WHITEPAPER

How can supermarkets encourage organic farming?

Supermarkets play a key role in the food system. The Netherlands needs more organic farming. What can we expect supermarkets to do to encourage organic production and consumption? With this paper, we launch research into that question.

February 2024

Questionmark

The Netherlands needs more organic farming

Intensive farming puts unsustainable pressure on our environment and health. Nitrogen emissions threaten biodiversity and pesticides are a growing problem for our drinking water and the health of farmers and people living in the neighbourhood. For a healthy future of agriculture, the Netherlands must start farming with less artificial fertilisers and fewer pesticides.
An important part of this modernisation of agriculture is the EU's target of increasing the agricultural area for organic farming to 25 per cent by 2030. The Dutch government has translated this into an ambition of 15 percent organic agricultural area in the Netherlands.[1] Currently, it is about 4 per cent.
The Netherlands is not only lagging behind the EU target, but also behind surrounding countries such as Austria, Denmark, Germany and Belgium.[2,3]

Share of organic farming and consumption far below (inter-) national targets

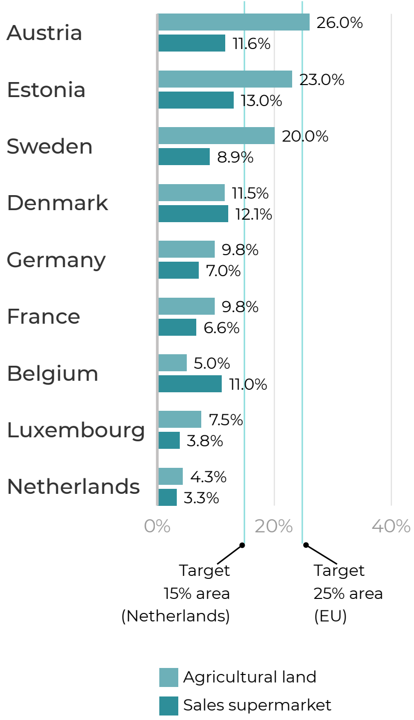

Figure 1. Share of organic in agricultural land and supermarket sales in different European countries. (source: Statista 2023 and Eurostat 2023)

Organic farming and consumption falls short of targets

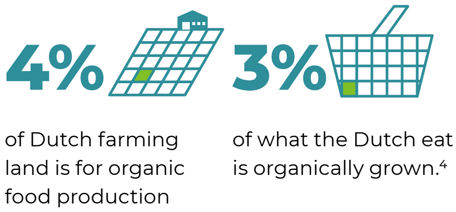

Figure 2.
(source: WUR, 2023)

To catch up, the Dutch also need to eat more organic food.[1] The organic share of Dutch food has been fluctuating around 3 per cent for years.[4]
In the Organic Action Plan (2023), the Ministry of Agriculture, Nature and Food Quality (LNV) poses the question of how supermarkets can make efforts in terms of information, shelf space and supply to increase the market for organic food. This paper is an initial inventory of available information to answer this question.

Supermarkets have a key role
The Dutch buy some 70 per cent of the food they eat every day, in supermarkets. Between the thousands of farmers who produce that food and the millions of consumers who buy it, is a handful of supermarket chains. Supermarkets therefore have a key position in the food system. They can help both farmers and consumers choose organic. Currently, organic food makes up about 3 per cent of supermarket sales.[5] Those sales are not evenly distributed; over 60 per cent of organic products reach only 9 per cent of the consumers.

Key position supermarkets

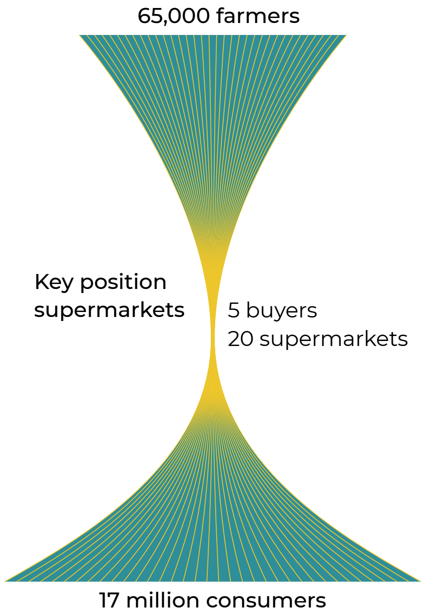

Figure 3. Concentration of power in purchasers and supermarkets

What are supermarkets already doing?

Dutch supermarkets are increasingly aware of this responsibility, and are already taking initiatives. Many supermarkets highlight organic products with green shelf labels. Albert Heijn gives ‘premium’ customers a standard 10 per cent discount on organic products. Jumbo used online ‘nudges’ to get customers to buy more organic. Promising is Plus’ initiative to offer own-brand potatoes and milk exclusively organic.

What are foreign supermarkets doing?

In countries with a higher market share of organic, we also see supermarkets encouraging the sale of organic in a variety of ways. The exact effectiveness of many of these measures is not yet known. The fact that organic has a higher market share abroad, need not be to the credit of (only) supermarkets. After all, the market may also have been stimulated by the government, the supply or autonomous consumer demand. There are no known examples yet of measures abroad that are unquestionably effective.

Promotional campaigns are necessary but not sufficient

The government (in the Netherlands, but especially in the EU) supported several national promotional campaigns for organic food over the past decades. Those campaigns had measurable effects. For instance, the ‘the most beautiful message is organic’ campaign in 2022-2023 increased the recognition of the quality label from 50 per cent in 2022 to 54 per cent in 2023, and demonstrably increased Dutch people’s trust in the quality label.[6] Yet, the market for organic has not grown (permanently) (figure 4). Apparently, more will be needed.

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Promotion campaigns not sufficient to boost organic market share

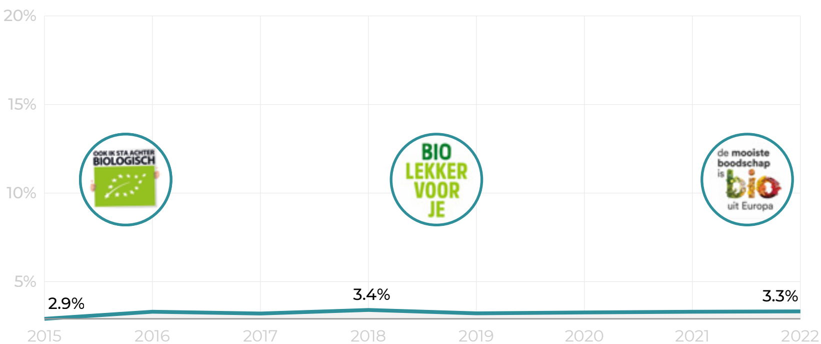

Figure 4. Impact of the promotion campaigns ‘Biologisch Lekker Natuurlijk’, ‘Bio Lekker Voor Je’ and ‘De Mooiste Boodschap is Bio uit Europa’ on the market share of organic products in the Netherlands.

What is organic?

Organic farming does not use artificial fertilisers and uses only natural plant protection products. Organic farming has a positive impact in several ways: lower nitrogen emissions, more biodiversity, cleaner water, healthier soils, and better animal welfare.

What role does the price of organic play?

In 2020, 65 per cent of the consumers thought the price of organic was too high.[7] Consumers said they would buy more organic if it were cheaper. Earlier this year, a group of organic farmers observed that supermarkets were portraying organic as a 'luxury' product, making it more expensive than necessary.[8]

Organic is more expensive

Organic farming usually yields (slightly) less per hectare of farmland. Partly for this reason, the cost price per product tends to be higher. However, these additional costs do not directly correspond to the extra price of organic in the supermarket. Price differences between organic and non-organic can vary widely between products and between supermarkets. Figure 5 provides an overview, which raises several questions.

Price differences of more than 20 per cent are highlighted in red; those organic products are significantly more expensive than the non-organic variant. The price difference can be more than 230 per cent. Obviously, such differences do not help the choice of organic products.

The Organic Action Plan aims for a "better price for farmer and consumer", suggesting that processing and trade earn relatively much from organic products. So, the question is: to what extent can supermarkets do something about these high prices? For example, through the margins on organic products.

Does the organic farmer get reimbursed for the additional costs?

Organic farming is generally more expensive per product. If the price at which it is available in the store remains the same, this leads to the questiion whether the farmers costs are covered. However, it is not possible to determine whether consumers are paying the 'real price' for a product based solely on the price tag. This is because the supermarket price does not directly reflect the purchase price (see page 5: 'what is the margin mix?').

It may be that a supermarket deliberately keeps the price for a certain product low, while the farmer is paid a good price. Conversely, it may also be the case that a farmer is paid little, while the supermarket earns a profit on these products. This applies to organic farmers no more or less than non-organic ones. However, it is true that Dutch organic farmers are, on average, slightly more satisfied with the price they receive for their products than non-organic farmers.[10]

Additional cost on organic products varies widely

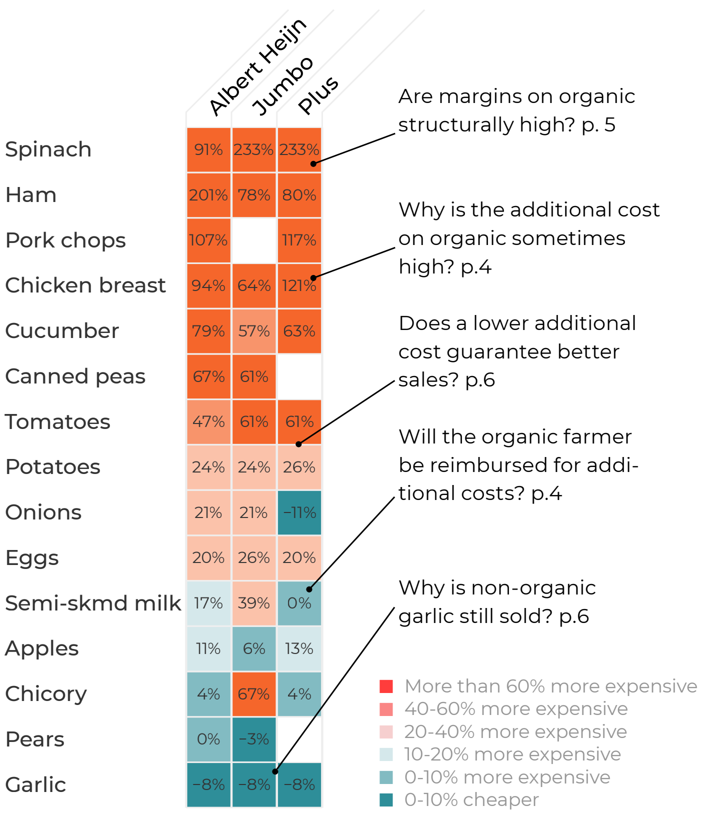

Figure 5. Additional cost on organic products as a percentage of the price of the non-organic variant (source: Questionmark database)

Distribution of margins may vary widely

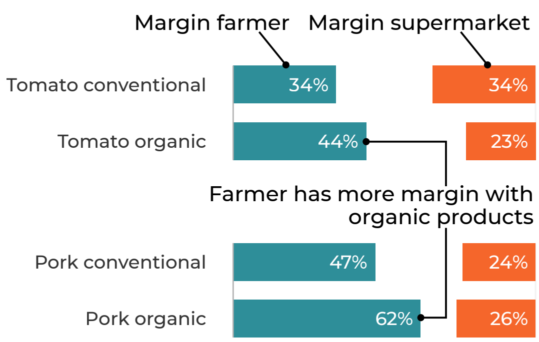

Figure 6. Examples of the difference in margin for farmer and supermarket between organic and non-organic food (source: Agro-nutrimonitor 2022)

Are margins on organic structurally high?

There is no reason to believe that supermarkets charge structurally higher margins on organic products than on non-organic ones. Research by Wageningen Economic Research shows that supermarkets even apply a relatively low margin for some organic products (figure 7).[9]

These figures need not be representative of organic food in general, but the products in figure 7 are important for the organic sector in the Netherlands. Over 50 per cent of organic farmers in the Netherlands produce milk, potatoes, onions or tomatoes.[9] For now, the margin on those products does not seem to be the main market barrier.
It should be noted that a lower margin in percentage terms does not necessarily mean that the supermarket earns less in absolute amounts from an organic product. This is because the margins in figure 5 are calculated as a percentage of the consumer price; so, if the organic product is much more expensive, a relatively low margin can still generate a larger amount.

What organic products do get a higher margin?
The situation is different for organic pears and pork. Figure 7 shows that the margin for those products is, on average, (slightly) higher than that for non-organic. This may be true for more of the products highlighted in red in the top half of figure 5. According to trade organisation Bionext, supermarkets make a relatively high margin on organic eggs and organic canned vegetables in particular. In order to know for which supermarkets and products this is the case, more research is needed.
The main question is: does this higher margin hinder the switch to organic? The figures in figure 5 suggest this is not necessarily the case. For consumers, for example, pears are not necessarily more expensive, pork (ham, pork chops) are. So, for pork, the margin applied by supermarkets may be an additional barrier to switching to organic.

Supermarket has varying margins on organic and non-organic products

	Non-organic	Organic
Onions	51 %	38 %
Potatoes	37 %	31 %
Tomatoes	34 %	23 %
Milk	36 %	33 %
Pears	30 %	31 %
Pork	24 %	26 %

Figure 7. Average margins of supermarkets, as a percentage of the consumer price (source: Agro-Nutrimonitor 2022)

What is the margin mix?

Supermarkets need to make an average margin of about 25 to 30 per cent (gross) on their products to be profitable. That margin is not evenly divided across the product range.

Certain products are given a low margin in order to attract customers to the shop. Many consumers compare the prices of, for example, beer, bananas, nappies and minced meat between supermarkets. It is therefore important for supermarkets to put these products on the market at the lowest possible price. Sometimes the margin is even negative: supermarkets then make a (temporary) loss on the sale of the product.

On other products, supermarkets then have to charge a relatively higher margin to cover the costs on average. This division is different for each supermarket. The ‘margin mix’ is part of supermarkets’ commercial strategy. Supermarkets do not provide an insight into that strategy.

Does a low extra charge guarantee better sales?

Price differences of less than 20 per cent are highlighted in green in figure 5; the price for the organic product is close to the non-organic variant. It should be noted that organic is often not available in bulk packs. In this table, we have always compared organic with a non-organic variant of the same weight. In practice, large purchasers (such as a family with children) often have the choice to buy the non-organic variant in larger packs, leading to a significant increase in price difference compared to the small organic packs.

Example: garlic

Garlic is an interesting example, as the price of the organic variant is lower than the non-organic variant. However, this is not always the case: figure 8 shows how prices alternate. The periods when organic garlic is cheaper are highlighted with a colour.

Price of organic garlic often lower than non-organic

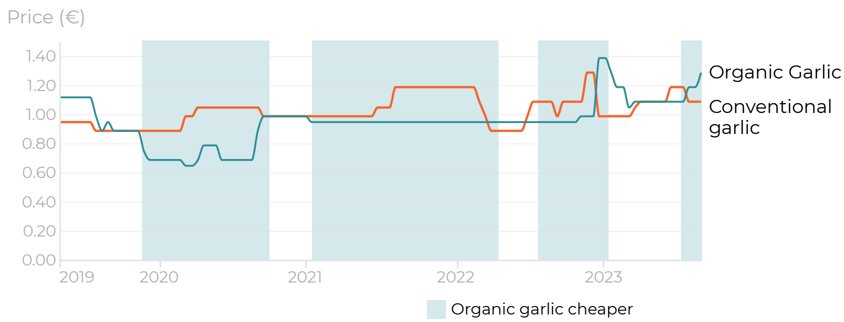

Figure 8. Price development of organic and conventional garlic at Albert Heijn between 2019 and 2023 (source: database Questionmark)

There are more products whose organic variant is sometimes cheaper, such as onions, chicory and cucumber. It would make sense for people to buy only organic garlic during those marked periods. Enquiry with supermarkets reveals that this is not the case. Organic is hardly sold more during such periods than outside these periods.

Apparently, the price of organic products is not the only barrier for consumers. Other barriers could be:

- habit, unfamiliarity with organic
- different taste or quality of organic
- findability of the organic product
- availability of the organic product (e.g., in small shops)

It is important to know these factors well. Getting people to switch to organic products requires more measures than just a smaller price difference.

Why do the supermarkets still sell non-organic garlic?

Given the lower price of organic, it seems illogical for the supermarkets to still offer non-organic garlic. Yet, this need not be the case. It is possible that supermarkets deliberately apply a lower margin on organic products just to remain attractive to customers with a preference for organic food (see page 5: “what is the margin mix?”). It is therefore not in the supermarkets’ interest to sell the relatively cheap organic garlic to other consumers as well (without a preference for organic).

Further research

This study, with an overview of facts and figures, allows us to set aside some common assumptions about organic.

- It is not true that supermarkets structurally charge higher margins on organic. So, the ministry's (LNV) goal of achieving a better price for both farmer and consumer is not feasible for all product groups.
- A higher additional cost for organic food is certainly a barrier, but a lower additional cost is not always enough to stimulate sales.
- Nationwide promotional campaigns are necessary, but not sufficient to boost organic sales.

For supermarkets wishing to promote organic, these (tentative) conclusions still provide few starting points. Nevertheless, it is valuable information; apparently there is no single golden measure that supermarkets should take. Encouraging organic farming requires a combination of measures, which may differ per product group and per supermarket.
Questionmark Foundation will fill in the gaps over the coming months. The key question remains: how can Dutch supermarkets encourage organic farming? And can they implement measures independently or is more required?

Examples of research questions

- How do the barriers to buying organic differ per product group?
- What is the most important measure per product group that a supermarket can take?
- How much added value do organic products have for consumers themselves? Is the added value enough to grow the market share?
- How can supermarkets' margin mix help to grow the organic market?
- Does it help to mix organic products with non-organic?
- Which product groups can be completely replaced by non-organic?

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Call to action

We are eager to get in touch with experts from the Netherlands and abroad who can help answer the question 'how can Dutch supermarkets encourage organic farming?' Additions and comments on our findings are also welcome. Mail to biologisch@thequestionmark.org

Colophon

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