

Submission to Welsh Assembly Agriculture and Rural Development Committee Enquiry into Organic Farming.

Summary

Tesco is the UK market leader in organic food, accounting for 28.8% of the market. Our strength lies in listening to customers and providing them with quality, value, variety and choice. We look at what consumers say and what they do, how they behave and why. Our submission to the enquiry is guided by this knowledge.

Organic sales are increasing in all categories of food and people from all walks of life are telling us that they want to buy more organic food. Total organic sales for 2002/03 are forecast to grow by 40%.

We have also improved choice for customers by extending our organic range to 1148 lines. Research has shown that increasing the availability of organics in our stores has led to increased consumption. The main barriers to higher consumption are availability and affordability.

We recognise the difficulties that organic and other farmers are facing in Wales. Some of these difficulties stem from external factors, including the unprecedented strength of sterling in recent years, and the legacy of BSE and FMD. But we believe that other factors are at play too:

- the current system of support for organic production – focusing on a conversion payment – places UK agriculture at a competitive disadvantage compared to most other EU member states.
- We recognise that customer demands are changing, and that producers – including organic producers – have a difficult challenge in responding to them. Retailers have an important role to play in identifying what customers want, communicating this through the food chain, and encouraging farmers to meet these customer demands.

Tesco is responding to this by:

- improving communications between suppliers and processors, by stimulating the development of producer groups. These groups liaise regularly over market

developments. Tesco buyers are regularly asked to talk to groups to tell them about consumer research.

- signalling strongly to the farming sector our intention to boost organic sales to £1bn over the next five years, compared to a current level of around £250m. There is a clear challenge here for British farmers to grow more. With around 70% of UK organic product still being imported to meet increasing demand from consumers, the opportunities for the UK organic sector are huge.
- establishing a centre of excellence on organic R&D at Newcastle University to improve standards of organic production. Tesco is investing to develop British agricultural production and improve availability as well as making British organic products more affordable for customers. We have made a start this year by diverting £15 million worth of orders to British suppliers.
- Tesco is also committed to sourcing locally wherever quantity and supply allow. We currently stock over 500 Welsh products and recently announced our plans to appoint regionally-based buyers to support this commitment.

We believe that any initiative to develop organic food production in Wales must focus on understanding and responding to genuine consumer demand this action is. Action Initiatives must avoid unnecessary costs and burdens on the food chain that would have the effect of making Welsh organic food and farming less, not more, competitive.

Consumer trends

- Tesco's success is built on listening to customers and providing them with excellent value and choice. We learn about consumers through extensive research from a range of sources. We look at what consumers say and what they do, how they behave and why. We use a range of survey techniques and we benefit greatly from seeing what customers actually do through our loyalty card data (around 80% of the purchases at Tesco are through customers with loyalty cards).
- Trends of organic sales must be viewed in context of changing customer behaviour. Customer data shows that:
 - *Customers' tastes vary.* There is no such thing as the "average" customer, e.g. customers needs and desires vary depending on age, size of household, location and a host of other factors.
 - *A smaller share of income is spent on food today.* Customers are spending an ever decreasing share of their income on food (1968=26% and 1999=17.5%) and more of their income on leisure goods and services.
 - *Consumers lifestyles are changing.* There are an increasing number of

smaller households (especially single households) and the population is ageing. Time pressures are leading to more staggered meals, snacking and shorter food preparation times. Consumers are asking for more convenience foods, such as chilled ready meals and pre-packed salads.

- *Longer term changes in eating habits seem to be a result of health concerns.* Clubcard data shows red meat consumption is on a long-term decline, and there is significant growth in the sale of organics. [Interestingly growth rates in organic red meat are currently higher than any other organic category]. People say they are making these changes for health concerns.
- *The organic market is still growing.* Growth rates have been as high as 40% but should generally continue at about 10-15%. Growth forecast for Tesco organics 2002-2003 is 40%
- We must also consider what customers tell us:
 - *Consumers want value for money.* Research shows that price is the main reason for not buying organics for over half our customers. Even for customers who do buy organics price is an issue and sometimes a barrier to buying a full organic basket shop.
 - *Consumers demand product availability.* Consumers want produce that is readily available. Our recent research found that 63% of customers say they would buy more organic if it was more readily available in supermarkets.
 - *Consumers want safe and healthy food.* 'Health' is listed as the top reason for buying organic in preference to conventionally produced food. Other reasons in order of frequency are 'taste', 'traditional production methods', 'avoiding GM products' and 'the environment'. This list is the same for all organics from meat and dairy through to tinned products.
 - *Consumers indicate they have a lack of knowledge with what is happening with farming today.* For example, they often mention the use of steroids in farming which EC and UK law in fact ban. Additionally customers' attitudes are highly sensitive to and affected by the latest food scare. Attitudes are highly tuned to the latest food scare.

The supply chain – working with suppliers and producers

- Farming will be successful if it succeeds in better understanding and responding to consumers. This is particularly true of a rapidly developing market such as that for organic food.
- Farming generally has suffered because market signals were frequently not getting

through to farmers. This is largely because production-based EU subsidies have for too long distorted the market and have stood as an obstacle between farmers and consumers. But it is also because parts of the industry are too fragmented. This can make it difficult for the right messages to get through the supply chain.

- Greater communication of customers needs between the different elements of the supply chain is required. In most cases this is simply a matter of sharing knowledge and improving communication channels. For example, Tesco is improving communication links by assisting with the development of producer groups between suppliers and processors. These groups liaise regularly over market developments. Tesco buyers are regularly asked to talk to groups to discuss tell them about consumer research.
- In conjunction with Harper Adams University College, Tesco also holds regular Masterclasses for our producers and suppliers. The most recent of which was an Organics Masterclass and more are planned. The objectives of these Masterclasses are to share knowledge about customers, share best practice, and help producers become more efficient.
- The current system of support for organic production – focusing on a conversion payment – places UK agriculture at a competitive disadvantage compared to most other EU member states.

The future for organic production

- We believe that further steps can be taken to increase value in UK and specifically Welsh farming. But, to succeed, these initiatives must build on market trends and signals, and must not simply be production-led and divorced from the market. They must be firmly rooted in listening to consumers, understanding what they want, and delivering products that meet their demands.
- The future of organic farming in Wales will also depend on ensuring less focus by government and other stakeholders on output-based subsidies and more on market opportunities. Tesco has tried to encourage this by signalling strongly to the farming sector our intention to boost organic sales to £1bn by the year 2006, compared to a current level of around £250m.
- There is a clear challenge here for British farmers to grow more. Around 80% of our organic range is still being imported to meet increased demand from consumers, so the opportunities are significant. We hope that steps like our commitment to expand the organic market alongside will help give farmers the confidence to invest in the future.

- We recognise that it is not an easy decision for a farmer to convert to organic production. For this reason Tesco has been at the forefront and so Tesco supports of R&D initiatives in organic food production. We have established an organic R&D centre of excellence on organic R&D at Newcastle University to improve standards of organic production. Tesco is investing to develop British agricultural production and improve availability as well as making British organic products more affordable for customers. We have made a start this year by diverting £15 million worth of orders to British suppliers.
- We are also sponsoring the Food Animal Initiative at Oxford University Farm,. The initiative seeks to identify improvements in animal welfare without damaging competitiveness. that can bring marketing benefits while being introduced in ways that maintain competitiveness. It is envisaged that part of the farm will be converted to organic.

Submission by Tesco to the Agriculture and Rural Development Committee Enquiry on Organic Farming.