Who are Organic Consumers?

presented at

“Organic Marketing & Production Seminar”

a Saskatchewan Agriculture, Food and Rural Revitalization Seminar

Yorkton, Saskatchewan

February 27, 2003

by

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- **General Market Overview**
  - **United States and EU**
    - **industry, commodity groups, organic feed market**
- **Who are the Consumers**
  - **Canada, United States, EU**
    - **shopping pattern, age, income, education and other characteristics**

US Production & Consumption

- The U.S. is the largest consumer and second largest producer of organic food products (value) after the EU.
- The U.S. is the 3rd largest organic producer in terms of certified organic farmland acreage after Australia & EU.
- Overall growth rate of U.S. domestic organic food sales is 20% annually.
- The average global rate of growth in organic consumption is 25-30 % annually.
- Global retail sales of organic food is expected to reach well over $20 billion in 2001. Of that amount, U.S. domestic consumption is expected to reach $9.5 billion.

Perspective

- US data
  - **< 1% of overall retail food sales** (AFTS, 2001)
  - 1995 organic cropland 536,000 acres

    total cropland 308,623,000 acres

    organic % of total cropland 0.17%
  - 1995 organic farms 4,856

    US total farms 2,063,000

    organic % of total farms 0.24%

- Canada
  - **~ 1% of overall retail food sales**

<u>2001 Statistics Canada Farm Census</u>

- organic farms 2,230
- total farms 246,923

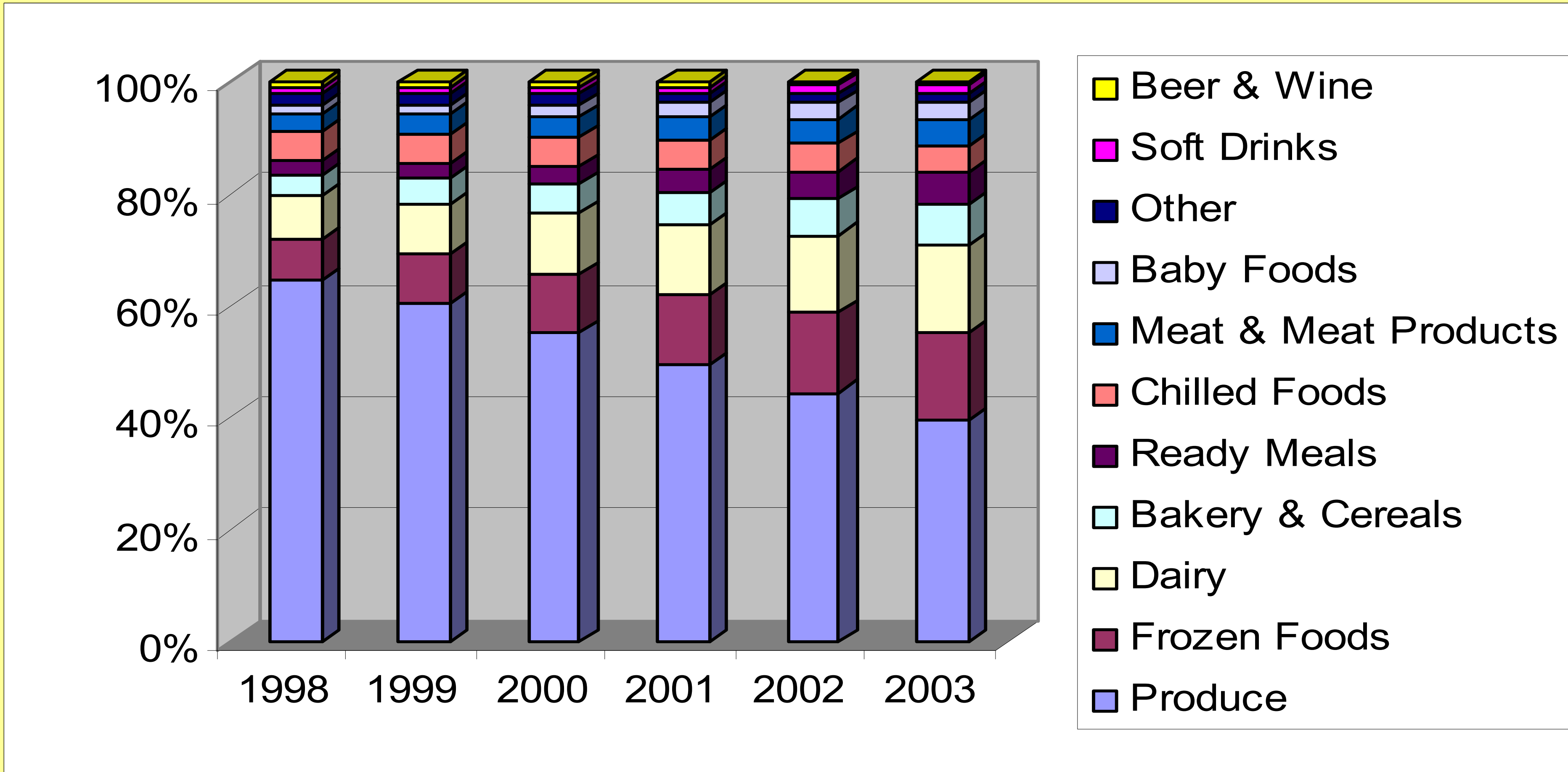
organic % of total farms = 0.90%

- Sask. organic farms 773; total farms 50,598

organic % of total farms = 1.53%

(SAF numbers are higher at ~1,000 farms)

Share of U.S. Organic Market by Commodity Group

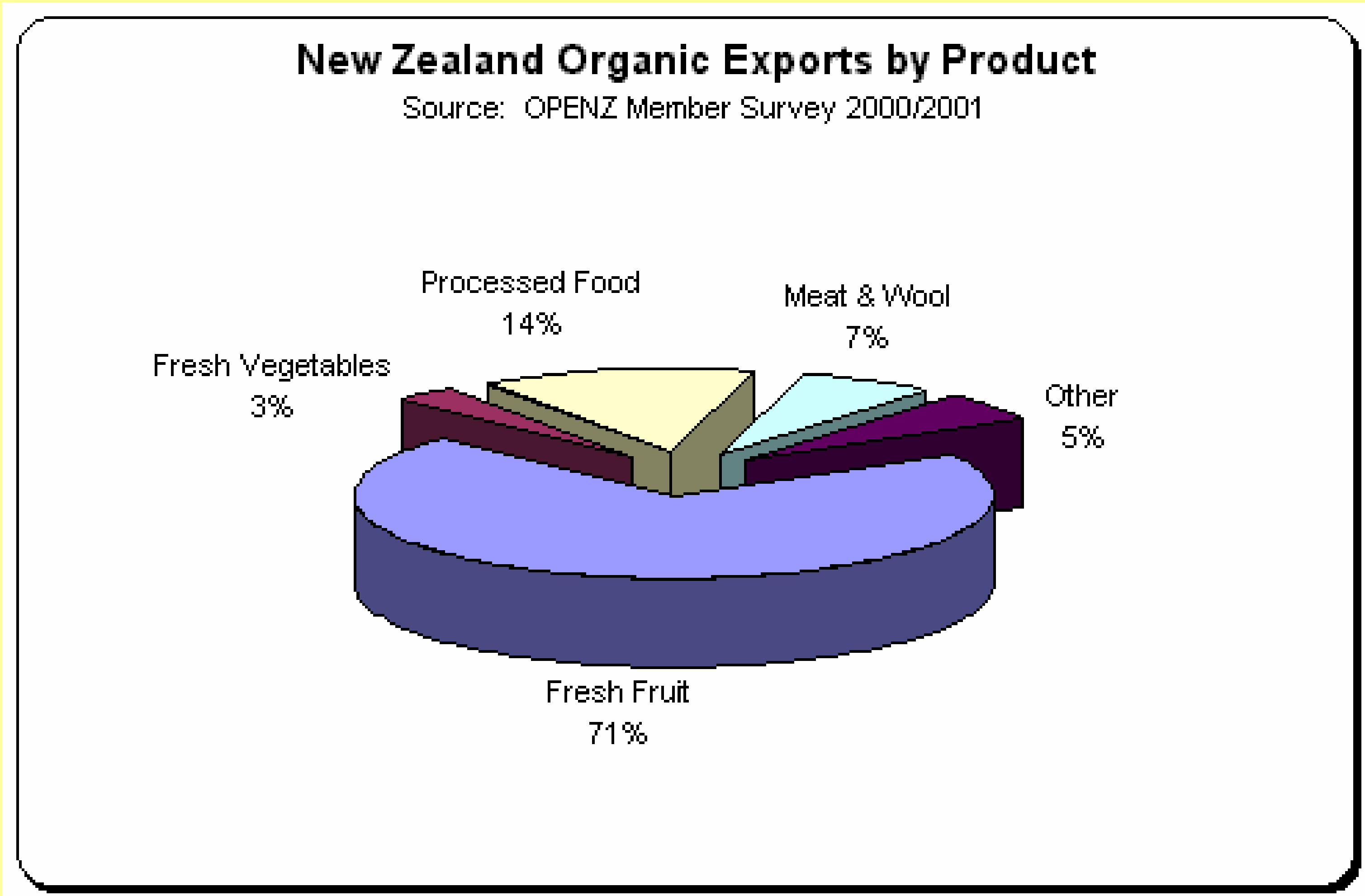


(Source: FAS 2000)

U.S. Organic Market Value by Commodity Group, 1998-2003 ($ million)

	Growth % ($)	Change (% of industry)
Produce	8 (3,486-5,210)	(24.9)
Frozen Foods	39 (400-2,101)	8.5
Dairy	37 (424-2,015)	7.4
Bakery & Cereals	37 (201-970)	3.7
Ready Meals	39 (145-758)	3.1
Chilled Foods	18 (274-635)	(0.3)
Meat & Meat Products	30 (168-617)	1.6
Baby Fds	38 (84-417)	1.6
Other	14 (112-219)	(0.4)
Soft Drinks	20 (60-153)	0.1
Beer & Wine	11 (46-77)	0.3
Overall	20 (5,401-13,172)	

(Source: FAS 2000)



http://www.organicsnewzealand.org.nz/documents/organicexports2000-01.htm

Demand for Organic and Conventional Frozen Vegetables

- organic frozen **broccoli, green beans, green peas and sweet corn**
- looked at supermarkets with annual sales of $2M+
- **first organic brands** introduced Sept. **1990**
- availability spurred by growth of natural product supermarkets (Whole Foods and Wild Oats)

- 1991-1996 increased **volume of 58.4%** and in **value 67.8%** per year
- **organic frozen less than 1% of total sales value**
- price **premia** ranged between **100% and 250%** of conventional prices slight **decline** in 1995 and 1996 – unclear if because of **increased competition or lower per-unit production and distribution costs**

- **National Frozen Vegetable Trends**:
  - small but growing market share
  - sizable but declining premiums
  - limited but expanding availability in mainstream supermarkets

- **small changes in the prices of organic frozen vegetables elicit large changes in quantities purchased**

Frozen Vegetable Prices
IGA, Saskatoon Feb 10/03

- Organic **(Cascadian Farm)**
  - Sweet corn 350g $4.19 ($1.20/100g)
  - Peas 350g $4.19
- Not organic
  - Green Giant peas 500g $2.99 ($0.60/100g)
  - Our Compliments corn/peas 750g $3.49 (0.47/100g)

  - **Markup 100%+   2x**

Canned Tomato Prices
IGA, Saskatoon Feb 10/03

- Organic
  - Eden crushed 398ml $2.29 **(0.58/100ml)**
  - Muir Glen diced 398ml $2.69 **(0.68/100ml)**
  - Eden pizza sauce (jar) 398ml $2.99 **(0.75/100ml)**

- Not organic
  - Aylmer diced/crushed 540ml $1.49 **(0.28/100ml)**
  - Prego tomato sauce 675ml $3.19 **(0.47/100ml)**

Canned Tomato Prices IGA, Saskatoon Feb 10/03 continued ….

- Markup on organic
  - crushed 107% 2x
  - diced 143% 2.4x
  - sauce 60% 1.6x

Canned Bean Prices
IGA, Saskatoon Feb 10/03

- Organic
  - Eden kidney beans 398ml $2.29 (0.58/100ml)
  - Shari Ann's baked style 398ml $1.89 (0.47/100ml)
- Not organic
  - Heinz kidney beans 398ml $0.99 (0.25/100ml)
  - Heinz deep brown 398ml $0.99 (0.25/100ml)
- **Markup - kidney 132% 2.3x**
  - baked 88% 1.8x

Egg & Butter Prices
IGA, Saskatoon Feb 10/03

- **Eggs**
  - Free Run (6) large $1.95
  - Harman (6) Grade A large $1.19
  - **Markup 64%   1.6x**
- **Butter**
  - Certified organic 454g 6.99
  - Our Compliments 454g 2.89
  - **Markup 142% 2.4x**

MARK UP

≠

PROFITS

Organic Meat Products

- The **market for organic meat is now increasing** now that organic labeling is permitted – certified pasture and range land and certified organic feed grains are becoming more available (60% premium). **Strong competition from natural** (30%).
- New Zealand up to 50% premium

Organic Meat Products

- US
  - capture 4% of total domestic sales (5% by 2003)
  - dairy, livestock and poultry products capture a very small percentage of trade
  - beef 4%, pork 4%, sheep 0.5%, broilers 0.5%, layers 2% and dairy cows 0.5% of total animals (1997)

Organic Meat Products

- UK
  - organic meat 5% of total meat market
  - 95% is domestically produced
  - pig and poultry have the largest premiums
  - high beef prices are an impediment
- Denmark
  - <0.5% livestock organic in 97/98
  - production increased 8 fold from 92-97 to 800t, expected 20,000 tonnes by 99

Organic Meat Products

- France
  - 5% of total retail meat market
  - rapidly growing but still difficult to find
- Germany
  - meat 1.5% of organic sales
  - growing quickly now (feed costs and processing issues)
  - beef > demand than pork (reverse to conventional)

Premiums Over Conventional Prices
(USDA, ERS, 2000)

- Organic corn 35%
- Hard red spring wheat 50%
- Oats 35%
- Soybean 100%
- greater use of specialty markets might partially explain price differences

WHEAT

- 25% of US exports to UK were for grains including wheat, oats, barley, millet and buckwheat
- expect that **demand** for grains will rise in European countries because bakery chains and supermarkets are **increasing** their **sales of organic bread and baked goods**

Organic Feed Market Assessment: USA & EU (SAF, 2001)

UK

- more imported cereals required (50% human food needs met by imports). Need for feed is expected to increase but reluctant to import complete animal feeds:
  - margins too low
  - other products can be found in EU
  - 20% non-org. material regulation compensates
  - philosophy: keep production close to consumption

- Denmark
  - high tariffs, preference for locally produced feed and lower percentages for animal feed
  - imports of cereals, animal feed and dried organic goods from other EU countries
  - **Canadian potential: grains, flour, pulses**
  - market growth slower- marketing, QA, new conventional food products

- France
  - high tariffs, preference for local production, allowances for non-organic components in animal feeds limit market potential
  - local production cannot meet demand
  - **Canadian wheat in demand, opportunities for consumer ready products; USA is the main competitor**

- Germany
  - regulations forbid the importing prepared feed from outside the EU
  - is almost self-sufficient in grain production
  - highest imports in fruits and vegetables, dairy, egg and soy
  - opportunity in pasta, breakfast cereals and frozen bread/biscuits
  - Canadian wheat, pulses exported but recent growth in production of organic wheat in Germany may be detrimental
  - attempt to keep **price difference** between organic and conventional **low**

- US
  - no companies interested in purchasing organic feed
  - excess capacity in the US feed mill sector
  - competition in the world market for organic bulk commodities (Eastern Europe, China and Brazil - low cost producers to Japan, Europe and US)

- Recommendations:
  - **product differentiation strategy** (quality and environmental), develop strategic alliances in supply chain
  - **leverage growth** through the expansion of the Saskatchewan organic livestock industry (EU feeding industry developed in response to livestock production)
  - grow and **develop the industry** by collaborative efforts of producers, processors, service sectors, educational institutions and government (regulations, R&D, etc.)

Opportunities in Organic Markets

- In most product categories, consumers have yet to establish brand preferences (easier to compete)
- Movement to private label brands with several products to generate customer loyalty, increase store margins and lower prices
- Soy products popular in dairy segment.

- Dairy has had the strongest growth. Predict will continue to outpace growth in overall organic market.
- Children: Consumers unwilling to pay for organic for themselves will pay more for these products for their children.
- New!! ready to eat natural or organic meals and ingredients. Consumers willing to pay restaurant prices for healthy, great-tasting foods that can be taken home.

- The Agri-Food Trade Service 2001 report on Natural and Organic Food Market in the United States reports that good opportunities exist but are not limited to the following product categories:
    - **Meats**
    - **Fresh/frozen/processed fruits and vegetables**
    - **Ice cream**
    - **Breakfast cereals**
    - **Healthy snacks and health bars**
    - **Prepared salads**
    - **Prepared meals**
    - **Desserts**
- herbs and spices

Where are organic consumers shopping?

Where are consumers shopping?

Type of Outlet	Share (%)	
Mass Market Outlets		**49**
Supermarkets	**44**	
Other (drug stores, mass merchandisers)	**5**	
Health and Natural Product Stores		**48**
Natural Food Supermarkets	**31**	
Natural Food Stores	**12**	
Natural Food Cooperatives	**3**	
Supplement Chains/stores	**2**	
Farmers Markets/ Community Supported Agriculture programs		**3**

Organic & Natural News 12/2000

Percentage shares of retail market by distribution channel

Market	Supermarkets[1]	Specialty Stores[2]	Producer Direct[3]
Austria	77	13	10
Denmark	70	15	15
France	45	45	10
Italy	25 – 33	33	33 – 42
Germany	25	45	20
Netherlands	20	75	5
Sweden	90	5	5
Switzerland	60	30	10
United Kingdom	65	17.5	17.5
Japan[4]	high-end stores	widely available	widely available
United States	31	62	7

[1] Includes supermarkets and hypermarkets that offer conventionally grown foods.
[2] Includes organic supermarkets, natural products and health food stores, cooperatives and other.
[3] Includes on-farm sales, farmer markets, box schemes, CSAs, teiki, and other.
[4] Share data are not available for Japan, but qualitative information suggests the relative availability of product in each category.

Source: Lohr

Consumer share and price premiums in key demand centers

Market	Consumer share	Price Premium
	% buying regularly[1]	% above conventional
Austria	20	25 - 30
Denmark	32	20 - 30
France	10	25 – 35
Italy	4	35 – 100
Germany	32	20 – 50
Netherlands	5	15 – 20
Sweden	15	20 – 40
Switzerland	40	10 – 40
United Kingdom	25	30 – 50
Japan	4-36 [2,3]	10 – 20
United States	9-19 [3]	10 - 30

[1]"buying regularly is defined as at least once a week

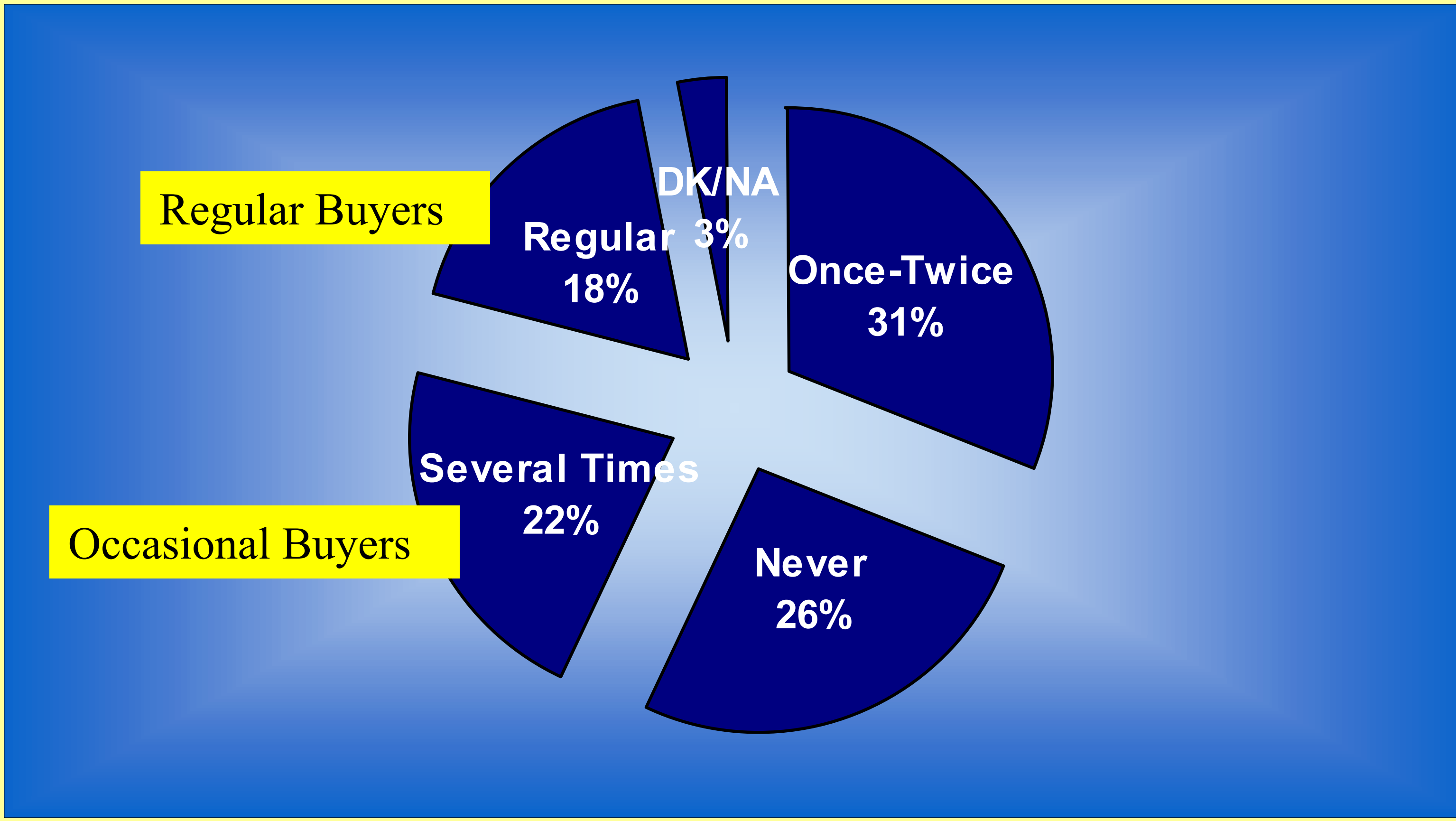
[2]"occasional" purchasers: percentage of regular buyers not available

[3] Percentage varies by product category

Source: Lohr

Who is the Organic Consumer?

Canadian Organic Consumers 2000

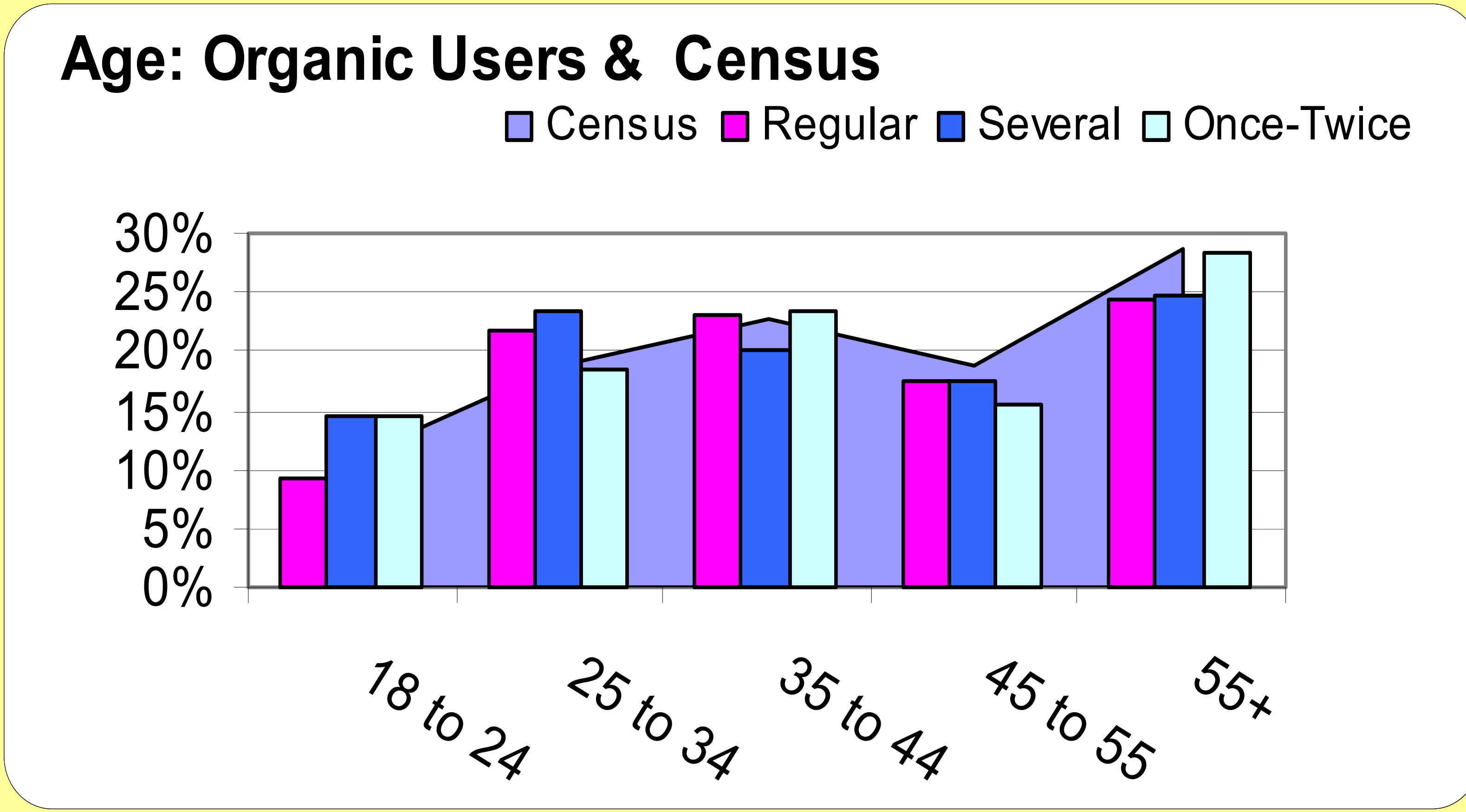


Cunningham, 2001

Buyers of Organic Foods

- more likely to be from BC (30%)
- less likely from Sask. (7%) or Alta. (12%)
- approximately 3.3 million are regular or occasional buyers and of those, over half (1.7 M) come from Edmonton, Vancouver and Calgary

Age



Cunningham, 2001

Age

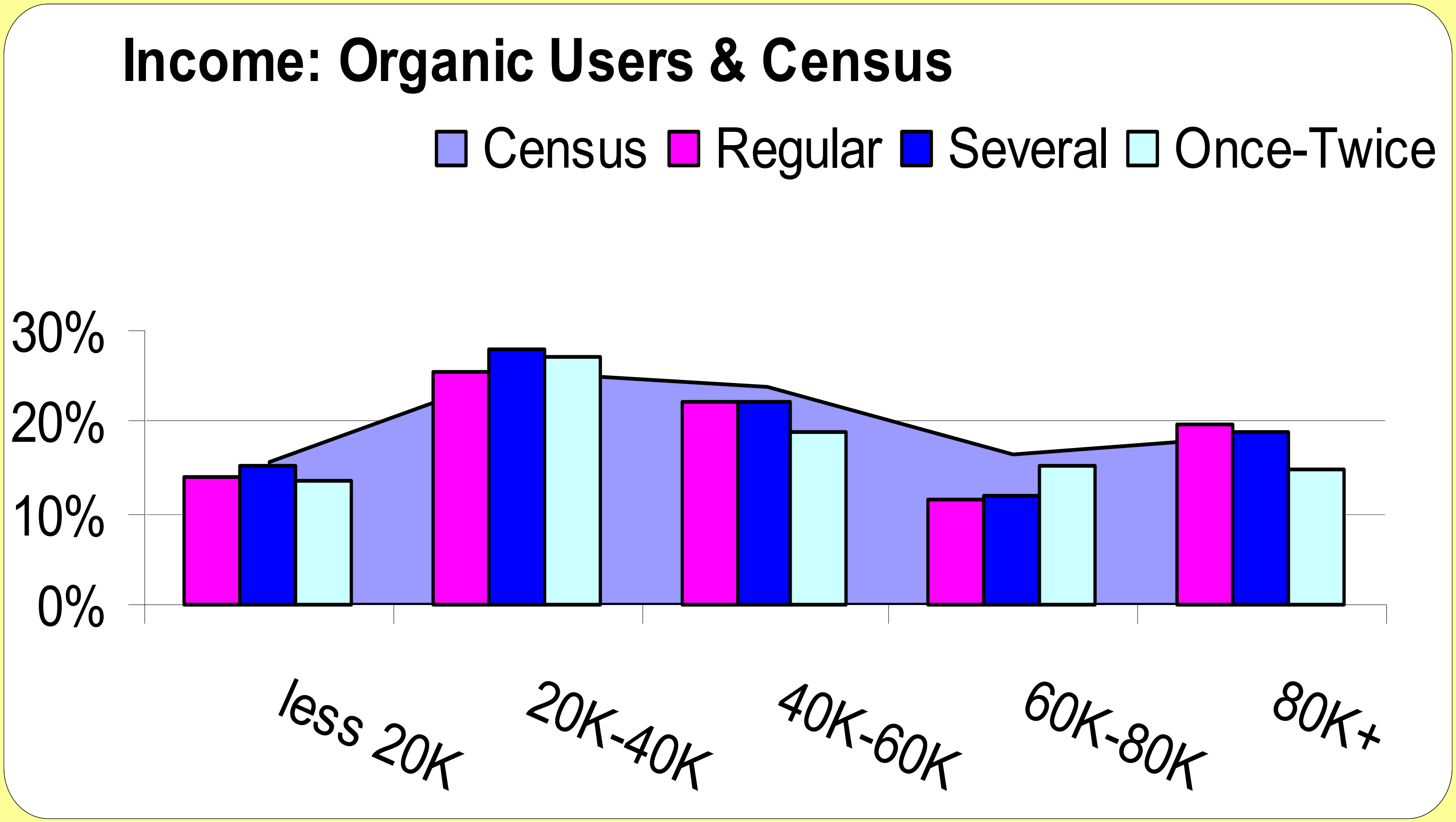
Canada

- 18-34 over represented
- largest consumers 45+
- regular and occasional buyers more likely at 25-34 than 55+

U.S.

- 18-29 and 40-49 most likely to buy
- 30-60 least likely to pay for residue-free produce

Income



Cunningham, 2001

Income

Canada

- reg and occ buyers under-rep in $60-80K
- overall <$20-40K and $80K well rep, least rep $40-80K
- lower income are more entrenched buyers

U.S.

- <$25K and >$50K more likely to buy than $25-$50
- stronger regular purchasers <$25K
- WTP for pesticide free declines in higher income groups

Income and Price Sensitivity

Canada

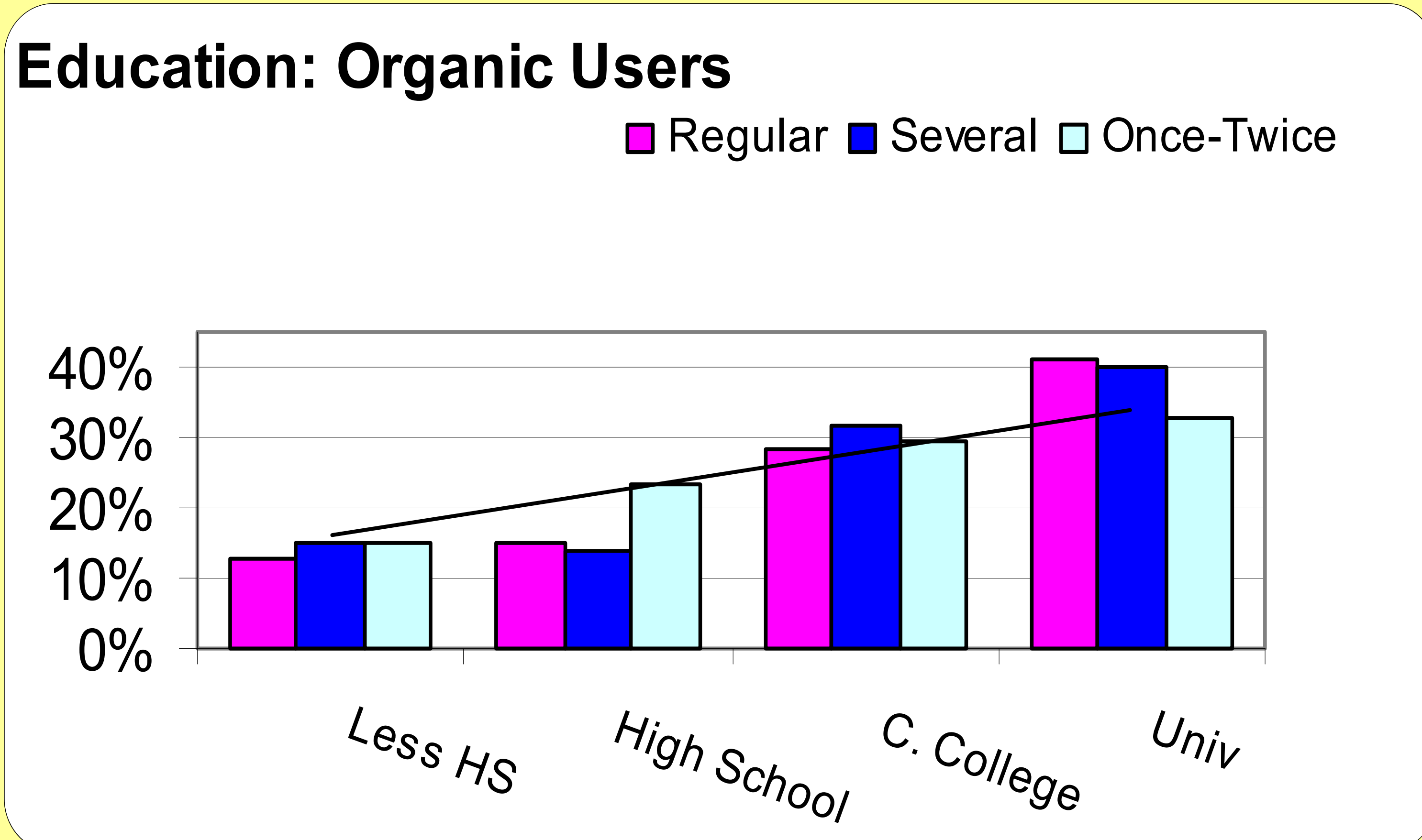
- higher incomes do not indicate higher likelihood of purchases

U.S.

- similar correlation but WTP depends on store

- Supermarkets: price sensitive due to price difference between organic and conventional
- Natural food stores and cooperatives, less price sensitive AND more higher income shoppers WTP premium
- Entrenched buyers tend to buy more often from health food stores

Education



Cunningham, 2001

Education

Canada

- most frequent purchasers have post secondary education

U.S.

(variation in defining education therefore conflicting results)

- +ve correlation
- Alaskan direct markets: buyers more educated
- California: no statistical difference
- higher ed attainment (graduate vs undergraduate) lowers probability
- college ed lowers WTP for pesticide free produce

Children/Household Size

Canada

- most likely: one or two person households who do not have the expense of children

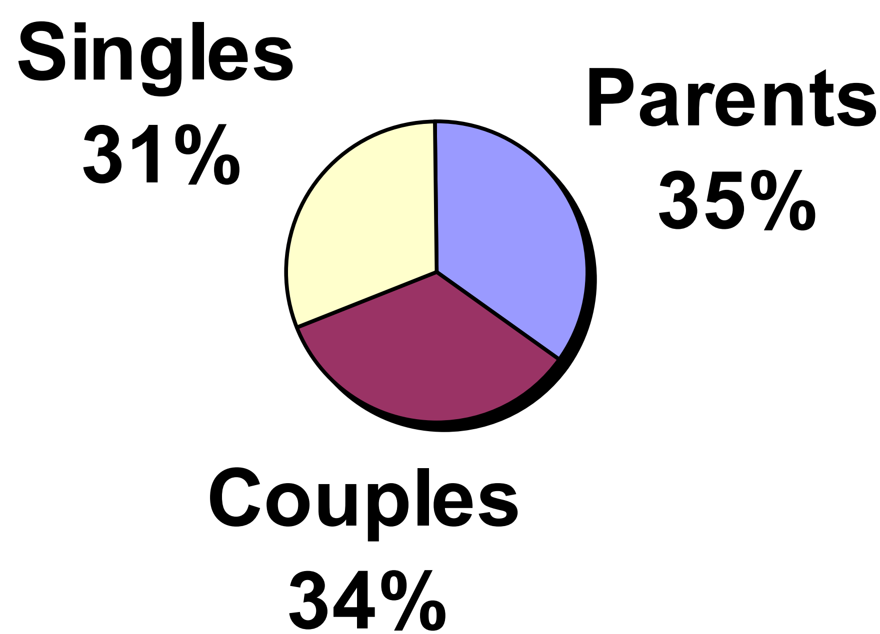
U.S.

- increased buying with children at home
- no effect or slight variation
- factor: some studies didn’t report age of children
- BUT org baby food has high market share

Marital Status

- No significant research

Life Stage Characteristics of Organic Shoppers



Source: Organic & Natural News 12/2000 Facts and Stats

Gender

Canada

- Females buy more often than males (60%)

U.S.

- Females and males are equally likely

Other countries ……

cross-country variations are due to cultural differences, household shopping responsibilities and commitment to environment and health

- Netherlands:
  - main consumers under 35 without children. Over 55 are less interested. Average consumers are women with above average income and education.
  - Of all organic buyers, 15% are heavy buyers, 54% medium buyers and 31% light buyers

- Japan: 30s or 40s, female

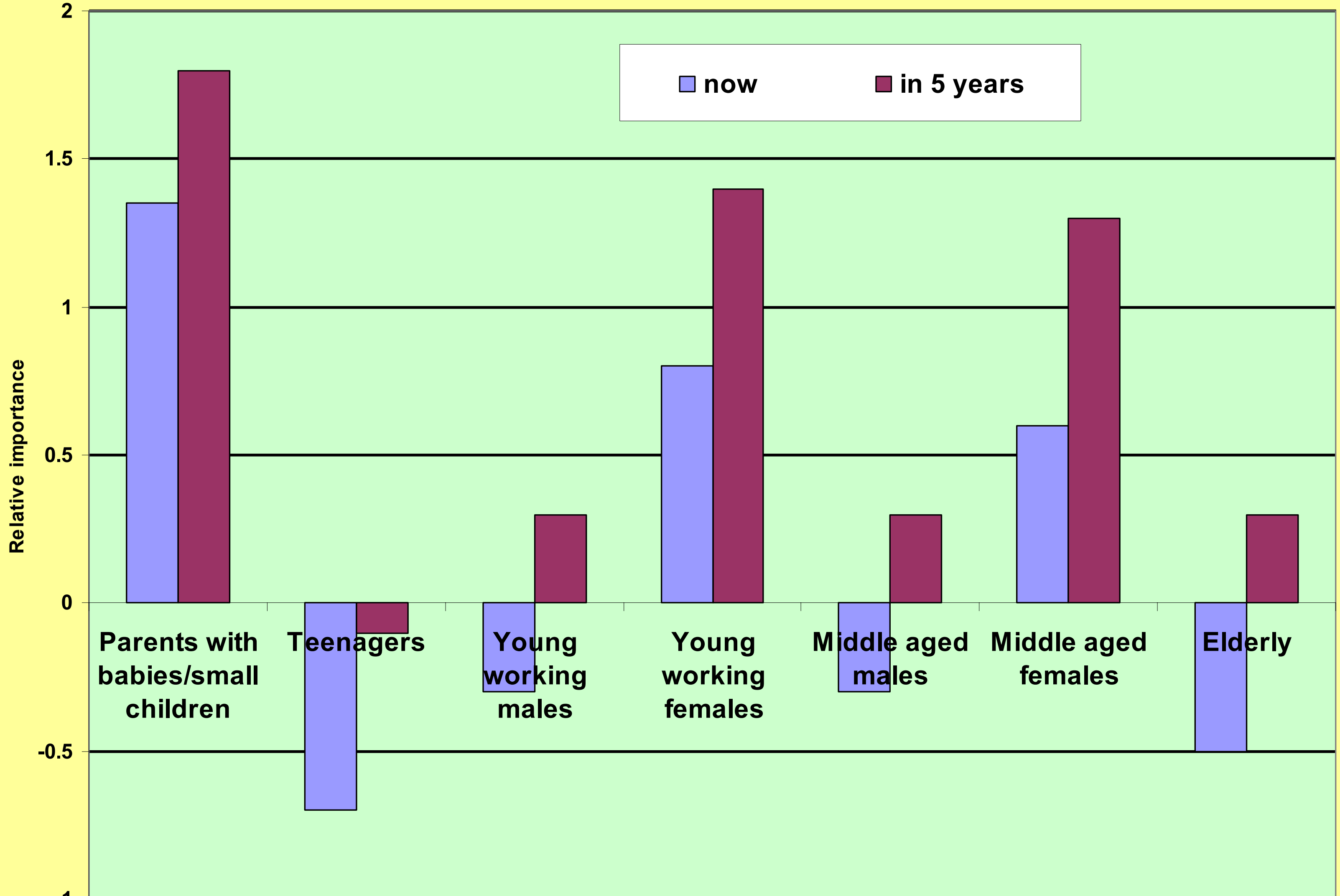
- Hong Kong
  - well educated, between 35 - 45 and are better off financially
  - read labels carefully and are very health conscious. GM free labeling is noted.

- France
  - survey of 1000 persons
  - 59% believe organic is a passing phase
  - 10% regularly eat organic products
  - 38% eat organic food from time to time
  - all agree organic foods are consumed for their perceived natural and high quality

- Ireland
  - 2/3 are female
  - 43% have a university degree
  - 85% are employed
  - 52% dual income households
  - 40% earn over ʆ 30,000 (HH) while 24% who don’t consume organic earn 30,000
  - more familiar with GMOs and read labels

Wolf et al., A Profile of Organic Food Consumers in Ireland

Organic Consumer Groups: EU
(note: typical consumer varies from country to country)



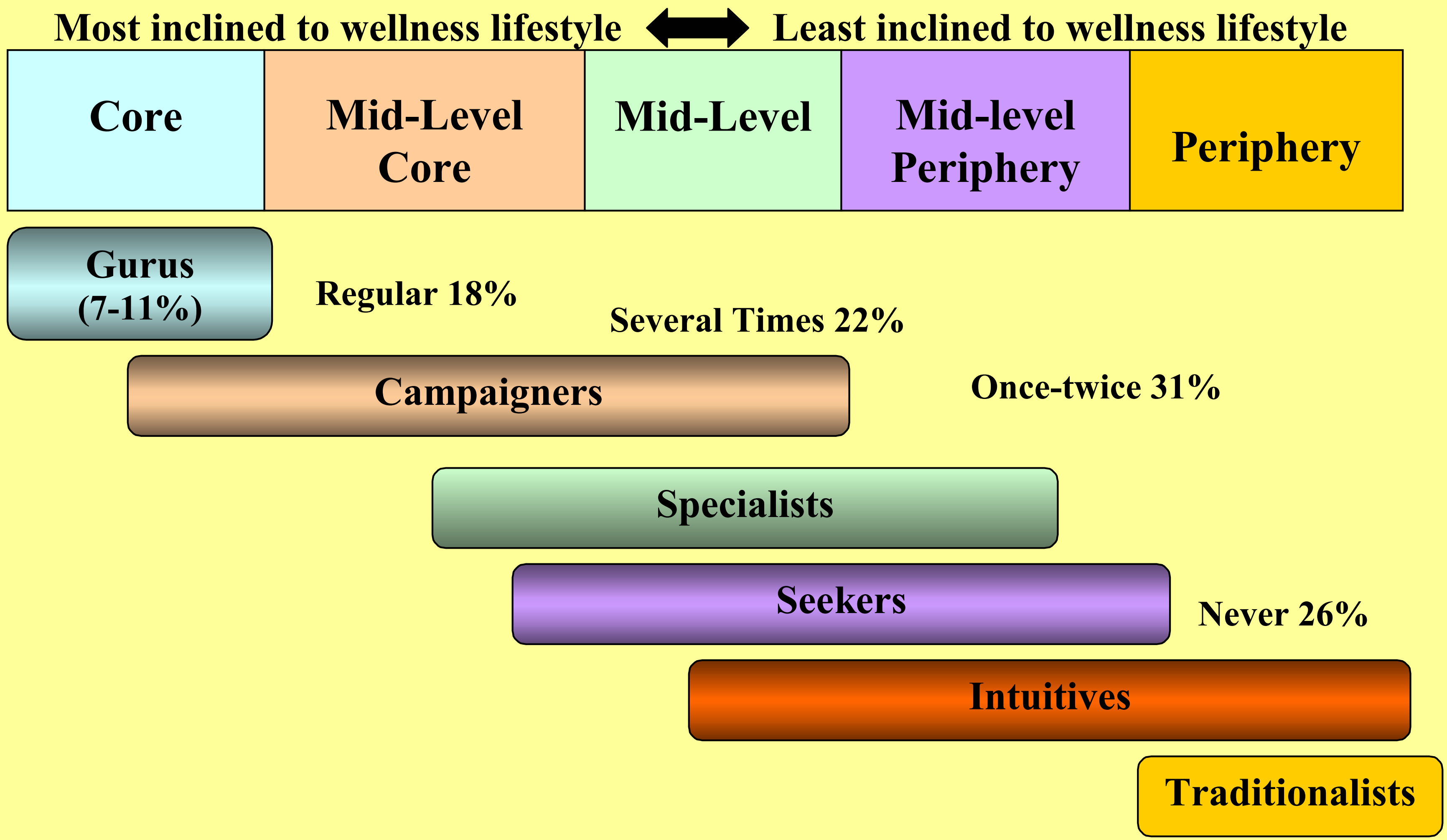
Source: Datamonitor, 2001

Hartman Group Segmentation

- **True Naturals (7-11%)** - strong views on environment and act on beliefs. Regular purchases, earth friendly and pay premium prices. 43% income <$25K, age 40+, college graduates
- **New Green Mainstream (17-23%)** - concerned about environment (impact of chemical fertilizers and pesticides). Have barriers to purchasing availability, price and other criteria.

- **Affluent Healers (11-12%)** - wealthy, older people interested in their health. Nutrition more important than environmental aspects, F, college graduates
- **Young Recyclers (10-14%)** - young, single, claim to be environmentally sensitive but don’t follow through unless easy to do so, <35 years

Types of Wellness Customers



Source: Organic & Natural News 12/2000 Facts and Stats

Summary

- Organic consumers share values, not demographics
- range of people is broadly distributed through population
- share social and environmental values
- global cultures and heritage are important factors (Hispanic)
- influenced by store effects, pricing & local production

Triggers that convince people to choose organic foods:

- **Children** (O’MAMA Report, www.omamareport.com)
- **Specific food allergies**
- **Healthy lifestyles**
- **Philosophy**
- Begin buying in one of three categories: produce, dairy or baby food

The Canadian organic industry (production, processing, governments[certification, trade agreements]) must take advantage of the fact that it is **easier to enter new markets during strong periods of growth** - established markets increase the chance of outlasting emerging competition and increases in domestic production.

Products and Markets

North American Resource Directory

Updated on January 14, 2003

Featured section above:

Search for organic food ingredients,

drill down to specific ingredient names,

post or view organic ingredients needed.

http://www.ota.com/

Food Centre

- **Food Centre provides processors with a broad range of cores services and current information that can help you take you product idea to the final product:**
- **Product and Process Development**
    - **recipe standardization**
    - **weight measure**
    - **shelf life testing**
    - **labeling/packaging**

- **Short-term Interim Processing**
  - providing processing capability for test market development and viability assessment
- **Food Safety & Quality Assurance and Training**
  - deal with regulatory changes in trade and barriers to market entry
- **Technical Services**

- **Business Development**
  - Sales, Marketing, Distribution
  - Finance
  - Human Resource Development
- **Project Management**
  - the Food Centre will direct clients to the appropriate external resources to complete projects and take products from concept to market
- **Federally Inspected Facility**
  - processors can access export markets

OVERHEADS

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Thank -you.