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The role of marketing strategy in a search for a better performance of organic producers' organisations in Bulgaria

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Abstract

Although the organic sector is still relatively small in Bulgaria, there are growing success stories about organic products such as sheep and buffalo dairy products or essential oils and so on. Focus of the organic operators is primarily on the export markets bringing though a low added-value to local country produce and leaving the national market unexploited. The analysis of the internal organic marketing conditions and the marketing environment for the production and marketing of organic products by the Producers' Organisations (POs) made by this research led to the conclusions that a suitable an adaptable marketing strategy should be developed and run for a benefit to the PO members. As a result of a survey among some of the PO members, there is a clear trend towards increasing the number of organic operators, who show interest to a joint processing and marketing of organic produce. In spite of the obstacles before the organic POs such as low volume of regional organic produce and sales, insufficient labour, complicated administrative procedures and insufficient capacity and advisory support, the PO members realise the economic advantages of the joint marketing. Most of them (about 44%) responded that they would seek and participate in such cooperation to reduce primary production costs and demand higher purchase prices for larger volumes or to reduce costs and improve market perspectives (around 21%). It is noteworthy, however, that about 31% are not sure about the cooperation due to the lack of sufficient information and probably due to insufficient knowledge and training on cooperation issues. Many of them declare that they need more capacity building and knowledge on, for instance, design, formulation and setting up of an efficient PO marketing strategy or on marketing cooperatives issues.

Keywords*:* organic agriculture, producers organisations, marketing strategy.

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1 Introduction

Bulgaria has a relatively small but rapidly growing organic production sector. Agricultural areas under organic crops have tripled for about three years to reach 161,000 ha in 2016 (Table 1) - of which 89,000 ha of cultivated land and 33,000 ha of permanent crops. The number of organic producers over the same period reached nearly 7,000 farms. However, the interest in organic production by the producers is mainly driven by the EU financial support (the subsidy per ha of land or per animal in the case of protected breeds) from the Rural Development Program (Measure 11) and under the investment measures. There are growing success stories about organic products (eg sheep and buffalo dairy products), and so on. Focus of the organic operators is on the export markets bringing though a low added-value to local country produce.

Organic products are produced by applying methods and practices of organic plant and animal production in compliance with the legal requirements of the European Union (Regulation 834/2007 and 889/2008) and Bulgaria. This production respects the highest food safety standards for human health, which prohibit the use of synthetic pesticides, mineral fertilizers, growth regulators and genetically modified organisms, as well as the use of antibiotics and hormones.

At the end of 2013 (Table 2), the total number of organic operators registered in the Ministry of Agriculture, Food and Forest (MAFF) is 3 123 (this figure does not include the number of subcontractors), which is about 1 000 operators more than in the previous year. According to the MAFF, the data from the annual reports of the Bulgarian organic Control bodies, this number increases up to 7262 in 2016. (MAFF Annual Agricultural Report, 2017).

In recent years, there has been an increase in the reunification of producers in order to improve the marketing of the products they produce. Producer organisations (POs) are a combination of natural or legal persons in the field of organic production and organic goods offered for consumption by end-consumers on the Bulgarian and European markets. The members of such POs have long experience and know-how in the production and supply of organic products on well-established organic markets in the EU and Bulgaria. The aims of the producers' organisations are to better promote the organic produce, to improve the methods and places of supply of this type of goods, as well as their advantages and qualities for the end-consumers, add value and increase their revenues. The unification of companies aims at contributing each member's competence to create certain standards in the production, packaging, transport, marketing, marketing and advertising of the organic products.

Table 1: Area in the EU-28 organic farming sector (thousand ha) over the period 2012-2016

	Total organic area (ha)		2012–16 (% change)
	2012	2016	
EU-28	**10 047 896**	**11 931 589**	**18.7**
Belgium	59 718	78 452	31.4
Bulgaria	39 138	160 620	310.4
Czech Republic	468 670	488 591	4.3
Denmark	194 706	201 476	3.5
Germany	959 832	1 135 941	18.3
Estonia	142 065	180 852	27.3
Ireland	52 793	76 701	45.3
Greece	462 618	342 584	-25.9
Spain	1 756 548	2 018 802	14.9
France	1 030 881	1 537 351	49.1
Croatia	31 904	93 593	193.4
Italy	1 167 362	1 796 333	53.9
Cyprus	3 923	5 550	41.5
Latvia	195 658	259 146	32.4
Lithuania	156 539	221 665	41.6
Luxembourg	4 130	4 274	3.5
Hungary	130 607	186 322	42.7
Malta	37	24	-35.1
Netherlands	48 038	52 204	8.7
Austria	533 230	571 423	7.2
Poland	655 499	536 579	-18.1
Portugal	200 833	245 052	22.0
Romania	288 261	226 309	-21.5
Slovenia	35 101	43 579	24.2
Slovakia	164 360	187 024	13.8
Finland	197 751	238 240	20.5
Sweden	477 684	552 695	15.7
United Kingdom	590 011	490 205	-16.9
Iceland	:	22 594	:
Norway	55 260	47 621	-13.8
Switzerland	121 013	141 249	16.7
Former Yugoslav Republic of Macedonia	:	3 245	:
Serbia	:	14 358	:
Turkey	:	533 218	:

(:) data not available

Table 2: Number of operators (producers, processors, traders) in organic production

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2015**	**2016**
Number of organic producers	214	339	311	476	820	1054	2016	3123	6173	7262

Source: *Bulgarian MAFF, according to the data provided by the annual reports of the Bulgarian control and certification bodies*

All members of the producers' organisation are united around the concept of common marketing organic products and organic foods, including:

- promotion of organic products and organic foods

- introduction of quality standards and the use of a common logo identifying the quality and origin of organic products sold

- deploying a chain of stores that offer organic products

- promoting and informing growers (suppliers) of animal and plant origin on the possibilities

for switching to organic production

- inform and promote end-consumers about the quality of organic products and their benefits

- attracting new businesses, new manufacturers and shops to offer organic products, using the standards introduced by the grouping and ensuring the quality of organic products.

The organic producer organisation may offer activities related to the production of organic products and foods to their suppliers that are subject to strict control. It aims to carry out, coordinate and control subsequent processes after the production of organic food, while the fully certified organic products reach stores.

Some of the products and services that the organisation can offer are *inter alia*:

- supply of specialised packages for organic products and foods of any nature to preserve their qualities and allowing for maximum ease of transport and storage;

- a specialised transport, meeting all criteria and requirements for transport of prepacked organic food to the network of shops;

- introduction of the products produced by the members of the producer organisation in the chain of stores of the organisation;

- marketing and advertising of the organic products and foods of the organisation.

In Bulgaria, there is a slow but steady interest by the farmers in bringing together their organic produce and benefiting from the improved marketing. This is also related to the policy of MAFF to stimulate the establishment of POs and producer groups in different sectors of agriculture, to increase their market opportunities and to compete on domestic and international markets. The POs and groups have an essential role to play in the process of better regulation of the food supply chain, leading to a fairer distribution of added value. Undeniable is their role in the organization of agricultural markets, especially in terms of contractual relations and concentration of supply.

The POs are an essential element of the implementation of the EU Common Agricultural Policy (CAP). With the latest CAP reform, the Member States were given the opportunity to recognise and introduce POs, associations of producer groups in all sectors of agriculture. They operate in accordance with Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of agricultural markets. The POs are economically and legally independent producers who autonomously take decisions to organise and carry out their production. They work in accordance with their own statutes and internal rules and can provide their member-firms with access to markets for the jointly produced outputs. The members of the organization and the group of producers are not its workers and this is different from the cooperative structures (cooperatives), which were the main form of associations in the past in Bulgaria. The POs can be established on a marketing principle, their primary role being to collect the products of their members and make it available on the market. In this way, they can optimise production costs, conduct research, implement environmentally sound practices and production standards for sustainable use of natural resources, implement promotional initiatives,

The Regulation (EU) No 1308/2013 established the general requirements for the recognition of producer organizations in all sectors of agriculture. For the application of this common regime in Bulgaria, Ordinance No: 12 of 2015 on the terms and procedure for recognition of organisations of producers of agricultural products, associations of producer organizations and inter-branch organizations and producer groups is in effect. In addition, Regulation (EU) No 1308/2013 includes special rules for OPs in two sectors - fruit and vegetables and milk and dairy products.

However, it is appropriate to carry out a study on the available options for the formulation of and implementation of an efficient Marketing Strategy of organic products and foods produced by the members of such a producer organisation given the local and national traits. According to Kottler (1988) "The marketing strategy defines the broad principles by which the business unit expects to achieve its marketing goals in the target market. It consists of basic solutions for general marketing support, marketing mix and marketing distribution". Evans and B. Berman (1987) stipulates that “marketing strategy sets out how to use the marketing structure to attract and satisfy target markets and achieve the organisation's goals". Seiler (1991) points out that "the marketing strategy describes how the company uses its means and strengths to tap the established market chances and achieve separate and lasting competitive advantages".

In the present study, the analysis of the internal organic marketing conditions and the marketing environment for the production and marketing of organic products leads to conclusions on the applicability and suitability of effective marketing strategy that will lead to benefits for its members.

2 Materials and Methods

As an initial step of the formulation of a marketing strategy for organic producers’ organisations, a profile of such organisations should be drawn. The profile was based on a survey performed among members (206 producers and firms) of organic producer organisation established on regional principle in South Central region of Bulgaria at the end of 2017. An analysis of their attitude towards a marketing approach, which also contained a summary of the personal views with the leading members of the organisation, was also performed.

3 Results and Discussion

Carry out strategic analysis

The Strategic Analysis aims to establish the real status of the company in terms of its internal potential and the factors and forces in the surrounding environment in which it operates. In the case presented here, the environment is not only limited to the place the organic producers' group operates, but also each target market selected. Therefore, strategic analysis is required for each target market and, therefore, the initial stage of the marketing strategy should comprise the market segmentation stage and the choice of target market(s). Strategic analysis, therefore, is focused on three main areas: analysis of the internal business environment (i.e. the organisation); analysis of the external (business) environment and determination of the possibilities for interaction between them. An external business environment generally means the totality of all objects, the changes of which affect the organisation, as well as all objects whose properties change from the behavior of the organisation concerned. The external environment identifies the opportunities, threats and limitations of the organisation and what they might bring about.

Analysis of Organic Producers' Organisations

Profile of the surveyed organisations and analysis of their attitude towards a marketing approach

a) Direction of the organic produce for the markets

According to the data from the current survey, conducted in late 2017, Bulgarian organic producers produce primary organic production mainly for sale in the country (Table 3). A slightly more than half of the producers (nearly 60%) sell their products entirely on the Bulgarian market and about 23% export their products to other European Union countries. The results are different from those received from a previous survey done in 2009 (Vitosha Research), where 70% of the production is intended for sale in Bulgaria, with 55% of the produced organic products being sold simultaneously in Bulgaria and other EU countries. In 2017, it is noticeable that a large percentage is intended and stays in the country, which implies increased demand for processing and supply in Bulgaria.

Table 3: Main activities developed by organic producers' organisations

Main activities developed by organisations	Percentage of respondents
Production of organic produce and foods for human consumption or for animal fodder	59
Production of primary organic produce and produce for export	23
Import of organic primary produce with aim to be distributed or traded	0
Others	18

b) Organic certification

On the question "do you own a certificate of production, processing, import or export of organic products and foods, and if so, by which control body", most of the respondents have a full certificate of organic production or processing (87%), a small proportion are still in transition to bio- (8%) and 5% have a certificate from a foreign certification body.

c) Experience of the organic producers (members of the producers' organisation)

On the question "how long have you been involved in the production / processing / distribution of organic products", most respondents (around 60%) have been active for more than 3 years, implying good experience, willingness to continue organic activities, and optimism about the future of organic production.

d) Type of organic production

On the question "which group organic products you produce belong to", the majority of the respondents declare production of nuts and spices (about 26%), followed by essential oil crops and herbs (about 26 %), followed by fresh fruits and vegetables (13%), honey and bee products (10%), cereals and bakery products (10%), wine and spirits (8%), etc. These are traditional Bulgarian products and obviously they find a market both in the country and abroad.

e) Major difficulties in carrying out the activities of bio-production or bio-processing

On the question "what are the main difficulties you encounter in the production of organic products and foods", the respondents answered in following way:

- high labor costs and the lack or insufficient seasonal labor (41%);
- higher production costs that cannot be covered by the European subsidies (36%);
- bureaucratic and administrative difficulties (33%)
- low purchasing prices close to conventional (33%)

- sales of production (in Bulgaria and / or abroad) (28%)
- undeveloped and unregulated buying and distribution market (26%)
- insufficient funds for assuring machines and other inputs.

Despite the growth in the number of organic operators, a majority of organic producers are confronted with various problems related to the marketing of their organic production. Based on the their own experience and monitoring of the market of organic products, the organic producers and processors present several key factors that put barriers to efficient production and marketing of organic products and foods in Bulgaria, i.e. high production costs and low labor availability, administrative procedures, still low purchasing prices and underdeveloped national organic markets.

f) Desire for cooperation between organic producers

On the question "would you try to co-operate with other organic producers in a particular region" the respondents answered in following way (see Table 4).

Table 4: Desire for cooperation between organic producers

Possible participation in marketing cooperation (developed by organic producers' organisations)	Percentage of respondents
Yes, with aim to reduce production and processing costs and improve marketing	21
Yes, with aim to explore a common use of machinery and equipment	12
Yes, with aim reduce labour costs	5
Yes, with aim to use a common equipment for processing of raw organic produce	8
Yes, with aim to optimise costs for promotion and distribution	15
Yes, with aim to reduce costs of primary produce and thus asking a higher purchasing prices	44
I am not sure, because I feel a lack of information on cooperation issues (conditions, requirements, administration, etc.)	31

Nearly half (about 44%) responded that they would seek and participate in such cooperation to reduce primary production costs and demand higher purchase prices for larger volumes or to reduce costs and improve market perspectives (around 21%). It is noteworthy, however, that about 31% are not sure about the cooperation due to the lack of sufficient information and probably due to insufficient knowledge and training on cooperation issues.

As a result of the survey, there is a clear trend towards increasing the number of organic operators, while increasing the area under organic production as well as the interest of the processing sector and traders. The areas cultivated with crops continue to grow, which:

• show stable and close to conventional yields in the agri-environmental conditions of the respective production areas

• show a more stable financial results due to a good balance of costs (bio-fertilizers, biological plant protection products, water supply) and revenues (relatively constant market prices)

• show a stable demand from Bulgarian and foreign processors and traders

• show a stable demand as fresh or processed organic products and foods by Bulgarian and foreign consumers.

The perspective crops and, respectively, organic product groups are mainly grain-cereals, technical crops, fruits, honey and bee products and animals. Not only certified organic farmers and organic processors but also those who are still entering organic farming (in a transition period) need a well-thought out marketing strategy to provide them with guidance for the effective marketing of organic products they produce or process together. Therefore, the producer organisation should address the need to design and propose marketing strategies that are adapted to the agro-ecological, social and economic conditions in which its members are integrated.

Under the current conditions, the experience shows that there are a number of obstacles and complications to create a new type of "marketing cooperatives" in Bulgaria. For about 50 years, the rural population of Bulgaria has not had no access to private land where individual farmers can apply best practices to have better incomes. During this period, land, agro-technology and other means of production were "jointly owned" by state cooperatives who took little care of the productivity, stability and environmental sustainability of local agroecosystems. Since 2007, when the Rural Development Program started to operate in Bulgaria, its Measure 142 "Creation of Producer Organisations" is aimed precisely at supporting local agricultural cooperatives. So far, however, the Measure has funded small number of projects.

The producer organisation identified a series of problems and obstacles to achieve a more effective organic production, processing and trade in the target regions, namely:

- *Production*: A small number of certified organic producers are operating in the target regions; this complicates the achievement of the "scale / volume effect" objective, i.e. a larger volumes of production by more organic producers help to obtain better prices and a safer market; they have a low motivation to produce organic because they do not see a secure market and good prices; most of them expect that only the MAFF grants are the only way to be sustainable and perceive these as the only motivation to continue managing the production or processing units as organic.

- *Marketing*: Sales are still made individually, most often on the basis of "the best price offered", there is still a low demand for organic products at regional and national level.
- *Administrative*: Insufficient coordination between regional and state administrations from one hand and organic suppliers from another, as well as consumers and organioc NGOs in supporting organic production and processing in the target regions; insufficient administrative capacity for local staff, which is reflected in the low motivation of members to apply for European subsidies;
- *Experience and know-how*: Organic producers should attain more extensive training to improve implementation of organic practices and overall product quality; they need more know-how about formation, registration and running of marketing cooperatives for organic producers.
- *Consultancy services*: Insufficient capacity for advice and train on organic practices, and insufficient efforts to provide advice on better connectivity between organic growers, processors and traders to help find a market for organic production.

Despite these problems, there are several promising trends such as:
- there is a significant interest in bringing together producers and landowners (producers organisation members) who attended information days and seminars and training courses on organic farming.

- They have shown a relatively constant interest in cooperation (both in formal and informal groups of producers and processors) both locally and with regionally.
- There is an increased interest by the local municipalities, forest agencies, partner NGOs, private companies (producers in Sofia and Plovdiv) to participate and help the organic producers organisation etc.
- There is a great public and media interest in the Organic Producers' Organisations and their marketing initiatives.

Given the complex and difficult situation to create cooperation in the target regions, the Producers' Organisation has taken a careful, step-by-step approach to achieve its objectives.

Initiatives and cooperative activities

The PO experts work on an annual plan, adopted jointly with a focus group of target municipalities. The activity is mainly focused on:

- informing, educating and training the interested PO members in organic production, processing and storage techniques as well as in organic marketing.

- provide advice to interested companies (members) on the spot and through external PO experts

- help stakeholders to obtain an organic certificate

- identify the most promising products, farms, producers and producer groups to provide them with financial and know-how support and to increase the critical mass of organic farmers and organic products (i.e. the scale effect), by e.g. participation in regional, national and international fairs and exhibitions (Agra and Foodtech in Plovdiv, Bulgaria, or Biofach in Germany.

- work with identified prominent individual members and groups of organic producers to establish and run more marketing cooperatives, based on production of similar organic produce in order to reduce costs, add value to the organic raw material and products, sell on a more promising markets, improve marketing, and create brand/ promote regional organic products and foods.

As a result of this preliminary analyses and activities, for instance, the PO experts identified and selected prominent organic product groups that can be supported at regional, national and international markets:

- group (cooperative) production: grapes (vineyards) and wine; sesame and sesame paste (tahini) and cereal products and foods,

- individual produce: organic honey and organic jam and jams, dried fruit and nuts (cultivated and wild), meat and milk from organic or free-grazing cattle.

Producer organisations as the subject of marketing

The new CAP provides for the possibility for recognised POs to conclude contracts for the joint sale of products produced by their members. The involvement of POs, especially when they bring together a large percentage of producers in a given region, significantly improves their position in the process of negotiating prices.

Benefits of organising organic producers

Benefits for members:

• production planning capabilities

• better opportunities for organic farmers in conversion to produce at better prices

• stronger consumer market positions (especially in supermarkets and hypermarkets)

• reduce total production costs

• implementation of agricultural practices that protect the environment

• joint use or technical assistance to members with equipment, processing, packing, product sorting and measuring systems.

Market benefits:

• concentration of supply - delivering larger quantities and negotiating better prices

• consistency of supply and rhythm of deliveries

• diversification of the assortment depending on the demand

• quality control of the products offered, improvement of the packaging and marking of the products.

Economic benefits:

• a fairer distribution of value added along the food supply chain. The direct involvement of POs in the food supply chain, including through joint selling of products produced by their members, leads to an increase in the share of added value left to farmers

• improving the competitiveness of Bulgarian organic agricultural products both on the domestic and foreign markets

• opportunities to explore and implement sustainable production practices and innovations

• possibility to benefit from support under the Rural Development Program (RDP) to improve the PO members' financial status and increase their production capacity

• improve the access to financial resources by providing collective guarantees before the financial institutions concerning each producer organisation member.

4 Conclusions

The analysis of the internal organic marketing conditions and the marketing environment for the production and marketing of organic products by the POs led to the conclusions that a suitable an adaptable marketing strategy should be developed and run for a benefit to the PO members. As a result of the survey among some of the PO members, there is a clear trend towards increasing the number of organic operators, who show interest to a joint processing and marketing of organic produce. In spite of the obstacles before the POs such as low volume of regional organic produce and sales, insufficient labour, complicated administrative procedures and insufficient capacity and advisory support, the PO members realise the economic advantages of the joint marketing. Most of the PO members replied that they would seek and participate in marketing cooperatives to reduce primary production costs and demand higher purchase prices for larger volumes or to reduce costs and improve market perspectives. It is noteworthy, however, that many of them requires more capacity building and knowledge on, for instance, design, formulation and setting up of an efficient PO marketing strategy or on marketing cooperatives issues.

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