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1st Prize

Organic growth at Sonnentor

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“We did not grow because I was greedy. We have been growing because I saw possibilities – possibilities of cooperation, and not possibilities of maximizing profits.”

Johannes Gutmann, Sonnentor founder and CEO

The first thing that many visitors of Sprögnitz noticed was the unusual quietness of the place. The small village was located in the Waldviertel (“Forest Quarter”), a rural region in the North of Austria, an old cultivated landscape that was characterized by small fields and meadows, a lot of stones, and – as the name already indicates – vast forests.

The huge warehouse was quite an unusual sight in this remote area, and could actually only be seen from a side road. It was part of the headquarters of Sonnentor, one of Europe’s leading companies in the organic herbs and spices business.

Johannes Gutmann, Sonnentor’s founder and CEO, was wearing the lederhosen that he had inherited from his grandfather, a T-shirt with a sun symbol, and red-framed round glasses – an outfit that had become his trademark. The “herbs-man in lederhosen,” as he had been called by many of his early customers, was walking along the long corridor of the storage depot and shared a smile and a few sentences with each employee whom he met on the way. Every smile that he received back was a reassurance for Gutmann that he was successfully progressing on the way to reaching his main goal as an entrepreneur, that he did not see in making a lot of money, as one would typically expect of a businessman, but in creating adequately paid quality jobs in the region, thus enabling his employees as well as his partners – the local farmers – to live a good life from their work.

Since it had been founded 25 years ago, the company was achieving a constant yearly growth rate of 10 to 20 percent. Unlike many other firms, Sonnentor had also continued to grow steadily during the financial and economic crisis of the years 2008-09. Johannes Gutmann did not see that as a reason to be complacent, though. He still saw many opportunities ahead. Sonnentor was just about entering the organic restaurant business, and Gutmann wondered whether the brand would work as well in this completely new industry as it did in organic food retailing.

However, he also had his major long-term challenge in mind: succession. He was used to think in natural cycles, and he knew that at certain points in time, a new generation has to take over to ensure that a system can continue to thrive. As his children were either too young or not yet interested in the business, he thought about possible ways of sustaining the business also when he would not be involved any more.

While he was reflecting on this issue, a more immediate challenge caught his attention: A butterfly seemed to have gotten hopelessly lost in the warehouse, not finding its way out any more. Gutmann opened the door and carefully guided the poor creature toward it. After a few turns, the butterfly understood its savior’s intent, flew through the door, and was free.

Business idea and early expansion

In March 1988, Johannes Gutmann, a 23-year-old farmer's son, was told by his employer that he was no longer needed: *"I wanted to make my work – selling agricultural speciality crops – self-sustained,"* he recalled, but the company did not show any interest in his ideas to develop the business and decided to lay him off. What hurt him the most was that he had not even gotten a chance to try: *"It was the most important learning for me never to act like this as a boss."*²

Soon afterwards, and against the advice of his parents and friends, Gutmann made the decision to become his own boss. His business idea was to create a brand under which he would sell local farmers' products made of herbs in a well-designed packaging. As a brand symbol for Sonnentor ("Gate of the Sun" in direct translation), his newly founded company, Gutmann chose a laughing sun – a symbol for light, life, and freedom in the middle ages that could still be found on some farms, and that was understood by people all around the world.

He would organize the packaging material and create herbal tea blends, with the farmers being responsible for harvesting, packaging, and storing. Gutmann recognized that especially the old generation on the farms could contribute to this work: *"The grandmothers had time, and they were really happy about the fact that they could now do the packaging."*³ Using the farms as its "production department" enabled the start-up enterprise to grow without the need to employ workers right away.

To motivate farmers to supply him with their herbs, Gutmann offered to pay them double the sum that they were used to get paid for their harvest:

"The farmers' crisis was that they produced more herbs than they could sell on the market. My crisis was that I did not have a job. This was a good match – minus multiplied by minus equals plus – and we both got the opportunity to grow in cooperation."

At the beginning, three farmers agreed to cooperate and Gutmann sold their products at local farmers' markets and fairs:

*"I asked people what they want and how they want it. I told the people where the herbs originated from and who was behind it – and they were excited about it. Wow, it works that easy!"*⁴

In the first year in operation, Sonnentor already made a turnover of more than EUR 100,000. Gutmann attributed the instant success to the quality and taste of the products, to his direct approach to people, and especially to an authentic and simple story of well-tasting tea that was produced by dedicated local organic farmers.⁵

The first years in business did not come without challenges. An unexpectedly high invoice of the tax accountant, investments into the wrong location and into unsuitable packaging material (without a viewing window through which the herbs could be inspected), or farmers who tried to sell their products directly instead of via Sonnentor reminded Gutmann of the importance of constantly communicating with his partners. In this context, he often referred to what his father used to tell him: *"Boy, if you don't open your mouth, then you will have to open your wallet."*⁶

At the beginning, the man in outworn lederhosen was regarded with suspicion and as an eco-freak by many: *“It was just short of being spat on. In Zwettl, neighbors denounced me and the trade office advised me to leave the region,”*⁷ he recalled those early days of rejection at a time when organic food was not yet in high demand.

Gutmann actually decided to leave the town when he discovered an old farm and 7,000 square metres of land in Sprögnitz, a nearby small village of 150 inhabitants. The farm was desolate, but affordable at a price of EUR 35,000 – less than a tenth of the price he would have to pay for similar premises in the town of Zwettl. Furthermore, Gutmann – in his natural cycles-thinking – was convinced that ruins could form a good fundament for establishing and growing something new.

In search of distribution partners, Gutmann had to realize that it was quite difficult to get shelf space for organic products in Austria, as the market for organic food stores was still in its infancy. He therefore soon decided to look abroad and found a market with an already more developed organic food movement in neighboring Germany, succeeding to get a number of interested customers there. From 1991 on, Sonnentor strongly focused on exporting. The move also corresponded with Guttmann’s personality: *“Internationality was always a basic need for me, an expression of my freedom.”*⁸

In 1992, only three years after the “velvet revolution” that brought down the iron curtain between Austria and the Czech Republic, Sonnentor’s founder established a joint venture with a local partner in the neighboring country. He saw the former communist state as a high potential growth market, especially also with the prospect of becoming a future EU member. As in all further international joint ventures he would be entering, Gutmann held 80 percent of the new company’s shares.

Product offering

After 25 years in existence (see Exhibit 1 for the main milestones in the company’s development), Sonnentor achieved a turnover of EUR 27.4 million and additional EUR 6 million in its Czech subsidiary (financial year 2012-13) with a range of more than 700 different organic foods and beverages in several product lines (see Exhibit 2 for an overview of the product offering).

Johannes Gutmann was convinced that many different products could be encompassed by the Sonnentor umbrella brand:

“Many people say that some things do not fit, but that does not matter to us. We have set up such a broad range because we got the requests from the market. It just needs to be somehow connected to herbs and spices.”

The two main product lines were organic spices (which accounted for 43 percent of the company’s turnover) and organic teas (42 percent of turnover).⁹

Product innovation was considered to be a major driving force behind the company’s growth. The four employees in Sonnentor’s product development department constantly observed market trends and launched approximately 25 new products per year.

“Our main product developer is the consumer,” said Gutmann, “we get the ideas from the customers in our shops – unfiltered – not from someone like a wholesaler or an importer who does not really understand the consumers’ needs. Thus, I can shortcut the market research deviation. In market research, you spend a lot of time for collecting data. Afterwards, a plan is set up and implemented – without knowing whether the two to three year-old findings are still valid any more.”

New product ideas were tested in selected Sonnentor stores before they would be officially included in the product catalogue. Products selling less than 6,000 units per year were delisted.

Many of the products were carrying imaginative and emotionally charged names. For example, teas were called “Guardian Angel”, “Hello Sunshine”, “Stormy Weather”, “Little Sunshine Baby Tea” or “Mystical Witch”, and it was also possible to buy “Romantic Honey”, “All the Best Cookies”, or “Good Spirit!”, “Real Joy!”, and “True Love!” drinks. In addition, the packages carried pictures by graphic artists that symbolized the names, such as kissing rabbits on the “Spring Kiss” herbal tea or a dwarf on a deckchair between two heads of lettuce for the “Just Greens” salad seasoning. The feel-good messages in both text and pictures were explicitly chosen to tell emotional stories and to elicit joy in customers.

Sourcing, production, and quality control

Sonnentor’s products were harvested on certified organic farms and did not contain any artificial colors, aroma additives, or preservatives. Most activities both on the farms as well as in the company were performed manually and without the help of machines. For example, more than 20 million packages were hand-labeled per year. It was one of the main pillars of the Sonnentor concept to keep important steps of the processing of raw materials (e.g. drying the herbs) as well as parts of the packaging process – and therefore also of the value added – directly at the small, family-owned farms. Sonnentor itself focused on the final processing steps (mixing herbs or spices and final packaging), storage, and the marketing and distribution of the finished products. With competitors that were typically using more automatized production processes, Sonnentor saw its strong focus on people and manual labor as a major differentiation factor. The strongest competitor in Germany, Lebensbaum, had an almost 50 percent higher turnover than Sonnentor with its 450 organic tea, coffee, herbs, and spices products, yet only about half of the number of employees.¹⁰

Considerable amounts of herbs and spices were stored at the Sprögnitz headquarters. Unlike other companies that tried to minimize stocks, Sonnentor used its cash flow to buy raw materials when they were available at the right quality, at the same time also reducing the threat of getting into an out-of-stock situation.

Although still strongly relying on local farmers, Sonnentor sourced from more than 20 different countries. In addition to Austria and the Czech Republic, Sonnentor established a

production subsidiary in Albania and initiated cultivation projects in Romania, two countries chosen mainly also for their warmer climate. Raw materials were also purchased in developing countries. Sonnentor coffee, for example, originated from Nicaragua, where the company cooperated with Biosfair, a local export firm that ensured sustainable organic production, reinvestment of profits into the education of farmers and the development of infrastructure, and direct trade (without any middlemen) between producers and the customer at real fair trade standards.¹¹ Regardless of the country of origin, Johannes Gutmann perceived the choice of the right partners as crucial:

“The working conditions of our producers need to fit to our philosophy: respect for people and their work, fair payment for raw materials, and thinking in closed cycles.”¹²

He was generally looking for long-term partnerships that were perceived as fair and rewarding for all the parties involved. Gutmann’s credo for well-functioning cooperation was “live and let live.”

As part of its total quality management system, the company clearly defined and controlled processes and responsibilities within the organization and beyond along the whole supply chain. Thus, the origin of each product was traceable to the farm where it had been produced. *“Where does it grow? How does it grow? – these questions are ever more frequently asked,”* said Gutmann, *“and we can answer them very precisely because of the close contact with our partners.”¹³* Sonnentor strived to preserve the identity of the original producers and create full transparency for customers. Company representatives also visited farmers on regular “field days” to exchange experiences, remedy any shortcomings, and optimize cooperation with the partners.

Herbs and spices were delivered by the farmers in dried form. Received goods underwent humidity measurement and a cleaning process. They were also subject to rigid quality controls and external microbiological analyses to detect any chemical fertilizer or pesticides. Further quality checks were conducted during and after production. Sonnentor was also regularly monitored by an independent Austrian organic food auditor. In addition, the company spent approximately EUR 0.3 million on voluntary quality tests beyond the official requirements in the business year 2012-13. Despite having quite highly developed control systems already, Sonnentor still tried to intensify its efforts in ensuring quality. In a recent R&D project, for example, the company had developed an innovative system for detecting potentially harmful weeds that could lead to allergic reactions.

Quality management also encompassed the customer side of the business. Regular satisfaction analyses and a structured complaints management ensured that customers had a positive experience with the brand.

Distribution and marketing

Sonnentor products were traditionally sold in specialized organic food stores, health food stores, and pharmacies. These outlets, in turn, were delivered by organic wholesalers, Sonnentor's main direct customers.

Generally, Johannes Gutmann did not like to work with large mass market retail chains, as he did not want to become too dependent on them. In one exemption, Sonnentor had produced three herbal tea varieties for an Austrian discounter's organic private label, but decided to terminate cooperating after two years when there was too much price pressure from the side of the retailer.

In the meanwhile, also the organic and health foods sector underwent concentration tendencies. In Germany, Sonnentor's main market, almost half of the turnover of all organic stores was already generated in organic supermarkets with more than 400 square meters of shop floor. Some organic supermarket chains already operated several dozens of outlets. On a global scale, Whole Foods Market had created a chain of 340 organic food stores in North America and the United Kingdom.¹⁴

Johannes Gutmann was aware of the changes in the industry:

*"We are also subject to specific threats due to our international wholesale distribution structure. Big capitalists are slowly entering, setting a price game in motion like in the conventional area."*¹⁵

Moreover, organic food wholesalers and retailers typically only listed a smaller part of the overall Sonnentor product range. Therefore, Sonnentor also tried to find ways to get into more direct contact with consumers.

In 2002, the company opened its first own store in Zwettl which offered the whole variety of Sonnentor products. In the following year, another store was set up in cooperation with a local partner in Vienna's museum quarter. The venture failed, however. Sonnentor manager Ewald Redl later explained the causes from his point of view:

*"The most important factors in retail are the location, the product, and the acting employees or partner. In the museum quarter case, all three factors did not work. In retrospect, it was a C-location, twice around the corner, the product was a classic organic grocery store, and the partner threw in the towel very soon."*¹⁶

Throwing in the towel was definitely not one of Johannes Gutmann's typical behaviors. Thus, the failure was taken as a learning experience and Sonnentor continued to open stores throughout Austria and beyond (both in the company's ownership as well as on a franchise basis) (see Exhibit 3 for an overview). In addition, Sonnentor also offered a webshop, albeit only in German language. The webshop contributed 2.5 percent to the company's overall

sales, but with a 40 percent annual growth rate. As a sign of fairness toward Sonnentor's partners, the online sales channel did not undercut retail prices.

Approximately five percent of sales were invested into marketing activities.¹⁷ Instead of using mass media, the marketing department relied on fairs, tastings (for both consumers and owners of retail stores), sponsoring a new magazine for customers (of "fans", as they were referred to at Sonnentor), and supporting retail partners with point-of sale promotional material such as displays, posters, gift boxes, or informative leaflets. In key visuals, Sonnentor put farmers into the spotlight. Aesthetic black-and-white photography presented the people behind the products, thus also giving consumers the feeling of knowing where what they bought came from. Sonnentor also strongly relied on social media platforms to get into contact with its customers and to collect new ideas for product innovations. The main marketing goals were arousing customer enthusiasm, increasing customer loyalty, and inducing word-of-mouth promotion. In consistence with the company's overall "fair price" policy, it did not use any price promotions.

An important part of Sonnentor's promotional strategy were frequent public relations activities of its founder Johannes Gutmann. An iconic figure in his lederhosen and red glasses, Gutmann was often invited to talk at conferences and other events, gave a lot of interviews, appeared in radio talkshows, and made promotion tours for the book that he co-authored about his business and life philosophy.

Sonnentor on international markets

In addition to operating in its domestic market Austria, where the company was already controlling approximately half of the market in the organic tea and spices categories, Sonnentor also exported its products into more than 50 countries around the world (see Exhibit 4 for an overview of Sonnentor's main markets).

"We do not have any planned roll-out or market conquest strategy," said Johannes Gutmann, "This is just nonsense. We enter those markets from where people approach us, for example, on international trade fairs. We do not necessarily go to the big markets. Everyone else anyway just looks at where the spotlight is."

The production process based on manual labor enabled the delivery of very small batch sizes to different countries in packages customized in the local language. In most cases, the company cooperated with one local distributor, in some countries – as there were generally no exclusive contracts – also with more than one (most notably in Italy, where Sonnentor had five different distribution partners). With a wholesale export quota of 75 percent, the expansion on international markets was a key driver behind enabling the company's consistent growth.

Johannes Gutmann was convinced that

“people around the world share very similar values – they just want to be loved and stay healthy when they get old. These are the basic intentions, and if you know how to beautify and embellish that with design and with stories, then it works everywhere in the world.”

The main markets for organic food and beverages were in North America and Europe (see Exhibits 5 and 6 for overall and per capita market sizes of selected countries and Exhibit 7 for trends in eight major markets).

Sonntentor made its highest export sales in Germany, a country that was not only strong in organic food, but also constituted a major market for herbal teas (see Exhibit 8). A total of 37,786 tons of herbal and fruit tea were sold in the country in 2012; organic teas accounted for only 5.6 percent of the market volume (2,116 tons; compared to 3.6 percent or 1,336 tons in 2008).¹⁸ Sonntentor had gained a strong market position as a supplier of organic stores in Germany, where it held a 25 percent market share and top 3 position in specialized organic trade in the field of tea and spices.¹⁹

In the Czech Republic and Albania, Sonntentor also had production subsidiaries. Like in Austria, Sonntentor mainly purchased from local small farms there. It was estimated that in Albania alone, the company had created more than a hundred jobs in small farms (with an average size of two acres) already in the first year after the launch of its cultivation projects there.²⁰ In 2008, Sonntentor’s local partner also opened a small licensed shop carrying approximately ten percent of the product range in a luxury hotel in the Albanian capital Tirana. Due to a lack of sales, it was closed again after two years.

One market that was seen as particularly promising for selling organic food was Japan. It was the world’s largest importer of food and had a population that was considered to be highly quality- and health-conscious, especially regarding food. The Fukushima nuclear disaster also induced many people to rethink their relationship with nature and decide for a more sustainable lifestyle. However, Sonntentor’s export manager Johann Haas was aware that Japan was not an easy target: *“You need a lot of time for the Japanese market, but patience is rewarded. Once you’ve obtained the trust of a trading partner, you have very good and very loyal customers.”*²¹ He was also aware of the local demands: *“Japanese business people attach great importance to an authentic presence and to corporate philosophy. Attractive packages are exceptionally important and it is also helpful and welcome if the products already carry the Japanese JAS organic label.”*²²

In 2011, after years of successful exports to Japan, Sonntentor closed a brand licensing contract with Omochabako, a family-run Japanese enterprise, to open the first Sonntentor store outside Europe in Tokyo. As a consequence, the company’s sales in Japan increased by 35.8% in the business year of 2011-12. Johannes Gutmann was not surprised: *“Asians maintain a*

deliberate tea culture. Our Japanese customers love Austrian herbal teas and the Hildegard von Bingen products as an alternative to their caffeine-containing green teas."²³ The Japanese partners, however, did not want to follow Sonnentor's European franchise store system and decided for their own combination of grocery store and bar. The different concept did not succeed and the Japanese had to close shop after only one year in business.

Other Asian markets like China were still small, but with long-term potential, as Gutmann was convinced: "*China is on the best way to harass and ruin nature until they will recognize that you cannot eat money.*"²⁴ In the world's second most populous country, India, there was still a general lack of understanding of the benefits of organic foods; consequently, hardly one percent of the consumers said that they had ever bought organic herbs.²⁵

Each country had different market access provisions for organic products. In the U.S., where Sonnentor had so far only experienced a short episode with a distributor that did not succeed on the market, importers of organic food needed to follow a complex bureaucratic procedure to get the NOP (National Organic Program) certification that was required to sell organic food. The European Union had a unified regulation on the growth, certification, and import of organic agricultural products. In addition, many countries (also within the European Union) had private certification agencies with their own standards for organic food production. For consumers, it was difficult to keep an overview amidst the plethora of different organic certification labels, which Sonnentor generally ignored altogether.

The franchise system

In both the domestic and international markets, Sonnentor was faced with increased competition for shelf space in a constantly more consolidating organic food retail industry. Therefore, the company aimed to open more branded stores that carried the whole Sonnentor product range. Setting up a whole chain of owned stores seemed to be too high an investment for a company of Sonnentor's size, however. Thus, Johannes Gutmann engaged the services of an experienced consulting firm to develop a franchise system for shops that carried the brand's name and its products. Sonnentor opened a pilot store in Krems to test and optimize the concept, employed architects, developed draft contracts, a franchise handbook, and an intranet – an overall investment of approximately 2 million EUR.²⁶ In the long-term, Sonnentor wanted to run its own stores in the immediate region only, leaving all other locations to franchisees (with temporary exceptions at important locations in case no suitable franchise partner could be found).

The company was aiming to create long-term partnerships with franchise contracts being signed for a period of ten years (see Exhibit 9 for basic data for potential franchise partners). It was also expected of the franchise partners to show enthusiasm for the concept (e.g.

agreeing to personally sell in their stores) and share Sonnentor values such as sustainability, care for regional development, and commitment to fair trade.

In 2008, the first franchisee opened his store in Sankt Pölten, the capital of the province of Lower Austria. Further outlets followed in several other Austrian cities (see also Exhibit 3), although four of the ten largest cities in the country (especially in the western and southern provinces) still remained uncovered.

In 2011, a Sonnentor franchise store was opened in a shopping arcade in Munich – the first of its kind in Germany. With 25 cities of over 250,000 inhabitants (compared to only two in Austria), 82 million inhabitants (compared to eight million in Austria) and a well-established market position of Sonnentor in the organic retail sector, Germany was seen as a potential growth market for the specialized Sonnentor-branded retail stores.

In a new initiative, the company also launched a shop-in-shop concept in one outlet of a German drugstore chain in Hamburg. Although it was running quite successfully, Johannes Gutmann again experienced that mass retail chains had a different style of doing business, deciding to rather focus the shop-in-shop concept on the approximately 1,000 independent organic retailers in Germany. This was also seen as a preliminary stage for franchising, based on the idea that if independent retailers experienced the success of the Sonnentor shop-in-shop system, they would also be more inclined to convert their businesses into full-fledged franchise stores.

The new branded outlets were also potential competitors for traditional organic and health food stores. Despite the massive criticism (one German organic supermarket chain even delisted Sonnentor products), Johannes Gutmann found that

“many of them [the organic grocery stores] stew in their own juice, and are wondering about their low equity. They are endangered dwarfs. If a hundred of them have me as their supplier, and if I just rely on them, I will get pneumonia. I need to go my own way.”²⁷

Gutmann acknowledged the importance of the partnerships with organic retailers, but also noticed that

“due to a wide range of different organic brands and products available in these stores, we are limited to offer only a very small part of our range. In our Sonnentor franchise stores, customers have the opportunity to experience the entire Sonnentor world and immerse themselves in our philosophy. Consequently, our franchisees, as well as our existing retail partners, benefit from the increased presence of the Sonnentor brand.”²⁸

By 2013, franchising already contributed 13 percent of the company’s overall turnover and was seen as an important growth area for Sonnentor.

Attentive leadership

Sonnentor employed more than 180 employees (and over 50 freelancers) in Austria, and another 80 employees in its subsidiary in the Czech Republic, which was responsible for all Central and Eastern European markets. The company tried to follow what it called “attentive leadership.” Johannes Gutmann knew every single one of his employees personally and called them by their first names: “*We live together and see ourselves as one big family. My motto has always been and still is to treat my employees in a way that I also want to be treated.*”²⁹

At lunchtime, everyone working at the company headquarters in Sprögnitz got a free meal prepared from local organic food. At other times of the day, fresh fruits were always available for the employees. Out-of-the-workplace activities such as birthday parties or field trips were offered to strengthen the team spirit.

The Sonnentor leadership style was also characterized by delegating a high level of responsibility to all employees, regardless of their hierarchical position. Gutmann did not strongly involve himself in the daily business any more: “*I realize that I am disrupting when I interfere.*”³⁰ Instead, he focused on the vision and strategy, and acted as an ambassador for the brand. It was important for Gutmann to develop entrepreneurial spirit in each of his employees, while also making sure that they could work at their own pace: “*This is exactly what I did not get from my former employer,*”³¹ he said. Giving responsibility also went hand in hand with a culture that tolerated mistakes, as he explained further:

*“Mistakes may happen. There is no «bad boss» who runs around yelling at his employees when something does not work optimally. It is already embarrassing enough for the employee when a mistake happens. When the same mistake happens three times, however, we will need to sit together and find out what is behind.”*³²

Johannes Gutmann strongly focused on offering possibilities for personal growth to his team members: “*When employees select a suitable seminar, they can attend. Without much debate.*”³³ More than 40 percent of the trainings selected were personal development- and health-related seminars. In total, Sonnentor staff attended 3,146 hours of training in the business year 2012/13.³⁴

The company had a high number of female employees in leadership positions (57 percent of all department and team leaders were women), held at least yearly “employee support talks” (what other companies usually called an “appraisal interview”), and conducted regular employee surveys. 35 percent of the employees chose to work in a part-time model that the company offered to ensure work-life-balance.³⁵ The company had a five percent yearly fluctuation rate and an average duration of sick leave of 5.5 days, which was less than half than in the average Austrian firm.³⁶

Having developed an image as a strong investor in people with a positive working atmosphere, the company received dozens of unsolicited applications per week. In recruiting, a candidate's social competence was considered as being as at least as important as professional qualifications. After an initial screening by the HR department, Gutmann still personally selected many new employees, especially also to find out whether they fit with the company culture and values. He preferably employed people without prior experience in the industry: *"Such a person will just tell you that this is the way it has always been done. I get mad when I hear something like this."*³⁷

When new employees joined the company, they first participated in a six-week program in which they were required to work in every part of the company, on the one hand to get an understanding of the whole process, on the other hand to *"immerse oneself in peasantry,"*³⁸ as Gutmann called it. New recruits were also accompanying Sonnentor employees to talks with farmers, customers, and other partners.

Entrepreneurial responsibility

Sonnentor's business philosophy was built on promoting organic farming, respect and care for nature, and supporting small local agricultural structures. Johannes Gutmann saw it as part of his responsibility for the region to refrain from automatizing production processes to provide more jobs and to give local farmers a bigger share in the value chain. It was important for him to pay fair prices to his suppliers. One of the company's main principles was not to exert price pressure on its partners. Thus, Sonnentor had created over 600 jobs in more than 150 farms.

Although the business model itself was deliberately designed as being as sustainable and responsible toward key stakeholder groups as possible, Sonnentor also initiated further projects related to environmental and social responsibility, and reported on their progress in a yearly sustainability report.

Environmental responsibility

The Sonnentor production process with its high degree of manual labor did not generate any direct emissions. CO₂ emissions from other activities such as transport were continuously controlled and actively reduced (e.g. from 286 to 252 tons between 2011 and 2012).³⁹ Sonnentor compensated for the remaining emissions with supporting afforestation projects, so that the company's overall CO₂ balance remained positive.

Approximately 96 percent of the packaging material was either made of renewable raw materials (80 percent) or of glass (12 percent) or metal (4 percent) that could be fully recycled. For example, the foil that covered tea packages was made of fully compostable cellulose.

Sonntentor was awarded a certificate for the climate-friendly, zero-energy design of its new headquarters office buildings that also included photovoltaic modules on its roof. The rest of the required energy was sourced from a provider of nuclear- and fossil fuels-free eco-energy. The company further installed charging stations for electrically powered cars at its headquarters, and included two such e-cars in its own vehicle fleet. It also invested into a constructed wetland for treating wastewater.

For its environmentally-friendly business concept, Sonntentor received the Austrian Climate Protection Award in 2011.

Social responsibility

Sonntentor was a pioneer in the “Economy for the Common Good” movement in which human welfare and cooperation were regarded as higher goals for economic activity than making profits. The company reported its performance on ethical purchase management, ethical financial management, human dignity, cooperation and solidarity, ecological sustainability, social justice, and democratic co-determination and transparency in relation to all important stakeholder groups in an audited “Common Good Balance Sheet”.⁴⁰

Sonntentor also sponsored charities, for example a project that supported children living in the streets of Calcutta, as well as organizations and events that were promoting a more sustainable lifestyle and a more responsible way of doing business.

Long-term economic responsibility

All profits that Sonntentor generated were fully reinvested into the company (see Exhibits 10 and 11 for the balance sheet and income statement). As Johannes Gutmann explained, “*everything that we earn returns to the company and therefore benefits all stakeholders such as farmers, consumers, or employees.*”⁴¹ Instead of short-term profit maximization, the emphasis was put on the long-term overall development of the firm. Neither managers nor salespersons received any bonuses to avoid unnecessary performance pressure and short-term thinking.

All investments were made out of the cash flow. “*That brings us freedom and future for our employees and our farmers,*”⁴² Gutmann argued. He had already received several attractive takeover offers, but rejected all of them. Gutmann actually did not have any quantitative goals for the company. He just wanted it to grow in line with the development of the organic food market: “*Organic like the growth of nature, that’s how I envisage the growth of a firm.*”⁴³

The range between the highest and the lowest salary in the company was kept as low as possible and was reduced from a factor of 4 to a factor of 3.5 between the business years 2011-12 and 2012-13.⁴⁴ Gutmann paid himself a salary of only EUR 2,500 per month, a fraction of what other owner-managers of firms of comparable size and profit figures would

get. *“For me, life means having one warm meal per day,”*⁴⁵ said Gutmann, arguing that he did not feel any need for luxury goods. Once, however, he had been tempted and bought a sports car. When he realized the amount of fuel that the car was consuming and the negative effect it had on the environment, he decided to get rid of it again as soon as possible: *“I then exchanged the car for 2.5 tons of anise and both the farmer and I were very happy about this deal. This barter was one of the best decisions of my life.”*⁴⁶

New challenges ahead

Johannes Gutmann stepped out of the warehouse into the Children’s Herbs Village, part of Sonnentor’s touristic offer at the company’s headquarters in Sprögnitz that was already receiving 40,000 visitors per year. He wanted to see the progress of the construction work of the new building that would include the new Sonnentor academy, a day care center for his employees’ children, and an innovative organic restaurant and tearoom that could form the basis for a new franchise concept.

Would the Sonnentor brand and philosophy be transferable to a completely new industry? Gutmann was quite confident that the Sonnentor brand was strong enough to succeed also in a different context. He felt that existing restaurant franchise systems were neither authentic nor sustainable. That seemed to be a great opportunity. And anyway, if it did not work out as planned, he could always divert his course. He was convinced that making continuous corrections was always healthier than waiting until big painful changes would become inevitable. He liked to try things out, see whether they work, and then draw his conclusions from it.

There was still one challenge, however, for which he did not have a conclusion yet:

“My biggest challenge is the next generation. One the one hand, I promised myself never to sell the company to make money. It is unsure whether my three daughters will be interested in going into business. I do not know what would happen if I were no longer here. I am the entrepreneur, the one who cares for everything, the one who takes responsibility, the one who provides capital, and I am also the face of Sonnentor. What would happen if the face of the brand was missing?”

Gutmann had already tried to employ a manager in whom he had seen the potential for being able to follow in his footsteps. He was quite disappointed, however, when he realized that this person was mainly numbers-driven, without showing the necessary amount of emotionality for the Sonnentor philosophy:

“It is impossible to lead Sonnentor with a big business mindset and spreadsheet-world thinking,” he thought, *“If you want to move something, you need passion. You just cannot understand our business in a merely calculating, numbers-oriented way.”*

Gutmann hoped one of his life experiences would again prove true in the succession issue: *“The right people will always come at the right time.”* He had never achieved something with pressure. Actually, he did not want to be pressured at all, thus he also neither wanted to put pressure on others nor on himself. Strength lies in calmness, he often said to himself as well as to his employees. As usual, it was quiet and calm in the small Austrian village of Sprögnitz.

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Exhibit 1: Sonnentor timeline

Year	Event
1988	Sonnentor Kräuterhandels GmbH is founded by Johannes Gutmann.
1991	First exports to Germany.
1992	Johannes Gutmann purchases and renovates an old farm in Sprögnitz (near Zwettl, Lower Austria) and moves the company headquarters to the farm. Joint venture Sonnentor s.r.o. is founded together with a local partner in Cejkovice (Czech Republic).
1999	Launch of a cultivation project in Romania.
2002	Sonnentor opens a store in the nearby town of Zwettl.
2005	A pilot store for the Sonnentor franchising concept is opened in Krems.
2006	Joint venture Sonnentor s.r.l. is founded together with a partner in Romania. Opening of the “Kräuter-Sinnes-Erlebnis” (“Herbs-Senses-Experience“), a touristic offer for visitors (including a herbs garden, a shop, and a tea house) on site in Sprögnitz.
2008	Joint venture Sonnentor Shpk. is founded together with a local partner in Tirana (Albania). Extension of the touristic offer: Opening of 6,000 square meters of children’s playground as part of the “Herbs-Senses-Experience“. Opening of the first franchise store (in Sankt Pölten, Lower Austria). Sonnentor receives the TRIGOS award for continuous environmental and social commitment, specifically also to regional suppliers.
2009	Opening of three new franchise stores.
2010	Sonnentor’s turnover exceeds EUR 20 million for the first time in the business year of 2009/10 (EUR 20.5 million, +16% compared to the year before; Sonnentor Czech Republic reaches a turnover of EUR 4.5 million, +15% compared to the year before) Opening of a new warehouse. The company receives several awards (Nestor Gold; neuland Award/ecoplus International; Meilenstein; Austria’s Leading companies – winner for Lower Austria).
2011	Opening of a new office building including a rooftop photovoltaic power station. Extension of production and storage capacities in the Czech subsidiary. Sonnentor is ranked among the top 30 in the image ranking of Austrian companies.

	Opening of the first franchise store in Germany. Johannes Gutmann is Austria's "Entrepreneur of the Year" (awarded by Ernst & Young).
2012	Sonnentor receives the Sustainable Entrepreneurship Award.
2013	Investment into another new warehouse as well as an organic food restaurant and seminar facilities in Sprögnitz.

Source: Author, compiled from Sonnentor company documents.

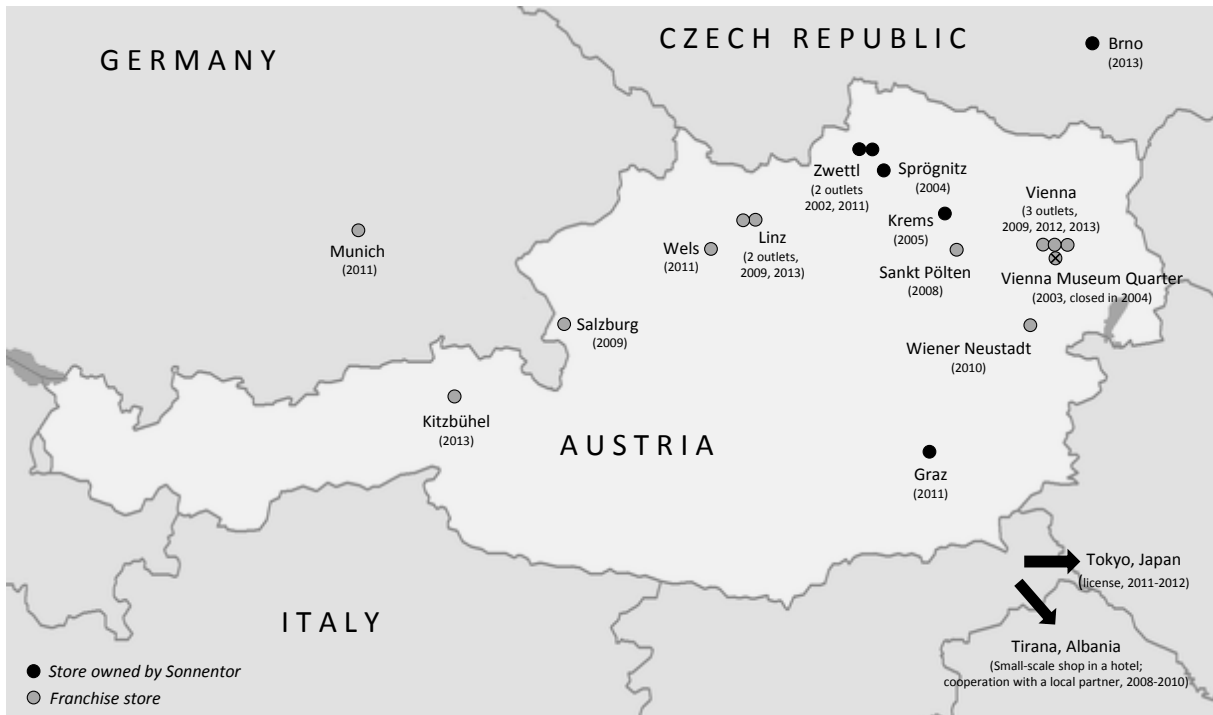
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Exhibit 2: Sonnentor product lines

Product line	Description
Teas	Pure organic herbal and spice teas and tea blends (loose & in bags); black, green, and white teas (loose & in bags); fruit tea blends (loose & in bags); Chai teas; “Feel good”-teas; teas for baby & mum
Spices	Pure organic herbs and spices as well as herbs and spice seasonings and blossom spice in retail packs and tins
Salts	Ayurveda salts, herbal salts, Mediterranean salts, and barbecue seasoning
Coffee & chocolate drink	Pure coffee “Viennese Temptation”, spelt coffee, chocolate drink
Soups & risonnos	Clear soups, creamy soups, and risottos made of the “Einkorn” wheat speciality combined with vegetable pieces and spices
Vinegar	Basil-apple vinegar, lemon-thyme vinegar, raspberry-apple vinegar
Sweets	Fruit spreads, honey and bee products, chocolate, cookies, muesli, chewy bars & dragées, spelt waffles, ginger specialities, apple chips, and chocolate balls
Sugar	Beet and cane sugar as well as blossom-spice sugar
Snacks, seeds & sprouts	Savory snacks, savory spreads, chestnut flour, edible seeds, and sprouts
Drinks	Fruit syrups sweetened with apple juice concentrate and ready-to-drink tea mixes in glass bottles
Fragrance & care	Natural cosmetics (hair/face/body care), essential oils, herbal bath, and herbal pillows
Dishes	Sonnentor-branded cups and tea pots
Books & games	Cookbooks and playing cards

Source: Based on Sonnentor’s 2012 products and price list.

Exhibit 3: Overview of Sonnentor stores (opening date in parentheses)



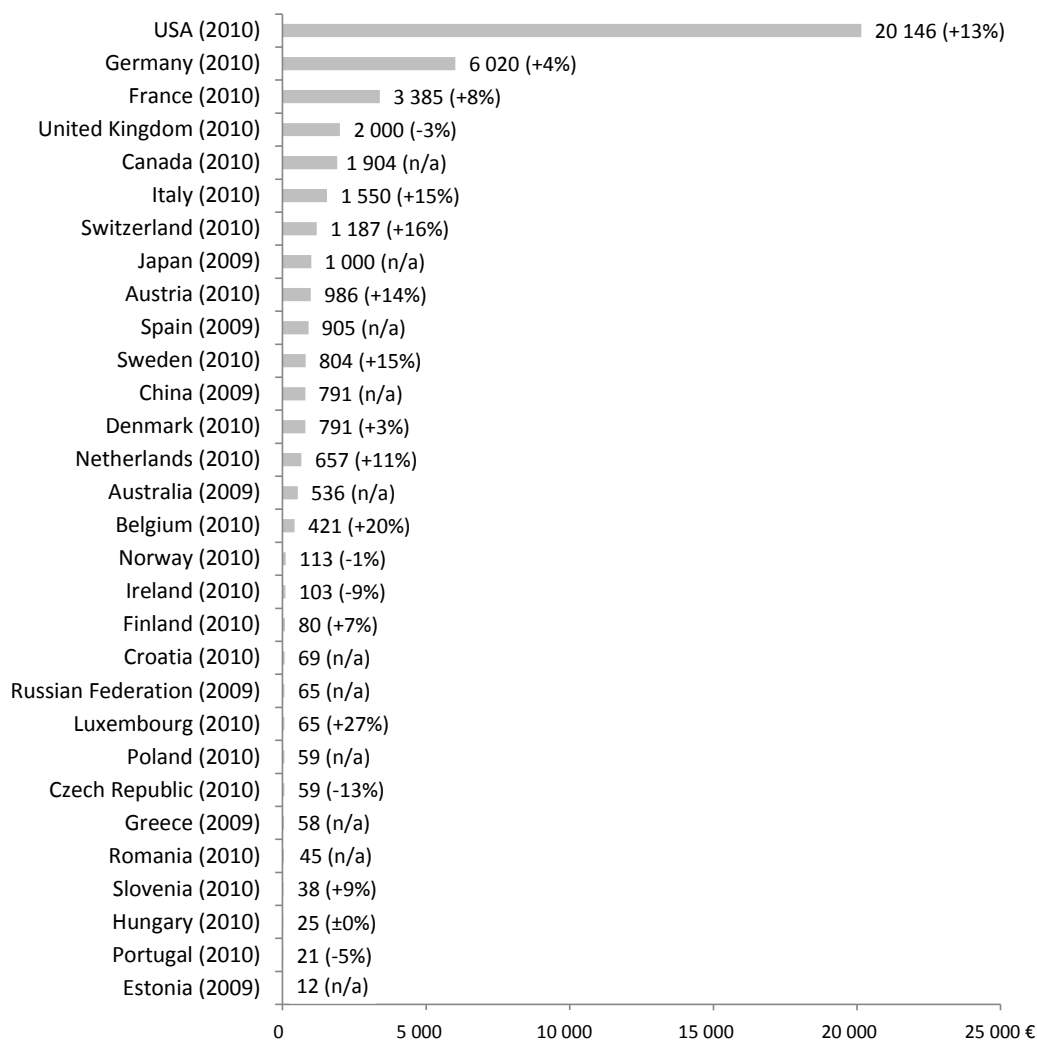
Source: Author.

Exhibit 4: Sonnentor's main markets

Country	Percentage of overall Sonnentor turnover (financial year 2012-13)	Sales growth rate (from financial year 2011-12 to 2012-13)
Germany	39%	+15%
Austria (domestic market)	30%	+30%
Czech Republic	5%	+10%
Italy	5%	+15%
France	5%	+20%
Switzerland	4%	+/- 0%

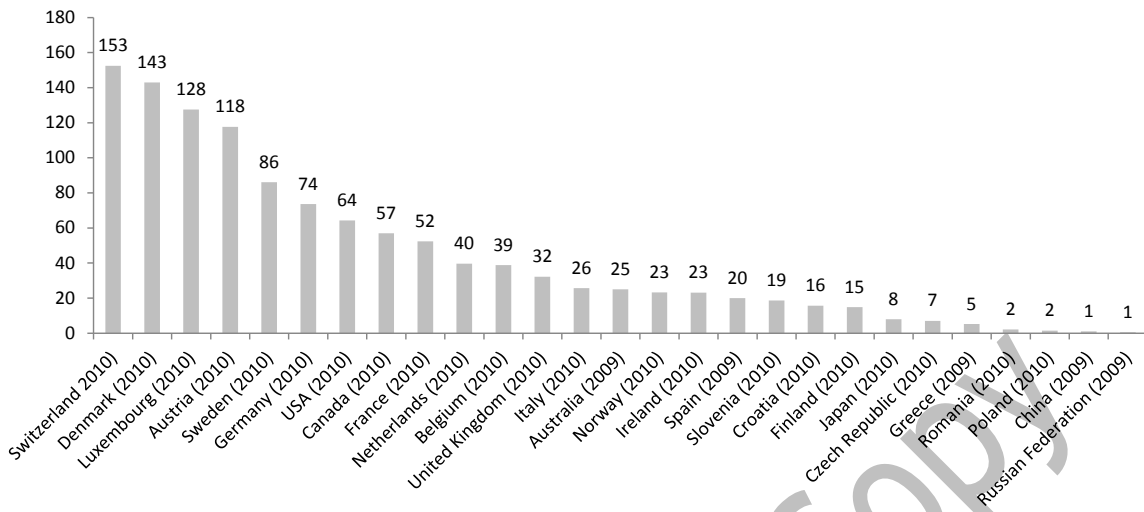
Source: Company information.

Exhibit 5: Organic food sales in million EUR (selected markets) (growth compared to prior year in parentheses)



Sources: BÖLW (2012); FiBL/IFOAM (2011); Organic World (2013).

Exhibit 6: Annual organic food sales per capita in selected markets (2010; in EUR)



Sources: BÖLW (2012); FiBL/IFOAM (2011); Organic World (2013).

Exhibit 7: Trends in the major organic food markets

Country	% of global sales 2011*	Distribution channels of organic food**	Market trends
United States	44%	54% mass market retailers, 39% specialized natural retailers, 7% others (e.g. Internet, farmers' markets, mail order)	<ul style="list-style-type: none"> - Organic food and beverages accounted for approximately 4% of the overall U.S. market in 2010. - 81% of American families reported to purchase organic at least sometimes. The main reasons for buying organics were that they were perceived as healthier (48%) and that consumers wanted to avoid pesticides and fertilizers (30%), antibiotics and growth hormones (30%), and genetically engineered food (22%).
Germany	14%	54% mass market retailers, 31% specialized natural retailers, 15% others	<ul style="list-style-type: none"> - Although 48% of specialized natural food stores were small (100 square meters or less), the 17% larger stores (> 400 square meters) accounted for 47% of all turnover. - Specialized natural food stores on average sourced from 2.5 wholesalers; 90% also ordered directly from producers (on average from 4.1 different ones). - Specialized natural food retailers saw a clear consumer trend toward buying regional products.
France	8%	47% large supermarket chains, 27% networked organic retail stores, 11% independent organic food stores, 15% other independent retailers or direct	<ul style="list-style-type: none"> - The French Ministry of Agriculture, Food and Forestry had announced a national "Ambition Bio 2017" plan designed to significantly boost the production and consumption of organic food. - The organic sector had shown high growth levels in the past few years. From 2010 to 2011, it reported a 12% increase in the number of producers and a 17% increase in the number of processors and distributors (12,204 overall). - Consumers showed an increasing demand for local products. - Independent retailers were considerably losing market share.
Canada	4%	45% mass market retailers, 29% specialized natural health and online retail, 13% direct, 13% others	<ul style="list-style-type: none"> - Organic sales have tripled between 2006 and 2012. - 58% of Canadians bought organic products at least once per week. - In 2012, 29 brands competed in the Canadian organic tea market, 26 in the organic coffee market.
United Kingdom	4%	71% mass market retailers, 15% independent retailers, 11% box schemes/mail order/home delivery, 3% others	<ul style="list-style-type: none"> - Despite a 'Jamie generation' of young health-conscious consumers and more than 80% of households that generally bought organic products, overall organic food sales decreased by 1.5% in 2012 compared to 2011. - While small organic food stores on high streets needed to close shop, and organic private labels of supermarkets were losing market share, online sales were booming. The online shop Oscado, carrying 1,400 organic product lines, was already the fourth biggest organic retailer in the country. - Sales were dominated by a small subset of very committed organic buyers (33% of organic buyers accounted for 85% of the market). Consumers' main reason for buying organic was their perception of organic food as being healthier for themselves and their families.

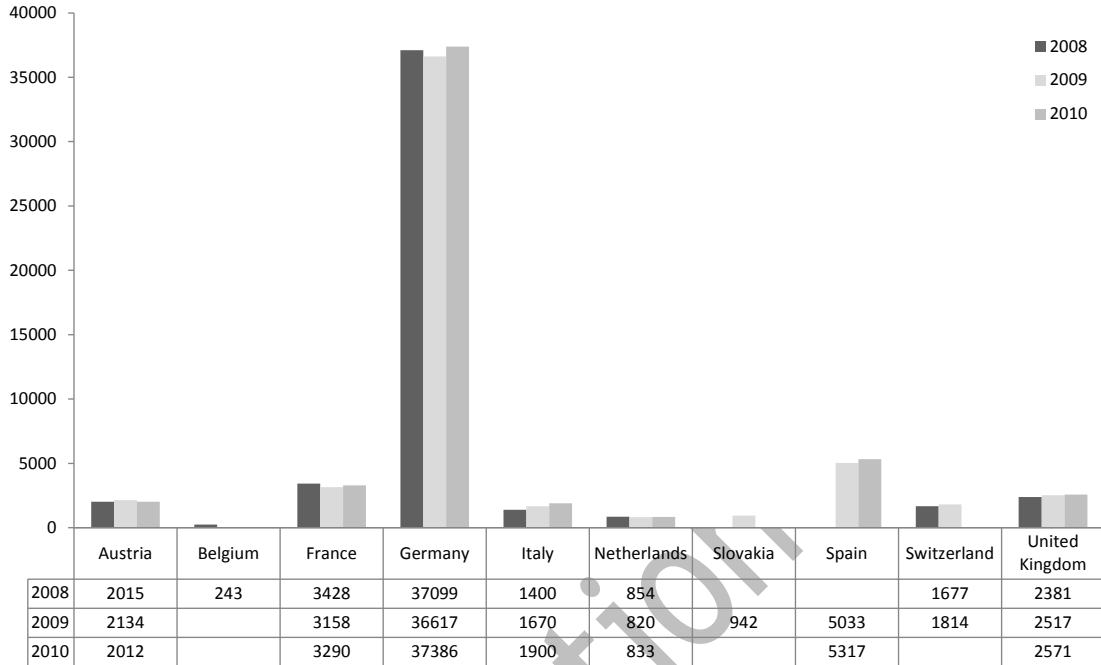
Italy	3%	40% specialized organic stores, 27% supermarkets, 17% box schemes/mail order/home delivery, 16% others	- Italy, one of the world's main exporters of organic food, had a national action plan for increasing the organic products sector, albeit without explicit quantitative targets as in other countries. - In 2009, Italy had approximately 1,150 organic stores (mainly in the northern part of the country), but only one major national organic supermarket chain, NaturaSi (with 70 outlets), which had recently merged with the country's leading organic wholesaler Ecor.
Switzerland	3%	77.9% mass market retailers, 12.6% specialized organic retailers, 5.5% direct, 4% others	- The Swiss market for organic food was constantly growing (+5.3% in 2012) - In 2012, the organic food market was dominated by supermarket chains COOP (47.5% market share) and Migros (26.4%). - In 2012, 63.2% of consumers bought organic food more than once per month (compared to 58.4% in 2009).
Austria	n.a.	68.6% supermarket chains, 13.1% specialized organic and health stores, 6.4% direct, 11.9% others	- The Austrian national organic actions programs had been promoting the production and marketing of organic food since 2001; consequently, Austria had one of the highest shares of organic farming (18.5% of all agricultural land compared to a 4.7% EU average). - Organic food had been popularized by strong organic private labels of the dominating Austrian supermarket chains. - The main consumer motives for buying organic were health (33% of the respondents), better taste (11%), and eco-friendliness (9%). Higher prices were the main argument for non-buyers. - 61% of consumers believed that regional food, and 44% that organic food will become more important in the future.

[†] Percentage of global sales of organic products (Source: Willer et al. 2013).

^{**} U.S. 2010; Germany 2011; France, U.K., Canada, and Switzerland 2012; Italy 2009; Austria 2011.

Sources: OTA (2011; 2013) for the U.S., BÖLW (2012) for Germany; Agence Bio (2013) for France; COTA (2013) for Canada; Soil Association (2013) for the United Kingdom; Organic Europe (2013) for Italy; Bio Suisse (2013) for Switzerland; AMA (2010), BIO AUSTRIA (2013), and Lebensministerium (2012) for Austria.

Exhibit 8: Total sales (non-organic and organic) of herbal and fruit teas in selected European markets (in tons)



Source: EHIA (2013).

Exhibit 9: Basic data for Sonnentor franchising partners

Investment per store	EUR 100,000-150,000
Start-up fee	EUR 10,000
Franchise fee	4% of net turnover
Expected yearly turnover per store	EUR 350,000-600,000
Expected yearly profit per store	EUR 30,000-70,000

Source: Etevenard et al. (2009), p. 90.

Exhibit 10: Sonnentor Kräuterhandels GmbH balance sheet

BALANCE SHEET (in 1,000 EUR)	31.03.2012	31.03.2011
Assets		
Cash and cash equivalents	3 520	2 337
Accounts receivable	1 683	1 673
Inventory	4 372	3 787
Other current assets and accruals	720	1 817
Total current assets	10 295	9 614
Property, plant, and equipment	11 450	9 454
Patents and rights	174	121
Other long-term assets	625	242
Accruals	70	13
Total assets	22 614	19 444
Liabilities		
Accounts payable	758	1 361
Short term credit liabilities	289	0
Provisions / accrued liabilities	803	1 035
Other short-term liabilities	987	785
Total current liabilities	2 837	3 181
Long-term debt	5 945	4 213
Other long-term liabilities	55	0
Total liabilities	8 837	7 394
Subsidies for investments and R&D	1 875	1 760
Shareholders' equity		
Common stock	750	750
Retained earnings (incl. yearly profit)	11 153	9 540
Total shareholders' equity	11 903	10 290
Total liabilities and shareholders' equity	22 614	19 444

Source: Austrian commercial register (figures summarized by the author)

Exhibit 11: Sonnentor Kräuterhandels GmbH income statement

INCOME STATEMENT (in 1,000 EUR)	1.4.2011-31.3.2012	1.4.2010-31.3.2011
Sales	24 959	23 461
Other revenue	281	258
Cost of goods sold	-13 015	-12 668
Gross profit	12 225	11 051
HR expenses	-5 303	-4 445
Depreciation & amortization	-1 039	- 724
Other operating expenses	-3 705	-3 033
EBIT	2 177	2 849
Interests	- 39	- 25
Taxes	- 525	- 700
Net profit	1 613	2 124

Source: Austrian commercial register (figures summarized by the author)

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