Organic Foods

Industry Snapshot

September 2010

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Industry Overview

An increasingly health conscious US population has created increased demand for organic food products in recent years. As a result, the organic food industry has seen extraordinary growth in the last ten years, with 2009 sales of $24.8 billion. From 2000 to 2009, total organic food sales increased about 307%, while the food industry as a whole had only grown by around 34%.[1] The table below displays these changes on a yearly sales basis:

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Organic Food	6,100	7,360	8,635	10,381	12,002	14,223	17,221	20,410	23,607	24,803
Growth	21.00%	20.70%	17.30%	20.20%	15.60%	18.50%	21.10%	18.50%	15.70%	5.10%
Total Food	498,380	521,830	530,612	535,406	544,141	566,791	598,136	628,219	659,012	669,556
Growth	5.00%	4.70%	1.70%	0.90%	1.60%	4.20%	5.50%	5.00%	4.90%	1.60%
Organic as % of Total Food	1.20%	1.40%	1.60%	1.90%	2.20%	2.50%	2.90%	3.20%	3.60%	3.70%

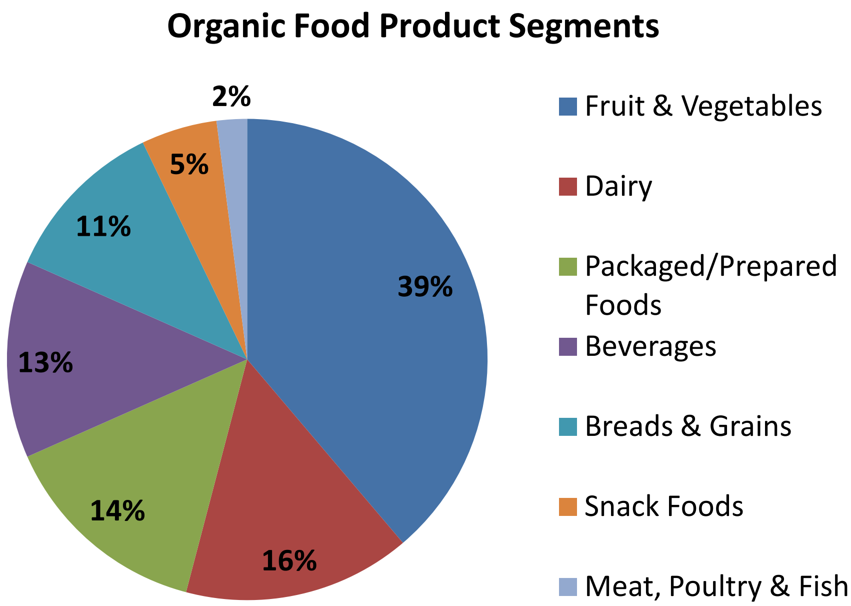
**Above numbers (not percentages) are in millions of $US*

As seen in the table, organic food growth has continually outpaced the growth of total food sales. Despite a harsh economy in 2009, organic food sales increased by 5.10%, compared to 1.60% growth seen by total food sales.[2] With a strengthening economy and growing health concern among consumers, it is expected that the organic food industry will continue to see healthy growth.

Industry Segments

The organic food industry is dominated by the fruits & vegetables category, which amounted to $9.5 billion by the end of 2009. This category experienced the largest growth of all organic food categories, which was a very strong 11% in 2009, despite a tough economic environment. Surprisingly, this growth outpaced that of 2008, which makes it the only organic food category to not experienced diminished growth compared to 2008. On the other hand, organic dairy products have seen lackluster performance in 2009, facing stiff competition from conventional milk, which dropped in price leaving a large premium for the organic label.[3] The product segmentation for the organic food industry is as follows:[4]

[1] "The Organic Trade Association's 2010 Organic Industry Survey." Organic Trade Association. Web. (Accessed September 13, 2010). http://www.ota.com/pics/documents/2010OrganicIndustrySurveySummary.pdf.
[2] Ibid.
[3] Ibid.
[4] Ibid.



Risks and Challenges

One of the determinants of demand for organic foods over conventional foods is the level of household disposable income and overall consumer sentiment.[5] Because these variables are very dependent on the state of the economy, harsh economic times are likely to lead to decreased sales of organic foods. This can be seen in the difference of growth rates between 2008 and 2009, where growth in 2008 was 15.70%, while it was significantly lower in 2009 at 5.10%. Of course many industries are dependent on the state of the economy, but organic foods tend to be more sensitive because of the close substitute in lower–priced, non-organic foods.

As mentioned above, organic foods tend to carry a higher price tag than their conventional counterparts creating a competitive hurdle for organic food businesses. According to one study, organic fruits and vegetables were on average 70% more expensive than their non-organic substitutes.[6] However, this price gap is expected to decrease with increased competition in the organic food industry, along with improved efficiencies in the production of organic foods.

In 2008, the US Department of Agriculture (USDA) conducted a survey of 14,540 organic farms within the US. At the time of the survey, California had the highest number of certified organic farms followed by Wisconsin in second and Washington in third. The survey revealed some of the perceived challenges to organic food production in Washington State, which are illustrated in the following chart:[7]

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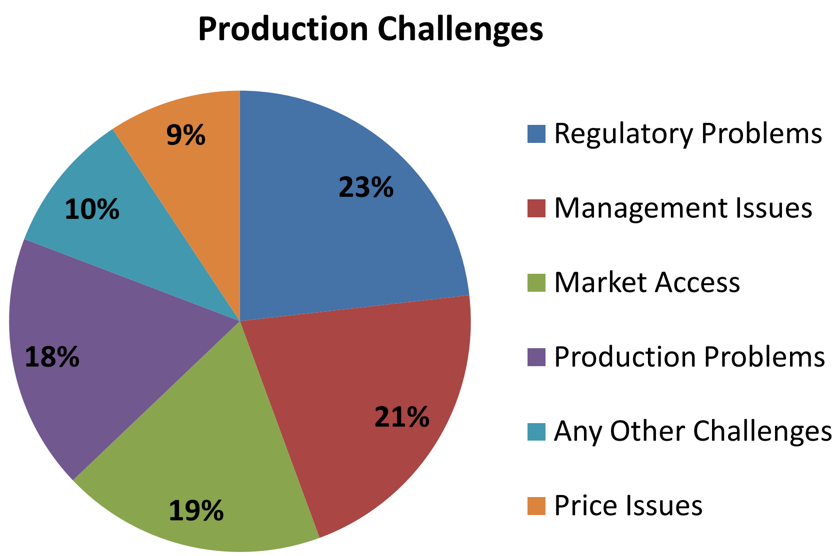
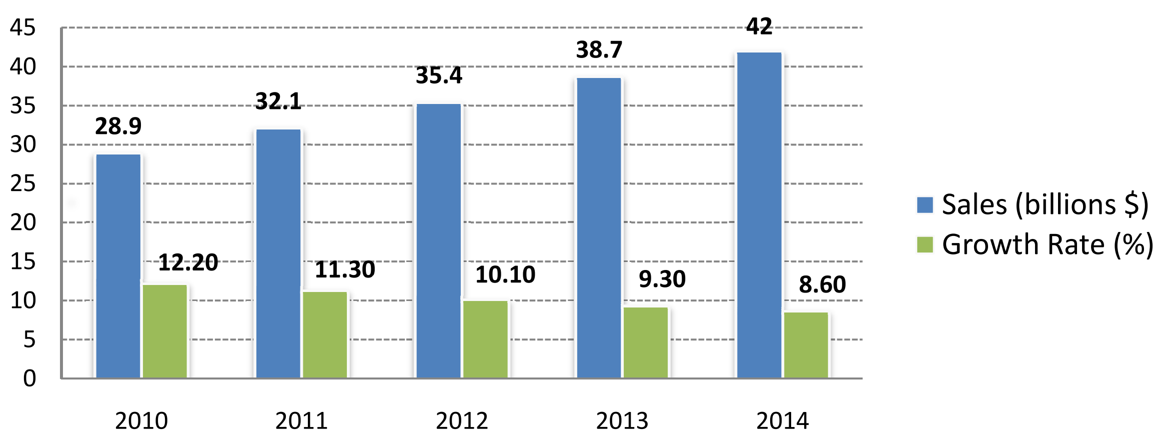
[5] IBISWorld Pty Ltd., "*Specialty Food Stores in the US*." New York: IBISWorld. June 2010. http://www.ibisworld.com.
[6] Ibid.
[7] "Primary Production Challenge for Certified Organic Farms." US Department of Agriculture, 2008. Web. (Accessed September 15, 2010). http://www.agcensus.usda.gov/Publications/2007/Online_Highlights/Organics/.



Trends

According to the USDA, organic food is the fastest growing food industry in the world, with growth occurring in new farms and products. It is expected that demand will continue to grow in the next five years through 2015, and continue to grow in the long term. By 2015, organic food is predicted to make up over 5% of the US food market (it comprised 3.7% of the total US food market in 2009).[8]

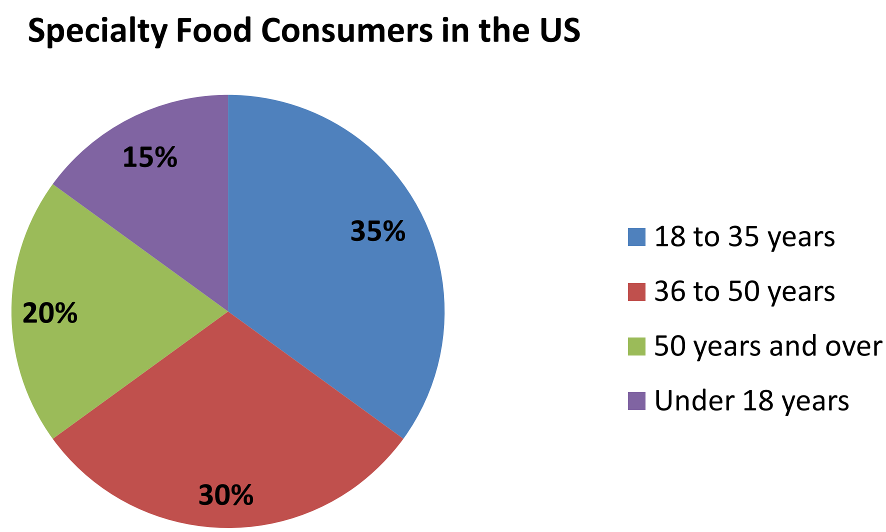
Total sales of organic foods may be minute relative to the entire US food market, but the growth being seen is far from small (307% growth in organic food sales from 2000-2009, compared to 34% for the total food market in the same period). This growth has not been attributed to marketing, but rather the shift in consumer demand for healthier food options. Public awareness of health issues such as obesity, along with the negative connotations surrounding fertilizers, pesticides, and antibiotics are some of the driving factors affecting expected growth. Expected sales and growth rates, through 2014, are illustrated in the chart below:[9]



[8] IBISWorld Pty Ltd., "*Specialty Food Stores in the US*." New York: IBISWorld. June 2010. http://www.ibisworld.com.
[9] Datamonitor. *"Organic Food in the United States, Industry Profile." December 2009.* www.datamonitor.com.

Consumer Demographics or Expenditures

In the more broadly defined specialty food market (not for immediate consumption retail), which is partly made up of organic foods, the consumer profile is as displayed in the chart below:[10]



Additionally, a recent survey by Mambo Sprouts Marketing (www.mambosprouts.com) of 1,000 natural product consumers on their organic buying and wellness habits revealed the following information: [11]

Wellness

- *Nine in 10 (88%) consumers took additional steps recently to promote their family's health and wellness.*
- *With the economic recovery in slow mode, consumers are going "back to basics" to bolster their health, with seven in 10 or more taking vitamins (84%), eating the recommended fruits and veggies (73%) and choosing organic foods (68%).*
- *Consumers plan to increase their commitment to health and wellness behaviors including fitness and exercise (64%) getting enough sleep (63%) and eating fruits and veggies (61%).*
- *More than one in two reported adding more "raw" and "whole" foods into their diet (57%), eating organic foods (53%) and meditation and relaxation (52%) would be more important in 2010.*

[10] IBISWorld Pty Ltd., "*Specialty Food Stores in the US*." New York: IBISWorld. June 2010. http://www.ibisworld.com.
[11] "2010 Organic, Green Buying Forecasts." Food Product Design. Mambo Sprouts Marketing, November 16, 2009. Web. (Accessed September 9, 2010). http://www.foodproductdesign.com/news/2009/11/2010-organic-green-buying-forecasts.aspx.

- *Three in four or more consumers were active in online health and wellness activities using printable online coupons and savings offers (80%) and seeking out health/wellness information online (76%).*

- *More than one in two subscribe to health/wellness e-newsletters (59%) and belong to social network sites (i.e., Facebook, MySpace, LinkedIn, and Care2) (56%).*

- *Consumers identified more health/wellness product coupons (93%) and a wider selection of health/wellness products (62%) as the retailer and natural product company strategies they would find most helpful.*

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- *Most (59%) expect to buy more organics in the coming year, albeit cost conscious consumers are seeking ways to make organics more affordable by shopping sales (53%) and using coupons (51%). However, when the choice comes down to buying local or buying organic, consumers are torn. One in three were not sure (28%) what they would choose. Four in ten would opt for local/non-organic (40%), while one in three would definitely choose organic (32%). Highlighting the importance of locally sourced food, consumers are shifting natural and organic dollars away from local gourmet markets (16%) and discount stores (15%) in favor of farmer's markets (52%) and local food co-ops (43%).*

- *Coupon usage is high among natural and organic consumers with virtually all (99%) using grocery coupons regularly (77%) or sometimes (18%). Seven in ten consumers indicated grocery coupons influence their brand buying decisions and use coupons when planning their grocery list. Another two in three are paying more attention to grocery coupons than in the past and actively seek out grocery coupons online (i.e., search, Google, Yahoo).*

- *Most (nine in 10) consumers are using a variety of coupon types ranging from in-store coupons (96%), coupons by mail (93%), online printable coupons (90%), to magazine coupons (90%). About six in 10 (59 percent) use coupons added to their store frequent shopper cards, but a slightly higher share (64%) were in interested in these retail shopper coupons. Only one in 10 (11%) presently use cell phone/mobile coupons, and fewer than one in six (16%) were interested in receiving these mobile technology coupons in the future.*

- *Consumers rated produce (69%) as the category most important to purchase organic. Other organic purchasing priorities include milk (54%), meat and poultry (54%), children's food (53%), cheese and eggs (50%). Respondents were least likely to identify beer and wine, (7%), desserts and snacks (21%) and pet products (23%) as very important to buy organic.*

[12] "2010 Organic, Green Buying Forecasts." Food Product Design. Mambo Sprouts Marketing, November 16, 2009. Web. (Accessed September 9, 2010). http://www.foodproductdesign.com/news/2009/11/2010-organic-green-buying-forecasts.aspx.