# Growth and Change in U.S. Organic Food Markets

*Focus on the North Central Region*

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# What We Know About Organic Consumers

Basic characteristics

62%  over 41 years old

71%  college educated

60%  married

Many are parents of young children or infants

Income is not a factor

67%  have incomes less than $50,000

29% of consumers in all income classes buy organic produce

Living situation is not a factor

49% live in small towns or rural areas

Sources:  The Packer, 2000; HealthFocus, Inc., 1999.

# Organic Sales

Retail sales were US$ 9.35 billion in 2001

natural food stores sold 61%

conventional groceries sold 38%

Of organic buyers

66% say organics are healthier

64% list food safety

61% list environment

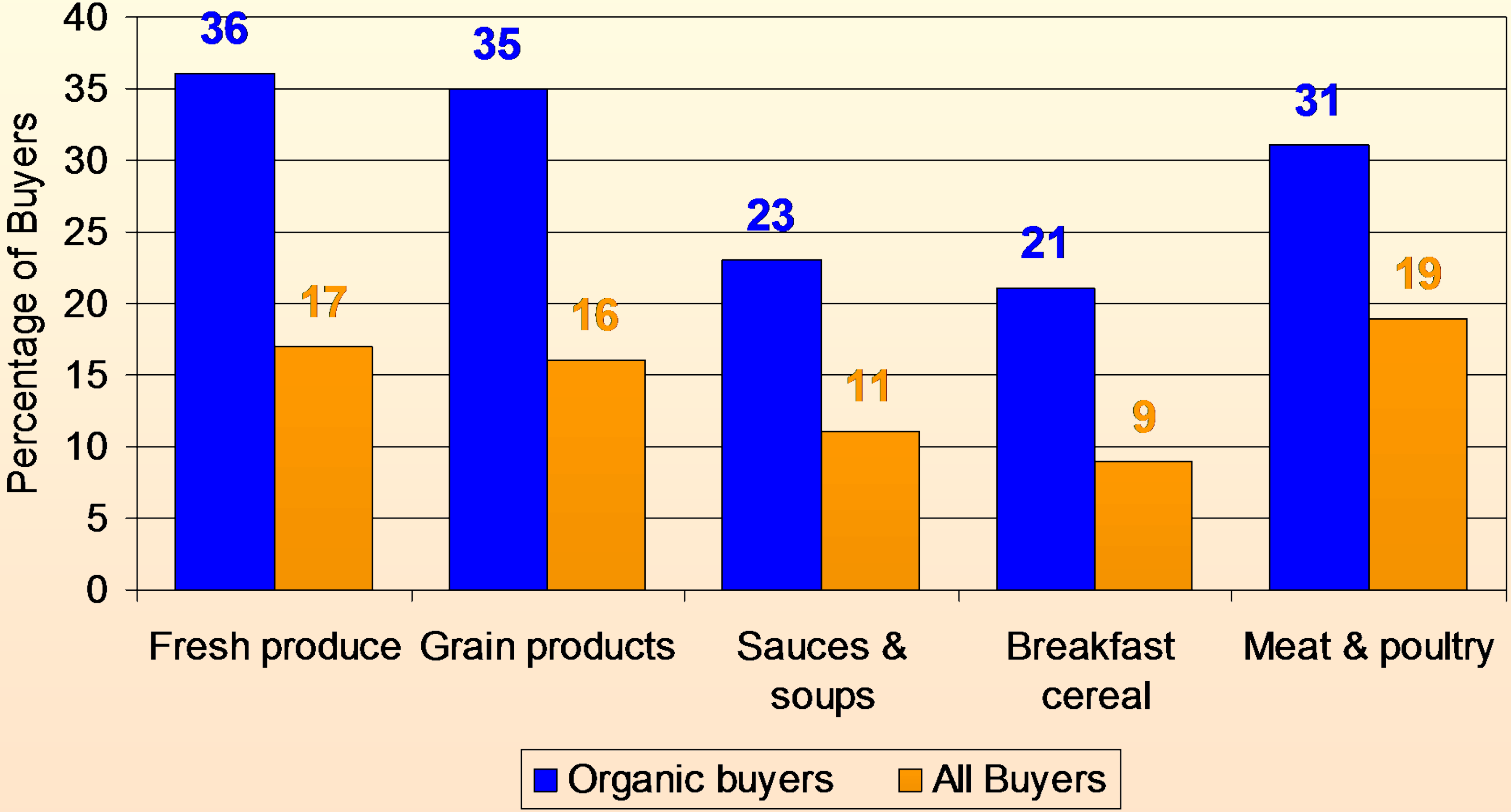
Of all American consumers

72% say organic is good for the environment

56% say organics are healthier

Source: Natural Foods Merchandiser, June 2001; Walnut Acres, 2002.

# Share of Consumers Who Buy Organics Weekly, 1998




Source: HealthFocus, Inc., 1999.

# Retail Sales in Natural Food Stores, by Category, 1998-2000

| Category | 1998 Sales ($ million) | 1999 Sales ($ million) | 2000 Sales ($ million) | Change 98-00 (percent) |
|---|---|---|---|---|
| Frozen/refrigerated | 228 | 323 | 333 | 46.1 |
| Dairy | 167 | 171 | 273 | 63.5 |
| Non-dairy beverages | 100 | 157 | 262 | 66.9 |
| Bulk/packaged | 399 | 437 | 482 | 2.8 |
| Produce | 708 | 833 | 953 | 34.6 |
| Bakery | 87 | 98 | 110 | 26.4 |
| Packaged grocery | 680 | 692 | 652 | -4.1 |
| Fresh meat/ seafood | 23 | 35 | 44 | 91.3 |
| Home meal replacement | 25 | 58 | 32 | 28.0 |
| Beer/ wine | 11 | 6 | 27 | 145.5 |
| Coffee/ tea | 65 | 78 | 86 | 32.3 |
| Other beverages | 60 | 68 | 133 | 121.7 |
| Food service | 128 | 127 | 120 | -6.3 |
| Snack foods | 48 | 89 | 105 | 118.8 |
| Herbs/ botanicals | 170 | 94 | 307 | 80.6 |
| Pet products | 6 | 7 | 10 | 66.7 |

Sources: Natural Foods Merchandiser, June 2001, 2000, 1999.

# Issues Affecting Market Development

**GMOs**

Will organic rules maintain the GMO prohibition?

**Product origin**

Is "local origin" preferred to "organic" ?

**International conformity**

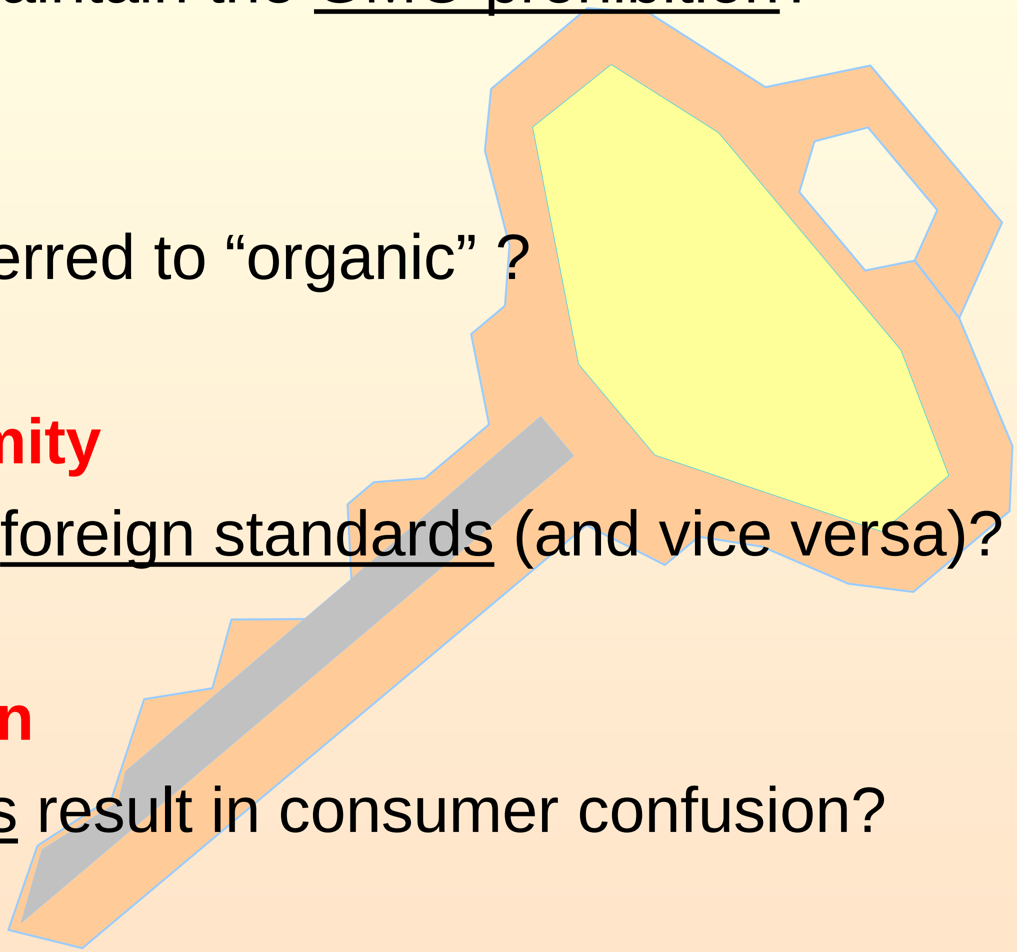
Do U.S. rules meet foreign standards (and vice versa)?

**Eco-label competition**

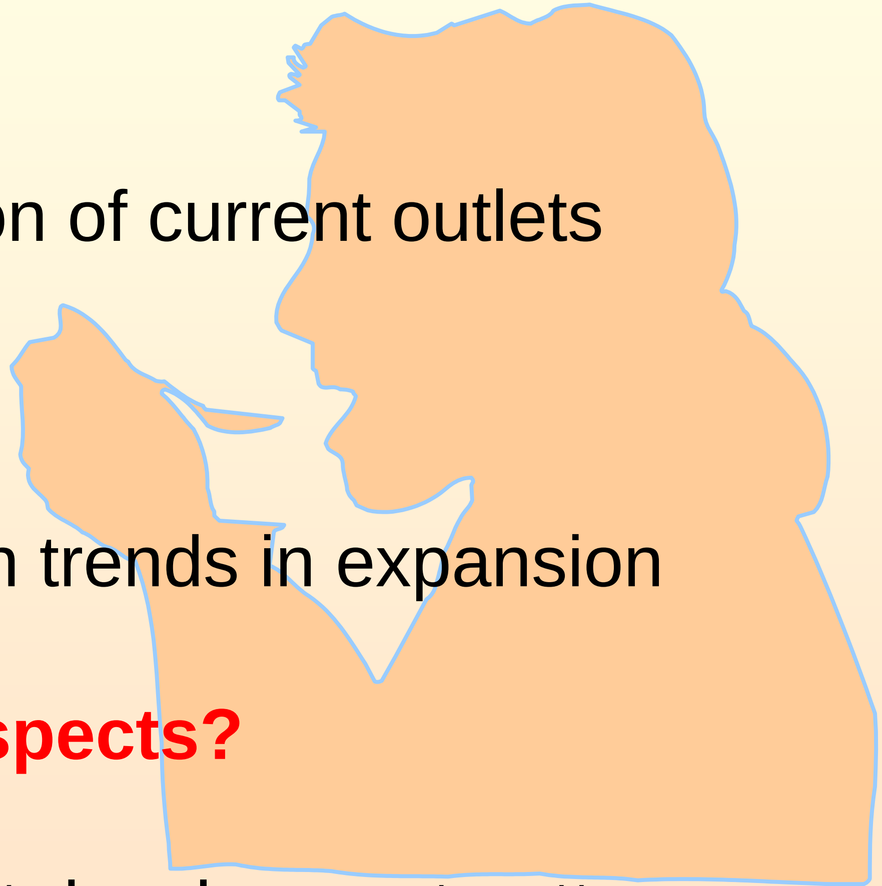
Will more eco-labels result in consumer confusion?

**Social goals**

Is "fair trade" worth paying extra for?



# What We Don’t Know About Organic Consumers



**Where are they?**

geographic distribution of current outlets

**Where will they be?**

predictions of location trends in expansion

**What are industry prospects?**

implications of market development patterns

# Overview of Research Approach

Identify market sectors of interest

Characterize “organic friendly” (OF) counties where market outlet or farm already exists

Identify “organic ready” (OR) counties by similarities to demographic and economic traits of OF counties

Evaluate by sector, by region to draw implications

# Schematic of Research Approach

**All counties**

**Has organic outlet or farm?**

**YES** → **Organic friendly (OF)**

**NO** → **Not organic friendly (NOF)**

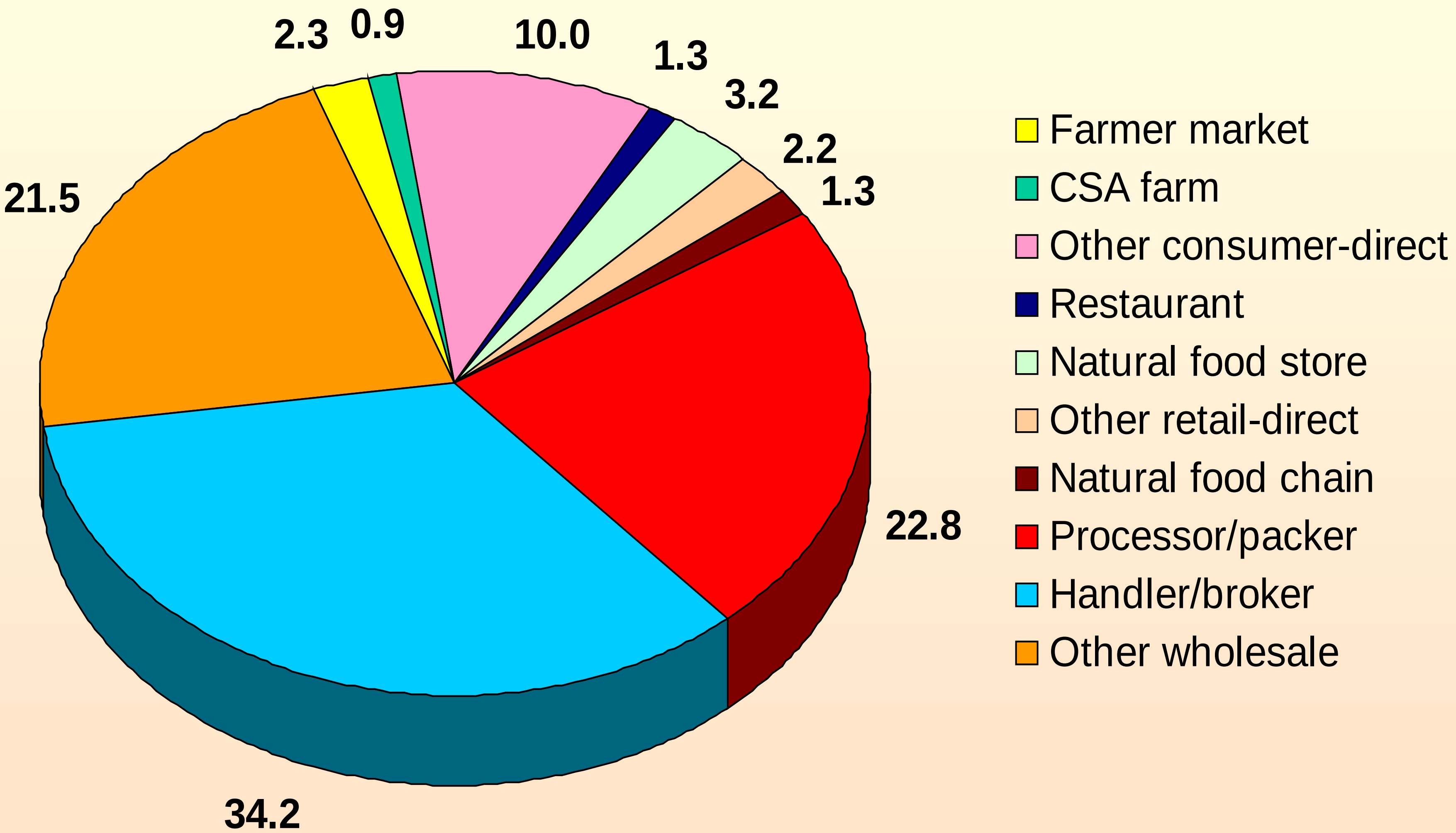
**Similar to organic friendly?**

**YES** → **Organic ready (OR)**

**NO** → **Not organic ready (NOR)**

# Organic Acreage by Market Sector, 1997

## Percentage of 160,173 certified acres



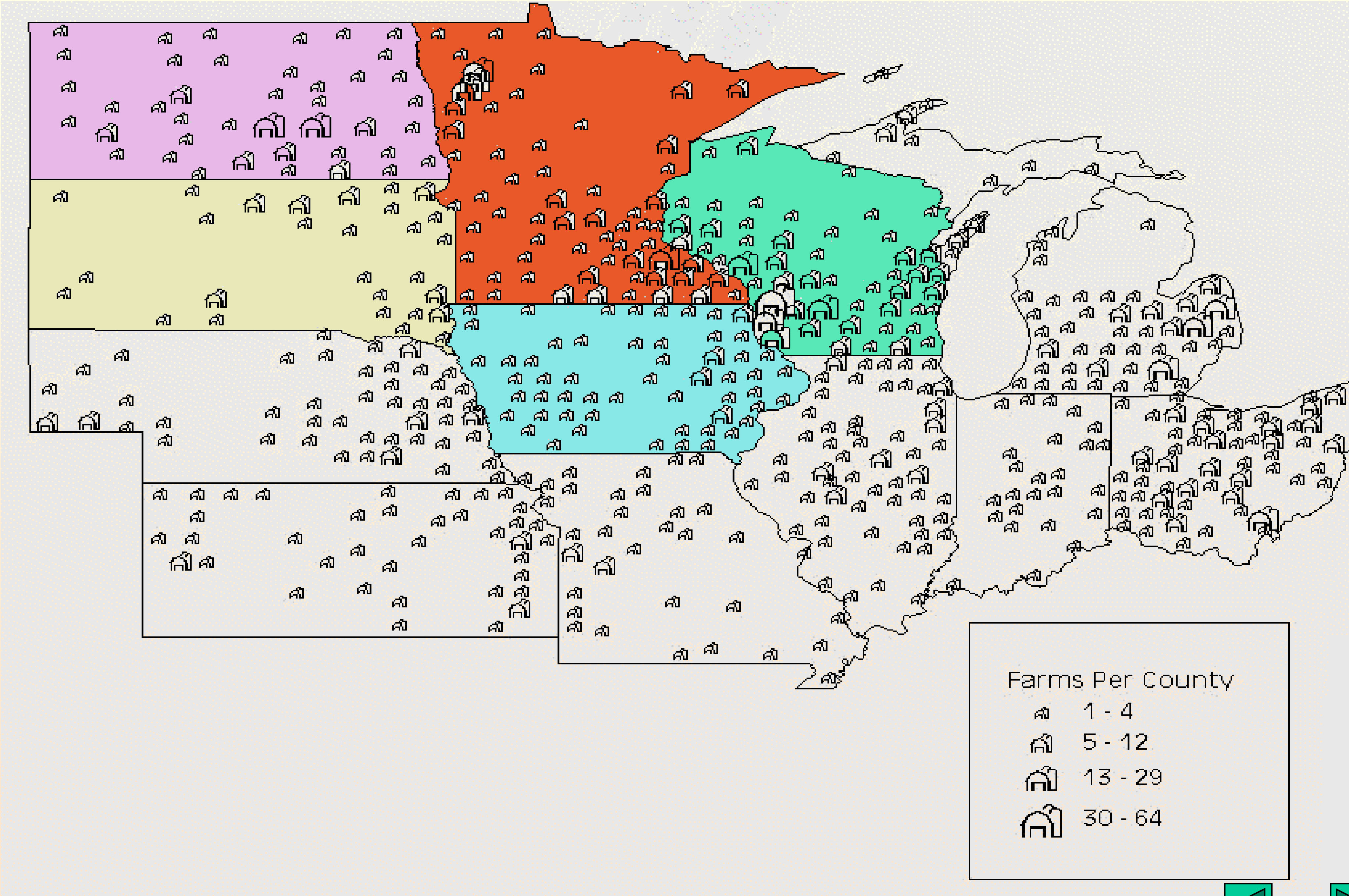

Source: OFRF, 1999

# Average Frequency and Organic Friendly Share of Counties by Sector, 1997

| | SARE 2 - North Central | US Total |
|---|---|---|
| TOTAL COUNTIES | 1,055 | 3,111 |
| ORGANIC RETAILERS | | |
| Average frequency | 1.7 | 2.3 |
| OF Share | 12.9 | 16.8 |
| ORGANI C SUPERMARKETS | | |
| Average frequency | 2.0 | 2.1 |
| OF Share | 1.3 | 3.0 |
| NATURAL FOOD RESTAURANTS | | |
| Average frequency | 3.8 | 5.0 |
| OF Share | 7.1 | 13.4 |
| ORGANIC HANDLERS | | |
| Average frequency | 1.5 | 2.4 |
| OF Share | 6.5 | 9.6 |
| FARMER MARKETS | | |
| Average frequency | 1.5 | 1.9 |
| OF Share | 41.3 | 35.6 |
| CSA FARMS | | |
| Average frequency | 1.6 | 2.0 |
| OF Share | 12.5 | 13.6 |
| ORGANIC FARMERS | | |
| Average frequency | 3.3 | 4.0 |
| OF Share | 51.6 | 38.8 |

Support: A. Graf, Y. Gonzalez-Alvarez

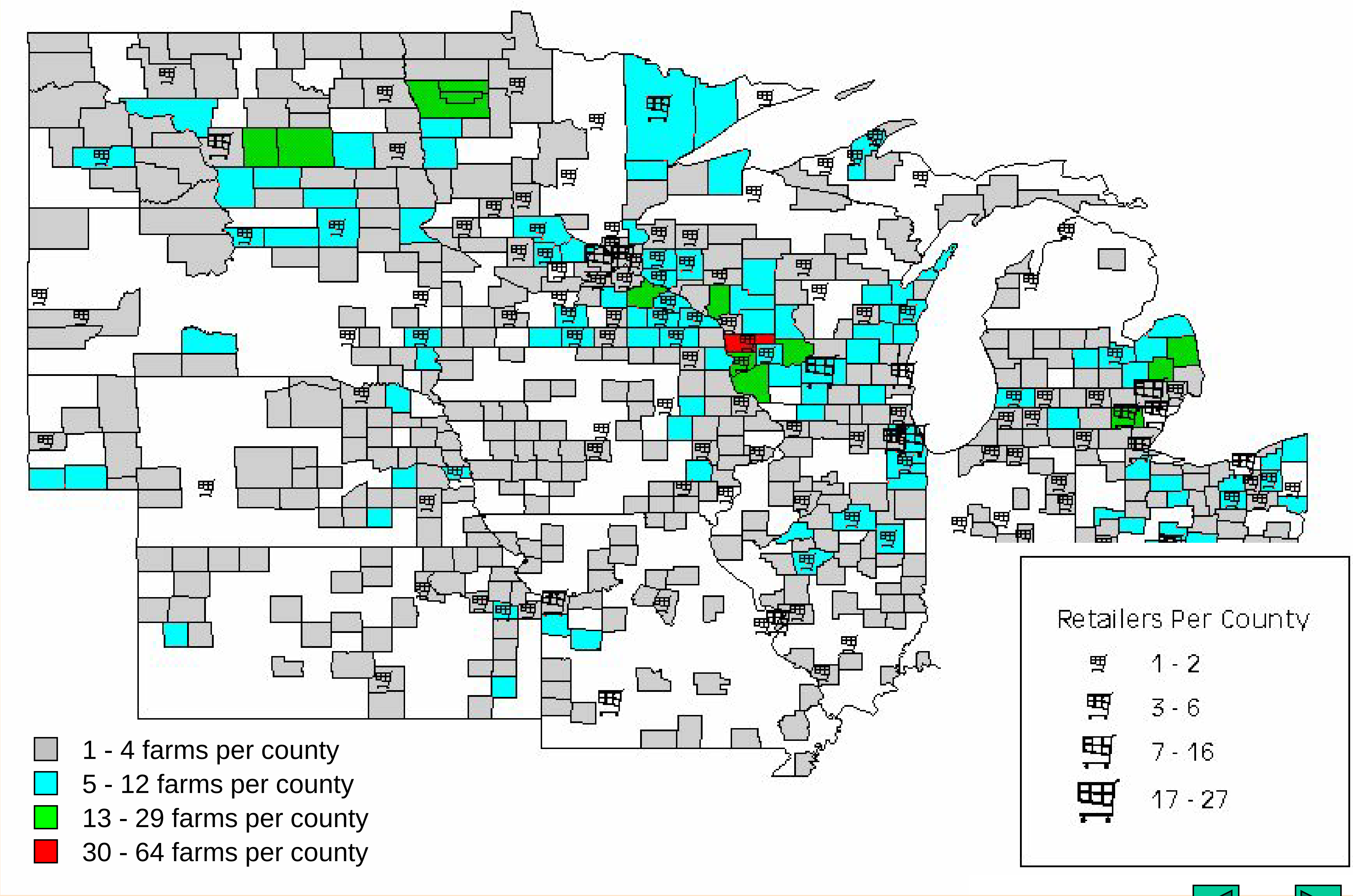
# Organic Farm Frequency in SARE 2, 1997






Support: A. Graf

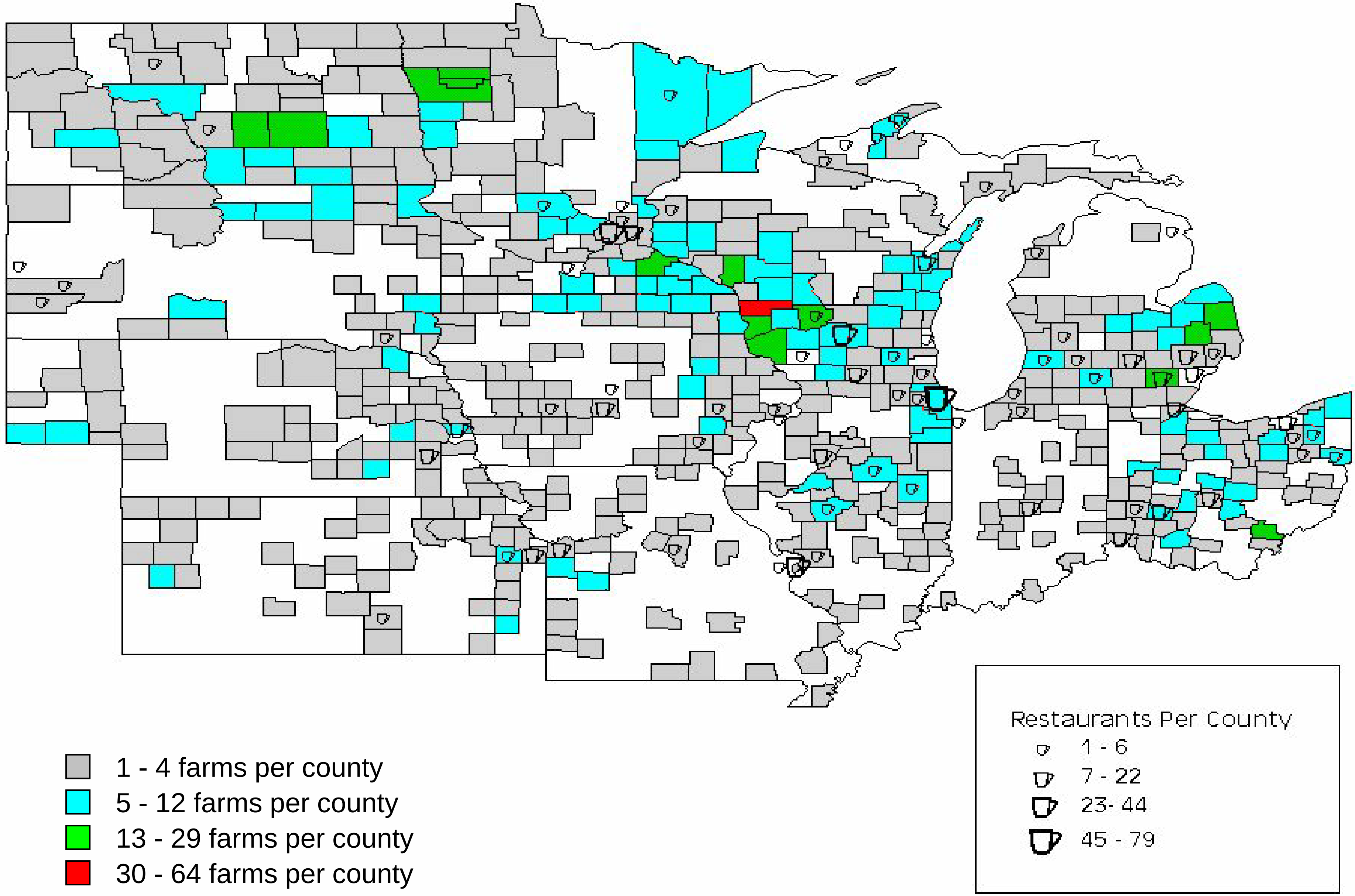
# Organic Retailer Frequency in SARE 2, 1997






Support: A. Graf

# Natural Food Restaurant Frequency in SARE 2, 1997

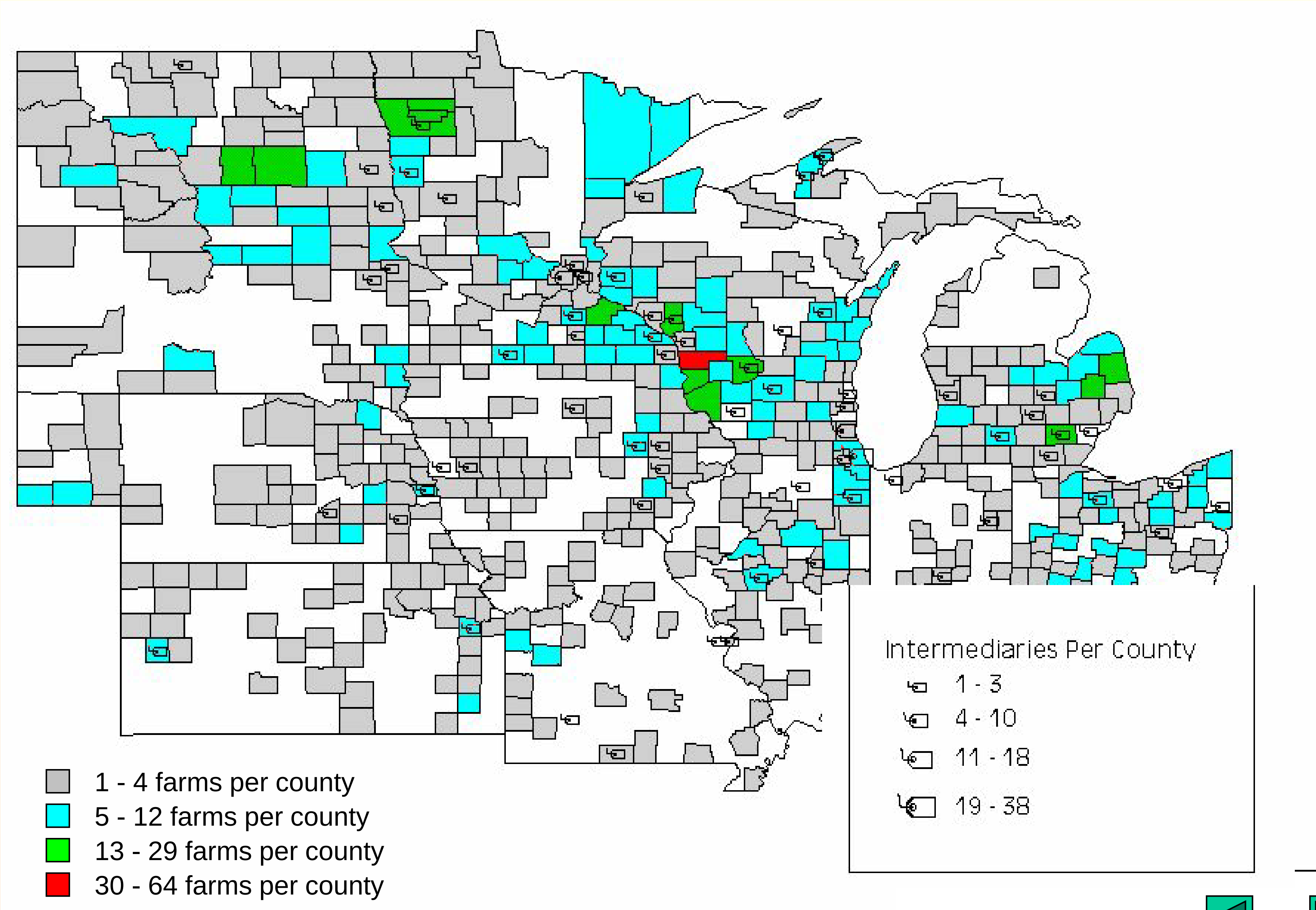



1 - 4 farms per county
5 - 12 farms per county
13 - 29 farms per county
30 - 64 farms per county



Support: A. Graf

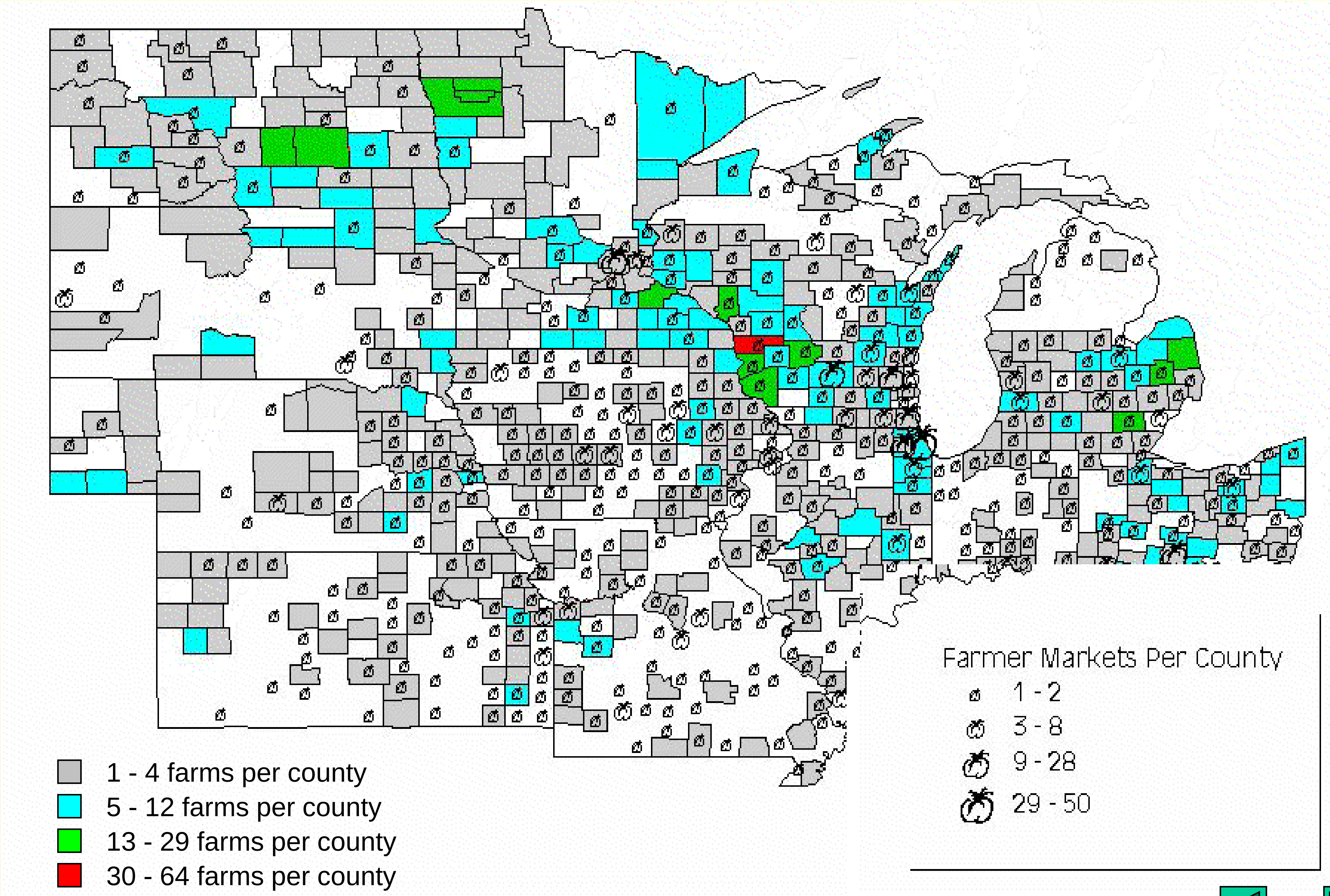
# Handler Frequency in SARE 2, 1997





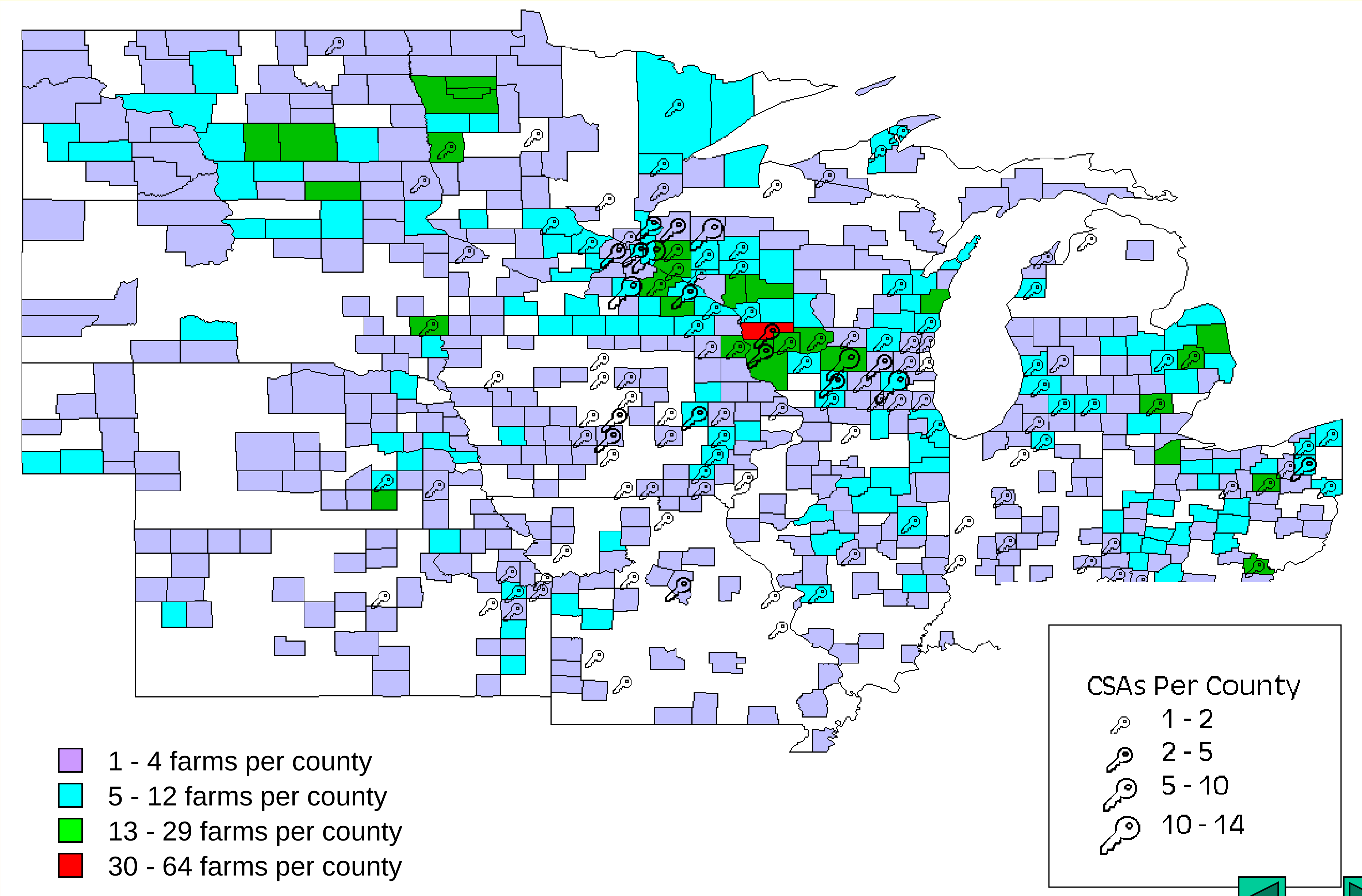

Support: A. Graf

# Farmer Market Frequency in SARE 2, 1997




Support: A. Graf

# CSA Farm Frequency in SARE 2, 1997






Support: A. Graf

# Organic Ready Share of Not Organic Friendly Counties by Sector, 1997

| | SARE 2 - North Central | US Total |
|---|---|---|
| ORGANIC RETAILERS | | |
| NOF Counties | 919 | 2,589 |
| OR Share | 3.0 | 4.9 |
| ORGANI C SUPERMARKETS | | |
| NOF Counties | 1,041 | 3,019 |
| OR Share | 1.4 | 3.3 |
| NATURAL FOOD RESTAURANTS | | |
| NOF Counties | 980 | 2,694 |
| OR Share | 0.4 | 0.4 |
| ORGANIC HANDLERS | | |
| NOF Counties | 986 | 2,813 |
| OR Share | 2.5 | 4.0 |
| FARMER MARKETS | | |
| NOF Counties | 619 | 2,004 |
| OR Share | 6.9 | 7.4 |
| CSA FARMS | | |
| NOF Counties | 487 | 2,688 |
| OR Share | 10.9 | 7.3 |
| ORGANIC FARMERS | | |
| NOF Counties | 511 | 1,903 |
| OR Share | 38.4 | 27.4 |



Support: A. Graf, Y. Gonzalez-Alvarez

# Number of Organic Ready Counties, by State and Sector, SARE 2

| State | Organic Retailers | Organic Supermarkets | Natural Food Restaurants | Organic Handlers | Farmer Markets | CSA Farms | Organic Farmers |
|---|---|---|---|---|---|---|---|
| IL | 4 | 3 | 1 | 5 | 5 | 8 | 15 |
| IN | 3 | 1 | | 2 | 4 | 7 | 29 |
| IA | 1 | | | | | 2 | 22 |
| KS | 1 | | | 1 | | 3 | |
| MI | 5 | | 1 | 5 | 5 | 9 | 30 |
| MN | 2 | 4 | 1 | 2 | 8 | 5 | 16 |
| MO | 3 | 3 | | 2 | 3 | 5 | 19 |
| NE | 1 | 1 | | 1 | 1 | 2 | 7 |
| ND | | | | | | | |
| OH | 5 | | | 6 | 16 | 13 | 25 |
| SD | | | | | 1 | | 10 |
| WI | 3 | 3 | 1 | 1 | | 1 | 16 |
| US | 127 | 99 | 12 | 114 | 148 | 195 | 522 |



Support: A. Graf, Y. Gonzalez-Alvarez

# Current Market Status of SARE-2

- Distribution of organic farmers is relatively even across counties (see map)
- Percentage of counties with organic farmers exceeds national average (OF share 52% vs. 39%)
- OF shares for farmer markets and CSA farms are comparable to national averages
- OF shares for retailers, supermarkets, restaurants, and handlers significantly are lower than national averages

# Growth Potential for SARE-2

NOF counties are most likely to add CSA farms (OR share 11%) and farmer markets (OR share 7%)

Of other outlets, readiness is highest for organic retailers (OR share 3%) and organic handlers (OR share 2.5%)

**If each OR county added as many units as the average OF county, the number of new units would be**

47 retailers, 28 supermarkets, 15 restaurants, 37 handlers, 64 farmer markets, 88 CSA farms, and 623 farmers

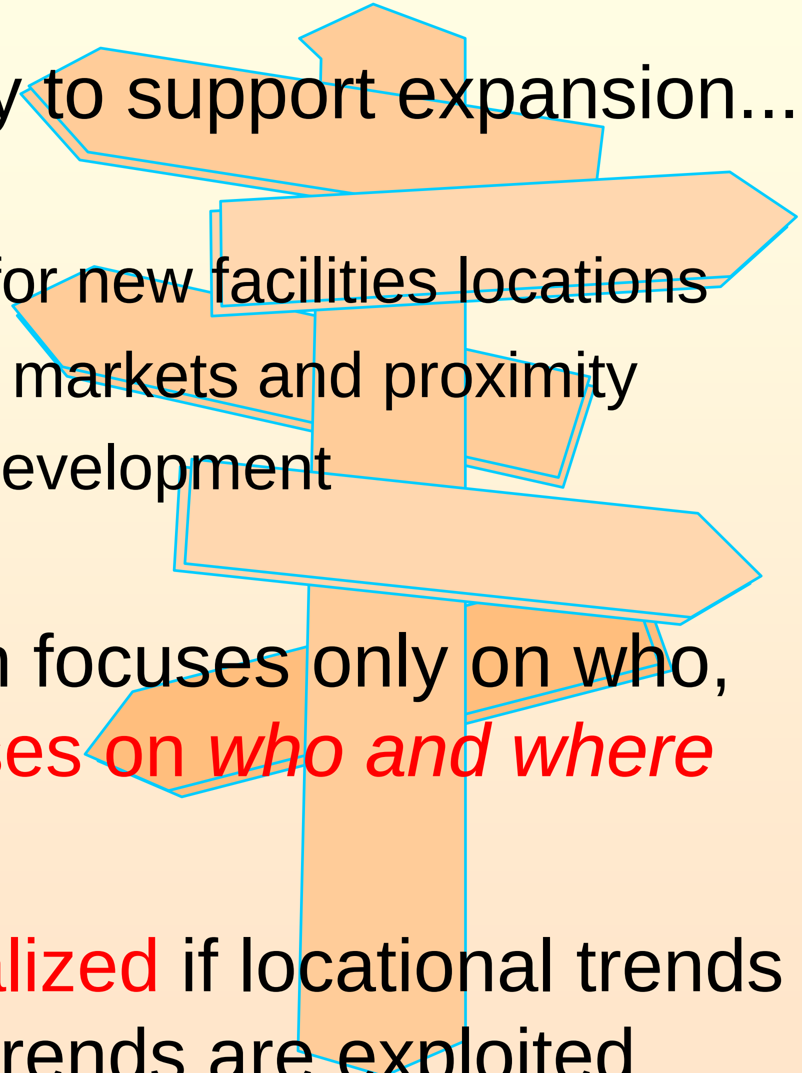
# Implications

From a list of counties likely to support expansion...

- firms can narrow the search for new facilities locations
- farmers can identify potential markets and proximity
- investors can target market development

Traditional market research focuses only on who,
locational research focuses on *who and where*

Growth potential will be realized if locational trends as well as demographic trends are exploited



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# About This Presentation

- 
- Small green right and left arrows in the lower right portion of each slide take you forward or backward in the show.
- Individual slides have timed animation. If you want to skip a slide, click the right arrow to go to the next slide.
- Clicking on the underlined hypertext takes you to a slide with more information about the subject. Click the left arrow when you are ready to return to the presentation.
- This work was supported by the School of Agriculture Endowed Chair in Agricultural Systems, the Minnesota Institute for Sustainable Agriculture, the University of Georgia, and the USDA.

# Consumers Who Buy Organics

- This is the percentage who buy organic foods, by category, at least once per week
- Two different base measures were used to calculate percentage of weekly buyers
- "Organic buyers" is that share of all shoppers who use organics, totaling 55% in 1999
- "All buyers" includes all shoppers, both those who do and those who don't use organics

# Categories of Organic Food Sales

- “Natural food stores” have 40% or more of sales in natural foods
- Categories in red are established products with declining or slowly increasing sales trends
- Categories in green are growth products with strongly increasing sales trends
- Categories in blue are emerging products with dramatic sales growth but trend instability

# What We Don’t Know

- Consumer surveys give characteristics, but not location, of the emerging organic consumer
- Geographic distribution of outlets tells where the consumers are now
- Predictions of locational trends in market expansion tells how the market will develop
- If not balanced, industry growth may stall for lack of consumer support in underserved regions

# More on GMOs

- GMO (genetically modified organism) is defined by the Final Organic Rule, §205.2 Terms Defined, Excluded methods
- Entry of "mainstream" farmers and food processors to the organic industry may add pressure to permit GMOs
- Field contamination by cross-pollination with GM varieties may undermine efforts to keep organics GM-free
- US refusal to label and regulate GMOs in conventional agriculture is a barrier to organic trade with Europe and Japan
- Fear of contamination means loss of markets to countries that don't permit GMOs

# More on Local Origin

- Consumers choose “locally grown” for product freshness and to support local small farmers

- Consumers are willing to pay a higher premium for “locally grown” than for “organic”

- Regional production/distribution of produce could save 273 miles per truck haul from Chicago for IA, MN, WI, IN, IL, MI
  - save 8.8 million gallons of diesel fuel per year
  - reduce $CO_2$ emissions by 194.8 million pounds per year

- Consumer response to food safety and agroterrorism threats may be to seek more locally grown food products

# More on Foreign Standards

- Standards across countries are not necessarily equivalent; foreign certifiers must be accredited
- US will accredit any qualified foreign certifier; European Union (EU) will accredit government certifiers after 3 years
- Protectionism is likely to continue in many EU countries, even if equivalency of US standards is legally granted
- On net, producers and manufacturers in the US will face greater competition from foreign sources than will the EU

# More on Eco-labels

- An “eco-label” is any identifier that emphasizes ecological or earth stewardship aspects of a product
  - “organic,” “IPM (integrated pest management,” “sustainable” and others
  - among eco-labels, only “organic” has a legal definition
- Eco-labels that advertise soil stewardship and reduced chemical use are confused with organic by consumers
- Consumers buy the cheaper product, thinking they are getting the same benefits as organic offers
- Burden to make the distinction and protect market share is on the organic industry

# More on Social Goals

- Socially motivated food purchases rely on guarantees of social justice and humane treatment of farm workers

- "Fair trade" certifications available for tropical products such as coffee and bananas
  - separate from organic certification
  - 65% to 85% of fair trade products are certified organic

- US eco-labels that have standards for worker treatment offer consumers a new dimension in sustainability

- Increased consumer demand may pressure organic growers to double certify - organic and "sustainable"

# Research Approach

- OF counties inventoried from published data giving location of enterprises, by sector
- Variables for comparison were household demographics and industry variables from published sources, by sector
- Counties without organic were divided into OR and not-OR by statistically comparing to OF counties
- Assumes that similarity to existing organic locations is a good predictor of support for new enterprises

# Market Sector

- Allocation of organic acreage by market sector, as described by farmers in the OFRF 1997 survey

- Sectors as defined for research (in parentheses) depended on terms used in published data sources
  - farmer markets, not necessarily organic - 2.3%
  - CSA farms, all organic - 0.9%
  - restaurants (natural food restaurants) - 1.3%
  - natural food stores (organic retailers) - 3.2%
  - natural food chain wholesalers (organic supermarkets) - 1.3%
  - handler/brokers and processor/packers (organic handlers) - 57.3%

- Six sectors account for 66.3% of organic acreage

# Definitions Used on OF Table

- SARE-2 - USDA's Sustainable Agriculture Research and Education program North Central region (slide 18 lists)
- Unit - organic enterprise, either a sales outlet of the type specified, or an organic farm
- Average frequency - number of units per OF county
- Organic friendly (OF) share - percentage of counties in SARE-2 or US that have at least one unit

# Definitions Used on OR Table

- SARE-2 - USDA's Sustainable Agriculture Research and Education program North Central region (slide 18 lists)
- Not organic friendly (NOF) counties - do not currently support an organic unit; the total number of counties minus the number of OF counties
- Organic ready (OR) share - percentage of NOF counties in SARE-2 or the US that are statistically similar to the OF counties, based on demographic and industry variables