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Some structural aspects of food production, food retail markets and procurement in Denmark – implications for national strategies of the REFRAME approach

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The present report highlights in retrospect some structural aspects of the food landscape in Denmark. This is of relevance to understand development and challenges of specialty/local food production and marketing and, hence, to outline strategies to comply with the objectives of the REFRAME project in Denmark.

It is evident, that there are big structural differences in food production between the five partner countries of the REFRAME project. There are also big differences between the countries in the market appreciation of specialty food, "local" food, and food commodities in which origin of production is an essential ingredient of the product. The transnational collaboration in REFRAME provides an exceptional opportunity to learn from each other. Knowing the differences among partner countries and regions in market appreciation of "local" food gives us the opportunity to understand the drivers of the development into more advanced stages of this appreciation among REFRAME partners. Hence, stimulating development in some regions could experience from initiatives that were proven essential drivers in other regions, on one side. On the other side, understanding these differences would be a basis for assessment if an initiative in one partner region would be a driver or not if implemented in another partner region.

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Economic significance of food production

Farming, food production and food technology is vital to Danish economy. Arable land constitutes 62% of the country which is a considerably higher proportion than in any other country of the North Sea Region - probably higher than in any other country in Europe and the World. Denmark is a food exporting country and the food and food technology cluster accounts for 25% of the total export from Denmark [i]. Approximately 75% of the production in the Danish food cluster is exported [ii].

Size of traditional farms and food processing industry

Traditional – both conventional and organic farming generally has reached a high degree of specialisation and industrialisation. The average size of a full-time dairy or pig farm is >175 hectares [iii]. The number of farms is still rapidly decreasing in Denmark and the prosperous among remaining farms grow rapidly. Among the most rapidly expanding farms are organic farms and expansion to over 1000 hectares is not unusual. Farm enterprises have grown big, not only nationally but many of them also have become international operators by purchase of land and farms in East Europe, the Baltic countries, South America and Africa.

Food processing companies (in Denmark usually owned co-operatively by farmers) - like the dairy company Arla - are technologically highly developed industries. They are considered Danish companies and are present in Denmark, but they are operating transnationally. Slaughter and meat processing, dairy processing, etc. often takes place on multiple sites in different countries. Products of one processing site serve as substrates of processing on other sites.

Farms in Denmark hitherto were family owned, but to ensure survival into the next generation it is today seen more and more often that groups of investors take ownership of farm enterprises.

Emerging specialty and local food producers
Since the millennium a relatively large variety of new food producing companies appeared, many of which emerged based on an idea to produce food and develop a sustainable business in alternative ways. The great majority of emerging enterprises appeared in the mid to late 00'es and many of them still exists and produces food in ways no one else thought possible 15 years ago. The emerging companies organised themselves in local food networks.

The market of innovative products and more sustainable production methods are global and, therefore, truly innovative - even the smallest food SME's in Denmark are oriented toward the international market. Being a food exporting country, saturation of the local market for the food SME can be a valuable market and a step of expansion, but in only few cases will the local market be of sufficient magnitude for economically sustainable food enterprises.

Proportion of organic and vegan farming and food production
Denmark is considered a frontrunner in the international arena of organic farming. A total of 13,3% of consumption is organic and more than 10,7 % of arable land is organic. This percentage is still accelerating expected by some to reach 30% by 2030. Organic farming in Denmark is no more considered niche production and organic dairy farms in average are larger than conventional dairy farms.

Production and consumption of vegan food is developing rapidly. Vegan production is a trend that all major innovative food producing companies need to be part of.

Economic significance of tourism and its relation to food production
Tourism is of significant importance for the Danish economy. Tourism related products and services for visitors to Denmark account for nearly 4% of the total export. In addition, retail and other products and services is assumed to constitute a value of 50% on top of the value of tourism related products. In relatively large parts of Denmark, i.e. coastal regions and island communities, tourism is the most important income generating sector.

Questionnaires to tourists often reveal that regional food is of high priority to them. For the same reason a relatively large number of food SME's have developed in areas where tourism is of major economic importance. The business model for one group of food SME's is tourism oriented and may be combinations of a niche production, a farm shop, bed & breakfast and a café with minimal costs of distribution. The nature of production ranges from jam and exotic cereals to meat, wine, whisky, gin etc. Another group of innovative food SME's is product and production oriented. They often also offer services to tourists, but they do it not only to generate income but also to make tourists become marketing ambassadors where they live. For this group of innovative food SME's, the market is considered national and even global. In both cases, there is a significant synergy between profiling locally produced food and profiling local community.

Structure of food retail market
The Danish food retail market is dominated by two supermarket chains, Coop (Irma, Brugsen, Fakta) and Salling Group (Foetex, Netto, Bilka, Salling). The market share of the two chains are 37-8% each. In addition, other supermarket chains such as Rema 1000, Spar, Menu and Lidl are widely present in Denmark and some of them are expanding aggressively. Specialty shops like bakeries, slaughter shops and fish shops also are present in relatively high, yet declining numbers in Denmark. Shopping streets near city centers are still found but shopping camps accessible mainly by car are also rapidly developing at the cost of traditional city center shopping.

It is anticipated that the supply in food retail shops is over-saturated in Denmark with 20% above market need. This causes a need of differentiation among the retail shops and this has been one among other drivers of presenting “local” food by all supermarket chains and quality differentiation in food commodities in general.

Main markets of specialty (local) food products

Farm shops, typically selling own produce as well as other products, appeared in the 00’es and are present in many parts of Denmark but numbers are declining and the successful ones are often located in tourist areas and suburban areas of major cities, or their marketing have become web shop-based. Specialty (local) food products since 2014 has become available in all supermarket chains in Denmark.

Marketing platforms and distribution logistic solutions for specialty food producers

Marketing platforms and distribution logistics are main challenges to emerging food SME’s, and many of the most successful and expanding companies as a necessity have developed their own platforms and distribution. This is very time consuming and expensive. Among the variety of solutions that has been presented over the past decade, one was developed by Taste of Denmark [iv] but no one has yet proven economically sustainable. One serious problem in achieving economic sustainability in any solution is the continuous appearance of new initiatives supported economically with public funding.

State of policy support and public procurement of specialty (local) food products

As revealed during the REFRAME mapping, many municipalities and all regions in Denmark have formulated a policy on supporting local food production. A number of municipalities have invested in developing local infrastructures for distribution of locally produced food, but none of them have been successful yet, and some already gave up.

In spite of the formulated intentions, national institutions and 65 out of 98 municipalities in Denmark have joined each other in formulating one procurement for food supply to these institutions and municipalities. Suppliers are presently invited to make a bid on the procurement, and the intention is to choose <u>one</u> supplier for the entire market with an estimated value of approximately 70 mio Euro. In municipalities where purchasing local produce is the intention, the success is also limited. Among the explanations seem to be that purchasers prefer multiple products from very few suppliers with simple distribution logistics and high stability of supply.

Development of the Danish market for “local” food – in retrospect

The appreciation in the market of specialty food and food commodities in which origin of production is an essential ingredient in Denmark has been referred to as an appreciation of “authenticity”. Gradually, appreciation of sustainability in production, dietary qualities, animal welfare, etc. has gained significance in the market but knowing the origin of production and visions of the producers is still an essential part of this. Local food is often requested by tourists and by customers in cities and knowing origin of production is widely appreciated. Knowing the origin of ingredients in a meal has become another way of “travelling” and “visiting” locations of nature quality.

The appreciation of “authenticity” was a dramatic shift in the Danish food market and ignited a development of diversification in food commodities. It was created in particular by the specialty food producers emerging in the 00’es and the food networks developing collective impact in branding local identity and productions adapted to specific local conditions. The terroir-based brand, Ø-specialiteter®[v], is a prominent example of this. Gaining impact in the market, the trend was adopted and in 2014 the first strategies of marketing “local” food was formulated by the largest supermarket chains. The meaning of the marketing brand “local” was not clear, but adoption of the trend by supermarkets means that market demand of food specialties since then has exceeded the ability to provide specialty food products in Denmark.

Not only the supermarkets have adopted the trend of authenticity appreciation. The largest among farmers have entered or formulated the strategy to enter business-to-business collaboration with a supermarket chain where marketing parameters are the history of the farm, reduced CO_2-emission and a variety of qualities. In the first one of these examples the farm itself has developed into a tourist, a culinary and a cultural attraction which gives a unique identity to a large palette of products sold in a national supermarket chain. Farms entering such business strategies make a shortcut in the farm-to-fork chain and are among the fastest expanding farm enterprises in Denmark. Groups of investors taking ownership of the large enterprises among primary producers also have the perspective of the entire farm-to-fork chain in the business plan, and we now do see the first examples in Denmark of such investor groups developing their own retail market platforms.

Implications on the REFRAME strategy in Denmark

Appreciation in the market of “authenticity”, origin of production and identity of the producer as well as parameters of sustainability etc. have been adopted in marketing by the largest stakeholders in the Danish food landscape. The industrialised stakeholders likewise contributes to the quality diversification of food commodities in the Danish food market and attempts to develop principles of more sustainable food production. These adoptions and contributions are assets of the co-development of food production and market appreciation that took place at earlier stages. However, these later stages of development do not necessarily develop local infrastructures. In fact, they tend to distract the attention from the drivers of that development and then hamper further development of local infrastructures.

The Danish strategy and initiatives in compliance with the REFRAME is closely linked to developing an understanding of what are the drivers of non-conventional development in the food landscape. One very important driver is the relatively large group of food producers that appeared since the millennium based on ideas that food production could be done in other ways than by conventional routes. Marketing was based not only on quality but also on production principles adapted to the location of production. This group of innovative producers are generally referred to as “iconic food producers” as described in REFRAME [vi].

The new generation of producers offered new qualities, new visions and new narratives and the consumers responded by willingness to pay premium prices. This alliance between innovative producers and consumers is the hub of development, and the Danish initiatives of REFRAME aim at maintaining and strengthening this alliance. The initiatives take the directions of

- Developing new principles of marketing – evidence-based marketing as a communication strategy for innovative producers to reach conscious consumers [iv].
- Developing and implementing new web-based marketing platforms [iv]
- Developing new distribution logistics allowing distribution from producers in any part of the country to consumers in every parts of the country [iv]
- Building alliances between specialty food producers and specialty food retailers [vii]

The first three of these initiatives were formulated as strategies prior to the start of the REFRAME project but the project has given us the opportunity to define stakeholders and build the cohesion required. The exercise is not only to formulate solutions to the challenges – as has been done by Taste of Denmark [iv] - but also to look at other initiatives taken by others and investigate, if any of them can collaborate on some of the initiatives.

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