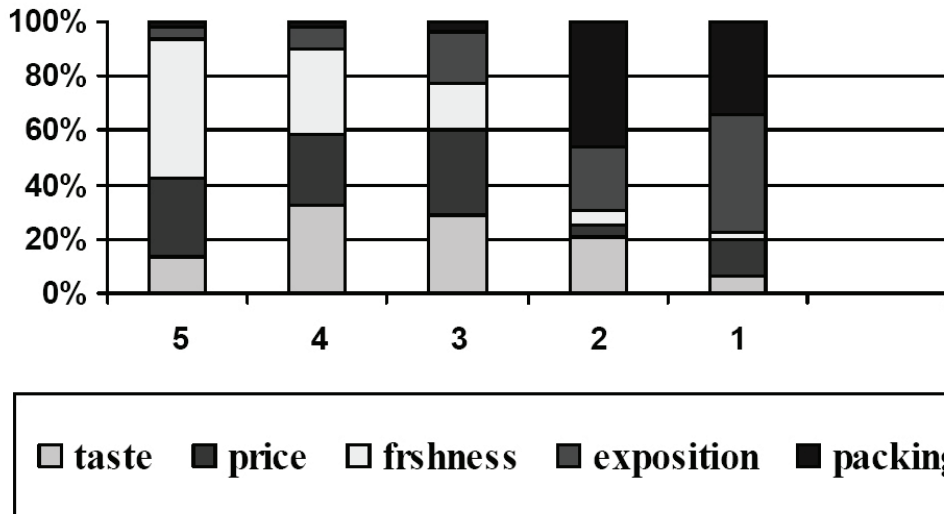
*Source: Personal research*

Significant number of consumers says that they didn't know Macedonian organic logo (45,9%), only 18,2% knows this logo, but very often they are not sure what is exactly organic logo and they mix them with Macedonian quality logo.

Distributors think that farmers have unrealistic requirements regarding the price which are higher than 30% more, which is an acceptable price. Distributors have problems regarding certification and fulfilling the requirements for organic food selling. For establishing of regular basis cooperation between distributors and producers the preconditions are following: existing organic products list, their quantity and producers, defining the way of communication (with direct producer or with association of producers), supporting of in-store activities (with education materials, exposing of counter with degustation possibilities during the weekends etc.). It is quite understandable that the main precondition is fulfilling of basic selling conditions like appropriate packing, bar-code and necessary certificates.

If we are analyzing the price like factor we will realize that it is important, but not most important.

*Graf No. 3 - Gradation of factors which are important in buying process*



*Source: Personal research*

According to the inquiry results we can make gradation of buying factors by their importance. The freshness of the product is most important factor, then price, taste, exposition in the store and packaging is less important factor. But no matter where organic products are selling it is necessary their clear labelling and organic logo must be putted in the visible place, also.

## Conclusions

From the realization of this project several conclusions regard “from farm to fork process” is occurring. The general conclusion is that there is many weaknesses in organic supply chain. There is very weak horizontal and vertical integration along the chain which result with low synchronization and low increasing of the production besides the financial support from the Ministry of agriculture to the organic sector. The producers think that financial support are not simulative enough and lower productivity in combination with higher cost can not be cover with this support. Their strongest production motives are existing hope for higher price and desire to produce health food. Problems can be grouped in several groups:

- 1. Production problems** – problems with supplying of fertilizers and other materials important for production can be putted here caused by low regulations, low educative materials regard this and high prices of the material, also.
- 2. Price problems** – calculation of production cost compared with appropriate conventional products will give clear view of existing situation.

3. **Distribution problems** – unorganized and inequality offer from the farmers is the biggest problem to the distributors.
4. **Promotion problems** – recognising of organic logo is very important. Consumers should be more informed and educated.

There are several very important open questions like regular basis distribution, appropriate packaging, marketing education to the producers etc. which should to be done before starting of serious informative campaign for organic food.

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