Towards Sustainable Food Consumption?

Exploring the role of the food retailers in the development of the Swedish organic food market

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Abstract

Unsustainable patterns of production and consumption are one of the major environmental concerns in the industrialised world today. Regarding production, organic agriculture is a more sustainable way of producing food than conventional farming. To facilitate for an expansion of the organic food production, there must be a corresponding increase in demand for organic products. The retailers, positioned in the middle of the food distribution chain, have a key role regarding both these aspects. Therefore, the aim of this thesis is to explore how the Swedish organic food market may be strengthened by the food retailers: What are the driving forces and obstacles for retailers to include organic food in their business strategy? How do the actions of the food retailers affect the other actors on the organic market? A case study with four Swedish retail chains; Coop, ICA, Hemköp and Netto, is conducted. Economic theories explaining corporate strategies, ranging from the traditional neo-classical theory to theories about Corporate Social Responsibility, are used as tools for the analysis. Furthermore, a Causal Loop Diagram (CLD) is used to capture the dynamics of the organic food market. In the thesis it is concluded that the driving forces for the retailers to offer organic food are the business opportunities that organic food can provide, including the possibilities for green profiling, the potential to capture new customers who demand healthy food, and to get a competitive advantage towards other chains in the same segment. Other driving forces were demands from the owners and the wish to improve stakeholder relations. The retailers do not perceive any major external obstacles for a further expansion of their organic assortment. Instead, it is attitudinal and administrational barriers within the own organisation that have to be overcome. The case retailers affect the demand side by offering their customers an organic assortment, by increasing the attractiveness of organic food for their customers and in the case of Coop, by adopting a different pricing policy on organic food. The supply side is affected through long-term contracts with the suppliers.

Keywords: sustainable consumption, organic food, market dynamics, food retailing, corporate strategies
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1. Introduction

Background

Unsustainable patterns of production and consumption are one of the major environmental concerns in the industrialised world today. These concerns were acknowledged during the 2002 Johannesburg World Summit on Sustainable Development. Among other things, it was decided that a ten-year general agreement would be established, with the principal goal to speed up the transition to sustainable modes of consumption as well as production, facilitating for a social and economic development within the limits of the ecosystem.

As a part of the Johannesburg resolution, the Swedish government appointed biologist Stefan Edman to propose a strategy towards environmentally, socially and economically sustainable Swedish consumption (Dir 2004:37). On this matter, the interim report “Hållbara laster. Konsumtion för en ljuare framtid” in 2004, and the final report ”Bilen, biffen, bostaden. Hållbara laster – smartare konsumtion” in 2005 has been produced. Here, Edman points to three key problem areas: today’s food consumption, as well as household energy and car use, and proposes different measures that would enable the Swedish population to eat, live and travel more sustainable.

The two reports served as the departure point for this thesis, though the author has chosen to focus on the aspect of food consumption. Shifting to organic agriculture is proposed by Edman as one way to tackle some of the environmental problems of the current Swedish food production and consumption. In fact, 16 percent of the Swedish arable land is already cultivated with organic production methods. At the same time, the Swedes buy organic food for about 4 billion SEK a year, which only adds up to 2-3 percent of the total Swedish food consumption (Ekologiska Lantbrukarna 2004, p. 4; SOU 2004:19, p. 126).

Edman argues that a further increase in production can not be attained and maintained without a corresponding growth in demand. To attain the desired shift in demand, Edman assert that all actors on the food market must be involved (SOU 2005:51, p. 65).

Out of these actors, this thesis focuses on the retailers. With their position in the middle of the food distribution chain, the retailers have the capacity to influence the demand as well as the supply side. In fact, it is argued by Burt and Sparks (1994) that “[the] growing concentration within the retail sector together with the expansion of retailer brands has made the retailer a dominant actor within the entire food distribution chain” (in Tjärnemo 2001, p. 10). Likewise, Lagnevik and Tjärnemo (1998) argue that retailers are gaining power as their role has shifted from a passive facilitator of a more active, customer oriented approach (ibid.).

With regards to the organic market, the general trend in Europe is that the distribution of organic food via retailers has proved favourable for the consumption of organic food and thus for the development of the organic market as a whole. For instance in Switzerland, with the highest

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1 Roughly translated as "Sustainable indulgences. Consumption for a brighter future" and “The car, the steak and the dwelling. Sustainable indulgences – smarter consumption” (author’s translation).

2 This trend is contradicted by Germany, the largest overall market for organic food in Europe, where only 33 percent of the food finds it way to the consumer through the retailer (Ekologiska Lantbrukarna 2004). In Germany, there is instead a strong tradition of buying organic food in health stores.
organic food consumption per capita in Europe, 71 percent of the organic food sales was distributed via the retailers. In Denmark, where organic food represents 6 percent of the total food sales, the retailers sold as much as 86 percent of this food. The Swedes, who are the third largest consumers in Europe, buy 73 percent of their organic food in the grocery stores. (Ekologiska Lantbrukarna 2004)

Furthermore, Lagnevik and Tjärnemo (1998) concluded that “the Swedish retailers [are] a major driving-force for the market growth of ecological food products” (in Tjärnemo 2001, p. 10). For these reasons, the author believes that the retailers have the potential to be important drivers in a further development of the organic market and thus also in the shift towards more sustainable food consumption.

Thesis Objective & Research Questions

The overarching objective of the thesis is to explore how the Swedish organic food market may be strengthened by the domestic food retailers. More specifically, the aim of the thesis is to answer the following questions:

What are the driving forces and obstacles for retailers to include organic food in their business strategy?

How do the actions of the food retailers affect the other actors on the organic market?

The thesis consists of three parts, each providing information necessary to answer the research questions:

The aim of the first part (chapter 2-3) is to offer a conceptual as well as a theoretical framework for the thesis.

To be able to answer the second research question, it is vital to have an understanding of the market as a whole. Therefore, the second part (chapter 4) seeks to provide an overview of the market actors in the form of a CLD, where their motivations as well as interactions, are illustrated.

The objective of the third part (chapter 5-6) is to provide information on the retailers specifically, and thus make it possible to answer the first of the above questions.

Limitations

Traditionally, the organic food market has evolved through direct channels, i.e. organic food has been sold directly from farmer to consumer (Jörgensen 2001, p. 17). In Sweden, 7 percent of the total organic food sales are sold in this manner (Ekologiska Lantbrukarna 2004, p. 5). Nevertheless, the main scope of this is to explore the retailing sector. Thus, direct sales are not analysed in the thesis. For the same reason, the potential of Swedish organic food export is not considered.
Today, imported organic food adds up to 20 percent of the total organic food sales in Sweden (Ekologiska Lantbrukarna 2004, p. 4). However, the focus of the paper is how to develop the Swedish market, including the Swedish organic food production. Therefore, the implications of organic food import, for the Swedish market as well as for the organic farmers in other countries, are not discussed.

In the thesis, the state is considered one of the actors on the food market. On this matter, the effects of subsidies are discussed in brief. The policies behind these subsidies, on the national as well as the EU-level are not considered in the thesis.

Method & Material

For this section, Wallén (1996), Kvale (1997) and Backman (1998) have been consulted. The information used in the thesis was gathered using qualitative research methods. The paper contains a descriptive as well as an analytical part. The descriptive part entails a review of relevant literature, where previous research is used to clarify the linkages on the organic food market. To facilitate for a better understanding an overview of the linkages in the form of a Causal Loop Diagram (CLD), is provided. For the analytical part, a case study approach is adopted, and four Swedish food retail chains: COOP, Hemköp, ICA and Netto are examined.

Information collection

In the thesis, primary as well as secondary data is used. Secondary data is used to explore the organic market as well as to provide background information on the case companies. The secondary data includes previous research as well as other documentation. This documentation consists of newspaper articles as well as material published on the companies’ websites such as annual reports, sustainability reports and other corporate documents.

Primary data is used to gain a deeper understanding of the retailers, and entails the information gathered through qualitative in depth interviews with representatives from the case companies.

The interviews were semi-structured with open-ended questions, in order to facilitate for an open dialogue. For the interviews, an interview guide with a set of questions was prepared. The questions are found in the appendix. The interview guide contained a number of fixed questions, as well as some additional follow-up questions that were used depending on the answers of the respondent. Therefore, although the same interview guide was used, not all of the questions were asked on each occasion. In addition, the order in which the questions were asked was adapted to the order in which the issues came up during the interviews.

The interviews were conducted over the telephone and the duration ranged from 15-45 minutes.

Choice of participating companies and respondents

The chains represented in the study have been selected because their actions on the organic food market were deemed interesting in one way or the other. Coop was chosen because it is considered the leading and most pro-active chain on the Swedish food market with regards to organic food products (Ekologiska Lantbrukarna 2004, p. 6). Hemköp on the other hand used to be a forerunner on the organic market, but has now publicly expressed that they have given up those ambitions (SOU 2004:19, p. 252). ICA has been chosen since the chain has had a large increase in the organic sales during the last few years (SOU 2004:19, p. 249). Finally, the discount chain Netto, present in
Sweden as well as Denmark, is of interest because of its newly initiated cooperation with the Danish organic food association Økologisk Landsforening with the ambition to help promoting the organic food market (Schröder 2005).

The first-hand choices for the interviews were persons working with environmental issues within the respective chains. Neither Hemköp nor Netto however, had such a person. In the case of Hemköp, the person in charge of environmental questions at Axfood was contacted. As he did not have time to take part in the study, contact was instead made with Hemköp’s Chief Business Developer. As regards Netto, the CEO has made statements in the media on the subject of organic food before, and was therefore deemed to be the appropriate person to approach.

Reliability
When performing qualitative interviews, there is always a risk of biases. In order to avoid preconceptions from the respondents’ part, the ambition was to only inform them about the aim of the interview in general terms of sustainable food consumption. However, in the process of convincing the interviewees to join the study, more information about the purpose had to be revealed. As a consequence, all respondents were aware about the organic food-theme all ready from the outset.

In addition, one must bear in mind that it is in the interest of the interviewees to convey a positive message about their company. What is more, the opinions of the respondents do not necessarily correspond with those of the rest of the organisation, especially if the respondent is in charge of environmental issues.

Moreover, differences in how elaborated the answers are might be due to the time factor. The interviews with Coop, ICA and Hemköp lasted for 30 to 45 minutes. In the case of Netto however, the respondent was in a hurry and so it was only possible for him to talk for about 15 minutes. Also, since this interview was conducted in Swedish and Danish, there might have been misunderstandings owing to language barriers.

Outline of the thesis

- Chapter 2 describes the environmental benefits of organic agriculture and puts them into the framework of sustainable consumption.
- Chapter 3 provides different perspectives on the role of the corporation in the society. In addition, common corporate responses to environmental issues are listed, together with drivers and obstacles for companies to ‘go green’ that have been found in previous studies.
- Chapter 4 gives an overview of actors on the food market and the dynamics between them with the aid of a Causal Loop Diagram.
- Chapter 5 provides a background on the case companies, including financial as well as environmental information.
- Chapter 6 presents the results of the interviews conducted with the case companies.
- Chapter 7 analyses the findings in chapter 5-6, utilising the insights from chapter 3 and 4.
- Chapter 8 draws conclusions regarding the research questions.
- Chapter 9 finalises the thesis with a general discussion about how the organic market can be developed and the implications of such development for sustainability.
2. A Framework of Sustainable Consumption & Organic Agriculture

Sustainable consumption

In the same spirit as the Brundtland-definition of sustainable development, sustainable consumption has been defined by the Symposium on Sustainable Consumption in 1994 as:

The use of goods and services that respond to basic needs and bring a better quality of life while minimizing the use of natural resources, toxic materials and emissions of waste and pollutants over the life-cycle, so as not to jeopardise the needs of future generations. (in OECD 2002, p. 16)

In SOU 2004:19, it is concluded that the impact on the environment caused by private consumption is a function of what the consumption comprises, the amount consumed, how the good has been produced and where it was produced. Based on this notion, three steps on the way to more sustainable consumption are proposed. First, we have to make our current consumption more environmentally friendly by choosing ‘green’ alternatives such as low energy refrigerators or hybrid cars, i.e. changing the environmental characteristics of the goods consumed. The second step entails more radical behavioural changes through substituting consumption of material goods with for instance labour intensive services or immaterial consumption such as enjoying a play. The ultimate third step, involves a decrease in the society’s aggregate consumption. (pp. 41)

The same report provides a list of seven prerequisites in order to achieve the first of the above steps towards a more sustainable consumption, (SOU 2004:119, p. 22):

1. Continuous improvement in resource efficiency. All goods and services must be produced, distributed, consumed and recycled in a way that is as energy and material efficient as possible.
2. Protection of the ecosystem production capacity (land, water, forests, air, etc.)
4. Recycling and, ultimately, closed ecocycles for efficient management of both finite and renewable resources.
5. International solidarity: human freedoms and rights, including the right to health, to a livelihood and to work.
6. The consumer’s right to open, objective and quality-assured information on the extent to which the production of goods and services fulfil points 1-5.
7. The consumer’s right to goods and services that give good value for money and fulfil points 1-6.

Organic agriculture

Organic agriculture is defined by the International Federation for Organic Agricultural Movements as follows:

Organic agriculture is a holistic production management system which promotes and enhances agro-ecosystem health, including biodiversity, biological cycles, and soil biological activity. It emphasizes the use of management practices in preference to the use of off-farm inputs, taking into account that regional conditions
require locally adapted systems. This is accomplished by using, where possible, agronomic, biological, and mechanical methods, as opposed to using synthetic materials, to fulfil any specific function within the system (IFOAM 2005)

This means that organic production methods do not allow the use of chemical pesticides or synthetic fertilisers. In terms of animal husbandry, organic practices strive to enable for the animals to live according to their natural behaviour.

To be able to market products as organic, the farmer has to adhere to the European Union-standards for organic agriculture. The member states are allowed to delegate the control of the organic production to third party certifiers. The rules of these certifiers must be in accordance with the EU-standards, but may also be stricter. In Sweden, the KRAV-organisation is the certification body for organic agriculture.

However, in order to obtain subsidies from the state for organic farming, the producer ‘only’ has to adhere to specific rules on organic production methods. These are similar to the aforementioned EU-standards, but slacker than the KRAV-regulations. In 2003, 16.6 percent of the total arable land was cultivated with organic production methods. Approximately half of this area was KRAV-certified. (Jordbruksverket 2004, p. 39)

In this thesis, the term ‘organic food’ refers to organically certified food.

In 2004, the Swedish Board of Agriculture proposed goals stating that 15 percent of the total arable land, 10 percent of the Swedish cattle and 1 percent of the swine and poultry production shall be organic by 2010 (Jordbruksverket 2004, p. 14). One reason for this is that organic agriculture helps fulfilling some of the fifteen Swedish environmental quality objectives “describing what quality and state of the environment and the natural and cultural resources of Sweden are environmentally sustainable in the long term” (Swedish Environmental Objectives Council 2005, p. 2). Out of these objectives, the Swedish Board of agriculture argues that organic agriculture contributes to a varied agricultural landscape, a non-toxic environment, good-quality groundwater, flourishing lakes and streams and possibly zero eutrophication together with reduced climate impact (Jordbruksverket 2004, p. 11).

In the below section, these themes will be expanded upon in a comparison of conventional and organic agriculture in terms of environmental impacts, as well as human and animal health.

Organic vs. conventional agriculture

Biodiversity
A high biodiversity increases the performance and the stability of the ecosystem as well as its ability to recover from external chocks. Also, it can be argued that a high biodiversity has an intrinsic value. A number of studies have shown that there are more species of plants, animals and insects thriving on the organic fields. Also, rare and endangered species are more prevalent. The reason for this is most probably the absence of pesticides, but it is also due to the organic different production methods (for instance a more varied crop rotation, a higher degree of pasture grounds). A varied landscape is on the other hand another important factor favouring biodiversity, something that has more to do with geographical, topographical and historical conditions than the mode of farming. (Drake & Björklund, 2002; Bengtsson et al., 2005)
Soil quality
The soil quality depends on factors such as the ground structure, biological activity, soil erosion and humus content. In Europe, the quality of the soil is deteriorating. A report from the EU’s Joint Research Centre concluded that 16 percent of Europe’s arable land, and in some countries as much as 30 percent, is in danger of becoming unfertile (SOU 2005:51, p. 65). The causes of the problem mentioned by the research team were the extensive use of fertilisers as well as pesticides, along with soil compaction. Out of these, the two former causes are to a large extent avoided with organic agriculture.

Leakage of nutrients
The leakage of nutrients used as fertilisers, such as nitrogen and phosphor from agriculture is an important source for eutrophication. In fact, 45 percent of all human nitrogen emissions originate from the agricultural sector (Naturvårdsverket 2005a). In general, there is less nutrient outflow from organic agriculture (Drake & Björklund 2002). The situation is somewhat different concerning nitrogen. Nitrogen is released in nature through nitrate oxides coming from the machines, ammonium from farmyard manure, and nitrate leakage from the fields. The most important source of nitrate leakage is not the run-off of fertilizers as most is absorbed by the plants; rather it is the nitrates released from the remainder of the plant after harvest (KRAV 1999). Therefore, the total leakage of nitrates is lower per ha from organic farming but the same per produced unit. On the other hand, Hansen et al (1999) found that the total nitrate leakage is not dependent on the source but is linked to the total amount of nitrogen added (in Drake & Björklund 2002).

Green house gases
Green house gases are by the majority of the scientific community considered to contribute to global warming (Naturvårdsverket 2005b). Emission of green house gases from agriculture originates from the usage of fossil fuels on site as well as during the production and transportation of agricultural inputs (fertilizers, pesticides etc.), methane gas from beef, and denitrification (Drake and Björklund 2002). Organic farms emit more methane gas per cow than conventional farms. This is because cows that are fed with roughage, as is to a larger extent the case on organic farms, release more methane gas than cows fed with concentrated feed. Conversely, organic agriculture emits less nitric oxides and CO₂-emissions (ibid.). These calculations are however tentative and it is thus hard to establish whether organic agriculture contributes more or less to global warming than conventional agriculture.

Water quality
Today, residues of pesticides are found in our surface as well as ground water. In fact, in a study by Hessel et al (1997) pesticide residues were present in 56 percent of all the water samples from lakes and streams in Sweden between 1985 and 1995 (in Naturvårdsverket 2005c). This is serious since pesticides may have detrimental effects on wildlife such as lower fertility, metabolic disturbances and disturbed mating behaviour, even at low concentrations (ibid.). In a study by Hansen et al (1999), it was stated that because pesticides are not allowed in organic production it “gives an almost complete protection of […] ground and surface water, from chemical pesticides” (in Drake & Björklund 2002, p. 15).

Human health
There is no definite evidence that organic food is healthier for humans. Some research has shown that organic food has higher nutritional value, for instance organic potatoes contain higher levels of vitamin-C and lower levels of the toxic substances nitrate and solanine, than the conventional
On the other hand, due to absence of fungicides in organic agriculture, there is potentially an increased risk of mildew toxins (Drake & Björklund, 2002). One potentially favourable feature of organically grown food is that it contains fewer residues of pesticides than conventional food (Livsmedelsverket 2005b). The levels found in conventional food are most often not above the allowed limit, even so the presence of pesticides is problematic since the cumulative and/or combinatory effects of many different pesticides are to a large extent unknown (Naturvårdsverket 2005c). In addition to this, it is argued by nutritionist Pia Lindeskog that “a high biodiversity is a health-factor in itself – humans need environments in where to stroll” (KRAV 2004).

**Animal health**

In general, the animal health levels are the same in conventional and organic agriculture. The main difference is instead the welfare of the animals. The higher animal welfare in organic animal husbandry is linked to the animals’ possibilities to live in accordance with their natural behaviour (in terms of art specific behaviour, feed and surrounding environment). This aspect of organic farming may on the other hand run counter to the health and welfare for the individual animal, if the organic farmer for instance is reluctant to use antibiotics or other pharmaceutics (Drake & Björklund, 2002, p.17). In addition, it is easier to protect the animals from injuries and diseases in a controlled in-doors environment than in a ‘natural’ environment (ibid.)

Drawing from these findings, it is considered that organic agriculture would decrease the environmental impacts on the food production stage, in accordance with point 1-4 in the list of prerequisites for sustainable food consumption, provided in the beginning of the chapter. In addition, organic agriculture may well have positive effects on human health, thus contributing to point 5. Moreover, organic agriculture contributes to positive animal health and welfare effects. Although these effects are not directly linked to any of the points in the list, it is the author’s personal opinion that animal health is also an essential part of sustainable food consumption.

A final note on organic agriculture and sustainable food consumption: it is important to bear in mind that changing production patterns in agriculture is only one step towards a sustainable food sector as the environmental impacts of the food sector also arise during transport, processing, retailing and at final consumption.
3. The Corporation in the Society

What should be the role of corporations in a free-market society? In this section, two conflicting economic views upon this question are presented. These are sorted under the themes stockholder and the stakeholder perspective. Finally, a section about corporate responses to environmental issues.

Stockholder perspective

There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud. (Friedman 1970, p. 160)

According to the stockholder perspective, advocated by the influential economist Milton Friedman in the article “The social responsibility of business is to increase its profits”, the principal beneficiaries of a firm’s profits should be the owners, i.e. its stockholders. Friedman argues that any other procedure would be undemocratic – both in the sense of utilising private resources to pay for public goods and the fact that the individual interest of the managers decides what the main social priorities are. Therefore, it is preferable if the company focuses upon profit maximization and then let each stockholder choose freely if they want to invest the returns in social charity.

Following the same rationale, Bowie (1990) states that “business does not have an obligation to protect the environment over and above what is required by law; however, it does have a moral obligation to avoid intervening in the political arena in order to defeat or weaken environmental legislation” (p. 428). What is more, “business will respond to the market. It is the consuming public that has the obligation to make the trade-off between cost and environmental integrity” (p. 431) and if demand is low because of a market failure, then it is up to the governments to correct it.

Hoffman (1991) has criticized this, arguing that there is a difference between how individuals act as consumers and what opinions they have as citizens. As consumers we act to satisfy our own needs, as citizens we think about what is good for the society. Therefore, Hoffman states that “to stake our environmental future on our consumer willingness to pay is surely shortsighted, perhaps even disastrous” (p. 437).

Stakeholder perspective

Business must creatively find ways to become a part of solution, rather than being part of problems. Corporations can and must develop a conscience […] – and this includes an environmental conscience (Hoffman 1991, p. 436).

During recent years, the stakeholder perspective has gained influence. The model was launched in 1984 by Edward Freeman in the article “Stakeholder theory in the modern corporation”. Freeman argues that the stockholders are merely one out of many stakeholders involved in a company. One obvious example is the employees who put a lot of time and effort into the company. Consequently,
they too should be taken into account in the company’s decision making. However, the employees are not the only stakeholders of a company, the concept encompasses all “[…] groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions” (Freeman 1984, p. 163).

From the stakeholder perspective, the concept of Corporate Social Responsibility (CSR) has evolved. Unlike the traditional neo-classical economic view that corporations only have economic and legal duties, advocates of CSR argue that they also have societal obligations. The concept has been defined by the World Business Council for Sustainable Development (WBCSD) as “[…] the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.” (WBCSD 2000, p. 10) Within the CSR framework, WBCSD has identified five key areas: human rights, employee rights, environmental protection, community involvement, and supplier relations (ibid.).

Connected to CSR is the ‘triple bottom line’ of sustainability, the idea that it is possible to “align the interests of economy, society and the environment so that any action that benefits one will also benefit the others” (Gable & Shireman 2004). According to this thinking, it is not only possible for economic-, social-, and environmental sustainability to coexist, it is indispensable since “business needs a healthy, secure society and a bountiful environment within which to operate. Healthy societies need businesses to provide goods and services. And the natural environment is best protected when the businesses and society are healthy” (ibid.).

The conclusion is that businesses that are socially and environmentally sound will also be profitable. However, even though several studies have confirmed such a link, other studies have shown that the relationship between CSR-business practices and better economic performance is not clear (Tjärnemo 2001, p. 21). Therefore, Hoffman argues that appealing to the self interests of businesses is not a useful strategy. If businesses are attracted to CSR by such claims, they are likely to give up the work when the promises are not fulfilled. Instead, “we should promote business ethics, not because good ethics is good business, but because we are morally required to adopt the moral point of view in all our dealings – and business is no exception” (Hoffman 1991, p. 438).

In contrast, Hayward (2003) argues that CSR and the ‘triple bottom line’-concept is just “the fad of the moment”. He goes on to write: “Social justice? Environmentalism? Let's judge a company on how well it grinds out profits. Like wide ties and polyester slacks, management enthusiasms come and go.” Instead, corporations should only act socially or environmentally if it is profitable for them to do so. “If trash ing the environment costs you in government fines or in consumer sales, you don't trash the environment. If you are competing for talent, you don't abuse workers. To admit as much, however, is not to waver from the classic model of business economics, which says that corporations are in business to maximize profits”.

Corporate responses to environmental issues

It is one thing to agree that from a theoretical perspective, ecological sustainability is ethical and desirable. It is quite another to prescribe what can be done to attain or move towards it. As it has been said, there is a need for people not only to ‘talk the talk’ but also to ‘walk the walk’. Actions are more powerful than words, and mere belief in ecological sustainability while undertaking business as usual is unlikely to result in an ecologically sustainable global society (Hutchinson & Hutchinson 1997, pp. 38).
Most relevant to this thesis are how corporations respond to environmental issues. Even if a corporation chooses to engage on the environmental arena, the motives and the ambitions differ from company to company. Some companies are proactive whilst others are more reactive in their responses to environmental issues. To quote philosopher William Frankena, the ambition levels range from “avoiding harm, preventing harm, and doing good” (in Bowie 1990, p. 429). In addition, there are differences in how the companies react; a few companies change the whole corporate strategy whereas others are “merely paying lip service and approach the ecological concern by means of marketing campaigns and PR-activities” (Tjärnemo 2001, p. 43).

More specifically, Crosbie and Knight (1995) have listed five corporate responses to environmental issues (in Tjärnemo 2001, pp. 43):
- **the ‘do nothing’ strategy**, where the company dismiss green consumption as a passing trend, or consider a greening of the business to be too expensive
- **the ‘defensive’ strategy**, a risk management strategy where the company adopt only changes needed to comply with laws and regulations
- **the social responsibility practice**, where companies aim at being socially and environmentally responsible by setting up high environmental standards
- **the strategic opportunity strategy**, where the company perceives environmental work as a way of becoming more competitive and enhance its image, and thus actively looks for new greener ways of doing business
- **the sustainable strategy**, where the company seeks to integrate environmental thinking into each of the company’s activities

Out of these responses, all can work perfectly well with the stockholder perspective, as long as there is profit to be made from the strategy. However, it is argued that the stakeholder perspective is only compatible with strategies 3-5.

The motives for corporations to engage in environmental issues vary too. Drawing from an extensive literature review, Tjärnemo (2001, p. 50) concludes that there are three principal driving forces for companies to ‘go green’: “(1) a personal eco-concern, or a wish to adjust according to societal norms; (2) market demands and/or opportunities; and (3) legislation and regulations”.

Larsson et al (1996, p. 314) concludes that “[t]he more production-oriented the firm, the more effective environmental legislation will be in achieving ecological reorientation. Conversely, the more customer oriented the firm, the more effective green market demand will be in achieving ecological reorientation”.

Hitherto, it appears as if most companies have considered environmental issues as mere image problems and have dealt with them accordingly. Tjärnemo argues that “[t]he reason for this might be pure opportunism but also lack of knowledge or failure in implementation” (Tjärnemo 2001, p. 51). Instead of this reactive approach, many researchers call for a more proactive and holistic approach to environmental issues, i.e. they “must become part of the overall strategy and integrated within all functions of the organisation” (ibid.) The barriers to such approach include “personal, organisational or external factors” (ibid., p. 50). Out of these, Tjärnemo found the focus on short-term profitability among managers as well as an uninterested organisation or surrounding environment (competitors, customers, local authorities, suppliers, etc.) to be most obstructing.
4. Understanding the Organic Food Market

This chapter provides an overview of the incentives and the actions of the actors on the organic food market. With the assistance of a Causal Loop Diagram (CLD), the causes and effects on the organic food market will first be described in general terms to give an overall understanding. Thereafter the general description will be followed by a section where the variables present in the CLD are described more in depth.

In a CLD, the arrows show the relation between a cause and its effect. A plus sign on the arrow implies that the cause and the effect work in the same direction, i.e. if the cause increases the effect will also increase and if the cause decreases the effect will also decrease. In contrast, a minus sign implies that the cause and effect work in opposite directions.

The various causes and effects in a system form feedback loops, which can be either reinforcing or balancing. A reinforcing loop reinforces behaviours to move in the same direction, with the result of a growth or a decline, whereas the balancing loops moves the system towards equilibrium. (Haraldsson, 2004, pp. 20).

The dynamics of the organic food market

Four actors are present in the CLD: the consumers, the retailers, the food producers, and the state. Here, the term food producers, refers to the organic farmers. The food processing industry is another actor that supplies with organic food on the market. It was however deemed easier to get a
basic understanding of the dynamics of the food market, if this actor was excluded in the CLD. Instead, the incentives of the processors are summarised at the end of this chapter.

In the CLD presented here, the large loops in the system are highlighted with a thicker blue (reinforcing) and red (balancing) and the smaller loops within the system are marked with the letter R (reinforcing) and B (balancing).

From the above CLD, it may be concluded that there is one big reinforcing loop on the market, illustrated by the thicker blue arrows. The reinforcing loop can be either demand or subsidy driven, both affecting the profitability of organic food production. If the profitability for the farmers is low, all other variables in the reinforcing loop will decrease. When the profitability is high on the other hand, all other variables increase too. As will be shown below, the subsidies have hitherto been the largest driver on the market as the market demand is still rather low and unreliable. Here the retailers play an important role in increasing the consumer purchases.

This development is inhibited by the red balancing loop, where the supply of organic food and the market price on raw material represent large balancing factors. A large supply of raw material pushes down the market prices with a resulting decrease in profitability for the organic farmers, which discourages farmers to convert to organic agriculture and eventually stabilises the supply. A low supply on the other hand will result in higher market prices and a higher profitability which will encourage more farmers to enter the organic market.

These variables affect the demand side too. A low supply of organic food decreases the attractiveness of an organic food assortment for the retailers, eventually resulting in fewer consumer purchases. In addition, the market price on raw material works as a balancing factor, through its connection to the consumer price on organic food\(^3\).

Below, the dynamics of the market and the mechanism behind it will be discussed more thoroughly.

The total market demand

In the CLD, the total market demand for organic food is one of the main drivers on the organic market. The market demand can be created by the consumers through their purchases\(^4\) and the state through public procurement.

**Consumers**

Consumers will only buy organic food if they find it attractive. The attractiveness of organic food for the consumer is shaped by many different factors out of which two are visible in the CLD; the price and the supply. On this aspect, a low price together with a large and diverse supply attracts the consumers. Conversely, a high price and a small supply discourage the consumers from buying organic. (SOU 2004:119, pp. 127).

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\(^3\) In reality, the consumer price depends on costs that are added in the whole food distribution chain. In the CLD though, it is only connected to the raw material market price, as this represent the largest share of the price premium on organic food for the consumer.

\(^4\) Here it is assumed that the actual purchasing behaviour is the only way for the consumer collective to affect the market. The consumers can of course put pressure on the actors of the market by other means; for instance through placing demands on the conventional producers or campaigns that mould the public opinion.
Many studies have shown that the price is the largest discouraging factor for consumers (see for instance Hansen & Sörensen 1993; Carlsson-Kanyama et al. 2001; Jörgensen 2001). The price for organic food is generally higher than for the conventional equivalent. In a study conducted by Furemar in 2004, the price difference ranged from a 68 percent higher price for apples to 16 percent for beef (p. 20). Higher production costs in organic agriculture is the principal reason for the higher consumer price, but as a result of different handling methods together with separation in distribution and processing costs are also added further down the food chain. Moreover, the fact that there are fewer and smaller organic farmers take away the large-scale benefits in the conventional food chain. (Jörgensen, 2001, pp. 34-45)

However, the importance of price depends on the individual’s price sensitivity, which is something that differs depending on his/her preferences. According to a survey by Markets Facts E-nation in 2002, only half of the consumers who bought organic food regularly considered it too expensive, a low ratio compared to 63 percent of the consumers who bought organic occasionally, and 80 percent for the ones who rarely bought organic products (Ekologiska Lantbrukarna, 2004, p. 5).

This shows that there are other psychological and sociological factors incorporated in the ‘attractiveness of organic food consumption’-concept. Here, the consumers’ preferences for environmentally sound production and for healthy food as well as consumer knowledge about organic food, are brought up.

For many organic consumers, the fact that the organic production methods are better for the environment may be of more importance than the price. In fact, in a review of findings in 25 consumer studies of the Swedish food market by Ekelund (2003), five studies found that the most important reason for consumers to buy organic food was environmental concerns (Menghi 1997; Solér 1997; Holmberg 1999; Granqvist & Bile 2001; Henrysson & Noord 2001 in Ekelund 2003).

For other consumers, the perception that organic food is healthier than conventional alternatives might encourage them to buy organic. In the same review as referred to above, six studies suggested that health aspects of organic food were valued the most by organic consumers. (Ekelund & Fröman 1991; Mathison & Schollin 1994; Ekelund-Axelson 1996; Carlsson-Kanyama et al. 2001; Lindqvist & Rosén 2001; Szatek 2001 in Ekelund 2003).

The health aspect of organic food might become increasingly important as “[c]onsumer concern over food risk has increased while at the same time trust in government and industry to control and monitor technological development has been seriously eroded” (Knox 2000, p. 105), due to events such as the “mad-cow” disease and the GM-foods discussion. The strong emphasis on the health aspect is not completely unproblematic since, as was shown in chapter 2, there is no scientific consensus as to whether organic food is healthier or not.

Furthermore, lack of knowledge about organic food, KRAV and environmental issues in general, is a common reason why people do not buy organic (SOU 2004:119, p. 131). In a survey conducted by LUI Marknadsinformation in 2001, found that 82 percent of the consumers trusted organic foodstuffs. At the same time, 7 out of 10 respondents stated that they did not have sufficient knowledge about what KRAV stands for (KRAV 2005, pp. 17-18). An informal inquiry among some of the author’s friends confirmed this as many believed that the organic food-claim was just another excuse to increase prices. Hence, more consumer information is vital in order to improve the attractiveness of organic food.

The power of old habits is another factor affecting the consumer purchases. This illustrates the fact that an individual might find organic food attractive in theory but once in the store, he or she buys the same products as always. This phenomenon might be explained by the fact that people often go
food shopping when they are stressed, tired and hungry which makes it a low-commitment activity (Tjärnemo 2001, pp. 6). Because of this, people tend to buy whatever is readily available on the shelves. A large organic supply works to increase the visibility of organic food, and thus the likelihood of breaking the old habit. In fact, 50 percent of the respondents in a survey conducted by LUI Marknadsinformation said that they would buy more organic food if it was more readily available (KRAV 2005, p. 17).

In the CLD, it is assumed that if the old habit has been broken once, the probability of buying organic food next time around increases, of course provided that the organic product was to their satisfaction.

State

Public procurement is another variable that adds to the total demand. Today, public procurement is not a major factor on the organic market. It might however become an increasingly important factor, as a goal of 25 percent organic food in public procurement by 2010 is proposed by Edman in the 2005 report. Edman argues that the stable, long-term demand made possible by public procurement will increase the incentives for farmers to shift to organic production, which would further the supply and in the long run cut the consumer prices. Also, such a goal conveys a clear message to the public and the other actors on the food market that organic food is prioritised by the Swedish officials. (SOU 2005:51, pp. 65)

Previous experiences of ‘green’ public procurement in Sweden have given encouraging results. One success story dates back to the early 1990s, when it was decided that only paper produced by producers adhering to chlorine emission limits set by SNF (the Swedish Society for Nature Conservation), was to be purchased by the state. Thus, to be able to stay on the market, noncompliant producers were forced to change. In this manner, a 50 percent reduction of chlorine emissions from the pulp industry between 1990 and 1993 was accomplished (SNF 2005)

Offer in store

A prerequisite for consumer purchases is that there are organic products for offer in the stores. The retailers will only offer organic food in their assortment if it is attractive for them to do so. As with the consumers, the attractiveness of organic food for retailers is determined by numerous factors, out of which some of them were discussed in the previous chapter. However, only two factors concerning the demand as well as the supply side are shown in the CLD.

On the demand side, the business opportunities that can be made from organic food are important. A high total market demand means good business opportunities. Recently, it appears as this has not been the case, instead organic food has been crowded out by the competition from the growing amount of discount stores (Schröder, 2005).

On the supply side, it is important for the retailer to have access to a large, diverse and reliable supply of organic food. The retailers are able to affect this directly by placing long-term orders on their suppliers. In this manner, the economic risk involved is shared between the retailer and the supplier. In addition, the retailers affect the supply indirectly by offering organic food to their customers and consequently increase the total market demand.

Another way of affecting the supply is by choosing products not to offer, and thus put pressure on conventional producers to change their modes of production. The laundry detergents market provides one example of when this strategy has changed the whole offer for a specific product. In 1992, after pressure from the Swedish Society for Nature Conservation (SNF), the three big
Swedish retail chains ICA, KF (Now Coop) and Dagab (now Axfood) threatened to withdraw laundry detergents that did not meet the requirements of eco-label ‘Bra Miljöval’ (Good environmental choice) from their assortment. At this time, only 20 percent of the laundry detergents on the market were considered eco-friendly. In 1994, this ratio had changed to 60 percent and today, eco-labelled laundry detergents represent 90 percent of the total sales in Sweden. (Terrvik 1997; SNF 2005). This story also proves to show that external pressure can be an important driver for the retailers. Further incentives and actions of the retailer will be explored more in depth in the following chapters.

The supply of organic food

Farmers

The supply of organic food on the market depends on how attractive organic food production is for the farmers. In the CLD it is evident that the total market demand is a key factor in this respect. The market demand influences the market price of organic food as well as the risk involved for the farmer.

If we for instance assume a high demand, there is a risk of a shortage in the supply. Accordingly, the market price on raw material will rise and so will the profitability of organic farming. Subsidies also affect the profitability of organic farming.

The profitability is of course determined by the costs of organic farming as well. Organic food production involves higher costs for the farmer, mainly due to smaller yields as a result of the restricted use of for instance pesticides or commercial fertilisers. Even so, organic agriculture is a more profitable business than conventional farming at present. In a study by Heidenmark (2001), a representative from the farmer organisation ODAL stated that “despite the lower yields, organic farming is presently a financially reasonable business venture due to high market prices and favourable subsidies” (p.70). Rosenqvist (2003) found that the higher profitability of organic agriculture generally was to a larger extent a result of higher market prices for organic raw material than subsidies (pp. 30).

It is on the other hand somewhat easier and more secure to rely on subsidies. As mentioned earlier, the farmer must be certified according to the KRAV-standards, to be able to market the food as organic and thus attain a premium price. This involves a two year conversion period, when the farmers are not allowed to use the KRAV-label. As a result, many farmers choose to convert to organic agriculture according to EU-regulations, without getting certified. (Heidenmark 2001, pp. 69).

Moreover, the market demand affects the risk involved in organic food production. If the market demand is unstable, it increases the level of economic risk involved for the supplier. Adding to the economic risks are the risks inherent to organic farming, such as a higher vulnerability to pests and diseases (Heidenmark, 2001, p. 93). In addition, there is a problem with production inputs, both in terms of insufficient access to for instance natural manure or land to use as pasture grounds in the crop rotation (ibid., p. 115) and regarding the quality of for instance seed where “[a] conventional farmer starts out with a Formula 1 seed, whereas the organic farmer will have to be happy with an old Volkswagen seed” (ibid., p. 116).

Another factor affecting the attractiveness of organic food production, not visible in the CLD, is negative attitudes towards organic agriculture among conventional farmers. There are two main
reasons for this. Firstly, since Swedish agriculture is perceived as relatively environmentally friendly already, many farmers question the need to convert. Also, the negative attitude stems back from the early days of organic agriculture, when the farmers were guided by ideological reasons rather than striving for high profitability. The movement’s ideological elements and its criticism towards conventional agriculture labelled organic farming as something for hippies and not for serious farmers. (Heidenmark 2001, pp. 69).

Processors
As stated in the beginning, the processors were excluded in the CLD for reasons of simplicity. The processors are however also an influential actor on the supply side. In fact, in a study of the bread production chain by Heidenmark (2001), a Gröna Konsum (now Coop Konsum) staff member stated that “[…] the Swedish food processing industry […] are slowing down the development of organic food and are not listening to the demands of their customers and consumers”.

The important factors for the processors are a mix of the variables connected to the retailer as well as the food producer in the CLD. As with the other actors on the market, the insecure demand discourages processors from joining the organic market. Because of this, “organic food products are not perceived as a business opportunity by food processing companies, and there are examples of price strategies among these companies that counter the development of organic food products” (Statement from Coop CEO in Heidenmark 2001, p. 79)

Apart from the demand, there are other factors connected to the production process that create a risk for organic processors. Sometimes costly changes in production have to be made, due to for instance a different quality of the raw material together with the need for separation during processing. Also, the bakery Skogaholms Bröd in Heidenmark’s study, believed that an introduction of a new organic brand name would be a costly and time consuming process (ibid., p. 104), further adding to the risk for the processors.

In addition to this, the food processors have difficulties with the supply of raw material. The problem is twofold; for some categories like vegetable fat there is hardly any raw material available. In other categories, the quantities supplied are either not sufficient or unstable, resulting in very high prices. Because of this, many processors do not dare to convert as “they do not want to find themselves in a position where they will have to withdraw a product from the shelves” (ibid, p. 66).

Like the retailers, the processors are able to affect the supply by establishing long-term contracts with their suppliers. For instance, according to Jörgensen (2001, p.47) some dairies have created such contracts with their milk suppliers, in order to decrease the financial insecurity for organic milk farmers. Moreover, to strengthen the incentives for conventional milk producers to convert, these dairies offer a higher litre price even during the aforementioned conversion period.

In a similar manner, the processors themselves may gain from long-term contracts with the retailers.
5. The Case Companies

In this chapter, background info about the case companies is provided. In the first section, the ownership structure and financial facts are presented. In the second section, the focus is chiefly on how the chains communicates environmental – and sustainability issues. It is argued that even though, environmental policies and similar statements are often idealistic, they are in any case indicators of the company’s ambition level regarding these questions. In addition to this, the organic assortment of the chains is reviewed. Other actions to reduce the environmental impacts of the businesses are not examined in depth.

Ownership structure and financial facts

The companies represented in the study are Coop Sweden AB (Coop), Hemköp, ICA Sweden AB (ICA) and Netto Marknad AB (Netto). Roughly, Coop, ICA and Hemköp all belong to the ‘grocery store’-segment of the retailing market. ICA as well as Coop offers a variety of stores with different concepts, ranging from convenience stores to hypermarkets with a large assortment of food as well as other products. Hemköp is a part of the Axfood-group’s range of stores, and consists of medium sized stores with ‘normal’ prices. Netto is a discount store with a small assortment at low prices.

In the below chart, the structure of and the relationship between these chains are presented.

![Ownership pattern for case companies](image)

Figure 2. Ownership patterns for the case companies

Coop Sweden is a part of Coop Nordic, which also consists of Coop Denmark and Coop Norway. Coop Nordic is owned by Danish, Norwegian and Swedish consumer cooperatives (Coop 2003).

Hemköp is a part of the Axfood-group, with 93 stores completely owned by Axfood and 80 merchant owned stores (www.axfood.se).
ICA Sweden is to a large extent merchant owned. ICA Sweden is a part of ICA AB which is owned by the Dutch Royal Ahold N.V. (60%) and Hakon Invest AB (40%). Hakon Invest AB is to the largest part owned by ICA-Handlarnas Förbund, the member organisation for Sweden’s ICA retailers (ICA 2004a).

Netto Marknad AB is jointly owned by ICA AB (50%) and Dansk Supermarked A/S (50%) (ibid.).

The Swedish food retailing sector is dominated by ICA who holds 38 percent of the total market, followed by Coop and Axfood with 18 percent respectively. As of June 2004, Netto held 0.4 percent of the market, a figure that has most probably increased since (Konkurrensverket 2004, p. 27).

Environmental ambitions

Coop

Coop Nordic as well as Coop Sweden aims at “taking responsibility for the environment and contribute to a more sustainable development of the society” and “belong to the best in the environmental area”. This work shall “primarily be proactive”, by working “systematically with environmental questions in day-to-day business” and influencing the development “through an active dialogue with owners, consumers, authorities, consumer and environmental NGOs as well as other stakeholders” (www.coop.se).

Today, Coop states that the focus on the environment is a response to demands from the cooperative. One of the goals for Coop is to “work for ecologically sustainable consumption”. Therefore, Coop “commits to work actively to further the sales of less environmentally degrading good”. On this aspect, organic products are considered “a better environmental and animal ethical alternative” (www.coop.se).

Coop offers 950 organic products out of which 250 belong to the private eco-brand ‘Änglamark’ (Schröder 2005). In 2004, the organic sales represented 7.5 percent of the weight volume sold at Coop. The increase for the organic food sales is in the range of around 5 percent annually (Coop 2003, p. 19). Today, Coop stands for about 50 percent of the organic food sold in Sweden (Ryegård 2005).

In the annual report (Coop, 2003), various ways of furthering the demand for organic food are mentioned. For instance, Coop has a different pricing policy on organic food, instead of the normal percentage price premium, the same amount in SEK as for the conventional alternative is added for the organic products. In addition, Coop declares the purchased eco-labelled products on the receipts and has had campaigns such as double bonus points on organic food.

In a survey by Konsumentverket in 2004, Coop was found to have the largest assortment of organic products, followed by ICA and Axfood. Regarding the price of a basket with 29 organic products, Coop and ICA had the lowest prices, whereas Axfood’s stores were 10 percent more expensive than these chains on the average. Concerning eco-labels on the shelves, this was found in nearly all Coop stores, 75 percent of the ICA stores and 25 percent of the stores belonging to Axfood. Moreover, the study found that information about environmental issues in general was considerably more common in Coop’s stores than in the other chains. (Konsumentverket 2004)
Hemköp

Neither Axfood nor Hemköp mentions anything about the environment or sustainable development on their respective websites (www.hemkop.se; www.axfood.se). When browsing these websites, it is hard to imagine that during the 1980-90s, Hemköp was a forerunner among Swedish retailers regarding environmental work. Back then, the business strategy was based on three core values: quality, health and environment. Hemköp’s environmental work manifested itself in various ways. For instance, a public debate about cruel animal husbandry practices, made Hemköp only buy their meat from local farmers who they trusted to be more concerned with animal health. Furthermore, Hemköp had “the policy of replacing environmentally dangerous products in favour of more environmentally friendly products in marketing activities and to local suppliers in purchasing” (Tjärnemo 2001, p. 66). To increase the demands of these products, the chain had a lower margin of profit on environmentally friendly products (Strannegård 1997, p. 99). In the environmental policy of the 1990s, it was stated that Hemköp aimed to have a fully ‘green’ organisation by 2000 (ibid., p. 101).

In 2000 however, Hemköp acquired the less environmentally concerned D&D Dagligvaror with stores such as Vivo, Willys, Spar and Rimi. After this, Hemköp’s environmental profile was gradually downplayed. Today, Hemköp’s business concept is that it “[…] shall be the chain for people who love food. We shall have the best assortment on the market, at low prices. With focus on perishables, food trends and new products we offer food fashion is Sweden”. Out of the former values, only the health and quality aspects seem to remain.

In fact, the Axfood-chains do not even have an environmental policy at present. With regards to this, Axfood’s public relations officer Kenneth Wall says that Axfood “has chosen to work with action plans instead and publish what we do in our annual report” (Linder 2005). Judging from the annual report, an organic assortment is not included in these action plans. In the section about sustainability, it is stated that Axfood environmental work is aimed at “the three areas where the company has a direct influence; transports, waste management and energy consumption” (Axfood 2004, p. 28).

ICA

ICA’s aim is to “be a long-term, robust company with a good economy, a conscious environmental work and a social commitment”. Eight strategies are listed to achieve this, out of which one is social responsibility. Regarding this matter, it is stated that “the ICA-group shall work for a sustainable society. The company seeks to minimize the environmental effects of the business and takes the responsibility for under which circumstances the own goods are produced” (www.ica.se).

In the work designed to minimize ICA’s environmental impacts, “organic and eco-labelled products are an important part”. Furthermore, “to reduce the environmental impact from other, non-organic foods, ICA supports so-called integrated production (IP), where the use of artificial fertilizers and pesticides is documented in a controlled setting” (ICA 2004b, p. 14).

ICA offers around 440 organic products out of which 90 belong to the private eco-brand ‘ICA Ekologiskt’. During the last few years, the organic food sales have increased with around 15 percent a year (ibid.).
Netto

There is no information available about Netto’s organisation or its environmental work on the website. Instead, other sources of information have been used. Regarding environmental issues in general, Netto does not have an environmental policy, only the broad rule that all the laundry detergents must be eco-labelled with either ‘Bra Miljöval’ or ‘Svanen’. (Linder 2005).

In Denmark, Netto recently launched the campaign ‘En hund efter økologi’ (A dog for ecology), where organic products are promoted in cooperation with the organic food NGO Økologisk Landsforening (Økologisk Landsforening 2005). The cooperation with Økologisk Landsforening was however not initiated by Netto. Instead, Netto simply took on a ready-made marketing plan presented by the NGO.

In Denmark, the cooperation has resulted in 12 campaigns, together with supplementary marketing efforts. Netto’s Danish website offers information about the campaign as well as links to more information about organic food on Økologisk Landsforening’s website. In Sweden, 6 campaigns have been carried out, but the Swedish Netto website does not contain any information about this or organic food in general (www.netto.dk; www.netto.se; Ekologiskt Marknadscentrum, 2005).
6. Results from the Interviews

In this section, the results from in depth interviews with representatives from Coop, ICA, Hemköp and Netto are presented. The interviewees were:

- Åke Natt och Dag, Environmental Manager, Coop Nordic
- Per Granqvist, Chief Business Developer, Hemköp
- Anita Falkenek, Head of Environmental and Social Responsibility, ICA Sweden
- Claus Juel-Jensen, CEO, Netto Denmark and Sweden.

The questions are found in the appendix. In the following chapter, the results of these interviews are not presented under each question but under the different themes discussed during the interviews.

General results

Sustainable consumption

To begin with, the interviewees were asked to define sustainable food consumption. The question was raised in order to set the framework for the interview as well as to establish how retailers perceive the sustainability issue.

Åke Natt och Dag from Coop argued that only slightly more sustainable consumption is achievable at present, and that the decisions we make can bring us a little bit closer to sustainable consumption. The reason for this is for instance that people in today’s society are accustomed to have access to a large variety of foods all year around, something that is not easily changed.

Hemköp’s Per Granqvist put on a health as well as an environmental perspective on sustainable consumption. First of all, people need healthy food to feel good. In terms of environmental sustainability, the food sector needs to rethink its current practices. Traditionally, the food sector has focused on producing “cheap food at any cost” through enlargement and efficiency maximisation. Granqvist considered this thinking very unfortunate. Instead he said environmentally sustainable consumption that at the same time is economically viable entails a mix of international, regional and local solutions that incorporates both large and small scale farming.

ICA’s representative Anita Falkenek followed a similar line of reasoning. She stated that sustainable food consumption implies food that is environmentally sound and at the same time produced without exploitation of the workers. These factors are in turn prerequisites for economic feasibility.

Netto’s Claus Juel-Jensen said that sustainable food means food that is produced in a way that does not harm the environment in which it is produced.

On this matter, organic food were mentioned as part of the solution by all, but the importance of small-scale farming, local networks as well as conventional farming with modified production methods were also emphasised, especially by ICA and Hemköp
Responsibilities

According to their respective views on sustainable food consumption, the respondents were asked whose responsibility it is to alter today’s patterns of consumption. All actors stated that the responsibility must be shared between politicians, the market actors and the consumers.

In addition to this, the interviewees were asked about how they perceived the power of their corporation/the food retailing sector to change consumer behaviour.

Åke Natt och Dag stated that Coop’s task was to provide a good assortment of organic food and that Coop was able to influence their customers to a certain extent, through for instance price and availability. In very much same way, Hemköp’s Per Granqvist said that “we as food retailers have the responsibility to give the organic food a fair go”. He argued that consumer demand does not arise from nothing and that the retailers are able to create a demand for organic food by promoting it.

Everyone emphasised that even though the retailers are important, that consumers have to be engaged in this work too. The opinions of Coop, Hemköp and ICA on this aspect were well summarised by ICA’s Anita Falkenek who put forward that on the one hand, the food retailers must offer first-rate environmentally sound products, but on the other hand, it is important that the consumers buy these products. Without consumer demand she said, such work would not be economically viable.

Netto’s Claus Juel-Jensen went even further and stated that even though they have the power to choose what products are offered in store, to change consumption patterns is essentially a question of consumer choice. He stated that “we can not affect our customers purchase decisions - it must fit into the spirit of the times”.

The organic market

As regards the organic market, the respondents were asked to give a general opinion about the current state of affairs.

On this matter, Coop’s Åke Natt och Dag stated that the demand has increased gradually ever since Coop first introduced organic food. For Coop, the overall sales have gone up though the sales measured in kilos have decreased during the last two years, mainly because the supply of fruit and vegetables has been limited due to bad harvests. Natt och Dag believes that organic food sales have synergistic effects, i.e. if a person buys organic milk he might buy organic margarine next time he/she shops and so on.

The Hemköp-interviewee said that the situation on the organic food market is very good at the moment, and that he experiences an “explicit and great interest” from the consumers.

Anita Falkenek, ICA was of the same opinion. According to her, ICA is currently the leading organic food dealer in Sweden. This owes to the 15 percent annual increase in organic sales that ICA has experienced during the last couple of years, “a tremendous increase” compared to the usual annual 1 percent increase for the rest of the assortment.

The Netto CEO agrees that there is a growing amount of people demanding organic food, though he perceives the market situation to be somewhat better in Denmark. He believes that this is a consequence of the pollution problems that Denmark has had because of its dense population. These
issues have therefore been given a lot of attention in Danish media and the general awareness level has risen as a result.

Driving forces and obstacles to include organic food in business strategy

Driving forces

The interviewees were asked to give an account of the driving forces to include organic food in their respective company’s business strategy. As it turned out, the motives varied greatly.

For Coop, the demands of the cooperative, Coop’s owners, have always been central. Natt och Dag said that Coop has aspired to provide their customers with an environmentally friendly assortment ever since 1984, when the cooperative gave Coop the task to trade food without “any unnecessary additives”. From the company’s point of view, the motives are not moral or ideological - Coop simply does what the owners want them to do.

Today, Coop’s driving force is to be the leader on the organic food market, offering the best and the largest organic assortment at the lowest prices. Natt och Dag went on to say that it has to be good business too of course, but he asserted that profitability was not a problem.

According to Per Granqvist, Hemköp, “the reasons [for Hemköp to promote organic food] are ideological”. “We do it because we know that it is not sustainable to produce food the way we do today. It is a matter of food quality but we also have a shared responsibility to take care of our nature – to cultivate the land and keep the landscape open”. Per Granqvist stressed that in this respect, organic grown and small-scale, locally produced is equally interesting. He reckoned that “it is fantastic when locally produced seasonal food is finished on the shelves. This means that a lot of people have bought good food when it is at its best”, though he said that he realises that this is an atypical attitude within the Hemköp-organisation and the food retailing sector in general.

For ICA the main driving force is consumer demand for healthy food. Falkenek said that one of ICA’s current strategies is to offer their customers good, wholesome food and organic food fits very well into this category.

Claus Juel-Jensen, Netto on the other hand believed that offering organic food provides interesting market opportunities, though he thought that the response among Netto’s Swedish customers has been disappointing so far.

Obstacles

The interviewees were also asked about obstacles inhibiting an expansion of their organic food assortment.

Regarding this, Åke Natt och Dag from Coop said that “there are no major problems at present. Surely, there is competition about shelf space but when a chain is as environmentally profiled as we
are, you are making space. Only our own capacity set the limits”. Even so, he admitted that there are problems with the supply of organic bread. It has been hard to determine the major bakeries to include organic bread in their line of bread. One of the reasons for this is that their conventional machines can not be used to bake organic bread because organic flour entails more starch than conventional flour. Åke Natt och Dag claims that this is not the real issue, the problem is that the major bakeries are “simply too sluggish and conservative”. Instead, Coop is now looking for smaller bakeries that are more adaptive to changes.

Per Granqvist, Hemköp agreed with this and even claimed that the usual complaints from food retailers concerning organic supply and demand were mere “ways of escaping” from changes within their own organisation. Instead, in the case of Hemköp as well as the Axfood-group in general, the main obstacles are within the organisation. Within Axfood, there has been a tradition to work with large volumes and long production runs. Hence, a larger organic assortment requires new technical and logistic solutions, like building up a system that can handle smaller producers. Moreover, it is a matter of altering the corporate culture. Therefore, Granqvist stressed the need to “work from the inside and out, as well as from the outside and in”.

Anita Falkenek from the ICA-organisation emphasised that the development of the organic food market had to be balanced, with a successively evolving demand and supply. She said that on the whole, this has been working very well though she too points out the problems with the bread suppliers.

The views of Netto’s Claus Juel-Jensen tallied with the others regarding the supply side, though he stated that there are problems on the demand side still. He brought up two main reasons for this. Firstly, organic products have to struggle for the consumer’s attention in the fierce competition with other alternatives. Secondly, the prices remain too high.

In chapter 4, the competition from discount chains was brought forward as obstacles for consumer demand. With regards to this, Åke Natt och Dag said that the tendency is that people buy basic groceries at Lidl or Netto and their “dinner-food” at the conventional stores. He forecasted that in the future, there will be a number of discount chains prioritising very low prices before quality whereas other chains will offer high qualitative and healthy food and market it with arguments of enjoyment and a good life. Falkenek expressed a similar view and added that this segmentation is occurring within the chains too. In this manner, the discount competition might in fact turn out beneficial for the organic cause, as many consumers connect organic food with healthiness and quality.

Affecting the market

Demand side

Above, all respondents agreed that they as retailers have the power and to a certain extent even the responsibility to change current consumption patterns. Also, they stated that consumer demand is important. With regard to this, the respondents were asked what their chain did to facilitate for green consumption choices among their customers.

Åke Natt och Dag said that Coop affects consumer demand by providing their customers with a large organic assortment that is readily available on the shelves and by the means of various
marketing activities in cooperation with farmers and processors. In addition to this, Coop keeps the prices on organic food down by applying a different pricing policy with smaller margins of profit on organic food.

According to Åke Natt och Dag, Coop has no public sales goals, though “the long-term vision is 100% organic sales”.

Per Granqvist admitted that Hemköp has not been very good at promoting their organic food assortment in recent years, mainly due to organisational issues. Nevertheless, Hemköp’s organic assortment has been virtually constant all along. Now, when a reorganisation has been made and the demand for healthy food is increasing, Granqvist stated that Hemköp wishes to return to its former values, but this time they aim to communicate them better to their customers. Initially, the focus for Hemköp will be on health issues but eventually more effort will be put into conveying their environmental values. Since this work has only begun, Hemköp has no organic sales goals yet.

Concerning Coop’s policy to have smaller margins of profit on organic food, Granqvist thought that this is wrong. He argued that organic food should be neither more nor less profitable than conventional food. “Organic food has a higher value per definition. Someone has put their mind and body into this, to produce food in a wise and fair way. Why then should the consumer price signal that this food is worth less, when it should signal the opposite? […] Where is the encouragement?" In addition, he feared that such pricing policy will make the organic producers expand too fast, and that this will force them into unsustainable production methods as “large-scale production and conventional farming are inevitably connected”.

ICA in turn has tried different marketing strategies, for organic food and for eco-labelled products in general. For instance, there are only eco-labelled products available in the categories paper, laundry- and dishwasher detergents, which according to Falkenek is something that has been criticized by suppliers as well as the Swedish chamber of commerce.

In addition, Falkenek said that ICA’s private organic brand furthers consumer demand. In the beginning of the 1990s, ICA launched the organic brand 'SUNDA’. Some years ago, this brand was replaced by ICA Ekologiskt. The sales have taken off since the new organic brand was launched. Anita Falkenek believes that this is due to a more homogenous profile that makes the organic products easily identifiable. Currently, ICA does not offer as many organic products as Coop, but the ambition is to continuously expand the assortment. The target for 2005 is a 10 percent increase, and Falkenek assessed that ICA was likely to exceed that target.

As regards pricing policies on organic food, the recommendation of the ICA-executives is to set prices in the same manner as for conventional food but since the ICA-stores are independent, they can not force the store managers to adopt a certain price policy.

Netto in contrast, have no ambitions to affect consumer demand. Claus Juel-Jensen stated that Netto simply offer the consumers what they ask for: “Netto only has one long term strategy – to give our customers what they want”.

Supply side

To be able to provide their customers with organic food, it is of course important to support the production side too. How do the represented chains affect the supply of organic food?
Åke Natt och Dag argued that by offering a large assortment of organic foods, Coop grants organic producers a market place for their products. The organic range puts pressure on Coop’s competitors to include organic alternatives in their assortment. Moreover, Coop’s private organic brand ‘Änglamark’, enables Coop to provide small producers with stable, long-term contracts. Also, by showing that these products are tradable as well as profitable, ‘Änglamark’ works as a signal to the market and puts pressure on conventional farmers/processors to supply with organic alternatives.

On this aspect, Natt och Dag brought up the ‘Änglamark’-milk as an example. The ‘Änglamark’-milk was introduced since none of the conventional dairies wanted to produce organic milk. After some time when the milk had proved a profitable venture, Sweden’s largest milk producer Arla started producing their own organic milk. This in turn, spurred other dairies to go organic and today, all major dairies offer organic milk. Because of this, Coop recently considered the ‘Änglamark’-milk’s mission to be completed and the milk was withdrawn from the shelves.

Similar to Natt och Dag, Falkenek stated that “the most beneficial thing for organic producers to do is to become a supplier for ‘ICA Ekologiskt’, because then they can be sure to make a profit”. She also emphasised that ICA puts much effort into convincing their conventional producers to use more environmentally friendly production methods.

As with the demand side, Hemköp’s work on the supply side has been idle for some time. During the 1990s, local Hemköp stores had good cooperation with nearby producers. According to Granqvist however, many of these contracts had to be terminated due to new EU-regulations which made it increasingly hard for small-scale farmers to survive. For the re-launch of Hemköp’s core values, Hemköp works to find new local producers. Unlike Coop and ICA, Hemköp has no plans of starting up a private organic brand. With regards to this, Per Granqvist argued that “there are plenty of excellent producers that deserve more than to be hidden behind some other brand”.

Netto has chosen a different path than the others. Instead of doing all the work themselves, Netto develops their organic product range in cooperation with NGOs working with organic food. In Denmark, Netto cooperates with Økologisk Landsforening. Commencing in 2006, Netto will also collaborate with Swedish Ekologiskt Marknadscentrum for the same purposes. In addition, Claus Juel-Jensen said that the experience from Denmark has shown that by introducing inexpensive organic products in their assortment, Netto puts pressure on other food retailers to cut their organic food prices as well as to develop their organic assortment.

Thoughts about how to develop the organic food market for the future

Apart from changes within their own control, the interviewees where asked to describe what actions they would like to see coming from other actors in order to develop their organic food assortment.

Åke Natt och Dag brought up the problem with high prices. At present he said, organic food has to carry all the extra expenses of organic food production, such as certification and separation costs. For instance, the costs of separating organic from conventional milk in the dairies and throughout the distribution, is only levied upon the organic milk. “Conventional producers should have to pay for the environmental damage they are causing. Currently, this is not taken into account in the price of the product. Instead, you and I pay for it in the form of algae blooming in the Baltic See and because we need to purify our waters from pesticides, we also pay for it as tax payers through
higher taxes”. Natt och Dag argued that in the short perspective, the state is able to ease the problem by subsidising organic certification. In the long run however, the problem has to be dealt with on the EU-level.

Per Granqvist meant that KRAV’s role as organic certifier needs to be reconsidered. He said that sometimes KRAV’s rules work as barriers for new, modern solutions and thus holds back innovative smaller producers. In addition, Granqvist thought that The Swedish Board of Agriculture and the EU should work to simplify organic farming regulations.

Anita Falkenek was concerned about the consumer demand. She argued that since small organic brands are not the average Swede’s premium choice, the big well-known brands have to get involved if the organic sales volumes are to increase substantially. Moreover, organic food could be promoted by the state by for instance a VAT-reduction on organic food. On the supply side, Falkenek reckoned that the state should help farmers with the conversion to organic farming. Also, she stressed that a well-functioning dialogue between the market actors is vital, but at the same time she admitted that the communication on the organic market is already working better than on the conventional food market.

Drawing from the Danish experience with Økologisk Landsforening, where farmers, processors and retailers have gathered to promote Danish organic food around the Ø-label, Claus Juel-Jensen emphasised the importance for the organic producers to be well organised and proposed that the state should support such organisation economically.
7. Analysis of Results

In this section, the results from the interviews will be analysed with the aid of the theories presented in chapter 3 as well as the CLD presented in chapter 4. The findings in the background information provided in chapter 5 are also taken into account.

The companies’ views on sustainability and their perception of responsibility serve as a backdrop for the analysis. It is argued that the complexity of the answers to these questions is reflected in the actions of the chain. Coop for instance, did not deem it possible to achieve sustainability within the prevailing system. At the same time, Coop is the most active company on the environmental arena. In comparison to Coop, ICA and Hemköp seemed quite optimistic. With their strong emphasis on economic viability together with social and environmental sustainability, it is obvious that the triple bottom line-concept has been embraced by both respondents. Also, this implies that these companies believe that sustainability is possible within today’s society, something that is reflected in the moderate stance that they have taken on organic food. Accordingly, the least active chain Netto expressed a narrow understanding of the sustainability concept, focusing solely on its environmental aspects.

Driving forces and obstacles to include organic food in business strategy

Driving forces

For Coop it is clear, both according to the interview and other publications, that the demands of the cooperative are central for Coop. These demands have in turn created a strong ideology, where organic food and environmental issues are central. It can be argued that since Coop is very much guided by the demands of the cooperative – the owners, Coop fit into the stockholder perspective. However, since high returns are not the first priority of the owners in this particular case, this has made Coop adopt a stakeholder perspective.

From the start though, the demands of the cooperative were only one out of many factors that spurred the environmental work of Coop. The environmental ambitions of Coop, or KF as it was called back then, evolved during the late 1980s. Before this, KF had “a reactive approach to environmental issues, mainly reacting upon the initiatives of their competitors and the signals of the market” (Terrvik 1997, p. 126). The change came as a result of a number of external and internal challenges. Among these were a growing consumer demand for environmentally friendly products and pressure from environmental NGOs. Moreover, KF struggled with its corporate profile as the members thought that the cooperative no longer lived up to its original ideology. In addition to this, by consumers in general, KF was considered ‘boring’ compared to its main competitor ICA. In fact, KF’s green assortment was regarded as its only competitive advantage.

As a response to this, the chain decided to enhance its environmental profile, with an expansion of the eco-labelled assortment as a part of this strategy. The supply of eco-labelled products was however small at that time, and the suppliers were not easily persuaded to change. This was the
reason why KF started up the private eco-brand ‘Änglamark’, something that according to Terrvik showed the way for “a more offensive strategy” and gave KF “the opportunity to profile itself in the environmental field” (*ibid.*, p. 126).

This information reveals that the driving forces for Coop are not only connected to the demands of the cooperative. As with the other chains, organic food is also seen as a business opportunity, in this case in the form of environmental profiling possibilities.

For Hemköp, it is argued that despite Granqvist’s claims that Hemköp’s reasons are “ideological”, the main driving force is rather the increased demand for healthy food. In order to understand the driving forces for Hemköp, it is instructive to look at the history of the chain. As mentioned in Chapter 5, Hemköp had quality, health and environment as core values during the 1990s. During this period, Strannegård (1997) made a case study on Hemköp. From the study Strannegård concluded that “the quality, health and environmental thinking is not a strategy that has transpired from the ‘environmental pathos’ of the executives, but is rather a product of their ability to understand and satisfy the needs of their customers and the market” (p. 104). Therefore, he deemed Hemköp’s environmental strategy to be customer oriented.

In a similar manner, Pär Bygdeson, responsible for Quality, Health and Environmental issues at Axfood recently expressed that “[…] a food retailing chain cannot be more environmentally friendly than its customers want it to be (based on their purchasing behaviour)” (SOU 2004:19, p. 252). Now however, when the chain perceives a demand for healthy food, Hemköp is willing to jump on the organic train again. So, even if at first sight appears as if Hemköp has changed direction dramatically over the years, it is clear that Hemköp’s strategy is still to be customer oriented - the different approaches to organic food over the years simply owes to how the executives have perceived the consumer demand. This and the information available in Hemköp and Axfood’s various publications reveal that Axfood-group is mainly concerned with its stockholders.

Like Hemköp, the interview with ICA revealed that the chain’s driving force to offer organic food is consumer demand for healthy food. In the various publications of ICA, it is obvious that in addition to this, the company wants to be perceived as a good corporate citizen and that offering organic food is a part of that strategy. In accordance with the social responsibility aspirations, it is evident that ICA has adopted a stakeholder perspective on its business.

Claus Jeul-Jensen made it clear during the interview that the driving force for Netto is the strategic opportunity that organic food offers. In an article in *Sveriges Natur* on the other hand, Juel-Jensen expresses a somewhat different opinion. Here he says that Netto has chosen to promote organic food because they “think that the organic food development has stagnated and we would love to help it”. Furthermore, he states that Netto’s intention is to “give smaller producers a chance to survive” as “far too many has disappeared and been devoured by the large corporations” (Schröder 2005). Then again, *Sveriges Natur* is the magazine of the Swedish Society for Nature Conservation, and it would have been stupid of Juel-Jensen not to take the opportunity to promote Netto for the Swedish environmentalists. Also, considering that Netto did not initiate the cooperation with Økologisk Landsforening themselves, it can be questioned how committed to the development of the organic market Netto really is. Therefore, it is argued that Netto’s real interest does not lie in the environment or the organic food market, but in the profit that can be made from it. Thus, Netto fits perfectly into the stockholder perspective.
Obstacles

In a study by Jörgensen (2001, pp. 46), store managers were asked to list factors that they believed were obstacles for increased organic food sales. In this study, high prices were the factor most commonly mentioned, followed by little interest from customers, small volumes from suppliers, low product diversity/too few brands and finally low quality especially in the vegetable group. Among the top management, an unreliable supply was considered the largest obstacle. Here, the retailers emphasised that if a product is not available when the customer wants it, he or she might look for another alternative next time.

Now four years later, it appears as if the organic food market has matured considerably, not least on the supply side. Although ICA and Coop mentioned problems with bread suppliers, the respondents did not bring up any major problems on the supply side. On the demand side, it was only Netto who expressed dissatisfaction with consumer demand and high prices. Since Netto is a discount chain, the high price is probably a larger problem for Netto than for the other chains.

As evident above, the cooperative was a factor that initiated the organic food strategy for Coop. For Hemköp, the owners and the own organisation rather function as obstacles. As stated in chapter 3, Tjärnemo (2001) found that focus on short-term profitability as well as an uninterested organisation and surrounding environment were barriers for businesses to include environmental concerns in their strategies. According to the interview, this was exactly the case for Hemköp, together with logistic and administrative issues.

Though the technical issues may be complicated enough to come to terms with, the attitudinal barriers are almost certainly the hardest to address. Experiences from Coop has shown that in order to reduce the resistance from within the organisation, it is important to prove that environmental work can be profitable (Terrvik 1997, p. 126). This was also the opinion of Anita Falkenek, ICA who said that “sales figures are something that everyone understands”. In addition to this, there are undoubtedly numerous other organisational issues that work as hurdles, these issues are however deemed to be too complex to investigate for the scope of this paper.

General obstacles on the market

The measures proposed by the various chains for a future development of the market reveal that even though no major obstacles for the own chain were mentioned, there are still obstacles for the organic market as a whole.

On the demand side, the consumer price seems to be one concern as both Coop and ICA suggested measures aimed at changing the difference in price for organic and conventional food. Whereas Åke Natt och Dag suggested that the external costs of conventional agriculture should be internalised in the price of conventional food, ICA proposed a VAT-reduction for organic food.

In addition, ICA stressed the importance of more organic alternatives offered by well-known brands, something that would potentially increase the ‘attractiveness of organic food’ for the average consumer.

Furthermore, the answers of the chain-representatives revealed that there still are problems on the supply side. To overcome this, Coop as well as ICA proposed subsidies for certification and conversion costs for farmers. Furthermore, Coop and Hemköp reckoned that something needed to be done about the rules and regulations on the EU-level. Regarding these issues, the views of the
chains largely correspond with Edman’s proposals in the final 2005-report (SOU 2005:51, pp. 67; p. 78).

In order to strengthen the market as a whole, ICA and Netto put forward that good communication and cooperation on the organic market is essential. This view is supported by Heidenmark (2001), who found the lack of market understanding together with insufficient communication with the customers, to be two of the main obstacles for higher organic sales at present. On this matter, she also states that the fact that KRAV is a certification body and not a marketing institution makes it impossible for the organisation to promote specific products (pp. 153).

Per Granqvist, Hemköp went even further and suggested a reconsideration of KRAV’s role as certifier, a view shared by the farmers who have their own environmentally friendly solutions for cultivation and husbandry, but cannot market their products as organic because these solutions do not fit into KRAV’s regulations (Larson, A-M, personal communication 2005-11-19).

The above criticism raises questions about the effectiveness of KRAV’s rules as well as its position as organic certifier. Juel-Jensen as well as Heidenmark proposes a creation of a Swedish organisation similar to Økologisk Landsforening. Such organisation would not necessarily help the innovative farmers, but could undoubtedly be beneficial for the sales of organic food. At the same time, there is a risk that yet another label confuses the consumers, which would potentially reduce the ‘attractiveness of organic food consumption’ and thus the organic sales, at least on a short-term basis.
Affecting the market

In order to visualise how the retailers are able to affect the market as a whole, their actions are put in the framework of the CLD. The driving forces and obstacles mentioned above are incorporated in the concept ‘attractiveness of organic food assortment’. This variable, as well as the variables that are used by the retailers as means of affecting the market, are written in bold.

![Diagram of retailers' ways of affecting the market]

Figure 3. The retailers’ ways of affecting the market

Demand side

All respondents stated that they as retailers had the power to influence their customer’s consumption patterns. At the same time, it was emphasised that the consumers had to make an effort too. The interviewees expressed diverging views on how the responsibility to change consumption was to be shared between the retailer and consumer. With regards to this, it appeared as if Coop, Hemköp and ICA were willing to shoulder a large part of the burden, at least in theory. Netto’s opinion was that the consumers have the lion’s share of the responsibility.

For the purpose of this thesis however, it is of more interest to look at what actions that are actually undertaken on this aspect. According to the interviews, all chains but Netto indeed aspired to raise consumer demand. Various means to accomplish this were mentioned: Coop is actively seeking to increase the consumer purchases, by offering a large assortment and through various promotional activities. Another favourable factor is Coop’s pricing policy on organic food, which makes Coop’s organic assortment the most inexpensive in Sweden, along with ICA (Konsumentverket 2004).

Even if ICA offers organic food at a low price, this is not a result of a specific policy. Moreover, ICA has not had any major promotional activities for organic food but trusts their private eco-brand to improve demand, chiefly by making the organic assortment more homogenous and visible.
Since Hemköp’s work is still to begin, we neither know how the “communication of values” will manifest itself, nor the effects of this approach and so it cannot easily be judged.

In the phrasing of the CLD, Coop’s measures are directly aimed at the ‘offer in store’ together with the ‘attractiveness of organic food consumption’ and the ‘consumer price’. ICA on the other hand had focused on the ‘offer in store’-factor, whereas Hemköp’s future work primarily will affect the ‘attractiveness of organic food consumption’.

Moreover, the CLD illustrates that even though Netto does not claim to have such ambition, Netto might attract new organic buyers through the ‘consumer price’-variable by offering inexpensive organic food. A conversation between two girls, overheard by the author on the bus, serves to illustrate this. These girls praised the fact that Netto now offered cheap organic eggs, as they could not afford organic eggs in the other stores and would rather not buy any eggs than to buy the conventional ones.

Also, since Netto rarely offers the ‘usual’ Swedish brands, the author assumes that Netto’s customers are less loyal to brands and thus more open towards new brands, including organic ones. Conversely, it can be argued that people who shop at Netto do so because they want to buy cheap food, which might imply that they are not as receptive to arguments of quality and health.

Supply side

Coop stimulates the supply side by offering a large assortment, and thus a market place for the organic producers. Also, by showing other retailers that it can be profitable to offer organic food, the chain indirectly improves the ‘attractiveness of an organic food assortment’. In addition, private eco-brands are brought forward by both Coop and ICA as ways of improving security and profitability for suppliers of organic food.

It is evident that Coop and ICA have strong faith in their private eco-brands to develop the market. However, it is argued that the net effect of private eco-brands depends on the chain’s approach. Does the chain really offer the eco-brand to further the market for organic food or is it just another way to make profit?

In the case of Coop, the ‘Ånglamark’-brand appears to serve three major purposes. To begin with, it provides a ‘business opportunity’ as a part of Coop’s environmental profiling strategy. Secondly, it is a way of ensuring a ‘supply of organic food’ by placing long-term orders on their supplier. Regarding this aspect, Coop has also initiated production in categories where there have been no/few organic alternatives available. The third function according to Åke Natt och Dag is to show that organic products can be a business opportunity for processors and thus put pressure on /encourage them to supply with organic alternatives. Also concerning this, Coop acts true to its claimed intentions; at least in the case of the ‘Ånglamark’-milk which was phased out when there were sufficient numbers of alternatives available, though another possibility is of course that the ‘Ånglamark’-milk was withdrawn because it was no longer economically feasible.

ICA’s ambitions with ‘ICA Ekologiskt’ are not as self-evident. Considering that ICA is not as active in promoting organic food as Coop, there is a risk that ‘ICA Ekologiskt’ is simply a way for the chain to take the plums out of the existing organic product range, i.e. they see which products are profitable (in their/other chains’ assortment) and launch ‘ICA Ekologiskt’ in those categories. With this strategy, there is a risk that all ready existing brands/products are crowded out, thus taking away some of the positive effects of the eco-brand on the supply side.
Per Granqvist, Hemköp touched upon another potentially problematic issue when he stated that “there are plenty of excellent producers that deserve more than to be hidden behind some other brand”. Even though the producer is sometimes mentioned on the package, they do in any case not have a prominent position. Therefore, it can be argued that eco-brands create a situation where there is no feedback to the producers, something that might hamper product development (Öström, A. personal communication 2005-10-14).

As the strategy of Granqvist’s own chain has not yet taken place, it is not easily evaluated. Nevertheless, according to the CLD, to contract local organic producers would stimulate the supply by decreasing the ‘risk of organic production’ for the contracted farmers.

Netto’s approach is to utilise the already existing knowledge and connections of organic food NGOs. During the interview, Claus Juel-Jensen said that the goal with this was to develop their organic assortment, and thus be able to “give their customers what they want”. As mentioned earlier, Netto’s true intentions are a bit ambiguous. Nevertheless, it is clear that the cooperation with environmental NGOs is a perfect way for Netto to find suppliers, and at the same time improve their image, with a minimum effort involved.

This is not to say that Netto’s new drive cannot be beneficial for the organic suppliers and the market as a whole. In fact, according to Ekologiskt Marknadscentrum (2005), the cooperation with Økologisk Landsforening has created a “win-win-win-win-situation” - for Netto because of the abovementioned reasons, for Økologisk Landsforening who increases their sales, for the farmers who gain access to a new channel of distribution and finally for the customers who are able to get hold of inexpensive organic products.
7. Conclusions

The research questions for this thesis as stated in the beginning were:

- What are the driving forces and obstacles for retailers to include organic food in their business strategy?

- How do the actions of the food retailers affect the other actors on the organic market?

Regarding the first research question, it is evident that all chains are driven by the business opportunity that organic food offers. In the phrasing of the list in chapter 3, organic food is considered a strategic opportunity, i.e. a way to improve the competitiveness and enhance the image of the chain. The nature of this opportunity is however slightly different for the chains.

For Coop, the strategic opportunity comprises the possibility for green profiling that organic food offers. The green profile is a way to keep the cooperative satisfied as well as to niche Coop in the ‘grocery store’-segment of the market and thus attract environmentally aware consumers. ICA and Hemköp instead see organic food as a chance to increase their sales figures by capturing the health conscious customers. Like for Coop, organic food gives Netto a chance to profile itself within the discount-segment of the market.

It can of course be argued that all firms have a stockholder perspective on their business since they are all interested in making a profit for their owners. Also, it can be argued that environmental work and in this case, offering organic food can be a perfectly rational way of increasing the profits. It is however argued by the author that the distinction between the perspectives does not lie in different ambitions regarding profit-maximisation; the question is rather if other considerations than the benefits for the firm itself, are taken into account in the decision making.

This is the case for Coop and ICA. If we examine the business strategy and the perspectives of Coop, it is evident that organic food is also a part of the work towards sustainable consumption. Because of this, it appears as if Coop has to some extent moved away from a strategic opportunity strategy, towards a sustainable strategy, very much as a result of the demands of the cooperative.

ICA on the other hand, has the ambition to be a socially responsible corporate citizen. Organic food is a part of this ambition. This makes the ICA strategy regarding organic food a mix of the strategic opportunity strategy and the social responsibility practice.

Regarding the obstacles, the chains perceived some problems on the demand side. Netto considered the prices too high and the consumer demand to low. The other chains did not mention any such problems at present but Coop and ICA reckoned that the price and the consumer demand could be obstacles for a future expansion of the total market.

For Hemköp, it was instead attitudinal and administrational barriers within the own organisation that had to be overcome before an expansion of the organic assortment.

The chains perceived no major obstacles on the supply side though the answers regarding the future of the market revealed concerns about possibilities for the supply side to expand given the existing rules and regulations. On the national level the role of KRAV was questioned.
For the second research question, the study showed that the chains’ actions are aimed at various parts of the market. It is evident that Coop is the most active in developing the organic market, followed by ICA and Netto. Hemköp has not yet started its work but if the planned actions are realised, they might become an important actor on the organic market too.

The findings of the thesis regarding these questions are summarised in the below table.

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<tr>
<td>Netto</td>
<td>Strategic opportunity</td>
<td>Stockholder</td>
<td>Business opportunity</td>
<td>High prices Consumer demand</td>
</tr>
</tbody>
</table>

Figure 4. A summary of the business strategies, driving forces, obstacles and actions on the organic food market

It is argued that the total beneficial effect of the chains’ actions for the organic market is a function of how active the chain is in combination with the driving forces behind these actions.

For an expansion of the organic food market, it is of course favourable when organic food is offered at as many venues as possible. On this aspect, the work of all chains is significant. The question is what happens if the consumer demand decreases? In such case, it is not likely that Netto and Hemköp that are solely guided by the strategic opportunity that organic food offers, would continue its organic efforts.

For a stable development of the market, it is important that there are no abrupt changes in the supply or the demand. On this aspect, the work of Coop and ICA is most beneficial. This is because, as discussed above, Coop and ICA value other aspects of organic food than the sales figures. Accordingly, the likelihood is higher that these chains will maintain their work even in times when consumer demand for organic food is low.

In the case of Coop, the connection between the business strategy and organic food is so strong that giving up the environmental ambitions would result in lost credibility, in the eyes of the cooperative as well as the general public.

Regarding ICA however, organic food is only one out of many aspects of the CSR-work for the chain. Therefore, the incentives for ICA to continue its work with organic food in a situation with low demand are smaller. What is more, since the ICA-stores are independent, the ICA-executives are not able to influence the store managers to the same extent as Coop. If on the other hand the chain continues with its expansion of the organic food assortment, the chain might become very influential on the organic food market considering its position as the largest chain on the market.

From this, the conclusion can be drawn that retail chains with a stakeholder approach to their business and their organic food assortment, are most beneficial for the organic market in the long-run.
8. Discussion

From the study it can be concluded that the retailers are able to make a difference on the organic food market if they are determined to do so. At present, the case study companies Coop, ICA and Hemköp are the only Swedish chains that offer a reasonable sized organic assortment, which would imply that there is plenty of room for other chains to join the organic market. For a future study, it would be interesting to examine why the other chains choose to exclude organic food from their business strategy. Such study could potentially tell us even more about the incentives of the retailers regarding organic food.

As we have seen, a low consumer demand is an obstacle for the chains in the present study, but as touched upon by Claus Juel-Jensen, there is also a lack of external pressure. Today, the only real influence on the retailers from the consumer side is their demand for healthy food, i.e. the monetary form of consumer power. Consumer power in its verbal form such as a public debate about the environmental impacts of the agricultural sector is almost totally absent. This past summer, when the algae blooming was on every Swedes lips due to the situation in the Baltic Sea, neither the state nor the environmental NGOs took the chance to promote organic agriculture in the public consciousness.

In general, it is notable that so little is done by the Swedish state to influence the retailers. In Sweden, a country where the state traditionally has had a strong impact on companies’ decision making, it is surprising that none of the driving forces mentioned by the chains are connected to actions of the state. Surely, there must be ways for the state to improve the attractiveness of an organic food assortment for retailers. The future will tell if an increased public procurement will have such an effect.

Finally, if we return to the initial discussion about sustainability and organic food and picture a scenario in the future where the organic market is large - how sustainable is organic food then? In such case, more big brands will have entered the organic market. Moreover, it is likely that these brands will be prioritised over products produced by smaller ‘unknown’ producers, by the retailers as well as the average consumer. This is potentially problematic. Halweil (2001) argues that as large producers like Nestlé and Unilever enter the market so does an industrialised version of organic farming, with highly processed organic food that travels long distances. In this manner, there is a risk that organic food production loses some of its environmental (and social) soundness and undoubtedly also some of its ‘soul’. At the same time, it can be argued that “it’s clearly better to have large organic farms tied into the mainstream food chain than to have conventional farms spraying pesticides and force-feeding antibiotics to livestock” (p. 28).

From this it can be concluded that organic agriculture is not a universal solution to all problems connected to agriculture, but it is in any case a small step closer to sustainable food production and consumption.
Sources


**Interviews**

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Granqvist, Per. Chief Business Developer, Hemköp. 2005-10-07

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Natt och Dag, Åke. Environmental Manager, Coop Nordic. 2005-10-07
Appendix - Interview guide

Sustainable food consumption
1. What does sustainable food consumption imply regarding foodstuffs?
2. Whose responsibility is it to change today’s patterns of consumption (to more sustainable)?
3. How do you perceive the role/power of the food retailers when it comes to changing consumers’ purchasing behaviour?
4. What has your chain done on this matter?

Organic food – market situation and own assortment
5. How do you perceive the market situation for organic food today?
6. How big is your chain’s organic assortment today?
7. How have the market situation and your organic food assortment changed over the years?

Including organic assortment in business strategy – driving forces and obstacles
8. What made your chain include organic products in your assortment?
9. Which are the strongest driving forces for you to develop your organic assortment?
10. Which are the largest obstacles for you to develop your organic assortment?

Follow up questions depending on which factors are mentioned:
a. Demand:
   i. How does a market demand arise – through customer demands or your offer?
   ii. What is you chain doing to affect demand?
   iii. What is the role of private eco-brands in this process?
b. Price:
   i. What is your chain doing to affect demand?
   ii. How is this affected by the price competition from discount chains?
c. Supply:
   i. What is your chain doing to affect the supply?
   ii. What is your chain doing to affect the quality and diversity of the supply?
   iii. What is the role of private eco-brands in this process?

Prospects for organic food
11. What future changes coming from the other actors on the organic market would favour a development of your chain’s organic assortment?
12. On the whole - how do you forecast the future for organic food?