

Brand Name Effect of Organic Farming for Small-Scale Farms

Xuanli Liu and Mohamed Ibrahim

Fort Valley State University

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Introduction

Small-scale farms usually don't have much market power due to their small size, low levels of organization, high fixed costs, and homogenous products exposed them to risk and uncertainty like the volatile price. Others stakeholders such as food retailers and wholesalers possess market power by virtue of the size, direct customer contact, and the capability of transforming the bulky and perishable into storable and appealing products. Consequently, the asymmetric price transmission become prevalent along the food supply chain. Farmers especially small farmers, being exposed to high risk and uncertainty, get a small share of food marketing value. It has been a concern of the public for a long time. Organic farming and its brand name effect may promise a turning point. The increasing demand for organic products in the last decade is reshaping the pattern of price transmissions, an great opportunity for small farmers to capitalize on.

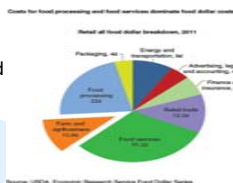
Data

There are limited data on the prices of organic products. The data used in this project come from Agricultural Market Services (AMS), ERS on-line data publications, and surveys in Georgia. One subset of data include the Farm Products PPI (which measures the annual percent change in the prices paid to farmers for their commodities), the processed Foodstuffs PPI measures the change in prices paid to food processors for their products and the Consumer Price Index (CPI) for food. Another subset of data encompasses farm price, whole sale price, and retail price of selected products. Information on the prices of organic products are the focus of data collection.

Farms' Position on Food Chain

Farms stand at the starting point of the food supply chain, but not the end of most benefits are distributed to. The USDA data showed an appalling result: only 10.8 cents of every food dollar went toward farms and the remaining 90% was allotted to the downstream stakeholders.

The movements of farm product PPI in recent years at a little faster speed than processed foodstuffs and feedstuffs PPI and all food PPI reveals things new. If the trend continues, farm price share may increase. But the broad swing of farm product PPI is still a great concern.



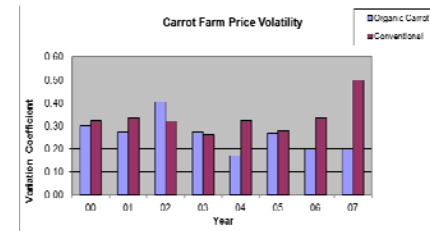
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Farmers claimed good shares from some products. The farm price of milk, fruit, vegetables, and field crops showed a slow increase. The average farm price accounts for 25% of retail price, much better than 10% in the overall case. An explanation is less need for deep-level processing and more organic components in the enterprises in the list. Field crops remain the minimum in farm price share due to little name recognition and bulky feature of product except year 2007, while milk product, in comparison, presents a best case with a price share as high as thirty five percent



Price Stabilizer: Function of Organic Products

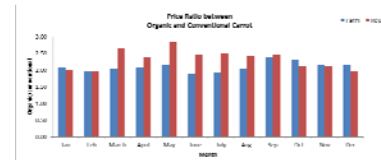
The data source available contain both farm and retail price for conventional and organic carrots. The limited seem data suggest that organic products have a more stable price at the farm gate. Contrasted to some increase in volatility of conventional product, the farm price of organic products is less volatile. Also, the trend in the data of the seven years show the farm price of organic carrot is less and



Less variability partially due to more agents get into transaction of organic product. Except farm stands for direct marketing and independent nature product store, natural product chain, wholesalers, brokers, distributors and conventional supermarket begin to get into organic markets.

Price Premium and Transmission

Organic farm price doubles conventional farm price of carrot. The ratios between organic and conventional, though changed a little annually, were quite consistent within and between years. Similar pattern occurred in the retail markets. Farmers benefited from being organic and the value allocated between the upstream and downstream in stable proportion. The results also suggests a relatively smooth price transmission from the retail niche to the origin of organic products.



Results and Discussion

In the case of carrot, organic products likely ensure that farmers get the higher price premium and face less volatile price. Arguably, we have explanations in (1)Brand name effect. Brand names attract and keep consumers. Products out of farm gate have no brand name attached. Organic is brand name for farms, especially small farm, to differentiate their products; (2)Less supply shocks. Supply shocks lead to price volatility due to the inelastic food demand. Organic farming separates its products from conventional ones, therefore, substantially avoid the adverse effect of shocks in conventional supply on organic farmers; (3) Less marketing costs. Organic products appeal to consumers for its originate and natural shape. processing is less value-added. The broad awareness deeply cuts marketing costs; (4) Match with production practices of small farms. Organic farming demands fewer commercial inputs and is more labor intensive, which points to the advantages of small farms over large ones. Farmers don't need as many acres for the same profits.

Conclusions and Suggestions

The analysis of limited data pointed to a conclusion that organic production helps farmers to retain more values at the farm gate and it is also a tool to stabilize the price. However, limited data plus observable shortage of supply in the markets did highlight some obstacles and their adverse impact such as the three years of transition requirements. Farmers should be aware of government support programs. The conversion to organic production should be approached in way of graduation transition to avoid high risk at early stage. Marketing co-op represents an effective way of solving the issue of small volume and limited choices, and should give small farmers an edge over conventional ones in various markets.

References

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Contact: liux@fvsu.edu