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What about the food 'quality turn' in South Africa?

Exploration of its implication for small-scale farmers' market access

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Exploratory research study with inputs from an NAMC funded project

Background: the quality ‘turn’

- Turn from mass consumption model to increasing qualitative differentiation of products and demand
  - Increasingly complex consumers’ food requirements
- New regulatory models and more closely coordinated supply chains
  - Increased role of private standards (‘soft law’) in economic systems’ governance
  - Standards as strategic tools for market penetration, system coordination, quality and safety assurance, brand complementing and product niche definition
- Leading retail sector in certification practices
  - Often create high barriers to entry (administrative and technical burdens)

Objective and main insight

- This paper explores how the ‘quality turn’ manifest in the South African agro-food system and points out some implications in terms of market access conditions for small-scale farmers.

- It stresses how the retail sector is driving alternative quality dynamics

Outline and data used

- General consumer and retail sector analysis of quality positioning
  - Corporate marketing information from major retailers websites and in-store environments
  - New product attribute analysis (Food Review competition)
  - Focus on an emerging origin-based quality trend: certified Karoo lamb
    - Nationwide consumer survey: n=240, LSM=8 to 10
- Analysis of organic sector development in SA
  - Price premium analysis
    - Retail prices data (2007 and 2008)
    - ACNielsen data
- Implications for small-scale farmers' market access

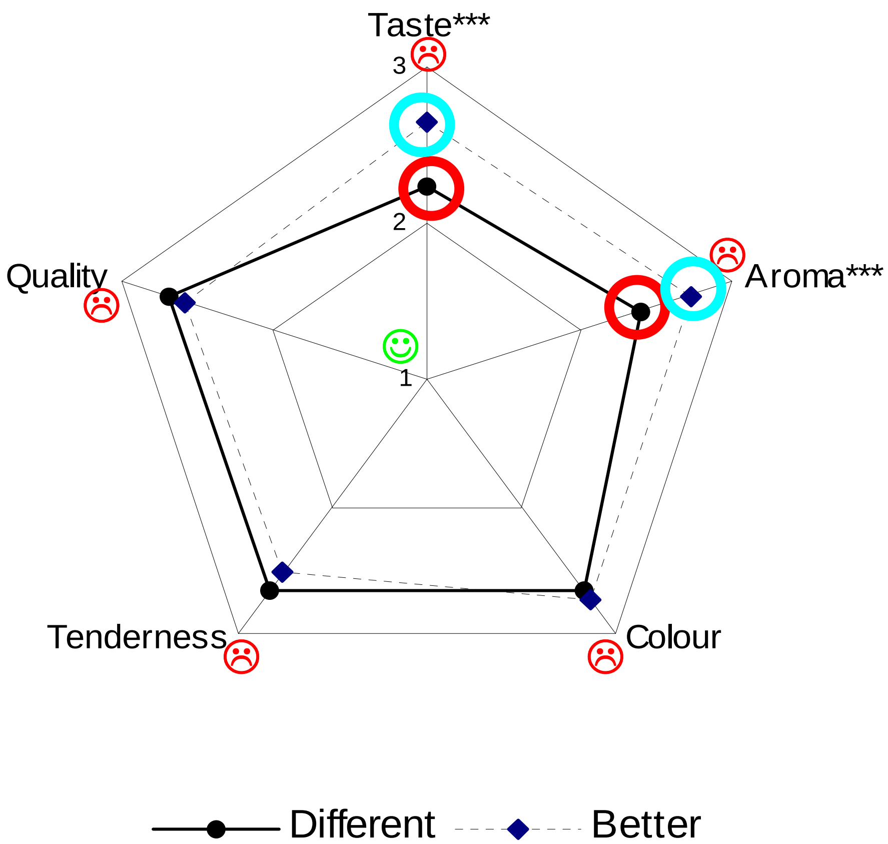
Consumer and retailer quality positioning

- Most retailers' positioning still very general
  - Wide range, service, nutrition, prepared food
  - And price orientated
- Also advanced retail quality positioning observed
  - Free range eggs, lamb or chicken / origin-based food / organic food / badger friendly honey
- New products dominant attributes
  - Convenience
  - Indulgence
  - Health

Karoo lamb: retailers and consumers perspectives

- Labelling strategies: Free range (Karoo) lamb by Woolworths and ‘Certified natural lamb’ by Checkers
- Consumer survey results
  - Limited awareness (54%), limited purchasing (37%), limited WTP a premium (15%)
  - Perceived as different but not necessarily better

Karoo lamb average hedonic scale rating scores



1=Strongly agree
2=Agree
3=Disagree

Karoo lamb: retailers and consumers perspectives

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- Consumer survey results
  - Limited awareness (54%), limited purchasing (37%), limited WTP a premium (15%)
  - Perceived as different but not necessarily better
  - Associated with 'hot', 'dry', 'dusty' and 'desolate'
  - Purchase at supermarket (82%) and at butchery (37%)
- Proactive marketing initiatives of retailers to trigger, promote and capture quality trends in their target market

Growth and retail perspective in the organic sector

- Exceptional growth
  - R5 million to R155 million between 2003 and 2005
  - Mainly attributed to major retailers
- Currently no SA legislation
  - Draft regulation but not promulgated (at WTO notification stage)
- Private certification schemes
  - Based on retailer policy
  - Combination of frequent retail audits and comprehensive third party annual inspection

Average price premiums for organic food sold at Woolworths

Food type	Price premium
Vegetables	18%
Processed dairy	28%
Mixed processed vegetables	44%
Breakfast cereals / bars	47%
Salad dressing/ mayonnaise	110%

- Relative price insensitivity segment consumer
- Minimize direct competition with conventional product lines
- More significant premiums for processed food

Consumers main motives for purchasing organic food

Purchase motives	Share of respondents in region	
	South Africa	Europe
Healthy for me	53%	41%
Better for environment	17%	19%
Kinder to animals	8%	12%

- Health as a major consumption motive
- SA: lack of availability as main reason for not purchasing (37% respondents) against 26% price

Source: Compiled from data reported in ACNielsen (2005)

Supply / demand imbalance in the organic sector

- Well-established and increasing export market
- Local demand driven by retailers

- Lack of endogenous farming movement, recent practices in commercial farming environment
- Major shift from dominant technology intensive agriculture based on economies of scale
  - Expensive shift: start-up costs, conversion and accreditation, vulnerability

Small-scale farmers' market access implications

- Potential comparative advantage: practices more aligned with organic principles
- But few initiatives
- Retail sector driven
  - Certification procedures and costs / long term commitment
  - Long term contractual arrangements with large scale farmers mostly

Conclusions

- The quality turn manifests in SA in the establishment of new certification schemes largely driven by retail sector

- Thus likely to support further development of specific arrangements between retailers and large farmers
  - More intensive management and higher information requirements

The way forward

- Strong political imperative for greater small-scale farmers' participation in markets
  - Need for further exploration of local quality trends implications and more proactive approaches
  - Potential associated with group certification and alternative marketing arrangements