

Natural and Organic Foods

Executive Summary

Surging demand for natural and organic products has transformed a small market niche into a double-digit growth sector. U.S. sales of such foods and beverages reached \$28.2 billion in 2006, according to the *Nutrition Business Journal*. Sales of organic foods and beverages alone increased by 22 percent to \$16.9 billion.

These foods are a key component in the major consumer trend known as whole health solutions — diets that promote health and well-being, prevent disease, help cure illnesses and protect the environment. Retailers, suppliers and producers — natural and mainstream — are meeting this demand with new foods and organic alternatives to conventional products.

The National Organic Program (NOP) — implemented in 2002 by the U.S. Department of Agriculture (USDA) — holds the industry to strict standards in the production and sale of such foods. Increased consumer demand and organic's bottom-line appeal are convincing more retailers to add these foods to their mix. For the same reasons, food suppliers and producers are adding organic line extensions or converting to organic entirely.

1. Are natural and organic foods the same?

No. The term “natural” is not regulated except for meat and poultry. It applies broadly to foods that are minimally processed and free of synthetic preservatives; artificial sweeteners, colors, flavors and other artificial additives; hydrogenated oils; stabilizers; and emulsifiers. Most foods labeled natural are not subject to government controls beyond the regulations and health codes that apply to all foods.

The USDA Food Safety and Inspection Service (FSIS) requires natural meat and poultry to be free of artificial colors, flavors, sweeteners, preservatives and ingredients. These products must be minimally processed in a method that does not fundamentally change them. The label must also explain the use of the term natural such as no artificial ingredients. Labeling meat and poultry products natural does not refer to how the sources of those foods were raised.

“Organic” refers not only to the food itself, but also to how it was produced. Foods labeled organic must meet or exceed the regulations of the National Organic Program (NOP), which took effect October 21, 2002. They must be grown and processed using organic farming methods that recycle resources and promote biodiversity. Crops must be grown without using synthetic pesticides, bioengineered genes, petroleum-based fertilizers and sewage sludge-based fertilizers. Organic livestock must have access to the outdoors and be given no antibiotics or growth hormones.

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Food Marketing Institute (FMI) conducts programs in research, education, industry relations and public affairs on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores with a combined annual sales volume of \$340 billion — three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from 50 countries.



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June 2007

Organic foods may not be irradiated. Question 6 of this backgrounder details the certification process.

2. Why the current consumer interest?

The growing demand for foods that are healthful, tasty and environmentally friendly are the main drivers of organic food sales. More than eight in 10 consumers (81 percent) buy organic foods for their nutritional value, according to *Shopping for Health 2005*, a report by FMI and *Prevention* magazine. Large majorities cite freshness (77 percent) and a desire to promote long-term health (67 percent). Many consumers believe that organic and all-natural foods can serve as preventive medicine against health risks and help cure illnesses.

Because organic production methods emphasize the use of renewable resources and the conservation of soil and water, organic foods also appeal to environmental concerns.

Also contributing to the increased interest are the federal rules clarifying which foods may be deemed organic. Before the NOP was finalized, the term organic was defined by disparate state, regional and private standards, generating confusion and making it difficult to gauge just how organic an item was. The launch of the NOP with the USDA Organic seal, shown at the right, designed to make it easy for consumers to identify organic foods received widespread media attention. Use of the seal is voluntary; companies can simply put the term organic on labels and other merchandising materials.

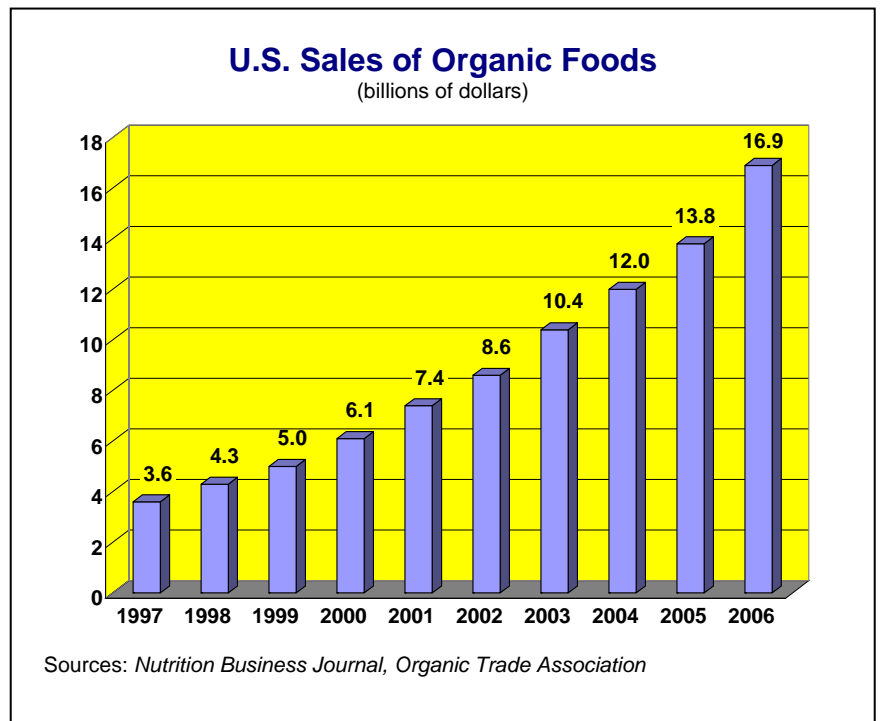
With demand growing for more flavorful foods, many consumers and chefs believe that organic products taste better.

3. How large is the market for natural and organic foods?

U.S. retail sales of natural and organic foods and drink reached \$28.2 billion in 2006, up from \$23.0 billion the previous year — a 14.1 percent increase, according to the *Nutrition Business Journal*. Sales of organic products alone rose 22 percent, from \$13.8 billion to \$16.9 billion. Among natural food retailers, organic produce is the most popular category, accounting for one-third of organic food and beverage sales in 2006, according to the *Natural Foods Merchandiser*.

Half of U.S. shoppers (51 percent) buy organic foods, according to *Shop-*

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ping for Health 2006. The study finds the following breakdown in the types of organic foods that shoppers purchase:

- Fruit or vegetables — 44 percent.
- Milk, yogurt or other dairy products — 30 percent.
- Cereals, breads, pastas — 29 percent.
- Packaged foods such as snacks, beverages and frozen foods — 25 percent.
- Eggs — 21 percent.
- Meats and poultry — 24 percent.
- Soups or sauces — 15 percent.

4. How widespread are natural and organic foods today?

They are available in more than seven in 10 retail food stores (72 percent), according to shoppers surveyed in FMI's *U.S. Grocery Shopper Trends, 2006*. USDA's Economic Research Service (ERS) reports that organic products are available in nearly 20,000 natural foods stores. The mainstreaming of organic food has drawn major manufacturers into the market.

A typical grocery store or supermarket remains the most common outlet, where 53 percent of people buy most of their organic foods, according to *Shopping for Health 2006*. Smaller numbers purchase them at natural and organic markets (19 percent), supercenters and combination stores (13 percent), warehouse club outlets (7 percent) and farmers' markets (2 percent). The remaining 6 percent buy organic products at other stores.

Today's organic company startups tend to be more sophisticated than their predecessors. Many are addressing business challenges by hiring seasoned industry executives, using standard distribution contracts and crafting strategic business plans that incorporate organic and natural foods.

Farmers are devoting more acreage to organic products. Organic cropland and pasture increased from 2.35 million in 2001 to 2.80 million in 2003, according to the most current data from the ERS and *Nutrition Business Journal*. Studies show that organic farming systems can be more profitable than chemical-intensive ones. The reasons include increased yields in drier areas or times, lower production costs and higher prices.

About 0.5 percent of U.S. crop and pasture land is used to grow organic foods, according to the ERS. The countries with the highest percentage: Switzerland (9.0 percent), Austria (8.6 percent), Italy (6.8 percent), Sweden (5.2 percent), Czech Republic (3.9 percent) and UK (3.3 percent).

5. Are natural and organic foods healthier or safer than conventional foods?

Overall, organic food is neither safer nor more nutritious than conventionally produced food. Many basic organic foods such as milk, butter, ice cream and meat contain as much fat and calories as their conventional counterparts.

Certain health benefits motivate shoppers to buy natural or organic foods. For instance, people allergic to foods, chemicals or preservatives can gain relief by switching to organic foods, personal care products and

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Buyers of organic baby foods can avoid the pesticide residues in conventional baby foods. A 2002 study by the National Institute of Environmental Health Sciences found that children who eat organic foods are exposed to “significantly lower” levels of organophosphorus (OP) pesticides than those who eat conventional foods.¹ OP pesticides were used in the study because they are commonly applied to the crops processed into baby foods and juices.

Some organic foods also have significantly higher levels of cancer-fighting antioxidants, according to a study of corn, strawberries and marionberries published in a peer-reviewed publication of the American Chemical Society.² A January 2005 State of Science Review from The Organic Center found that antioxidant levels averaged about 30 percent higher in organic food compared with conventional products grown under the same conditions.³

Some officials say, however, organic foods can at times be less safe than conventional foods. In October 2002, USDA’s undersecretary for food safety warned that organic foods’ lack of preservatives makes them vulnerable to bacteria and parasites.

Proponents of organic foods disagree, citing the 2004 statement issued by the First World Congress on Organic Food: “Organic farming systems ... provide a buffering capacity for the soil and plant surfaces, and therefore may lower the likelihood of establishment of foodborne ... pathogens There is evidence that organically grown plants have stronger natural protection against plant pathogens than conventional ones, and this may also be the case for enteric bacteria, but needs to be verified.”⁴

At the 2005 international congress Organic Farming, Food Quality and Human Health, Professor Carlo Leifert of Newcastle University reported findings that organically produced food had lower levels of unsafe fungi than conventional samples, and that grass-based organic cattle diets reduce the risk of e. coli contamination, while grain-based conventional diets increase the risk.

Organic products are as safe as conventional ones, according to the Organic Trade Association. Certified organic growers follow strict guidelines for safe and hygienic food production. And they are inspected by independent parties to qualify for certification. As with all food producers, they must comply with local, state and federal health standards. Pasteurization, selected use of chlorine and other food safety practices are allowed and followed in organic production.

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¹ Curl, Cynthia L., Fenske, Richard A., Elgethun, Kai, “Organophosphorus Pesticide Exposure of Urban and Suburban Pre-School Children With Organic and Conventional Diets,” October 31, *Environmental Health Perspectives*.

² Mitchell, Alyson et al. “Bitter or Harsh Phenolics Guard the Plant Against These Pests,” *Journal of Agriculture and Food Chemistry*, February 26, 2003.

³ Benbrook, Charles M., *Elevating Antioxidant Levels in Food Through Organic Farming and Food Processing*.

⁴ Sense of the Congress statement from the Proceedings, March 29-31.

6. How does the certification process work?

All organic production and handling operations must be certified by third parties accredited by the USDA. Producers that sell less than \$5,000 worth of organic products a year do not have to be certified, although they must follow NOP requirements and document that they do so. The regulations require that products labeled:

- “100 percent organic” contain only organic ingredients.
- “Organic” contain at least 95 percent organic materials. Products in this or the first category can (but are not required to) display the USDA Organic seal shown on page 2.
- “Made with organic ingredients” contain 70-95 percent organic ingredients and may list up to three of them.

Products with less than 70 percent organic ingredients may not use the term organic other than to list specific organic ingredients.

Complete information about the NOP, including the regulations and penalties, is available at <http://www.ams.usda.gov/nop/>.

7. How do the certification requirements affect food retailers?

Retailers that sell organic foods do not have to be certified, although they can be for marketing or other business reasons. They are subject to many regulatory requirements under the NOP. For example, they may not:

- Knowingly sell a product labeled organic unless it meets NOP requirements. They are subject to fines up to \$10,000 per violation.
- Allow unpackaged organic products to contact unpackaged conventional ones.
- Permit organic products to contact prohibited substances such as synthetic fungicides, preservatives or fumigants in packaging materials or storage containers.

The NOP rules that apply to retailers are detailed in FMI’s *The USDA National Organic Program Requirements for Food Retailers and Distribution Centers*, available at http://www.fmi.org/gr/USDA_OrganicProgram.pdf. USDA guidance, including frequently asked questions about the NOP, is posted at <http://www.ams.usda.gov/nop/>.

8. What types of consumers buy organic and natural foods?

Most consumers of such foods are not radically different from those of conventional products, reflected in *Shopping for Health 2005*. The demographics of those who regularly buy organic foods:

- Generations Y (ages 18-27) — 51 percent.
- Generation X (28-41) — 55 percent
- Younger Baby Boomers (42-51) — 57 percent.
- Older Baby Boomers (52-60) — 50 percent.
- Matures (61+) — 46 percent.

The study finds a strong connection between buying organic foods and caring for children. In fact, 32 percent of buyers with children report that the first time they purchased organic foods was for an infant or newborn.

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9. Why don't more consumers buy organic and natural foods?

Price is the primary reason that consumers give. ERS cites various studies finding organic price premiums that range from 35-53 percent for baby food, 72 percent for frozen broccoli, 94 percent for spring wheat and 177 percent for soybeans. With more mass production, organic products will increasingly be priced to compete with conventional brands. Limited availability remains a barrier to some, although this appears to be diminishing.

10. How are food retailers responding to the growth of organic and natural foods?

Retailer marketing strategies for natural and organic foods include in-store advertising, cooking demonstrations and having knowledgeable employees. Retailers invite customers to e-mail diet-related questions to the store's resident specialist. Such services can help conventional food retailers whose customers might be apprehensive about trying unfamiliar foods. In brochures and shelf signs, they inform customers about the producers of such products. Some showcase the products in regular newsletters and mailings to customers. Other strategies and features:

- **Conventional Counterparts** — Shoppers are more likely to try an organic item if retailers carry its conventional counterpart.
- **Narrow Focus** — Rather than carrying a few organic products in each of several categories, retailers specialize in targeted categories such as organic salads.
- **Added Value** — Stores feature value-added organic items such as salad kits, pre-packed vegetables and packaged salads to attract conventional and organic shoppers.
- **Promotional Prices** — Using promotions to price organic products the same as conventional foods, retailers can alleviate perceptions that such items are too expensive and induce customers to try them.

11. What's ahead for natural and organic foods?

Organic foods will continue to take a growing share of the natural-organic sector as demand rises and more companies convert their products from natural to organic. States, cities, conservation groups and others continue to foster the development of local farmers' markets that sell organic foods directly to consumers. Restaurants, college cafeterias and other foodservice providers have begun to incorporate natural and organic foods into their menus. Yale University and University of California, Berkeley, are among the schools that have moved in this direction.

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