The market for organic products: issues and prospects

Organic, Ecolabel, Local

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Discussion Points

- State of the Industry Review
  - Regulation/Certification
  - Production
  - Processors
  - Supermarkets
  - Prices

- US Trends in organic food sales
  - Total sales
  - Sectors Leading Growth

- The Consumer
  - Consumer allocation
  - Current drivers in food purchases
Policy Influences Level of Support
(Thilmany)

EU Policy recognizes dual role for organic.

- Meet market demand (financed by consumer through price premiums)
- Provide public goods (supported by various gov’t-financed incentives, conversion and support payments and R&D support 70-89m Euros annually).
- National production targets

US Policy based solely on market demand.

- No public benefits assumed. (Organic is a “differentiated” process-oriented label only.)
- Research support well below “fair share” based on market value~20-30m$,
- Grant program to get certified
Certification: Europe & US

Many European nations had their own certification program and accompanying national logo, there is now an EU standard and logo. Italy did not have a federal label but it has the largest organic % of farmland in the EU. Label somewhat controversial.

The US national label was first used in October 2002 and its requirements are similar to that of the EU. There are a number of state and private programs some with different standards—generally these pre-existed the USDA program and are among the authorized certifiers for USDA organic. Producers can use multiple logos if they meet both requirements. Most US consumers appear to be familiar with the logo (62-80% in 3 states in conventional stores surveyed in 2006).

The uniformity of the content regulations simplifies trade.
US Organic Trade (Thilmany)

- **US Imports Exceed Exports by 8 to 1 Ratio**
  - FAS estimates $1-1.5 billion in imports and $125-250 million in exports in 2002 (FAS, 2005)
  - $1 billion Trade Gap is Widening

- **Europe and Japan are largest markets for US organic exports**

- **Imports from Third World are growing rapidly, especially China, Brazil, Mexico and Argentina**
  - Another reason certification is an important process-based differentiation mechanism
US Organic Production

- Overall, certified organic cropland and pasture accounted for about 0.5% of U.S. total farmland in 2005, with organic cropland and organic pasture both at about 0.5 percent of U.S. total farmland in 2005. This is quite small, though growth is rapid, compared to some European countries such as Italy and Austria and the EU overall.

- The highest proportion of US organic acreage was in fruits and vegetables, with organic carrots nearing 6% and organic apples over 3% of total acres. Grains are far behind, but dairy cows had reached about 1% organic certified as of 2005.
Organic Prices

- Organic Prices are declining somewhat, but information is sparse, observed variation in markup over conventional is great
- e.g. fresh Broccoli (USDA-ERS website)
  - Wholesales are Boston,
  - Farm price minimum premiums 1.21 to 1.72 2000-2007, maximums 2.38 to 4.28
  - Wholesale min 1.14 to 2.14, max 2.89 to 3.92, More seasonality in organic
  - Own data (Oregon conventional store, random fall week, 2007) organic broccoli $1.99, conventional 0.99 (2x)
- e.g. carrots
  - Farm price minimum premiums 1.11 to 1.76 2000-2007, maximums 1.88 to 3.47
  - Wholesale min 1.51 to 2.43, max 2.39 to 3.71
  - Own data (ditto) organic baby carrots $2.49, conventional 1.79 (1.4x)
- 2006 OTA manufacturers survey: 66% surveyed gave premiums between 1.1 and 1.5 times conventional for ingredients
- How will the economic downturn/higher food prices effect organic food markets?
Food Manufacturers

- Organic food processing is multinational and increasingly organic companies are being bought by traditional food conglomerates.
- Holding companies are also buying organic and natural brands with the intention of turning them over at a profit.
- And firms and Organic Trade Association clearly expect consumers to keep buying organic in spite of economic downturn
Industrial Organization – Processors

Conventional Food Stores are Expanding Organic

- Post USDA label—coincidentally or not—Conventional Food Stores have provided the bulk of organic food sale expansion
  - A little bit of sales across the majority of stores goes a long way
- Of course Wal-Mart has joined the charge
- Conventional Food Stores are also developing private labels
Private Label Developments in Health, Natural & Organic Foods  (Howard, 2007)

https://www.msu.edu/~howardp/organicindustry.html
Natural Foods Stores Continue Expansion

- The major North American Natural chain food stores Whole Foods (190 stores, 2007), Wild Oats (112), Trader Joes (280), Planet Organic (Canadian, 75) are still expanding.

- Whole Foods purchased Wild Oats, but FTC challenged and then appealed Federal Court Decision not blocking merger. A visit to www.wildoats.com takes you to http://www.wholefoodsmarket.com/

- Independents & Small local chains doing well, promote customer service, meet consumer interest in local.

Example:

1996 GNC acquired Nature's Northwest, which sold gourmet and health food products and expanded the store’s lines to include added upscale health and beauty products.

1999 GNC sold its Nature's Northwest chain, consisting of six stores located in the Portland, Oregon, area, to Wild Oats the Colorado-based chain of natural foods supermarkets.

1999 New Seasons opened its first store. One Nature’s Northwest executive was part of the partnership starting the firm and a number of staff joined the New Seasons operation.

2002 Whole Foods opened first store in Portland metro area.

2008 Status Portland metro: New Seasons (9 stores), Whole Foods (4) / Wild Oats (5)
Organics Sales by Venue, 1999-2005

Data source: Nutrition Business Journal

- Direct, farmers markets, stands, other
- Natural Food & Health Food
- Mass Market
US Organic Category Shares

Data source: Nutrition Business Journal
How are category sales allocated between channels?

- **Dairy**
  - CM: Mass Mrch 3.27%
  - NF: Lrg Chains 27.08%
  - NF: Sml Ch/Ind 9.66%
  - Bout/Spec 0.28%
  - CM: Club 4.01%

- **Fruit_Vegetables**
  - CM: Mass Mrch 5.98%
  - NF: Lrg Chains 21.67%
  - NF: Sml Ch/Ind 26.62%
  - Bout/Spec 0.04%
  - CM: Club 4.15%

- **Packaged_Prepared**
  - CM: Mass Mrch 54.34%
  - NF: Lrg Chains 27.08%
  - NF: Sml Ch/Ind 26.62%
  - Bout/Spec 1.36%
  - CM: Club 1.76%
US Organic & Total Food Sales

Annual Growth Rates 1997-2006
0.9 - 5% Total Food Sales
14 - 21% Organic Food Sales

Data source: OTA’s Manufacturer Survey/Nutrition Business Journal
Consumers by Usage Category

Data source: OTA's Manufacturer Survey/Nutrition Business Journal
Support of Shift from Oregon Survey

PERCENTAGE OF PRODUCE SHOPPING THAT IS ORGANIC
OREGON & WASHINGTON BY STORE TYPE

2002

Observations 95.00

2006

Observations 134.0

Observations 100.0

Observations 97.00

Observations 99.00
3 State Survey Organic % of Produce Purchase

PERCENTAGE OF PRODUCE SHOPPING THAT IS ORGANIC
BY STORE TYPE AND STATE - 2006

<table>
<thead>
<tr>
<th>STORE TYPE</th>
<th>Minnesota</th>
<th>Oregon &amp; Washington</th>
<th>Rhode Island</th>
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</thead>
<tbody>
<tr>
<td>Conventional</td>
<td>Observations 166</td>
<td>Observations 134</td>
<td>Observations 206</td>
</tr>
<tr>
<td>Farmers Market</td>
<td>Observations 261</td>
<td></td>
<td>Observations 186</td>
</tr>
<tr>
<td>Food Co-op</td>
<td>Observations 73</td>
<td>Observations 99</td>
<td>Observations 69</td>
</tr>
</tbody>
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? Not asked at all locations in Oregon and in no FM in 2006, but 2002 comparable to MN in 2006
Organic Sales Proportion by Consumer Usage Category

Data source: OTA’s Manufacturer Survey/Nutrition Business Journal
What moves consumers along the path from non-user to heavy user?

- This subject is currently in the minds of a couple prominent organic market research firms.
- Generally, marketing research has claimed health concerns are the big motivator, without much analytical backing except that was what consumers mentioned a lot.
- Irritation with this notion as I mentioned earlier was what led to my 2002 survey to evaluate environmental versus health motivations. Higher standardized scores on both an environmental scale and a health concern scale had roughly equal impacts on a preference for buying organic, but the environmental score was more influential regarding how high the consumers organic produce share was (Durham, 2007)
- However, while this indicates something about the difference it doesn’t explain the consumer’s development, and why (or whether) some consumers develop into heavy users, or stop along the way.
In a series of considerations for food choice those most frequently receiving a rating in the top 2 categories on a 7-point importance scale were:

- Fresh at 76%, Pesticide Free at 48%, Hormone Free at 35%, Natural at 32%, Certified Humane 31%, Origin of ingredients 28%, Locally grown 23%, Sustainable 21%, USDA Organic 19%, Fair Trade 18%, Seasonal 17%, Free Range 16%, Organic 15%, Grass-fed 14%, Heirloom 5%
Consumers focus on properties they once associated with organic

- Pesticide Free – of course this is not what organic is, the news freely states it though, and most consumers when asked will probably state that that is what organic is
- Hormone-free – this is actually an organic requirement
- Natural – In the US this is associated with no nitrates or preservatives which are organic requirements
- Small Business
The Health Issue

- *USDA organic guidelines* clearly state that you can’t advertise “healthy organic”. For example, you can’t advertise your “healthy organic” broccoli. One presumes that this because there is no scientific evidence that organic foods are healthier.

- Consumer health beliefs go hand in hand with the belief that there are no pesticides in organic production rather than the actual no ‘synthetic’ pesticides. Though on that point a small number of studies have shown less pesticide residues.

- Even more recently studies have shown higher antioxidant or other nutritional content in organic produce. This is not a scientific weight of evidence at this point.
Ecolabels-other than organic

- Eco-labels first introduced to the U.S. in the early 1970s to certify organic fruits and vegetables.
- Labels have evolved since then to include various aspects of sustainable agricultural practices including
  - pesticide use
  - water use
  - environmental impacts
  - wildlife preservation
  - domestic animal welfare (organic has some elements)
  - labor conditions and income (fair trade)
  - and other aspects of agricultural production methods.
## Key Claims of Current Ecolabels for Farm and Process Practices

<table>
<thead>
<tr>
<th>Pesticide Usage</th>
<th>Additives and Treatments</th>
<th>Land &amp; Water Use</th>
<th>Farm Animal Welfare</th>
<th>Labor Treatment</th>
<th>Wildlife Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Synthetic</td>
<td>Extra Efforts</td>
<td>Free Range / pasture</td>
<td>Added Benefits</td>
<td>Habitat Provision</td>
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<td>IPM</td>
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<td>Testing</td>
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Yet to be determined - Will they pay?

- And how much? Information is limited
  - Economic studies so far mostly on organic, IPM
- The survey that produces the 2006 organic share of produce purchases indicates that consumers will still pay more of a premium for defined organic than for IPM but that they will also play lesser amounts for other ecolabel farm practices that incorporate wildlife protection, water protection, and animal welfare. A study by Howard (2006) indicates similar willingness to pay for fair trade and local,
- but the message is hard to transmit, remember how long organic has taken
  - Packaged food advantage
Summary-Key Drivers, Trends & Issues

- Post USDA Organic industry developments
  - Conventional Store Embrace of Organic
  - Supply shortage, increased imports

- Original Drivers
  - Health
  - Environment
  - Small business

- Current Industry Trends
  - Local Natural Food Stores

- Rising Drivers
  - Local Movement
  - Animal Welfare
  - Fair Trade
The END
References


- Howard, Philip H., July 2007. *Organic Industry Structure: Private Label Brands and Network Animation of Data from the 4 Processing Sector Charts* [general website contains a number of industry graphics and links to the incorporated graphic and animation presented]. Link from [https://www.msu.edu/~howardp/organicindustry.html](https://www.msu.edu/~howardp/organicindustry.html)

