The Business Model of Alternative Food Networks in Bulgaria

Ekaterina Arabska  
Department of Regional development, agribusiness and tourism  
University of agribusiness and rural development  
Plovdiv, Bulgaria  
earabska@uard.bg

Svetla Dimitrova  
Department of Regional development, agribusiness and tourism  
University of agribusiness and rural development  
Plovdiv, Bulgaria  
sdimitrova@uard.bg

Dimitar Yakimov  
Department of Regional development, agribusiness and tourism  
University of agribusiness and rural development  
Plovdiv, Bulgaria  
dyakimov@uard.bg

Aleksandar Davchev  
Department of Regional development, agribusiness and tourism  
University of agribusiness and rural development  
Plovdiv, Bulgaria  
a.davchev@uard.bg

Plamen Lakov  
Department of Regional development, agribusiness and tourism  
University of agribusiness and rural development  
Plovdiv, Bulgaria  
plakov@uard.bg

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I. INTRODUCTION

Retail chains are increasingly consolidating their marketing dominance. The use of classic supply chains and the ability to solve distribution problems in a complex manner gives them the opportunity to dictate the rules of the market, achieving a much lower cost per unit of product compared to their competitors located in small and micro businesses, facilitating opportunities for expansion and strong concentration on the market. The range of trade concessions they demand from their counterparties enable them to maintain long-term low, cost-oriented, price levels of final consumption goods. This increasing pressure can harm the entire chain, due to the inability of manufacturers and suppliers to be able to restructure and quickly optimize their operations to meet the new requirements [1]. The result – low prices, but more and more customers with a decreasing degree of satisfaction, refracted through the lens of shaky quality and vicious manufacturing practices. One
possible solution to this deepening dissonance between the desires and actions of consumers and retail chains can be found in the business model of alternative food chains / networks (AFNs). AFNs can be seen as a set of food provisioning practices that are distinct from mainstream food systems [2], operating on a production-distribution-consumption model and characterized by a minimal number of units in the supply channel, due to its spatial, economic and social proximity [3]. A study [4] defines alternative food chains as networks that include producers, consumers and other stakeholders and that are intended to create or expand a market for food that is the product of certain types of production and/or approaches to distribution. Another definition of alternative food chains was also correctly given which defines them as value chains that include direct links between producers and consumers based on the principles of fair and ecological trade [5].

Alternative food networks are seen as a response to the food crisis and as a promising basis for a new food chain based on the sustainable development paradigm [6]. Their activities are aimed at implementing a process of relocation and resocialization of production, distribution and consumption practices, with the aim of building a more ecological, socially just and economically sustainable food system. Alternative food networks encompass a variety of food supply and sale practices that differ from mainstream food systems and are based on three key concepts: accessibility (both for sale and for agricultural and food products); sustainability (in economic, social and environmental terms); quality and connections between participants [7].

The first category of short food supply chains (farm shops, agricultural markets, roadside sales, boxes, home delivery, e-mail, e-commerce) is mainly based on face-to-face interaction as a networking mechanism for producers and consumers. Consumers buy products directly from the manufacturer/processor, and authenticity and trust are built through personal interactions. This category broadly matches the narrower definition of direct sales, it can be somewhat expanded through the use of the Internet but generally remains limited to individual farms. The second category (farm store groups, consumer cooperatives, CSAs, events, restaurants, tourism businesses, institutional catering, etc.) goes beyond direct interaction and is primarily based on proximity ties. The extension of short food chains over greater distances implies the construction of more complex institutional mechanisms. Food networks are mainly based on spatial proximity, where products are sold in the region or place of production and consumers are aware of the “local” nature of the product at the point of sale. The organization of activities - events, fairs, thematic routes, etc. can contribute to the regional identity of products, attract customers and promote network development. Such networks can also be based on cultural proximity. The third category (certification marks, product codes, reputational effects) further extends the scope of short food chains to wider temporal and spatial links, where products are sold to consumers outside the area of production and who may have no personal connection and presence in this region. However, they are still considered ‘short’ food supply chains - what matters is not the distance the product is transported, but the fact that it has value and information that reaches the consumer, allowing the consumer to make the “connection” with the place of production, the understanding and values of the people and the production methods used. Namely, the successful transmission of information allows products to be distinguished from “anonymous” goods and to be charged a “special” price if the information in them is considered valuable to the consumer [8].

Alternative food networks are defined from the perspective of short supply chains as initiatives and practices with the potential to contribute to the sustainable development of rural areas at a time when the crisis in conventional intensive agriculture is increasingly emerging and consumer pressures are increasing the variety for food products of “different” quality [8]. As part of alternative food networks, farmers’ markets are characterized as trading venues for small-volume food producers to “retain” some of the production value lost in conventional food systems [9]. Farmers’ markets are described as a social phenomenon for the transition to sustainable development. They are seen as an incubator for new businesses every year that absorb the full sales value of their products by skipping middlemen. They continue to grow in number, in terms of sales volume and length of season. However, farmers’ markets are much more than a place to sell food and have become essential public institutions - a place for meetings and social interactions, a well-established marketing system with great potential for sustainable development [10].

Examples of AFNs are farmers markets, community-supported agriculture (CSA), farm stores, and others where food products carry social and spatial information that differentiates them from conventional agri-food systems [11]. The common understanding of these examples is that they offer local, clean and healthy food, and can encourage holistic production methods as the organic production, in particular.

In Bulgaria, organic production is accepted as a production system that meets the objectives and priorities of the Farm to fork strategy as the type of production with the greatest contribution to the protection of environmental components, the highest opportunities for market realization, due to the ever-increasing demand and the highest social responsibility (in terms of the safety of the manufactured products, response to the desire of consumers to eat healthy and care for the environment) [12].

The purpose of the study was to make analyses of the current situation in the marketing of local food, organic in particular, and to provide a solution to the shortages and obstacles for its development based on the notion of the alternative food networks considering the contemporary trends in demand and supply based on consumers’ and producers’ behaviour and the impacts of the inspirations after a sustainable way of life.

II. MATERIALS AND METHODS

The study was implemented at the INVEST Regional Living Lab in Bulgaria under the research task of Alternative food chains and new business models. The focus on the development process of open innovations in
the living lab predetermined the use of the participatory approach in the quadruple helix of research work engaging local stakeholders, and students in particular. The formed working group conducted a field study in line with the task of the INVEST Regional Living Lab implemented in University of agribusiness and rural development - Plovdiv. The students’ involvement were of special consideration, particularly emphasizing the need of new training programs and approaches oriented towards the real business and practice for capacity building in sustainable rural development and practice-oriented training and integration to research.

III. RESULTS AND DISCUSSION

According to a study published in 2009, the consumption of organic products is low [13]. The main problem pointed out is the weak awareness of consumers regarding the advantages of these products, as well as the opportunities to distinguish organic products from possible imitations. The limited distribution of organic products could be an obstacle to consumption - the lack of specialized stores (with little exceptions in capital city and some towns in the country) and also of accessible information sources where reliable information about the distribution of products in the commercial network can be found. That year, the conclusion is that in general the organic products market in Bulgaria can be defined rather as nascent.

Understanding the strengths of the market as those characteristics of production, consumption and distribution that can be evaluated as positive, or turn into opportunities for future development of the market, the following could be outlined: the image of Bulgarian organic products is of good quality products and their competitiveness is high; price advantages of Bulgarian organic products; big variety of organic products; expanding distribution channels; regular customers; established legislation and control system, etc.

Understanding weaknesses of the market as those characteristics of production, consumption and distribution that have a negative impact, respectively can become dangers for the future development of the market: the low market share of organic products compared to conventional substitutes; insufficient awareness – both about the existence of organic products and of the ways to distinguish them of fakes and similar products with natural ingredients; the lack of popularity of organic products, mostly the society accepts “natural” products which are not always and in most cases are not organic; unjustified attitudes and expectations towards organic products, which in turn can lead to disappointment and withdrawal; the reduced consumption (relatively small number of consumers), limited distribution channels and low consumer awareness; the presence of imitations creates a feeling of mistrust in the market among some consumers and can become a prerequisite for refusal of consumption; lack of established brands and variety of brands; sophisticated market quality control system; insufficient supply in hotels and restaurants; low share of organic land in the country; insufficient subsidy and financial support to organic, etc.

Determining the market for organic products as developing means that the opportunities to expand the consumption, production and distribution of such products in the country are yet to come. Development potential can be found in the following areas: increasing the range of products offered in the commercial network; offering more organic products in other types of commercial establishments (not for sale), such as hotels and restaurants; diversification and expansion of distribution channels, incl. online (an opportunity for market development can be found in diversifying the types of commercial establishments offering organic products, as well as in the assortment they offer); stimulating demand by attracting new users; stimulating demand by increasing the awareness of current and potential users; increasing the production of organic products in order to diversify the supply; stimulating producers through a package of support measures; increasing interest in “greening” the life and environmentally friendly practices, etc.

Understanding threats to market development as all those factors that could negatively affect the development of this market in the future, both in terms of consumption and distribution and production: shrinkage in consumption due to high product prices; shrinking consumption due to the presence of many fakes and imitations; reduction in consumption due to insufficient popularity of organic products; reduction in consumption due to insufficient availability of organic products; limited distribution channels pose a risk; shrinkage of production due to insufficient subsidies; contraction of production due to unfavourable external economic factors, etc. Most of the current producers of organic products are micro-enterprises that are more dependent on the external macroeconomic environment than large ones. Therefore, the deepening of the economic crisis is one of the factors that could negatively affect Bulgarian organic producers.

Based on the analyses, the study [13] provides the following recommendations:

- Recommendations to drive demand – raising awareness, targeted information campaigns, etc., incl. though the use of Internet.
- Recommendations for diversifying the offer – orientation towards the organic “niche”, information provision and motivation, integration with tourism, etc.
- Recommendations to stimulate and expand production – information, motivation, advisory and financial support.
- Recommendations for improving the regulatory framework – especially regarding the control system and labelling.

In 2016, a study came to the conclusion that the organic products market in Bulgaria is relatively new and still too small, but it is rapidly developing. The number of specialized stores and large retail chains involved in the organic products distribution is increasing. But still, most of the produce is for export [14].

In 2023, the situation is not much different. Organic produce is mostly exported [12].
The following were identified as weaknesses of organic production in Bulgaria:

- Lower average yields from organic farming compared to conventional ones;
- Underdeveloped processing sector, as well as non-promotion of short supply chains and organic farmers markets;
- Export of organic products mainly as raw material (i.e., dded value is exported);
- For part of the organic sector, an essential motive for production is the receipt of subsidies;
- Limited production of organic feed;
- Insufficiently qualified workforce in the field of organic production;
- Weak connection between science, business and the state;
- Small market for authorized plant protection products for organic production which makes them more expensive and lack of information on authorized plant protection preparations for organic production;
- Non-permanent financing for the presentation of organic products at national exhibitions and forums in order to stimulate trade and exports, including and for the expansion of the markets for Bulgarian organic products (there is a lack of certainty and predictability).

Taking advantage of the existing opportunities will contribute to the sustainable development of organic production in Bulgaria:

- Increased consumer interest in consuming food with proven healthy qualities;
- The demand for products from short chains is significant and the short supply market should be expanded, and organic products are suitable for this type of supply;
- Continuation of the implementation of interventions from the national strategies to support organic agriculture and the possibility of implementing separate measures and schemes financed with European funds;
- Approval of new channels for the sale of organic products in the commercial network;
- Growing interest in organic products on a European scale which creates conditions for better realization outside the country;
- Possibility of including organic products as a mandatory element of the menu of public catering establishments;
- Introduction of local organic products in the food offered in state and municipal facilities, hospitals, schools, military units, etc.;
- Electronic databases for certified operators, controlling persons, seed and planting material can be improved, efforts to improve the created bio-register should continue;
- Stimulation of bottom-up local economic initiatives and attitudes towards associations/cooperatives;
- Linking the environmental policies of the state with organic farming;
- Introduction of criteria with target budgets for the selection of project proposals and introduction of restrictions that ensure a fair and appropriate allocation of funds.

At the same time, organic production in Bulgaria faces and must deal with the following threats:

- Growing requirements for agricultural producers in terms of environmental protection and the new Community rules from 2022 for organic production, which make production more expensive and create difficulties for organic operators;
- Strong competitive pressure of imported foods;
- Existing mistrust among consumers due to misunderstanding and incorrect labelling of biological products;
- The same amounts of compensatory payments in organic farming for crops falling into the same group, but with different production costs;
- Growing costs for certification, control, sampling and analyses;
- Underdeveloped processing sector of biological production.

Based on the analysis of organic production in Bulgaria, it can be summarized that it is necessary to stimulate the consumption of organic products, which includes raising awareness (conducting information campaigns about the benefits of consuming organic products) and consumer confidence in the quality of Bulgarian organic products [12]. At the same time, it is imperative to encourage producers to apply organic production methods and processors to process organic raw materials into value-added products.

These actions should be supported by easier access to markets, which includes: shortening the supply chain, direct sales, associations/cooperatives of organic operators in order to create a more favourable environment for the realization of the production, carrying out information and communication campaigns about the already existing farmers markets and organic operators carrying out direct sales, as well as their public announcement in the organic register for the activity “direct sales of organic products from a producer”. Also, the development of organic production in the country requires efforts and actions to increase the knowledge and skills of organic operators for the implementation of the new rules in the sector.

When examining the emerging trends, it could be argued that the motivation of buyers to economically support local micro-businesses is growing, channelling fairly, from their point of view, the overcharge formed. For their part, they expect optimal product quality and a high degree of satisfaction. This process is fuelled equally well by the ever-increasing Wellness idea which brings to the fore a pro-active and healthy lifestyle, as well as the increasing purchasing power or desire to consume goods with guaranteed taste, quality and origin of not a small part of the users.

These processes go hand in hand with the increasingly popular practice of more and more local producers isolating traditional supply chains by choosing to organize the sale of their produce themselves. The aim is to adapt the process in such a way as to avoid the unfair distribution of markups between the numerous units in the distribution channel. Traditionally, the shorter the path of the goods from the producer to the final customer, the more serious the markup
that remains with the original source. Each subsequent link in the chain increases the price of realization to a stage where it becomes unacceptable for the end user who in turn buys in the condition of continued crisis and stagnation. The current situation often causes the producer to sell around or even below cost which often leads to bankruptcy or refusal of further activity by farmers and producers.

Ultimately, the ever-expanding palette of trading methods is observed, such as the use of stationary specialized sales outlets, mobile sales outlets, automated mobile sales systems (vending machines), renting stands at temporary markets and markets, personal deliveries, web-based trade, trade through social networks, word-of-mouth trade, etc.

Of course, these relatively “exotic” commercial solutions are not a panacea. The formed working group, conducting a field study in line with one of the tasks of the INVEST Regional Living Lab implemented in University of agribusiness and rural development - Plovdiv, found the following weaknesses and/or problems in the commercial relationship thus established.

- lack of clear periodicity in the “trading sessions”, as well as the too frequent change of trading places;
- insufficient predictability and quantitative discrepancies in the supply-demand system;
- insufficiently justified expenditure of time and energy on the part of users. They are often left unsatisfied by non-compliance with location, trading hours or scarcity of produce;
- lack of opportunity to build sustainable trade relations. This type of trading becomes more of a lottery than a planned choice;
- admission of unregulated commercial practices, which are more associated with the “grey” sector of the economy than with the legally established order.

As a result of the problems thus defined, the working group consolidates around one of the possible solutions and proposes the development of specialized software for commercial communication which resembles the established models for food delivery in urban conditions but is adapted for the specific purposes of encouraging organic production and sales.

The creation of a mobile application that acts as a mediator between the search for farm (particularly organic, but in separate sections also homemade food or the so-called “artisanal food” which are more popular and can attract new customers) in an established and controlled manner, produced in suburban areas and marketed in a regulated environment should counteract some of the noted weaknesses. The institutionalization of this issue should be accompanied by the adoption of an Ordinance on the trade in homemade food which is in the stage of public discussion. The state administration believes that the operational decisions resulting from this act will enable producers in rural regions to legalize their production, guaranteeing the safety of the final products - words of the Deputy Minister of Agriculture and Food Georgi Sabev [15].

Building this type of a marketing platform for trade and advertising would increase flexibility and adaptability in distribution channels after incorporating existing door-to-door delivery systems. The extreme increase in their popularity and accessibility especially increased after the negative effect that the COVID-19 crisis had on the present trade. On-line ordering with courier delivery has established itself as a preferred form, and this, together with the natural penetration of digitalization into the lives of consumers, gives reason to think about the high success rate of the presented project. This platform will make popular different events and actions, incl. trainings, good practices, etc., it will present successful real stories in organic production, will provide information and advice, etc.

Regarding the business model implemented in this platform, below the summary of the idea is presented based on the notion that “you must build something that real people with real needs will find value in and pay for” [16].

In the proposed model the components (Fig. 1) are referred to as follows:

**Value proposition** – customers interested and engaged in local development, with sustainability awareness, demanding healthy products and environmental protection, particularly organic products, not having much time / chance to go shopping on local markets / farms but preferring online trade.

**Value capture** – local business development and transition to environmentally friendly production systems as organic production, use of the advantages of short supply chain, information and awareness, added value through processing, etc.

**Value delivery** – establishing a local marketing and information platform engaging students with delivery to home.

The model proposed considers contemporary trends in increasing activity online – both of consumers and producers. It takes into account the rising use of social media (Facebook in particular) and the practices to “arrange” orders and supplies via Messenger. Usually, the delivery comes once a week at some place (not a market), unofficially. These practices try to overcome all the barriers and problems that farmers’ markets experience, especially legal and organizational, but also financial and other.

Having the platform proposed is a better alternative to other initiatives. The main concept of the platform
envisages the great students’ engagement which will be something quite new to current practices in the country and the ways of raising the awareness and demand for local and healthy food.

IV. CONCLUSIONS

Examining the alternative food networks in the agri-food sector and their potentials for development in Bulgaria in their variety of forms, has its focus on the issue of sustainable production and consumption, and particularly high quality and safety of products. In that relation, the study presented pays a special attention to the development of organic production, particularly organic marketing, and the potential to integrate it with some types of alternative food networks in Bulgaria.

The paper presents a business model for development of an alternative food network in Bulgaria – information and marketing online platform, considering the main characteristics of the spatial, social and economic proximity in short production and distribution chains. The model envisages students’ engagement in the main activities of an entrepreneurial initiative in University of agribusiness and rural development, Plovdiv, as part of their training and integration of research.

Such a model doesn’t exist in the country for now. The research presented in the current paper is the first step outlining the main concept. It will be the basis for the next step of the detailed description of the platform proposed and its establishment as a functionality and a good practice.

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