

Organically Produced Foods - A Competitive Approach for the Twenty-First Century in Terms of Blue Ocean New Strategic Concept

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Abstract

The Blue Ocean Strategy provides a systematic approach to transform the competition in a less significant factor. This new concept provides companies and entrepreneurs ways to circumvent the fierce competition in the markets where there is a growing number of competitors with a relatively constant number of consumers by creating new market niches without competition. In fact, the strategy tries to extend the traditional and established market (called red oceans). Thus, tense and competitive market (where economic activity is defined and accepted, and the competitive rules of the game are known) is avoided and Blue Ocean companies don't fight to beat rivals for grabbing a segment of the potential demand.

In these circumstances, the strategic orientation of small farmers and food processors to organic farming can be a leap to approach a new market area, almost non-existent in Romania, but with well defined demand especially in the intra-Community market. Furthermore, the food industry multiplies its efforts to develop healthier and more sustainable products, in order to reduce the negative influence that junk food has on generating major diseases of the mankind (cancer, diabetes and obesity).

Keywords: *blue oceans, red oceans, innovation value, key strategic analysis, organic farming, healthy food.*

JEL classification: I15, L66, O31, Q13

1. A new strategic orientation in modern management and marketing

The recent history of competition between manufacturing companies and distributors that compete for market share as well, each trying to differentiate in order to sale better has increased in recent years. In today's agrifood economy has been a strong movement of the profits share to the distribution rings (wholesale and retail). Some well-known authors believe that competition results in the appearance of a red ocean, where rivals seek to capture a bigger market share without thinking

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that the current market appears to be relatively limited. Under these conditions, future market leaders will not reduce competition unless they accept the innovation and find solutions to expand the markets.

Since 2005, experts in the field published under the auspices of Harvard University a best-seller entitled "Blue Ocean Strategy - How to Create Uncontested Market Space and Make the Competition Irrelevant" (Chain, Mauborgne, 2005)

Blue Ocean Strategy provides a systematic method to reduce the market competition by extending the activity in market areas still free. Business success comes not only from fighting competition, but also from making the competition a less significant variable (Butler, 2008). Instead of dividing the existing demand (which is often declining) and to rate rivals, blue ocean strategy offers ways of rising demand and reducing the influence of competition. Therefore, the blue ocean strategy provides companies with guidelines on how to escape from intense competition over the same market space – where there are limited customers with an increasing number of competitors – by creating a new market space where there is less competition if any (Kim, Yang Jaekyung, 2008).

Sailing in red oceans, each limit of economic activities is defined and accepted, and the competitive rules of the game are known. In this situation, companies are trying to beat their rivals in order to grab a larger share of the existing demand. To keep or to increase their market position, managers build strategies, mainly referring to competition, and trying to offer better products and services (Chain, Mauborgne, 2005). These products become household items, and fierce competition is bleeding the oceans.

Instead, **blue oceans are defined as areas of virgin market with a high potential demand and with a high probability of profitable growth.**

Although some blue oceans areas are created far from the limits of existing fields, most arise within red oceans by expanding existing business boundaries and making the competition irrelevant.

There are several factors of influence behind the powerful imperative of creating blue oceans. The technological progress has greatly improved productivity in the economy and allowed manufacturers to bring to market many innovative products and services. The result is that in a growing number of large sectors of the economy demand exceeds supply (Chain, Mauborgne, 2005) and the trend of globalization amplifies this situation. As trade barriers between countries and regions are removed, and information about products and prices becomes instantly and globally available, the niche markets and monopolies are disappearing. At the same time the supply is rising as global competition intensifies and there is not a rising demand anywhere in the world. Furthermore, statistics show that the population decreases in many economically developed areas (Department of Statistics of the United Nations, 2002). The result was the accelerated transformation of products and services in commodities, the price war and the decreased profit margin. All this suggests that the business environment which involved most strategies and management approaches of the twentieth century are rapidly falling down (Chain, Mauborgne, 2005). Since the current competition in

red ocean areas is becoming more and more "bloody", management will have to build strategies based on the Blue Ocean approach.

In recent decades many companies have made considerable efforts to become more efficient. A lot of studies show, however, that efforts to increase efficiency by traditional marketing methods are limited, so companies need to differentiate using other ways. The new "blue" area provides a differentiation to the companies and facilitate **their ability to innovate**. Companies which are caught in red oceans are competing by building a stable position in the existing order. Surprisingly, blue oceans creators don't take competition as a landmark in the business development. Moreover, they rely on a different strategic approach called **value innovation**. Value innovation is the cornerstone of blue ocean strategy. **Its followers focus on creating a leap in value for consumers instead focusing on beating the competition**. In other words, the followers of this strategy seek to differentiate themselves in the market by offering products and / or services that cover some requirements which until now were considered insignificant or have received minimal attention. This will create added value, will differentiate them from competition and ultimately will propel them to a new market area.

2. Organic farming - an example of Blue Ocean approach

In recent decades, food has become a commercial good, rather than a necessity. Food production industry is now motivated more by profit rather than fight for covering the subsistence needs. Although agriculture is still closely linked to land use, business cycles have now the same importance as natural cycles. In Romania, agriculture is made on one hand by the millions individual households engaged in crop land and livestock, especially for self-consumption and on the other hand by powerful processing companies and retail industry as well as some businessmen, who transformed this basic need in several million euros businesses.

In these circumstances, the orientation of small farmers and food processors in the field to organic farming can be a leap to approach a new market area, almost non-existent in Romania, but with well-defined demand, especially on the EU market.

One of the reasons why farmers and processors must orientate their activity on organic farming is that people need to eat healthy and less refined products, in order to increase food safety. In past decades, science has revolutionized also the agricultural raw materials and the resulting products. Researchers have begun to improve plants not only in terms of size and growth, but also uniformity, which ease the process of mechanical harvesting and processing. This lead to higher productivity, but contribute to lower product quality and safety for the consumer.

Once the food security objectives have been achieved, people from developed countries of the European Union began to consume foods that produce beneficial effects for the environmental medium and for body health. That's why we believe that today's agriculture and processing in ecological conditions is a real **market opportunity**. This opportunity can be exploited successfully by farmers and small processors in Romania, especially since the country has favorable

conditions for organic production and for the development of this market opportunity in a business.

The main competitive advantages that our country can capitalize on the development of organic agriculture refer to the following:

- Chemical treatment and tech, inputs more and more expensive, have not reached yet the level of Western countries; the organic farming is not dependent on chemicalization and tech;
- In Romania it can be found unpolluted areas where is easily to apply specific techniques for organic farming;
- EU organic products market is still lack of competition in some species of vegetables and fruits that Romania can produce (eg, eggplant, peppers, melons, celery, apricots, peaches, plums, etc.) and some processed food products from agricultural raw materials listed above;
- Prices for organic products, are more profitable for producers and processors and for consumers in the EU, which have a higher purchasing power;
- Since the products of organic farming are not the result of complex industrial processes, the costs can be reduced by eliminating some operations that are less significant, such as calibration, symmetry, color uniformity, considered essential in conventional market (in the oceans red).

Given all these considerations, we can say that organic farming may be a blue ocean strategy approach. The **element of differentiation and innovation value** is offering organic products with beneficial effects on body health, certified by independent bodies. This approach is also determined by increasingly demand on the Community market for these products.

Developing this concept of organic agriculture in Romania must take into account both the advantages and disadvantages that this strategy entails. Thus, the advantages of organic farming practice can be determined by the **social benefits** these products offer (helping to maintain healthy body on medium and long term), by **reducing the costs of agro-industrial processes**, by the **product traceability verification** (due to the low number of the branch links) etc. One of the other reasons why farmers and processors in Romania should focus its strategies on practicing ecological system is represented by the opportunity to access EU funds. Facilities granted by European Union structural funds to the farmers in the field of organic farming and organic food products is still an important opportunity. It mentioned that although the process of accessing European funds is slow and difficult, the programs for organic farming went well during 2010.

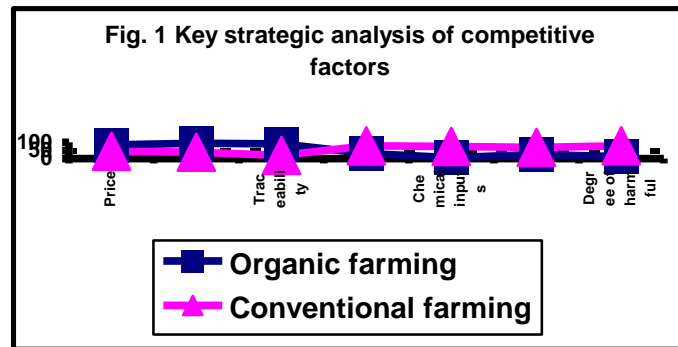
Before deciding to tackle a blue ocean strategy approach, by developing an organic farming system, farmers and processors must also take into account the limits of this approach, especially at the beginning of the business. These limits should be considered primarily from an economic view. It is very important to know whether the necessary financial capacity is strong enough to fight against some disadvantages until the business becomes profitable and sustainable.

The most important drawbacks in the current situation are:

- achieving lower production of agricultural products; organic farming is characteristic of an extensive production;
- overly high prices of organic farming products, sometimes over the purchasing power of most Romanian consumers. The price is a limiting factor in our country and the demand for such products is very faint, which is why most of the production should be oriented mainly to the Community market (even if this involves additional costs);
- procedures and difficulties in obtaining certificates for recognition of organic products.

Given all the above aspects, we believe that a blue ocean strategy approach switching to the practice of ecological agriculture will lead to important changes implemented in the "Key strategic analysis of competitive factors" shown below (Figure 1).

This grid is both a synoptic diagnostic method and a framework for designing a blue ocean strategy. This grid has two targets. First, it captures the current market situation, allowing the easy understanding of influencing factors in the field in terms of products, services, supplies, etc., and secondly the advantages that customers have by using this innovative product or service.



From the above figure we see that transition to organic farming requires the following strategic factors: the selling price of organic products, which is higher than conventional ones, is being generated by the higher quality of the products and the lower harm degree. Also, the organic product traceability can be achieved more easily due to the low number of branch links going through until it reaches the final consumer. The main limiting factor is that in a given area, the quantities produced in the ecological system will be lower than in intensive agricultural practice, because organic production is a natural and extensively approach. This factor will be however offset by eliminating the costs of chemical inputs, and reduce the costs of sorting and grading. The novelty and innovation value is the obtaining of organic products which substantially reduce the harmful factors for human body health.

In conclusion, we can say that switching to organic farming can be a viable strategy for small farmers and processors in our country, who can access new areas of market. Furthermore, the field industry is increasingly interested to develop healthier products and to become sustainable in order to combat the major diseases that mankind is facing (cancer, diabetes and obesity).

3. Case study on natural apple juice sample

To illustrate the mechanisms and methods of application the blue ocean strategy in organic farming it will be presented a **case study on natural apple juice sample**.

The advantageous solutions of natural apple juice are based on:

- Fresh consumption;
- Use of natural preservatives or considered harmless in small quantities;
- Hermetic packaging in modern packages (e.g, tetra pack, bag in box, etc.) to maintain the product edible for a longer period of time;
- Ensuring a suitable microclimate during transportation and storage.

Management risk on each branch link

a. The farmer branch

- Raw material (apples) will be acquired from a known area (eg Voinesti), ensuring that quality of the products are suitable for obtaining a quality juice which meet the requirements of organic farming;
- For business continuity, during extra-season, agricultural raw materials can be supplemented with imported products, depending on demand.

b. Transportation to the processing unit warehouse

- Will be made with appropriate transportation in order to ensure the necessary microclimate for the raw materials;
- Particular attention should be given on transportation special arrangement for raw materials do not suffer depreciation and decreasing the risk of its deterioration.

c. Storage of raw materials

- Transit warehouse can provide appropriate microclimate for apples storage in good condition and will be located in the proximity of processing sites.

d. Processing of raw materials

- Raw materials will be processed with modern and safe equipment to obtain natural apple juice;

- Processing will be observing all hygienic requirements and compliance with regulations relating to traceability of organic foods;
- Is intends the use under strict control of small amounts of natural preservatives, emulsifiers and harmless acid correctors.

e. Packaging

- These operations are done immediately after processing, to counteract the danger of oxidation and alteration of any of the products;
- Purchased packages can be tetra packs, bag in box or glass bottles (for large quantities) that lets you keep juice in good condition for a long time;
- The package will contain all relevant information regarding the content, the methods of storage after opening, time consumption, the benefits of drinking natural juices, etc.

f. Storage of finished product

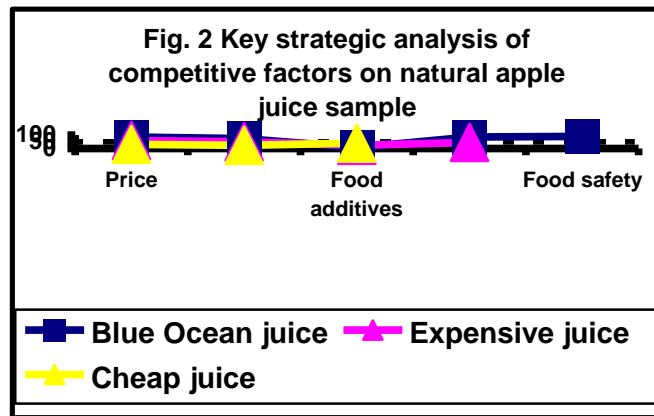
- In special storage, until distribution, to ensure appropriate microclimate conditions (temperature, humidity).

g. Transportation to distribution units

- Is achieved by suitable transportation, choosing the rational transportation routes so that products reach the retailer in good condition. This service, if necessary, can be achieved by a specialized transport company, to provide transportation from the processing unit to retail distributors.

h. Storage of the dealer and product distribution

- The distributor will be able to keep products on the shelf or in special deposits (for larger quantities) within the manufacturer's warranty period
- Alternatively, the products can be distributed directly to consumers. This way is especially suitable for SMEs clients who buy natural juice for their employees.
- It can also be built a distribution network to households.



From the above figure can be seen that after implementing Blue Ocean Strategy, the new natural product price will be slightly higher than its direct competitors (expensive natural juice). The higher price is reasoned by higher fruit concentration and low content of food additives (which, however, are natural). Unlike competitors, the Blue Ocean product will benefit from the possibility of achieving a higher level of traceability on each branch link. Another important advantage of natural apple juice is the safety on consumption, because this kind of product improves body health on medium and long term.

In conclusion, we can say that this example of natural apple juice with the highest content of apple juice can be a viable alternative to products that are currently sold on trade centers. This kind of organic product improves the body health for medium and long terms, so the consumption of natural apple juice is justified and appropriate.

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