

**UNIVERSIDAD DEL ROSARIO**



**DIFFERENT IMPLICATIONS FOR ENTERPRISES OF AN ORGANIC PRODUCTION**

**TRABAJO DE GRADO**

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**BOGOTA D.C**

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## **DEDICATIONS**

Primarily this project is dedicated to my family, who always support me with my challenges and objectives. They are the foundation of confidence and support that I always count for. I want to dedicate specifically to my father, who if it want for him, I wouldn't reach this major achievement.

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## **ABSTRACT AND KEY WORDS**

This paper reviews the concept of “organic”, its meaning and emphasizes a comparison with conventional goods. It develops the background of organic goods in the past 20 years, quotations different definitions of organic and developing a main definition. Also it states certain criteria and variables in order to develop a deeper business analysis. And it has the objective to define the advantages, disadvantages, key points and strategies for companies that want to venture an organic production, and if it’s recommendable to pursue. After a cross case and SWOT analysis it is possible to determine that depending of the core strategy and type of company if an enterprise can decide to venture the organic market.

### **KEY WORDS**

- Organic
- Conventional products
- Strategies
- Business Analysis



## **1. INTRODUCTION**

The production of organic goods has been a recurring fact that has a relevant influence on society and has been intensified in recent years. This can be shown by the new perception that organic goods had won in the marketplace and in the consumers' minds (Organic.org, 2010). In contrast, the production of conventional products (Mass production), performed especially in developed countries, is elaborated with the use of fertilizers and pesticides, among others, and known as "plastics" or "unnatural". Recently, it has been related organic products as "healthy" and "natural" goods, since they have a beneficial effect on health and on the environment.

In the new globalized world, consumers are becoming more conscious of the negative effects of conventional products. It is clear how demanding they have become concerning the need of a healthy product, even if it is more expensive. This represent a challenge for enterprises, it is necessary to evaluate how convenient an organic production can be and the consequences for organizations. It is of high relevance to identify the processes involved in this kind of production, the legal responsibilities, social concerns, inputs, consumers, viability, and feasibility.

Therefore, it is vital for companies and organizations to measure that kind of implementation. It has to be clear the tools and information about a green production, the benefits and challenges of implementation and also the consequences and needs that can affect the company.

The main objective of this project is to develop a business analysis, in which is defined and evaluated the implications of an organic production on a company. As a respond to the consumers need for healthier goods and natural products. It will also have the goal to define and establish variables for an organizational analysis of organic and conventional products define advantages, disadvantages, challenges of an organic production and evaluate the market share of the green products and propose recommendations for enterprises that wish to pursue an organic production.

The structure of the document will be divided in the following structure: Introduction, theoretical foundations, methodology, results, discussion and conclusions and recommendations.

## 2. THEORETICAL FOUNDATIONS (THEORETICAL FRAMEWORK)

It is highly relevant for the development of the project, to determine and state the meaning of Organic goods. It is going to be analyzed and quoted certain definitions from International Organizations and Institutions to have a general framework.

According to USDA (United States Department of Agriculture) an organic product is a good that *"... is produced by farmers who Emphasize the use of renewable resources and the conservation of soil and water to Enhance environmental quality for future generations. Organic meat, poultry, eggs, and dairy products from animals eat That Are Given no antibiotics or growth hormones. Organic food is produced without using most conventional pesticides, fertilizers made with synthetic ingredients or sewage sludge, bioengineering, or ionizing radiation. Before a product can be labeled "organic," a Government-approved certifier inspects the farm where the food is grown to make sure the farmer is following all the rules Necessary to meet USDA organic standards. Companies That handle or process organic food before it gets to your place supermarket or restaurant must be certified, too. "* (United States Department of Agriculture, 2011)

Different International Organizations refer mostly to the term "Organic agriculture", according to the International Federation of Organic Agriculture Movements (IFOAM), this agriculture *"is a production system that sustains the health of soils, ecosystems and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. Organic Agriculture combines tradition, innovation and science to benefit the shared environment and promote fair relationships and a good quality of life for all involved."* (International Federation of Organic Agriculture Movements (IFOAM), 2005)

For the Food and Agriculture Organization of the United Nation (FAO) Organic agriculture *" is a holistic production management system which promotes and enhances agro-ecosystem health, including biodiversity, biological cycles, and soil biological activity. It emphasises the use of management practices in preference to the use of off-farm inputs, taking*

*into account that regional conditions require locally adapted systems. This is accomplished by using, where possible, agronomic, biological, and mechanical methods, as opposed to using synthetic materials, to fulfill any specific function within the system."* (Food and Agriculture Organization of the United Nations (FAO), 1999)

In order to have a common definition of organic goods for the project it is going to be used the following: *an organic good is produced without using most conventional pesticides, fertilizers made with synthetic ingredients or sewage sludge, bioengineering, or ionizing radiation.*

*The (only) difference between organic and conventional food is the way how the food has been produced and processed. For instance, the use of fertilizers and pesticides is restricted in organic production* (EUFIC, 2015). According to this, a conventional good is product that in its process or production it is used

The USDA (United States Department of Agriculture) established certain parameters and requirements that had to be verified and accredited by a third-party. This has to be done in order to label a product as "organic". The use of synthetic fertilizers, pesticides, herbicides, irradiation, sewage sludge, hormones, antibiotics and genetic engineering is strictly prohibited (New Frontiers Natural Marketplace, 2012).

USDA organic products have strict production and labeling requirements. The products must meet the following requirements: They have to be produced without excluded methods, (e.g., genetic engineering), ionizing radiation, or sewage sludge, produced per the National List of Allowed and Prohibited Substances and the company has to be overseen by a USDA National Organic Program-authorized certifying agent, following all USDA organic regulations (United States Department of Agriculture, 2011).

The health risks associated with exposure to pesticides is one of the main considerations when looking at the differences between organic and conventional food (U.S Environmental Protection Agency EPA, 2014). According to the Environmental Protection Agency (EPA) considers that many pesticides that were approved by the Institution are potential cancer causing or are linked to the developing of the disease.

Another factor that people sometimes consider when looking at differences between organic and conventional food is the nutritional value (U.S Environmental Protection Agency EPA, 2014). There is a lot of conflict between scientists, as some of them agreed that organic food is richer in nutrients like organic acids and polyphenolic compounds, but there are other studies that contradict this premise.

Finally, to the casual shopper it may appear that one of the biggest differences between organic and conventional food can be found on the price tag, however, it is important to realize that the true cost of food is not necessarily the price listed on the price tag (U.S Environmental Protection Agency EPA, 2014). There are other cost associated with the production of organic food like: the amount of money that consumers pay on water bills in order to cover the cost of getting agricultural residues out of drinking water, the cost of health care associated with an increasing number of food-related illnesses, and the amount of money that consumers pay in taxes to subsidize large farming operations and to fund governmental agencies that work to protect wildlife and repair their habitats.

According to *food-safety-and-you* conventional farming (procedure) *uses scientific and technological developments to grow food for human or animal consumption. This includes (but is not limited to): use of chemical fertilizers, chemical pesticides, chemical weed killers.* (food-safety-and-you, 2013).

Industrialization came along and decided traditional farms were inefficient. Like factories, industrialists thought they could increase production. Instead of planting different kinds of crops, they thought they'd just plant one type (corn, for example) on a large tract and be super-efficient about it. Companies added chemical fertilizers to make the crops grow faster, and herbicides/insecticides to reduce pests. The real problem is, the chemicals and just the one crop stripped the soil of its nutrients, so even more chemicals had to be added to make the same land grow as much. This creates a huge environmental problem with all the chemicals, and lots of people can't eat those chemicals (Mindful eats, 2010).

The World Health Organization (WHO) has developed a CONPES that describes the different and mandatory standards for an organic production. In the document, there are different sections and requirements such as Labelling and claims, Rules for production and preparation, Inspection and Certification Systems. It provides a general view for an eco-production and key points for the companies (World Health Organization WHO, 2007).

Different articles give a reference for the main goal of the project, with similar conditions and resources. An article called “*How can the sales of green products in the Brazilian supply chain be increased?*” works with the term “green” or “organic” and it states the eco-production in the Brazilian environment. It also positioned the different needs and requirements for a Brazilian company to increase or at least motivate the green production in the country. Tasks and conditions like sales, suppliers, distribution, advertising, technical support, and advertising are identified and analyzed for a competitive plan of action. The drivers and barriers for the “green” products are also a significant point treated in the discussion. This can offer a similar position and perspective for a Colombian production, as both countries share similar conditions, needs, technical factors, barriers, among others, and it is possible to define a precedent for a South American manufacture (Tomasin, Medeiros Pereira, Borchardt, & Sellitto, 2013).

An article called “*Resource-constrained product development: Implications for green marketing and green supply chains*”, approaches how the green marketing have matured over the past few decades. Also it state that the innovation process relies primarily on frugal engineering that reduces material use and meets green marketing objectives at much lower, and therefore, more affordable prices (Sharma & Gopalkrishnan R., 2012) .

In today’s world, the need of a more ecofriendly system has gain a significant position around the world. For many companies, the production of organic goods is an unknown process with many issues and difficulties The implications for a company in the processes involved have different restrictions, norms, and standards to be fulfilled. The main issue for enterprises is the lack of information and the nonexistence of experience in this type of production (United States Department of Agriculture, 2011). Producers are turning to certified organic farming systems as a potential way to lower input costs, decrease reliance on nonrenewable resources, capture high-

value markets and premium prices, and boost farm income (United States Department of Agriculture, 2011).

The development of Organic food in Colombia began by the end of the 1980s. It was favored by the work of organizations with social consciousness and sensibility, which enhanced information flows, rural education, and internal organization for marketing, management and in some cases relation to international development support agencies (European Network of Organic Agriculture Students ENOAS, 2005).

There is inequality of land tenure in Colombia. In the year 1988 a million peasant units, 62,4% of all agricultural properties held only 5.2% of the area farmed; the mean size of the parcels was 1,2 ha. These small farms are often on eroded, sloping and not very fertile land. Some forced displacement caused by social and armed conflict cause the abandonment of the production units and migrations. Because of internal political decisions on food imports and the fall of coffee prices, a lot of peasants were ruined or lost their jobs (European Network of Organic Agriculture Students ENOAS, 2005).

The first resolution on Organic food appeared with the number 0544 from December 21/1995. As the possibility to export organic products with better prices was recognized by the government some political regulations were issued and the resolution from 1995 was replaced by the resolution 0074 from 2002. New resolutions related to organic production, transformation and commercialization were created. Examples are the resolution 00150 from year 2003 concerning soil conditioners and fertilizers, the resolution 00375 from year 2003 for vegetable extracts and biological components, the resolution 00148 from year 2004 creating the national ecological seal and giving the right to use and manage it to certification agencies (European Network of Organic Agriculture Students ENOAS, 2005).

In Colombia, the organic production has suffered different changes in the last years. Until the middle of the last century, Colombia had almost entirely organic production. During the Eduardo Santos 'government it was accepted the policy of promoting agricultural development through modernization and technological improvement of the field. In 1950, the Rockefeller Mission created the DIA (Departamento de Investigaciones Agrícola), where it was founded the

ICA (Instituto Colombiano Agropecuario) that implements the agrochemical technology (Bio Plaza , 2008).

To consolidate national production of goods, which contribute to the improvement of ecosystems, the government regulated the organic production in 1995, presented national Biodiversity policy in 1997 and proposed the Green Market National Plan. It's vision for 2002 - 2012, was to be the leading producer and marketer of Latin America, with 10% of the agricultural area devoted to organic production (Bio Plaza , 2008).

Colombia offer mainly Coffee, Buffalo meat, Palm oil and Panela, but the potential of the organic range is very large, as it can produce most of the conventional goods and there are endemic and exotic species that are very promising in the world market. (Bio Plaza , 2008)

The export quantities have increased in the last years from 4 million US dollar in 1998 to 19 million US Dollar in the year 2002. Today, Colombia has 37000 ha certified as organic. The exporters are private and associate Colombian producers. In the domestic market the prices of organic products are sometimes more than twice the price of non-organic products. Some brand names have been created to sell organic products. Products mainly for the domestic market are: buffalo milk, meat and cheese, cow milk, eggs (European Network of Organic Agriculture Students ENOAS, 2005).



### **3. METHODOLOGY**

The main steps in this project are: literature review, definition and application of criteria and variables and finally discussion and results. The literature review phase involves the determination of appropriate information and tools that describes the processes in an organic production. It can include a wide definition of Organic goods and agriculture, also the International Standards to follow, published articles with key points in discussion. The definition of criteria and variables phase is focus on the main goal that is to determine the key variables and criteria to execute an organizational analysis of an organic good. In the application of criteria and variables phase is vital to apply the chosen criteria for the business analysis, considering the definitions already defined. And finally the discussion and results phase is the last step of the project, which objective is to establish results and recommendations for an organic production.

#### **3.1 LITERATURE REVIEW**

The development of the research was organized in different bullets. First it was important to determine the definitions of organic goods and conventional goods, this guided by different organizations and international institutions. The second bullet focused on the International standards that International organizations gives to this green products, as these have to have preparations and procedures for its production. This is highly important as this marks the difference between a conventional good and a green product. The actual market doesn't know and is not aware of the implications of this kind of production.

The third bullet explored was the definition and development of an eco-production, the different impact that it had been seen in the last decades, as the companies around the world usually use this kind of production and are not aware of this procedure.

The last bullet is mainly the impact that an Eco production has over the Colombia agriculture. This is an important issue as in the country the new advanced procedures with

different chemicals and pesticides, has been used at least in the past ten years. Also there are several products and goods that can be a large organic range for the country.

### 3.2 DEFINITION OF CRITERIA AND VARIABLES

In order to continue with the business analysis it is necessary to determine the critical variables for the study. In the table below, it is possible to find the variables that were selected as relevant for the investigation and comparison, (see table 1):

Table 1 *Definition of variables for the case study*

<b><u>Conventional Good</u></b>	<b><u>Organic good</u></b>
<i>Definition:</i> statement of the exact meaning of a word and its implications (Real Academia Española (RAE))	Definition: statement of the exact meaning of a Word and its implications (Real Academia Española (RAE))
Quality: the standard of something as measured against other things of a similar kind; the degree of excellence of something (Real Academia Española (RAE))	Quality: the standard of something as measured against other things of a similar kind; the degree of excellence of something (Real Academia Española (RAE))
Price: the amount of money expected, required, or given in payment for something. Defined depending on the cost of production and market (Real Academia Española (RAE))	Price: the amount of money expected, required, or given in payment for something. Defined depending on the cost of production and market (Real Academia Española (RAE))
Production: the action of making or manufacturing from components or raw materials, or the process of being so manufactured (Real Academia Española (RAE))	Production: the action of making or manufacturing from components or raw materials, or the process of being so manufactured. This is focus on a eco-friendly process, produced with natural resources and without using pesticides, fertilizers bioengineering, or ionizing radiation. (Real Academia Española (RAE))
	Eco-friendly: not environmentally harmful (Merriam Webster)
	Environment effect: the result of environmental impacts on human health and welfare (Environment Statistics, 1997)

*Source: Elaborated by author*

These variables are going to be used as parameters of comparison with the terms conventional and organic goods. The elements in discussion will give deeper results and recommendations for an organic production according with the market.

### **3.3 APPLICATION OF CRITERIA AND VARIABLES**

The application of criteria and variables defined in the last bullet are going to be seen in the discussion that is going to be performed in the last part of the project. For that reason it was highly relevant to determine and define these criteria in order to have a more efficient analysis. Also is going to be considered the different implications of the conventional goods and organic goods, in the variables defined.

### **3.4 DISCUSSION AND RESULTS**

The last phase is discussion and results that is the more important part of the project. In this phase it is going to be identified the main differences, advantages, disadvantages, effects and strategic decisions of an organic production. This going to be performed with variables already identified with supports of the Theoretical framework that was established in the beginning of the project. Also it is going to be performed a SWOT study of an organic productions developing the implications of this kind of production

## 4. RESULTS

This section it is going to be developed in three parts in order to have a deeper analysis. The three sections are Cross Case Analysis, advantages and disadvantages, and finally potential variables. In the first section it is going to be established a cross case analysis with the variables defined in the methodology. In the second section it is going to be made a comparative between the advantages and disadvantages of an organic production. And in the last section it is going to be studied potential variables like marketing, consumption patterns, and price difference.

### 4.1 CROSS CASE ANALYSIS

During the investigation it was found different criteria between conventional and organic goods. In the variables that were established in the study it was possible to develop a cross case analysis between an organic and conventional good. This is shown in the table 2.:

Table 2 *Results of the cross-case analysis of organic and conventional goods.*

Topic	Conventional good	Organic good	Mainly differences and points
<i>Definition</i>	Conventional good is a product that in its process or production it is used some type of chemical as pesticides and fertilizers.	Organic good is produced without using most conventional pesticides, fertilizers made with synthetic ingredients or sewage sludge, bioengineering, or ionizing radiation.	The way how the food or goods have been produced and processed
<i>Quality</i>	Conventional goods usually trend to have a different quality compare with organic goods. Its standars and parameters are measured differently.	Consumers expect a higher health and nutritional quality from organic produce, and there have been many studies comparing crop quality obtained from the organic system and others, such as integrated or conventional ones. Organic food products must meet the same standards that apply to non-organic foods, but the organic food products must meet an additional set of standards that do not apply to non-organic products	A true comparison of the quality, safety and health effects of food from different production systems can only be achieved by an integral holistic approach which also considers other important health-related aspects, such as pesticide residues, nitrates, artificial additives etc. The focus on quality has to be represented by quantifiable and measurable parameters, but now attention is increasingly being paid to a more comprehensive holistic approach.

<i>Price</i>	Although the uncertified produce does not benefit from price premiums, some cases have been documented where non-certified organic agriculture increases productivity of the total farm agro-ecosystem, and saves on purchasing external inputs. In developed countries, non-certified organic food is often sold directly to consumers through local community support programmes such as box schemes, farmers markets and at the farm gate.	<p>Certified organic products are generally more expensive than their conventional counterparts</p> <ul style="list-style-type: none"> <li>•Organic food supply is limited as compared to demand;</li> <li>•Production costs for organic foods are typically higher because of greater labour inputs per unit of output and because greater diversity of enterprises means economies of scale cannot be achieved;</li> <li>•Post-harvest handling of relatively small quantities of organic foods results in higher costs because of the mandatory segregation of organic and conventional produce, especially for processing and transportation;</li> </ul>	<p>Prices of organic foods include not only the cost of the food production itself, but also a range of other factors that are not captured in the price of conventional food, such as:</p> <ul style="list-style-type: none"> <li>•Environmental enhancement and protection (and avoidance of future expenses to mitigate pollution).</li> <li>•Avoidance of health risks to farmers due to inappropriate handling of pesticides (and avoidance of future medical expenses);</li> </ul>
<i>Production</i>	Conventional farming, also known as industrial agriculture, refers to methods of farming in which include the use of synthetic chemical fertilizers, pesticides and herbicides and genetically modified organisms	An overall system of farm management and food production that combines best environmental practices, a high level of biodiversity, the preservation of natural resources, the application of high animal welfare standards and a production method in line with the preference of certain consumers for products produced using natural substances and processes	Consumers see value in organic food products because they are created using production methods that do not contribute to, or have a lesser contribution to, many of the negative environmental and health externalities associated with conventional food production
<i>Eco-friendly</i>		Eco-friendly means earth-friendly or not harmful to the environment	<p>This term most commonly refers to products that contribute to green living or practices that help conserve resources like water and energy. Eco-friendly products also prevent contributions to air, water and land pollution. You can engage in eco-friendly habits or practices by being more conscious of how you use resources.</p>
<i>Environment effect</i>		The result of environmental impacts on human health and welfare	

*Source: Elaborated by author*

In the first topic it is possible to observe the main difference between an organic and conventional good. Basically, is the way how the food have been produced and processed. For organic products the use of pesticides, fertilizers, bioengineering are strictly forbidden.

In the second bullet it is possible to analyze the differences and key points of quality of conventional and organic goods. A key point is the consumer perception of quality of organic goods, as they expect higher nutritional and health quality. It is also important to state that there are certain parameters and standards that enterprises need to fulfill in order to meet an organic label.

The third aspect analyzed is price, and it is one of the most relevant one. As the cost of production of organic goods is higher than conventional products the final price for consumers

increase in a significant amount. There are also non-quantifiable factors that add value to organic goods production such as environmental effects and avoidance of health risks.

The fourth topic refers directly to the production of the two kinds of goods. It states that the conventional farming uses methods that include fertilizers, chemicals, and pesticides. Very different from organic production, that does not use this kind of chemicals but combines best environmental practices, a high level of biodiversity, the preservation of natural resources, the application of high animal welfare standards and a production method in line with the preference of certain consumers.

The fifth and sixth topic emphasizes mostly in organic goods. The environmental effect that these products cause is a deal breaker for consumers. They feel that they contribute to maintain a sustainable environment buying this kind of products. Also, the name eco-friendly is very used among these days, as been considered something good and helps the environment.

## 4.2 ADVANTAGES AND DISADVANTAGES

With the findings in the section above it is possible to identify several advantages and disadvantages of an organic production. In order to identify and clear up this point it will be divided in the table 3.:

Table 3 *Advantages and disadvantages of an organic production*

Topic	Organic production/agriculture				
Advantages	<b>Sustainability over the long term .:</b> Organic agriculture takes a proactive approach as opposed to treating problems after they emerge.(Food and Agriculture Organization of the United Nations (FAO), 1999)	<b>Water:</b> Well managed organic systems with better nutrient retentive abilities, greatly reduce the risk of groundwater pollution. (Food and Agriculture Organization of the United Nations (FAO), 1999)	<b>Air and climate change.</b> Organic agriculture reduces non-renewable energy use by decreasing agrochemical needs (these require high quantities of fossil fuel to be produced). (Food and Agriculture Organization of the United Nations (FAO), 1999)	<b>Biodiversity:</b> Organic farmers are both custodians and users of biodiversity at all levels. (Food and Agriculture Organization of the United Nations (FAO), 1999)	<b>Ecological services:</b> The impact of organic agriculture on natural resources favours interactions within the agro-ecosystem that are vital for both agricultural production and nature conservation. (Food and Agriculture Organization of the United Nations (FAO), 1999)

Disadvantages	Higher costs involved in the process. National Rural Ecology Centre, 2009)	Costs are passed on to the consumer making organic food more expensive to buy than conventionally produced food. National Rural Ecology Centre, 2009)	Organic farming requires far more land to grow the same amount of produce as conventional farming does, because chemicals are not used to produce high yield crops. National Rural Ecology Centre, 2009)	Organic food is the limited selection of organic products available in some areas. National Rural Ecology Centre, 2009)	Certain people that can afford to buy organic foods are unable to get organic food of their choice due to scarcity of organic foods in such areas. National Rural Ecology Centre, 2009)
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**Source:** (Food and Agriculture Organization of the United Nations (FAO), 1999); (National Rural Ecology Centre, 2009)

Food and Agriculture Organization of the United Nations (FAO). (1999). *Food and Agriculture Organization of the United Nations for a world without hunger*. Retrieved from Food and Agriculture Organization of the United Nations for a world without hunger:

<http://www.fao.org/organicag/oa-faq/oa-faq1/en/>

National Rural Ecology Centre. (2009). National Rural Ecology Centre. Retrieved from National Rural Ecology Centre: <http://www.nrec.org.uk/organic-farming/>

Basically the main advantages have to do with the environmental effect and eco-friendly variables that were discussed in the previous section. This can be a key point in order to achieve a new target market and more brand loyalty. This can be an action plan for enterprises that still haven't established its core strategy and business.

There are certain disadvantages for an organic production. The main one are the high costs in production compared with a conventional production. Economies of scale cannot be achieved as the complex and rigorous process of production. The large amount of land in order to produce and the limited accessibility for consumers that want to buy organic food are factors also to be considered before entering into the market.

### **4.3 POTENTIAL VARIABLES**

For an organic production there are certain variables it is necessary to consider. First of all, there is the marketing strategy that a company can approach. It is clear that this kind of products demand a specific kind of marketing and expansion, the conventional food marketing strategy cannot adapt that easily to that kind of products.

Farmers that transition to organic production must also transition their marketing strategies. Whether growing organic grains, herbs, fruits and vegetables, or raising organically certified livestock, marketing becomes an additional consideration (Halman, n.d).

Taste has change and consumers too. Different factors affected the consumers such as family structure, aging, income, new technologies and evolving lifestyles. For this reason, in order to have an organic marketing approach it is necessary to play and adapt the consumer perception of organic products. Consumers want products raised or produced in ways that they perceive will enhance their personal health, rural communities and the natural environment (Halman, n.d).

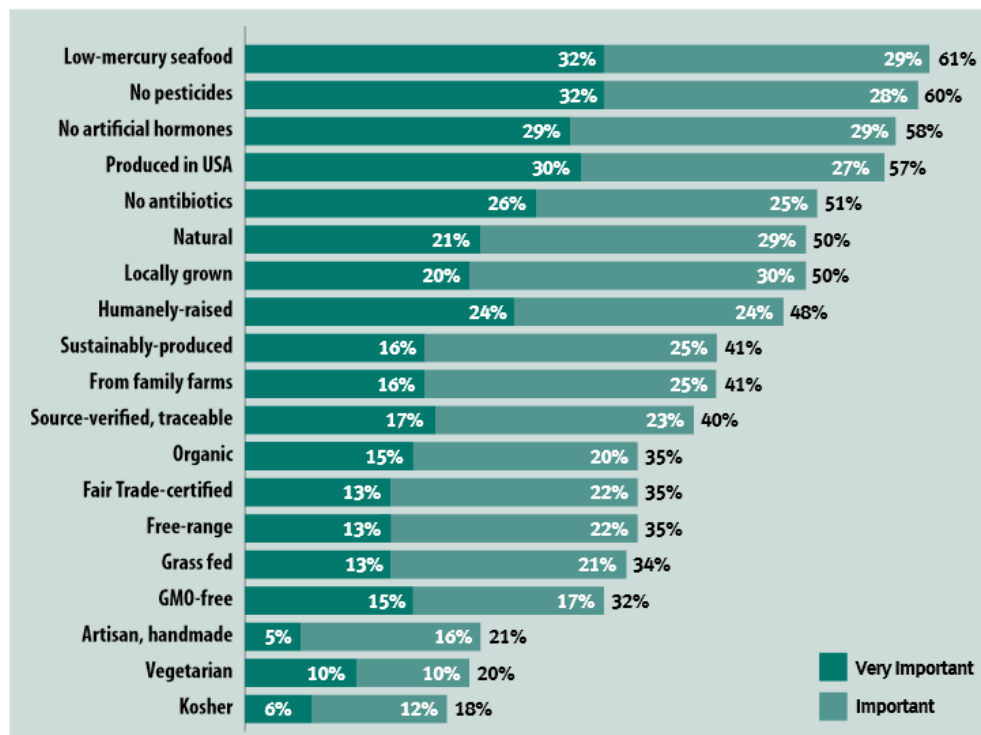
According to the paragraph above in order to develop a creative marketing plan it is necessary to first define how it going to be marketed the product and second establish the niche market that are going to be approached. The way the organic goods are going to be marketed depends of the channels that are going to be used: direct markets (online and farmers market), retail, wholesale, among others. For an organic good it is recommendable to use a direct market as many customers like to get “in touch” with their food supply and the supply chain costs decrease considerable (Halman, n.d).

The market niche defines the product features aimed at satisfying specific market needs, as well as the price range, production quality and the demographics that is intended to impact. According to Natural Marketing Institute 63% of consumers are willing to pay a slightly higher price for products that were produced with environmental responsibility if benefits are clearly demonstrated (Natural Marketing Institute, 2006).



The consumer's pattern is another variable that is necessary to consider. Food safety clearly tops the list of consumer concerns about food quality. The claims consumers found most meaningful have to do with the things consumers do not want to see in their food such as mercury, pesticides, hormones and antibiotics (see figure 1). Consumers also care where their food is produced, which is most likely a result of their assumption that origin influences safety. According to the figure below, retrieved from Research Report of Context Marketing, consumers identify the most important issues related with organic production.

Figure 1 “Following are claims you may see on a food package or menu that implies a food is healthier, safer or produced to higher ethical standards. Please rate how important these claims are to you.” (Claims rated “very important” and “important”)



Source: (Context Marketing, 2009)

Context Marketing. (2009). Beyond Organic. How Evolving Consumer Concerns Influence Food Purchases. Context Marketing.

It is important to note that price remains a very important purchase factor, even among more affluent consumers. Low price is important, but many consumers will pay more for quality.

## 5. DISCUSSION

In this section is going to be explored and studied the results acquired in the last section. It is going to be divided in two sections: SWOT Analysis and strategies. The first section is focused on an analysis of strengths, weaknesses, opportunities and threats of organic productions and its implications. The second section is focused in on the main strategies that an organization should consider before venturing in an organic production.

### 5.1 SWOT ANALYSIS

In this section it is mandatory to evaluate the results obtained in the section above in order to define what types of strategies are going to be used if an organization decides to pursue an organic production. And if it's the case (organic production) establish the action plan and tactics that an enterprise must follow to have a competitive advantage.

Due to strategic planning is based in core variables including strengths, weaknesses, opportunities and threats, the next step is to develop a SWOT analysis including the cross case analysis and variables (see table 4):

Table 4 *SWOT Analysis*

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• Organic production quality perception of consumers is better than a conventional good</li><li>• Added value to the consumer</li><li>• Long-term sustainable production</li></ul>	<ul style="list-style-type: none"><li>• Higher production cost so higher prices for consumers</li><li>• Limited supply due to the complex production</li><li>• Higher labor cost</li><li>• Limited distributions channels</li><li>• It's not possible to achieve economies of scale/ High certification Standards</li></ul>

	for an organic production
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Potential foreign markets entry</li> <li>• Few competitors in the sector</li> <li>• Different entities provide guidance and support to organic production firms</li> <li>• Some financial institutions support organic production</li> <li>• The market share of organic goods is increasing</li> <li>• Media broadcasting of organic goods</li> <li>• New technological achievements reduce marketing and production costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of information and guidelines of organic production</li> <li>• It's a uncertain market</li> <li>• Insufficient organic raw material</li> </ul>

*Source: Elaborated by author*

Summarizing the table above the organic production quality perception, higher production cost so higher prices for consumers, potential foreign markets entry, lack of information and guidelines are the main strengths, weaknesses, opportunities and threats of an organic production. There are several points where a company can achieve a competitive advantage and pursue a new kind target market.

In the other hand, the type and strategic plan of an organization are important factors to consider once the firms decide to pursue an organic production. In some cases big established companies can adapt their strategic plan to include some new organic products for small target markets. This can be a great approach to organic production in a small sector since economies of scales are not suitable for a bigger organic market.

## 5.2 STRATEGIES FOR AN ORGANIC PRODUCTION

According to the SWOT Analysis the next step is to select a business strategy for new enterprises that want to pursue an organic production. In the same way well-known companies can find in the organic production the white spot in a crowded market through a differentiation strategy.

In accordance with Michael Porter there are three competitive strategies that are Cost Leadership, Differentiation and Focus. In cost leadership, a firm sets out to become the low cost producer in its industry. In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. And finally the generic strategy of focus rests on the choice of a narrow competitive scope within an industry (Porter, 1985).

Some of the main reasons to consider a differentiation strategy are the following:

- Organic product consumers are willing to pay more since they see added value and better quality in the goods.
- Developing an organic production enable the company to acquire a distinctive value as unique technical expertise
- Achieve consumer loyalty and maintain it
- Due the quality and consumer perception it is possible to establish branding loyalty
- Due to the few competitors it is possible to gain a potential market share
- Due to the strict requirements and parameters to gain the label of organic product, its not easy for any competitor to enter the market

It is relevant to state that it's not only important to have or to establish the differentiation strategy but also consider if the firm it's organized and available to exploit the resources and capabilities to achieve a sustainable value through an organic production.

The choice of market strategy determines the selection of the certification scheme to be followed. The choice could be domestic or export markets. In the domestic markets, there are various channels for organic produce, including direct membership schemes, weekly markets and

fairs, occasional markets, retail health shops, specialized health supermarkets, modern trade supermarkets and even organic restaurants. In the organic fragrant rice cases, the stakeholders participating in the supply chain are similar: farmers, the processor, the exporter or development program, certification agency, and the importing country (Santacoloma, n.d). A great example of this is the Organic Valley; this is the largest organic farmer-owned cooperative in North America.

Organic Valley's strong financial performance is largely due to the success of its dairy pools, as well as the combination of competent leadership and CROPP's historical timing. Developed in the late 1980s and early 1990s, the Organic Valley brand was well positioned to ride the 22 percent plus growth rates that organic food sales generated beginning in the late 1990s and continuing to the present (Stevenson, 2013).

Certain companies have achieved a considerable market share in the organic market and are enterprises that have achieved a success mark. Companies with market caps of more than \$5 billion, like WhiteWave Foods and General Mills, have acquired multiple organic food producers over the years, giving them a fair portion of the organic market share. WhiteWave Foods owns two giants in the organic goods space. The first is Horizon Organic, which holds 4.2 percent of the organic market share (the most of any single brand). Horizon traditionally makes milk, cheese and other dairy products, but has expanded its product offerings to include snack crackers and macaroni and cheese (Valleskey, 2014).

WhiteWave also acquired Earthbound Farms. This California-based organic food producer mainly offers fruits, vegetables and salad greens, but also offers herbs and snacks like cookies and granola. Earthbound has about 1.2 percent of the organic market share, giving WhiteWave a combined 5.4 percent of the total market share. While General Mills is mostly known for its cereals, baking goods and snacks, it also owns a couple companies with a decent amount of the organic market share. Cascadian Farms balances out sugary cereals from General Mills with healthy, organic cereals and granola bars. The Washington-based company also offers frozen fruit, vegetables and potatoes, as well as fruit spreads, juice concentrates and relish (Valleskey, 2014).

In order to have a deeper analysis it can be beneficial for the study to examine another company that its process of production is conventional. Nestle is multinational company that sells different kind of food. It has achieved economies of scale in its large process of production and its processes include some kind of fertilizers and pesticides (Koltrowitz, 2013). The consumer perspectives refer to a lower perception of its products (compared with organic) but still have a brand loyalty and positioning. Its prices are relative lower that an organic production since its production cost is lower (Koltrowitz, 2013).

The proposal of the project is to perform a business plan before venturing the organic market. First, it is mandatory de develop a PESTLE analysis of the sector, where factors: Political, Economic, Social, Technological, Legal and Environmental need to acquire a deeper approach of the organic market. Second, it is mandatory to establish the objectives for venturing the organic market and the action plan that is going to be achieved in order to penetrate the target markets defined. For this it is necessary to establish the financial approach, background and investment options.

Third it is necessary to establish what kind of product it is going to be commercialized, when this is decided it is necessary to apply the 4P's of the marketing mix study and explore the certifications and global requirements for an organic label.

Fourth, the organization and management are key points for an enterprise to achieve success. It is a competitive advantage to establish an organization and management structure that fits best the objectives and action plan of the company.

Fifth, it is necessary to establish the marketing and sales strategies that can adjust better to the kind of product that it is going to be commercialized. As it was said before the differentiation strategy of Porter is great opportunity to penetrate the market. And finally, for this business to have success it will be recommendable to perform financial projections of this entry.

In order to visualize this steps more clearly it is going to be summarized in the table 5.:

Table 5 Steps that a Company should follow in order to penetrate the organic market

<b>First step: PESTLE analysis</b>	Factors like Political, Economic, Social, Technological, Legal and Environmental need to acquire a deeper approach of the organic market
<b>Second step: Objectives</b>	For venturing the organic market and the action plan that is going to be achieved in order to penetrate the target markets defined.
<b>Third Step: Define the organic product and its marketing mix. Global certifications</b>	It is necessary to establish what kind of product it is going to be commercialized, when this is decided it is necessary to apply the 4P's of the marketing mix study and explore the certifications and global requirements for an organic label
<b>Fourth step: Organization and management</b>	These are key points for an enterprise to achieve success. It is a competitive advantage to establish an organization and management structure that fits best the objectives and action plan of the company
<b>Fifth step: Marketing and sales strategies</b>	It is necessary to establish the marketing and sales strategies that can adjust better to the kind of product that it is going to be commercialized
<b>Sixth step: Financial projections</b>	It will be recommendable to perform financial projections of this entry

*Source: Elaborated by author*

## 6. CONCLUSIONS AND RECOMMENDATIONS

During the developing of the study it was possible to establish different conclusions. For instance, the definition of an organic product it was vital for the business analysis, as many people do not know the meaning of organic, they usually associate with “healthy” or “natural”. So it was possible to define an organic product as a good that in its process of production wasn’t used any kind of pesticides, chemicals, fertilizers and bioengineering.

Industrialization was a response of the inefficient traditional farms and processes. The organic production was set aside mainly because it was costly and did not achieve economies of scale so its cost of production was higher. In recent years the consumers are demanding organic products and are willing to pay a higher price, in order to contribute with the environment, welfare and human health.

In Colombia the main agriculture was organic in the past ten years, but in response of the market it was modified and adapted with new industrialized processes. Since the economy is based mainly in agriculture, this has caused an increase in unemployment and migration to the big cities. Colombia has a great opportunity to venture in organic production as it has the climate, land, labor, raw materials and experience.

The variables that were more significant in the cross case analysis were quality, price and production. It’s a fact that consumers’ minds and opinions influence the market and its needs, so organic products had achieved relevance really high in today’s world, despite the higher costs and its limited accessibility.

According to the SWOT analysis that was developed in the business analysis, there are several opportunities and strengths that a company can have if it decides to pursue an organic production. Factors like few competitors in the sector, market share increasing, new technological achievements reduce marketing and production costs are a great example of the different opportunities. But it is important to state that there are several weaknesses and threats in this new market such as higher labor and production costs, lack of information and guidelines of



organic production, uncertain market, among others. So it is of high relevance to take into account this before entering into the market.

According to the paragraph above it is necessary to establish the core business and aligned strategies when an enterprise is considering entering in the market of organic goods. As it was discussed, a competitive strategy to penetrate this market is the differentiation strategy. As this is a small and uncertain market, the processes are difficult to imitate, and there is a difficult entry for globalized companies among other reasons.

As a recommendation, based on the opportunities and threats organic production involves a PESTEL framework could give us new insights (PESTLE ANALYSIS, 2015). For a specific industry is also recommendable use the Michel Porter five forces analysis in order to identify the main concerns and priorities an enterprise new in this market should consider (Porter, 1985).

To conclude this paper, before venturing this market it is necessary to develop an internal business analysis of the company, design and evaluate strategies and establish what kind of enterprise is.

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