Marketing organic olive oil: from fork to field

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Abstract. In this paper we illustrate the use of concept of business model as a tool for a successful fork to field approach in marketing organic extra virgin olive oil (EVOO). Two case studies help understanding the potential of business model generation to successfully creating and delivering value to the company and its customers. Lack of information and market transparency makes it very difficult for farmers and distributors to make efficient strategic marketing plans on organic EVOO. The proposed tools to design business models may help to reduce the risks and further develop the organic EVOO market.

Keywords. Organic olive oil – Marketing – Business model.

I – Introduction

The market for organic olive oil combines the premium characteristics of extra-virgin olive oil (EVOO) with those of organic certification. By legal definition, organic olive oil may solely be extra-virgin, so when we speak of organic olive oil we actually speak of organic EVOO.

No reliable figures currently exist on the global market of organic EVOO.

With respect to land area, in 2010 organic and in-conversion olive plantations covered 491,400 hectares, about 5.3% of total olive-planted area (Research Institute of Organic Agriculture FIBL, 2012). In 2000, the area was only just a little less than 206,000 hectares (IOBOOO, 2012). Apart from these basic figures, few data exist on the market.

In Germany, the GfK household panel reports –in 2011– 5,096 litres of organic EVOO purchased, for a total household purchases of 23,134 euros. The value market share is 15.2% while the volume share is 16.6% –quite an impressive market– and the growth rate is 3.1%. Surprisingly, in Germany organic EVOO appears to be cheaper –on average– than conventional EVOO (Schaack, 2012).

In Italy, while organic food supermarket sales grew 8.9% in 2011, sales of organic vegetable oils (including EVOO) decreased of 18% with respect to 2010, representing a market share of only 1.7% (ISMEA, 2012). At the same time, ISMEA (2011) reported that organic EVOO sales grew up of 10.4% in 2010.

Sparse information exists on other countries.
If little market data exist, even less is known about more modern marketing channels and business models. Performing a Google search on "organic olive oil" combined with "e-commerce" yields 14,300 results, while the same search without the word "organic" yields 466,000 results. With large approximation, we can conclude that organic olive oil e-commerce operations are about 3% of total olive oil e-commerce, but we ignore the overall sales volume and value of organic EVOO e-commerce.

Lack of information and market transparency makes it very difficult for farmers and distributors to make efficient strategic marketing plans on organic EVOO. In this paper we will present a method and some tools to design business models for the future of the organic EVOO market, and will show the risks embedded in making plans without fully acknowledging the risk of operating in a niche market with high uncertainty and low transparency and without taking in consideration consumer needs. For successful marketing of organic EVOO, a company should have clear for whom is creating value and how this value can be created in a profitable way. We will show how the concept of business model may help a company to be customer focused, in order to generate a value proposition that targets the needs of the final consumers. In other words, business model is a tool for a successful from fork to field approach, and we will illustrate its usefulness in two case studies applied to organic EVOO.

II – Background

No generally accepted definition of a business model exists. Apparently the first authors to use the term were Bellman et al. (1957), but its popularity is much more recent (Osterwalder et al., 2005). Table 1 report the occurrences of the term "Business Model" found in SCOPUS, one the largest abstract and citation database of peer-reviewed literature. The first occurrence in the Source Title was in 1985, while in the Abstract was in 1975 (not reported in the table). Globally we counted 1524 occurrences (of which 1492 after 1999) in the Title and 8049 in the Abstract (7102 after 1999). The recent exponential growth of academic interest on the topic is quite evident.

In the last decade, three studies attempted to review the existing definitions and propose integrative frameworks for characterizing the business model concept. Shafer et al. (2005) reviewed 12 different definitions of a business model, and found 42 different components across these definitions, that were classified in four basic clusters: Strategic Choices, Value Network, Create Value, Capture Value. Out of this analysis, Shafer et al. (2005) proposed the following (unifying) definition of a business model: a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.

According to Morris et al. (2005), the business model is distinguished but related to other managerial concepts e.g. business plan (which is more operational) and strategy (strategic elements are part of the model). By reviewing 30 definitions in 19 studies (seven of which supported by empirical evidence in the form of surveys or case studies) they proposed a framework composed of six basic components, each addressing a key question: (i) How will the firm create value?; (ii) For whom will the firm create value?; (iii) What is the firm’s internal source of advantage (core competencies)?; (iv) How will the firm position itself in the marketplace?; (v) How will the firm make money?; and (vi) What are the entrepreneur’s time, scope and size ambitions?

Osterwalder et al. (2005), in their ontological paper on the business model concept, review the literature on business models and perform a survey on 62 practitioners, to conclude that a lot of the confusion about business models "stems from the fact that when different authors write about business models they do not necessarily mean the same thing". They therefore produce a classification of the literature in three different categories of business model conceptualization that they consider hierarchically linked to one another. These three levels of the business model
concept define a business model as: (i) an abstract overarching concept that can describe all real world businesses; (ii) an abstract taxonomy of different types of business, each model describing a set of businesses with common characteristics; and (iii) a conceptualization of a particular real world business model.

Table 1. Occurrences of the term "Business Model" in peer-reviewed literature

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Source: SCOPUS database (1985-2011)

These different concepts, although distinct, compose a business model concept hierarchy as depicted in Fig. 1.

On the basis of this hierarchical approach, Osterwalder et al. (2005) propose the following definition of a business model:

_A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams._

In a way similar to Shafer et al. (2005), they review the 15 most quoted studies and consider the business model components mentioned by at least two authors. They purposely exclude all
elements related to competition and to business model implementation, which they consider related but external to the business model. They end up with 9 building blocks or components. These nine components were subsequently further refined and form the basis of the "canvas" approach presented in Osterwalder and Pigneur (2010), which is a toolbox for analysing and generating business model widely used by practitioners.

III – Methods

In order to investigate alternative value creation approaches in the organic EVOO market, we have combined two different approaches to business model generation.

The first approach is the so called "business model canvas", composed of nine building blocks, proposed by Osterwalder and Pigneur (2010), which we mentioned in the previous section. The canvas is shown in Fig. 2, and is sourced by the authors as a Creative Commons licence.

The canvas is used in an interactive way to help to capture, visualize, understand, communicate and share the business logic.

The second approach is the business model experimentation template proposed by Sinfield et al. (2012). Its components are six, and they follow a logical order each addressing a key question: (i) Who is the target customer?; (ii) What need is met for the customer?; (iii) What offering the business will provide to address that need?; (iv) How does the customer gain access to that offering?; (v) What role will the business play in providing the offering?; and (vi) How will the business earn a profit?

The business model development template is shown in Fig. 3. The answer to each question will represent a decision with different possible outcomes, in the templates represented by numbers. Choosing a different outcome for just one component can often result in a substantially different business model. According to Sinfield et al. (2012), business model experimentation consists in a series of "thought experiments" that provide a means to
methodically and routinely explore multiple business model alternatives, in order to enable business model innovation.

Fig. 2. Business Model Canvas.

Fig. 3. Business model development template (from Sinfield et al., 2012).
Both approaches consider business model as a process to examine alternative approaches to value creation in a business, and complement each other for conducting what-if scenario analysis of interrelated strategic choices. By using both the "canvas" and the "template", the business model provides entrepreneurs with a framework to take decisions, while encouraging them to seek complementary relationships among building blocks and components through unique combinations, and ensuring consistency with the goal of sustaining competitive advantage and profitability, as advocated by Morris et al. (2005).

IV – Results and discussion

Two case studies will be presented by using the canvas approach to illustrate how different business models can be studied and evaluated.

The Business model development template (Sinfield et al., 2012) will complement the canvas model in the second case study, to show how business model alternatives can be generated in practice.

1. Case study: Kailis organic olive grove (AUS)

Kailis Organic Olive Groves began producing Premium Organic EVOO in 2000, with olives groves and processing facilities located in Western Australia. Kailis Organic sells their premium range of Greek monovarietals (Kalamata and Koroneiki), their "Chef's Premium Blends" of Frantoio (50%), Leccino (25%) and Coratina (25%) varieties, as well as organic extra virgin olive oils infused with blood orange, lime and lemon. In-conversion EVOO is sold by a separate brand – Splish – originally bottled in an "innovative" Tetrapak Crystal carton targeted to the mass-supermarket channel, and also towards increasing the company's exports.

In 2009 the company sold 160,000 litres of extra virgin olive oil of which 57% was organic (Johnson, 2010). About two-thirds of those sales were for Kailis Organic branded products, with the remainder sold into the bulk commodities market. 80% of its products were sold to domestic markets, while exports – to seven countries, including Germany and USA – accounted for the remaining part. In 2010 the company, in an attempt to overcome lowering oil prices, made an 1800 hectares acquisition of the failed Australian agribusiness Great Southern in a bid to become one of the largest organic olive oil market player on a global scale. The company raised more than 20 million euros from investors to fund the 16 million euros acquisition and further company expansion. One year later, at the end of 2011, Kailis Organic collapsed and was placed in administration. Last October, six Chinese investors have purchased the company for 12 million euros.

The business model canvas of Kailis organic is shown in Fig. 4. Kailis Organic is a good example of how business development and growth can be detrimental if not backed up by proper understanding of the business model tailored for the specific organic market.

Kailis Organic has attempted to overcome the problems stemming from lowering global olive oil prices (Fig. 5) by a traditional cost-leadership strategy, trying to gain efficiency by expanding its output and achieving economies of scale, in an attempt to achieve the lowest production and distribution costs. The launch of the mass-market Splish brand follows the same business logic. Unfortunately, this business model was totally inappropriate to tackle the challenges offered by the organic EVOO market, for various reasons. First of all, organic consumers – both regular and occasional – perceive organic EVOO quality as a means to other ends, namely Health, Wellbeing and Sustainability (Bech-Larsen et al., 1996; Marchini and Checcarelli, 2006). Current claims associated to (or even in competition with) organic are "all-natural" and "local", while companies are trying to sustain new emerging claims such as "ethical" and "eco-friendly" (e.g. by ISO 14001 and SA 8000 certification). Importing olive oil from Australia can be economical – even in a world of growing transportation costs – but surely not so well accepted

Fig. 4. Business model canvas for Kallis Organic olive grove.

Fig. 5. Trends on EVOO and sunflower oil prices (source: IndexMundi).

Secondly, many studies have shown that the low price of organic EVOO is not a primary goal for consumers, since higher price is often perceived as indicator of higher quality (Cicia et al. 2002; Soler et al., 2002; Scarpa and Del Giudice, 2004).
Therefore, the main elements of Kailis Organic strategy – as depicted in the Value Proposition area of the canvas – presume a standard approach to market segmentation: some consumer segments need cheaper organic EVOO, other will go for premium brands. This approach contradict the evidence that consumers – especially in the emerging EVOO markets with high growth rates – looks for premium brands and high prices since organic EVOO consumption per capita is still quite low in those markets (Gavruchenko et al., 2003). On the other hands, in the countries with high consumption of EVOO, consumer choose different channels for reducing the prices of their organic purchases, namely bulk purchases at the producer – via direct marketing or short supply chain channels (farmers markets, box schemes, purchase groups, farm shops, direct sale e-commerce). Besides, a non-glass packaging – even if made by "innovative" Tetra pak Prisma system – is, in the eyes of the consumer, a further low quality indicator. Recent studies have shown how glass packaging is always preferred in the case of organic food (Vairo and Zanoli, 2009; Naspetti and Zanoli, 2011) and olive oil is not an exception (Krystallys and Ness, 2005).

Kailis Organic failed since its business model was not responding to the customer needs, and its attempt to overcome lowering oil prices proceeded in the wrong direction. Attempting to expand the sales in the mass market by "conventionalising" organic EVOO instead of pursuing new consumer needs such as the need of local, eco-friendly (e.g. carbon neutral) and ethical organic production was punished by the market, ending up in big losses and failure in less than a year.

Instead, business model innovation, even when aimed at cost reduction, should attempt to answer to the following key questions (Osterwalder and Pigneur, 2010): (i) what are the most important costs inherent in the existing business model?; (ii) which key resources are most expensive?; and (iii) which key activities and partnerships are most expensive?

Reducing costs is always important in any business, but low-cost structures are not equally important in all business models. Organic farming is not perceived as a low-cost industry by the prospect consumers. Organic farming is a value-driven business model, and premium value propositions are more important than low-cost production and economies of scale. However, an important category of costs – nowadays – is related to debt. Kailis has failed also by trying to double its production by producing an overall debt five times as large as its revenues. Among it key resources, both the packaging and low price image of the emerging Splish brand ended up – paradoxically – to contribute more to the costs (in terms of revenue losses), since they failed to boost up the demand for the company’s products.

2. Case study: Developing a business model for a small organic olive farm in Italy

Before presenting the case study canvas, we will show how Sinfield et al.’s business model innovation template can help in exploring alternatives and prototyping a business model.

The choices for each variable are not infinite (Sinfield et al., 2012). In particular, in this case we brainstormed with the farmer how to innovate the variable "How to sell", specifically for regular organic consumers. The farmer has already a dedicated channel for regular consumers via consumer purchase groups (GAS). Unfortunately, this channel is usually very local and allows to serve a limited number of households. How can the business model attribute "local and short supply chain" maintained and at the same time expanded to a larger network?

The template exercise yielded two different solutions, illustrated in Figs 6 and 7.
The first template refer to regular organic consumers that need to find an affordable way of procuring organic EVOO for the all-year-round family needs. A subscription model – similar to what has been traditionally used in the Italian olive oil market by F.Ili Carli – was proposed as a solution that may work in the organic "premium" range market. It is somewhat a futures market,
since by subscribing a customer buys rights to acquire a share of future organic production of the farm.

The second template illustrate how a company can satisfy occasional consumer needs of having good quality organic EVOO. It is well known that referral or word-of-mouth plays an important role in influencing consumer purchases (Buttle, 1998). Consumers often trust other consumers’ referrals more than any other information source, and this explain the popularity of eno-gastronomic guides and of reviews online services like Tripadvisor. Multi-level or network marketing – also known as referral marketing – may allow offering direct sales to even distant consumers, by exploiting word-of-mouth networks and by limited distribution costs (commissions).

Both templates share the same profit model, based on direct product sales.

The two business model innovations are then introduced in the canvas (Fig. 8), representing the proposed business model for the small organic olive oil farm (12 hectares of olive trees).

The company sell all its products on the local and domestic market – representing just a very small share of the Italian organic EVOO market (around 0.01%).

Part of its revenues comes from third-party processing – since the oil cold-pressing plant has a capacity that goes beyond the farm’s needs. Another source of income is the sale of processing by-products (dried pomace) for energy purposes. These – in the future – could also be re-utilised on-farm, should a biomass generator be installed at the processing plant.

Both the value propositions are "premium" grade, but the restaurant brand often carries the name of the restaurant and is sold in large containers (25 l) or very small monopartitions.

The company is already maximising its value chain by selling most of its products directly – either on-farm, online or through local consumer communities (purchase groups or GAS).

The subscription model and the network marketing are both potentially relevant for the farm. At the end, the subscription model was implemented in the canvas since it is more coherent with
its customer relationships logic, aimed at building long-term relationships with regular consumers. It will allow expanding the farm’s consumer community beyond the local scale, allowing to reach households who are not embedded in local networks.

V – Conclusion.

“A mediocre technology pursued within a great business model may be more valuable than a great technology exploited via a mediocre business model” (Chesbrough, 2010).

In this paper—with the aid of two case studies—we have attempted to illustrate how business model generation can help organic EVOO companies to develop, no matter how large is their original market share, and how limited are the financial and technological resources.

Business model generation canvas is a powerful tool to help business to prototype and generate multiple development scenarios, in order to reinvent the business and to replace outdated models while creating value for the company, its customers and—ultimately—the society.

References


