Organic Foods Find Opportunity in the Natural Food Industry

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Organic foods may constitute a small segment of the $334 billion in retail food sales in 1994, but they have carved a niche in a retail food sector growing by leaps and bounds—the natural food industry. As reported by the industry's leading trade publication, the *Natural Food Merchandiser* (NFM), organic product sales in natural foodstores grew by 21 percent in 1994.

The market for organic products has escalated with sales increases of 20 percent or more each year from 1989 to 1994, according to NFM (USDA does not compile retail sales data for organic foods or natural foodstores). The dominant retail outlet for organic foods—natural foodstores—captured 67 percent of the $2.3 billion in total 1994 U.S. organic food sales. In some areas, competition from successful natural foodstores has spurred an increase in the volume of organic products stocked in conventional grocery chains.

Natural Foodstores Reach Out to Consumers with Organic Products

Natural foodstores define themselves by their merchandise purchasing criteria, which are usually displayed prominently for the clientele. These informal criteria may include some of the following:

- Contains no synthetic preservatives, colorings, or flavorings.
- Contains no synthetic sweeteners.
- Meat and poultry from animals raised without synthetic hormones.
- Contains no hydrogenated oils.
- Contains no grains and grain products (flours) that have been bleached or bromated.
- Organic whenever cost and availability factors allow.

Different from most natural foods stressing only nutritional and additive-free characteristics, organic foods offer unique qualities to consumers concerned with how foods are grown and processed, such as environmental benefits of organic production, less likelihood of pesticide residues in foods, and reduced farmworker exposure to synthetic chemicals.

The Organic Foods Production Act adopted as part of the 1990 farm bill calls for national standards to define organic food and assure consumers that food marketed as organic meets prescribed standards (see box). The Act provides for USDA to develop the standards using recommendations received from a 14-member National Organic Standards Board. The Board has submitted the majority of its recommendations to USDA for incorporation into regulations that will implement the law.

While no definition of "organic" yet exists at the national level, some general principles of organic farming and food processing are commonly accepted among the State and private agencies currently certifying organic producers, processors, and distributors. These principles include:

- Organic food production systems are based on farm management practices that replenish and maintain soil fertility by providing optimal conditions for soil biological activity.
- The organic food has been determined by an independent third-party certification program to be produced in accordance with a set of historically derived organic principles and practices.
- Only natural substances or approved synthetic materials have been used on the land and crops, usually for at least 3 years prior to harvest.

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• Organic food is documented and verifiable by an accurate and comprehensive record of the production and handling system.

• Organic food meets all local, state, and Federal regulations governing the safety and quality of the food supply, including the Federal Food, Drug, and Cosmetic Act and the Nutrition Labeling and Education Act.

In general, these principles form the basis of existing organic certification programs in the United States. Certification of organic practices smooths transactions between producers, suppliers, and buyers and assures consumers that food marketed as organic meets certain prescribed criteria. Farmers, wholesalers, food processors, and retailers can all be certified by States or private organizations as being in compliance with a set of written standards.

According to the Organic Trade Association, an association of organic growers, manufacturers, handlers, and others, organic certification is generally characterized by the following:

• Annual farm and processing facility inspections by a third-party agent.

• Review of detailed farm, processing, and distribution records that provide a trail of verification from farm field to retail shelf.

• Assessment of farm management and product handling plans.

U.S. organic certification organizations began to form in the 1970's. Presently, there are 43 U.S. certifiers. Most were established in the 1980's, although a quarter of the total appeared within the past 5 years. Thirty-two of the organizations are privately run, and 11 are State-developed.

Although 28 States have laws regulating organic food labeling, only 10 require certification for use of an organic label in the marketplace. Many growers continue to avoid certification, due to some processors not requiring certification documents or to the cost of becoming certified, among other reasons. For example, a recent California study found that only 45 percent of organic growers in that state were certified. The 1990 Organic Foods Production Act calls for national standards to define organic food and will make certification mandatory.

The Natural Products Industry Expands, Offering a Larger Market for Organics

Natural food cooperatives, pioneering the retailing of natural products, sprouted up around America in the 1960's. Consumers, banding together to get organic products to market at workable returns. These stores spread the distribution of organic products across the states, as they located in small rural boroughs, suburban areas, city centers, and college towns.

Since then, natural food supermarkets (defined by NFM as natural foodstores larger than 5,000 square feet and offering fresh meat and seafood) have sprung up, experiencing vibrant growth in both sales volume and number of stores. NFM reports that natural food supermarkets' sales increased 15.5 percent from 1993 to 1994. The sales growth is contributing to expansion, with metropolitan areas of the Midwest and East Coast the latest new store targets.

Some growth has occurred in response to market niches in areas with few natural food outlets. Fresh Fields Markets, Inc., which opened its first store in 1991 in metropolitan Washington, DC, has added 21 stores across 7 States and the District of Columbia. Sales by this natural food supermarket chain amounted to $85 million in 1993.


Smaller natural foodstore chains are also growing in number, some incorporating an aggressive strategy of marketing specialty products to ethnic groups. Sun Harvest Farms and Fiesta stores cater to the large Hispanic population in Texas by promoting the organic version of a wide variety of Southwestern cuisine foods.

Organic Production Expands To Meet Demand

Organic production is expanding as farmers introduce new crops and increase the size of their farms. Organic farmers are discovering cultivars with characteristics that appeal to gourmet and natural food store shoppers and restaurant chefs. For example, quinoa and amaranth are two specialty organic seeds successfully marketed in consumer-sized packages by Arrowhead Mills of Texas. Montana Flour and Grain Company supplies Arrowhead Mills with a high-protein and vitamin-rich species of wheat marketed as "Kamut," reflecting its ancient Egyptian origins. Kamut is distributed widely today in the form of grain and in over 100 manufactured products, including breakfast cereals, pasta, and bread.

Some large family farms exemplify the growth in organic farming. Cal-Organiic Farms in California has grown from 10 acres a decade ago to
2,000 acres of mixed vegetables and cotton today. Nearby, Pavich Family Farms, which began with 400 acres 23 years ago, markets organic grapes, specialty melons, and other produce items from 3,500 acres of certified organic land today.

**More Farmland Certified**

**Organic as Market Grows**

The number of acres certified as organic more than doubled between 1991 and 1994. In 1994, 1.1 million acres of U.S. farmland were certified as organic, representing 0.1 percent of total U.S. farmland (table 1). The proportion of organic acreage in high-value produce crops is eight times that of the overall U.S. farm sector. In addition to produce, growth was strong for dry beans

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### Organic Foods Production Act

The 1990 Organic Foods Production Act authorizes establishing national standards for producing and marketing organically produced agricultural products. National organic standards will assure consumers that food products labeled “organically grown” or “made with organic ingredients” meet known requirements that are consistent across the United States. The Act also ensures use of a consistent, nationally recognized certification process and appropriate Federal oversight of certification programs. National standards will facilitate interstate commerce in fresh and processed organic foods.

Under the Act, USDA will establish a certification program that will accredit States and private organizations, which in turn certify that individual producers and handlers meet the standards for organic production or processing. A 14-member National Organic Standards Board—composed of food industry representatives, consumers, environmentalists, and scientists—provided formal recommendations to the Secretary of Agriculture on national organic standards and recommended methods for accreditation of certifiers.

### General Requirements Are Laid Out in the 1990 Farm Bill

While USDA completes the final standards, consumers can get an idea of what’s in store. General requirements that must be met by all organic products are laid out in the Act, which is part of the 1990 farm bill.

A certified organic operation, whether a farm, processor, or distributor, must utilize a system of organic production and handling as described by the Act. The Act addresses two main requirements of such a system, materials application and production and handling according to a plan agreed to by the producer/handler and the certifier. In general, synthetic materials are prohibited and natural materials are allowed on organic foods under the Act. However, the Act also provides for a national list of allowed synthetic substances and prohibited natural substances for use in organic production and processing. Prohibited materials include most synthetic pesticides and fertilizers, some natural poisons such as arsenic and lead salts, and growth promoters and hormones. The materials restrictions are required for 3 years prior to harvest of an organic product. To maintain the integrity of organic food products from farm to store shelf, organic foods are required to be kept physically separated from nonorganic foods in processing and post harvest handling. Organic plans must address soil fertility management on the farm, and demonstrate that production and handling methods conform to the purposes of the Act in all operations.

The Act lists the responsibilities of certifying agents, which may be State or private entities, under the certification program. These include conducting annual, onsite inspections for certification, periodic residue testing of products, providing public access to certification documents, and collecting reasonable fees. States can set additional certification rules. State certification programs must be consistent with the Federal rules and must be approved by the Secretary of Agriculture.

General penalties for violations are set in the Act, as are general guidelines for the appeals process. For example, fines for intentionally mislabeling cannot exceed $10,000 and a 5-year loss of certification.

### Organic Labeling for Meat and Poultry

The Act extends the organic market to cover livestock and poultry products. Under current regulations, meat and poultry cannot be labeled organic. The Food and Drug Administration is currently permitting the use of the term “organic” on processed non-meat animal food products pending the development of national standards. The Bureau of Alcohol, Tobacco, and Firearms has taken a similar position to FDA with regard to organic wine, beer, and ale.

### Initial Organic Standards and Rules Expected

The National Organic Standards Board has submitted their recommendations for national standards, and USDA is in the process of writing the proposed rule based on these recommendations. After the proposed rule is published in the Federal Register, a 90- or 120-day public comment period will follow. USDA’s National Organic Program staff will revise the rule based on the comments received. USDA will then issue the final rule and establish the National Organic Program.

For more information, contact C. Philip Brent at (202) 219-0756.
and grains for human consumption (table 2).

Organic production is not limited to crops. Over half the acreage certified as organic is devoted to livestock production. The number of dairy cows and layer hens certified organic increased 169 percent and 8 percent, respectively, between 1992 and 1994 (table 3). Dairy products and eggs can be labeled and sold as organic, but meat and poultry products may not bear the organic label in the U.S. marketplace until new labels are approved by the USDA Food Safety and Inspection Service, following implementation of the Organic Foods Production Act.

### Processed Foods

**Dominate Growth in the Organic Sector**

Food product manufacturing is the fastest growing segment of the organic industry (table 4). Sales of processed foods made with organic

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**Table 1**

**Higher Proportion of Organic Acreage Devoted to Produce Than for Overall U.S. Farmland**

<table>
<thead>
<tr>
<th>Type of farmland</th>
<th>U.S. farmland</th>
<th>Proportion of total U.S. acreage</th>
<th>U.S. organic proportion of total organic acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acres</td>
<td>Percent</td>
<td>Acres</td>
</tr>
<tr>
<td>Total</td>
<td>945,531,506</td>
<td>100.0</td>
<td>1,127,000</td>
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<tr>
<td>Cropland¹</td>
<td>434,944,493</td>
<td>46.0</td>
<td>668,690</td>
</tr>
<tr>
<td>Produce</td>
<td>8,553,136</td>
<td>0.9</td>
<td>90,676</td>
</tr>
<tr>
<td>Other crops</td>
<td>426,391,357</td>
<td>45.1</td>
<td>578,014</td>
</tr>
<tr>
<td>Pastureland and rangeland</td>
<td>411,306,205</td>
<td>43.5</td>
<td>446,600</td>
</tr>
<tr>
<td>Woodland</td>
<td>73,751,457</td>
<td>7.8</td>
<td>11,280</td>
</tr>
<tr>
<td>Other land</td>
<td>25,529,351</td>
<td>2.7</td>
<td>430</td>
</tr>
</tbody>
</table>


**Table 2**

**Organic Food Production Not Limited to Fruits and Vegetables**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acres planted¹</td>
<td></td>
<td></td>
<td></td>
<td>Percent</td>
</tr>
<tr>
<td>Total produce</td>
<td>77,501</td>
<td>85,373</td>
<td>90,676</td>
<td>17</td>
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<tr>
<td>Fruits</td>
<td>36,847</td>
<td>35,882</td>
<td>39,183</td>
<td>6</td>
</tr>
<tr>
<td>Vegetables</td>
<td>37,317</td>
<td>46,649</td>
<td>47,800</td>
<td>22</td>
</tr>
<tr>
<td>Herbs</td>
<td>1,086</td>
<td>1,255</td>
<td>1,832</td>
<td>69</td>
</tr>
<tr>
<td>Nuts</td>
<td>1,096</td>
<td>1,407</td>
<td>1,648</td>
<td>50</td>
</tr>
<tr>
<td>Other produce</td>
<td>1,155</td>
<td>180</td>
<td>213</td>
<td>-82</td>
</tr>
<tr>
<td>Dry beans</td>
<td>27,180</td>
<td>35,931</td>
<td>52,330</td>
<td>93</td>
</tr>
<tr>
<td>Grains and seeds</td>
<td>157,515</td>
<td>162,557</td>
<td>238,995</td>
<td>52</td>
</tr>
<tr>
<td>Coffee</td>
<td>0</td>
<td>79</td>
<td>85</td>
<td>8²</td>
</tr>
<tr>
<td>Total food crops</td>
<td>262,196</td>
<td>283,940</td>
<td>382,086</td>
<td>46</td>
</tr>
</tbody>
</table>

ingredients topped $370 million in natural foodstores in 1994, with natural food supermarkets experiencing a 57-percent increase in those sales from 1993 to 1994, according to NFM. A wide diversity of organic foods is available today, with an organic version in almost every food category. Some organic food companies are finding themselves the dominant manufacturer in their food product category. For example, the organic food company Eden Foods of Tecumseh, Michigan, is the largest soy milk producer in the United States. The proportion of organic products in a manufacturer's line varies greatly, with some companies committed to offering a 100-percent organic line and others opting to supply both organic and conventional products.

Natural food retailers report that vegetable-protein products, cereals, snacks, and juices generally have the largest selection among processed organic food categories in natural foodstores. Organic dairy is a large growth category, with sales more than doubling from 1993 to 1994 to an estimated $24 million, as reported by NFM. Some of this growth may be due to consumer concerns over the introduction of growth hormones in conventional dairy production.

Manufacturers of foods made with organic products are increasingly looking to organic certification for added credibility. Food manufacturers accounted for over a quarter of the 500 handlers certified in 1994 to process, package, and/or sell organic products. The total number of processors and distributors certified to handle organic products doubled between 1991 and 1994.

Table 3
Chicken and Turkey the Fastest Rising Segment of Certified Organic Meat Production During 1992-94

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<tr>
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</thead>
<tbody>
<tr>
<td>Beef cattle</td>
<td>6,796</td>
<td>9,222</td>
<td>3,300</td>
<td>-106</td>
</tr>
<tr>
<td>Dairy cattle</td>
<td>2,265</td>
<td>2,846</td>
<td>6,100</td>
<td>169</td>
</tr>
<tr>
<td>Chickens and turkey for meat</td>
<td>17,382</td>
<td>26,331</td>
<td>110,000</td>
<td>533</td>
</tr>
<tr>
<td>Layer hens</td>
<td>43,981</td>
<td>20,625</td>
<td>47,700</td>
<td>8</td>
</tr>
<tr>
<td>Sheep</td>
<td>1,221</td>
<td>1,186</td>
<td>1,600</td>
<td>31</td>
</tr>
<tr>
<td>Swine</td>
<td>1,365</td>
<td>1,499</td>
<td>2,100</td>
<td>54</td>
</tr>
</tbody>
</table>


Table 4
Food Processors and Distributors the Largest Growing Segments of Certified Organic Marketing, 1991-94

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>All certified organic farmers</td>
<td>2,841</td>
<td>3,749</td>
<td>3,683</td>
<td>4,060</td>
<td>43</td>
</tr>
<tr>
<td>Produce growers</td>
<td>2,025</td>
<td>2,693</td>
<td>2,757</td>
<td>2,971</td>
<td>47</td>
</tr>
<tr>
<td>Livestock producers</td>
<td>114</td>
<td>170</td>
<td>197</td>
<td>197</td>
<td>73</td>
</tr>
<tr>
<td>Certified processors and distributors handling organic foods</td>
<td>254</td>
<td>364</td>
<td>441</td>
<td>526</td>
<td>107</td>
</tr>
<tr>
<td>Certified retailers selling organic foods</td>
<td>23</td>
<td>21</td>
<td>23</td>
<td>31</td>
<td>35</td>
</tr>
</tbody>
</table>


September-December 1995
Organic Market Outlets Diversified

Organic food manufacturers are widening their marketing options, with some like Eden Foods finding a fifth or more of their retail sales through conventional grocery chains, primarily in areas with a strong presence of natural foodstores. For example, in the Boston and New York City metropolitan areas, conventional chains such as Food Emporium, Grand Union, and Star Markets are stocking a growing number of organic processed foods as well as produce, with the impact of competition from Bread & Circus and Fresh Fields Markets, which together have opened five stores in those areas since 1992.

In the Washington, DC, metropolitan area, Giant Food placed organic produce sections in 12 of its 163 stores in 1993-94. The Texas Department of Agriculture certified the retail-level handling of unpackaged and bulk-bin organic products in over 360 stores during 1995, 89 percent of which are conventional supermarkets.

Sales of organics through conventional supermarket retailers are increasing, according to NFM, with a 23-percent rise from 1993 to 1994. However, the $150 million to $200 million in conventional grocery store sales of organic products still represented only around 7 percent of total organic product sales.

Exports of organic products resulted in $203 million in sales in 1994, according to NFM. Organic suppliers report that the 80-percent increase in export sales in 1993 can be partly attributed to the steady growth in demand for organic soybeans by Japan and for processed organic food products, raw grains, and cotton by the European Union.

Notable sales of organic products continue to be made through direct market outlets. Close connections between consumers and organic growers flourish as consumers shop for organics at farmers' markets and farm stands, and as they subscribe to allotments of food harvested from a particular farm each season. At $397.5 million in sales in 1994, direct market options of organic products showed a 10-percent increase from 1993, according to NFM, and constitute a market outlet for organics second only to the natural foodstores.

The natural foodstore chains' commitment to merchandising organic food products effectively has been one factor that has encouraged the market success of organic food products. Natural food retailers hope that by upholding product criteria while broadening product selection, they will expand their customer base. That may in turn carve a larger niche for organic products.

References


