

# An Exploratory Study on Specialty Stores for Organic Foods

<sup>1</sup> Lee, Young-Chul\*, Park, Chul-Ju\*\*, Lim, Su-Ji\*\*\*

## Abstract

This paper presents exploratory research on consumer awareness and attitudes about organic food, for which consumer demand continues to increase. The paper also assesses consumers' organic food distribution channel preferences. By conducting a literature review, a case study has been carried out in order to glean customer behavior, market condition and types of distribution channels, and development of specialty stores for organic foods.

The early research indicates that consumer awareness and customer attitudes toward organic food are mostly positive. However, organic food's high price, as well as a lack of organic food stores, cause a negative effect on consumers' purchase intention. Secondly, the U.S. organic food retail channel consists of such mainstream supermarket/grocery stores and leading natural and organic food supermarket chains as Whole Foods, Trader Joe's, and Sunflower Farmers Market. For the current retail distribution of organic food in Korea, off-line stores are composed of direct management stores and franchise chains.

Most of the organic food retail distribution operates through the Internet shopping mall, and are commonly located at retail distribution centers as multi-channel, shop-in-shop stores. Moreover, unlike in the U.S., association and consumers' cooperatives (Co-Ops), and such other member-direct retail stores as Hansallim, iCOOP, Nature Dream, and online shopping malls, are all active in Korea.

Thirdly, as a result of an analysis of the present state of the organic food retail channel, as well as building a case for organic food specialty stores, the distinctive features and rapid growth of such unique organic food stores as Whole Foods Market, or Trader Joe's successful downsizing strategies, as well as Sunflower Farmers Market low-price approach, show steady industry growth. Moreover, as a result of a case study of such domestic representative organic food specialty stores as "Olga" and "Chorokmaeul," a similar management style to the United States' "Whole Foods Market" and "Trader Joe's,"

respectively, can be seen.

Similar to the U.S. market, Korean organic food markets should also implement active retail distribution opportunities, allowing consumers to select from various diverse and differentiated choices. In order to accomplish this goal, it is necessary to prepare such measures as sustaining reasonable prices, securing various suppliers for unique products, and improving consumer trust through advertisement strategies that are suitable for each company's branding processes.

Keywords: organic foods market, retail channel of organic food, specialty stores for organic foods, exploratory study of organic food

## I. Introduction

### 1. Objectives and reason for study

Well-being trend pursuing for agricultural safety and health has been spread around the world, which leads to gradual increase in production and demand for organic food. This trend is especially strong in North America, Europe, and Japan which have high income levels. The organic food industry grows more than 20% per year since 2000 in those areas, and Korea is also expected to see more than 15.5% growth in the organic food market thanks to an increase of demand and growth of the market.

The production of and demand for organic food are gradually increasing as the healthy living trend spreads around the world. This trend is especially strong in North America, Europe, and Japan which have high income levels. According to Korea Rural Economic Institute (2010), the organic food industry grows more than 20% per year since 2000 in those areas, and Korea is also expected to see more than 15.5% growth in the organic food market thanks to an increase of demand and growth of the market.

The background of this increasing organic food market could be explained by increased income levels, increased value put into having a healthy life, and the new service market open strategy of corporations. Increased income levels allow people to value a healthy life by the introduction of the concept of well-being by media with social environmental changes such as a five-day work week. Issues like SARS, Bird Flu, and Mad Cow Disease have made people feel threatened about health and food safety. This health insecurity causes people to spend more money and time for their health.

\* First Author, Professor, Dept. of Business Administration, Jang-An University, Tel : 031-299-3125, E-mail : leeyc@jangan.ac.kr

\*\* Corresponding Author, Associate Professor, Dept. of Business Administration, Sahmyook University, Tel : 02-3399-1557, E-mail : cjpark@syu.ac.kr

\*\*\* Third Author, Lecturer, Dept. of Business Administration, Jang-An University, Tel : 031-299-3130, E-mail : coolsuji@hanmail.net

Also, to meet the social stream which demands higher safety of health and life, the government started an organic certification system about domestic agriculture products. This has taken the form of a organic agricultural cultivation law to confront cheap imported agriculture products. This law is part of a pioneering strategy of a new service market focusing on quality since 2001. A growing organic market which only deals in organic products was newly introduced, cultivating healthy agricultural products to maintain the health of customers. For customers who have a great interest in healthy living, a new distribution channel for healthy food became an attractive market, and during the early period of organic farming development, special sales areas which dealt only organic agriculture started to appear. Now, has spread to general distribution enterprises such as large discount stores and supermarkets, and keeps expanding to organic food specialty stores, online shopping malls, and corporate specialty stores. Large distribution enterprises have also started their own private brands.

Despite high customer interest in organic food, organic food distribution channels are not settled to the public's satisfaction. And when it comes to a study about organic foods, academic circles focus on the necessity of expanding the market of organic agriculture, not paying attention to organic food itself.

Also, despite of a handful of previous studies (You & Yin, 2008) on the behavior of organic food consumers, we feel still more research in need. This study, therefore, is to give more insight on the behavior aspects of organic food consumption, and consider its market growth. Therefore, to give correct information for customers who want to keep a healthy life and to increase the competitiveness of the organic food market, more systemic research about organic products are required.

Therefore, In this study, we focused on the successful strategy of organic food specialty store after researching the present state of the specialty store industry and customer behavior by conducting literature review and case study.

## 2. Study method and content

The formation of this study will present specialty sales sectors of organic food with the concepts and present state of organic food market as a literature review. Also will suggest solution of the developmental specialty sales sector of organic food by comparing domestic and foreign examples of distribution routes as a case study.

## II. Background of theory

### 1. Concept and present state of organic food

An organic agricultural product means a fruit or vegetable which was raised in soil that did not get exposed to agricultural chemicals or chemical fertilizer for over 3 years. Also, agricultural products have been certified by a national agricultural product quality administrator or private certificate authority. Organic agricultural products

are 0.8% of all domestic agriculture, and even though the share among organic agricultural products has decreased yearly from 26.3% to 4.5%, the absolute amount has been increasing. Organic food can be categorized into grains, vegetables, fruit, potatoes, and special products. In 2009, it was broken down into 49.7% vegetables, 27.4% grains, 12.3% special products, 6.6% fruit, and 4.0% of potatoes. Vegetables and grains had a relatively large share, and grains, special product and the rest have increased gradually, which can be interpreted as an increase in diversity among organic agriculture products.

Organically processed food means foodstuffs produced and manufactured with organic ingredients. It includes not only domestic organic food but also produced and processed food which has been certified by a foreign certification authority. Unlike organic food which must be certified, organic processed food has no certification system and has organic processed food or organic marks on the packaging, according to the content of organic food which is in the product. The domestic organic food market size is 404.3 billion won. Organic agricultural food market size is growing 30.1% yearly, while organic processed food has a 23.3% yearly growth rate.

Because organic food are not produced by farming that applies chemical fertilizer but organic compost and protein fertilizer instead, organic food will be in short supply, produced with relatively higher cost including more wages and additional expenses for safety of the produce. So its price is approximately twice as high as similar average agricultural products. The reason the organic food market size is increasing even though its price is twice as high is because of distrust and insecurity toward general food products. This distrust is caused by frequent food trouble and the spread of people's recognition of the importance of a healthy life.

Accordingly, this study will explain organic foods as the sum of organic agricultural and organic processed food.

<Table 1> Market scale of domestic organic food/unit : 100

million won, %

Classification	2006	2007	2008	Yearly growth rate
Organic agriculture products	1,114 (44.0%)	1,427 (45.4%)	1,885 (46.6%)	30.1
Organically processed food	1,419 (56.0%)	1,719 (54.6%)	2,158 (53.4%)	23.3
Total	2,533	3,146	4,043	26.3

Source : Korea Food Study (2008).

### 2. Existing study examination of consumer behavior towards organic food

According to most existing studies about domestic organic food, the early period of organic food studies emphasized the necessity of organic agriculture (Kang & Jeong, 1999). Later studies gradually began to focus on organic agricultural production and market expansion

(Kim & Cho, 1999) extending to the marketing field. Recently, the study of consumer preferences about organic agricultural products from a consumer's point of view and the study of purchase plans are being conducted (Park & You, 2007, Heo, 2007).

Studies on consumer behavior towards organic food have been conducted by many scholars abroad with various methods. Studies generally found that there was more attention paid to organic food and customers had positive opinions about the general health of organic food. Roddy et al. (1996) conducted a study about organic food purchases among Irish consumers and found that the consumers who have more interest in food safety issues had more positive opinions about organic food purchases. Grankvist & Biel(2001) suggested that the positive attitude of consumers towards organic food was a very important factor of their purchase plan. Tizian & Azucena (2002) studied consumer attitude and purchase patterns about organic food related to environmental issues among Italian consumers and found that 97% of respondents believed organic food to be an important factor to reduce environmental issues caused by agricultural chemical usage. People also believed organic food could protect them from danger. Because of these reasons they preferred organic food.

Chen (2007) assumed that consumers had a positive attitude towards organic food and would take related opinions of others positively. He studied the organic food purchase behavior of Taiwanese consumers and found that attitude and subjective standards both positively affected organic food purchase plans. In a study by Cho (2002), when consumers were asked why they buy organic products, 64.6% of respondents said health, 15.9% of them said good quality, 11.6% of people said the recommendations of others, and 6.7% said to preserve the environment. Also, it was found that when they were asked what they considered when buying organic products, 53% of respondents said safety, 24.4% said price, and 9.1% said taste. These polls indicate that safety and price are the major factors of organic product purchasing.

The Korea Food Research Institute (2005) claimed that an absolute majority of consumers (51.4%) recognized organic food as a safe food which does not use agricultural chemicals and chemical fertilizers and (42.2%) wanted to revive the ecosystem with organic production methods.

A few studies clarified that most consumers buy organic food for health. Magnusson et al. (2001) suggested an organic food certification system or trust-related distribution system which gives information about organic foods could also be an important factor which persuades people to purchase organic foods. Seo (2010) said that consumers who have more purchase experience with organic foods have a more positive attitude towards organic foods, and they are generally satisfied with their previous experiences.

On the other hand, it turns out that consumers do not have only positive trust and purchase plans related to organic food. The high price of organic food reduces the positive attitude of consumers and becomes the most important factor that deters the purchase of organic food (Jolly 1991, Fotopoulos-Krystallis 2002). P O'Donovan & McCarthy (2002) found that more than 94% of Irish consumers would buy organic food if the price was reduced to a proper level.

Davies et al. (1995) claimed that the difficulty in finding organic food markets is the most important factor that reduces organic food purchases and suggested that most respondents would have a purchase plan if they could find organic food easily.

Cho (2002) reported that 75.3% of respondents said organic products are expensive, and 34.4% of them said they would buy them if the price was only 10% more expensive than general agricultural products. Also, 22.3% of them said that they would buy organic foods if the price was the same as general agricultural products. Also, there were many respondents who said they would buy organic products even if they were 20% (17.9% of people) or 30% (12.5% of people) more expensive than general products. This study shows that high prices and difficulty in finding a store were obstacles to expand the consumption of organic foods in Ireland.

However, as income level increase, consumers pay more attention to quality over quantity and to safety over price (Lee et al., 2004), leaving the question of price responsiveness.

In preceding studies about distribution channel selection of organic food, Cho (2002) found that people purchase organic product at the National Agricultural Cooperative Federation (30.4%), department stores (27.4%), major discount stores (16.5%), major supermarkets (12.3%), consumer cooperatives (7.9%) and directly (5.5%). Kim (2008) chose major discount stores as the place to purchase organic products, and their stores were Hanaro Club and Hanaro Mart which were related to the National Agricultural Cooperative Federation (21.8%), organic product specialty stores (10.8%), direct purchase, and department stores.

You (2010) claimed that large organic agricultural food stores have more than 90% share of the organic food market. Korean Farming Research (2011) said large discount stores have the biggest share at 39.3%, and specialty stores have 16.7%, direct purchase associations have 13.3%, and department stores have 10.2%. People also gave similar numbers about where they want to purchase processed organic products in the future.

However, there was some difference in direct purchase associations about requirements. Also, people in their 20s prefer internet shopping, those in their 30s prefer specialty sales sectors and direct purchase association, and those in their 40s prefer direct purchase association and specialty sales sectors. The most popular method of buying organic food is specialty sales sectors.

Organic food distribution channels had a high share in major discount selling areas. Unlike the early 2000s and in contrast to general retail, the channel had low share in the internet or home shopping. The reasons of this condition are convenience of purchasing, trust about selling, production of various items, and persistent supply. According to You (2006) who studied European organic food distribution channels, there is a difference between organic food distribution channels by country. In Germany, they put a great deal of weight on specialty stores and show a balance between agricultural food and direct transactions. On the other hand, in Switzerland and Austria they have the biggest share in major agricultural markets.

Therefore, Germany, which prefers specialty stores, has difficulty in expanding the organic food market. Meanwhile, Switzerland and

Austria are using major agricultural markets as tools to expand the market. In Korea, we have various distribution channels, and major markets and specialty distribution enterprises have a big share based on preceding studies. Based on this study, We focus on present distribution channels and advisable retail distribution channels in the next section.

## II. Present state of retail distribution of organic food

### 1. United States

#### 1.1. Distribution process of organic food

According to the Organic Trade Association, the US has become the biggest organic food market, beating European countries. In 2010, even though the American food industry had less than 1% of total selling growth rate, the organic industry showed 5.1% of selling growth rate in 2008 and 7.7% in 2009, which was close to 8% growth in total. Especially, organic fruits and vegetables showed an 11.8% growth rate earning 10.6 billion dollars. Organic food diversified into meat, milk, cheese and processed foods and beverages. Also, restaurants opened which used only organic ingredients. Also, it was found that American consumers bought organic food which was 52% more expensive than general food. They believed that an organic food diet helps weight control, prevention of adult diseases, and long life.

There are four American organic food retail distribution channels in 2006. General supermarkets had 31% of the organic food distribution, and major organic supermarkets had 24% of the share. General supermarkets had organic corners or sections to sell the products, and organic supermarkets dealt with natural products and organic goods while growing into major chain stores.

<Table 2> Types of distribution channels and market share of American organic foods in 2006.

Distribution channel	Market share (%)
Mainstream supermarket/Grocery stores	31
Leading natural food supermarket chains (Whole Foods, Trader Joe's, Wild Oats)	24
Independent, small chain natural grocery stores	22
ETC.(food service sales)	3

Source : Organic Trade Association.

There are 3 companies representative of retail distribution of organic food in US. One is 'Whole Food's Market' which is popular and reliable. Another is Joe's ranked second in the U.S organic foods market and first for organic retail growth in 2009. The other is 'Sunflower Farmers Market' mainly growing in the western U.S. Their creative shopping concepts and different atmosphere attracts consumers. They have become major food chains, growing to a level enough to compete with Wal-mart which represents the American su-

permarket industry. Now, American organic supermarkets have set in maturity, passing through the early formation level, and they have high inner competition with better products, marketing which reads consumers, new shopping concepts, and different selling atmosphere.

Therefore in this study, we will focus on Whole Food Market, Trader Joe's and Sunflower Farmers Market in order to show specific examples of the organic food market in America.

#### 1.2. Examples of organic food specialty sales sectors

##### 1.2.1. Whole Foods Market

Whole Foods Market is an organic specialty store which started in Austin, Texas in 1980, and now has 166 stores in the US and Canada dealing with selected organic products from many countries.

Whole Foods Market has grown rapidly with a different marketing strategy targeting middle class consumers who are interested in excellent products and life styles. There are a few important points which made Whole Food Market successful. First, it sells various products which were made of only natural and organic ingredients having a rich commodity group. Second, it has an exclusive fresh product supply. It has its own management system in order to maintain freshness and it has a system that receives seafood from exclusive fishing boats and sends the seafood on to each stores. Third, it has complete regionalization. Whole Food Market has different style in each store and each store lets the manger have the right to buy from local suppliers so that the food is fresher than in a system which receives a large amount of food from the main branch. Last, Whole Food Market presents premium organic food, and in order to strengthen the advanced quality concept, it increases the price of products 20-30% and presents a polished interior and display of boutique style giving a nice shopping experience. Also, one-stop shopping of organic food could be the most important factor of Whole Food Market's success.

Lately, Whole Food Market focuses on expansion including a merger with Wild Oats. Whole Food Market is expected to not only dominate the organic market in the US but also advance into Asia and the Korean market soon.

##### 1.2.2. Trader Joe's

In 1958, Trader Joe's started as small convenience store in California and has become an organic food chain which has 340 stores in the western area of the US. It earned 6.275 billion dollars last year, and ranks 55th out of 100 American retail enterprises. It is the second most popular organic supermarket after Whole Food Market, getting attention as the next leader in American organic food stores.

There are five factors that Trader Joe's could grow rapidly and get loyal customers. First, miniaturization and a small amount of items. Unlike general supermarkets have more than 50 thousand items, Trader Joe's has less than 3 thousand items intentionally. It wants to reduce the choices that its customers have to make in order to keep regular customers and the feel of exclusivity. Keeping its sources se-

cret, Trader Joe's displays products which can be bought only in their store and promises to sell only products which do not have artificial color, scents, preservatives, MSG, and trans fat. The company does not even deal with genetically modified products. Also, from basic food like agricultural food and seafood to processed products, Trader Joe's got rid of brand premium products and instead hopes its customers trust its good quality. Its private brand market share is close to 70%. Third, Trader Joe's has reasonable prices. Because it sells trustworthy organic products at reasonable prices, Trader Joe's got rid of the stereotype that organic food is expensive. This is its greatest competitiveness. Fourth, the company does not have an advertisement strategy. Unlike other major food stores, Trader Joe's does not advertise. There are no membership cards which offer discounts or special sales. Lastly, the stores' Hawaiian style interiors create a friendly and comfortable atmosphere and kind service.

Because of these reasons, customer fans made an exclusive website called *Traderjoe.com* giving each month's new product and recipes, debating products, and giving service solutions.

### 1.2.3. Sunflower Farmers Market

Sunflower Farmers Market has confidence that it offers better quality product but lower price than supermarkets. When it is actually compared with Whole Food Market, Sunflower Farmers Market prices are 20-30% cheaper, and compared to Wal-mart, 80% of the products are cheaper. In other words, people who want to buy healthy organic food but cannot because of high prices are the target of Sunflower Farmers Market. In order to make low prices it reduces number of products and has basic direct transactions between producers and manufacturers of fresh food and processed products. Also, Sunflower Farmers Market does not have a main branch based on local dealers minimizing interior expense presenting a farm market with a low price.

## 2. South Korea

### 2.1. Distribution process of organic food

Organic food is usually produced and distributed in various kinds and small amounts. Generally organic food has a high price because of labor expenses during the production process. And because organic food has low quality externally, most distributions are direct transactions rather than common transactions in case of the general retail market. In the 1990s, direct transactions had a major distribution share in organic food centering on producers, consumer associations, and civil groups.

But in the early 2000's consistent transactions were conducted through producer organizations while direct transactions decreased. After the mid-2000s, the number of enterprises and stores increased and organic food distribution routes spread to general distributions like major organic food-related companies, major distribution enterprises, and supermarkets. There was diversity in items, distribution structure changes like organic specialty stores, online shopping malls, sophisticated business practices and growth of stores.

Management systems and purchase behavior of supermarkets worry

about damage and professionalism, so producers or organic professional distribution stores enter in managing centering on commission stores. Major markets which have an increasing number of stores recently started the shop in shop system. The total agricultural product sales of the 3 major distribution stores E-mart, Homeplus, and Lotte Mart are 18% of the total agricultural product sales. Also, lately major distribution enterprises such as discount stores recognize organic agricultural products as a differentiation strategy, changing from special purchases to direct purchases, promoting direct sales and private brands.

The organic distribution business structure has five types. First, the association and civil group type, meaning member direct transactions like Hansallim, consumer cooperative, and iCOOP nature dream. This is direct transaction distribution in which producers and consumers unite and cooperate directly, and through trust and mutual interchange producers and consumers discuss with each other confirming production plan quantity (amount of expected supply) making producers manufacture with responsibility and making consumers responsible. Therefore this distribution is conducted through specialty distribution enterprises.

Secondly, the organic corner of distribution enterprises which started from organic agricultural products in department store/discount stores. Examples of these are Purum (Lotte), Wellbeing house (Shinsegae), and Fresh Gourmet (Galleria). In department stores, organic distribution has regular customers because of diversification and the relatively steady price of advanced products.

Third, increase of the numbers of organic food brand selling areas. The examples are specialty sales sectors of major corporations which got into the organic distribution store business entry such as Olga/Natural House (Pulmuwon), Guten Morgen (Samyang), Hegaon (Dong Ah Flour Mills Co), Huckleberry farms (Choheung), E-farm/Dearlife (Dongwon), Chorokstorehinsi (Kimjeongmoon Aloe), and Chorok Maeul (Hangurye).

Fourth, there are organic restaurant enterprises like cafés, restaurants, and bakeries (ex. Marketo, Café de Paris), and there are distribution channels through organic internet shopping malls such as Mugonhae, Ansimnong, 62nong, and Addfarm.

In case of organic food specialty internet shopping, organic food production farm opened internet homepages directly for e-commerce, and there are shopping malls which deal with foreign organic processed products professionally. In Korea, there are not that many organic food distributors through the public wholesale market, but as the organic food market is expanding, the amount of distribution is expected to increase via the general wholesale market.

&lt;Table 3&gt; Distribution route of organic food by business condition

classification	characteristic	exmaples
Union Civil group	<ul style="list-style-type: none"> <li>- Direct dealing between members by connecting organization between producer and consumer</li> <li>- Purchase after paying membership fee</li> </ul>	<ul style="list-style-type: none"> <li>·Hansalim</li> <li>·Echosaenghyup, Duresaenghyup</li> <li>· iCOOP, Jayeondream</li> </ul>
Organic section of distributing enterprise	<ul style="list-style-type: none"> <li>- Gigantism and brand making by organic pro-environment agriculture product section of department store/discount store</li> <li>- Shop in shop(SIS)</li> </ul>	Department store <ul style="list-style-type: none"> <li>· Lotte department store: Purom</li> <li>· Shinsegye: Wellbeing house</li> <li>·Hyundae: Greenwith, Organic House</li> <li>·Galleria: Fresh Gourmet</li> </ul>
		Discount Store Organic Food PB <ul style="list-style-type: none"> <li>· Emart, Efresh</li> <li>· Homeplus: wellbeingbluss</li> <li>· Lotte mart: Jayeonaechan</li> <li>· Hanaro mart: achimmaru</li> </ul>
		Super market <ul style="list-style-type: none"> <li>· GS square, GS mart, GS super Efarm</li> </ul>
Organic specialty selling area of major company	<ul style="list-style-type: none"> <li>- Full- blown of organic food distribution business advance centering food related major companies.</li> </ul>	<ul style="list-style-type: none"> <li>· Pulmuone: Olga/natural house</li> <li>· Hangurye: Chorokmaeul</li> <li>· Samyangsa: Gutenmorgen</li> <li>· Haegone: Efarm/dearlife</li> <li>·Kimjeongmoon aloe : Noksaekgage shinsi</li> </ul>
Small sized organic food specialty selling area	<ul style="list-style-type: none"> <li>- Small size specialty selling area</li> </ul>	<ul style="list-style-type: none"> <li>· Moogangine nongiang on/off management</li> </ul>
The other distribution channel	<ul style="list-style-type: none"> <li>- Organic food service industry like café, restaurants, bakery</li> <li>- Internet organic food shopping mall</li> </ul>	<ul style="list-style-type: none"> <li>· Market- oh</li> <li>· Café de berry: organic coffee</li> <li>· Daylesford Organic: restaurant</li> </ul>
		<ul style="list-style-type: none"> <li>· Ansimnog</li> <li>· 62nongdotcom</li> <li>· Ajeosshinegage</li> <li>· organics mall</li> </ul>

Therefore. In this study, we introduce specific examples of specialty store for organic stores focusing on Orga whole food, and chorokmaeul which are representatives in South Korean organic food market.

## 2.2. Example of organic food specialty sales sectors

### 2.2.1. Pulmuone Orga whole food

Orga whole food opened on the 12th of May 1981 and is an organic agricultural product based on Pulmuone chemical-free agricultural food direct outlet. Pulmuwon launched Orga in 1997, and since

then, it has run direct outlets. In 2005, Orga launched Natural House Organic as a food brand. Orga the direct outlet is being run as a major selling area from agriculture and stockbreeding to side dishes and processed food, Orga has 3,000 items. Natural House Organic deals with agriculture and stockbreeding which has a relatively long distribution period to supplement the shortcoming that it is hard to handle, and also stock organic agricultural products in order to maintain freshness. Orga distributes and produces its own organic agricultural products, and it also sells other products from small-sized enterprises having department store types as organic food specialty sales sectors.

Orga Whole Food is categorized into Organic House, Orga Nakery, and Orga Kitchen. Organic House sells cosmetic organic products, all-cotton clothes, processed products like organic snacks, bread, cereal and organic vegetables, fruits, agricultural and marine products. It is especially popular among housewives who have newborn babies because it sells baby organic products such as organic baby food, powdered milk, baby cosmetic products, all-cotton diapers and baby clothes. Orga Bakery sells health-aimed products using fructose instead of sugar in bread and using domestic flour and mixed grains. Orga Kitchen uses natural ingredients for making foods like side dishes, gimbab, japchae, and lunch boxes to keep the taste and nutrition of the ingredients. Also, it developed Orga Home Wheat, delivering from the sidedish to a one-course dinner made by Orga Kitchens (part of the sales areas). As it is shown from these examples, Orga has inclusive and professional aspects as natural healthy food specialty sales sectors.

### 2.2.2. Hangurye chorokmaeul

Chorokmaeul was founded in 1999 and runs 250 stores as organic specialty sales sectors. Chorokmaeul started with supermarket style connections between producers and consumers directly, and it sells 2500 products of organic household items.

Chorokmaeul cares greatly about quality control. In 2010, it was certified as a harmful products blocking system store having a security system which manages organic products like organic agricultural product distinction systems, remaining agricultural chemicals inspection systems, and production record systems. It runs exclusive distribution system supplying only fresh products inspecting for remaining agricultural chemicals, microorganisms and heavy metals.

Especially, to satisfy needs of consumers, Chorokmaeul developed various kinds of private brand products and sells reasonable price of organic food with good quality assuring wide loyal customers. The products which were ordered via online are delivered from each local joining store to reduce the time of delivery and with trust and reliance of customers it has the highest number of local stores in Korea.

### 2.2.3. Samyangsa Guten Morgen

Guten Morgen is a high class premium organic specialty store that Samyangsa launched with 100 foreign organic specialty brands to supply organic products which are the center of high-class organic culture in Korea. Samyangsa cooperates with Reformhaus which is a German organic food chain. From the end of 2002, it was placed as

a shop in shop in Hyundai department store, Homeplus, and Daegu Debec Plaza. It also opened a premium organic specialty direct outlet in Banpo Seoraem Mall. Samyansa satisfies various tastes and demands of customers through differentiated service supplying exclusive foreign products and various organic product developments. It is planning to expand the Guten Morgen selling areas.

#### 2.2.4. Dongwon Efarm

Efarm started an organic shopping mall service in 1999 and opened organic specialty stores in Mokdong in 2000. Since it has several retail distribution routes such as private internet shopping malls, organic food specialty cooperatives, offline department store/online stores, shop in shop entrances, and 6 direct outlets. It is planning on an organic food ingredient supply business to spread the Efarm brands such as efarm restaurant and efarm café. It will introduce the distribution storehouse and warehouse store model to expand distribution supplies.

#### 2.4.5. Hegaon

Hegaon started in August 2003 with an organic specialty shopping mall expanding to be an organic specialty company with direct outlets, organic food imports, and sale. It primarily deals with agriculture and fisheries wholesale and retail, domestic wheat and domestic bakeries. It has built 4 outlets in Yeonhee, Gahyea, Yeoksam, and Banpo in the past 6 years and recently it launched the first joined store in Munjeomjung.

#### 2.4.6. Natural-dream

Natural-dream is an organic food specialty store which was made by consumer cooperatives. Cooperative production and cooperative purchasing offer a reasonable price for secure food.

#### 2.4.7. Green Store Shinsi

In 2008, Green Store Shinsi had 100 member stores and 50 employees (total sales 11.7 billion won). However, with business errors and outsourcing of distribution, it has 50 member stores and 4 employees in January 2011.

The commonness of these American examples is that they deal with fresh local products (ex. Local agricultural product), and have different concept with other existing supermarket with creation of educated consumer group. In other words, they target differentiated groups with proper concept attracting consumers with price level. The interior depends on the specialty sales sectors.

On the other hand, it was hard to find any difference between stores in Korea. Simply Orga has market type like American Whole Foods with grocery stores, bakeries and kitchens. And Chorokmaeul is similar to Trader Joe's. Also, retail distribution of Korean organic food specialty sales sectors has a multi distribution strategy with direct offline outlets and joining stores. Except Guten Morgen of Samyangsa, every organic specialty store is running online shopping malls having various retail distribution strategies according to brand entering into department stores and home shopping in the shop in

shop style.

American examples show that they have retail distribution channels with various differentiated stores which were developed from the organic food market earlier than Korea. And the Korean organic market is needed to take some time to see what kind of distribution channel will be chosen by consumers since it is still being developed.

## IV. Conclusion and suggestion

The Korean organic market reached 2,354.1 billion won having more than 20% of growth and its international market is also growing. In the center of Korean organic market growth there are specialty stores which sell organic products. Fully 42.5% of the organic market is owned by organic specialty stores which have a growing number of stores and items. The stores which only deal with organic food play a role which care about family health and trust beyond the simple business of products, and its role is expected to have a bigger presence in the future.

The research result firstly shows consumer awareness and attitude for organic food are mostly positive, but its high price and lack of the number of stores cause negative effect on consumers' purchase intention. Secondly, U.S Retail channel for organic food is consist of Mainstream supermarket/grocery stores, Leading natural & organic food supermarket chains like Whole Foods, Trader Joe's, sunflower farmers market. For the current retail distribution of organic food in Korea, Off-line stores are composed of direct management stores and franchise chain. Most of retail distribution of organic food operate Internet shopping mall, and commonly are located at retail distribution as SIS with multi channel strategy. Also, it can be explained by difference with U.S that the association and civil group type, meaning member direct transactions like Hansallim, iCOOP nature dream and online shopping malls are active in Korea. Thirdly, through the result of analysis on present state of retail channel of organic food and cases of specialty stores for organic food, it is able to discover the distinctive features about Whole food market having become larger and luxury, Trader Joe's having successful downsizing strategies, and sunflower farmers market realizing low price. Also, the result of case study shows 'Olga' and 'Chorokmaeul' which are domestic representative organic food specialty stores, have a similar management style to the US 'whole foods market' and 'Trader Joe', respectively.

Like US market, Korean organic market should have active retail distribution, allowing consumers to have various choices with diversification, subdivision, and differentiation, Discrimination characteristic. For this, it is necessary to prepare a countermeasure, for example, sustaining reasonable price, securing various suppliers for the differentiated products and improving consumer trust through advertisement suitable for company concept. In order to conduct these, various purchaser securities, advertisement which is suitable for company concept and which is for consumer trust promotion are needed to keep reasonable prices and to keep their differentiated products through various product suppliers.

In order to make these things happen, the government should solve the problems of organic food systems and policy. Especially, to promote convenience of purchase, a dualistic system should be unified to increase the trust of organic agricultural products and an organic processed product certification system informing accurate information of organic food. This indication system should be promoted. Also enterprises should focus on selecting sales distribution channels which is suitable for the target. This will increase the accessibility of consumers to organic food and according to preceding studies, the distribution strategy should consider that consumers prefer major discount marts, specialty sales sectors, and people in their 20s prefer Internet shopping, while people in their 40s prefer direct transactions.

Also, compared to general processed products, organic food has limited items restricting consumption, so someone should try diversification. Not only agricultural products but also general processed products should be applied, using targets such as cosmetics for people in their 20s, baby food for 30-something housewives, various side dishes for women in their 40s and various foods for the elderly.

This study is a search investigation to look for consumer recognition and a favorite channel about organic food. We studied the present state of organic specialty stores based on literature. Even through international examples were limited to American studies, this research will be able to offer basic data about developed organic food distribution channels through study that investigate the favorite channel of consumers and consumer characteristics by observing strategies of retail business conditions which sell organic foods.

Received: August 21, 2011.

Revised: August 31, 2011.

Accepted: September 10, 2011.

## References

- Chen, Mei-fang (2007), "Consumer Attitudes and Purchase Intentions in Relation to Organic Food in Taiwan", *Food Quality and Preference*, 18(7), 1008-1021.
- Cho, Chang-wan (2002), "Promoting the Consumption Condition of Environmental Friendly Agricultural Products", Gwangju-Jeonnam Development Institute.
- Davies, A., Titterton, AJ & Cochrane, C. (1995), "Who Buys Organic Food?: A Profile of the Purchasers of Organic Food in Northern Ireland", *British Food Journal*, 97(10), 233-260.
- Fotopoulos. C & Krystallis. A (2002), "Organic Product Avoidance: Reasons for Rejection and Potential Buyers' Identification in a Countrywide Survey", *British Food Journal*, 104(3-5), 233-260.
- Grankvist, G. and Biel, A. (2001), "Personal Determinants of Organic Food Consumption", *British Food Journal*, 111(10), 1140-1167.
- Heo, Gyeong-ok (2007), "The Effects of Well-being Trends and Purchase Behavior of Well-Being Products on the Satisfaction of Life : Focused on Multi-Dimensional Determinant Factors", *Journal of the Korea Home Economics Association*, 45(9), 89-98.
- Jolly, D. (1999), "Differences between buyers and Non- buyers of Organic Produce and willingness to Pay Organic Price Premiums", *Journal of Agribusiness*, 9(1), 97-111.
- Kang, Chang-yong, Jeong,, Eun-mi (1999), "Analysis of Producer and Consumer Behavior for Environment Friendly", *Journal of Rural Economic*, 22(4), 61-75.
- Kim, Chang-gil (2008), *Marketing Strategies and Consumption Propensity of Environmental-Friendly Agricultural Products*, Korea Rural Economics Institute.
- Kim, Yong-soo & Cho, Chang-wan (1999), "Economics Rationality of Organic Agricultural Products Price", *Food Distribution Research*, 16(1), 153-170.
- Korea Rural Economic Institute (2010), "Consumption Condition Analysis of Organic Processed Product", Policy Study Report.
- Lee, Gye-im, Choi, Ji-hyun & Kim, Min-jeong (2004), "Consumer's Evaluation on Food Labeling System", *Food Distribution Research*, 21(4), 153-170.
- Magnusson, M. K, Arvola, Anne, Hursti, Ulla-Kaisa Koivist, Åberg, Lars, & Sjöden, Per-Olow (2001), "Attitudes towards Organic Foods among Swedish Consumers", *British Food Journal*, 103(3), 209-227.
- O'Donovan, P. & McCarthy, M. (2002), "Irish Consumer Preference for Organic Meat", *British Food Journal*, 104, 353-370.
- Park, So-jin & You, So-ye (2007), "A Study of the Effect of Health Motivation and Environmental Concern on Choosing Organic Food", *Consumption Culture Study*, 10(4), 107-126.
- Roddy G., Cowan C. & Hutchinson, G. (1996), "Consumer Attitudes and Behavior to Organic Foods in Ireland", *Journal of International Consumer Marketing*, 9(2), 41-63.
- Seo, Bo-won (2010), "A Study of Consumers' Food Choice Behavior by Comparison of Past Experience : Focus on Organic Food", *Journal of Food Distribution*, 27(1), 19-39.
- Tizian de Magistris Azucena Gracia (2008), "The Decision to Buy Organic Food Products in Southern Italy", *British Food Journal*, 110(9), 929-947.
- You, Duk-gi (2006), "A Study on the Marketing Strategy of Organic Products in Europe : Germany, Swiss, Austria", *Journal of Organic Agriculture*, 14(3), 287- 303.
- You, Duk-gi (2010), "A Study on the Environmental Sustainable Management (ESM) in Organic Products Retailing Markets", *Journal of Organic Agriculture*, 18(1), 21-40.
- You, So-ye & Yin, He-ying (2008), "A Study of Consumer Attitude and Purchasing Behavior Organic Food and Genetically Modified Food", *Korean Journal of Livestock Management*, 35(1), 141-164.