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**MARKETING ORGANIC FOOD PRODUCTS--THE NEW
FRONTIER**

ORGANIC FOOD MARKETING TRENDS

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Organic Food Marketing Trends

presented to

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Agenda



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1. Quarter-Century Perspective on the Organic Industry.
2. Six Forces Driving Organic Growth.
3. Key Priorities Looking to the Future.

Quarter-Century Perspective on the Organic Food Industry



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- ➔ 1972 to 1998 = Phenomenal changes:
 - Organic agricultural scale, practices, professionalism.
 - Range and excellence of organic foods.
 - Mainstream interest and acceptance.

- ➔ The road from anti-business to embrace of business:
 - Conventional farmers are friends and allies, not enemies, to the organic movement.
 - However, many organic Ag advocates and conventional Ag advocates still mistrust each other.

- ➔ National Organic Standards mark a “coming of age”:
 - Organic is integral part of Ag and food industry.
 - Organic principles have moved from the fringe closer to the center of the national agenda in Ag and food.

6 Forces Driving Growth in the Organic Industry



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- I. Environmental Awareness.
- II. Relationship Between Diet & Health.
- III. Declining Cost of Organic Food Production.
- IV. “Mainstreaming” of Organic Consumers, Products and Retailers.
- V. Worldwide Harmonization of Organic Standards.
- VI. Capital Investments from Financial Community.

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I. Environmental Awareness.

- ➔ The price we pay for food does not reflect true cost of production.
- ➔ Environmental costs of agriculture are deferred to future generations for payment.
- ➔ Assumption: Informed and concerned consumers will associate sustainable & organic farming with the solution to the above problems. Increased education will accelerate this trend.

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II. Relationship Between Diet & Health.

- ➔ Many major health problems are linked directly to diet.
- ➔ As health costs explode, increasing attention will be focused on preventative changes in diet and health.
- ➔ According to former Surgeon General C. Everett Koop:
“Good diet, prevention and health promotion can postpone 79% of all premature deaths, while traditional medicine postpones no more than 15%.”
- ➔ Assumption: Natural and Organic Foods will benefit substantially from increased awareness of the link between diet and health.

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III. Declining Cost of Organic Food Production.

- ➔ Increased awareness and trial of organic foods will increase sales and production.
- ➔ “Label Cancellation” will withdraw many ag. chemicals from the market, forcing farmers to consider alternative growing methods including organic farming.
- ➔ Advances in organic farming technology will increase the availability and use of bio-control of insects and disease.
- ➔ Larger, more established food companies will enter the organic food business.
- ➔ Distribution & Freight costs will decline as industry volumes approach critical thresholds.

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IV. “Mainstreaming” of Organic Consumers, Products and Retailers.

A. Consumer Trends.

- ➔ Current consumers, especially Baby Boomers, are more aware of the links between diet, health, agriculture and the environment.
- ➔ As shown in the recent Hartman - New Hope study, a healthy % of consumers are “Organically Involved” or “Organically Attracted.”
- ➔ Consumer perceptions of “Organic” vary widely:
 - For large % of consumers, “organic” is linked with simple, qualitative ideas & benefits.
 - A much smaller % knows specifics about organic foods:

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IV. “Mainstreaming” of Organic Consumers, Products and Retailers (cont’d).

B. Organic Products have Improved Greatly.

- ➔ Taste is much better than before.
 - Much more innovation
 - Better & more consistent supply.
 - Better R&D and Food Science technology.
- ➔ Packaging, Graphics, Brand Positioning, etc. have generally become more mainstream in appeal.
- ➔ Prices gaps between organic and conventional foods have narrowed considerably:
 - Price gaps vary greatly by category.
 - As further narrowing of price gaps occurs, other categories will progress from niche appeal to mainstream appeal.

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IV. “Mainstreaming” of Organic Consumers, Products and Retailers (cont’d).

C. Growth of Retail Outlets for Organic Products.

- ➔ Major natural food retailers are expanding stores and markets.
- ➔ Larger, newer natural foods stores have brighter, friendlier, more mainstream layouts.
- ➔ Major grocery chains are entering the organic category in order to compete with natural foods retailers.
- ➔ Larger, newer natural foods stores feature more frozen freezer display space.
- ➔ Organic products are gaining distribution in conventional grocery retailers.



Growth of Major Natural Food Chains

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→ Capers (BC)

→ Puget Consumers
Coop

→ Whole Foods

→ Nature's Northwest

→ Whole Foods
/Fresh Fields

→ Bread & Circus

→ Wild Oats

→ Whole Foods

→ Wild Oats

→ Fresh Fields

→ Wild Oats

→ Wellspring

→ Whole Foods

→ Bread of Life

Competitive Advantages:

1. Size, Scale, Market Share.
2. Broader, Deeper Product Lines.
3. Draws Larger, Mainstream Consumer Base.
4. Advanced Systems & Operations.

Case Study - Whole Foods Markets



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A. Financial Performance:

	<u>1991</u>	<u>1997</u>	<u>% Chg</u>
Sales (MM)	\$92.5	\$1,100	+ 1108%
Net Profit (MM)	\$1.6	\$26.6	+ 1563%
# Regions	2	8	+ 300%
“Team Members”	1,102	11,268	+ 923%
Donations	\$63,000	\$1.3 MM	+ 2000%

Whole Foods Market - cont'd



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B. Quality Standards:

“We feature and prepare foods that are free of artificial sweeteners, colors, flavors and preservatives.

We actively seek out and support sources of organically-grown foods.

We feature seafood, poultry and meat that are free of added growth hormones, antibiotics, nitrates or other chemicals.

We Feature grains and grain products that have not been bleached or bromated.

We do not sell food that has been irradiated.

We sell only household and personal products that have been proven safe through non-animal testing methods.”

Source: Company Financial Reports

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V. Worldwide Harmonization of Organic Standards.

- ➔ United States: Organic Food Production Act of 1990.
- ➔ World Health Organization (U.N.): Development of Organic Standards in the Codex Alimentarius Commission.
- ➔ European Economic Community.
- ➔ International Federation of Organic Food Movements.
- ➔ Assumption: Harmonization of world standards can strengthen and authenticate organic declarations and claims, giving consumers world-wide a clearer understanding of the benefits of organic food.

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VI. Capital Investments from Financial Community.

- ➔ Organic & natural products industry is now large enough to generate considerable interest from major financial investors.
- ➔ Financial investors have made financial commitments in several prominent organic and natural foods companies:
- ➔ Capital inflow from investors has significantly spurred growth for the companies in question.
- ➔ Financial investments have raised the overall visibility of and interest in the industry.

Key Priorities Looking to the Future



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- ➔ Scientific Validation of Organic Benefits:
 - Water & Soil Quality.
 - Pesticide Safety.
 - Food Safety.

- ➔ More & Better Consumer Communications:
 - ↳ to bring in a larger consumer base.
 - Advertising.
 - Public Relations.
 - Industry-wide ads & education programs.
 - Consistent organic standards in keeping with consumer expectations.

- ➔ Cost of Goods Improvements:
 - ↳ to lower price gap vs. conventional foods.
 - Organic Ag. research.
 - Manufacturing infrastructure.

- ➔ Continues Quality Improvements and innovation:
 - Better quality assurance.
 - Higher and more consistent raw product specifications.
 - Innovation, newest trends, consumer behavior, etc.