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Growth in the Health and Natural Foods Industry

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ABSTRACT

The health and natural foods industry has changed in the past decade from a few small stores selling primarily vitamins and other food supplements to larger stores selling various food products, health and beauty aids, books, and appliances. A few stores have even grown to supermarket size (over 10,000 sq. ft.). The growth of the health and natural foods industry has had an impact on the traditional food market as many supermarkets have added nutrition centers which stock health and natural food items. Though the industry is experiencing some difficulty with definitions of the terms natural and organic, it is possible that Federal regulatory policy would begin to alleviate misconceptions and definition problems.

Keywords: Health and natural foods industry, health food stores, natural food stores, organic, natural.

NOTE: Mention of brand and company names in this report is for information only and does not imply approval or endorsement by the U.S. Department of Agriculture.

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SUMMARY

The health and natural food industry has grown significantly in the number of stores and sales volume during the past decade. Consumer awareness of the diet-health relationship and the demand for more natural products, less processed food, and foods free of chemical additives and preservatives contributed to the increase. Many consumers are changing their diets to include more low-fat dairy products, margarine, fresh fruits and vegetables, and less salt, sugar, and saturated fat. Although the conventional supermarket carries many of these kinds of products, some consumers may choose to purchase the same or similar products in health and natural food stores. Health and natural food stores generally have expanded their product mix, selling everything from fresh fruit and vegetables to many health and body aids.

The number of retail health and natural food stores increased from about 1,000 stores in 1970 to approximately 8,000 in 1982, with the largest share of stores located in the West. Total store sales also jumped from $140 million in 1970 to slightly over $2 billion in 1983.

A growing number of retailers have begun to stock natural foods within conventional supermarkets. Many traditional products with a natural label now appear on grocery shelves and separate natural food centers are also opening in many supermarkets across the country.

Natural and organic advertising claims associated with the health and natural food movement have created much confusion and misunderstanding among consumers, retailers, and growers. Uniform standards would help dispel confusion and deception and help identify and provide credibility to the foods carrying those labels and enhance their marketability. In the absence of Federal standards, private groups have established their own organic certification programs to increase consumer confidence in products labeled organic. Oregon, California, and Maine have passed legislation which sets standards for foods to be certified as organic by private certification groups.

INTRODUCTION

One of the major reasons for the recent growth in the health and natural foods industry is the growing concern of Americans with the diet-health relationship and the responsibility taken for ones' own health by eating what is believed to be more nutritious food. The food industry is changing to meet the needs of the consumer.

This study is an effort to bring together many diverse secondary sources of information to describe and place in perspective a a rapidly growing segment of the food industry on which relatively little information is available. Its main objectives are to: (1) trace the growth of the industry from the late sixties to the present, (2) report major changes taking place within the industry, such as number of firms and product mix, (3) determine the effect of these changes on the conventional food market, (4) define problem areas and give possible solutions, and (5) determine price differences for organic food products in health and natural food stores versus the same or similar products in the supermarket.

Research linking the American diet to many of our health problems has spurred much interest in health and nutrition in recent years. A 1979 Surgeon General's report states that, in general, Americans are not eating enough whole grains, cereals, and fresh produce and should reduce consumption of sugar, salt, fat, and cholesterol. 1/

"The Dietary Goals for the U.S.," prepared by the Senate Select Committee on Nutrition & Human Dietary Needs, is another important report which addresses the accumulation of scientific data linking diet to 6 of the 10 leading causes of death in the United States: heart and circulatory disease, malignant neoplasms, cerebrovascular disease, accidents, chronic obstructive pulmonary diseases, influenza and pneumonia, diabetes mellitus, chronic liver disease/cirrhosis, atherosclerosis, and suicide. 2/ The dietary goals called for reduced consumption of fat and saturated fat, cholesterol, sugar, and salt, and increased consumption of carbohydrates. In 1980, the U.S. Government issued dietary guidelines for Americans as a public health message for nutrition information and education efforts. 3/

1/ Healthy People, The Surgeon General's Report on Health Promotion and Disease Prevention. U.S. Dept. of Health, Education, and Welfare. Public Health Service. DHEW(PHS) Publication No. 79-55071A, 1979.

2/ "Annual Summary of Births, Deaths, Marriages, and Divorces: United States, 1981," Monthly Vital Statistics Report, Vol. 30, No. 13, DHHS Pub. No. (PHS) 83-1120, Dec. 1982.

3/ Nutrition and Your Health, Dietary Guidelines for Americans. U.S. Dept. of Agriculture and U.S. Dept. of Health, Education and Welfare, Feb. 1980.

A research study published by the National Research Council concluded that a balanced low-fat diet could prevent a significant proportion of all cancer deaths. 4/ The report states that most common cancers are potentially preventable and are influenced by diet. These findings are similar to those included in the "Dietary Goals" which lists cancer as one of the six major degenerative diseases associated with faulty nutrition. USDA found in a 1980 nationwide household survey that 64 percent of the respondents had reported making at least one food change for health or nutrition reasons in the 3 years prior to the survey. 5/

The health and natural foods industry was one of the first industries to foster and capitalize on the growing consumer interest in nutrition. This industry caters to individuals who want to buy unprocessed or minimally processed foods, whole grains, food supplements, organic foods, and vitamins which they perceive to be better for them. While supermarkets and small grocery stores often carry some of these same products, health and natural food stores generally have a much wider selection of these items. The health and natural foods industry is capturing a larger share of the consumer food dollar.

Definition of the Industry

The natural foods industry is unique. The industry initially used the term health foods to describe its product mix. Natural foods is now being used to help eliminate definition problems and connotations associated with "health foods." The definition of the industry in this report does not include natural foods sold in supermarkets, co-ops, roadside stands, and drug stores. The industry primarily consists of two types of stores: (1) health food stores, those selling primarily food supplements and vitamins, and (2) natural food stores, those selling a larger selection of natural and organic foods.

Health food stores, often called nutrition centers, appeal to a narrow range of nutritional interests and dietary needs. A large portion of store profits are derived from the sale of natural and synthetic vitamins and supplements as well as health and beauty aids, and vary in the amount of health and natural foods they carry.

The selection of foods offered in health food stores tends to be much smaller than in natural food stores. Food products consist mostly of grains, flours, beans, nuts, seeds, teas, herbs, baked goods, oils, beverages, dairy foods, and produce. Organic meat and poultry may be sold. A large portion of the dry goods are usually sold in bulk, allowing shoppers to choose the exact amount they want. Bulk items usually offer lower prices due to lower packaging and handling costs. The number of packaged products in these stores is increasing as the industry grows. These

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4/ "The Cancer and Diet Connection," selected excerpts from the National Research Council Report, Diet, Nutrition and Cancer. excerpted in East-West Journal, Sept. 1982, p. 20.

5/ Judy Putnam and Jon Weimer. "Perspective on Health Related Food Choices," 1981 Agricultural Outlook Conf., U.S. Dept. of Agriculture, Nov. 19, 1981.

stores may also stock appliances such as juicers, nut and grain grinders, biodegradeable soaps and shampoos, natural cosmetics, and natural food supplements. Many of these stores carry a wide book selection on topics such as health, diet, cooking, childbirth, and childcare. The distinction between health and natural food stores has narrowed as each takes on characteristics of the other.

Definition of Terms

There is a division within the health foods industry between the kinds of items promoted and sold, which largely determines the type of store where they are sold. To help comprehend the natural foods market, we will define and clarify three important terms which play a major role within this industry: health foods, organic foods, and natural foods. While there is no universally accepted definition for all three terms, organic and natural have more specific definitions that are accepted by general consensus of the industry and government.

The term health foods is the most confusing and misleading of the three terms. The industry may use the term to speak of specific foods such as vitamins, wheat germ, brewers yeast, blackstrap molasses, brown rice, and whole grains, whereas the consumer may use the term in a more general sense to include natural foods and possibly organic foods. The Federal Trade Commission (FTC) has prohibited the use of the term health foods in the advertising and labeling of any food. It ruled the term undefined/or undefinable and expressed concern over its possible deceptiveness in that it falsely attributes special or superior health-giving properties to certain foods whose claim could not be justified under any standard. The term health foods for this report is used only when designating the name of a store.

The definition of natural foods and organic foods is more clear-cut. Although FTC has attempted to define the term natural, none of its proposals have been approved. However, the U.S. Department of Agriculture (USDA) has adopted the FTC proposed definition for natural label claims made for meat and poultry products (see section on natural claims). FTC's proposed standards read: "To be advertised as natural, foods may not contain synthetic or artificial ingredients and may not be more than minimally processed. To call foods natural in cases where they contain ingredients that are more than minimally processed but otherwise meet the standards, advertisers must identify the processed ingredients or the type of processing as a deviation from the standard. A food could be advertised as natural but contain bleached flour. Minimal processing includes such action as: washing or peeling fruits or vegetables; homogenizing milk; canning, bottling, freezing food; baking bread; aging and roasting meats; and grinding. It does not include processes that, in general, cannot be done in a home kitchen and that involve certain types of chemical or sophisticated technology, e.g., irradiation, commercial enzyme treatments and chemical bleach." For this report, natural foods are foods which are minimally processed and contain no synthetic or artificial ingredients.

The industry and the government (particularly USDA) have agreed upon the general definition of organic foods as those foods grown on soil fertilized with organic fertilizers, manures, or composts. No pesticides, herbicides, artificial fertilizers, or synthetic additives are used in the production of organic foods, including the production of organic meat. Foods meeting the organic standards contain less than 5 percent of the Federal allowable limit of pesticide residue.

STRUCTURE OF THE HEALTH/NATURAL FOODS INDUSTRY

While the health food industry is moving towards a nationwide distribution system, its current structure is stongly regional. The functions at the three levels of activity involved in manufacturing and marketing health food products are described below.

Manufacturers

The manufacturer level is dominated by 1,200 to 1,400 small firms. A few large, commercial firms have purchased existing health/natural food companies. While the majority of firms manufacture food products and cosmetics, about 30 percent manufacture vitamins and mineral supplements. The product lines are narrow and distribution is regional. The largest manufacturer is estimated to have around $60-70 million in sales covering a full line of products. Many retailers rely on a number of small specialty manufacturers which directly supply perishable items like dairy products and baked goods. Farmers provide organic fruits and vegetables and local teenagers and religious groups often sell fringe delicacies such as whole grain honey bread and carob cupcakes.

Wholesalers

There are about 37 major full-line wholesalers in the health/natural foods industry. Each serves on the average about 600 retail accounts. The basic functions of wholesalers are to buy from manufacturers in large quantitites, take title of stock, warehouse accounts, deliver, bill, and collect. In addition to their role as supplier, major wholesalers offer assistance in advertising, merchandising, retail training, store planning, and expansion. Some will also mail promotional literature to retail customers. Company representatives offer helpful hints on running a store and provide menus of typical startup inventories.

Some manufacturers sell to health and natural food stores on a direct basis. The average health/natural food store buys products from 12 manufacturers, 3 full-line wholesalers, and 14 specialty distributors. 6/

Most wholesalers have their own refrigerated trucks, air conditioned warehouses, and computer-controlled inventory systems. Full-line wholesalers deliver orders in a two-to-five state prime service area within 2 days and handle a full line of products including private labels. Wholelsaler mark-up is anywhere from 15 to 23 percent. 7/

6/ "Retailers Rely on Direct Approach," Natural Foods Merchandiser. Oct. 1980, p. 56.

7/ Jeanne Eagle, The Health Food Market, Arthur D. Little, Inc. Paper presented at the Institute of Food Technologists, June 1980.

The food distribution system in the health and natural foods industry is complex. As a large number of small wholesalers distribute to a large number of small retailers, delivery and operating costs can run high. However, one possible solution according to a Penn State University study of small food store supply systems is a consolidated delivery system. The large number of vendors making deliveries to small food stores during daytime business hours represent considerable duplication of travel between stores and low utilization of delivery equipment and drivers. Furthermore, the increasing costs of private fleet operations place many small local food processors and wholesalers at a disadvantage in marketing their product. The report further states that consolidation of certain products from multiple wholesale sources for delivery in a single vehicle to retail food stores would appear to improve distribution productivity, thus benefiting industry participants and consumers. In addition, travel time, parking lot congestion, and interference with store activity could all be reduced. Costs of a conventional food distribution system when compared with those of a consolidated system indicated potential productivity improvements and substantial cost savings by consolidated night-time deliveries to convenience food stores in urban areas. [8/]

Companies that carry only one product, a few imported lines, a private label or some specialty items are considered distributors within the health food business. There are approximately 100 distributors in the health/natural foods industry who sell to wholesalers or directly to retailers.

Only 20 percent of the health/natural food products moves directly from manufacturers to retailers; the other 80 percent moves through a wholesaler.

Retailers

The retail segment of the health and the natural food business is growing steadily. As one supplier put it, "the industry now rests on a very good foundation. Consumer interest in health foods has gone beyond the novelty stage to an accepted part of good living." [9/] We used yearly survey data from three trade sources--Health Foods Business, Whole Foods, and The Natural Foods Merchandiser (NFM)--to show how the retail segment of the health and natural foods market has grown. According to Health Foods Business, the major source for this section of the report, the number of retail stores has increased over the past decade from approximately 1,000 stores in 1970 to 8,000 in 1982 (table 1). This figure includes independent stores and projections for major chains. It does not include supermarkets, co-ops, or buying clubs that sell natural foods. However, according to an NFM survey, mass merchandiser nutrition centers account for another 1,300 to 1,400 stores. [10/] Nearly 80 percent of the

8/ Wesley R. Krieble and James L. Cline, Evaluating Consolidated Distribution Systems for Small Food Stores by Computer Simulation. Pennsylvania State Univ. Bulletin 810, June 1976.

9/ Health Food Stores. Small Business Report. Bank of America, 1973.

10/ "2nd Annual Market Overview and Independent Operator Profile," Natural Foods Merchandiser, Mar. 1983, pp. 45-66.

health and natural food retailers have only one store while about 20 percent are multi-store operations. NFM reports that this 20 percent of the retailers control 49 percent of the independent stores.

Total store sales increased from approximately $140 million in 1970 to slightly over $2 billion in 1983, but declined from 1982 sales, possibly as a result of intense competition from supermarkets. 11/ NFM reports total 1982 sales at $2.9 billion, the additional sales are attributed to sales in supermarkets, drug stores, and other mass merchandiser nutrition centers not included in the Health Foods Business survey. NFM estimates sales are probably over $3 billion when including areas such as buying clubs and roadside stands selling local products. Total industry sales, including supermarkets, drug stores, and mass merchandisers are projected to increase to $5.3 billion by 1985 and to $12 billion by the next decade. 12/

Sales of $2 billion in 1983 represented only 1 percent of total U.S. grocery store sales of that year and the 8,000 health/natural food stores accounted for nearly 5 percent of total grocery stores. 13/

Table 1--Estimated number and sales volume of health and natural food stores in the United States

Year	Number of health and natural food stores	Health/natural food store sales volume	Average sales per store
	No.	Million dollars	1,000 dollars
1983	-	2,008	-
1982	8,000	2,440	309
1981	7,750	1,935	250
1980	7,100	1,773	250
1979	6,600	1,439	218
1978	6,400	1,031	161
1977	5,500	920	167
1976	4,200	700	167
1975	3,800	605	159
1974	3,500	550	157
1973	3,300	450	136
1972	3,000	350	116
1971	2,000	200	100
1970	1,000	140	140

Sources: Frost & Sullivan, Inc. and Health Foods Business

11/ "Ninth Annual Survey of Health Food Stores in America," Health Foods Business, Mar. 1984, pp. 67-78.
12/ "Health/Nutrition Centers: A New Taste of Sunshine, Progressive Grocer, Aug. 1982, p. 40-47.
13/ "50th Annual Report of the Grocery Industry," Progressive Grocer, Apr. 1983, p. 58.

NFM's 1982 survey categorized health and natural food stores into small health food stores, small natural food stores (less than 1,000 sq. ft.), medium health food stores, medium natural food stores (between 1,000 to 4,000 sq. ft.), and large natural food stores (over 4,000 sq. ft.). 14/ The breakdown gives a better view of the characteristics of stores in each category.

Small health food stores represent the largest percentage of stores in the industry (37 percent). Although some small retailers have annual sales which exceed $600,000, small stores annual volume averages $123,000. Small health food stores are more likely to be located in rural areas. According to the NFM survey, 72 percent of the stores operate in towns of less than 150,000 population and 35 percent in towns of less than 25,000.

Nearly one half of the average store's sales come from vitamins and supplements. Small stores use an average of four different wholesalers and buy direct from an average of 8.4 sources.

The small natural food store represents 5.6 percent of the stores. This type of store is different from the small health food store in that about 12 percent of them do not sell vitamins. The average sales volume for the small natural food store is only slightly more than that for small health food stores, $170,000. Only 6.6 percent of the stores are 10 years old or more, while 33 percent are 1 year old or less. Like the small health food store, the small natural food store is most likely to be found in a rural location, 62 percent are in towns with a population of less than 25,000. Only 7 percent are located in cities with a population of over 1 million.

Medium-sized health food stores are vitamin-oriented stores. These stores are well established, averaging 8.7 years in business. One third are more than 10 years old, while 10 percent are a year old or less. The average sales volume for medium-sized health food stores is $278,600, 39 percent more than the volume for small stores.

Medium-sized health food stores are most likely to be owned by firms operating two or more stores. These stores are most frequently found in medium-sized cities. Fifty-three percent are located in communities where the population is 25,000 to 500,000; 27 percent in towns of less than 25,000, and 11 percent in cities of more than 500,000. Private corporations control 43.7 percent of the medium-sized health food stores, while 36.6 percent are sole proprietorships and 19.7 percent are partnerships. The average store buys regularly from 4.6 wholesalers and makes direct purchases from 10.5 other sources.

The medium-sized natural food store is the basic whole food store selling primarily groceries, bulk and refrigerated items in volume and some vitamins. Average sales for 1982 were $388,000. The average age of the medium-sized natural food store is 5.9

14/ "2nd Annual Market Overview and Independent Operator Profile," Natural Foods Merchandiser, Mar. 1983, pp. 45-66.

years, while a fifth are more than 10 years old and 14 percent 1 year old or less.

Medium-sized natural food stores are most likely to be owned by private corporations. Fifty-four percent are in this category, while 29 percent are sole proprietorships, 12 percent co-ops, and 5 percent partnerships.

Large natural food stores have a complete supermarket format and are also food oriented. This group of stores represents 7 percent of the stores, with an average sales volume of $1.5 million. This volume accounts for 35 percent of total retail sales in the industry. Large natural food stores have been in business longer than small or medium stores: an average of 8.6 years. Thirty-six percent are over 10 years old and 16 percent are 1 year old or less. Most of the large natural food stores are located in the West.

Profile of a Typical Health and Natural

Health and natural food stores generally carry from 5,000 to 6,000 items with an average 29 percent markup. The average retail health/natural food store has been in business a little more than 7 years and employs two full-time employees. According to Health Food Business, in 1983, full-time employees earned $135.40 a week, down 23 percent from the 1982 level while part-time wages were less, $79.35 a week, up 8.5 percent from the 1982 level. The typical retail firm operates from one location with approximately 1,747 sq. ft. of store space.

The trend, however, is towards opening larger natural food stores as they begin to adapt the retailing techniques, merchandising, and varied product selection of larger firms. There are now over 800 natural food stores which are between 5,000-10,000 sq. ft. and 15 natural food supermarkets that are over 10,000 sq. ft. and which closely resemble the conventional supermarket.

The average store has $32,864 invested in inventory during peak season. Advertising is done primarily in the newspaper and the yellow pages. Less than $250 is spent monthly on advertising.

Food and supplements account for over 80 percent of sales. While stores probably stock bulk and refrigerated items, they are not as likely to carry produce.

The Natural Food Shopper

A 1978 survey by the research department of Prevention magazine portrayed avid natural food shoppers as those who shop six or more times in an average 3 months, are highly ecology oriented, are very brand loyal, are not easily persuaded by advertising, and are somewhat conformist. 15/ A more recent 1980 survey found that 62.2 percent of the natural food shoppers responding were impulse shoppers. 16/ Age was found to be correlated with buying habits with younger shoppers more likely to shop impulsively.

15/ "The Retail Health Food Market--It's Customers, Growth and Future," Prevention, July 1979, p. 2.

16/ "Business Briefs--Nutritional Heavy Hitters," Natural Foods Merchandiser, Oct. 1980, p. 6.

The survey found that 68 percent of all purchases by shoppers 19 to 34 were impulse sales, 53 percent of all purchases by shoppers 35 to 59 were impulse sales, and 59 percent of all purchases by shoppers over 60 were impulse sales. The reason for the decline in the 35 and above range was attributed to their planning for their shopping trip with shopping lists.

Several studies were examined to determine the approximate overall number of natural food consumers in the United States and their demographic characteristics. Target Group Index, a market research firm, estimated in 1978 that 12.2 percent (18,031,000 people) of the total U.S. population, age 18 and above, were shoppers of these foods. USDA recently found in a 1980 national survey of household shoppers that 26 percent of their respondents shopped in natural food stores. 17/

There is no one dominant health food user group by any of the standard demographic characteristics. The shoppers of natural foods cut across all demographics, so that there is a mixture of all ages and incomes that patronize health food stores. The Whole Foods 1982 survey states that 61 percent of health and natural food customers are between the ages of 31 and 40, and 26 percent 41 to 50 years of age. The survey also found that 37 percent of the customers have incomes of $15,000 to $20,000 and 35 percent have incomes of $21,000 to $30,000. 18/

Location of Health and Natural Food Stores

Although current data are not available to determine the present percentage distribution of health/natural food stores by region of the country, State, and sales, 1978-79 survey data will give us some idea of the distribution. 19/ Trade sources indicate they do not believe the distribution has changed significantly in the past 3 years.

Of the Nation's 6,600 health/natural food stores reported for 1979, the largest share, 41 percent, is located in the West (table 2). The East and Midwest each account for approximately another 20 percent. The South had the smallest percentage of stores, 17 percent, in both 1978 and 1979.

According to the Whole Foods survey, California alone accounts for nearly half of the health/natural stores in the West (fig. 1). Seventy-eight percent of the stores located in the East are located in four States: New York accounts for 39 percent; Pennsylvania, 16 percent; New Jersey, 12 percent; and Massachusetts, 11 percent. Rhode Island and Delaware have the smallest share of stores, less than 3 percent each.

17/ "ERS Survey of Health Related Food Choices," Economic Research Service. U.S. Dept. of Agriculture, unpublished.
18/ "1982 Retail Survey," Whole Foods: The Natural Foods Business Journal, Aug. 1982.
19/ "Whole Foods First, Second and Third Annual Reports on the Natural Foods Industry," Whole Foods: The Natural Foods Business Journal, 1978-1980.

The average sales volume per store in the United States for 1979 was $218,077. However, there are differences in sales by region of the country. Although current regional sales data are not available, table 3 shows the regional sales differences for 1978 and 1979. Increased sales were more apparent in the West and Midwest where average 1979 sales were 33 and 31 percent, respectively, above sales of the previous year.

Average per store sales for both 1978 and 1979 were higher in Eastern stores--9 percent above the national average--although only 22 percent of the health/natural food stores are located there. Higher per capita incomes and more older, established stores there may account for this sales volume. Both Eastern and Western regions had average per store sales above the national average in 1979, while average per store sales in the Midwest and South were 9 and 8 percent, respectively, below the national average.

Table 2--Number and percentage of health and natural food stores in the United States and percentage of sales

Area	Number of stores 1978	Percentage of total	Percentage of retail sales 1978	Number of stores: 1979	Percentage of total	Percentage of retail sales 1979
	No.	--Percent--		No.	--Percent--	
Total	6,405	100	100	6,600	100	100
West	2,630	41	39	2,710	41	43
Midwest	1,260	20	18	1,295	20	19
East	1,420	22	25	1,465	22	24
South	1,095	17	18	1,130	17	14

Source: Whole Foods, 1978-79.

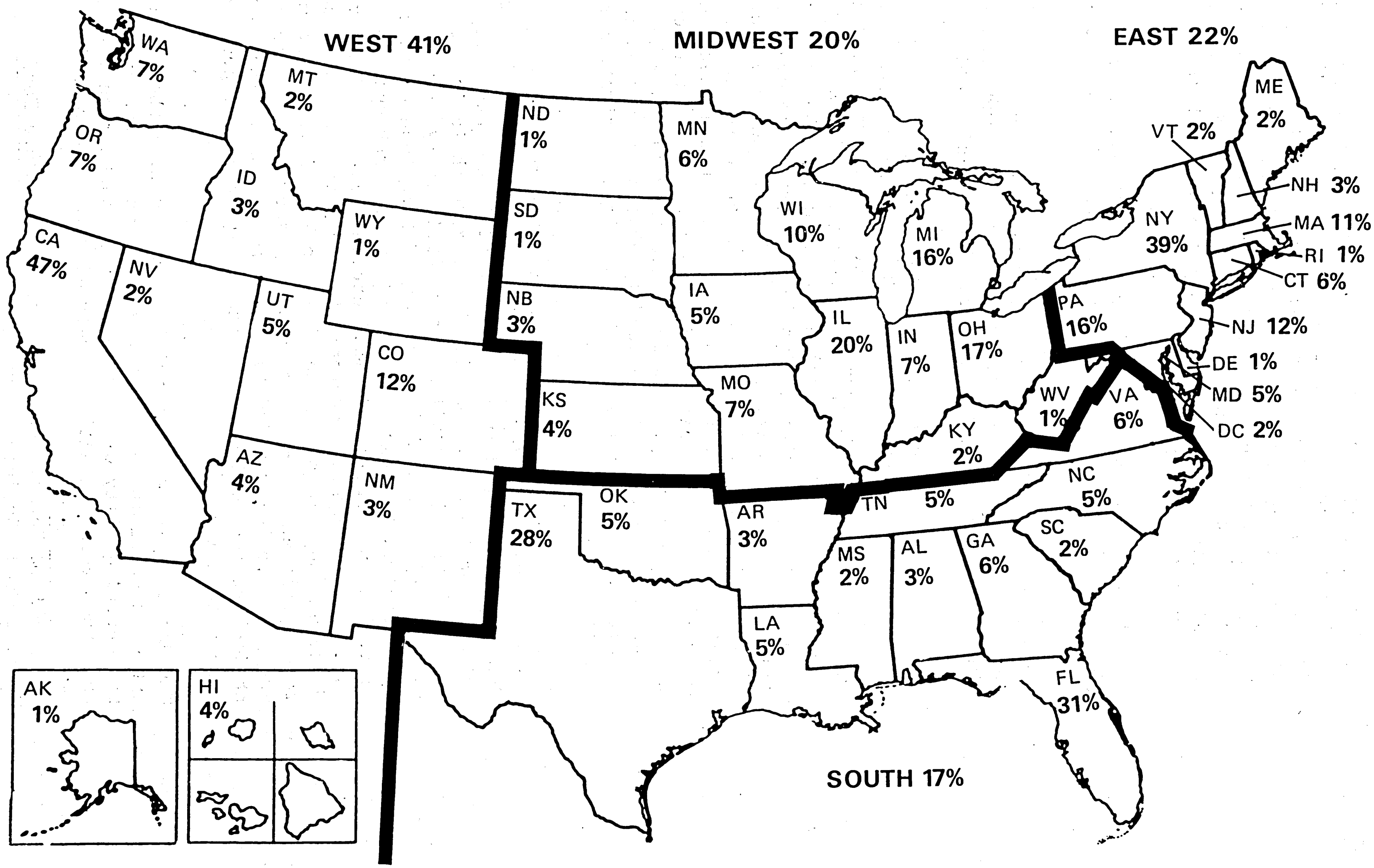
Table 3--Average retail sales in health and natural food stores in the United States

Area	Average per store sales 1978	Average per store sales 1979	Percentage increase
	--Dollars--		Pct.
Total	161,000	218,077	26
West	152,981	228,372	33
Midwest	147,378	211,172	30
East	181,628	235,790	23
South	169,586	178,321	5

Source: Whole Foods, 1978-79.

Figure 1

Distribution of Health and Natural Food Stores by Region and State, 1978



Source: Whole foods, (first annual report on the natural food industry) 1978.

Multiple Stores

According to the NFM 1983 survey, multi-store operators with 2 to 35 stores account for 20 percent of the retailers in the industry. The majority of retailers own only one store. Although multi-store operators account for a fifth of the retailers, they control 49 percent of the retail stores and 54 percent of the gross sales. The NFM reported that the majority of multi-store retailers own only 2 stores, while 30 percent own from 3 to 35 stores.

The average annual sales volume for each unit in a multi-store operation is $352,000, compared to $276,000 average volume for single stores.

Chains may be defined as two or more stores under the same ownership bearing the same store name. However, individual stores under the same ownership are not always designated as a chain.

Although the exact number of chains is unknown, it is estimated by the NFM that there are about 300 different chains in the United States. Whole Foods 1982 survey reports the largest share of chains to be in the Northeast. Twice as many chains classify themselves as health food stores rather than natural food stores. 20/ Most chains in the Nation are controlled by publicly owned corporations which either issue stock or sell franchises. 21/ Health food stores operated by chains are mostly medium or small in size. Natural foods supermarkets account for only 15 percent of chains. Many health and natural food stores are located in shopping malls, where they may face head-to-head competition. One strategy used by chains to develop customer loyalty has been to develop the chain's own private label into a strong brand.

Data are not available as to the exact number of large chains. However, some examples of chains with more than 50 stores are General Nutrition Center (GNC), Great Earth International, and Nature Food Centers. GNC is the largest chain in the country with nearly 1,100 retail stores, followed by Great Earth International with about 115 stores and Nature Food Centers with approximately 95 stores. GNC and Great Earth operate their own distribution centers and manufacturing plants. However, Nature Food Centers buys its own private label products from many different suppliers. These chains sell primarily vitamins and food supplements. However, food items are growing in importance and more are being added to their product mix. Though the chains promote their own private label products, they do carry some national brands.

The large health and natural food chains have their own distribution centers and/or manufacturing plants, thus enabling them to control quality of private label products much more closely than the average health and natural retail operation.

20/ "1982 Retail Survey," Aug. 1982. Whole Foods: The Natural Foods Business Journal.

21/ "Health Food Chains: The Facts are Public," Natural Foods Merchandiser, Feb. 1981, p. 1.

Product Mix

The array of products (both foods and nonfoods) now found in health and natural food stores has changed considerably in the past 20 years from primarily vitamins and food supplements to a variety of processed, packaged foods, organic produce, spices, herbs, soybean products, and snack items. Nonfoods also have many new additions: new vitamins and food supplements, herbs in capsule and tablet form, exercise equipment, appliances, body care products, and various health and nutrition books.

Health Foods Business estimated that 10 years ago, nonfood products accounted for two-thirds of total store sales, but by 1975 their share had dropped to 52 percent (fig. 2). During 1983, share of sales for the food and non-food groups were about equal.

Foods

Food's share of sales has been increasing since 1975 and for the first time accounted for over 50 percent in 1978 and rose to nearly 54 percent in 1980. Although 1981 data show a decline in share of sales, food recaptured its share of sales in 1982 rising to 55 percent, 1 percent above the 1980 level. 1984 survey data, however, show foods share of sales to have dropped to 50 percent, 1 percent above the 1981 level. Baked goods, beverages, dried fruits, grains, cereals, groceries, nuts and seeds, and snack items were primary contributors to the increase in 1982 sales and the decline in 1983 (table 4).

The growth of the foods category since 1975 is reflected most in four product categories: beverages, groceries, herbs/teas, and dietetic foods (table 5).

The grocery category currently holds the largest share of sales in the food group: 10.1 percent, a 62 percent increase over that of 1975. Pasta is the leading grocery item currently sold in natural food stores. Almost 25 percent of all grocery items sold are pasta products (table 6). Condiments hold the second largest share of sales, 18 percent. The grocery category was listed by the leading natural foods retailers in 1982 as having the highest sales potential, according to NFM.

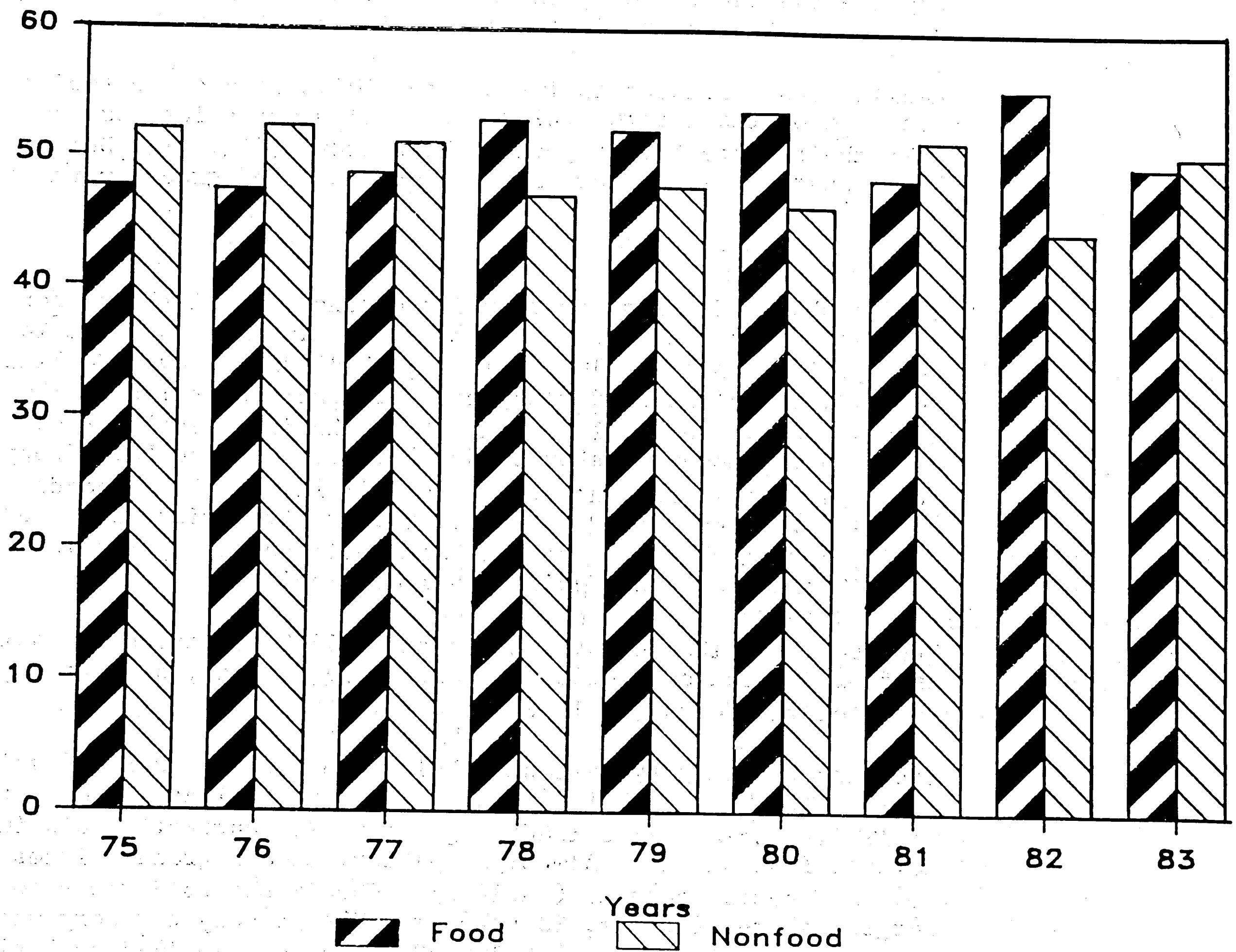
Herbs account for the second largest share of sales in the food category, 9.6 percent. Herbs are used in cooking, seasoning food, making teas, and medicinal purposes. They can be purchased in bulk, packaged, tablet, or capsule form. The latest data from the Health Foods Business March 1984 survey show herbs, other than teas, holding the largest share of herb sales, about 72 percent, while herb teas account for 28 percent. Herbs in tablet and capsule form are predicted to account for most of the future growth in this category according to the survey.

Nonfoods

Vitamins and food supplements have accounted for the largest share of nonfood sales in health and natural food stores over the past decade (table 4). A 1980 Progressive Grocer survey indicates that 23.5 million households use vitamins. Vitamin sales from all outlets grew from $300 million in 1970 to $1.7

Figure 2

Percentage of Health and Natural Food Industry Sales, 1975-1983



Source: Health Food Business Annual Surveys, 1976-1984

Table 4--Percentage of health and natural food industry sales held by foods and nonfoods categories

Category	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Percent								
Foods:									
Baked goods	2.4	2.2	2.2	1.8	1.8	1.7	2.3	3.4	.9
Beverages	0.0	0.0	0.0	1.2	2.2	1.6	1.8	2.2	1.7
Dairy	4.3	3.3	4.0	3.8	4.4	3.3	3.6	3.4	3.6
Dietetic	1.4	1.0	0.9	1.3	1.5	1.0	1.3	1.1	4.0
Dried fruits	4.5	4.1	3.5	3.8	2.8	2.5	1.8	2.5	2.1
Fish, meat substitutes	3.5	2.5	1.9	2.0	1.2	2.2	.5	0.0	0.0
Frozen entrees	0.0	0.0	0.0	1.0	1.1	1.0	1.9	1.4	1.1
Grain, cereals	5.7	7.0	5.3	6.1	5.0	5.9	4.5	6.5	6.2
*Groceries	3.8	4.5	2.6	5.8	6.5	6.9	10.5	12.2	10.1
Herbs (incl. bulk, capsules, tablets, and teas)	6.1	6.7	8.0	7.9	9.9	9.4	9.7	9.3	9.6
Honey, syrups	0.0	0.0	3.2	2.5	2.2	3.4	1.4	1.7	1.2
Juices	3.6	3.4	3.1	2.7	2.7	3.1	1.5	1.8	1.3
Nuts & seeds	8.0	5.8	5.2	4.8	4.0	3.4	3.1	4.1	3.4
Organic produce	0.0	1.9	1.5	1.8	1.2	2.0	1.0	1.9	2.0
*Pasta	0.0	1.5	1.8	1.1	1.1	1.4	*	*	*
Snacks, confections	4.5	3.6	3.9	3.6	2.7	2.9	2.4	3.0	1.8
Soy products	0.0	0.0	1.5	1.2	1.2	1.1	1.2	1.0	0.6
**Water	0.0	0.0	.2	.5	.6	.9	***	***	***
Subtotal	47.8	47.5	48.8	52.9	52.1	53.7	48.5	55.5	49.6
Nonfoods:									
Appliances	2.7	3.0	2.5	1.8	2.1	2.1	1.6	1.6	0.7
Body care	3.7	3.9	5.0	4.8	5.6	6.5	7.6	7.6	7.5
Books	5.2	3.8	3.9	3.6	3.7	2.9	3.4	2.3	2.3
Exercise equip.	0.0	0.0	0.0	.6	.2	.4	0.0	0.0	0.0
Medicinals	0.0	0.0	0.0	.7	1.2	1.7	1.7	0.0	0.0
Pet products	0.0	0.0	.4	.2	.5	.5	0.0	0.0	0.0
Vitamins & suppl.	39.7	41.1	39.1	34.6	33.9	31.4	36.0	30.1	37.2
***Misc.	.9	.7	.3	.8	.7	.8	1.2	2.9	2.7
Subtotal	52.2	52.5	51.2	47.1	47.9	46.3	51.5	44.5	50.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Percentage of market held by pasta is included with the groceries category for 1981, 1982, and 1983.

** Percentage of market held by water for 1981, 1982, and 1983 is included with the misc. category.

*** The misc. category 1975-1980 includes paper goods, plants, and clothing. For 1982 and 1983 also includes fish and meat substitutes, exercise equipment, medicinals, pet products.

Source: Health Foods Business, annual surveys, 1976-1984.

Table 5--Health and natural foods share of store sales by food categories, 1975-83.

Category	1975	1980	1982	1983
		Percent		
Beverages	0.0	1.6	2.2	1.7
Dietetics	1.4	1.0	1.1	4.0
Groceries	3.8	6.9	12.2	10.1
Herbs/Teas	6.0	9.4	9.3	9.6
Total	9.8	17.9	23.7	25.4

Source: Health Foods Business, June 1980, and March 1984.

Table 6--Share of market by various grocery products

Grocery product	Share of total store sales		Share of grocery category sales	
	Percent			
	1982	1983	1982	1983
Pasta	1.6	2.1	13	21
Condiments	2.6	1.8	22	18
Canned goods	1.5	1.1	12	11
Sweeteners	1.5	1.1	12	11
Main dishes	.9	.7	7	7
Soups	1.1	1.1	9	11
Spreads	.7	1.1	6	11
Salt/salt substitutes	1.7	.7	14	7
Baby food	.6	.3	5	3
Total	12.2	10.1	100	100

Source: Health Foods Business, Mar. 1983 and 1984.

billion in 1980. 22/ About 33 percent of vitamin sales come from drug stores, with health food stores receiving 29 percent and supermarkets, 10 percent. 23/ The remainder is divided among mail order and door-to-door sales.

22/ "Vitamin Market--$300 Mil.," Natural Foods Merchandiser, Feb. 1980, p. 8.

23/ Ibid.

Many consumers purchase vitamins and other food supplements from health and natural food stores where prices are generally higher; these stores claim that quality is superior. Over half of the respondents in USDA's 1980 household survey who shopped in a health food store purchased vitamins and dietary food supplements.

Although competition for vitamin and food supplement sales is intense, they still account for the largest share of nonfood sales in health and natural food stores, 37 percent. This nonfood category has been on an up and down swing since 1980 when share of sales dropped to 31 percent. Although vitamin and food supplements appear to be gaining back its share of sales, a 1979 Prevention magazine study reported that by 1990 their percentage of food store sales will decline. 24/

Body care products hold the second largest share of nonfood sales. Body care products sold in health and natural food stores are designed to appeal to consumers who are concerned about artificial colors, preservatives, and chemicals which may be harmful to skin and hair.

FOOD INDUSTRY'S REACTION

Consumer interest and demand for natural foods, the high reported profitability of those foods, and competitiveness in the conventional retail food market have encouraged a growing number of retailers to stock natural foods within conventional supermarkets.

Between May 1980 and October 1981, 3,258 new products were introduced in the supermarkets, most being different versions of existing products and many emphasizing nutrition. For example, most baby foods are now salt-free and either sugar-free or sugar-reduced.

Low-sodium soups and lite foods with a decreased sugar content or substitute sweetener have been introduced as well as nutritional snacks such as raisins and wheat snacks, a variety of breads, domestic bottled waters, and fruit juice beverages. 25/ Other foods which have been modified because of health concerns are nitrite-free hotdogs and bacon, sugarless lollipops, caffeine free cola drinks, coffee and tea, cholesterol-free cheese substitutes, and whole lines of calorie-reduced lite prepared dinners and entrees.

Traditional restaurants and fast-food firms have also begun testing the marketability of natural foods in their outlets. Salad bars serving alfalfa and mungbean sprouts, chickpeas, and other natural food fare have become a standard in many restaurants and fast-food outlets. One fast-food chain is even starting vegetarian menus.

24/ "The Retail Health Food Market: Its Customers, Growth, and Future," Prevention, July 1979.
25/ "New Foods," Food Engineering, Oct. 1981, p. 75.

Grocery Stores Marketing Natural

Supermarkets are recognizing the market potential for products labeled natural and are using different techniques to lure natural food and nutrition minded customers to their stores. Supermarkets provide an increasing number of traditional products labeled natural including everything from cereal to shampoo. Consumer Reports estimated in 1980 that 7 percent of all processed food products in the supermarkets claimed to be natural. [26] Location of these natural foods may vary from separate sections in the store to the diet isle, or even the baking section in an attempt to communicate a getting back to basics image.

In addition to the traditional products bearing a natural label, retailers now provide space for separate natural food centers within the supermarket. These centers sell foods traditionally sold only in health and natural food stores and typically carry the same brands as found in health and natural food stores. Supermarket firms often use the same wholesalers as the natural food industry to stock their centers with vitamins, herbs, dairy products, cosmetics, and groceries.

Natural food centers are generally positioned in high traffic areas and may be found adjacent to the produce department. These centers range in size from 400 to 1,200 sq. ft. with 950 sq. ft. being the average. Some centers, however can be as large as 3,000 feet or larger.

The product mix includes bulk foods sold from bins; packaged, canned, and jarred grocery items such as snacks, herbs, herb teas, and beverages; frozen and refrigerated products like juices, natural ice creams, yogurts, and other dairy items; vitamins, minerals, and supplements; natural health and beauty aids; and books and magazines.

An NFM spokesman estimated 1,500 natural food centers in U.S. supermarkets in 1982, up from 950 in 1981. NFM also projects the number of centers to grow to 5,600 by 1985 and 13,400 by 1990, accounting for 30 percent of the health and natural foods market by then. Sales in 1981 were about $221 million or 8.8 percent of the overall market and by 1990 are estimated to reach $3.7 billion. [27] So far, at least two major supermarket chains--Safeway, Inc. in Oakland, Calif., and Kroger Company, Cincinnati, Ohio--have made large-scale commitments to health food departments.

Compared with the average supermarket gross margin of about 18 percent for all regular groceries, the 30 percent average gross profit margin on natural foods make these centers very attractive to supermarket firms. Average supermarket annual sales per square foot are less than $400 but can reach as high as $1,000 for the same area in a natural food department. A

26/ "It's Natural! It's Organic! Or Is It?" Consumer Reports. Vol. 45, July 1980, p. 411.

27/ Washington Food Report: Weekly Digest, American Institute of Food Distribution, (Fair Lawn, N.J., May 15, 1982), p. 2.

supermarket spokesperson estimated that 35-40 percent of the profits of a natural foods department came from the sales of vitamins, which generate two and one half times more profit per unit than other average household and beauty aid items. 28/ The supermarket's share is now 11 percent of the total vitamin market. Supermarkets are setting the stage for a bigger share of vitamin sales by expanding promotions, shelf displays, and private label selections.

According to Natural Foods Mechandiser, the food groups that appear to have the best potential for growth in supermarkets are vitamins, snack products, cereals, grains, pasta, juices, and beverages. 29/ Nutritional snacks are a major trend for supermarkets with both health food companies and some conventional food manufacturers entering the market.

West Coast Models

Most supermarket natural food centers are based in the West, but they have spread quickly and are now in nearly all parts of the country.

The whole idea of natural food centers in supermarkets originated 5 years ago. Raleys, northern California's leader in supermarket natural food centers, was a pioneer in creating the special sections in 1977. With total annual sales of close to $400 million, Raleys has 39 stores heavily promoting natural foods in these centers. While the centers average 1,000 sq. ft., the largest takes up 3,000 sq. ft. The centers are usually located in the middle front of the store near the checkout stand. This year, Raleys is developing its own private label line of natural foods which already includes a whole grain sprouted bread and a line of raw milk cheeses. The sprouted bread is outselling the leading commercial brands in their stores.

Safeway is the Nation's largest grocery chain with $15 billion in annual sales. As of November 1983, Safeway had approximately 730 natural food centers. Although most of the units are located in the West, units are coming to all parts of the chain. Plans are to expand through Canada to Europe. Safeway's natural food centers are 800 to 1,200 sq. ft. and stock up to 3,000 items that are usually sold in only natural food stores.

A 1981 survey of the top retailers in the health food industry showed that 63 percent consider supermarket competition among the top three threats to their business, and 13 percent perceived the supermarkets to be their major threat. 30/ This compares with 44 percent in 1980 who ranked supermarket competition in the top three threats to their business and only one who felt they were a major threat. Health food retailers

28/ "Vitamin Market," Natural Foods Merchandiser, Nov. 1980, p. 8.

29/ "Retailer Poll Predicts 19 Percent Growth in 1980," Natural Foods Merchandiser, Jan. 1980, p. 50.

30/ "Top Retailers Predict 20 Percent Sales Climb in 1981" Natural Foods Mechandiser, Jan. 1981, p. 30.

are concerned that as the demand for natural foods grows, major health food manufacturers may opt for conventional grocery distribution channels. Because of higher volume and lower unit costs, supermarkets can generally offer lower retail prices. Other advantages supermarkets have is their growing ability to track detailed product movement via electronic checkout systems scanning which contributes to improved pricing and merchandising decisions. The lower prices and one-stop shopping that supermarkets offer may take customers away from the health food retailers and jeopardize the survival of smaller independent health food stores.

Despite these concerns, a 1981 economic forecast survey of the major manufacturers and distributors of the health/natural foods industry stated that most manufacturers (93 percent) and distributors (80 percent) ranked supermarket exposure as one of the top three factors for creating consumer awareness of health foods. [31/] They believe that exposure of natural food products in supermarkets will increase consumer awareness and acceptance of the products, regardless of where they are sold. Sixty percent of the wholesalers/distributors and 83 percent of the manufacturers surveyed were selling to supermarkets. The optimists within the industry view the increased exposure of these foods to a larger segment of the population via the supermarket as advantageous to the industry, a boom to increasing the market, and a way of uplifting the image/credibility of foods sold in health and natural food stores. This feeling is shared by the executives of the industry's largest chains who say they have no fear of supemarket competition.

Institutional Food Markets

The customer base for natural, additive-free foods is expanding as these foods find their way into the institutional food markets such as school lunch programs, college food services, hospitals, nursing and resting homes, and prisons. Some school lunch programs are beginning to feature a salad bar which includes a variety of fresh vegetables, whole foods low in fat, sugar, and salt with no artificial coloring, additive preservative, or refined carbohydrates. Breads are freshly baked using unbleached whole wheat and soy flours, and natural sweeteners such as honey, molasses, and raisins are used in cakes and cookies.

CLAIMS FOR NATURAL AND ORGANIC FOODS

Growing concern about the safety and nutritional quality of many foods has helped to generate consumer interest in obtaining foods designated as natural and organic. Although these terms are common to the health and natural foods markets, there is no general concensus as to what they mean among consumers, retailers, and producers. Are foods labeled natural/organic more nutritious or superior in any way to regular food items? Should all products with a natural/organic label command a premium price? How does the consumer know if foods advertised as natural/organic are really what they claim to be?

31/ Natural Foods Merchandiser, Feb. 1981, p. 34.

Many of these questions stem from the fact that there are no industry or government standards to define or regulate the terms. So, food processors and growers use them to suit their own purposes in promoting and selling various food products. Thus, some foods continue to be labeled natural which may only have one natural ingredient and contain other additives or preservatives.

Natural Food Claims

Proposals have been made by the FTC to define the term natural, although these proposals have not been adopted by the FTC.

USDA's Food Safety and Inspection Service, however, did officially adopt the proposed FTC definition for label claims on meat and poultry products. Products bearing a natural labeling claim must meet the following two criteria: (1) The product does not contain any artificial flavor or flavoring, coloring ingredient, or chemical preservative or any other artificial or synthetic ingredient; and (2) the product and its ingredients are not more than minimally processed. FSIS also requires a qualifying statement either beneath or beside any natural food product to explain what is meant by the term natural, i.e., that the product is a natural food because it contains no artificial ingredients and is only minimally processed. USDA approved its first natural label claim in 1981, when Louis Rich Foods sought approval for its fresh turkey breast product which included the phrase "A Natural Product."

Without regulations, food products ranging from fresh fruits and vegetables to highly processed food products are permitted to be advertised as natural. There are many natural breads on the market. But one may question if any bread made from wheat which has had vitamins and minerals removed in the milling process can be considered natural. Colored cheddar cheese may be labeled natural even though the natural color is creamy white.

Natural claims are inconsistent regarding the presence of additives and preservatives in food. For example, natural claims have been made for (1) foods containing no additives and preservatives, and (2) foods containing no artificial preservatives. Although the first product is presumably free of any additive and/or preservative, the latter could contain other artificial additives such as coloring agents and flavorizers and still be labeled natural.

Not only does the term natural describe ingredients in products, but also the form of the product. For example, "ready to cook, natural fillets" distinguishes a fillet cut from a fish from fillets cut into individual portions out of a large block of frozen fillets. The description for onion rings "natural fresh sliced onion rings" may simply distinguish them from other forms such as diced or pressed onion rings. Some food products are just as natural as they have ever been, the only change is that the term natural has been added to the label. Various brands of potato chips, apple cider, and distilled white vinegar are among the products that fall into this category.

Many consumers who purchase natural foods do so because they believe them to be safer, more nutritious, or in other ways superior to more highly processed foods. A 1979 nationwide survey reported that 68 percent of the respondents believed natural foods were better than processed foods. 32/ Findings from a 1978 FTC report state that natural foods are perceived to be superior, healthier, and more nutritious than other foods and people are apparently willing to pay a premium price--10 to 50 percent above prices in supermarkets for these traditional foods. 33/ However, there is no proof that this is true. Jane Brody, health columnist of the New York Times, states that "better health through better eating is as yet unsubstantiated by scientific evidence... there is no evidence that foods called "natural" or "organic" are safer than other foods. Nor is there any guarantee that foods so labeled are free of additives and chemical residues one may wish to avoid." 34/

Organic Food Claims

In addition to natural and regular foods, organic foods are sold in health and natural food stores. The general concensus is that organic means foods that were grown without the use of chemical fertilizers, synthetic pesticides, antibiotics, and growth stimulants and that were processed without synthetic additives and preservatives.

Many consumers assume that organic foods are superior to other foods, yet they may have no idea where these foods come from and generally have no way of checking on the growers' claims. Reputable stores should, however, be able to produce affidavits or scientific tests attesting that the products are free of certain pesticides and chemicals and were grown without chemical fertilizers.

Analyses of organic breads and lettuce have found pesticide residues even though growers may not have applied the chemicals. In 1978, researchers at Wayne State and Michigan State Universities bought 10 brands of bread (half from health food stores and half from supermarkets). All 10 samples contained traces of pesticide residue. 35/

Because food that is grown organically is not physically discernable from regular food, many growers, distributors, manufacturers, and retailers have sold regular food as organic which generally commands a higher price. Even when the farmer and/or distributor are known, organically grown food may not be completely free of pesticide residues. Produce may contain

32/ YanKelovich, Skelly and White. "Nutrition vs Inflation: The Battle of the 80's," 2nd Women's Day/FMI Family Food Study, 1980.

33/ Proposed Trade Regulation Rule on Food Advertising: Staff Report and Recommendations, 16 CFR Part 437 Phase 1, Federal Trade Commission, Sept. 25, 1978, p. 220.

34/ Jane E. Brody, "Health Foods, Are They Healthier?" Jane Brody's Nutrition Book, (W. W. Norton and Company, New York, N.Y.), 1981, p. 490.

35/ Op. cit. Consumer Reports, July 1980, p. 414.

residues because some synthetic chemicals remain in the soil for years after applications are stopped. In addition, fresh residues may be carried in the sprays, dust, wind, and rainfall runoff from adjacent farms. However, according to the Food and Drug Administration, regular periodic testing of the U.S. food supply for pesticides shows that though residues are widely present, they are normally within Federal tolerance levels designed to protect consumers.

USDA's Report on Recommendations on Organic Farming states that "federal policy regarding the regulation of organic food claims has direct consequences for organic agriculture; it affects potential markets for organic products and also affects methods of production which legally may be considered organic." 36/ The USDA and two Federal regulatory agencies, FDA and FTC regulate food claims but often take different approaches. FDA believes that the development and enforcement of standards in this area would be difficult and might imply that foods labeled organic are inherently superior to other foods in nutrient content and safety. USDA does attempt to control the use of organic claims on meat and poultry and egg products because it believes such claims are generally misleading.

Public Programs

Although Federal legislation has been introduced on organic foods, attempts to enact it have been unsuccessful. In 1972, the Koch bill, H.R. 14941, was introduced to protect consumers against the misrepresentation in the marketing of organically grown foods. The bill died in committee.

In 1978, the FTC came up with a definition for organic, but abandoned the proposal when confronted with the problem of regulating the organic farming industry. 37/ Regulations would require testing the soil and produce from every organic farm and certifying that it was up to standard. Then regulations would require checking to see that the produce sold in the store was the same produce that came from a certified farm.

The most recent piece of legislation, H.R. 5618, "Organic Farming Act of 1982," approved by the Subcommittee on House and Family Farms in June of 1982, failed to pass the House of Representatives. The bill would have set up six information and organic research centers across the Nation. Senate bill 2485 was also recently introduced to establish a volunteer network providing farmer-to-farmer assistance through the USDA Extension Service to individuals interested in innovative organic farming techniques. The bill would also authorize research at six land-grant colleges to test the usefulness of organic farming practices for conventional farmers. No action has been taken on this bill.

36/ Report and Recommendations on Organic Farming, USDA Study Team on Organic Farming, U.S. Department of Agriculture, July 1, 1980, p. 68.

37/ Op. cit., FTC, 1978, p. 229.

Oregon, 38/ California, 39/ and Maine, 40/ have statutes which establish standards for foods that are advertised and/or labeled organic. These State standards are not certification programs in themselves. They only set standards for foods which have already been certified by private certification groups.

The Oregon rule is used here to illustrate the definition of organic and standards which apply to foods produced by organic methods. In 1974, Oregon was the first State to adopt an organic food regulation administered by the State Department of Agriculture. The Oregon Department of Agriculture has the power to enforce the rulings, regularly test produce during store inspections or on request, and to mediate disputes. In contrast, legislation for California and Maine provides no funds for tests or enforcement of the law.

Oregon patterned its standards after the Rodale Certification Program discussed in the next section, and California and Maine have patterned their legislation after Oregon. Organically grown food is defined by the Oregon rule as food which has been grown without being subjected to pesticides, synthetic fertilizers, or other synthetic chemicals, and in soil in which the humus and/or mineral content is increased only by the application of natural mineral fertilizers or other natural matter. Produce grown without chemical pesticides and fertilizers may still contain trace residues after harvest.

Produce is permitted to be called organic even though the produce may contain up to 10 percent of the FDA's maximum allowable pesticide residue. Under the labeling section, products claiming to be certified as organic must display a reproduction of the certificate showing the name and address of persons or certifying organization as well as the name and address of the grower, producer, or retailer.

The Oregon rule includes provisions for certain meat animals and products derived from meat animals (milk, cheese, and eggs). It provides a definition for organic meat animals as those produced in a secured or limited area so as to restrict uncontrolled movement, where grasses, feeds and water supplies are free from intentional application of pesticides or other synthetic chemicals, and where no artificial growth stimulants, hormones, drugs, or antibiotics are administered or introduced to the animals unless prescribed by a veterinarian for treatment of a specific disease or malady, and in no event administered or introduced within 90 days of slaughter.

38/ Oregon Dept. of Agric. Admin. Rules, Chapter 603, Division 25.

39/ Assembly Bill No. 443. Legislative Counsels' Digest, California. Chapter 914.

40/ An Act to Define What Foods May Be Labled or Advertised as Natural or Organic. Maine, HP-1016-LD1286. May 18, 1979.

Private Programs

With limited State legislation in Oregon, Maine, and California, many private growers have initiated their own certification programs in an effort to develop quality control standards.

Robert Rodale was one of the first to begin organic farming practices in 1941. His practices were patterned after organic farming in Britan. Rodale saw the need to stop abuse in the mislabeling of foods as organic and ensure the quality of foods produced by organic methods. He was the first to develop a pilot program in 1970 dealing with standards to certify organic food.[41/] The Rodale program was not designed to be an ongoing one, but only to stimulate the industry and give growers confidence in growing organic produce. As other certifying organizations developed, Rodale's pilot program was discontinued. However, his standards are being adopted by many of the certifying organizations.

The Rodale pilot program required each farmer making application to submit an outline of soil analyses and crops planned for growing, past and future procedures for maintaining good soil, an outline of weed and pest control programs, and plans for avoiding possible contamination by pesticides from neighboring farms. The grower making application for certification was visited personally by a Rodale representative, and technicians from an independent testing laboratory tested soil samples, water supplies, and plant tissue. If qualified, groups were then permitted to use the Rodale label "Certified by Organic Gardening and Farming."

Regional organic certification organizations began to develop in 1973. One of the first to certify was the Natural Foods Associates of New York. As of April 1980, there were approximately 33 private organic farming organizations active in the United States. Their purpose is to provide for information exchange among members, certify and inspect organically produced crops, and to help market and distribute organic crops in every area of the Nation.

The International Federation of Organic Agriculture Movements (IFOAM), formed in 1972, serves as an international communicator as well as a coordinator of organic farming developments.

Marketing organic produce is a common problem among organic farmers. The USDA reported that less than 30 percent of the organic farmers in its survey marketed their products as organic sales to local organic food cooperatives, organic wholesalers, organic retailers (such as health and natural food stores), or directly to the consumers. Often organic farmers must sell their crops on the commercial market because they cannot find outlets on the organic market. When they cannot command an adequate price on the commerical market, they may become discouraged from continuing organic practices. A few respondents to the USDA survey indicated they had either reduced

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41/ "Organic Foods: What They Are, Why You Need Them," Organic Gardening and Farming. Rodale Press, Inc., 1973.

or ceased production of organic produce because they could not find markets for their products.[42] Whether or not organic farmers sell their produce as organic is determined primarily by the magnitude of price premiums they may be able to obtain. Some organic foods cost twice as much as similar items in the supermarket.

The adoption of uniform standards would help dispel confusion and deception regarding products labeled natural and provide information to eliminate inferences of superiority. Uniform national standards would also help to define and certify organic foods and enhance their marketability. The similarity between the FTC's proposed organic definition and those definitions already adopted by California, Maine, and Oregon may lead to a more uniform definition of organic in the other States.

Organic vs Regular Food Prices

The price difference that once existed between organic foods in health and natural food stores and inorganic foods in supermarkets appears to be narrowing. In October 1980, USDA researchers compared prices of 32 regular food items sold in a Washington, D.C. area supermarket with similar organic items sold in an area natural food store. Findings, of course, are a rough approximation of the premium paid for foods labeled organic versus conventionally produced foods in the Washington, D.C. area only and not for the entire country (table 7).

Price relationships in this study are similar to the results of a 1976 USDA study where 47 foods advertised and labeled as organic were priced in two natural food stores and compared to similar foods priced in a supermarket in the Washington, D.C. area. [43] Although organic foods generally continue to cost more than regular foods in the supermarket the price difference has narrowed in the Washington area from nearly 50 percent more in 1976 to 15 percent more in 1980.

Survey results showed no cost difference between the price index total for unprocessed organic items found in the health/natural foods store and unprocessed regular items found in the supermarket: $14.39 and $14.40, respectively (table 7). Prices, however, varied within the unprocessed category. For example, for 10 of the 18 unprocessed food items--garlic, onions, squash, tomatoes, carrots, brussel sprouts, green beans, green peppers, romaine lettuce, and potatoes--prices ranged from 5-39 percent lower in health food stores than in supermarkets. The other eight unprocessed items were priced 9-149 percent higher than in the supermarket. The unprocessed food item in natural food stores with the greatest price difference compared with the same items in the supermarket was red cabbage which sold for 36 cents per lb. compared to 59 cents per lb. in the supermarket,

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42/ Op. cit. Report and Recommendations on Organic Farming, July 1980, p. 17.

43/ Cynthia Cromwell, "Organic Foods--An Update," Family Economics Review, USDA ARS-NE-36, Summer 1976, pp. 8-10.

Table 7--Cost of organic foods compared with cost of similar non-organic foods, Washington, D.C., metropolitan area, October 1980

Item	Size	1 Supermarket (nonorganic)	2 Store (organic)	Price difference
		Dollars	Dollars	Percent
Unprocessed foods:				
Eggs	DOZ.	1.11	1.40	27
Fresh fruits and & veg.--				
Apples	LB.	.59	.64	9
Brussels sprouts	LB.	1.57	1.17	-25
Cabbage, green	LB.	.29	.35	40
Cabbage, red	LB.	.59	.36	-39
Carrots	LB.	.49	.39	-20
Cucumbers	LB.	.57	.67	17
Garlic	LB.	1.69	1.60	-5
Green beans	LB.	.89	.56	-37
Green peppers	LB.	1.00	.78	-22
Greens, collards, kale	LB.	.35	.87	149
Lettuce, head	LB.	.69	.78	13
Lettuce, romaine	LB.	.89	.56	-37
Mushrooms	LB.	1.09	2.22	104
Onions	LB.	.45	.42	-6
Potatoes	LB.	.45	.30	-33
Squash	LB.	.79	.64	-19
Tomatoes	LB.	.89	.69	-22
Subtotal		14.39	14.40	0
Processed foods:				
Canned fruits and & veg.--				
Apple juice	QT.	0.83	1.92	131
Apple sauce	QT.	.73	.92	26
Tomatoes	LB.	.55	.92	68
Dried fruits and & veg.--				
Lentils	LB.	.89	1.28	44
Raisins	LB.	1.91	1.68	-12
Flour, cereal, pastas, and bread--				
Corn meal, yellow	LB.	.33	.30	-9
Grits	LB.	.53	.75	41
Oats, rolled (not quick cooked)	LB.	.80	.57	-28
Wheat cereal	LB.	.80	.50	-37
Whole wheat bread	LB.	.50	.92	84
Whole wheat flour	LB.	.30	.47	57
Other--				
Honey	LB.	1.55	2.21	43
Peanut butter	LB.	1.29	1.92	49
Vinegar, cider	QT.	.34	.73	115
Subtotal		11.35	15.09	33
Total		25.74	29.49	15

SOURCE: National Food Review, Summer 1981. p. 32.

a 39 percent price difference. Organic mushrooms and organic kale greens in natural food stores were more than two times the price of their regular counterparts in the supermarket.

The difference between the cost of organic and regular food items was much greater for processed than unprocessed foods. Overall, 14 processed organic foods averaged 33 percent more than their regular supermarket counterparts. Four organic food items were 9-37 percent less expensive than their regular supermarket counterparts: yellow corn meal, 9 percent; raisins, 12 percent; old fashioned rolled oats, 28 percent; and wheat cereal, 37 percent.

FUTURE TRENDS AND IMPLICATIONS FOR THE INDUSTRY/ CONCLUSIONS

Natural food industry sales are growing rapidly. Despite the state of the economy, the industry experienced a 99 percent growth in 1980. Although only in its early stages of growth, the industry appears to be finding a niche of its own in the vast food production and distribution sector.

The natural food industry's 1982 retail sales of $2.4 billion are projected to grow to $5 to $10 billion by the end of the eighties. While Business Communications Inc. predicts sales to reach $5 billion by 1988, General Nutrition Center predicts it to be nearer $10 billion by 1988.[44]

Service and Consumer Oriented

To attract and keep customers, retail establishments are offering more personal service that attempts to make shopping a combination learning experience and pleasure trip. Consumer education is fast becoming a major priority as shown by increasing in-store food and product demonstrations, point of purchase information, nutrition counseling, and health, nutrition, and cooking classes.

Standards and Truth-in-Labeling

Aware of the potential for quality misrepresentation and fraud problems in the industry, a standards committee has been organized by the NNFA (National Nutritional Foods Association) with four subcommittees: supplements, food division, cosmetics, and herbs. With truth-in-labeling as the primary goal, the committee is pushing for affidavits and full disclosures. They are now doing independent lab testing and recently completed a survey of 1,100 natural food stores in 13 States to determine their attitudes toward standardization. Work is progressing to develop a label something like the U.L. (Underwriters Lab) or Good Housekeeping seal of approval.

Organic Agriculture

Garth Youngberg, former organic farming director for the U.S. Dept. of Agriculture, sees two encouraging signs for the future of organic agriculture: (1) scientific interest and scientists' support as a key to further development is growing, and (2) more conventional farmers are looking for alternatives due to economic considerations and high priced petrochemicals. Dr. Youngberg has formed the Institute of Alternative Agriculture in Greenbelt, MD. whose primary purpose is to act as an umbrella

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44/ Chain Store Age Supermarkets, Nov. 1979, p. 41.

organization to disseminate information, conduct research and promote education on organic agriculture. The following factors should help bolster the future growth of organic produce:

(1) the advent of organic certification programs

(2) the reduction in unit cost from economies in size

(3) Rodale's nationwide Cornucopia Project--study of our nation's food system to identify problems and suggest possible solutions emphasizing organic farming

(4) USDA's "Report and Recommendations on Organic Farming"

(5) The Organic Farming Act of 1982, H.R.5618, to encourage private and governmental support of organic farming techniques

Product Mix

Nutritional snacks and snack mixes, natural beverages and juices, convenience natural foods, natural protein substitutes, whole grains, herbs, and organic produce appear to be the particular food categories with the largest potential for growth.

More and more convenience and ready-to-eat natural food items are finding their way to the shelves of natural food stores in such forms as packaged dinners, burger mixes, and frozen whole wheat pizza.

While these foods hold promise because of their familiarity and convenience, alternative protein sources are expanding the more traditional forms of soyfood products such as tofu, tempeh, soy-sauce, and miso. In less than 7 years, the soyfoods industry has grown from relative obscurity to national prominence with 1982 sales projected at $380 million.

According to Frost & Sullivan, herbs are the fastest growing category in the health food industry. Total herb sales in health food stores are predicted to reach over $360 million by 1987, up from $167 million in 1980. [45] Their use has expanded from food, seasonings, teas, and medications to ingredients in shampoos, conditioners, deodorants, cosmetics, and toiletries, and in tablet and capsule form taken like vitamins. The tablet and capsule segment is predicted to account for most of the future growth.

The vitamin category will continue to grow but at a slower rate. Sales of natural vitamins and nutritional supplements in health and natural food stores are experiencing severe competition from other outlets such as mail order, supermarkets, and drug stores.

Cosmetics and toiletries is a relatively new product market in the health and natural food store industry and has good growth

45/ Health Foods and Natural Vitamins Market, (Frost and Sullivan, Inc., N.Y, N.Y.), Jan. 1979, p. 228.

potential. Results of a 1981 NFM survey of 500 natural food retailers indicate that the average sales volume for these items is growing rapidly. 46/ There remains plenty of room for manufacturers to explore and expand on product ideas.

Health/Natural Food Restaurants

In recent years, over 20,000 natural food eating places have opened across the country that include restaurants; salad, sandwich, soup, and juice bars; and soy delis. These establishments are using many of the products promoted and sold within the industry and will expose these products and their uses to more people. The natural food industry will benefit because many of the items will be purchased from natural food suppliers. Very often, the eating places are part of a natural food store that supplies much of the food used. In 1981, the Unicorn Restaurant in Miami Beach, Fla., was the first natural food restaurant to break into the top 500 volume independent restaurants in the country.

Soy delis, a new innovation to imitate traditional fast-food fare and techniques with natural food ingredients and emphasizing soyfoods have reached total retail sales of over $1 million with 13 in the United States and 2 in Canada.

How much growth the health and natural food industry will experience may very well depend on how the policy issues are resolved. The industry must continue to develop procedures and standards for quality control, to develop more efficient and widespread organic certification programs, and possibly to certify natural products.

Aware of the policy issues and inherit problems, the natural food industry is changing its emphasis and approach. Major emphasis is now placed on developing a standard of quality throughout the whole industry; providing quality products for a fair price; utilizing more sophisticated business techniques; and educating consumers.

46/ "Body Care Hits 12.6 Percent of Sales," The Natural Foods Merchandiser, Aug. 1981, p. 44.

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