“Certified organic” food in Australia – opportunities for growth and development

MURRAY RIVER ORGANICS PTY LTD

DISCOVERY WORKS – APRIL 2021

DISCOVERY WORKS PTY LTD

Discovery Works is a niche consultancy business that works with clients across a range of industries to improve business operations and identify customer requirements to direct their innovation efforts and develop business models for current and future revenue streams.

The Discovery Works team has extensive experience in the Voice of the Customer (VOC) methodology – a systematic proven method for uncovering unmet needs for significant strategic projects such as:

- Collectively, the team has used VOC to solve a diverse range of strategic questions:
- How can Melbourne be a top 5 global Medicine/Science City
- What should the next decade of physics look like and focus on in Australia?
- How can a University develop significant revenue streams from commercial teaching and learning activities?

It doesn't matter what the question is – VOC provides a way of learning what customers want and value, and more importantly, the requirements for innovation.

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INTRODUCTION AND SUMMARY

PROJECT OVERVIEW

Murray River Organics aims to makes organic and "better for you" products by farming and sourcing organic ingredients. A key goal for the company is to create an ecosystem which promotes the development of organic supply. This work was undertaken to better understand the landscape for organic food and ingredients and the opportunities to drive the growth of organic food and ingredients in Australia, with a focus on answering the following questions:

1. What does the domestic landscape for "organic certified" food look like in Australia?
2. What are the perceived needs and opportunities for growing domestic consumption of "certified organic" food in Australia?

Primary research interviews were undertaken with 17 people engaged in the organic food sector across a range of functions in the value chain, using a Voice of the Customer (VOC) methodology. Details of the VOC methodology, questions asked, and the value chain roles of the people interviewed, are provided in the Attachments. It should be noted that all interviewees were assured of confidentiality and data is coded (as is normal practice with VOC) so that contributions are anonymous.

The interview data was analyzed to produce a 'current state map', that displays the operating landscape for organic food producers visually. The second map of 'perceived needs' visualizes the responses to the second question. It is a map of *perceived* needs, and *not* a map of actionable requirements. This type of map can only be constructed by an in individual producer, a manufacturer an industry organization who has clearly defined their purpose for using the information contained in the 'current state map' and the 'perceived needs map' as the basis for defining measurable requirements for specific innovation targets.

KEY OBSERVATIONS

Key observations from the interviews reveal that:

- The sector is fragmented and driven by individual self-interests
- Certification is a driver instead of a means to demonstrate specific value to the consumer
- There is no cohesive industry structure and the current certification systems seem to hinder rather than drive value
- The sector needs a strong value proposition based on value creation and not competition with conventional agriculture, with a harmonised certification process that demonstrates value
- A lack of sector data and analysed information needs to be rectified to inform decision-making and gain investment into the sector

IMPLICATIONS

The implications for groups that are part of or have an interest in the sector are considered to be as follows:

The Sector Overall - The sector needs to have a common vision, value proposition, and structures that support the production, manufacture, and marketing or 'certified organic' food that is not perceived to just compete with conventional products on price and for shelf space. The certification system needs to be independent and rigorously support the vision and value of certified organic food.

Major Manufacturers - Major manufactures need to take a leading role in driving the sector towards more cohesion, a common vision, value proposition, common business practices, and education of the sector about value chain characteristics. In the absence of a common sector vision and structure, manufacturers can develop their own vision and value propositions that may help the sector to become more cohesive.

Major Retailers - The major retailers currently benefit from the lack of cohesion of the organic producers and manufacturers. In the absence of clear marketing messages, retailers create their own, and also present organic and conventional produce in ways that perpetuate both the consumer and the sector confusion as to the value of certified organic. In the absence of clear moves by a cohesive sector to drive and improve buying and selling methods into retailers, producers and manufacturers are disadvantaged. Whilst this confusion currently creates benefits for retailers, a collaborative approach between the sector and the major retailers is likely to be more beneficial in the long run.

Government - The organic sector clearly has value that it has not been able to communicate adequately to government and private/organizational investors alike. It would be beneficial if the sector could access data from government to define and quantify the economic value of its production, the value of organic farming in terms of employment, of sustainability and potentially the mitigation of climate vulnerability of agricultural assets.

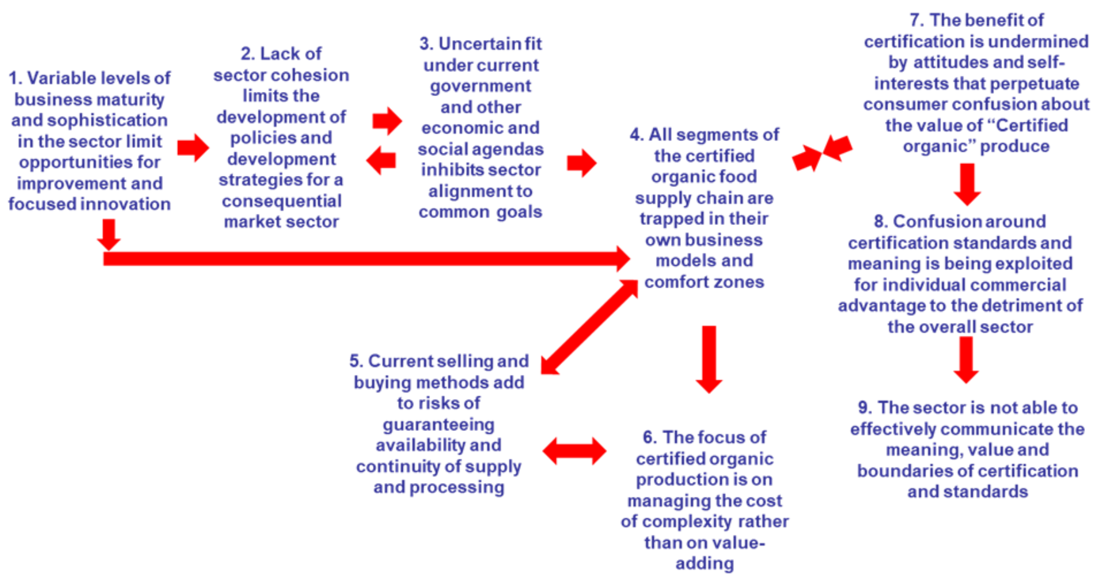
SUMMARY FINDINGS

Due to the large number of elements that explain both the current state and the perceived needs and opportunities identified during the project, it is not possible to create a single detailed map that could display on one page the analysis of the statements made by interviewees. Individual elements are therefore discussed in detail later in this report, with reference to the numbering and sequence of the high-level summary maps previously provided in this report.

The two high-level maps created from the interview outputs are summarised below. The dependencies and interdependencies between the various elements are indicated with red arrows.

CURRENT STATE MAP

What does the domestic landscape for "organic certified" food look like in Australia?	The domestic landscape for "organic certified" food in Australia is highly fragmented and focussed on competing with conventional agriculture for shelf space rather than creating its own distinct value proposition that is then confirmed by the certification process



1. **Variable levels of business maturity and sophistication in the sector limit opportunities for improvement and focused innovation**
    - Innovation capabilities and investment in innovation varies across the value chain
    - There are pockets of good business capabilities in the sector, but they are not universal, and the degree of commercial focus varies
    - Certified organic food production systems in Australia vary significantly in terms of size and scale of operations

2. **Lack of sector cohesion limits the development of policies and development strategies for a consequential market sector**
    - "Certified organic" is being held back by disparate views and a lack of growth ambition
    - Certified organic lacks a clear and compelling value proposition for the consumer
    - Certified organic has not been able to adequately demonstrate the additional consumer and economic benefits it provides

3. **Uncertain fit under current government and other economic and social agendas inhibits sector alignment to common goals**
    - There is no common vision and aligned goals to drive growth in the sector
    - Collaboration between organic grower groups in Australia is limited
    - Certified organic is perceived as a product rather than process, and has no obvious "home" under the umbrella of government

4. **All segments of the certified organic food supply chain are trapped in their own business models and comfort zones**
    - There are significant vested interests in maintaining current practices associated with conventional farming
    - The major supermarket chains are powerful influencers of certification practices and standards
    - Trends and diverse perspectives about farming shape the success and longevity of organic enterprises

5. **Current selling and buying methods add to risks of guaranteeing availability and continuity of supply and processing**
    - There is greater complexity and longer timeframes associated with certified organic supply chains
    - There is a high degree of competition for domestically sourced certified organic ingredients

"As a big company we don't necessarily have the patience or the knowledge to build a sort of a scrappy organic business from the ground up that's going to take years for it to build up, to be a substantial size business."

"The consumer, when he says I can buy a banana organic or non-organic then it might be like, I'll buy the cheaper banana because there's no compelling message that says you've got to buy a better product."

"When you want self-belief that you're clean and green, you don't want any system out there that might challenge that perception for the rest of conventional agriculture. "

"Within the agriculture department we mostly deal with something called export controls and miscellaneous products because we're the odds and sods that's where it ends up"

"We've got a farm near us, been biodynamically certified for 30 years and he, he gifted it to his nephew and three days later, his nephew sprayed the crap out of it."

"I want to sell organic apricots, then I would cost it up in a way that I need to sell the stock within 5 to 6 months or otherwise I'll be out of date. And I will put that risk in my costings"

"It was certified under one system and certified grain from another supplier, from another system. And I had the suppliers telling me that I had to follow their certification all the way through to the finished product. And I said, I can't do that

- Variable produce shelf-life limits the options available to certified organic producers
- Larger organic manufacturers are driven by business productivity demands

6. **The focus of certified organic production is on managing the cost of complexity rather than on value-adding**
    - There are significant establishment and ongoing overhead costs for organic producers
    - There are significant risks associated with dependencies on timely provision of certified organic inputs to food production systems
    - The certification process is complex, difficult, and costly to navigate.

7. **The benefit of certification is undermined by attitudes and self-interests that perpetuate consumer confusion about the value of "Certified organic" produce**
    - The delineation between certified and non-certified organic is more clearly regulated and understood in markets outside Australia
    - The certified organic message is diluted by competing marketing messages and personal perceptions of value
    - There is a high degree of competition amongst the organic certifying bodies motivated by their own profits from certification services

8. **Confusion around certification standards and meaning is being exploited for individual commercial advantage to the detriment of the overall sector**
    - Produce marketed as organic without being certified undermines the value proposition of certification
    - Certified organic labelling in the major supermarkets Is not trusted by consumer advocates for certified organic produce
    - The standards associated with certified organic are not being adhered to and adequately policed

9. **The sector is not able to effectively communicate the meaning, value and boundaries of certification and standards**
    - There is a lot of confusion about what organic and certified organic means
    - Certified organic is perceived as part of a holistic system but is not implemented across the entire supply chain
    - There are no easily accessible and reliable data sources for organics produce volume and value

"If you're at the farmer's market and you say your onions are organic, they're not certified organic, but some local community group has said that yes, this farm is actually using organic methods."

"My girlfriend spends a shed load of money on organics, a hardcore organics person wouldn't be buying from Coles and Woollies. She's buying from the artisan or the alternate health food shops"

"There's an oyster farm in South Australia that says it's organic certified when any oyster farm is actually organic."

"Organics is all about not using chemicals and synthesised fertilisers, but that's about it. You know, there's not all these other ethical issues in there, but a lot of consumers put them all in the same category"

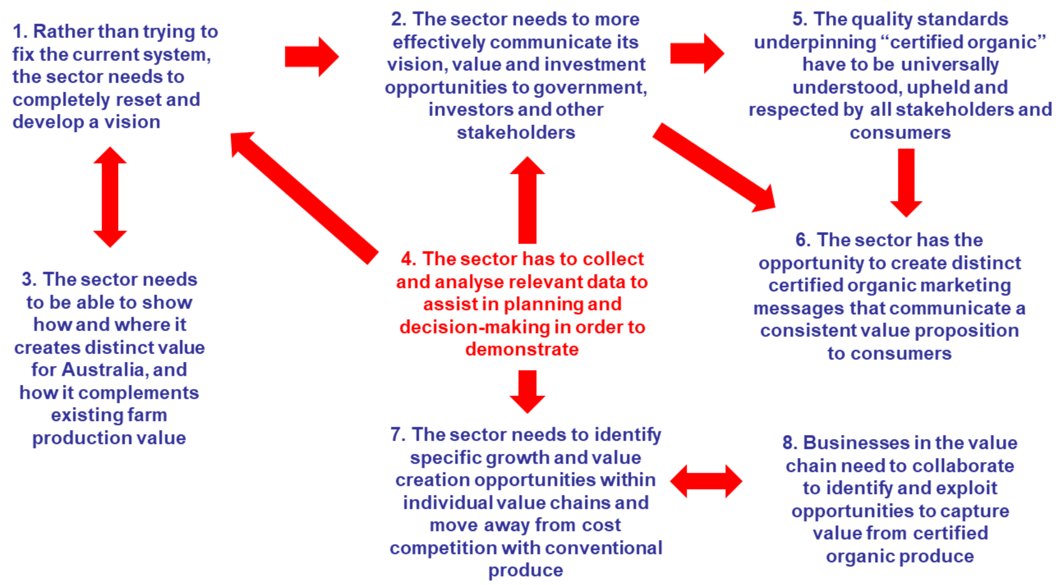
"There is so much double counting. I do not use the, the statistics that they come up with are just, I do not believe them. I know the methods are dodgy ."

"They clip the ticket, they certify that each of their operators against the US domestic standard, certify them again against the EU standard, the Japanese standard, the Korean standard. And every time they'll charge them a fee"

"It's not readily available. It's not, well marketed. It's not, hey come here in flashing lights, come and get it. It takes an effort to find this"

PERCEIVED NEEDS AND OPPORTUNITIES

What are the perceived needs and opportunities for growing domestic consumption of "certified organic" food in Australia?	**The sector needs to reposition itself to focus on the creation and delivery of new value for the Australian economy and society, and complement rather than compete with conventional agriculture**



1. **Rather than trying to fix the current system, the sector needs to completely reset and develop a vision and goals with a focus on value creation**
   - Stakeholders in the sector need to agree on new approaches and structures to achieve further growth
   - There is a need for careful management of vested interests
   - Partnerships based on sound business principals for mutual benefit are needed

2. **The sector needs to communicate more effectively its vision, value and investment opportunities to government, investors, and other stakeholders.**
   - The sector needs to make it attractive for farmers to convert or expand certified organic food production
   - There is a need to demonstrate ROI and other benefits for a range of investor types and motivations
   - The sector needs to communicate with the business community using equivalent business terminology as conventional agriculture

3. **The sector needs to be able to show how and where it creates distinct value for Australia, and how it complements existing farm production value**

"The pioneers should step aside, and we need to build a new way of doing business and the farmers need that, you know, the farmers need to adapt their businesses to, to the new kind of normal"

"You don't just want yield. You want capital gain as well. So, the question would be is a healthy, restored and highly productive and complex paddock here in the long-term appreciated a lot more than a grassland paddock"

"I still have trouble having people understand that effectively this is a business, you've got to make money out of it"

"Willingness by governments on all three levels to accept that organic is part of the toolbox to make a greater return at farm gate or food manufacturing gate"

- The sector needs to acknowledge that it is a "nice to have", not a "must have" in the context of global food security
- There is a need to present a unique and compelling case for policy support and long-term investment in the sector

4. **The sector must collect and analyse relevant data to assist in planning and decision-making in order to demonstrate value.**

5. **The quality standards underpinning "certified organic" have to be universally understood, upheld and respected by all stakeholders and consumers.**
   - The sector needs to develop and apply systems to penalize anyone not adhering to agreed standards
   - The sector needs to harmonise standards and agree on a single standard that is nationally and internationally accepted
   - The sector needs to design a certification framework to ensure adherence to standards and manage potential conflicts of interest

6. **The sector has the opportunity to create distinct certified organic marketing messages that communicate a consistent value proposition to consumers.**
   - The sector needs to develop a message that is grounded in a common vision and integrity of standards
   - The marketing and presentation of certified organic produce has to clearly differentiate it from conventional product for the consumer.
   - The value of certified organic needs to convey to the consumer in emotionally appealing ways

7. **The sector needs to identify specific growth and value creation opportunities within individual value chains and move away from cost competition with conventional produce**
   - Buying and selling systems through certified organic production chains need to be reviewed to decrease uncertainty, risk, and costs.
   - There is a need to specify, and quality assure distinct production chains from end to end against standards.

8. **Businesses in the value chain need to collaborate to identify and exploit opportunities to capture value from certified organic produce**
   - The sector needs to find new ways to capture value from produce that is currently being treated as waste
   - There needs to be transparency of domestic availability and capacity to match domestic supply with demand
   - The sector needs to develop strategies to overcome risks associated with seasonal and regional fluctuations in supply

"It's probably not the way to produce all the food in the world because we wouldn't be able to feed the world's population"

"We don't track organic as a node in our sales reporting, if that makes sense. So, I can't pull a report that says, you know, this percentage of my sales are coming from organic"

"There's not enough reporting. It's basically one case a year reported to ACCC in organic fraud. And there's far more than one fraudulent event that happens in the organic industry every year"

"When the US looks at a domestic market, they see two things. One is that it's regulated by private standards, not government standards and there's no consistency across them. And they seem to be a lesser standard than the export standard"

"You can't brand something as organic and make it just good. It should have been branded more around there needs to be certification to let you know it is"

"The animal is no different from the food factory, it's doing a conversion here, the rules and standards of certified organic implemented, then you want to make sure then that all of the inputs are certified organic"

"In the late autumn, when milk is at its lowest, we had to say, okay, is that where we want to set the volume at? then, how do we manage all the upside milk, because you bought at a premium, but if you buy it a premium and put it into standard product, you don't make money"

DEPENDENCIES AND INTERDEPENDENCIES

A key issue for the sector is a lack of a legitimate entity responsible for coordinating the development of the sector. Several organisations exist, but none appear to be universally supported. Given the importance of agreeing and adhering to standards that underpin market confidence in "certified organic", this missing element is critical to achieving some semblance of sector alignment, enabling the collection and analysis of sector data to inform sector strategy, and to underpin a business case for investor and government support using Terms of Reference (TOR) that are developed and agreed by key stakeholders.

This begs the obvious question. Who indeed are the key stakeholders in the sector? Understanding this requires clearer understanding of the different value chains for human and animal consumers and both domestic and international markets. A lack of reliable data challenges putting together accurate size and value data for each distinct value chain and their elements but is a necessary starting point to understand who the key stakeholders are that need to be involved in the:

- Development of the sectors vision and goals
- Design of the Terms of Reference for a coordinating entity and certification framework
- Identifying where vulnerabilities and opportunities lie; and to
- Better inform decision-making for sector strategy and investment.

Efforts trying to communicate a value proposition of "certified organic" to consumers are wasted unless this alignment across key stakeholders can be achieved. Similarly, gaining government support for "certified organic" (as a value creation strategy for Australia that complements conventional agricultural production) is unlikely to be successful.

As noted previously in this report, major manufactures need to take a leading role in driving the sector towards more cohesion, a common vision, value proposition, common business practices, and education of the sector about value chain characteristics.

Sector direction and development are currently skewed by the commercial interests of certification organisations and major retailers. They are able to take advantage of the fragmented disunity of the sector for the benefit of their own business activities. However, if this continues, and the sector does not take this as an opportunity to reset, market confidence in certified organic will be undermined and value will be destroyed for all.

In the absence of a common sector vision and structure, manufacturers can develop their own vision and value propositions that may help the sector to become more cohesive.

NEXT STEPS

Some of the needs expressed in the primary customer research have been used to create a high-level sequence of goals for the sector to progress its development.

Optimising the sequence of necessary steps using dependency structure methodology, as shown in the following diagram illustrates the challenges for next steps for the sector. Coordination will be required for implementation of the dependent and interdependent activities that needs to be tackled in parallel, as decisions that are made in one element inform decisions in other elements (element ID's 1, 3, 4, 7, 9 and 10), but if this can be achieved, it should be much more straightforward to deliver on the other goals.

HIGH LEVEL SECTOR DEVELOPMENT ACTIVITIES

ID	Name	Seq	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
			Inputs provided by columns															
1	Agreed sector scope, vision and goals	1	1				●	●										
3	Quantified sector characteristics compared with conventional agriculture	2		3	●	●												
4	Availability of relevant data for analysis	3	●	●	4		●											
7	Specific growth and value creation opportunities within value chains identifi	4			●	7	●											
9	Different certified organic produce value chains mapped	5			●		9	●										
10	Key stakeholders in different value chains identified	6			●		●	10										
2	Sector value and investment opportunities identified	7	●		●	●			2									
8	Collaboration models in the value chain in place to capture value	8		●		●	●	●	●	8								
12	A single domestic standard agreed and accepted	9						●			12	●						
15	Certification framework agreed with key sector stakeholders	10						●			●	15						
5	Quality standards/systems for certified organic in place	11									●	●	5					
16	Governance structures to coordinate sector development in place	12	●					●					●	16				
14	Investment case for the sector developed	13	●	●	●					●				●	14			
13	Resources and approach to upholding standards in place	14									●	●	●	●	●	13		
6	Distinct and agreed certified organic marketing messages used	15	●										●			●	6	
11	Distinct production value chains quality assured from end to end	16					●				●		●			●		11

Whilst the sector is currently addressing the need to align to a single, agreed standard, progress towards an aligned sector will be better served by addressing the first 6 elements (shown in the pink block in the above diagram), as they show significant information dependencies and inform the goals later in the sequence. Fixing the “standards” issue will not be sufficient to align the sector in a way that will achieve the goals expressed by interview participants, and the need to make money in the short-term will continue to undermine sector development in the longer term.

PRIMARY CUSTOMER RESEARCH –ELEMENT DETAILS

Individual elements are discussed in this section of the report, with reference to the numbering and sequence of the high-level summary maps previously provided in this report.

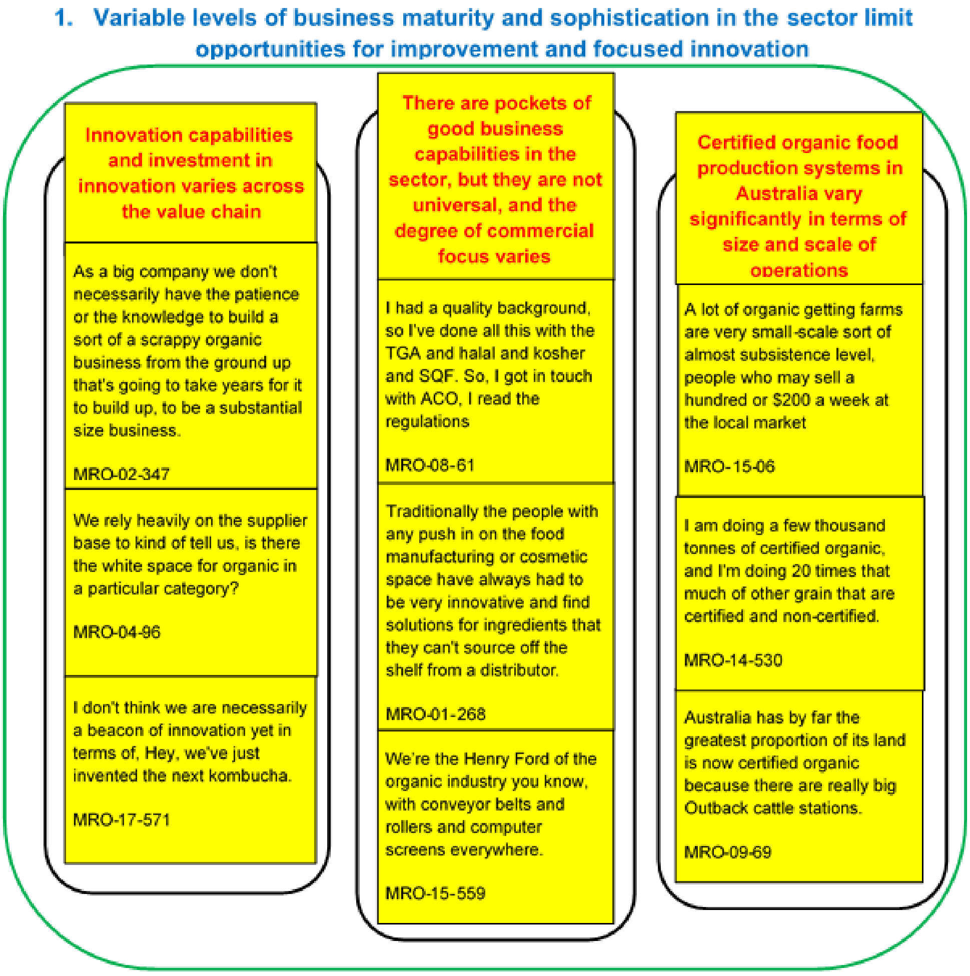
As a guide to understanding the information presented:

- Statements in black font are direct quotes that are representative of issued voiced my multiple interviewees.
- Red font statements are derived from affinity groups of black font statements, and explain their affinity.
- Blue font statements are similarly derived and are a statement that applies to that element of the map.

In other words, the elements are developed from the bottom up, and then red from the top down.

CURRENT STATE ELEMENTS

VARIABLE LEVELS OF BUSINESS MATURITY AND SOPHISTICATION IN THE SECTOR LIMIT OPPORTUNITIES FOR IMPROVEMENT AND FOCUSED INNOVATION

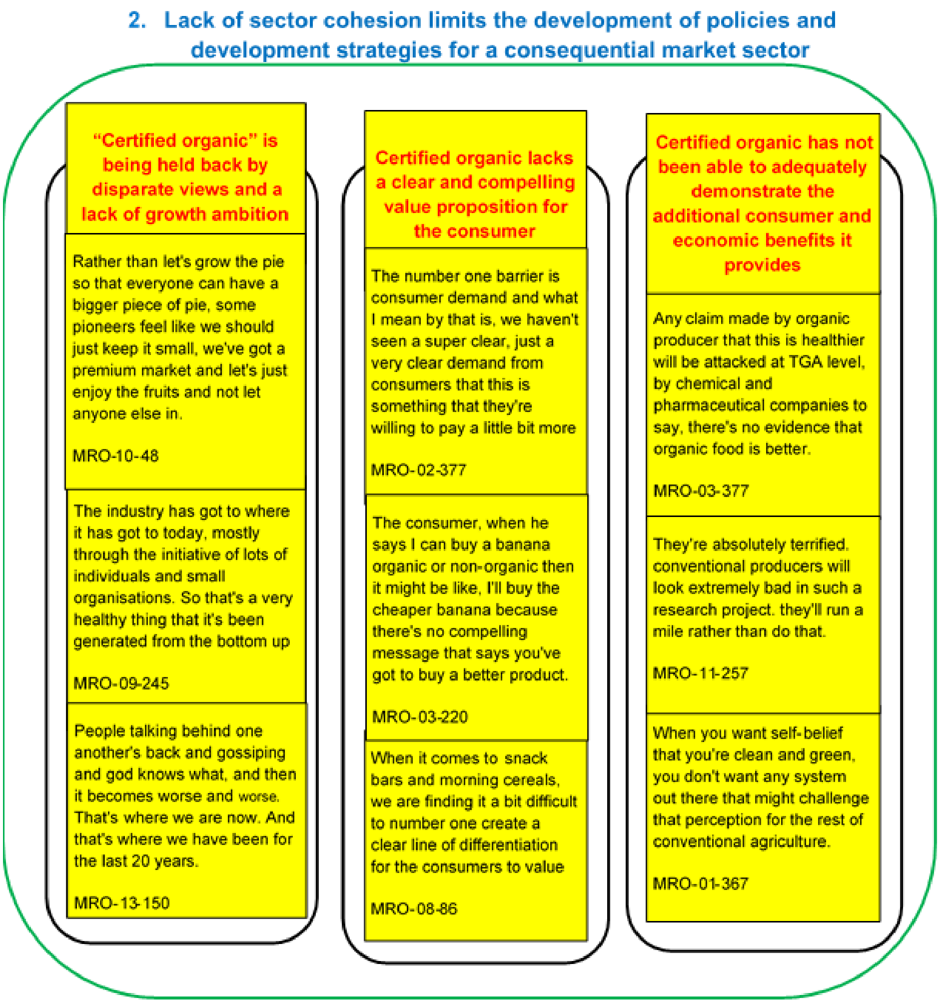


- The term organic, as used by interviewees was used to describe a non-uniform set of business features of organic food producers. For some operators the term 'organic' meant that the business had to be small and under the end-to-end control of the operator, whilst others were aware they were part of a supply chain.

- The understanding of the organic food production value chain was not uniform, even though operators were aware of being part of a supply chain.
- Innovation thinking and innovation capability were not at the forefront of thinking because for many organic seemed to be associated with 'old-fashioned', 'traditional', 'down to earth', 'sustainable', etc.
- A focus on traditional approaches to farming and a suspicion that science-based innovation for the farm sector must be bad is likely to result in reluctance to invest into innovation at the production and value chain level in certified organic.
- There is no clear delineation in some parts of the organic food environment for what is 'in' and what is 'not in' in the organic food spectrum.

Take-away: Lack of awareness of the need to clarify the landscape by describing what 'organic', 'certified organic' and other terms mean, and whether or not they are part of what the organic food industry wants to be in the eyes of the consumer. If the state of confusion within the industry continues consumers will remain confused and will not be able to follow any industry initiatives towards innovation.

LACK OF SECTOR COHESION LIMITS THE DEVELOPMENT OF POLICIES AND DEVELOPMENT STRATEGIES FOR A CONSEQUENTIAL MARKET SECTOR

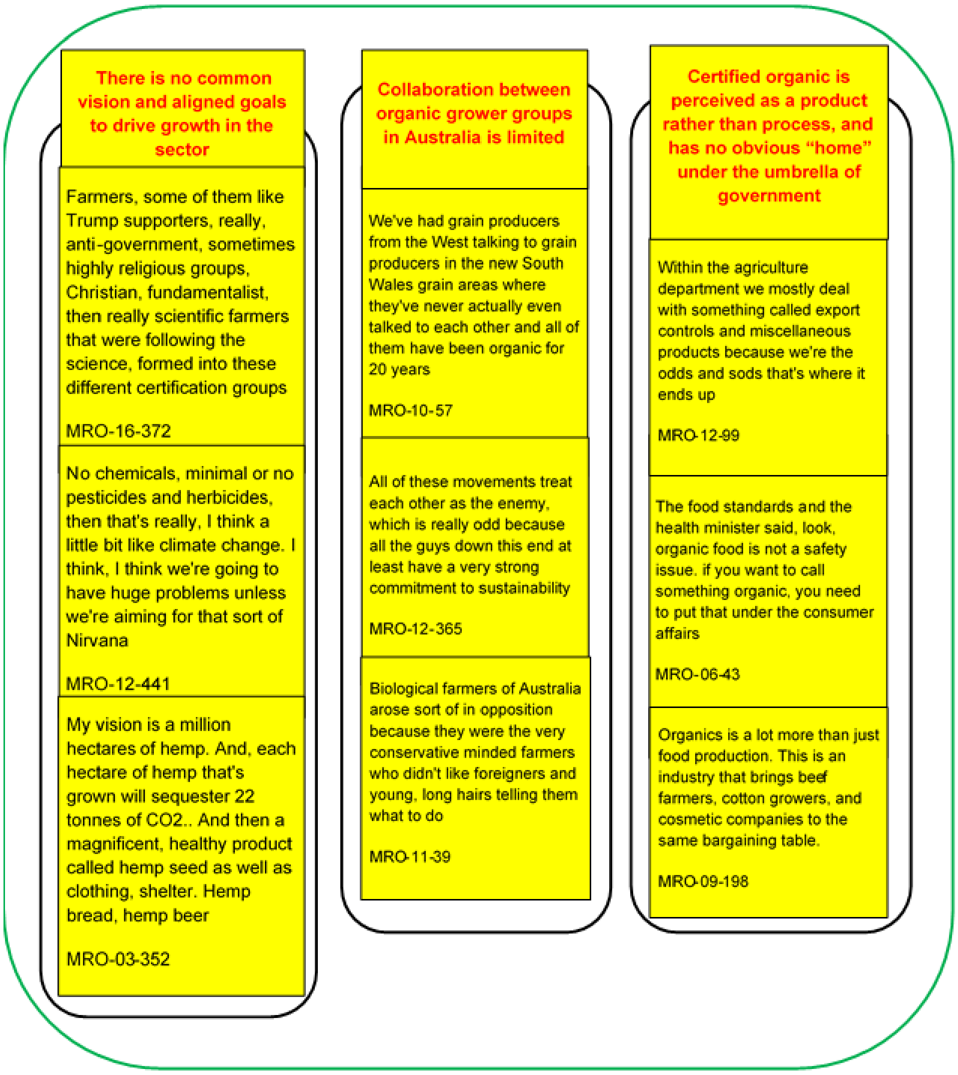


- The sector does not have a clear value proposition for the consumer at all. It is not clear how 'certified organic' labels provide value, compared to other labels or packaging statements, such as 'organic', 'farm-fresh', 'family farm product', 'biodynamic', 'chemical-free', 'sustainably produced' etc.
- There is obvious competition between various sub-sections of the organic food production sector and rare collaboration for a common larger good.
- This competition holds the industry back in terms of developing a clear value proposition that is agreed by all or at least a majority of produces, and that sets it apart from conventional food production.

Take-away: There is a deep lack of awareness of the need to define a common value proposition that can be understood by both producers and consumers and that then can be backed up by certification.

UNCERTAIN FIT UNDER CURRENT GOVERNMENT AND OTHER ECONOMIC AND SOCIAL AGENDAS INHIBITS SECTOR ALIGNMENT TO COMMON GOALS

3. Uncertain fit under current government and other economic and social agendas inhibits sector alignment to common goals

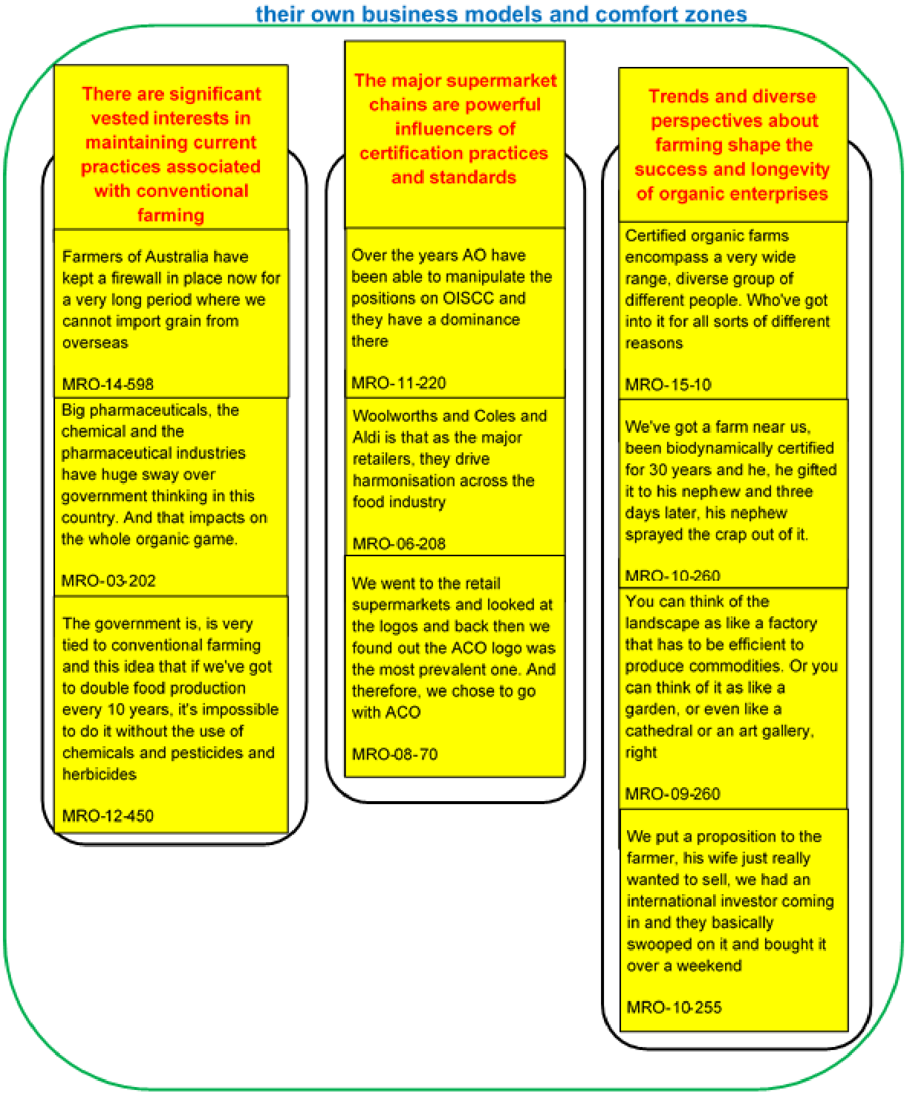


- Different segments of the industry are driven by different agendas, and strong agendas are getting in the way of coming up with one vision for all.
- Because of a high focus on competition between individuals and production philosophy proponents within the industry, communication towards developing a common vision and processed to deal with government for support of the sector have been largely failing.
- Government at all levels are equally confused as consumers about organic production systems (and their various incarnations), the value of organic products/production to the economy and suitable governance and government responsibility for the sector.
- There is no current understanding of the sector, at this point in time, that would enable it to describe the organic food value chain in economic terms and provide a useful economic value proposition for government to align behind.

Take-away: The lack of organic industry information that can demonstrate an economic organic industry value limits the ability of government to support the industry.

ALL SEGMENTS OF THE CERTIFIED ORGANIC FOOD SUPPLY CHAIN ARE TRAPPED IN THEIR OWN BUSINESS MODELS AND COMFORT ZONES

4. All segments of the certified organic food supply chain are trapped in their own business models and comfort zones

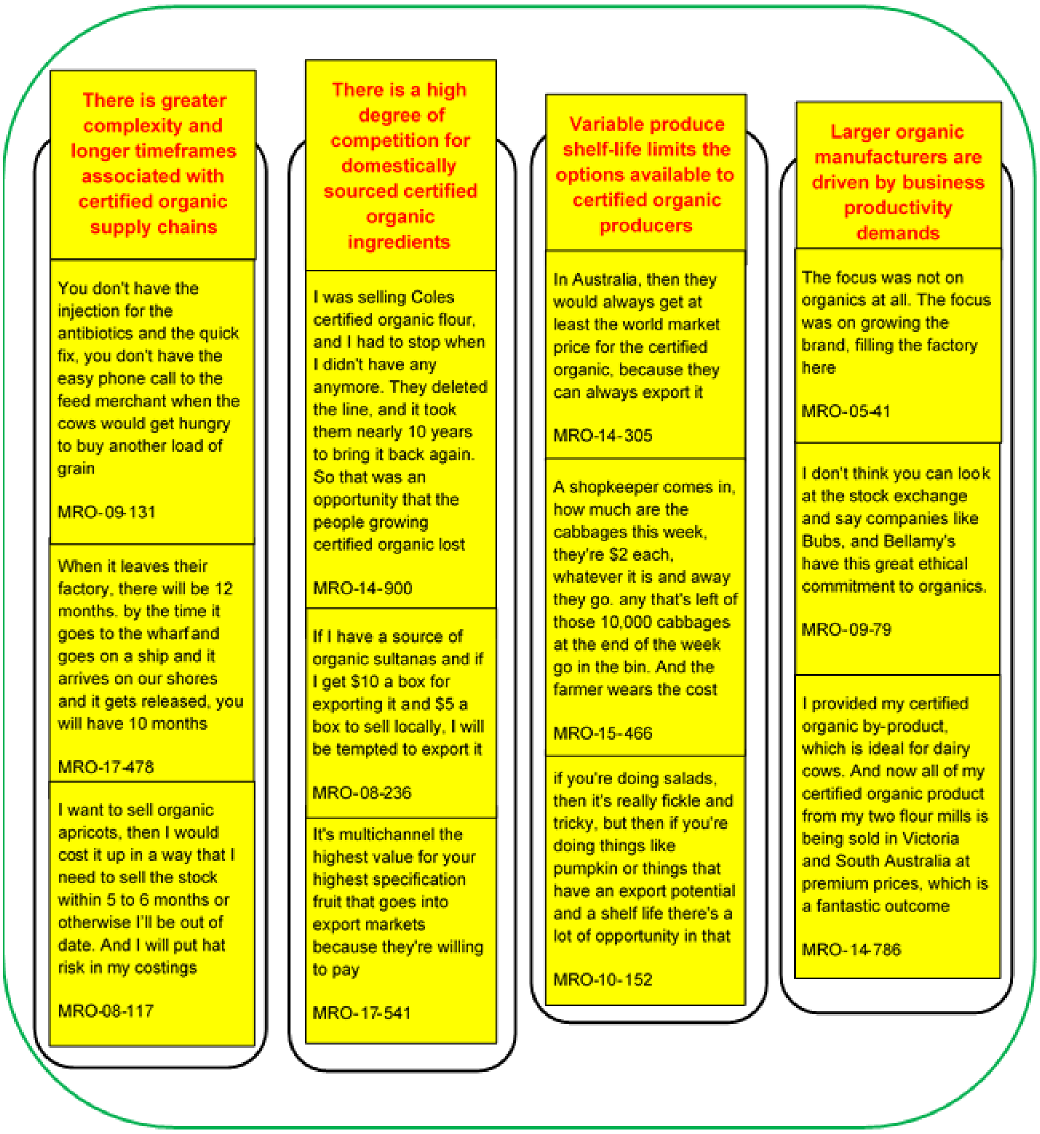


- The organic food supply chain is trapped in the mind sets and operating practices of its many segments and sub-segments.
- The lack of understanding of the industry by other segments of the food production chain and consumers makes any, and all, enterprises vulnerable to outside forces who don't have an understanding what 'organic' or 'certified organic' means in terms of a value proposition.
- The sector is vulnerable to short-term exploitation and long-term manipulation by powerful market forces, e.g., major supermarket chains where producers compete for shelf space on an unknown basis.

Take-away: The sector is not aware of how to identify and quantify its points of vulnerability to outside forces and to pinpoint how a unified value proposition might help in lowering vulnerability.

CURRENT SELLING AND BUYING METHODS ADD TO RISKS OF GUARANTEEING AVAILABILITY AND CONTINUITY OF SUPPLY AND PROCESSING

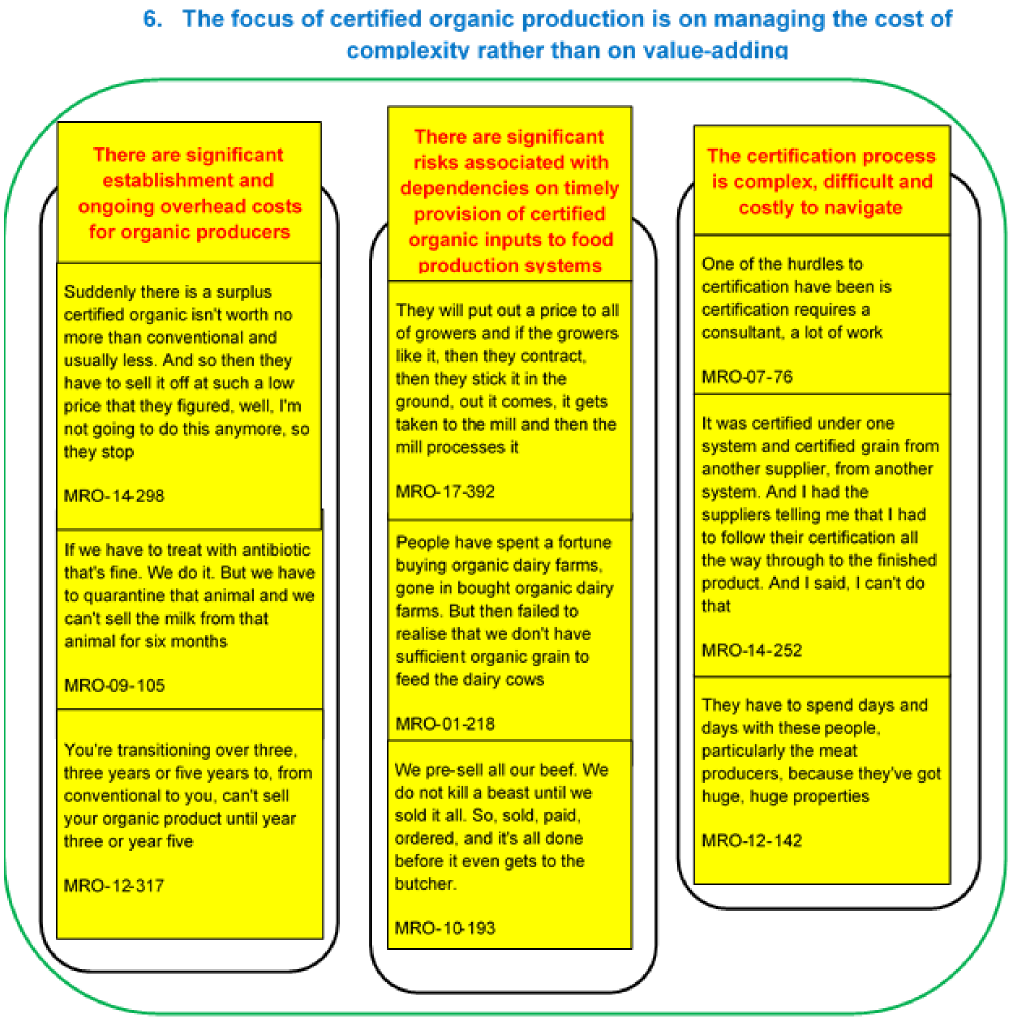
5. Current selling and buying methods add to risks of guaranteeing availability and continuity of supply and processing



- The organic food production process appears to be more complex and more costly due to higher risks that are caused by continuity of supply issues.
- It is currently not clear (no data) what the cost of this complexity/risk is and how to mitigate it.
- Current buying and selling methods may not be most suitable to the current geographic distribution, size and operating models, and import-export pathways within the sector and maybe contributing to higher prices for end consumers.

Take-away: There is a lack of compiled information on the currently used buying and selling methods and their geographical and temporal shortcomings and benefits to explore and develop new models that are more suitable for the sector. This is especially detrimental as traditional agriculture has significantly better access to data and as such better understanding of the consequences of inefficient and costly methods.

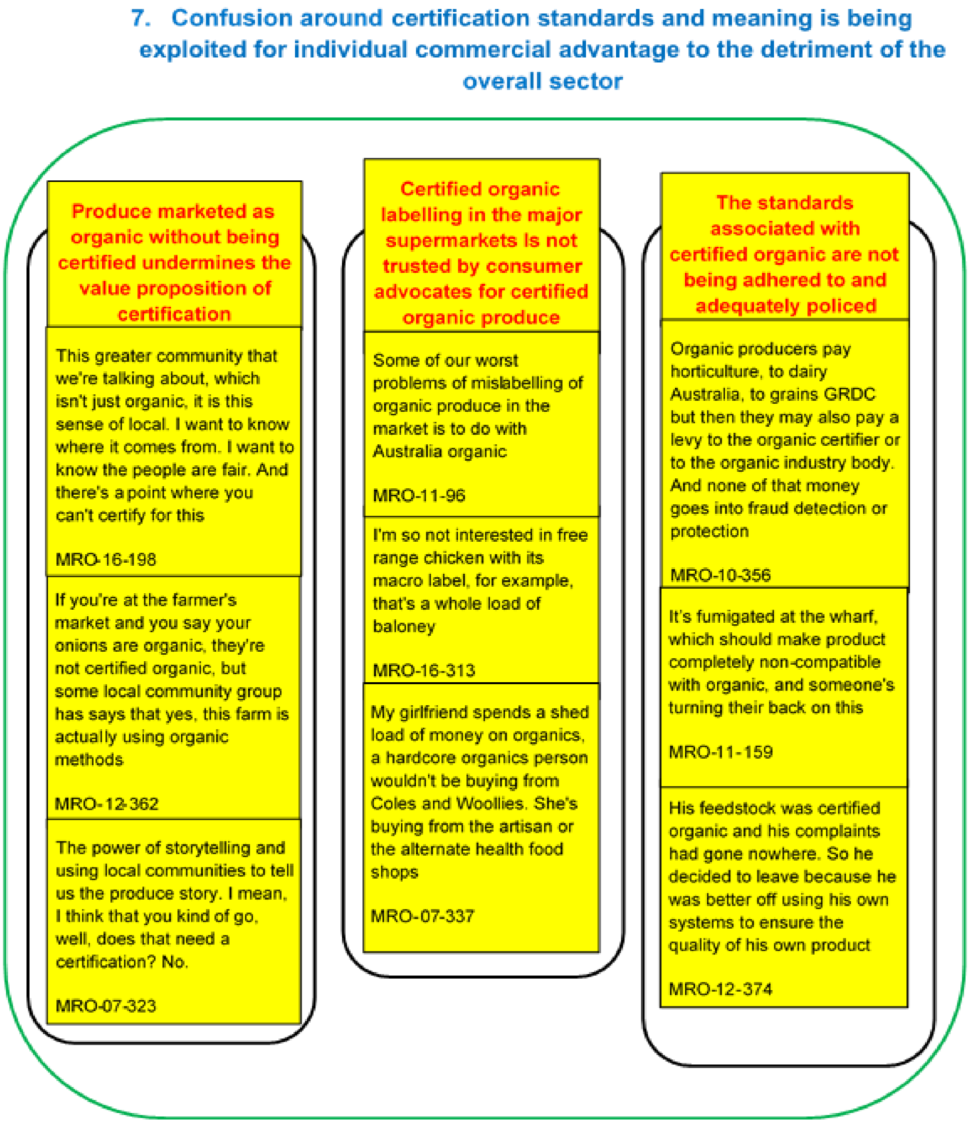
THE FOCUS OF CERTIFIED ORGANIC PRODUCTION IS ON MANAGING THE COST OF COMPLEXITY RATHER THAN ON VALUE-ADDING



- Organic food production systems are complex in terms of establishment, running, certifying products and production processes, as well as the selling and buying methods.
- It is very onerous for producers to follow a pathway chosen years ago and ensure profitability under current certification systems and customer confusion about the value of certification.

Take-away: The sector is either not fully aware of chooses not to analyse the certification process in terms of its value to consumers, producers, certification agencies, and the Australian economy, and make necessary changes to the process based on this evaluation.

CONFUSION AROUND CERTIFICATION STANDARDS AND MEANING IS BEING EXPLOITED FOR INDIVIDUAL COMMERCIAL ADVANTAGE TO THE DETRIMENT OF THE OVERALL SECTOR

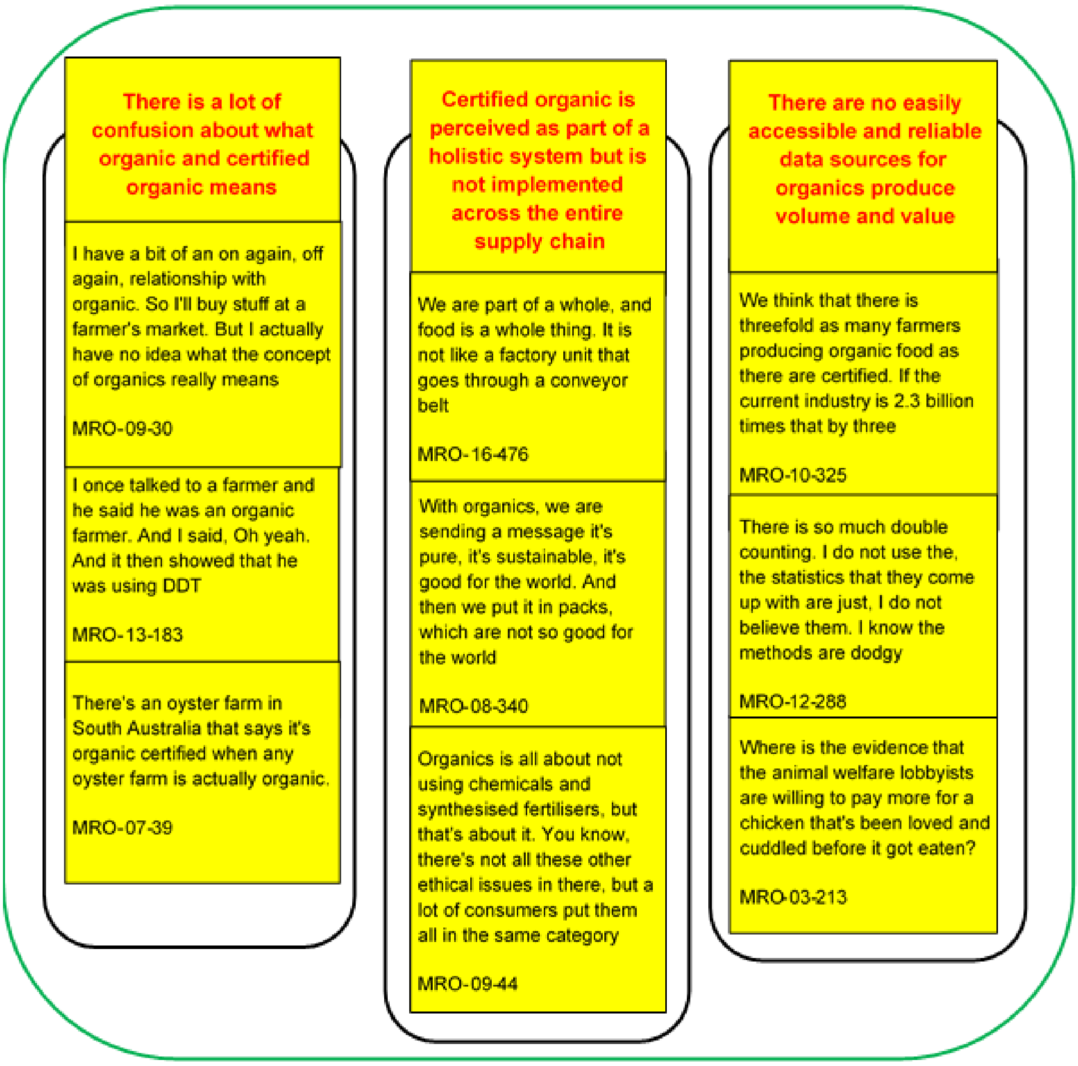


- The certification process for 'certified organic' is flawed in terms of how it is implemented and policed.
- Even though there is one 'certified organic' standard, there are other standards that producers adhere to. However, there is no information on the economic benefit of any of these standards in an environment of consumer confusion.

Take-away: The sector is not aware of the negative consequences of not having defined a clear common vision and value proposition for what 'certified organic' means for all parts of the value chain. This omission is one of the main drivers of a perceived low value of certification and prevents the capture benefits by all parts of the value chain.

THE SECTOR IS NOT ABLE TO EFFECTIVELY COMMUNICATE THE MEANING, VALUE AND BOUNDARIES OF CERTIFICATION AND STANDARDS

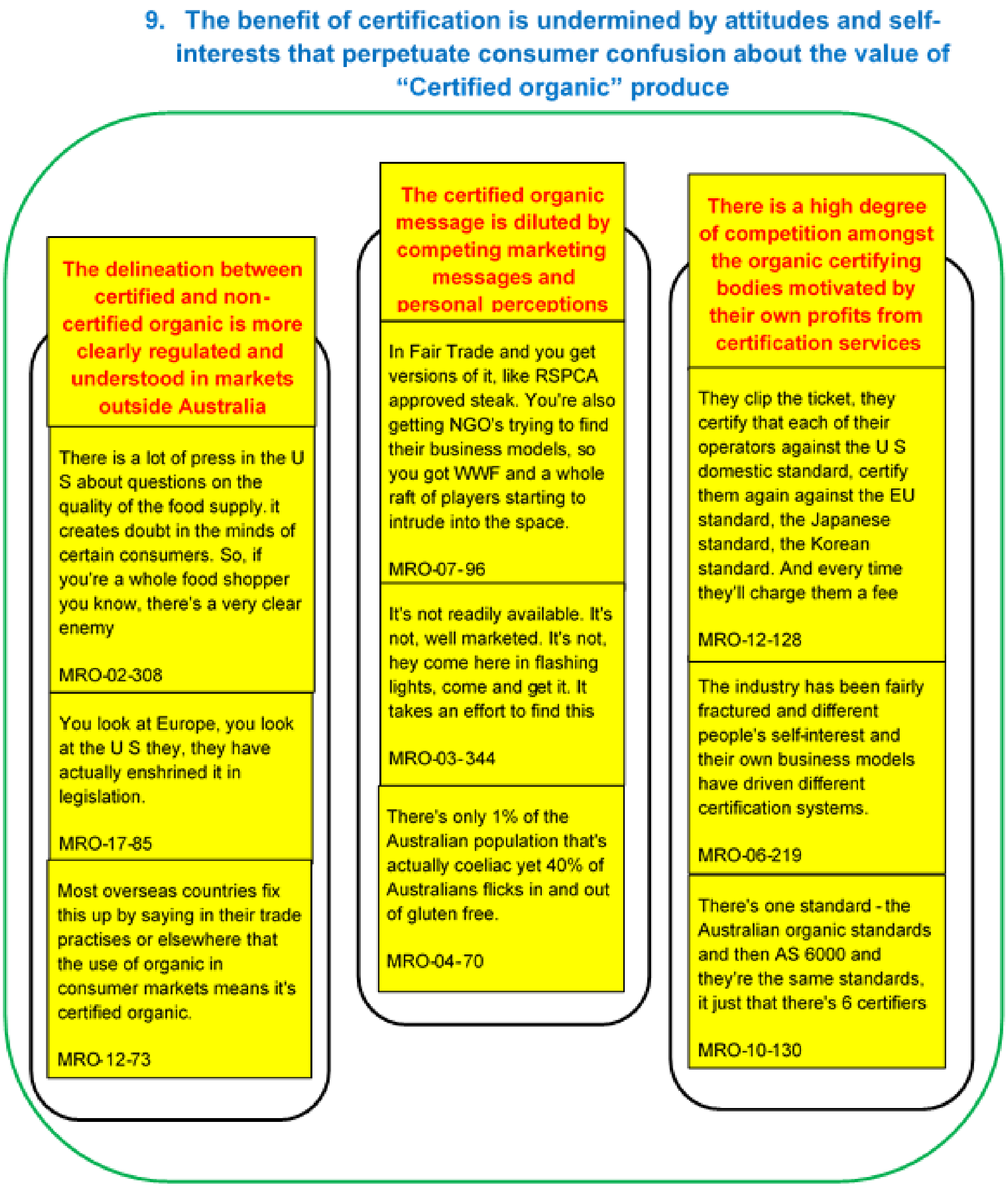
8. The sector is not able to effectively communicate the meaning, value and boundaries of certification and standards



- The most fundamental issue for the sector is that it has not been able so far to clearly define the limits and value of ‘certified organic’.
- Because of this inability it has also not been able to delineate itself from other ‘non-certified’ organic sub-sectors and the conventional farming and food production sector.

Take-away: There is a lack of awareness that the clear definition of the boundaries and the benefits of certification followed by implementation and policing of an agreed certification system creates value.

THE BENEFIT OF CERTIFICATION IS UNDERMINED BY ATTITUDES AND SELF-INTERESTS THAT PERPETUATE CONSUMER CONFUSION ABOUT THE VALUE OF "CERTIFIED ORGANIC" PRODUCE

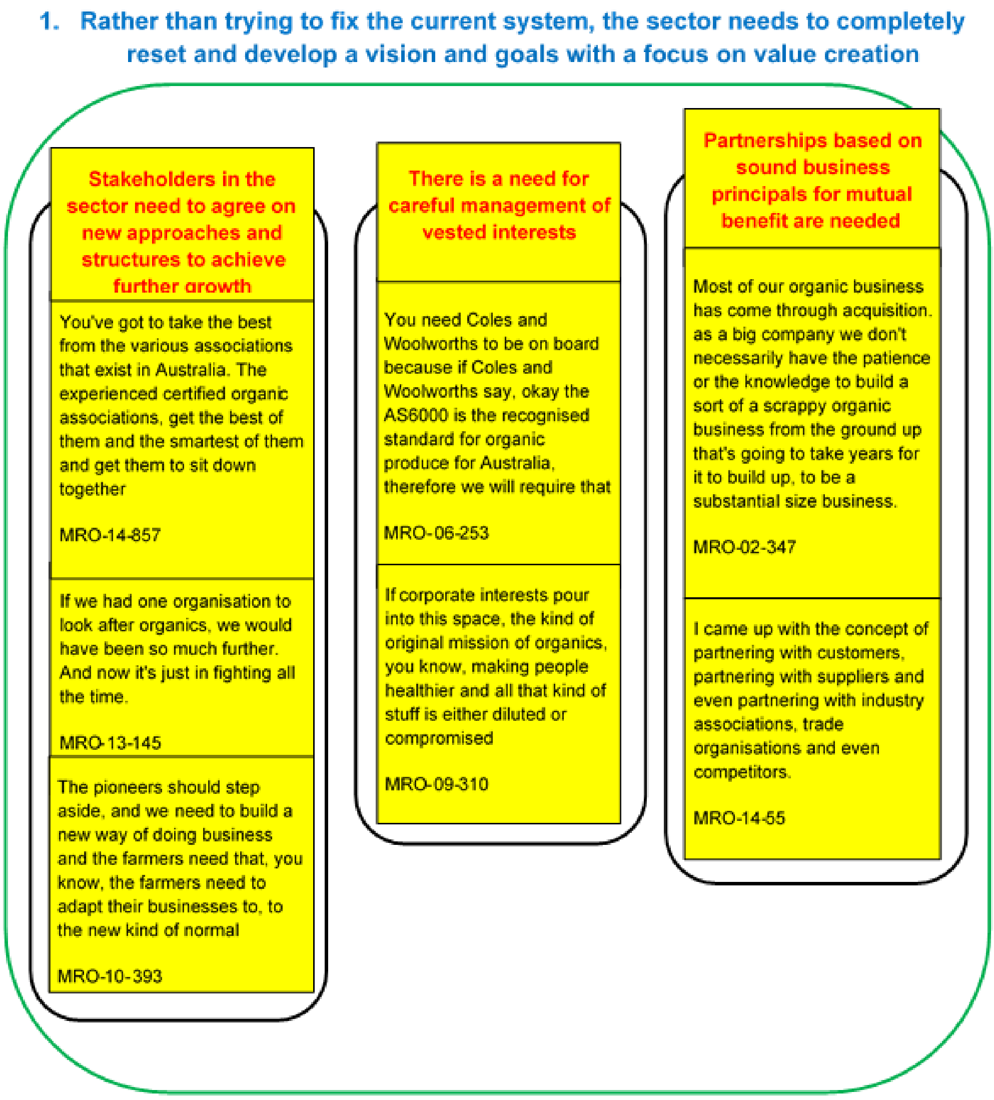


- The certification process in Australia is not as streamlined and clearly defined as in some other international markets who have more experience with this issue.
- In Australia, clearly there are competing certification systems and individual/organizational self-interests that undermine the value of organic certification.
- Clearly, opportunities are missed within the Australian and international export markets by not having a meaningful standard that is well policed and underpins the value of 'certified organic' food production.

Take-away: The sector does not have a clear marketing message that is competitive nationally and internationally.

PERCEIVED NEEDS AND OPPORTUNITIES

RATHER THAN TRYING TO FIX THE CURRENT SYSTEM, THE SECTOR NEEDS TO COMPLETELY RESET AND DEVELOP A VISION AND GOALS WITH A FOCUS ON VALUE CREATION

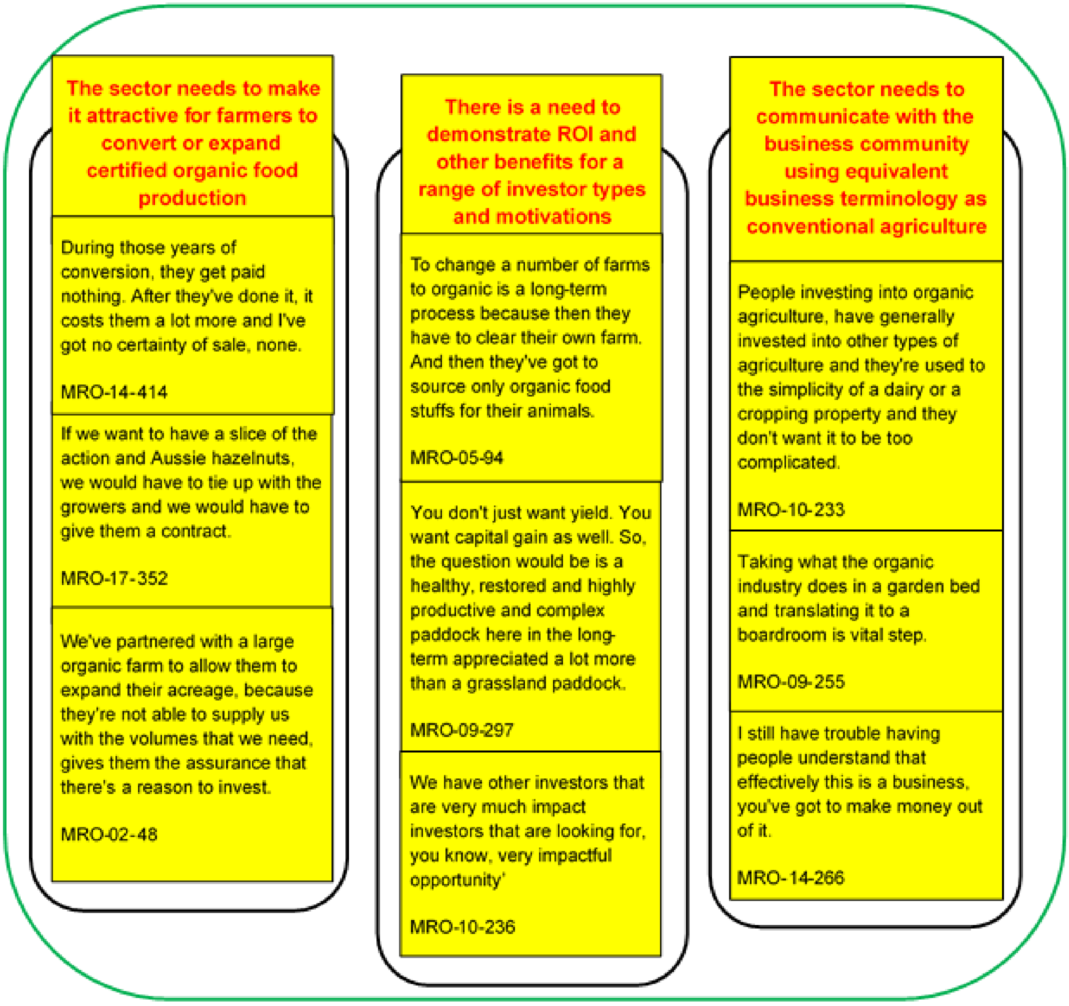


- Producers and manufacturers across the value chain were aware that 'something is really wrong' or at least 'not completely right' in the current organic food value chain approach.
- The thinking focused on fixing problems in the current value chain instead of stepping back and analysing first where the shortcomings are.
- Consequently, the provided statements were offering proposed 'solutions' for fixing perceived problems.
- The red statements provide a higher level of abstraction than needs assumed from proposed solutions.

Take-away: It is clear that a new approach to deriving at a more effective industry structure would require the sector to better manage vested interest at all levels and base structural reform and partnerships on sound business principles.

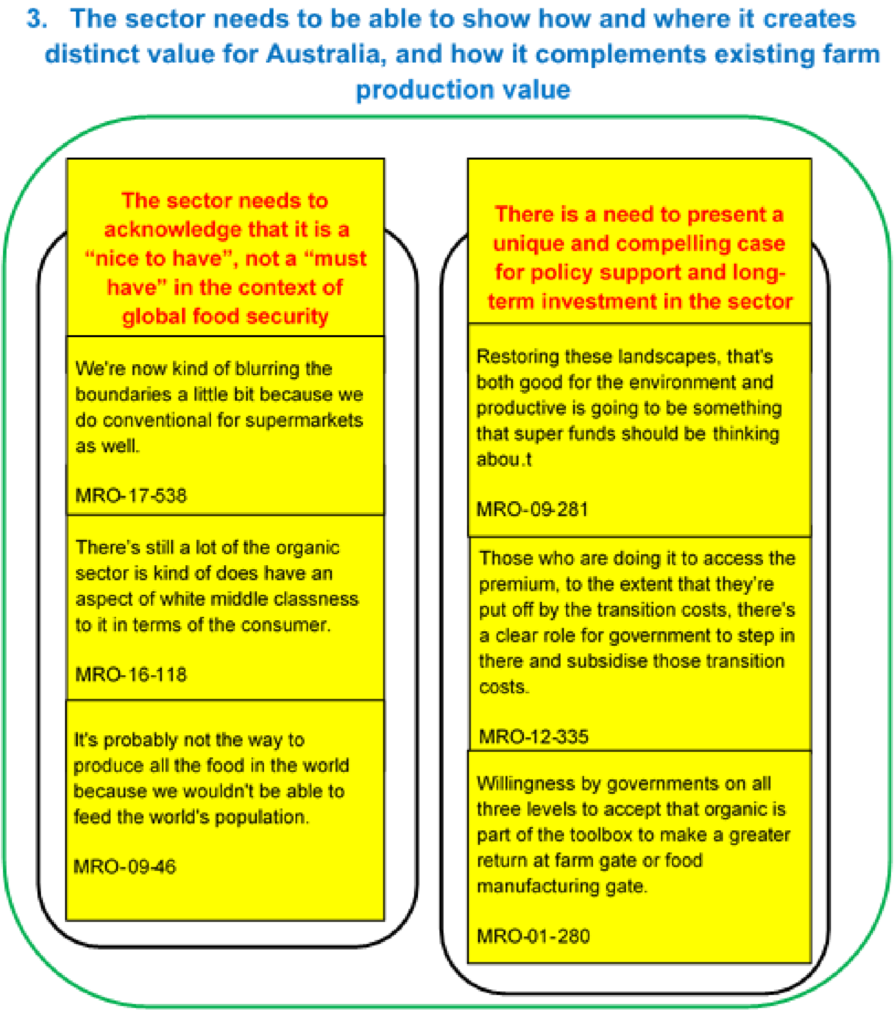
THE SECTOR NEEDS TO COMMUNICATE ITS VISION, VALUE AND INVESTMENT OPPORTUNITIES MORE EFFECTIVELY TO GOVERNMENT, INVESTORS AND OTHER STAKEHOLDERS

2. The sector needs to communicate its vision, value and investment opportunities more effectively to government, investors and other stakeholders



- Organic enterprises need to be able to be valued not only as conventional farming land assets but also considering their long-term value-add potential, clearly demonstratable ROI and other value measures that make investment to mainstream investors acceptable.
- This requires that the sector has a clear vision, measurable goals, and a strong industry governance structure.

Take-away: It is clear that the main shortcoming of not having a clear vision and goals can neither be fixed overnight nor translated into a strong structure with a forward-looking value-add culture. However, it is possible that individual enterprises, and especially large and more professionally run production and manufacturing enterprises can lead the push towards these goals, and in the meantime develop metrics at least for their own enterprises.



- The lack of a strong industry structure with a clear vision makes it currently impossible to collect sufficient data within the sector and from other sources that could help demonstrating the value of the sector.
- The value proposition that the sector will choose will clearly not be competing with that of mainstream agriculture (as a provider of cheap/affordable food for global distribution).
- The value proposition for organic sector therefore needs to be strong in terms of the way it distinguishes itself from mainstream agricultural production.
- Organic food production needs to demonstrate value that is **not** based in low-cost production and/or to compete with conventional products side by side on a supermarket shelf.

Take-away: The sector needs to be very clear about how it can demonstrate value so that the value of an enterprise, the sector, individual products, processes used etc. can be clearly described, quantified, and communicated. The existence of products on a supermarket shelf side by side with a similar mainstream product does not demonstrate value, especially if it is similarly priced of displayed.

THE SECTOR HAS TO COLLECT AND ANALYSE RELEVANT DATA TO ASSIST IN PLANNING AND DECISION-MAKING IN ORDER TO DEMONSTRATE VALUE

4. The sector has to collect and analyse relevant data to assist in planning and decision-making in order to demonstrate value.

The only way that you can prove that it is a truly certified product is because you've got a supply chain and evidence in the supply chain that someone has verified it. Otherwise, you have to assume it's not.

MRO-06-334

We don't track organic as a node in our sales reporting, if that makes sense. So, I can't pull a report that says, you know, this percentage of my sales are coming from organic.

MRO-04-29

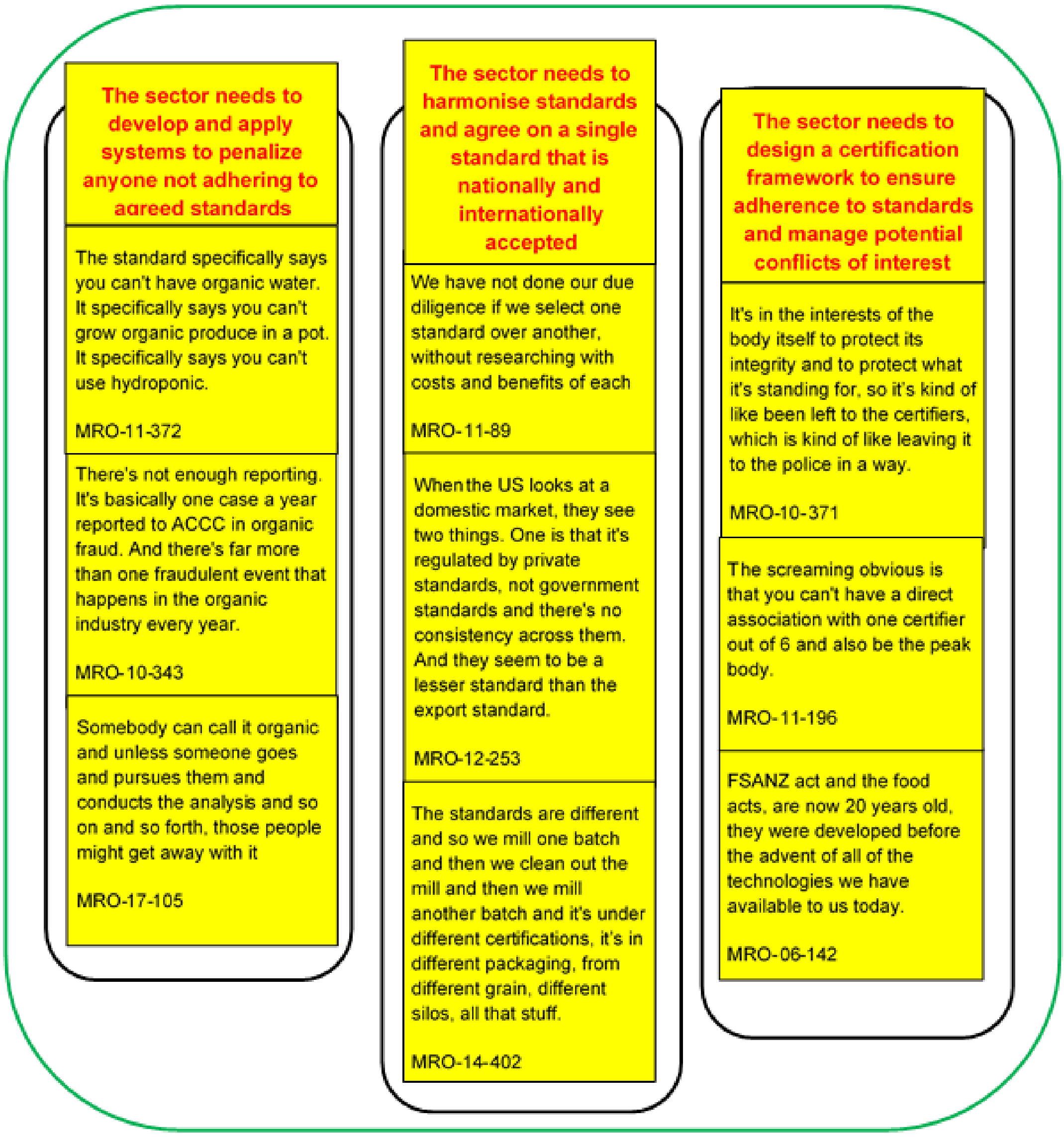
I have analysed data of the ABS of 2010 and 2015, and we have fought hard for the ABS to include collection of that data, but they have just decided that they won't do that anymore

MRO-13-212

- The sector needs to find ways and means to collect meaningful data that allows stakeholders to evaluate value created, people employed, products exported and imported etc.
- If this information cannot be provided by government, the sector needs to find other ways of collecting that information as it is vital for being attractive for investors and to gain and maintain government support.

Take-away: The lack of data is seriously holding the sector back and that needs to be rectified.

5. The quality standards underpinning "certified organic" have to be universally understood, upheld and respected by all stakeholders and consumers.

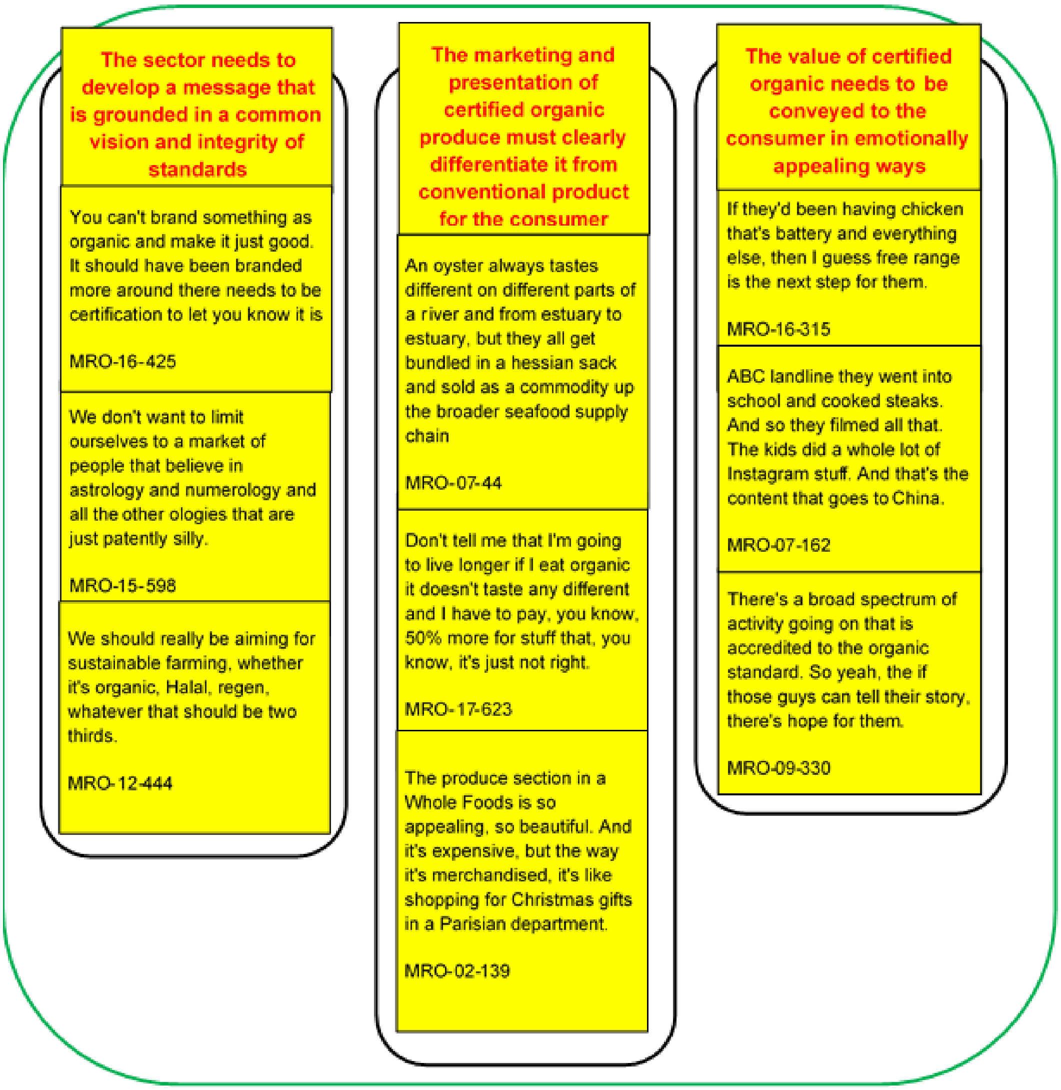


- The sector suffers from a multitude of competing standards that appear to mean more to those adhering to them than to the consumers of organic food. The lack of a harmonized single standard results in standard-shopping, extra costs for all members of the value chain, and customer confusion.
- Once a unified vision and goals have been adopted, a harmonized standard can underpin that vision – provided it is unanimously adhered to and rigorously policed by the sector.
- If the Australian sector is trying to align itself with international certified organic export markets it would be advisable that their standards are explored and harmonized with, if possible.

Take-away: The 'certified organic' standard needs to mean something that is of higher value compared to other standards and certificates. The certification process needs to be independent and uncompromisable.

THE SECTOR HAS THE OPPORTUNITY TO CREATE DISTINCT CERTIFIED ORGANIC MARKETING MESSAGES THAT COMMUNICATE A CONSISTENT VALUE PROPOSITION TO CONSUMERS

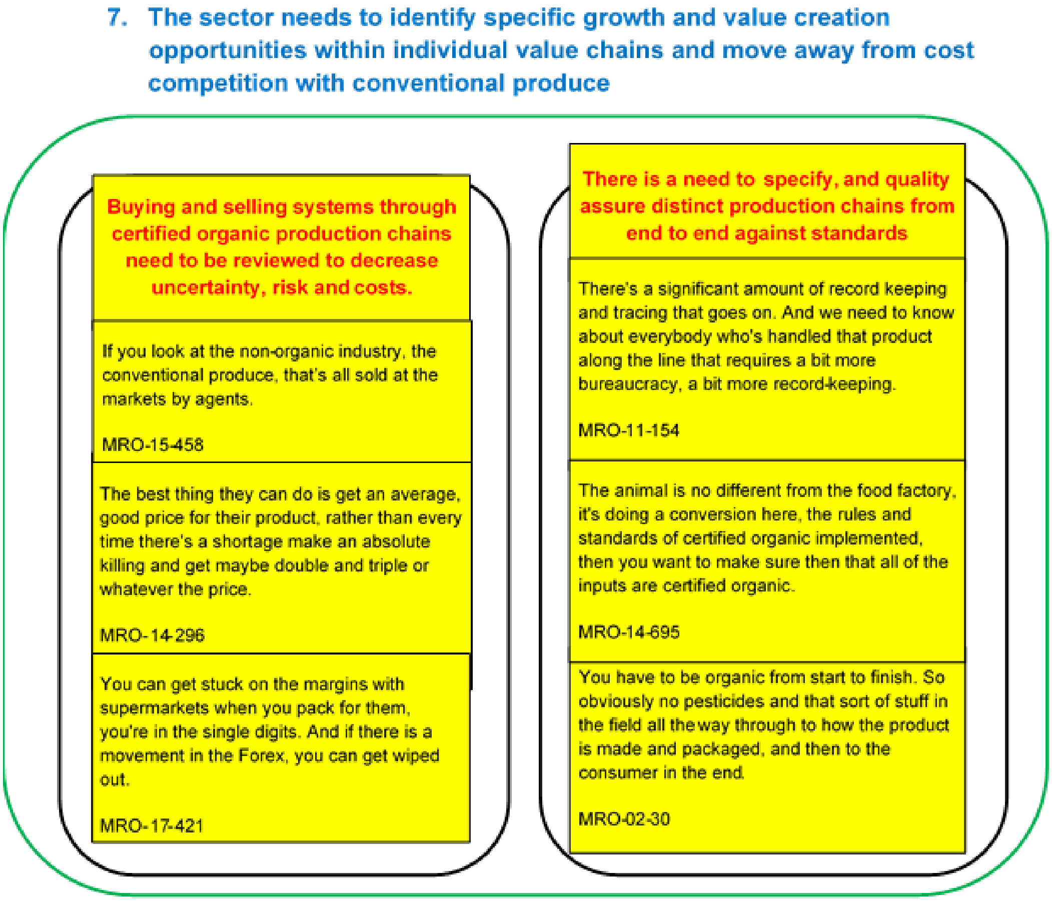
6. The sector has the opportunity to create distinct certified organic marketing messages that communicate a consistent value proposition to consumers



- It appears that there is no unified ‘certified organic’ marketing message that has been designed to communicate the value of certified organic food and the processes that created the food available to buy. Marketing messages seem to be produced by individual producers/manufacturers feeding into perceived consumer assumptions of what ‘organic’ means for them.

Take-away: The marketing message for “certified organic” needs to focus on the value of the product and not comparison with conventionally produced products using meaningless terms like ‘healthy, farm-produced, biodynamic and other labels that sound nice but do not mean much for the consumer, especially when they are faced with two similar products on a supermarket shelf, one ‘certified organic’ and one not.

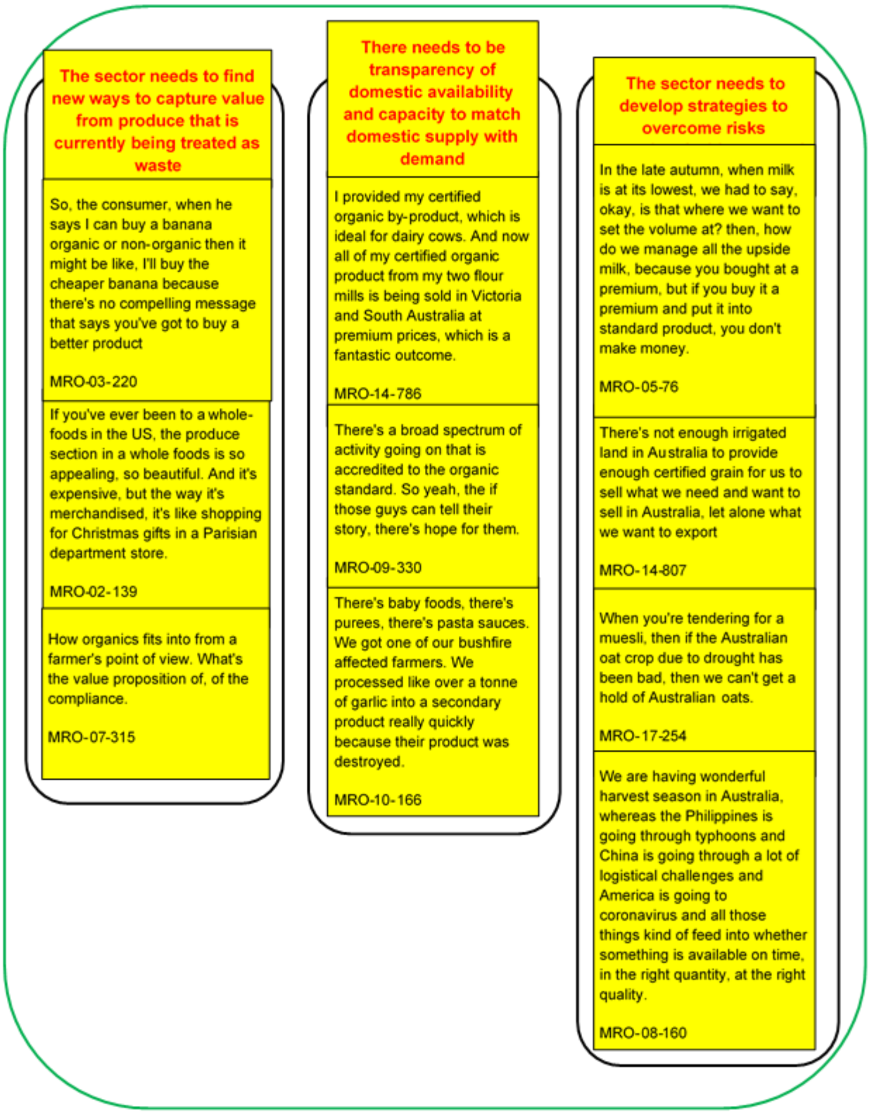
THE SECTOR NEEDS TO IDENTIFY SPECIFIC GROWTH AND VALUE CREATION OPPORTUNITIES WITHIN INDIVIDUAL VALUE CHAINS AND MOVE AWAY FROM COST COMPETITION WITH CONVENTIONAL PRODUCE



- Many currently used buying and selling methods have shortcomings for organic producers. However, operators often are not aware of better methods or where to minimise losses.
- The lack of awareness of all facets of current product value chains appears to be a barrier preventing producers from looking for other options and evaluating where in the value chain they might capture benefits that they currently are not aware of.

Takeaway: Smaller producers in particular seem to be unaware of any options they have. There is a need to educate producers about the characteristics of different value chains and buying and selling methods available/in use. The change of focus from just selling to creating/capturing value at each step will go a long way toward repositioning the sector.

8. Businesses in the value chain need to collaborate to identify and exploit opportunities to capture value from certified organic produce



- The sector appears to carry higher risks compared to conventional agriculture that has many more ways of directing outputs to a variety of outlets and purposes, whilst organic produce can typically either only be directed into another organic value chain or reduced in price and directed into the conventional value chains, thereby losing money.
- More information needs to be collected and distributed on existing organic value chains, geographic locations of complementary producers that can take up organic product when it is in surplus or needs to be moved quickly to reduce economic loss.

Take-away: The sector needs to develop strategies that proactively direct risk prevention and mitigation. This is in addition to a sector value proposition that focuses on value creation to ensure that risks don't hinder the capture of higher values.

APPENDICES

PROJECT METHODOLOGY

The methodology used for this project was the Voice of the Customer (VOC). The VOC approach has its traditional roots as an essential step in New Product and Service Development (NPD). It is designed to identify:

- Current issues with existing products and services of a product/service supplier
- Current issues in the operating environment of product/process/service users that drive the use of current products/processes/services and their search for new products/services
- Overt/perceived needs of the product/process/service users for improved products/services
- Hidden or covert needs for products/services that are currently not available on the market.

A structured interview process is used for this process, in which firstly a representative interview matrix is constructed that covers the value chain of an industry sector and then interviewees who agree to participate are asked to discuss five to six questions to uncover the issues and needs described in the dot-points above.

The results from this process are then used to identify common issues and needs for each industry sector. The ultimate step of this bottom-up approach is to analyse the issues and needs to arrive at a concise list of issues and perceived needs.

STRENGTH OF VOC

The strength of the VOC process is in its ability to drive development of innovative solutions beyond simply incremental improvement of existing solutions. Past experiences globally have shown that those companies and organisations that have used this approach have made step changes in innovation and increased their revenue substantially above those experienced with incremental product development. The structured interview approach throughout the value chain enables further input into requirements generation, prioritization and solution testing.

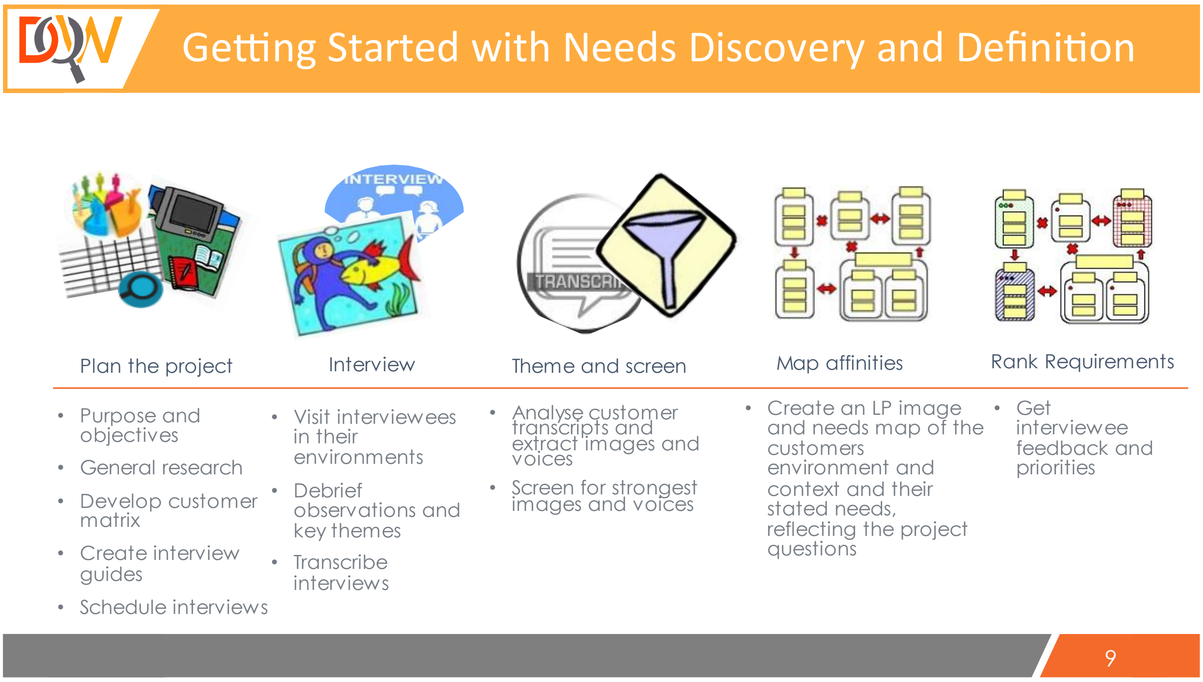
WHAT VOC IS NOT

VOC is not a Business Development process. The interview matrix is designed to select interviewees that are representative of the stages in the sector value chain. Interviewees are not selected according to their potential for becoming future customers or their perceived attractiveness as customers. Interviews are not used to try and sell services or products, defend current products or services, or offer new options or customisations. Interviews are used only to find out current uses, issues and needs.

NEEDS DISCOVERY AND DEFINITION

This project is focused on the first stage of the Voice of the Customer methodology only - needs discovery and definition. The four key stages of needs discovery and definition are:

1. **Project planning** – encompassing development of customer interview matrices, general research, creation of interview guides and scheduling of interviews
2. **Interviewing** – interviewing customers and transcribing interview audios
3. **Theming and screening** – analysing interview transcripts and highlighting images and voices, and screening to retain the strongest images and voices for mapping
4. **Affinity Mapping** – creating image and needs maps for each sector. These maps are typically then shared with all interviewees and a broader range of people in the sector to assist in prioritizing the needs identified.



Expressed needs are not requirements. Further work is required to take the outputs of projects to develop, validate, rank requirements, and specify success metrics that can be used to scope projects that are both aligned to strategy and capabilities and offer solutions to customers that have clearly defined and agreed benefits.

INTERVIEWEES

Seventeen people were interviewed across a range of organisation types with interests in organic food production, processing, retailing and certification in Australia:

	Organisation Size			***Value Chain Stage***							***Organisational lifecycle stage***				Organisation Type			
Business Focus	S	M	L	Production (Farm)	Processing	Import	Export	Wholesale	Retail	Other	Start up	Growth	Maturity	Renewal	Corporate	Domestic	Multinational	Other
Food Manufacturing			X		X	X	X	X				X			X			
Food Retailing			X						X				X		X	X		
Food Manufacturing		X			X			X				X				X		
Food Retailing	X			X				X	X			X				X		
Food Production	X			X	X					X		X				X		
Food Business Incubation	X									X	X					X		X
Food Manufacturing			X		X	X		X					X		X	X	X	
Certification	X									X			X			X		X
Food Manufacturing		X			X				X			X				X		
Food Wholesaling		X		X		X		X				X						
Consumer representation	X									X		X						X
Food Production	X			X						X		X				X		X
Food Business Consultancy	X									X		X						X
Consultancy Business	X									X			X			X		X
Agricultural Research	X									X	X							X
Food Production			X	X	X		X	X			X					X		
Agricultural Research	X									X			X					X

INTERVIEW GUIDE

An interview guide was designed, structured around the following open-ended questions (and adjusted as necessary for specific interviews):

Q #1: Tell me a little bit about what you do and your background and experience with organic food, products and/or ingredients and what organic means to you

Q #2: Tell me your thoughts as to how "organics" are growing in Australia and how that compares with what's happening in other markets

Q #3: What are the key internal and external drivers for new product development for your organisation?

Q #4: Tell me about the most spectacular organic product success or failure that you have had or seen

Q #5: What's next for organics in your business?

Q #6: If I could wave a magic wand and time and resources were no object, what would you get rid of or create to make what you are trying to do easier to achieve?

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