A Study of Business Challenges for Organic Food Product segment

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Abstract

Organic agriculture is booming in India these days. Increase in the family income, increase in educated population, health consciousness has led consumers to shift their preferences from conventional to organic food products. Due to its purity and health benefits, organic food products are gaining popularity in the Indian market. The availability of organic products is increasing at malls, specialty stores, and local market places. This paper focuses on the organic food product segment and the business challenges for this segment.

Keywords: Business Challenges, Organic food segment

Introduction:

India has a long history of rich agriculture and a variety of traditional food cultures that keep changing after every mile. But due to globalization, we have borderless markets where one can easily get fast food, packed food from other countries. The urban lifestyle is facing a lot of problems like obesity, food addiction, and malnutrition due to unhealthy consumption patterns. These fast food and packed food contains additives preservatives, food colors, synthesizers, and chemicals because of which many health issues are arising lately.

Consumption of food products having harmful fertilizers, pesticides and additive preservatives can cause great danger to human health. A consumer knowing the same are preferring organic food products over conventional due to their long-run advantageous. Organic food products are available in a variety of categories like pulses & food grains, fruits & vegetables, dairy products, beverages, sweeteners, honey, jaggery, meat, fish, and poultry products. According to TechSci research report, the organic food products segment will grow at 25% during the year 2015-20.

Organic food products are grown using natural resources and environment-friendly agricultural practices. It is a method of farming system which primarily aimed at cultivating the land and raising crops in such a way, as to keep the soil alive and in good health by use of organic wastes
(crop, animal and farm wastes, aquatic wastes) and other biological materials along with beneficial microbes (bio-fertilizers) to release nutrients to crops for increased sustainable production in an eco-friendly pollution-free environment.

Organic farming follows pesticides less, chemical less, GMO less, preservatives free practices from the very basic step like harvesting to the last step which is the distribution of products from Farm to market places. (Leila Hamzaoui et.al.2012) Pant et al., (2013) reported that India has increased 25 times the area under organic farming in the last 8 years from 2005 to 2012. Organic farming shows a growing trend, with a total of 10, 20,000 hectares land used till 2012. Currently, India’s organic trade is above Rs. 2,500 crores. For enhancing organic farming practices Ministry of commerce started the National Programme on Organic Production. This national program involves the accreditation program for certification bodies, norms for organic production, promotion of organic farming.

Deshmukh and Babar (2015) revealed that India’s total area under organic certification was 4.72 million hectares in 2013-14 and its global rank is 10th. The crop growth rate of cultivation of organic area of India was 11.52% of which wild collection was 12.57% and the remaining area was 7.45% during 2005-2013. The coefficient of variation was approximately 0.5% during the same period. The compound growth rate of the export quantity of organic products in India was 51.50% and export value was 11.75% during 2002-03 to 2013-14. Among all the States in India, Uttar Pradesh has the highest area under organic farming followed by Himachal Pradesh, Madhya Pradesh and Maharashtra in 2011-12.

Yadav et al., 2010, the Indian market of organic producers have been grown with an awareness of safety and quality of food. Organic agriculture is an economical and reliable option of profitable livelihood that is why this method has a bright scope in the future. Research studies show that customers are getting more health-conscious which is the major reason behind the huge demand for organic products. (Magnusson et al., 2003; Williams and Hammit, 2001).
According to a report published by TechSci Research, “Global Organic Food Market Forecast and Opportunities, 2020”, global organic food market stood at $110.25 billion in 2016 and is projected to grow at a CAGR of 16.15%, in value terms, during 2017 – 2022, to reach $262.85 billion by 2022. Growth in the market can be attributed to growing health concerns among consumers and increasing awareness concerning the health benefits of organic food. Other factors driving organic food sales across the globe include increasing income levels, improving the standard of living, and government initiatives aimed at encouraging widespread adoption of organic products.

According to ASSOCHAM the current market size for organic food products is US$533 million, exhibiting 17% growth in 2015. Metropolitan cities have witnessed a 95% increase in demand in the last five years.

**Growth Factors of Organic food product segment:**

Consumer’s awareness about health and lifestyle has increased due to open information sources like internet health blogs, medical sites, education.

An increase in the family, as well as individual income, is also one of the drivers behind the willingness to invest in organic food products.

The government is supporting organic product producers by introducing various government schemes like National Mission for Sustainable Agriculture (NMSA), Mission for Integrated Development of Horticulture (MIDH), National Food Security Mission (NFSM) and Rashtriya Krishi Vikas Yojana (RKVY). In the Union Budget of 2016, the GoI proposed to allocate 500,000 ha in the country under organic farming and develop value chains in the Northeastern Region.

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**Business Challenges for organic products:**

According to the article BW Business World, the rate of adoption has been slow in the Indian market. Indian population which represents almost 20% of the world’s population consumes less than 1% of the world’s total organic produce, despite having the largest organic farmland. Its growth has been sluggish; with people holding preconceived notions about the segment
Insufficient knowledge of consumers about organic products is a major challenge for this sector. Consumption of organic food is just a fashion in some economic social classes. Many consumers are confused about whether to trust organic products in terms of health benefits. For the unceasing development of this sector, it is crucial to spread enough awareness in the market. Indian Consumer is price sensitive they prefer products having lower price compare to expensive products. India is having a large group of customers who belong to the urban middle class or medium income group and price plays an important role in purchase-related decisions (Khare, Achtani & Khattar, 2014). Organic products cost higher than the conventional one. Special care has to be taken when it comes to the storage and preservation of organic products. Distribution of organic products from farms to market places needs special care because preservatives and chemicals are not used to increase the life span of these products due to which the end price goes higher. Changing this Price is one of the challenges in front of organic businesses to attract consumers towards quality over a price.

Fears of farmers who are into modern agricultural practices are difficult to shift into organic farming due to higher cost and risk of losing crop involved. The government should take corrective measures to spread awareness of organic farming among farmers. Indian agricultural sector is having small and middle-level farmers who do not have access to organized supply chain or systematic market systems. Due to which they do not get adequate benefits from organic farming. Government policies for different categories of an organic farmer are given below:

- Producer farmers having a third-party certification can export;
- Farmers in PGS-India and can supply to local markets in India but cannot export as per AEPDA’s regulatory requirements;
- Farmers who follow chemical less and organic farming practices can serve the local market but cant export if they do not have third-party certification process as per AEPDA’s regulatory requirements (Mukherjee, Kapoor & Dutta, 2018)

Inadequate promotion and branding for an organic product is another challenge for this sector. According to TechSci report, organic products need differentiated branding and standard labeling scheme.
Inadequate research in organic farming and agriculture sector as compared to the conventional product category due to which there are no standard guidelines of standard practices are available for farmers or producers.

**Conclusion:**
Organic products do contain various health benefits when it comes to sustainable consumption and a healthy lifestyle. The perception of customers towards organic food products needs to be changed from fashion food to healthy necessity. This sector requires investing a lot in market awareness and promotions. Technological advancement and automation can help every possible sector these days organic products are not an exception for this. Distributors and farmers can take the help of internet marketing, e-commerce applications to improve and fasten the supply chain activities. Indian farmers need sufficient support and education to follow organic farming practices. The government needs to improve the quality of financial schemes for producers and traders which will promote the organic market segment.

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