

# Natural and Organic Food and Beverage Industry Trends

Current and Future Patterns  
in Production, Marketing,  
Retailing, and Consumer Usage



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**NATURAL AND ORGANIC  
FOOD AND BEVERAGE INDUSTRY TRENDS:  
CURRENT AND FUTURE PATTERNS IN PRODUCTION,  
MARKETING, RETAILING, AND CONSUMER USAGE**

**JUNE 2006**

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## Chapter 1: Executive Summary

### Scope & Methodology

#### Scope of Report

This Packaged Facts report analyzes the U.S. market for natural and organic products, focusing primarily on the faster-growth segment of organic foods and beverages. It examines the production, marketing, retailing, and consumer trends driving this market, and identifies trends and opportunities toward future market development.

#### Report Methodology

The information in this report was obtained from both primary and secondary research. Primary research entailed consultation with industry sources and on-site examination of the retail milieu. Secondary research entailed data-gathering from relevant trade, business, and government sources. These include Information Resources, Inc.'s (IRI) *InfoScan* data for mass-market outlets including supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores; statistics from trade associations; extrapolations derived from estimates in trade publications such as *Progressive Grocer*; annual reports, 10Ks, and other financial releases from public companies; sales estimates of private companies by Dun & Bradstreet, Inc. and Hoover's, Inc.; marketer profiles in trade and consumer publications; and other reports by Packaged Facts. Figures provided on national consumer advertising expenditures are based on data (copyright 2005) compiled by TNS Media Intelligence/CMR, the leading provider of strategic advertising and marketing communications intelligence. The demographic analysis of natural food store shoppers primarily derives from the Simmons Market Research Bureau (New York, New York) Fall 2005 adult consumer survey, which is based on 24,617 respondents age 18 or over.

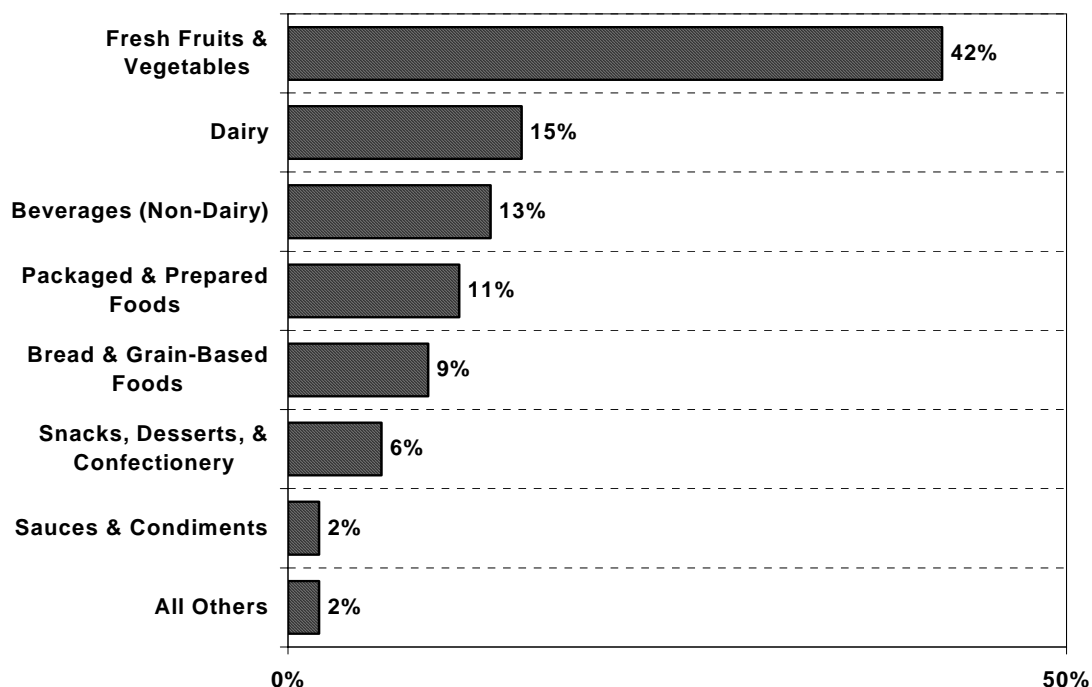
## Market Overview

### Market Size and Growth

**P**ackaged Facts estimates that the U.S. market for natural/organic foods and beverages totaled approximately \$28.3 billion in 2005, up 11.9% from \$25.3 billion in 2004. Since 2003, the organics segment of the market (up 17.2% in 2005) has been growing at more than four times the rate of the natural segment (up 3.9%)—which in turn has been outperforming the 2%-4% annual growth rate of the food and beverage market overall, according to the Organic Trade Association. Since 2002, retail sales of natural and organic foods and beverages have risen 39.4%, with the value of the organics segment alone up 60.9%. Fresh fruits and vegetables is the largest category by our estimates, accounting for 42% of U.S. retail sales during 2005. [Figure 1-1]

**Figure 1-1**

**Share of U.S. Retail Sales of Organic Foods and Beverages by Product Category, 2005 (percent)**



Source: Packaged Facts



## Mainstream Supermarkets Lead Retail Channels in Organic Sales

Melding figures from various sources with our own research, Packaged Facts estimates that mainstream supermarkets hold the largest single share of the organic foods and beverages market, at 38%. Conceivably, all channels are growing their sales, but some are growing faster than others. In addition to mainstream supermarkets, these include natural foods chains (natural foods supermarkets plus Trader Joe's), which now own at least a 20% share; mass merchandisers (4%); and club stores (3%). These giants are putting the squeeze on independent natural foods stores, which still hold a 26% share.

## Not Just a Fad

Experts commonly distinguish sharply between the organics trend and the fads that periodically seize the food market, such as low carb. "If you look at the new products and consumer interest, [trends] generally peak quickly and decline eventually," observed Linda Gilbert, president of Health Focus International, a St. Petersburg, Florida, marketing research and consulting firm (*The Bradenton Herald*, February 5, 2006). Organics is another story. "Over the last 15 years, organics has just continued to increase a little all the time. It never had the fashionable peaks of those other fads."

As Linda Gilbert also told *The Bradenton Herald*, the reasons people buy organic foods and beverages—concern over pesticides and the environment, taste, quality, purity, etc.—have increased. That is, the purchase of an organic product expresses more than a preference for that particular product. The term "organic" on the label assures consumers that all of the fine-sounding words and phrases associated with it—all of which have social implications—have substance. Moreover, a large untapped market still exists for organic foods and beverages. Fully 68% of the population has not yet become regularly involved with organics, according to a SPINS/IRI Natural Products Consumer Solutions 2005 study.

## Natural/Organic Market to Reach \$46.1 Billion in 2010

Packaged Facts projects that the growth of the organics market will gradually slow, while still maintaining double-digit rates, but that the natural market will maintain its 4%-5% pace.

Organics' growth will come from making deeper inroads among mainstream consumers, but the market will gain fewer committed consumers than it has in recent years. By 2010, the natural/organic foods and beverages market will stand at \$46.1 billion, 62.9% above its 2005 level. The organics market alone will be worth \$33.0 billion, 86.4% more than five years earlier. The natural market will be at \$13.1 billion, having advanced 23.6% since 2005.

### **Most Mass-Market Brand Shares Still Under 2 Points**

Despite the inroads made in recent years, natural/organic brand shares remain low in mass-market outlets, according to IRI data for supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores. For example, despite its superior sales growth in a shrinking ready-to-eat cereal category, Kellogg-owned Kashi's share has risen only to 2.0%. Of the 39 top brand listings, 17 are for shares below 1 point, ten are for shares in the 1 to 2 point range, and six refer to shares of more than 2 but less than 10 points. Only five marketers can claim double-digit shares, and in all but one case, these occur in categories that can be considered healthy by definition. The top-selling natural/organic brand of all, White Wave's Silk (owned by Dean Foods), competes in IRI's refrigerated kefir/milk substitutes/soymilk category, where its soymilk enjoys a 67.1% share, reflecting IRI-tracked sales of \$269 million in 2005.

The next highest natural/organic brand share, 30.8%, belongs to Hain Celestial's Rice Dream in the shelf-stable non-fruit drinks category, reflecting IRI-tracked sales of \$25 million in 2005. Two other Hain Celestial brands are also among the natural/organic share leaders: West Soy holds a 21.1% share of the ready-to-drink milk/milk substitutes category (\$22 million), and Celestial Seasonings, a 15.4% share of the loose tea bags category (\$110 million). Finally, independent marketer Clif Bar, whose products all contain organic ingredients, owns a 13.4% share of the nutritional/intrinsic health value bar category, reflecting IRI-tracked sales of approximately \$71 million.

### **Natural/Organic Brands Outperform Their Categories**

In most cases, the growth of the leading natural/organic brands continues to greatly outpace that of their respective categories, which are generally slow-growing at best (below 5% annually). This is most dramatic in the cold (ready-to-eat) cereal category, whose longstanding decline continued with a 0.4% drop in 2005, to \$6,075 million. Nevertheless,

Weight Watchers cereals (helped significantly by the name) amassed sales of \$16.9 million in their first full year on the market, outselling Kraft Foods' Back to Nature brand (acquired by Kraft in May 2005), which is also manufactured (and was formerly owned) by Organic Milling Co. Back to Nature's cereal sales rose 43.3% in 2004 to reach \$12.3 million.

### **Organic Products Outperform Natural Ones**

Natural/organic brands are also outperforming conventional ones in other product categories. For example, the fresh eggs category took a sharp downturn in 2005, losing 17.4% of its value, to \$2,117 million, but Horizon Organic and CROPP's Organic Valley continued their upward climb. Horizon Organic's sales rose 42.4%, topping \$9.7 million, and Organic Valley's sales climbed 20.7%, topping \$6.5 million. A third organic brand, Pete & Gerry's, has seen its sales fluctuate, but its 2005 total, despite a 4.0% decrease, was still more than double its 2001 total, at more than \$8.8 million. (The category overall gained only 0.6% in value between 2001 and 2005.)

In addition, partly or wholly organic products are outselling natural ones because they are newer to mass channels and because, as noted, they carry more clout with consumers because they are government-regulated. Sales of Kashi ready-to-eat cereals advanced only 4.4% in 2005, to \$118.6 million, but the brand's lone organic entry, Kashi Organic Promise, jumped 77.5%, to \$9.1 million.

### **Higher Levels of Education and Income Characterize Consumers**

Patrons of Whole Foods and Trader Joe's are strongly indicated as having higher levels of education and income, according to Simmons Market Research Bureau consumer survey data. The proportion of college graduates is 86% higher than in the adult population as a whole (index of 186), and the proportion of those with graduate degrees, 133% higher (index of 133). Asian-Americans also stand out as dedicated natural/organic shoppers, being almost three times as prevalent (index of 286) in the Whole Foods/Trader Joe's clientele as they are among adults in general. The age profile is less sharply defined, but adults age 18-24 are under-represented by 34% in the Whole Foods/Trader Joe's clientele, while adults age 65-74 and 55-64 are, respectively, 15% and 10% likelier than average to be patrons. Women are over-represented by 18%, while male representation falls 20% below average.

## The Retail Arena

### Retail Competition Driving Market Growth

**A**long with the current strong focus among consumers on eating for health and wellness, which is especially acute among aging baby boomers, retail competition is the main growth driver in the natural and organics market today. Mainstream supermarkets are in a fight for survival with lower-priced operators of supercenters and club stores—particularly Wal-Mart, but also Target, Costco, and smaller players. Traditional grocers accounted for 90% of retail grocery dollars in 1988, but just 15 years later their share had shrunk to 56%. Accordingly, as a way to set themselves apart and stay in the game, mainstream supermarkets have seized on natural and organic products as a thriving sector less subject to price competition.

However, doing so pits them against two of the most successful food retailers of the last 10-15 years—Whole Foods Market and Trader Joe's—each with an identity quite different from the other. Since going public in January 1992, Whole Foods, for example, has grown more than 17-fold in store count and 50-fold in annual sales. The success of Whole Foods and Trader Joe's has inspired others, in turn, both in health food and mainstream channels. Wild Oats, the other giant of natural/organic retailing, has been outdistanced by its main rivals, but is pursuing several strategies to improve its performance and continues to expand as well.

### Big Three's Growth Explosion Begins in 1990s

Whole Foods is one of only three chains in the natural foods channel with national aspirations—the others are Trader Joe's and Wild Oats Markets, as noted—and these big three together account for 20%-25% of the natural/organic market. No other natural foods supermarket or health food chain has more than local or regional representation as yet, partly because Whole Foods and Wild Oats gobbled up most of the larger ones before the turn of the millennium.

Trader Joe's is the oldest of the three, dating back to 1967, and has created a unique identity based on assortment, pricing, and merchandising. The Trader Joe's name conveys that unusual and exciting bargains are to be found in the stores. Trader Joe's had no direct competition until January 2006, when SuperValu, which operates limited-assortment discount food stores (like the Aldi stores of Trader Joe's parent company), as well as mainstream supermarkets, launched its Sunflower Market format.

Notwithstanding its early start, Trader Joe's period of greatest growth came only with the 1990s, just as it did for Whole Foods (founded 1980) and Wild Oats (1987). With Whole Foods and Wild Oats, this dramatic expansion can be traced to the added capital that going public (in 1992 and 1996, respectively) made available, as well as to the confidence inspired by the steady, rapid growth of the natural and organics market.

### **Whole Foods Brings "Supernaturals" Format to Fruition**

Whole Foods was the first retailer to recognize the full potential of the natural foods supermarket format, and it has continued to put distance between itself and direct rival Wild Oats, partly through choosing better locations, or by getting them because of its greater clout. Wild Oats has grown more slowly and has struggled with profitability because of poorer locations and because it has lacked the strong identity (and thus the loyal following) of a Whole Foods or a Trader Joe's. The lesson seems to be that, even in a flourishing market, location and identity are of paramount importance, especially if a retailer is contending with larger and better-established players.

### **Mainstream Supermarkets Taking Up the Challenge**

For mainstream supermarkets, natural and organic products present both a threat and a promise. The threat is the competitive one posed by aggressive natural/organic retailers, who are expanding geographically and siphoning off the affluent consumer base, while also attracting shoppers impressed by these stores' "food as theater" presentation and compelling in-store foodservice thrust. In New York City, natural foods chains and local gourmet grocers such as Balducci's have captured nearly a third of conventional supermarkets' business over the past several years, while another city supermarket chain, Food Emporium (a

division of A&P), has lost at least half of its sales to specialty stores (*Crain's New York Business*, April 18, 2005).

As for the “promise” part of the equation, natural/organic products are fast becoming a bright spot for many mainstream supermarkets, suggesting higher-margin sales and future growth opportunities, including allowing them to further distance themselves from value players including Wal-Mart. Local supermarkets like D’Agostino’s are, for example, adding organic produce and meats to their offerings and upgrading other aspects of their stores to bring them more in line not just with the natural/organic chains, but also with the specific needs and demands of their customers. The lineup of natural meats at D’Agostino’s, for example, now includes natural beef, chicken, and veal, as well as a more esoteric offering: venison.

### Opportunities in Store Brands

The attraction of natural and organic products to mainstream supermarket operators is not just that the products are becoming increasingly popular with consumers, but also that they offer an exceptional opportunity to build higher-margin proprietary brands that differentiate stores from competitors, build shopper loyalty, and attract new customers. Indeed, the relative absence of national brands in the natural/organic market—they have appeared only quite recently—has left the store-brand door open for retailers of many stripes.

As noted, store brands have been instrumental in the growth of Trader Joe’s and Whole Foods, where they now account for 85% and 50% of sales, respectively. Greatly enlarging its store-brand product portfolio is helping Wild Oats with the critical task of improving its bottom line; in just one year’s time, Wild Oats more than tripled the share of sales its proprietary brands (Wild Oats Organics, Food Origins) enjoy in the categories in which they compete. Mainstream supermarkets—as well as Wal-Mart and others—have taken note.

For some time now, most supermarket operators have offered natural/organic products under existing store brands, especially such staples as milk, juice, and eggs. However, creating dedicated natural/organic store brands (while extending the range of products) makes a strong statement about a retailer’s commitment to this market and this consumer. Store brands are also a way to reduce the price premium on natural/organic goods, thus making them attractive to a broader base of consumers. As an article in *Private Label Buyer* noted (July 2005),

“Many [store-brand] products can offer high margins and at the same time generate consumer loyalty and goodwill. Consumers will appreciate a retailer...making [healthier] products available and affordable.” The Natural Marketing Institute’s Health & Wellness Trends Database reports that 41% of organic consumers identify themselves as “very brand loyal,” and 36% say they will “most often” purchase a store brand.

## The Foodservice Connection

In addition to competing with one another, supermarket retailers are taking on restaurants in vying for the growing number of customers seeking meal solutions because they are too busy or too tired to prepare meals themselves. About 75% of U.S. consumers use takeout or delivery from full-service restaurants at least once a month, according to a recent survey by Technomic, Inc., a Chicago-based restaurant consulting firm, and twice as many regular users as in the past expect to increase their use of takeout and delivery restaurants in the coming year (*Supermarket News*, September 19, 2005). By comparison, “Consumers in the Deli,” a report from the International Dairy Deli Bakery Association (IDDBA), found that 27% of consumers surveyed reported visiting the supermarket for takeout food in 2004, compared to 19% in 2003 (*National Provisioner*, August 2005).

Underscoring their aim to build their takeout business, some mainstream supermarket chains, including H.E. Butt, have even taken a page from fast-food restaurants and installed drive-through windows to make getting takeout food easier. Moreover, food retailers can offer time-pressed customers something restaurants cannot: the opportunity to combine dining and food shopping in a pleasant and relaxing one-stop venue. At the same time, as the trends toward saving time on meals and healthier eating continue to converge, a reputation for offering healthier fare is proving indispensable in the growing tug-of-war between food retailers and restaurants, and natural/organic products are a fast-growing part of the competitive arsenal.

## The Producer/Marketer Arena

### Mainstream Moves to Incorporate Natural/Organics

A flourishing market with demonstrated staying power but made up mainly of small companies with sales of under \$50 million would be tempting to large marketers and investors in any case, but all the more so when the market involves necessities such as food and drink. Indeed, the growth potential of natural and organic foods and beverages must be considered in light of their role within their \$600-billion-plus parent market of groceries, of which natural/organic is a fast-growing slice. Accordingly, the high rate of acquisitions and changes in brand ownership—especially since the late 1990s—is not surprising, especially coming as it has on the heels of the consolidation among natural foods retailers and the stellar rise of Whole Foods.

The move toward consolidation and investment activity in this market actually began quite early. Kraft Foods became one of the first major marketers to buy into the natural/organic market when it acquired Celestial Seasonings in 1984—only to relinquish the herbal tea pioneer four years later in a leveraged buyout by the company's management and Vestar Capital Partners. During 2000, Celestial Seasonings merged with The Hain Food Group to become the Hain Celestial Group, which is today the nation's largest marketer of natural/organic foods and beverages, largely through acquisitions.

### Global Marketers, Investors Now Control Most Natural/Organic Leaders

The incorporation of natural/organics into the existing structure of food growers, marketers, and retailers has continued apace since the Rural Advancement Foundation's 2004 study *Who Owns Organic?* and Packaged Facts' own November 2004 report, *Natural and Organic Foods: The Mainstreaming of a Trend*. Indeed, today most of the leading U.S. marketers are owned by large conglomerates, with only a handful remaining independent.

- Seven of the top 10 natural/organic marketers—as ranked by *Nutrition Business Journal* in 2004—are owned in whole or part by a leading



global food marketer or, in one case, by an investment company. These marketers are, in descending rank order, the White Wave and Horizon Organic Dairy businesses of Dean Foods; the Cascadian Farm and Muir Glen businesses of General Mills' Small Planet Foods division (considered as a unit); Kellogg's Kashi and Morningstar Farms businesses (also considered as a unit); Coca-Cola's Odwalla subsidiary; Stonyfield Farm, 75% owned by Groupe Danone; and Booth Creek Management's BC Natural Foods meat and poultry unit.

- Still another top 10 marketer, Earthbound Farm, is one-third-owned by conventional produce marketer Tanimura and Antle, as noted. Of the top 10, only Hain Celestial Group and Hansen Natural, both publicly traded, remain independent. (H.J. Heinz Co. sold off its 16% stake in Hain Celestial in December 2005.) Hain Celestial owes its number-one ranking to acquisitions of its own, which have continued uninterrupted since 1994 (i.e., well before Kineret Acquisition Corp. merged Hain Pure Foods with Celestial Seasonings). Hansen Natural, for its part, is now focusing more on its energy drinks, from which most of its growth has been coming, than on its natural juices and sodas.
- Five other marketers of the remaining 18 ranked by *Nutrition Business Journal* are also part of larger companies: J.M. Smucker's Smucker Quality Beverages unit (including the Knudsen and Santa Cruz Organic brands); Kraft's Boca Burger unit (Kraft also owns Back to Nature cereals); Weetabix-owned Barbara's Bakery; the Ultimate Juice Co.'s Naked Juice unit; and the nSpired Natural Foods business of American Capital Strategies. Also in the rankings is Campbell Soup.
- Remaining top independent marketers, all of which can all be considered candidates for acquisition, include Amy's Kitchen, Newman's Own Organics, Organic Valley Family of Farms (CROPP), Clif Bar, Green Mountain Coffee Roasters, Nature's Path Foods, Clover Stornetta Farms, Pacific Foods, Kettle Foods, Apple & Eve, and Vitasoy USA.

## Big Money Influx Is Altering Market

The natural/organic market would not have grown nearly as much as it has without the hundreds of millions of dollars poured into it in the last 15 years through acquisitions and

public offerings. The huge sums invested in the market have promoted growth not only by bringing natural/organic foods and beverages before a much larger audience, but by legitimizing these products in the public's eyes. Moreover, heavy levels of outside investment will continue to drive the market for the foreseeable future; while marketers can fund expansion by putting the money they earn back into the business, they can grow even faster by tapping external sources—through public offerings, private investment, or acquisition by a larger company with deeper pockets.

The willingness of natural/organic marketers, including industry pioneers, to sell or relinquish control of their businesses for financial gain—even though they know this may compromise their original beliefs about the true mission of organic—is not surprising. Growth takes money, and some entrepreneurs have been able to keep much of their autonomy—for a time, at least—while working for large conglomerates. Others have simply decided to “take the money and run,” in some cases using it to start another natural/organic business harkening back to their earlier beliefs. And, in all fairness, when a market becomes a focus of intense interest to large companies with investment capital, offers to buy in also carry an implied threat—sell or risk being put out of business by the big guys.

While the influx of big money into the natural/organic market has resulted in heady growth and will likely continue to do so for at least the next few years, it has also transformed the market in ways incongruous with the cottage roots of natural/organic, begging such questions as: What effect is big money having on the natural/organic “mission”? Is there any way to safeguard the survival of the small farmers, marketers, and retailers who established this market while continuing to increase its reach? What will happen now that retail penetration for natural/organic foods and beverages is approaching 100% and competition is surging at both the production/marketer and retailer levels? What are the limits to incorporation?

### **Mainstream Marketers Entering Natural/Organic Arena**

On top of takeovers and the creation of new companies to capitalize on the success of the natural/organic market, established players have to contend with an ever-increasing number of new natural/organic product introductions from major mainstream marketers. In addition to deeper pockets, large mainstream marketers enjoy an entrenched position in the mass-

market channels now being targeted by many natural/organic marketers, which may give them a leg up in this sector of the market.

- With the market for all-natural beef having grown to almost \$1 billion (*Cattle Buyers Weekly*, January 2006), Tyson Foods announced in January 2006 that it would add “natural” lines to both its Certified Angus Beef (CAB brand) and Star Ranch Natural Angus Beef lines.
- In January 2006, R.C. Bigelow introduced organic green tea and organic decaffeinated teas in 40-count packages. The teas are all-natural and kosher, and organic was the next step it needed to develop, explained South Pacific region manager Steve Goodwin (*Grocery Headquarters*, November 2005).
- In November 2005, Del Monte Foods Co., majority owned by H.J. Heinz, launched its first organic product—tomatoes—and the company is currently testing additional organic vegetable and fruit lines.
- In a launch whose initial target was natural and health foods retailers, Ocean Spray Cranberries introduced in fall 2005 Organic 100 Percent Juice Blends in Cranberry, Cranberry Blueberry, and Cranberry Raspberry flavors. Ocean Spray also weighed in with a new all-natural line that includes Ocean Spray 100 Percent Pure Unsweetened Cranberry Juice.
- In fall 2005, Campbell Soup Co. introduced Prego Organic pasta sauce, following category leader Unilever’s Ragu brand, along with organic versions of Pace salsas and V8 beverages. Campbell Soup entered the organics arena with its August 2003 introductions of organic broth and tomato juice under the Swanson and Campbell brands, respectively.
- Also in fall 2005, ConAgra brought out certified-organic versions of Hunt’s canned tomatoes and Orville Redenbacher popcorn. The vine-ripened tomatoes are processed without artificial ingredients and preservatives, while the butter-flavored popcorn is grown without pesticides or genetically modified ingredients.
- In April 2005, more competition for Celestial Seasonings came from Jones Soda Co., which entered the organic foods market with a line of organic teas called Jones Organics.

**Foodservice Side Emphasizing Flavor, Origins**

With major chains like Starbucks and Chipotle Mexican Grill signing on, the foodservice sector is leading the natural/organic thrust in a number of significant ways. As noted, one of the most promising sectors in the market—natural meat—is currently experiencing explosive growth, and this growth is being driven in large part by activity on the foodservice side. There are also signs that the foodservice sector may be ahead of the curve in terms of emphasizing the superior flavor of organic foods over their mainstream counterparts as an increasingly important selling point among consumers, pushing beyond the usual emphases on safety and health. Organics' early ties to the ethical treatment of animals, growers, and the land they farm can also be seen in restaurants' growing involvement with fair-trade products, and this may be a bellwether to a return to organics' early underlying principles, which have in some cases been compromised on the grocery side due to "corporatization" and which may be increasingly important in attracting and keeping organic consumers in the years ahead.

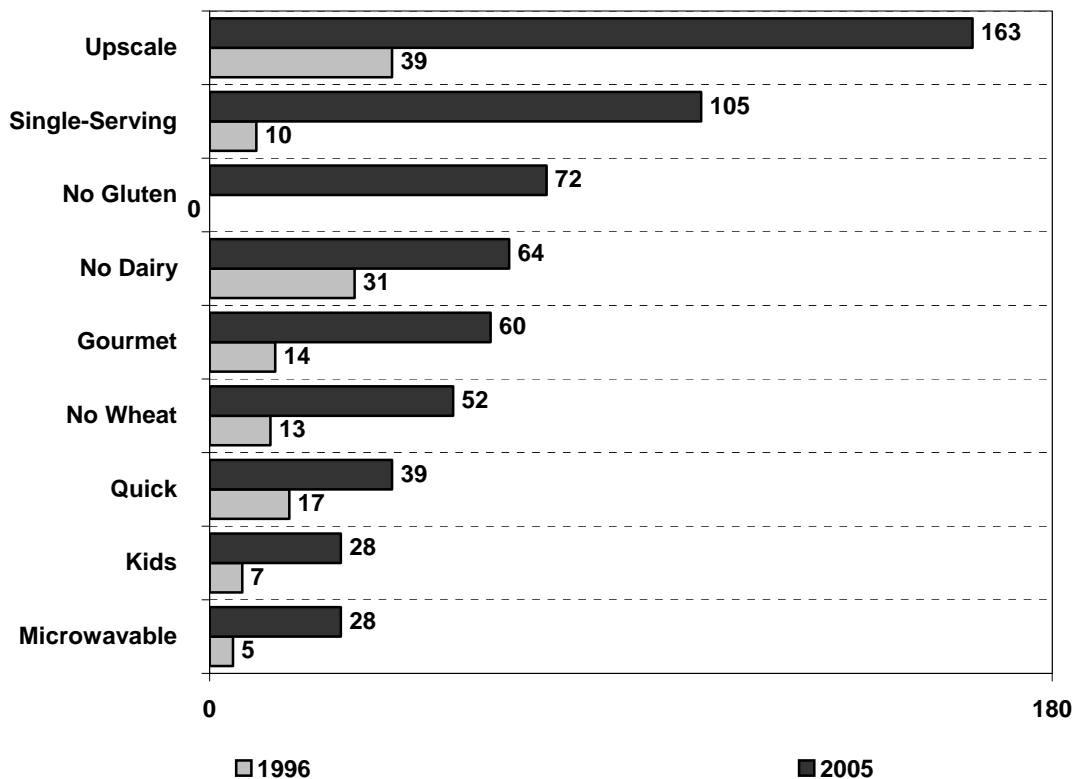
## New Product Trends in Natural/Organics

### Organic Linked to Weight, Heart Health Concerns

Which trends, apart from organic itself, are marketers of organic foods and beverages addressing most? Focusing exclusively on new organic product reports, and excluding tags integral to the organic designation (No Preservatives, No Genetic Modification, Pure, No Pesticides, No Artificial Color, No Artificial Flavor, and No Chemicals), reveals that the three package tags that most often accompany Organic are, not surprisingly, the three most common on food and beverage introductions overall—Upscale, Natural, and Single-Serving. [Figure 1-2]

**Figure 1-2**

**Selected High-Growth Package Tags on Organic Food & Beverage New Product Introductions, 1996 vs. 2005**



Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

The package tags next most closely associated with Organic relate to weight management and heart health (No Trans Fat, Low Fat, Low Sugar, No Cholesterol), nutritional value (High Fiber, High Vitamins, High Antioxidants, High Omega-3), or dietary restrictions (No Gluten, No Dairy, Vegan, No Wheat, Low Calories, Low Carbohydrates). [Figure 1-2]

Other diet- and health-related tags whose use on organic introductions rose sharply from 1996 to 2005 include No Wheat (from 13 appearances to 52), Low Sodium (28 to 40), Low Sugar (16 to 67), Low Calories (9 to 40), High Fiber (17 to 77), and High Omega-3 (1 to 41). Use of the No Trans Fat tag, which also has increased sharply, partly reflects the fact that marketers have been anticipating when declaring trans fat content would become mandatory. Products tagged either Low Sugar or No Sugar represented 14% of organic food and beverage new product reports in 2005. On organic introductions, the Low Sugar tag appears more than twice as often as the No Sugar one (67 versus 26 in 2005), and its growth has been more consistent (dating from 2002) and more pronounced.

## Looking Ahead

### Trends and Opportunities

Retail competition will continue to be the primary driver of market growth in natural/organic products, with organics in particular serving as a key point of differentiation both within and across key retail sectors. For natural foods supermarket chains like Whole Foods Market, Wild Oats, and Trader Joe's, natural/organics is the bread and butter, and all of these companies are expected to grow both their store count and their sales at a healthy pace for the foreseeable future. Indeed, most states remain virgin territory for these big three of natural foods retailing, and consumers in new markets are eagerly anticipating their arrival. At the forefront of this retail expansion trend is Whole Foods, which plans to increase its store count by 25-30 stores per year through 2010, with the stated goal of \$12 billion in annual sales, and a possible total buildout of as many as 600 stores.

In addition, for mainstream supermarkets such as Safeway—squeezed by Whole Foods and the like on one end and by Wal-Mart on the other—organic foods and beverages are an essential competitive thrust, including under dedicated proprietary brands (see below). According to *Frozen Food Age* (January 2006), some of the greatest opportunities for expanding into organics are in the areas of frozen and refrigerated foods, due to their handling and merchandising advantages over other perishables. As the magazine notes, “Creating an organic section for fresh meat, vegetables, and fruit could easily require store retail footage that is just not that available, while a freezer door unit as an end cap is more easily adapted for adding a product line or two.” A number of mainstream supermarket chains, including H.E. Butt, SuperValu, Publix, and Bashas, have even launched their own natural foods supermarket formats, which should gain momentum during 2005 and which are viewed as a key long-term growth avenue by these retailers.

Also helping to reshape the natural/organic market in the near term will be the ramped-up initiatives of Wal-Mart. According to a report on CNNMoney.com (May 1, 2006), the

company is currently “pushing into organics with a vengeance” with the intention of becoming “the low-priced leader in organics.” Although Wal-Mart has been offering a limited selection of organic food products, including milk and vegetables, for about five years, the pickings have been relatively slim in keeping with its focus on lower-income shoppers. Now, however, Wal-Mart is rapidly “going green” as it looks to grow both its profit margins and its appeal to less price-conscious customers. During the first five months of 2006, Wal-Mart doubled the size of its organic fresh produce, dairy and dry food departments.

Currently one of the biggest market consolidation moves is that of private equity firm Charterhouse Group, which made its third acquisition in the natural and organic baked goods sector with the September 2005 purchase of Rudi’s Organic Bakery. Charterhouse has since combined Rudi’s with two purchases made earlier in 2005—Vermont Bread Co. and Adams Bakery Corp.—under a single holding company, Charter Baking Co., which the company expects to generate nearly \$100 million in revenues in 2006. As Joe Rhodes, the Charterhouse partner who oversees Charter Baking, told *Corporate Financing Week* (September 12, 2005), “What Horizon did for [organic] milk, we want to do for [natural/organic] bread.” Meanwhile, top-ranked natural/organic marketer Hain Celestial continues to grow apace, both domestically and abroad, its most recent planned addition being the U.K.-based frozen vegetarian products unit of H.J. Heinz Co., including the Linda McCartney brand *Newsday* (May 3, 2006).

Similarly, operators of smaller natural/organic “supernatural” chains may also find themselves making deals, especially as more mainstream supermarkets seek to quickly increase their natural/organic market penetration to help offset the inroads being made by Whole Foods, Wild Oats, and Trader Joe’s.





## Chapter 2 Highlights

- The U.S. market for natural/organic foods and beverages totaled \$28.3 billion in 2005, up 11.9% from \$25.3 billion in 2004.
- Mainstream supermarkets hold the largest share of the organic foods and beverages market, at 38%.
- “Natural” can be discounted by consumers as largely a marketing term, whereas “organic” has official clout.
- Fully 68% of the U.S. population has not yet become regularly involved with organics.
- In most cases, the growth of the leading natural/organic brands continues to greatly outpace that of their respective categories.
- The top-selling natural/organic brand, White Wave’s Silk (Dean Foods), enjoys a 67% mass-market category share, reflecting IRI-tracked sales of \$269 million in 2005.
- Americans are buying organics for a variety of reasons, including avoidance of pesticides, freshness, health and nutrition, and taste.
- Consumer data show a strong correlation between a decided preference for natural/organics and higher levels of education and income.

## Chapter 2: Market Overview

### Introduction

#### Definition of “Natural”

Despite its frequent appearance as a marketing buzz word, the term “natural” has no set definition (apart from its application to meat—see below), though in practice it usually means free of artificial colors, flavors, sweeteners, and preservatives—and sometimes also of hydrogenated oils and genetically engineered ingredients. Marketers are not, however, bound by any official definition when using the term natural.

#### ***“Natural Beef” Benefits from Definition***

Significantly, having to adhere to a set definition seems to be helping sales of “natural beef,” a term used for beef raised without antibiotics or growth hormones and never fed the animal byproducts that can carry mad cow disease. Sales have been growing at about 20% annually—approximately the same rate organic foods and beverages have enjoyed since 1997, according to the Organic Trade Association. Meanwhile, total U.S. beef production, at 24.6 billion pounds in 2005, was down from 25.1 billion pounds in 1995, according to the National Cattlemen’s Beef Association. Also like organic foods, natural beef has grown in sales despite costing more—about 20% more than conventional beef because of higher expenses to raise the cattle. Accordingly, natural beef market leader Coleman Purely Natural is reportedly pressing the USDA to make the “natural” label for beef even more definitive.

#### Definition of “Organic”

On the other hand, federal standards for organic foods and beverages are quite complex; the U.S. Department of Agriculture’s text for the regulations approaches 600 pages. These are detailed and specific standards that cover agricultural production, handling, transport, processing, and certification. It took a decade to develop the standards, which were mandated by the Organic Foods Production Act of 1990. They became finalized in the spring of 2001

and took effect in October 2002. Despite the complexity of the standards, a few broad strokes encompass most of what consumers understand organic to mean:

- Organic foods are grown without the use of toxic and synthetic pesticides, herbicides, or fungicides.
- Organic foods may not be genetically modified (genes transferred across species).
- Organic foods may not be irradiated.
- Organic farms may not use processed sewage sludge (“biosolids”) as fertilizer.
- Organic livestock are not treated with antibiotics and growth hormones, are given certified organic feed, and have access to the outdoors.
- Organic crops have been grown on land that has been free of chemical applications for three years or more.
- Organic food is “produced by farmers who emphasize the use of renewable resources and the conservation of soil and water to enhance environmental quality for future generations” (National Organics Program website).
- Organic producers and processors have a farm systems plan and extensive documentation of farm practices available.
- Organic foods and processing have been certified by an accredited certifying agent.

### ***Different Degrees of Organic***

The National Organic Program, under the Agricultural Marketing Service of the U.S. Department of Agriculture, oversees the regulatory framework of the organic industry. Under federal law, products labeled organic must be certified by an independent, third-party USDA-accredited certifier, except for very small (less than \$5,000 annually) producers.

Products may be labeled “100% organic,” “organic” (at least 95% organic), or “made with organic ingredients” (at least 70% organic). If a product’s organic content is below 70%, the

term may not be used on the front of the package, but the organic ingredients may be listed on the side panel.

### ***Sales of Organics Are Easier to Track***

Because the term carries weight and sharply differentiates organic from conventional products, “organic” becomes part of a product’s very identity, unlike “natural.” In addition, certain marketers and brands specialize in organic foods and beverages. Sales of organic products are thus easier to identify and track than those of natural products. As a result, much of the statistical data presented and discussed in this chapter apply strictly to organic foods and beverages.

However, because the national organic standards and USDA labeling guidelines only took effect in October 2002, historical data for organic foods and beverages are somewhat less reliable than more recent market data, which is improving as the organics industry grows and evolves. Even today, however, some data lump organic and natural foods together. Accordingly, this report notes where data refer to both organic and natural products.

Furthermore, consumer data still sometimes fail to recognize whether consumers are using “organic” accurately; misperceptions remain about organic, and the term is sometimes confused by consumers with “natural,” “vegetarian,” or “healthy” food choices.

### ***Organic Sales Reflect Attitudes Toward Health, Social Issues***

Another reason for a closer focus on organic products is that, because they are well defined, consumers are confident of their healthfulness. Thus their sales are a better barometer of consumer interest in addressing health issues through diet change—as well as in supporting other causes related to organic farming, such as environmental protection, humane treatment of farm animals, and support of family farms.

### ***“Organic” Exposes Lack of Definition for “Natural”***

Lacking a set definition, “natural” can be discounted by consumers as largely a marketing term, whereas “organic” has clout. The result is that sales of organic foods and beverages have been growing much faster than, and probably partly at the expense of, sales of natural products, according to all estimates. The success of organics undercuts the positive

connotations of “natural” and would seem to mandate developing a definition for that term, as some marketers and observers have been urging.

“The enhanced reputation of organic products has sucked the wind from the sails of the natural foods market, whose sales have been flat for the past two years,” *Candy Industry* said in December 2004. At that time, organic snacks had come to account for 56% of the entire natural and organic snack category, and the publication cited *Nutrition Business Journal’s* projection that organics’ share would rise to 75% by 2010.

## Market Trends

### Market Size and Growth

**P**ackaged Facts estimates that the U.S. market for natural/organic foods and beverages totaled approximately \$28.3 billion in 2005, up 11.9% from \$25.3 billion in 2004. Since 2003, the organics segment of the market (up 17.2% in 2005) has been growing at more than four times the rate of the natural segment (up 3.9%)—which in turn has been outperforming the 2%-4% annual growth rate of the food and beverage market overall, according to the Organic Trade Association. Since 2002, retail sales of natural and organic foods and beverages have risen 39.4%, with the value of the organics segment alone up 60.9%. [Table 2-1]

**Table 2-1**

**U.S. Retail Sales of Natural and Organic Foods and Beverages, 2002-2005**  
(in billions of dollars)

Year	Natural \$ Sales	% Chg	Organic \$ Sales	% Chg	Combined \$ Sales	% Chg
2005	\$10.6	3.9%	\$17.7	17.2%	\$28.3	11.9%
2004	10.2	4.1	15.1	18.0	25.3	11.9
2003	9.8	5.4	12.8	16.4	22.6	11.3
2002	9.3	--	11.0	--	20.3	--

Source: Packaged Facts

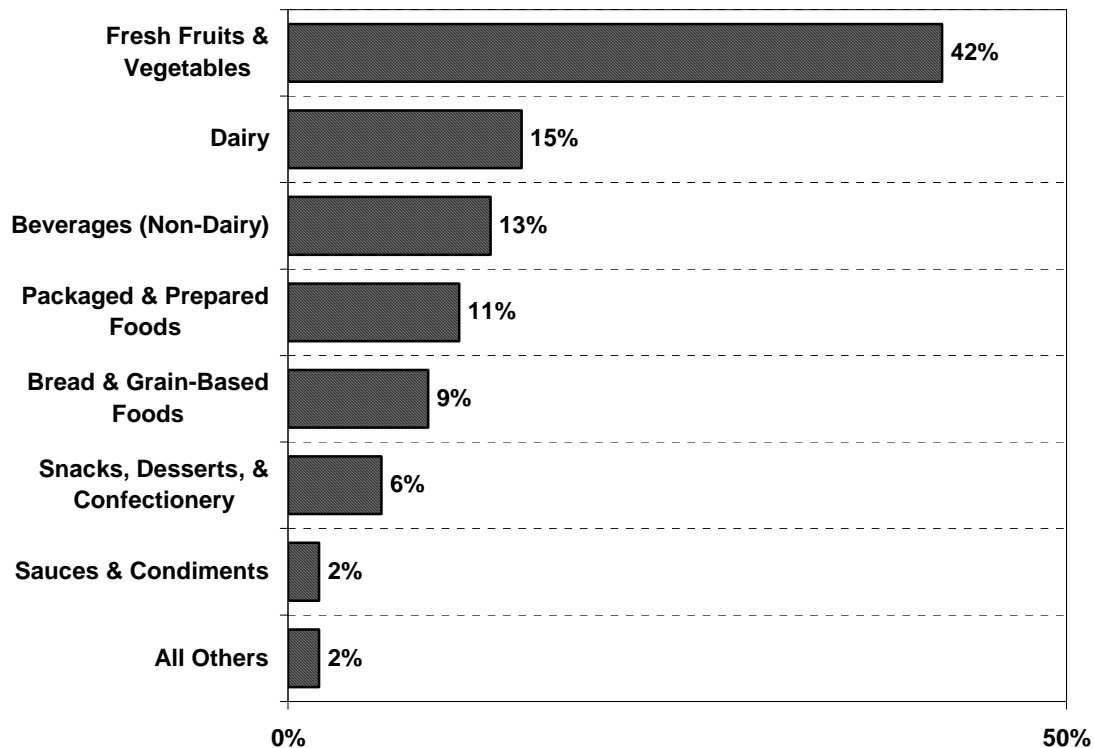
### Produce Is Largest Organic Category

Having far passed natural foods and beverages in total sales, the organic side of the market continues to be much faster growing, as noted. Based on figures and estimates from several sources, Packaged Facts breaks out dollar sales of organic foods and beverages by product category as follows: fresh fruits and vegetables, 42%; dairy, 15%; beverages (non-dairy),

13%; packaged and prepared foods, 11%; bread and grain-based foods, 9%; snacks, desserts, and confectionery, 6%; sauces and condiments, 2%; and all others, 2%. [Figure 2-1]

**Figure 2-1**

**Share of U.S. Retail Sales of Organic Foods and Beverages by Product Category, 2005 (percent)**



Source: Packaged Facts

### ***Produce Is Also Most Often Purchased Category***

Ranking organic categories by frequency of purchase instead of dollar sales yields somewhat different results. In retailer Whole Foods Market's 2005 Organic Trend Tracker consumer survey, the categories themselves also differ. In this edition of the survey, 73% of respondents named fresh fruits and vegetables as the category they purchased most frequently. Non-dairy beverages and bread/baked goods ranked as the second most frequently purchased categories, each named by 32% of participants. Dairy items came next (25%), followed by packaged goods (22%), meat (22%), snack foods (22%), frozen foods (17%), prepared and ready-to-eat meals (12%), and baby food (3%).



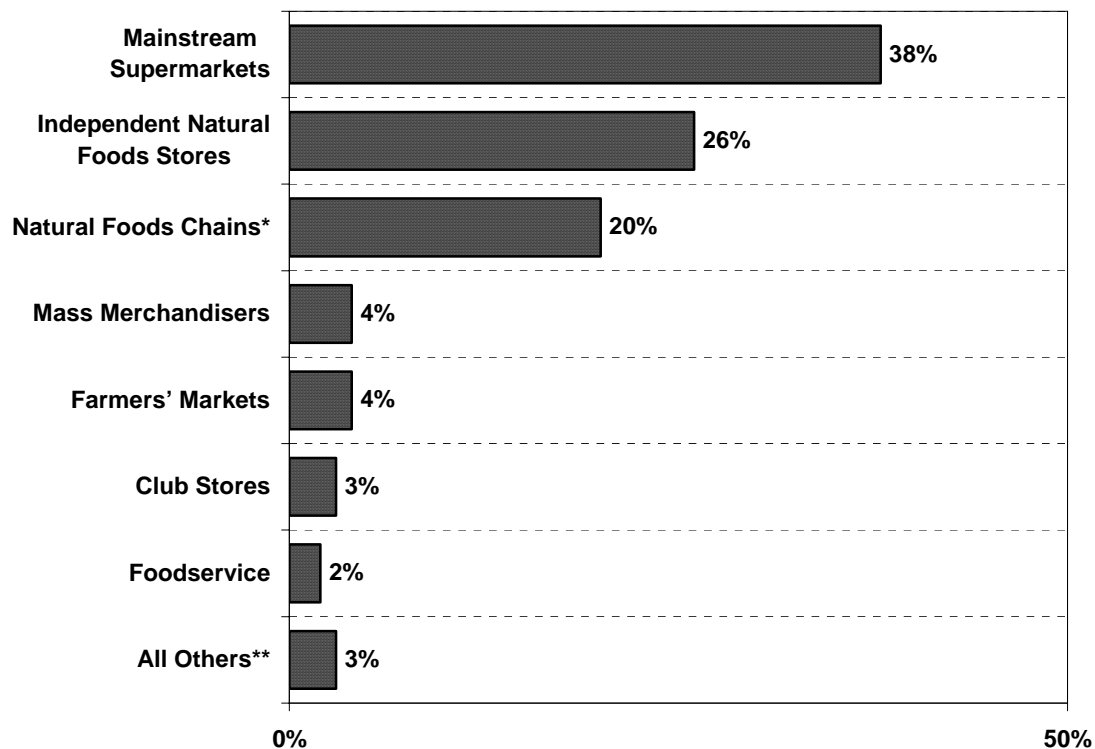
The result for meat is notably high and doubtless reflects both the greater availability of organic meat at Whole Foods stores, compared to mainstream supermarkets, and the much greater affluence of the retailer's customer base. Similarly, the infrequency of organic baby food purchases reported in the survey reflects the fact that Whole Foods customers tend not to have young children.

### Mainstream Supermarkets Lead Retail Channels in Organic Sales

Melding figures from various sources with our own research, Packaged Facts estimates that mainstream supermarkets hold the largest single share of the organic foods and beverages market, at 38%. [Figure 2-2]

**Figure 2-2**

**Share of U.S. Retail Sales of Organic Foods and Beverages by Channel, 2005  
(percent)**



\* Natural foods supermarkets including Trader Joe's.

\*\* Including gourmet stores and Internet/mail order.

Source: Packaged Facts

Conceivably, all channels are growing their sales, but some are growing faster than others. In addition to mainstream supermarkets, these include natural foods chains (natural foods supermarkets plus Trader Joe's), which now own at least a 20% share; mass merchandisers (4%); and club stores (3%). These giants are putting the squeeze on independent natural foods stores, which still hold a 26% share. [Figure 2-2]

### Health Product Shoppers Rate the Channels

In a 2005 online survey of natural, organic, and health product consumers conducted by The Intelligence Group for *Natural Foods Merchandiser*, natural foods supermarkets, conventional supermarkets, and natural foods stores ranked as the most popular shopping places. Of the more than 2,300 respondents, 62.5% said they shopped for natural/organic foods at natural foods supermarkets, 54.7% named conventional supermarkets, and 43.7% named natural foods stores. Of the remaining channels, mass merchandisers were named by 21.9%, club stores by 17.1%, the Internet by 11.5%, vitamin/supplement stores by 11.2%, and drugstores by 9.1%.

## Market Outlook

### Not Just a Fad

Experts commonly distinguish sharply between the organics trend and the fads that periodically seize the food market, such as low carb. “If you look at the new products and consumer interest, [trends] generally peak quickly and decline eventually,” observed Linda Gilbert, president of Health Focus International, a St. Petersburg, Florida, marketing research and consulting firm (*The Bradenton Herald*, February 5, 2006). Organics is another story. “Over the last 15 years, organics has just continued to increase a little all the time. It never had the fashionable peaks of those other fads.”

Indeed, organics is a trend that was slow to develop and that had a long gestation period, which bodes well for its long-term prospects. Its beginnings go back to the 1970s, the decade that also witnessed the birth of the natural foods supermarket format. The 70s to the mid-90s saw the advent of the market’s key players, both marketers and retailers. The market then entered the larger public consciousness and began to take off, and has maintained its growth trajectory ever since. Organics also differs from other trends in encompassing so much—not only foods and beverages but potentially any products that derive from plants or animals.

As Linda Gilbert also told *The Bradenton Herald*, the reasons people buy organic foods and beverages have increased—from concern over pesticides and the environment, to taste, quality, and purity. That is, the purchase of an organic product expresses more than a preference for that particular product. The term “organic” on the label assures consumers that all of the fine-sounding words and phrases associated with it—all of which have social implications—have substance. Packaged Facts believes that the only real threat to the market’s future is the possibility that consumers will lose confidence in the “organic” designation or, less likely, will reject what it represents.

## Organics' Greatest Growth Is Yet to Come

A large untapped market still exists for organic foods and beverages. Fully 68% of the population has not yet become regularly involved with organics, according to a SPINS/IRI Natural Products Consumer Solutions 2005 study, which divides consumers into four groups based on their response to natural and organic foods. According to the study, “committed” natural/organic consumers make up 2% of the U.S. population but account for 20% of natural products volume and 50% of organic products volume. The 10% of the population that SPINS places between “committed” and “transitional” consumers accounts for 30% of natural products volume and 35% of organics volume. The 20% who qualify as “transitional” consumers account for almost all of the remaining organics volume. Thus, slightly more than two-thirds of the population (including the 60% classified as “trial” consumers) have yet to become much involved with organic foods. By contrast, the market for natural foods and beverages is much more evenly divided among population groups and thus has less untapped potential. While less than half of consumers buy organic food, 95% say they seek out natural options, according to the SPINS/IRI study.

## Organics Just Beginning to Take Hold in U.S.

The December 2005 edition of a global online survey conducted semi-annually by ACNielsen also supports the idea that the U.S. organics market has plenty of room to grow. Asked about their purchasing of organic alternatives from 11 food and beverage categories, just 6% to 15% of U.S. consumers surveyed said they purchase such products regularly—well short of the average among consumers from the 38 markets included in the study. For example, organic fruits, vegetables, and eggs had the highest percentage of regular U.S. purchasers—15%—but the global averages for these products were 28%, 29%, and 32%, respectively. Deli meats (6%), carbonated beverages (7%), and packaged food (9%) had the lowest percentages of regular U.S. purchasers, though these percentages were closer to the respective global averages of 11%, 9%, and 11%.

## Few Introductions as Yet from Major Marketers

Also supporting the idea of a still wide-open field for organic foods and beverages is the fact that most major mainstream marketers have introduced only a few organic products of their

own as yet. Creating new organic products is more complicated, expensive, and time-consuming than developing other new products—another way in which the organics trend is very different from others. So, rather than leveraging their own brands, major marketers have chosen to enter the organics market mainly through acquisitions. Now, they are taking the plunge themselves. Del Monte, for example, launched its first organic product, tomatoes, in November 2005, and more marketers can be expected to follow suit, which should further enhance organics' credibility with mainstream consumers and thus help sustain healthy market growth.

### Consumer Survey Findings Augur Well for Organics

Consumer surveys also indicate that growth is continuing. In the 2005 edition of Whole Foods Market's annual Organic Trend Tracker consumer survey, the number of Americans who've tried organics rose to 65%, compared to 54% in 2004 and 2003. One-quarter of the 1,000 people surveyed reported consuming more organics than they did a year ago, and 10% said they consumed organic foods several times per week, versus 7% in 2004. Almost three-quarters said the higher prices of organic foods are what kept them from buying more. As consumption increases and more retailers establish private-label programs, prices should continue to come down.

According to the Natural Marketing Institute's 2005 study of the LOHAS consumer (Lifestyles of Health and Sustainability), 23% of the U.S. adult population qualifies as LOHAS consumers—down from a high of 34% in 2003. However, 40% of LOHAS consumers in 2005 said that “organically grown” was an important selling point for them, compared to only 25% two years earlier. LOHAS consumers also upped their purchases of organic foods and beverages by 3% over the previous year, and non-LOHAS consumers increased theirs by 12%.

A survey of consumers of natural, organic, and health products supported a positive outlook for the entire natural/organic market. In a May 2005 online survey of more than 2,300 consumers commissioned by *Natural Foods Merchandiser*, 57.5% reported they were purchasing more such products than they had a year earlier.

## Limiting Factors: Price and Supply

For consumers who never buy organic foods or beverages, the main deterrent is price—cited by 42% of non-consumers in a December 2005 global online survey by ACNielsen. As production capacity and production increase, helped by the participation of major marketers, prices will come down, but this will not happen overnight, and some price differential will remain because organic foods and beverages are more expensive to produce.

Currently helping to keep the prices of organic foods and beverages high, the demand for organic foods and beverages has outstripped supply—hardly surprising considering the steady 20% annual growth of the market and the less than 1.0% of U.S. farmland under organic cultivation. For example, the demand for organic milk was outrunning supply by an estimated 15% as this report was being finished. The *Chicago Sun-Times* recently (March 21, 2006) reported that the Midwest has been experiencing a year-long shortage of organic milk because part of the region's supply has been siphoned off to cover the East Coast. (The current shortage is also partly seasonal, the paper noted, because cows give less milk in winter when they are kept indoors and fed grain and hay than when they can go out to pasture.)

The organic milk shortage was expected to lead to shortages of organic yogurt and cheese. The story went on to note that it takes at least three years for an organic farmer to be certified, since pastures must be free of synthetic pesticides and herbicides for that long, and cows must get organic feed for a year. Accordingly, to help catch up with demand, the industry was trying to recruit new organic dairy farmers.

Organic beef and meat supplies reportedly have been suffering from a massive shortage as well. The London-based Organic Monitor reported in December 2005 that the U.S. imports \$1.5 billion worth of organic products and exports only \$150 million worth.

### ***Organic Acreage Growing, But Not Fast Enough***

Between 1997 and 2003, organic acreage grew by 71% for crops and 50% for livestock, to total 2.2 million acres, according to a report from the USDA's Economic Research Service. Every state but Mississippi had some organic farming, with California, North Dakota, and

Minnesota leading in organic cropland, and California, Alaska, and Texas in organic livestock production.

Crops that enjoyed the greatest growth in acreage in the 1997-2003 period were: spelt, 470%; culinary and medicinal herbs, 284%; dry peas and lentils, 212%; rye, 166%; corn, 147%; and carrots, 139%. Organic apples and organic lettuce commanded the largest share of their respective overall markets, accounting for 4% of the apples and lettuce grown in the United States.

However, even with 1997-2003 gains, organic acreage amounted to only about 0.4% of U.S. farmland and 0.1% of pasture. “Still,” the ERS release about the report noted, “many U.S. producers are embracing organic farming in order to lower input costs, conserve nonrenewable resources, capture high-value markets, and boost farm income, especially as prices fall for staple commodities.”

The Minneapolis-based Organic Consumers Association (OCA) reports that the five-year \$220 billion U.S. Farm Bill currently in effect (a new one will take effect in 2007) allocates only about one-hundredth of one percent of the total—about \$5 million annually—for organic research, production, and marketing. Even the current percentages of organic acreage for crops or pasture would seem to warrant a much higher subsidy for organic farming than the current Farm Bill provides, something the OCA will push for.

### ***Supply Expected to Catch Up with Demand***

Some leading marketers and organizations that cover the organics industry are confident the situation will improve greatly, if very gradually. Organic acreage will increase to more than 10% of the total by 2025, predicted the 2005 Organic Trade Association (OTA) report, *The Past, Present and Future of the Organics Industry*, which was issued in observance of the OTA's 20<sup>th</sup> anniversary. In addition, good organic farming and production practices can themselves reduce costs and prices. Stonyfield Farm president Gary Hirshberg told *Supermarket News* (September 26, 2005) that the marketer's Brazilian organic sugar producers have not been affected by an ongoing drought because the soil on the farm has been managed in such a way that the cane is able to retain what little water it gets. As a result, yields are up, and organic sugar prices are at parity with conventional product.

## Controversy Over Standards

When organic standards were finalized in the spring of 2001, then-Secretary of Agriculture Dan Glickman called them the most rigorous organic standards in the world. Applying these standards, a federal court ruled in June 2005 (*Harvey v. Veneman*) that certain non-organic food additives like pectin and baking soda could not be used for products labeled “100% organic.” Products with these additives could only be labeled “made with organic ingredients” (meaning “at least 95% organic”).

Responding to pressure from large marketers, Congress nullified the court ruling. As Robert Vosburgh, editor of *Supermarket News*’ Whole Health quarterly, described their position (*Supermarket News*, November 21, 2005), large marketers “see the addition of inert substances to organic food items as a reasonable remedy for a mass-produced world that’s demanding convenience.” The Organic Trade Association, which led the charge in Congress, also took the occasion to ask for, and get, changes to the 1990 Organic Foods Production Act.

However, according to detractors, it’s no abstract “mass-produced world” that “demands” that potentially misleading labeling be permitted, but only large marketers with a vested interest in taking business away from smaller rivals, regardless of possible damage to the market overall. Indeed, weakening “organic” would tilt the playing field even more in their direction. *Supermarket News*’ Vosburgh implicitly conceded this point when he warned smaller marketers in the same column not to raise a fuss about the changes and to get back to tending to business before they lose the business they still have.

### **Alarm Over Changes to Organic Standards**

The Organic Consumers Association voiced alarm over the changes, which it said would “lower organic standards by allowing Bush administration appointees in the USDA National Organic Program to approve hundreds of synthetic substances and processing aids in organic products. Even worse,” the OCA continued, “these proposed regulatory changes would reduce future public discussion and input and undermine the National Organic Standards Board’s traditional lead jurisdiction in monitoring standards and controlling what substances are allowed on the National List of approved ingredients. What this means, in blunt terms, is that USDA bureaucrats and industry lobbyists, not consumers, would have near total control over what can go into processed organic foods and products.”



Echoing the OCA's charges, Jim Riddle, longtime organic farmer and outgoing chairman of the National Organic Standards Board, wrote in *Supermarket News* (November 28, 2005), "The amendment recently passed by Congress has exposed a dilemma regarding the use of these synthetic substances. By focusing on the word 'ingredients' instead of 'substances,' the amendment opens the door to synthetic processing aids being used in or on organic products without such substances being reviewed by the National Organics Standards Board and appearing on the National List."

### ***Lower Standards Favor Large Marketers***

Riddle added that he was "troubled by the commercial availability amendment, which gives the U.S. Department of Agriculture unprecedented authority to write rules for emergency determinations of commercial unavailability of organic ingredients [which would then allow the substitution of non-organic ingredients, with no effect on labeling], with no stated role for the NOSB." This amendment could serve as a disincentive for working to overcome shortages of organic ingredients. At the same time, less stringent standards would seem to be almost a no-lose proposition for large marketers. If the market for organic food and beverages continues to grow (helped by the lower prices made possible by laxer standards), large marketers will increase their shares. If the term "100% organic" loses its luster, and sales suffer, large marketers will still have succeeded in reducing competition.

### ***Organics Has Dedicated Constituency***

Could this happen? What's in a name? Arguably, as noted, "natural" has lost some of its luster because of the lack of a firm definition, and sales growth of natural products has slowed. At the worst, by undermining organic standards, large marketers will restore the pre-organics status quo in mainstream channels while tarnishing the business for everyone else. On the other hand, a lot of time and effort went into developing organic standards, testimony to how important they were and are to some consumers and to some people in all branches of the industry. This constituency is not going to let those standards be undermined—and with them the whole potential of organics—without a serious fight.

### **Natural/Organic Market to Reach \$46.1 Billion in 2010**

Collectively, the participants in the OTA's 2005 report expected the organic food and beverage market to continue growing for the next 20 years, but at a slower rate than

heretofore—10% to 15%, at least through 2010, and 5% to 10% thereafter. Projections for the size of the market in 2025 ranged all the way from \$30 billion to \$120 billion, with \$67.5 billion being the average. As for the percentage of organic foods in the typical U.S. household in 2025, 13% was the average projected by the market researchers participating in the survey, 26.6% the average projected by the marketers involved. The report also predicted that produce, dairy, meat, and prepared foods—perishables—would continue to be the primary growth areas for organics because “These are categories in which the ‘value’ to the consumer in terms of perceived health benefits is most compelling.”

On the basis of the OTA report and other sources, Packaged Facts projects that the growth of the organics market will gradually slow, while still maintaining double-digit rates, but that the natural market will maintain its 4%-5% pace. Organics’ growth will come from making deeper inroads among mainstream consumers, but the market will gain fewer committed consumers than it has in recent years. By 2010, the natural/organic foods and beverages market will stand at \$46.1 billion, 62.9% above its 2005 level. The organics market alone will be worth \$33.0 billion, 86.4% more than five years earlier. The natural market will be at \$13.1 billion, having advanced 23.6% since 2005. [Table 2-2]

**Table 2-2**

**Projected U.S. Retail Sales of Natural and Organic Foods and Beverages, 2005-2010**  
(in billions of dollars)

Year	Natural \$ Sales	% Chg	Organic \$ Sales	% Chg	Combined \$ Sales	% Chg
2010	\$13.1	4.0%	\$33.0	11.9%	\$46.1	9.5%
2009	12.6	5.0	29.5	12.2	42.1	9.9
2008	12.0	4.4	26.3	11.9	38.3	9.4
2007	11.5	4.5	23.5	15.2	35.0	11.6
2006	11.0	3.8	20.4	15.3	31.4	11.0
2005	10.6	--	17.7	--	28.3	--

Source: Packaged Facts

## Leading Marketers and Brands

### Methodology: Estimates Based on IRI Three-Channel Data

The largest natural/organic brands, their growth, and their shares in the product categories or segments in which they compete can be identified from Information Resources, Inc. (IRI) *Infoscan* data for mainstream supermarkets (not including natural foods supermarkets such as Whole Foods Market), mass merchandisers (excluding Wal-Mart), and chain drugstores. Although mainstream supermarkets own the largest single share of the natural/organic market of any channel, it should be noted that these data nevertheless provide only a partial picture of the market, since the food/mass/drug channels together account for less than half of sales of natural/organic foods and beverages. Also, a substantial and growing part of the business in these channels (especially on the organic side) cannot be quantified from the data because it is private label and thus lumped together with the rest of private-label sales.

Nevertheless, the sales data presented in Table 2-3 are revealing, underscoring the dominance of natural/organic marketers that have been acquired either by large conventional marketers such as Dean Foods, Groupe Danone, or Kellogg, or by the natural foods conglomerate Hain Celestial Group. (The buying up of natural/organic marketers by large conglomerates or investors is discussed at length in Chapter 4.) As another important trend, some leading natural/organic marketers sell both natural and organic foods, or both natural and conventional foods. Number-one Hain Celestial Group is, for example, centered in natural but with some organic brands, while Kellogg's Kashi division is a natural foods marketer with a single organic Kashi product (to date), and Gerber is a conventional foods marketer with one organic line, Tender Harvest.

The natural/organic marketer roster also includes numerous companies that are predominantly focused on natural, including Kettle Foods, Nature's Path, Barbara's Bakery, Dakota Growers Pasta, and Hodgson Mill; while most of the remaining leaders—including Stonyfield Farm, Horizon Organic Dairy, Clif Bar, Organic Valley Family of Farms, and

Amy's Kitchen—specialize in products that are 100% organic or that contain organic ingredients.

Table 2-3 also shows the categories (apart from produce) where natural/organic products have had their greatest impact in the mass market, including produce, milk and milk substitutes, yogurt and yogurt drinks, ready-to-eat cereal, frozen meals, snack foods, pasta, soup, baby food, and salad dressings.

### **Most Brand Shares by Category Still Under 2 Points**

Despite the inroads made in recent years, natural/organic brand shares remain low in mass-market outlets, as the IRI data show. For example, despite its superior sales growth in a shrinking ready-to-eat cereal category, Kellogg-owned Kashi's share has risen only to 2.0%. Of the 39 brand-by-category listings in Table 2-3, 17 are for shares below 1 point, ten are for shares in the 1 to 2 point range, and six refer to shares of more than 2 but less than 10 points.

Only five marketers can claim double-digit shares, and in all but one case, these occur in categories that can be considered healthy by definition. The top-selling natural/organic brand of all, White Wave's Silk (owned by Dean Foods), competes in IRI's refrigerated kefir/milk substitutes/soymilk category, where its soymilk enjoys a 67.1% share, reflecting IRI-tracked sales of \$269 million in 2005. Silk soymilk's 9.8% increase in 2005 doubled that seen by the category overall. (Lifeway Foods' Lifeway kefir, which has helped to popularize that cultured milk drink in the U.S. market, upped its IRI three-channel sales by 59.1%, to approach \$8.1 million.)

The next highest natural/organic brand share, 30.8%, belongs to Hain Celestial's Rice Dream in the shelf-stable non-fruit drinks category, reflecting IRI-tracked sales of \$25 million in 2005. Two other Hain Celestial brands are also among the natural/organic share leaders: West Soy holds a 21.1% share of the ready-to-drink milk/milk substitutes category (\$22 million), and Celestial Seasonings, a 15.4% share of the loose tea bags category (\$110 million). Finally, independent marketer Clif Bar, whose products all contain organic ingredients, owns a 13.4% share of the nutritional/intrinsic health value bar category, reflecting IRI-tracked sales of approximately \$71 million. [Table 2-3]

Natural/organic brands also make strong showings in such small categories as specialty nut butter, worth only \$33.9 million in 2005 but growing at double-digit rates. Natural/organic brands collectively account for one-quarter of sales, led by Soynut Butter Co.'s I'm Healthy brand, nSpired Foods' Maranatha, and Kettle Foods' Roaster Fresh.

### **Earthbound Farm Is Standout in Produce**

Produce is the largest dollar category for organic foods, and Earthbound Farm is the category's leading organics marketer. In IRI's \$2,692 million fresh cut salad category, Earthbound Farm more than doubled its sales in the 2001-2005 period, however, the company's 2005 increase was only 3.0%, to \$128.3 million, for a 4.8% category share. The category overall grew by 7.0% in 2005 and by 37.9% over 2001.

In the \$570.6 million uniform weight fresh lettuce segment, Earthbound Farm continued its double-digit growth, advancing 16.4% in 2005 to top \$19.2 million, 143.0% higher than its 2001 level and good for a 3.4% share. The category overall grew by only 14.9% in the 2001-2005 period. [Table 2-3]

### **Dairy Is Second Strongest Department**

After produce, dairy is the department where natural/organic brands continue to be strongest, including White Wave's Silk; Stonyfield Farm (owned by Dannon parent Groupe Danone of France), whose \$155.9 million tally is good for a 6.1% share of the refrigerated yogurt segment; and Horizon Organic (Dean Foods again), whose \$149.7 million figure earns it a mere 2.2% share of the refrigerated skim/lowfat milk segment. [Tables 2-3, 2-5]

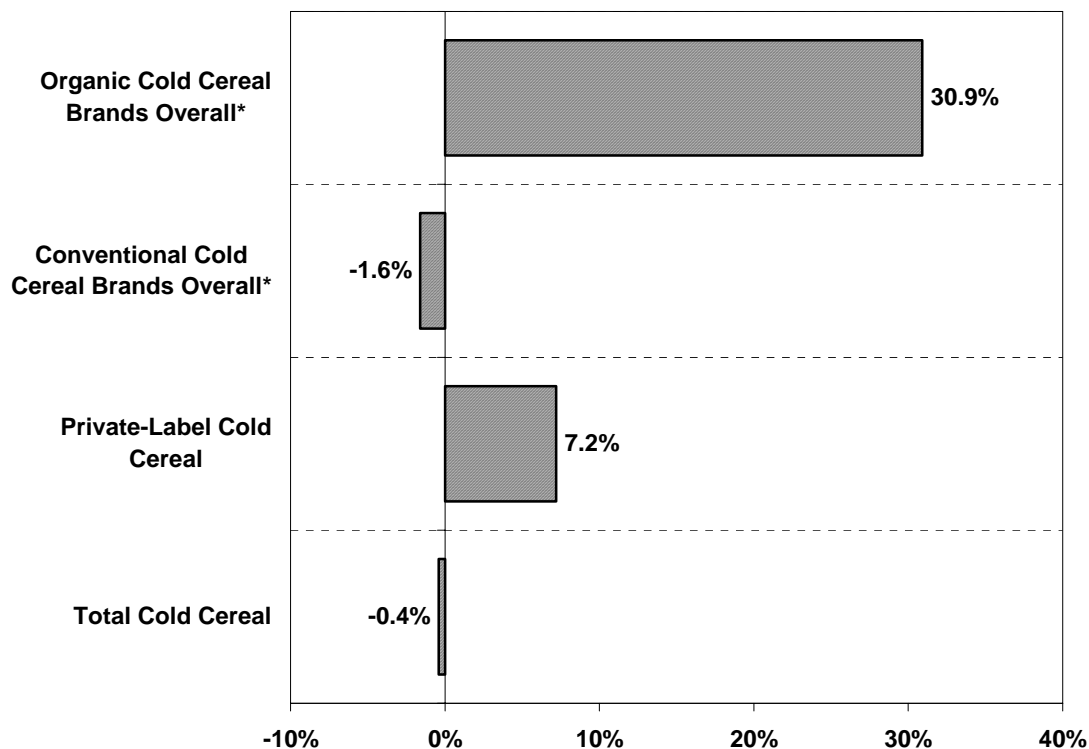
The dairy department is also the source of eight other listings in Table 2-3, including those for Organic Valley Family of Farms, Alta Dena Dairy (still another Dean Foods brand), and Clover Stornetta Farms, as well as additional listings for the three top-selling brands. Organic Valley Family of Farms (which markets milk, cheese, butter, eggs, soymilk, and citrus juices) is the only leading organic brand solely owned and operated by organic farmers. Beginning with seven farmers in 1988, this cooperative, now known as the Cooperative Regions of Organic Producer Pools (CROPP), has grown to include almost 700 farmers in 20 states.

## Natural/Organic Brands Far Outperform Their Categories

In most cases, the growth of the leading natural/organic brands continues to greatly outpace that of their respective categories, which are generally slow-growing at best (below 5% annually). This is most dramatic in the cold (ready-to-eat) cereal category, whose longstanding decline continued with a 0.4% drop in 2005, to \$6,075 million. Nevertheless, Weight Watchers cereals (helped significantly by the name) amassed sales of \$16.9 million in their first full year on the market, outselling Kraft Foods' Back to Nature brand, which is also manufactured (and was formerly owned) by Organic Milling Co. Back to Nature's cereal sales rose 43.3% in 2004 to reach \$12.3 million. (Kraft acquired the Back to Nature brand in September 2003, and began advertising it in May 2005.) [Figure 2-3; Table 2-4]

**Figure 2-3**

**Cold Cereal: Mass-Market Sales Growth of Organic Brands vs. Conventional Brands, Private-Label, and Overall Category, 2004-2005 (percentage change)**



Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

Source: Information Resources, Inc. *InfoScan Review*; Packaged Facts. This material is reprinted with permission.

All of the other major natural/organic cereal brands also continued to enjoy solid double-digit growth in combined food/mass/drug channels in 2005, including Nature's Path (up 23.4% to \$24.9 million), Weetabix-owned Barbara's Bakery (up 19.7% to \$19.0 million), and General Mills-owned Cascadian Farm (up 47.1% to \$18.2 million). Golden Temple Bakery, a smaller player, scored a 19.0% increase to top \$7.6 million in its fourth straight year on the rise.

### **Amy's Kitchen Is Standout in Frozen Foods**

Frozen foods—entrees, pizzas and convenience foods—are one of the fastest-growing areas of organic food because they meet the consumer need for convenience. In the single-serve frozen dinners/entrees category, worth \$3,702 million in IRI three-channel data—and still below its 2001 level despite reversing a three-year downtrend in 2005—the organic Amy's Kitchen brand grew by 83.3% in the 2001-2005 period, to exceed \$55.0 million in annual sales. In addition, Cedarlane Natural Foods' namesake brand—many of whose frozen foods are made with organic ingredients—grew by 114.5% to exceed \$7.4 million. Hain Celestial's Ethnic Gourmet brand grew by 69.3%, reaching \$6.9 million.

Similarly, the frozen pizza category, worth \$2,595 million, showed little growth between 2001 and 2005, but Amy's Kitchen doubled its annual sales, to more than \$24.6 million. The same brand also easily outperformed the field in the frozen handheld entrees category, growing by 62.2% in the 2001-2005 period while the category overall grew 16.6% in value. The Cedarlane Natural Foods brand grew by 147.5%, to almost \$4.4 million. [Table 2-3]

### **Three Natural/Organic Brands Stir Soup Category**

Overall growth has also come slowly in the ready-to-serve wet soup category, but three natural/organic brands have been outstandingly successful, including PFC Foods' Pacific brand, whose annual sales grew more than four-fold between 2001 and 2005; Hain Celestial's Imagine Foods brand, which grew by a factor of 2.6; and the seemingly ubiquitous Amy's Kitchen, whose annual sales grew almost five-fold, to approach \$9.6 million. On the other hand, Hain Celestial's Health Valley brand has lost sales for three straight years.

## Healthful Image Helps Snack Brands

In the \$2,612 million potato chip category, worth about \$80 million less in 2005 than it was in 2001, Kettle Foods' Kettle brands advanced from \$19.7 million to \$31.3 million, including a 28.1% increase in 2005. Hain Celestial's Terra brands almost regained their 2001 level on the strength of a 13.2% increase in 2005, to \$15.8 million. Hain Celestial achieved its best results in the tortilla/tostada chips category, worth \$1,852.5 million and basically flat since 2001. The marketer's Garden of Eatin' brand grew from \$20.3 million to \$34.0 million in annual sales, including an 11.1% increase in 2005. [Table 2-3]

## Dakota Growers Paces Spaghetti/Macaroni/Pasta Category

The spaghetti/macaroni/pasta category was worth \$14 million less in 2005 than four years earlier—\$1,019.4 million—but Dakota Growers Pasta has been spectacularly successful with the Dreamfields brand, which has grown to \$13.2 million in IRI three-channel sales in only two years. The pasta is low in digestible carbohydrates, whole-wheat, and whole-grain. In addition, the Hodgson Mill line of better-for-you pasta (including organic) has grown from \$8.7 million to \$14.1 million in the five-year period, including a 10.6% gain in 2005. On the other hand, these brands may be taking sales away from Hain Celestial's De Boles brand, whose sales fell 27.3% in 2005, to \$4.0 million, from a high of almost \$5.6 million in 2004. [Table 2-3]

## Organic Products Outperform Natural Ones

Natural/organic brands are also outperforming conventional ones in product categories not represented in Table 2-3. For example, the fresh eggs category took a sharp downturn in 2005, losing 17.4% of its value, to \$2,117 million, but Horizon Organic and CROPP's Organic Valley continued their upward climb. Horizon Organic's sales rose 42.4%, topping \$9.7 million, and Organic Valley's sales climbed 20.7%, topping \$6.5 million. A third organic brand, Pete & Gerry's, has seen its sales fluctuate, but its 2005 total, despite a 4.0% decrease, was still more than double its 2001 total, at more than \$8.8 million. (The category overall gained only 0.6% in value between 2001 and 2005.)



In addition, partly or wholly organic products are outselling natural ones because they are newer to mass channels and because, as noted, they carry more clout with consumers because they are government-regulated. Kellogg's natural Kashi brand provides a good example. Sales of Kashi ready-to-eat cereals advanced only 4.4% in 2005, to \$118.6 million, in IRI three-channel data, but the brand's lone organic entry, Kashi Organic Promise, jumped 77.5%, to \$9.1 million, in its third year at mass.

### **Newer Natural/Organic Entries Take Sales from Older Ones**

Not all natural/organic marketers have been notably successful in IRI-tracked food/mass/drug outlets—or successful at all. A smaller brand may take sales from a larger one in the same category. The \$790.1 million baby food/snacks category has grown only 3.0% in value since 2002, but Hain Celestial's Earth's Best brand jumped 45.6% in 2005 to \$15.1 million. On the other hand, Gerber's Tender Harvest organic brand, at \$36.2 million, has not quite regained its 2002 level. [Table 2-3]

In the \$105.6 million ready-to-drink milk/milk substitutes category, Hain Celestial's West Soy, Rice Dream, and Soy Dream brands (31.1% collective share) have all lost sales because of increased competition—especially from White Wave's Silk brand and from Horizon Organic (both owned by Dean Foods)—and because of lack of growth in the category since 2002.

Other established competitors have fared even worse, including Eden Foods' EdenSoy brand, which lost more than half of its value in the 2001-2005 period (down to \$9.0 million), and Vitasoy (down from \$7.8 million to \$6.2 million). PFC Foods' Pacific brand shrank from \$4.6 million to \$1.8 million in the 2001-2005 period, but the marketer's Naturally Almond brand doubled its sales, to more than \$1.5 million.

### **Meat Category Still Small, Especially at Mass**

As the last example shows, a marketer may be successful with one natural/organic brand but not another, also in the same category. For example, Annie's Naturals, owned by Solera Capital, has enjoyed steady double-digit growth in the shelf-stable pourable salad dressings

category, worth \$25 million less in 2005 (\$1,354 million) than it had been in 2001. Annie's Naturals' 2005 increase was 13.1%, to \$10.7 million. On the other hand, sister brand Consorzio, which is also part of Solera's Homegrown Naturals group, lost almost one-third of its sales in the 2001-2005 period, including a 17.3% drop in the latest year to \$1.4 million. [Table 2-3]

As noted, fresh meat and poultry is the fastest growing area of the natural and organic food/beverage market, but it is still small at retail—acceptance has been greater in foodservice—and smaller still in mainstream outlets. *Nutrition Business Journal* put 2004 sales of refrigerated and frozen organic meats, poultry, and seafood in all retail channels at \$15.6 million, up 120% from the previous year. Natural foods stores reportedly captured 96% of these sales, leaving only \$624,000 to be divided among mainstream retailers.

## Organic Brands vs. Conventional Brands

### *Methodology and Data Limitations*

Information Resources Inc. (IRI) three-channel data also offer insight into the performance of organic and partly organic brands vis-à-vis non-organic brands within their respective product segments. Mainstream supermarkets, which are the largest channel covered by the data, are the main arena for this competition. Nevertheless, an increasingly important part of the competition is not clearly reflected in the figures. Several of the country's largest supermarket operators—including Kroger, Safeway, Albertson's, Ahold, SuperValu, Publix, and H.E. Butt—have developed their own dedicated natural/organic brands, as the growth of the organics market has become an important competitive driver of the supermarket private-label business (see Chapter 3). Although these results cannot be isolated from the private-label totals in the data, these totals are included in the tables below because they, too, can be compared instructively to the performance of conventional brands. Note also that organic entries by conventional branded marketers are mostly too recent to have had much impact in the 2001-2005 period covered.

## Organic Brands Breakfast on Conventional Rivals

In cold cereal, for example, organic and partly organic brands enjoyed a collective 30.9% sales increase in 2005 even as the category overall slipped 0.4% in combined food/mass/drug data. Conventional brands experienced a 1.6% decline, while private-label sales were up 7.2%. The differences are even more dramatic comparing 2005 to 2001. In this case, organic brands grew by 175.8%, conventional brands declined by 9.5%, private-label sales rose 8.0%, and the cereal category overall took a 7.1% hit. [Figure 2-3; Table 2-4]

## Organic Brands Outshine Competition in Milk Category

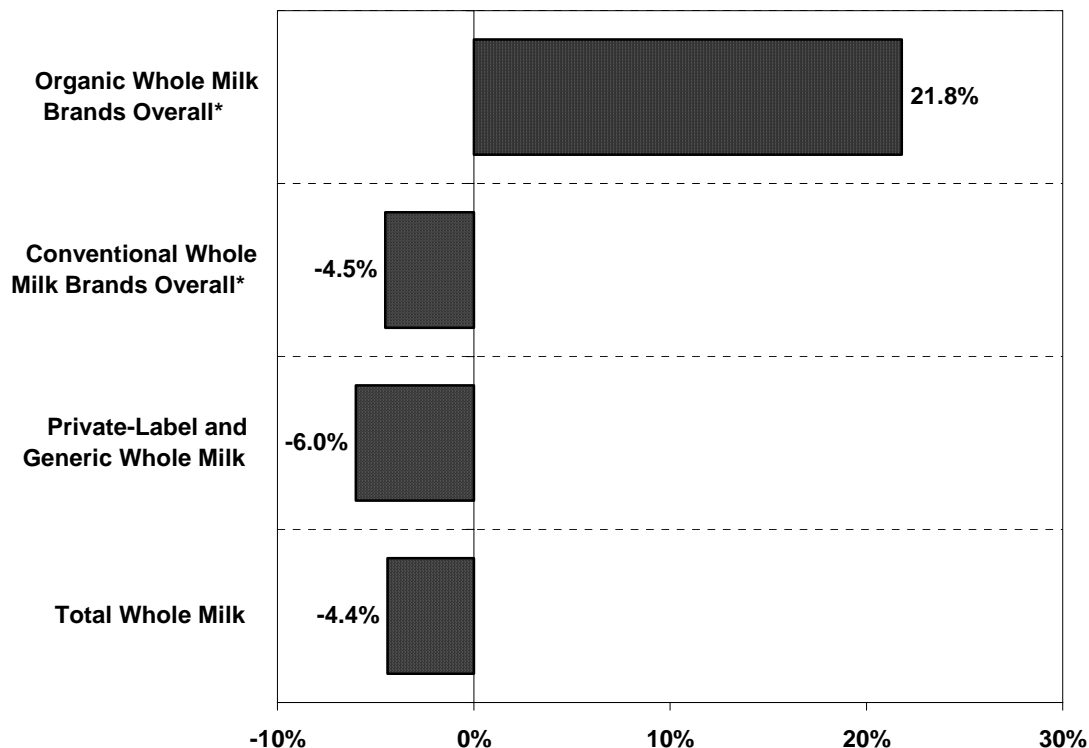
In the milk category, the refrigerated skim/lowfat milk segment has grown less than 1.0% since 2001, and conventional brands have managed only a 2.6% increase. However, organic brands have seen a 108.8% increase, including a 21.6% gain in 2005. It should be noted that organic milk was in short supply at times in 2005 and that most supermarkets only entered the organic milk business under their own brands quite recently. Similarly, whole-milk sales in 2005 dropped both overall (4.4%) and for conventional brands (4.5%), but organic brands posted a collective 21.8% increase and finished with a total 118.0% higher than their 2001 result. [Figure 2-4]

Organic brands are a small factor (less than 1.0% share) in the refrigerated flavored milk/eggnog/buttermilk segment, but the three brands achieved a collective 29.3% increase in 2005 while conventional brands were down by 3.0%, and private-label sales rose 5.1%. Compared to 2001, private-label sales were up 17.3%. Organic brands managed only a 25.6% increase over 2001 because Dean Foods' Alta Dena brand shrank by half over that period.

Table 2-5 also includes the totals for a segment that can be considered entirely natural—kefir/milk substitutes/soymilk. While the segment's growth has slowed, it more than doubled in size during the 2001-2005 period. [Table 2-5]

Figure 2-4

**Refrigerated Whole Milk: Mass-Market Sales Growth of Organic Brands vs. Conventional Brands, Private-Label, and Overall Category, 2004-2005 (percentage change)**



Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

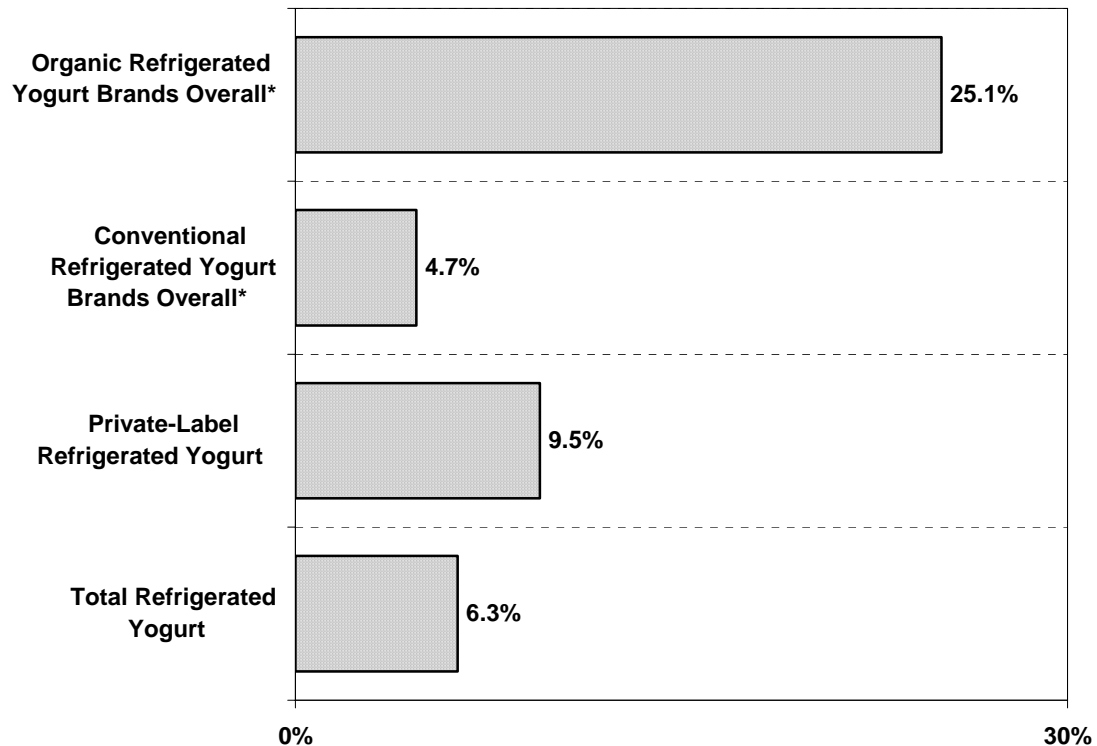
Source: Information Resources, Inc. *InfoScan Review*; Packaged Facts. This material is reprinted with permission.

## Organics Also Lead the Way in Yogurt Category

In contrast to cereal and milk, yogurt/yogurt drinks is a category that has been growing overall, but here, too, organic brands are well out in front. In the refrigerated yogurt segment, their collective 25.1% increase in 2005 compares to a 4.7% increase for conventional brands, while private-label sales were up 9.5%. In refrigerated yogurt drinks, the difference in growth rates was even greater—53.2% for organic brands vs. 5.2% for conventional ones. However, the biggest increase of all—280.9%—belonged to private-label yogurt drinks, which are the latest to hit the market. [Figure 2-5; Table 2-6]

Figure 2-5

**Refrigerated Yogurt: Mass-Market Sales Growth of Organic Brands vs. Conventional Brands, Private-Label, and Overall Category, 2004-2005 (percentage change)**



Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

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The story is much the same in product categories where organic sales and/or penetration are low. In spaghetti/Italian sauce, for example, General Mills' organic Muir Glen brand enjoyed a 21.4% increase in 2005 (to almost \$6.3 million), while conventional brands collectively barely grew at all (0.7%), and private-label sales rose 18.5%.

Table 2-3

**Top-Selling Natural/Organic Brands in the Mass Market: By Product Segment, 2005**  
(in millions of dollars)

Brand/ Marketer (Product Segment)	Brand Sales in 2005	% Change Over Prior Year	% Share of Segment
<b>Silk/White Wave</b> ..... <b>Dean Foods</b> (Refrigerated Kefir/Milk Substitutes/Soy milk)	\$269.0	9.8%	67.1%
<b>Stonyfield Farm</b> ..... <b>Groupe Danone</b> (Refrigerated Yogurt)	155.9	25.8	6.1
<b>Horizon Organic</b> ..... <b>Dean Foods</b> (Refrigerated Skim/Lowfat Milk)	149.7	18.3	2.2
<b>Earthbound Farm</b> ..... (Fresh Cut Salad)	128.3	3.0	4.8
<b>Kashi</b> ..... <b>Kellogg</b> (Ready-to-Eat Cereal)	118.6	4.4	2.0
<b>Celestial Seasonings</b> ..... <b>Hain Celestial</b> (Tea Bags/Loose)	109.7	3.2	15.4
<b>Clif Bar</b> ..... (Nutritional/Intrinsic Health Value Bars)	70.5	17.5	13.4
<b>Organic Valley Family of Farms</b> ..... <b>CROPP</b> (Refrigerated Skim/Lowfat Milk)	59.1	7.6	0.9
<b>Amy's Kitchen</b> ..... (Single-Serve Frozen Dinners)	55.0	29.1	1.5
<b>Horizon Organic</b> ..... <b>Dean Foods</b> (Refrigerated Whole Milk)	43.6	24.6	1.4
<b>Gerber Tender Harvest</b> ..... <b>Gerber</b> (Baby Food/Snacks)	36.2	0.3	4.6

-- continued --

Table 2-3 [Cont.]

**Top-Selling Natural/Organic Brands in the Mass Market: By Product Segment, 2005**  
(in millions of dollars)

<b>Brand/ Marketer (Product Segment)</b>	<b>Brand Sales in 2005</b>	<b>% Change Over Prior Year</b>	<b>% Share of Segment</b>
<b>Stonyfield Farm</b> ..... <b>Groupe Danone</b> (Refrigerated Yogurt Drinks)	\$34.5	40.5%	8.3%
<b>Garden of Eatin'</b> ..... <b>Hain Celestial</b> (Tortilla/Tostada Chips)	34.0	11.1	1.8
<b>Kettle Foods</b> ..... (Potato Chips)	31.3	28.1	1.2
<b>Alta Dena Dairy</b> ..... <b>Dean Foods</b> (Refrigerated Skim/Lowfat Milk)	27.1	9.5	0.4
<b>Rice Dream</b> ..... <b>Hain Celestial</b> (Shelf-Stable Non-Fruit Drinks)	25.0	4.9	30.8
<b>Nature's Path</b> ..... (Ready-to-Eat Cereal)	24.9	23.4	0.4
<b>Amy's Kitchen</b> ..... (Frozen Pizza)	24.6	20.3	0.9
<b>West Soy</b> ..... <b>Hain Celestial</b> (Ready-to-Drink Milk/Milk Substitutes)	22.3	-8.4	21.1
<b>Terra</b> ..... <b>Hain Celestial</b> (Other Salted Snacks)	19.8	-1.9	2.0
<b>Earthbound Farm</b> ..... (Uniform Weight Fresh Lettuce)	19.2	16.4	3.4
<b>Amy's Kitchen</b> ..... (Frozen Handheld Entrees)	19.0	14.3	1.7

-- continued --

Table 2-3 [Cont.]

**Top-Selling Natural/Organic Brands in the Mass Market: By Product Segment, 2005**  
(in millions of dollars)

Brand/ Marketer (Product Segment)	Brand Sales in 2005	% Change Over Prior Year	% Share of Segment
<b>Barbara's Bakery</b> ..... <b>Weetabix</b> (Ready-to-Eat Cereal)	\$19.0	19.7%	0.3%
<b>Organic Valley Family of Farms</b> ..... <b>CROPP</b> (Refrigerated Whole Milk)	18.3	-0.3	0.6
<b>Cascadian Farm</b> ..... <b>General Mills</b> (Ready-to-Eat Cereal)	18.2	47.1	0.3
<b>Genisoy Soy Crisps</b> ..... <b>Genisoy</b> (Other Salted Snacks)	17.3	9.1	1.7
<b>Weight Watchers</b> ..... <b>Organic Milling</b> (Ready-to-Eat Cereal)	16.9	*	0.3
<b>Pacific</b> ..... <b>PFC Foods of Oregon</b> (Ready-to-Serve Wet Soup)	16.0	43.7	0.9
<b>Terra</b> ..... <b>Hain Celestial</b> (Potato Chips)	15.8	13.2	0.6
<b>Earth's Best</b> ..... <b>Hain Celestial</b> (Baby Food/Snacks)	15.1	45.6	1.9
<b>Stonyfield Farm</b> ..... <b>Groupe Danone</b> (Refrigerated Skim/Lowfat Milk)	14.4	851.1	0.2
<b>Hodgson Mill</b> ..... (Spaghetti/Macaroni/Pasta - No Noodles)	14.1	10.6	1.4

-- continued --



Table 2-3 [Cont.]

**Top-Selling Natural/Organic Brands in the Mass Market: By Product Segment, 2005**  
(in millions of dollars)

<b>Brand/ Marketer (Product Segment)</b>	<b>Brand Sales in 2005</b>	<b>% Change Over Prior Year</b>	<b>% Share of Segment</b>
<b>Dreamfields</b> ..... <b>Dakota Growers Pasta</b> (Spaghetti/Macaroni/Pasta - No Noodles)	\$13.2	112.8%	1.3%
<b>Clover Stornetta Farms</b> ..... (Refrigerated Skim/Lowfat Milk)	12.8	29.0	0.2
<b>Alta Dena Dairy</b> ..... <b>Dean Foods</b> (Refrigerated Whole Milk)	12.8	22.9	0.4
<b>Back to Nature</b> ..... <b>Kraft Foods</b> (Ready-to-Eat Cereal)	12.3	43.3	0.2
<b>Health Valley</b> ..... <b>Hain Celestial</b> (Ready-to-Serve Wet Soup)	12.0	-1.6	0.7
<b>Imagine Foods</b> ..... <b>Hain Celestial</b> (Ready-to-Serve Wet Soup)	11.5	38.7	0.6
<b>Annie's Naturals</b> ..... <b>Homegrown Naturals/Solera Capital</b> (Shelf-Stable Salad Dressings)	10.7	13.1	0.8

Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* 2005 was first full year on market

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Table 2-4

**Cold Cereal:****Mass-Market Sales Growth of Organic vs. Conventional Brands Since 2001  
(in thousands of dollars)**

Brand/Marketer	2005 \$ Sales	% Chg Over 2004	% Chg Over 2001
Nature's Path .....	\$24,850	23.4%	202.7%
Barbara's Bakery/Weetabix .....	19,017	19.7	92.3
Cascadian Farm/Small Planet Foods/General Mills .....	18,175	47.1	**
Back to Nature/Kraft Foods .....	12,324	43.3	212.2
Kashi Organic Promise/Kellogg .....	9,060	77.5	**
Health Valley/Hain Celestial .....	9,049	5.0	-21.2
Organic Cold Cereal Brands Overall* .....	92,475	30.9	175.8
Conventional Cold Cereal Brands Overall* .....	5,427,194	-1.6	-9.5
Private-Label Cold Cereal .....	555,357	7.2	8.0
<b>Total Cold Cereal .....</b>	<b>\$6,075,026</b>	<b>-0.4%</b>	<b>-7.1%</b>

Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

\*\* No sales reported in IRI three-channel data.

Source: Information Resources, Inc. *InfoScan Review*; Packaged Facts. This material is reprinted with permission.

Table 2-5

**Milk: Mass-Market Sales Growth of Organic versus Conventional Brands Since 2001**  
(in thousands of dollars)

Products	2005 \$ Sales	% Chg Over 2004	% Chg Over 2001
<b>Refrigerated Skim/Lowfat Milk</b>			
Horizon Organic Dairy/Dean Foods .....	\$149,700	18.3%	113.2%
Organic Valley Family of Farms/CROPP .....	59,138	7.6	95.5
Alta Dena Dairy/Dean Foods .....	27,080	9.5	59.6
Stonyfield Farm/Groupe Danone .....	14,381	851.1	**
Clover Stornetta Farms .....	12,765	29.0	49.1
Organic Skim/Lowfat Milk Brands Overall* .....	263,064	21.6	108.8
Conventional Skim/Lowfat Milk Brands Overall* .....	2,237,165	-1.2	2.6
Private-Label and Generic Skim/Lowfat Milk .....	4,249,537	--	-2.3
<b>Total Skim/Lowfat Milk .....</b>	<b>\$6,749,766</b>	<b>0.3%</b>	<b>0.7%</b>
<b>Refrigerated Whole Milk</b>			
Horizon Organic Dairy/Dean Foods .....	\$43,603	24.6%	146.2%
The Organic Cow of Vermont/Horizon/Dean Foods .....	8,326	-7.0	57.1
Alta Dena Dairy/Dean Foods .....	12,808	22.9	117.4
Organic Valley Family of Farms/CROPP .....	18,268	-0.3	67.4
Stonyfield Farm/Groupe Danone .....	5,756	885.5	--
Clover Stornetta Farms .....	3,716	17.0	42.8
Organic Whole Milk Brands Overall* .....	92,477	21.8	118.0
Conventional Whole Milk Brands Overall* .....	1,047,389	-4.5	1.7
Private-Label and Generic Whole Milk .....	2,015,074	-6.0	-9.6
<b>Total Whole Milk .....</b>	<b>\$3,154,940</b>	<b>-4.4%</b>	<b>-4.9%</b>

-- continued --

Table 2-5 [Cont.]

**Milk: Mass-Market Sales Growth of Organic versus Conventional Brands Since 2001**  
(in thousands of dollars)

Products	2005 \$ Sales	% Chg Over 2004	% Chg Over 2001
<b>Refrigerated Flavored Milk/Eggnog/Buttermilk</b>			
Horizon Organic Dairy/Dean Foods .....	\$2,768	49.3%	151.4%
Organic Valley Family of Farms/CROPP .....	1,979	17.8	254.7
Alta Dena Dairy/Dean Foods .....	1,741	17.2	-50.3
Organic Flavored Milk Brands Overall* .....	6,488	29.3	25.6
Conventional Flavored Milk Brands Overall* .....	493,867	-3.0	-5.6
Private-Label Flavored Milk Brands .....	213,980	5.1	17.3
<b>Total Flavored Milk .....</b>	<b>\$714,335</b>	<b>-0.5%</b>	<b>0.5%</b>
<b>Kefir/Milk Substitutes/Soy milk .....</b>	<b>\$401,097</b>	<b>4.9%</b>	<b>115.2%</b>

Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

\*\* No sales reported in IRI three-channel data.

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Table 2-6

**Yogurt: Mass-Market Sales Growth of Organic vs. Conventional Brands Since 2001**  
(in thousands of dollars)

Products	2005 \$ Sales	% Chg Over 2004	% Chg Over 2001
<b>Refrigerated Yogurt</b>			
Stonyfield Farm/Groupe Danone .....	\$155,940	25.8%	80.2%
Horizon Organic Dairy/Dean Foods .....	9,784	33.9	122.2
Silk/White Wave/Dean Foods .....	6,234	5.0	64.0
Whole Soy .....	4,122	14.9	197.2
Organic Refrigerated Yogurt Brands Overall* .....	176,080	25.1	83.2
Conventional Refrigerated Yogurt Brands Overall* .....	2,443,150	4.7	30.9
Private-Label Refrigerated Yogurt .....	361,574	9.5	21.8
<b>Total Refrigerated Yogurt .....</b>	<b>\$2,980,804</b>	<b>6.3%</b>	<b>31.9%</b>
<b>Refrigerated Yogurt Drinks</b>			
Stonyfield Farm/Groupe Danone .....	\$34,487	40.5%	**
Silk/White Wave/Dean Foods .....	2,592	1,224.3	**
Horizon Organic Dairy/Dean Foods .....	428	810.6	^
Organic Refrigerated Yogurt Drink Brands Overall* .....	37,507	53.2	**
Conventional Yogurt Drink Brands Overall* .....	370,724	5.2	313.2%
Private-Label Refrigerated Yogurt Drinks .....	7,678	280.9	**
<b>Total Refrigerated Yogurt Drink .....</b>	<b>\$415,909</b>	<b>9.8%</b>	<b>363.6%</b>

Note: Data are based on sales through supermarkets, mass merchandisers (excluding Wal-Mart), and drugstores.

\* Excluding private-label sales.

\*\* No sales reported in IRI three-channel data.

Source: Information Resources, Inc. *InfoScan Review*; Packaged Facts. This material is reprinted with permission.

## Consumer Trends

### Reasons for Buying Organic Foods

In their joint study “Natural Products Consumer Solutions,” market researchers SPINS and IRI estimated that “committed” natural/organic consumers constitute only 2% of the U.S. population but account for 20% of natural products volume and 50% of organic products volume.

Americans are buying organic foods and beverages for a variety of reasons, according to the 2005 edition of the Whole Foods Market Organic Trend Tracker consumer survey, conducted annually by the country’s largest retailer of natural/organic foods and beverages. The three top reasons consumers buy organics, the survey shows, are avoidance of pesticides (cited by 70.3% of respondents), freshness (68.3%), and health and nutrition (67.1%). More than half (55%) buy organics to avoid genetically modified foods. Also, over half agree that organic foods and beverages are better for their health (52.8%) and the environment (52.4%).

The December 2005 edition of a semi-annual global online survey by ACNielsen reports that the main incentive for buying organics is the belief that they are healthier for the purchaser.

### The Taste Factor

The reasons given above lead consumers to buy organic foods and beverages, but taste makes them confirmed organics consumers. Gary Hirshberg, president and chief executive officer of Stonyfield Farm, attributes the growth of the market to marketers’ efforts to improve the taste of organic foods (*Supermarket News*, September 26, 2005). As a result, Hirshberg said, “organic” and “gourmet” have become almost interchangeable terms. “Early on, ‘organic’ meant ‘chew extra.’ Then, about 10 years ago, we all realized that it’s food, and it has to be delicious. Today, restaurants around the country proudly proclaim they serve organic baby greens.”

## The Simmons Consumer Survey

The following discussion of the dedicated natural/organic shopper is based on data compiled by Simmons Market Research Bureau (New York, New York) on adults who shop at Whole Foods Market or Trader Joe's. Each year, Simmons surveys a large sample of consumers about their buying habits; the following discussion derives primarily from the Fall 2005 adult consumer survey, which is based on 24,617 respondents age 18 or over. Simmons has access to complete demographic information about the consumers surveyed, who are selected to represent a statistically accurate cross-section of the U.S. population. In this way, Simmons can construct detailed demographic profiles of consumers based on their shopping patterns and attitudes.

In addition, Simmons has developed an index system to calibrate the usage of a product or agreement with a given statement among a given segment of the population, compared with usage or agreement among the population as a whole. If, for example, 10% of adults surveyed shop in a particular retail channel, with 20% of persons age 18-24 and 5% of those 65 or older doing so, the younger age group would have an index of 200, the older group an index of 50. Generally speaking, Packaged Facts considers an index of 110 or higher, or 90 or lower, to represent statistically significant deviations from overall averages.

## Higher Levels of Education and Income Characterize Consumers

Some of the results presented in Table 2-7—such as those for Marketing Region (Pacific) and Marketing Environment (Top 25 Metro Markets)—are clearly more specific to patrons of Whole Foods and Trader Joe's because of where these retailers' stores are concentrated, but other results are more reflective of dedicated natural/organic food shoppers in general. For example, the data show a strong correlation between a decided preference for natural/organics and higher levels of education and income. The proportion of college graduates is 86% higher than in the adult population as a whole (index of 186), and the proportion of those with graduate degrees, 133% higher (index of 133). On the other hand, those with only a high school diploma are about half as likely as average (index of 54) to shop either Whole Foods or Trader Joe's. The tendency to shop these stores also rises steadily with income level—remaining below average until the \$60-74,000 level, then rising to significantly above

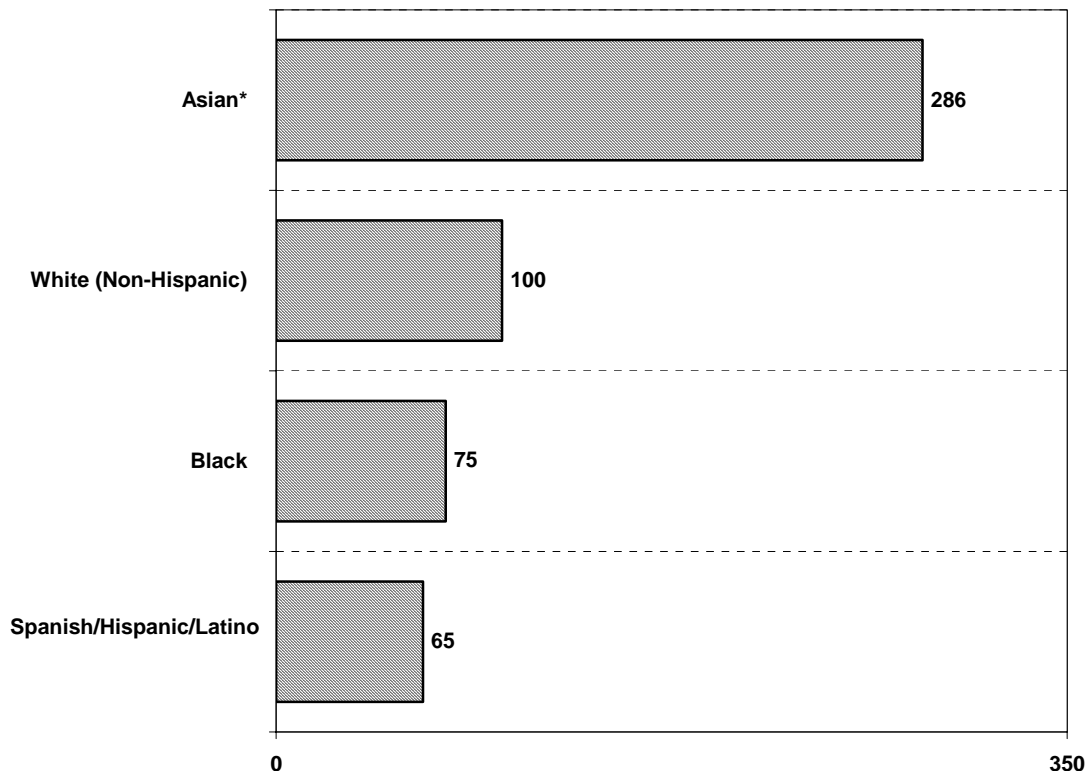
average starting with the \$75-\$99,000 level, and reaching a high index of 211 with the \$150,000 or over level. [Table 2-7]

### Asian-Americans Skew High for Natural/Organic Foods

Asian-Americans also stand out as dedicated natural/organic shoppers. They are almost three times as prevalent (index of 286) in the Whole Foods/Trader Joe's clientele as they are among adults in general. This population, though only about one-third the size of the Hispanic population, is growing just as fast and has been a definite factor in the growth of the natural/organic market. Hispanics (index of 65) and blacks (75) are significantly under-represented among dedicated/committed natural/organic shoppers, while white and non-Hispanic representation is proportionate to their population shares. [Figure 2-6; Table 2-7]

**Figure 2-6**

**Racial/Ethnic Indices for Patrons of Whole Foods Market or Trader Joe's, 2005  
(U.S. adults)**



\* Read as follows: Posting an index of 286, Asian Americans are 186 more likely than U.S. adults on average to shop at Whole Foods Market or Trader Joe's.  
Source: Simmons Market Research Bureau, Fall 2005 *Study of Media and Markets*; Packaged Facts. This material is reprinted with permission.



**Older Shoppers, Women, Small Households Also Indicated**

The age profile is less sharply defined, but adults age 18-24 are under-represented by 34% in the Whole Foods/Trader Joe's clientele, while adults age 65-74 and 55-64 are, respectively, 15% and 10% likelier than average to be patrons. Women are over-represented by 18%, while male representation falls 20% below average.

Unlike income, household size is an inverse indicator. Adults living in one- or two-person households are both significantly more likely than average to shop Whole Foods or Trader Joe's (indices of 132 and 114), but adults in larger households are significantly under-represented among patrons. Also indicated are condo or co-op dwellers, along with those who favor rented apartments (121), but not rented houses or mobile homes. [Table 2-7]

Table 2-7

**Demographic Overview for Patrons of Whole Foods Market or Trader Joe's, 2005  
(U.S. adults)**

Demographic	Percent	Total (000)	Index
<b>Age</b>			
18-24* .....	4.6%	1,100	66
25-34 .....	7.1	2,601	102
35-44 .....	6.45	2,703	92
45-54 .....	7.5	3,190	108
55-64 .....	7.7	2,368	110
65-74 .....	8.0	1,568	115
75+ .....	7.4	1,224	107
<b>Gender</b>			
Male .....	5.6%	5,713	80
Female .....	8.25	9,043	118
<b>Race/Ethnicity</b>			
White (Non-Hispanic) .....	7.0%	10,561	100
Black .....	5.2	1,170	75
Asian .....	19.9	1,676	286
Spanish/Hispanic/Latino .....	4.5	1,231	65
<b>Marketing Region</b>			
Northeast .....	5.9%	2,342	84
East Central .....	3.1	839	45
West Central .....	4.1	1,331	59
Southeast .....	2.5	1,051	36
Southwest .....	2.75	691	39
Pacific .....	18.7	7,720	267

-- continued --

Table 2-7 [Cont.]

**Demographic Overview for Patrons of Whole Foods Market or Trader Joe's, 2005  
(U.S. adults)**

Demographic	Percent	Total (000)	Index
<b><i>Marketing Environment</i></b>			
Top 25 Metro Markets .....	12.0%	10,172	172
Top 25-100 Metro Markets .....	5.6	3,097	80
Not Top 100 Metro Markets .....	2.1	1,487	30
<b><i>Highest Level of Educational Attainment</i></b>			
Non High School Grad .....	2.3%	700	33
High School Grad .....	3.75	3,137	54
College Grad .....	12.95	3,814	186
Graduate Degree .....	16.2	2,871	233
<b><i>Household Income</i></b>			
Under \$20,000 .....	3.4%	1,089	48
\$20,000-\$39,999 .....	5.1	2,307	73
\$40,000-\$59,999 .....	6.4	2,517	91
\$60,000-\$74,999 .....	7.45	1,790	107
\$75,000-\$99,999 .....	7.8	2,181	111
\$100,000-\$149,999 .....	9.3	2,237	133
\$150,000 or More .....	14.7	2,635	211
<b><i>Marital Status</i></b>			
Single .....	7.1%	3,500	102
Married .....	6.8	8,315	97
Widowed .....	7.1	954	102
Divorced .....	8.0	1,713	114

-- continued --

Table 2-7 [Cont.]

**Demographic Overview for Patrons of Whole Foods Market or Trader Joe's, 2005  
(U.S. adults)**

Demographic	Percent	Total (000)	Index
<b><i>Number of Persons in Households</i></b>			
One .....	9.2%	2,705	132
Two .....	8.0	6,890	114
Three – Four .....	5.6	3,951	80
Five Or More .....	4.8	1,210	69
<b><i>Presence of Children by Age</i></b>			
Under 2 .....	5.75%	582	82
2-X .....	5.3	1,096	76
6-9 .....	4.8	1,113	69
10-11 .....	4.8	651	69
12-X7 .....	5.2	1,521	75
<b><i>Kind of Residence</i></b>			
House .....	6.4%	10,194	92
Condo or Co-Op .....	19.0	1,500	273
Mobile Home .....	3.2	457	46
Rented House .....	5.25	892	75
Rented Apartment .....	8.5	2,579	121

Read as follows: 4.6% of adults age 18-24 shop at Whole Foods Market or Trader Joe's, for a total of 1.1 million consumers, and an index of 66 (34% below the adult average).

Source: Simmons Market Research Bureau, Fall 2005 *Study of Media and Markets*; Packaged Facts. This material is reprinted with permission.



## Chapter 3 Highlights

- Retail competition is the main growth driver in the natural/organic market today.
- Whole Foods, Trader Joe's, and Wild Oats Markets all have national aspirations, and these big three “supernaturals” together account for 20%-25% of the market.
- At the beginning of 2006, Whole Foods had a market value of \$10.6 billion—about the same as that of Safeway.
- Private-label makes up at least 85% of Trader Joe's inventory, almost half of which is imported.
- Wild Oats opened eight stores in 2005 and had 16 leases or letters of intent for new stores to open in 2006 and 2007.
- Apart from Whole Foods and Wild Oats, only a handful of supernaturals have emerged directly from the natural foods channel.
- For mainstream supermarkets, natural and organic products present both a threat and a promise.
- Private labels offer mainstream supermarket operators an exceptional opportunity to build higher-margin brands that differentiate stores and build shopper loyalty.

## Chapter 3: The Retail Arena

### Overview

#### Retail Competition Driving Market Growth

**A**long with the current strong focus among consumers on eating for health and wellness, which is especially acute among aging baby boomers, retail competition is the main growth driver in the natural and organics market today. Mainstream supermarkets are in a fight for survival with lower-priced operators of supercenters and club stores—particularly Wal-Mart, but also Target, Costco, and smaller players. Traditional grocers accounted for 90% of retail grocery dollars in 1988, but just 15 years later their share had shrunk to 56%. Accordingly, as a way to set themselves apart and stay in the game, mainstream supermarkets have seized on natural and organic products as a thriving sector less subject to price competition.

However, doing so pits them against two of the most successful food retailers of the last 10-15 years—Whole Foods Market and Trader Joe's—each with an identity quite different from the other. Since going public in January 1992, Whole Foods, for example, has grown more than 17-fold in store count and 50-fold in annual sales. The success of Whole Foods and Trader Joe's has inspired others, in turn, both in health food and mainstream channels. Wild Oats, the other giant of natural/organic retailing, has been outdistanced by its main rivals, but is pursuing several strategies to improve its performance and continues to expand as well.

#### Counter-Culture Origins

The number of health and natural product stores grew slowly until the mid-1960s, when the baby boom generation started to come of age, and the hippie lifestyle originally identified with San Francisco was fertile ground for the growth of natural product retailers. Many were small, poorly stocked food cooperatives that also functioned as political and social centers. In 1965 pioneer Fred Rohe opened his first New Age Foods in the Haight-Ashbury district as a traditional health food store. As his clientele shifted from older people to flower children,

Rohe repositioned accordingly. In addition to organic foods, Rohe's first store sold counter-culture magazines such as Rodale's *Organic Farming and Gardening*, carried rock albums, and even offered a meditation area complete with altar. Rohe soon established outlets in Santa Cruz, San Anselmo, and Palo Alto, California.

### Enter the "Supernaturals"

Throughout the 1970s natural product stores continued to proliferate across the country—predominantly on both coasts, but also finding an audience in many other parts of the country. Most stores remained independently owned or part of regional chains until the 1980s/1990s. One of the first regional chains to incorporate supermarket-sized stores—so-called "supernaturals"—was Bread & Circus, which started in 1975 in Brookline, Massachusetts, and expanded around the state during the early 1980s and into neighboring Rhode Island by the early 1990s. In 1992, Bread & Circus was acquired by Whole Foods Market, which had gone public in January of that year with 10 stores and annual sales of \$92.5 million. Whole Foods has since grown to become far and away the largest single factor in the natural and organics market, with a share comparable to that of Wal-Mart Stores in most of the food categories in which it competes—15% to 20%—all without benefit of significant advertising expenditures. During 2005, Whole Foods spent less than \$5 million on national advertising, while Trader Joe's spent under \$3 million and Wild Oats under \$2 million.

### Big Three's Growth Explosion Begins in 1990s

Whole Foods is one of only three chains in the natural foods channel with national aspirations—the others are Trader Joe's and Wild Oats Markets—and these big three together account for 20%-25% of the natural/organic market. No other natural foods supermarket or health food chain has more than local or regional representation as yet, partly because Whole Foods and Wild Oats gobbled up most of the larger ones before the turn of the millennium.

Trader Joe's is the oldest of the three, dating back to 1967, and has created a unique identity based on assortment, pricing, and merchandising. The Trader Joe's name conveys that unusual and exciting bargains are to be found in the stores. Trader Joe's had no direct



competition until January 2006, when SuperValu, which operates limited-assortment discount food stores (like the Aldi stores of Trader Joe's parent company), as well as mainstream supermarkets, launched its Sunflower Market format.

Notwithstanding its early start, Trader Joe's period of greatest growth came only with the 1990s, just as it did for Whole Foods (founded 1980) and Wild Oats (1987). With Whole Foods and Wild Oats, this dramatic expansion can be traced to the added capital that going public (in 1992 and 1996, respectively) made available, as well as to the confidence inspired by the steady, rapid growth of the natural and organics market.

### **Whole Foods Brings "Supernaturals" Format to Fruition**

Whole Foods was the first retailer to recognize the full potential of the natural foods supermarket format, and it has continued to put distance between itself and direct rival Wild Oats, partly through choosing better locations, or by getting them because of its greater clout. Wild Oats has grown more slowly and has struggled with profitability because of poorer locations and because it has lacked the strong identity (and thus the loyal following) of a Whole Foods or a Trader Joe's. The lesson seems to be that, even in a flourishing market, location and identity are of paramount importance, especially if a retailer is contending with larger and better-established players.

## Retailer Profile: Whole Foods Market

### Overview

**W**hole Foods Market began in 1980 when the respective owners of two health food stores—John Mackey (now chairman and chief executive officer) and Renee Lawson Hardy of Safer Way Natural Foods, and Craig Weller and Mark Skiles of Clarksville Natural Grocery—decided that Austin, Texas, home of the University of Texas, was ready for a health foods supermarket. (There were fewer than six supernaturals in the country at the time, reportedly.) The 12,500-square-foot Whole Foods Market was an immediate success, and the company opened four more stores before making its first purchase of an existing store in October 1986.

For the next 10 years or so, Whole Foods' growth came through mergers and acquisitions as well as new store openings, though expansion was gradual. It acquired its first store outside of Texas in 1988, in New Orleans; and opened its first California store the following year. (California now has the highest number of outlets—39.) Whole Foods' largest transaction came in September 1996 when it acquired its then closest rival, the Fresh Fields chain, with 22 stores and sales of more than \$200 million.

The company has acquired suppliers too along the way, including bakeries and a premium coffee company. In 1990 it launched the Whole Foods brand and, in 1997, a private label called 365 that targets mainstream supermarket shoppers. The label differs from the Whole Foods brand in not featuring organic products and in being about 20% cheaper.

As of January 2006, Whole Foods' store count stood at 180, including 170 in 30 states and the District of Columbia, as well as three in Canada and seven in the U.K.

### Bigger Stores

Whole Foods stores have continued to grow in size—the current average is 32,300 square feet, but the 64 stores the retailer had in development as of November 2005 averaged 55,000

square feet. Also, in March 2005 Whole Foods opened a showcase store in Austin measuring 80,000 square feet, reflecting the belief of chairman and CEO John Mackey that larger stores are less vulnerable to competition. (The experience of Wild Oats, whose stores are smaller, tends to support his case.) Larger stores also allow more space for prepared foods, the demand for which has increased dramatically, as well as for general merchandise.

In addition, larger stores offer a larger stage to a retailer praised for bringing “theater” to food merchandising. Whole Foods sets out to wow customers by providing abundant treats for the senses not only of smell and taste, but also of sight (produce displays arranged with an eye to color contrasts, for example) and touch (including back/shoulder massages in the Whole Body health and beauty care section).

### **A Fierce Competitor**

Whole Foods takes pride in being a fierce competitor as well as a responsible corporate citizen. In the late 1990s it adopted a strategy of seeking head-to-head competition with its leading direct competitor, fellow supernatural Wild Oats Markets, opening a store in 1998 in the latter’s home base of Boulder, Colorado, and this strategy is clearly still in force. Whole Foods is currently building a 55,000-square-foot store in Tualatin, Oregon, for example—directly across the street from a mall that opened in 2005 and features Wild Oats’ new 32,000-square-foot prototype store. “This isn’t the first time they’ve done this sort of thing,” Wild Oats marketing manager Michelle Schnoor told *The Oregonian* (April 28, 2005). “It’s a little stressful for us, to say the least.”

### **Whole Foods Eyes European Market**

Whole Foods entered the European market through its January 2004 acquisition of the seven-store Fresh & Wild natural foods chain in the U.K. The company plans to open a 75,000-square-foot flagship store in Central London in early 2007 and ultimately to expand into other parts of Europe, “where we believe the long-term growth potential is enormous,” commented Jim Sud, executive vice president of growth and business development. Whole Foods also intends to replace the Fresh & Wild locations, which range from 5,000 to 7,000 square feet, with larger stores under the Whole Foods banner.

## A \$12 Billion Sales Goal for 2010

Whole Foods' domestic expansion has shifted back to opening stores because, by 2000, the company and rival Wild Oats between them "had purchased most natural foods businesses that had a significant number of stores." In recent years, Whole Foods has been opening stores at an accelerated rate. From fiscal 2001 through fiscal 2005 (the company's fiscal year ends in September), Whole Foods opened 62 stores while acquiring only 10 and closing 14. In the same five-year period, the retailer's sales more than doubled, reaching \$4,701 million.

Sales for fiscal 2005, ended September 25, were up 21.6% over the previous year, when the company made the Fortune 500 for the first time. Comparable-store sales were up 12.8%, excluding two stores in New Orleans and Metairie, Louisiana, both of which were severely damaged by Hurricane Katrina. Nevertheless, results overall exceeded expectations, leading Whole Foods to raise its sales growth guidance for fiscal 2006 to 18%-21% and its sales goal for 2010 to \$12 billion from \$10 billion.

One reason for this optimism, according to Mackey, is that Whole Foods is "getting to see the best deals [from landlords and developers] before anyone else does. Our success is driving better locations our way."

## From Whole Foods to Whole Lifestyle

Whole Foods also has been working to extend its franchise beyond natural and organic foods and beverages and their traditional adjunct, vitamins and supplements. The assortment has always included beauty products, and Whole Body departments are found in every store, complete with beauty bars staffed by trained skin care specialists or makeup artists. Since 2000, Whole Foods has also opened several separate Whole Body stores.

Continuing the trend, in October 2005 the retailer opened its first Whole Foods Lifestyle store, a 2,000-square-foot unit adjacent to the West Hollywood store offering organic, U.S.-made apparel, bamboo chairs, recycled glass dinnerware, U2's Bono's line of clothing for men and women, paints free of volatile organic compounds, John Masters Organics Salon Hair and Facial Care products, recycled handbags and gifts, and reused furniture as displays and for sale. The store's flooring and walls use sustainable and environmentally friendly

materials and the paint meets the same criteria, as do the hemp curtains for the dressing rooms.

### **Company Works to Improve Quality of Life for Farm Animals**

That Whole Foods has stuck to its earth-friendly and humane principles is one reason it has flourished. “Probably more than any other retailer, Whole Foods is about something,” Scott Van Winkle told *The Tampa Tribune* (May 13, 2005). For example, the company is working with producers and an animal welfare advocacy group on enhanced animal treatment guidelines, which are scheduled for completion by 2008. Meat that adheres to the enhanced standards will carry the logo of the Animal Compassion Foundation established by Whole Foods in 2005 to raise living standards for farm animals. The Foundation is using educational services and research to help meat producers “create enhanced environments and conditions to support every animal’s physical needs, natural behaviors, and well-being.” Along similar lines, Whole Foods also offers Whole Paws Canned Dog Food, which reportedly combines nutritionally balanced ingredients that are hand-processed from human-grade foods derived from humanely treated animals, and which received an award from the Private Label Manufacturers Association (*DSN Retailing Today*, October 10, 2005).

### **Commitment to Renewable Energy, Recycling**

In January 2006, Whole Foods announced it had purchased enough renewable energy credits from wind farms to offset 100% of the electricity used in all of its stores, bake houses, distribution centers, regional offices, and national headquarters in the United States and Canada. The 458,000 megawatt-hours’ worth of renewable energy credits constituted the “largest wind energy credit purchase in the history of the United States and Canada.” Whole Foods had been using the credits company-wide since December 9.

The company has also established a Green Mission Task Force dedicated to waste reduction and waste recycling. Strategies include having stores partner with their cities’ recycling programs, giving a discount to customers who use their own bags, and replacing plastic sample cups with sugar cane cups. According to the company, all stores in Colorado, Kansas, Louisiana, New Mexico, and Texas have cut their waste stream in half by composting all

produce, organic matter, and waxed cardboard. Also, though Whole Foods' workforce is non-union—John Mackey has argued that unions are unnecessary—the company reportedly pays competitive wages.

### Wall Street Bullish on Whole Foods

The natural/organic market's No. 1 retailer, like the market itself, is thought to have plenty of potential for further growth. Scott Van Winkle, managing director of equity research for investment banker Adams Harkness, Boston, told *Supermarket News* (July 25, 2005), "The trade radius for Whole Foods is probably larger than for a conventional supermarket, and finding out how dense they can be in some of these markets is going to be a big question. But this is a 400-, 500- or 600-store chain—I don't think they're anywhere close to hitting a wall." Geographically, Whole Foods has ample room to grow. For example, though it has stores in 30 states, as well as the District of Columbia, the company has more than one or two stores in only half of them.

Wall Street seems to share this assessment of Whole Foods' potential. At the beginning of 2006, the company had a market value of \$10.6 billion—about the same as that of Safeway (*Wall Street Journal*, January 13, 2006), the nation's third largest supermarket chain, which has over nine times the sales and 10 times the number of stores. Whole Foods' market value was also about \$1 billion more than was offered in December 2005 to buy Albertson's, the No. 2 supermarket operator. Also as of early 2006, Whole Foods' stock had reached a level "about three times the valuation of its peers and of the average stock in Standard & Poor's 500-stock index," to which Whole Foods' stock was added in 2005.

Nevertheless, in the same article the *Journal* also reported that some analysts were concerned that increasing competition from less pricey retailers might start to tarnish Whole Foods' stellar financial performance—and in light of more recent market developments this observation seems prescient indeed. On May 1, 2006, in an article entitled "Wal-Mart's Next Conquest: Organics," CCN.Money.com reported that the world's largest retailer is currently moving into the natural/organic market "with a vengeance," giving natural food retailers plenty of cause to be wary given the sheer volume of business Wal-Mart generates (see Chapter 6, "Looking Ahead").

## Retailer Profile: Trader Joe's

### Overview

**T**rader Joe's, based in Monrovia, California, resembles Wal-Mart in its everyday-low-price strategy and a traditional health foods store in its assortment, which favors dry grocery over perishables. It also boasts a large selection of beer and wine. Trader Joe's namesake brand has built a strong following over the years for high-quality specialty grocery items, each of which comes with a story. The operation is also known for its cedar plank walls, nautical décor, and Hawaiian-shirted staff of "crew members"; the store manager and assistant manager are "captain" and "first mate." The Trader Joe's brand makes up at least 85% of the inventory, almost half of which is imported. The company's buying policy of seeking bargains, often on unusual items, results in an ever-changing mix, with 10 to 15 new items introduced each week. Locating stores on non-prime real estate also helps keep costs low, and the result has been low prices for customers and high profit margins for the retailer.

### Emphasis on Unusual Items at Low Prices

As Trader Joe's website notes, "There are more than 2,000 unique grocery items in our label, all at honest everyday low prices ... Our buyers travel the world searching for new items and we work with a variety of suppliers who make interesting products for us, many of them exclusive to Trader Joe's. All our private-label products have their own 'angle,' i.e., vegetarian, Kosher, organic or just plain decadent, and all have minimally processed ingredients." About 90% of this assortment is food, much of it natural, cruelty-free, and made without artificial ingredients, and some of it is organic. The company offers vitamins and supplements under the Trader Darwin's name—for the scientist's association with the "survival of the fittest." The stores also carry personal care items, pet food, and flowers and plants. Since 2002, store-brand products have been free of genetically modified organisms (GMOs).

## Parent Company Aldi Is International Giant

A division of Aldi—a family owned discount food retailing giant based in Germany—since 1979, Trader Joe's has grown to approximately 250 stores in 19 states encompassing the West, Southwest, Midwest, Northeast, and Mid-Atlantic regions (plus Virginia). The stores average 10,000 square feet, and just over half of them are in California—about twice the percentage in that state of Whole Foods and Wild Oats. The company opens 15 or so new stores each year, and plans call for continued expansion nationwide, including in the Southeast. Annual sales are estimated at \$2.5 billion.

Not shrinking from head-to-head competition, Trader Joe's was set to open its first store in Manhattan, a 15,000-square-foot outlet in Union Square, in winter 2005-2006. The same small area hosts a Whole Foods Market (since March 2005), a Garden of Eden Gourmet Market, a Food Emporium supermarket, other specialty food stores, and a long-established farmer's market called Greenacre, as well as several of the city's most popular restaurants.

Trader Joe's growth, allowing for smaller stores and thus smaller dollar volumes, has been only somewhat less impressive than Whole Foods'. The company's store base has grown continuously and rapidly in number and territory served, over an extended period, without any loss in productivity or profitability. Trader Joe's claims to have the highest sales per square foot of any U.S. grocery chain—including Whole Foods, with its \$826 mark. (Dividing Trader Joe's estimated annual sales by the number of stores times the average store square footage yields a sales-per-square-foot figure of \$1,000.)

## From Convenience Store to Gourmet and Health Foods

Trader Joe's traces its origins to a chain of convenience stores called Pronto Markets that Rexall Drug Co. set up in the Los Angeles area in 1958 with Joe Coulombe at the helm. Coulombe bought the chain from Rexall in 1967. At the time, Southland Corp.'s 7-Eleven chain was planning an aggressive expansion in Pronto's region, and Coulombe set about transforming his newly acquired operation. He decided to develop a food store that would "appeal to the well-educated and people who were traveling more, like teachers, engineers, and public administrators. Nobody was taking care of them," Coulombe recalled to *Forbes* in 1989, the year he retired.



Coulombe doubled the floor space and began offering hard-to-find, boutique domestic and imported wines and gourmet food items at outstanding prices. The result was a combination upscale food market and convenience store, but this concept had to be scrapped after the 1971 collapse of the Orange County aerospace industry, in favor of a combination health food and liquor store.

Coulombe began a journal—eventually known as the *Fearless Flyer* and still an important part of the operation—which featured stinging commentary on environmental issues and was distributed to the general public. The journal reportedly brought hordes of environmentally conscious customers to the stores, which began stocking increasing amounts of vitamins, biodegradable products, and health foods.

### **Big Expansion Comes in Wake of “Supernaturals”**

Following deregulation of the California supermarket industry in 1976, Coulombe changed his liquor inventory from mainstream fare to hard-to-find beers and wines—a better complement to his food selection. In 1979, Trader Joe’s gained a parent company with great financial and retailing resources when Aldi acquired it, retaining Coulombe as chief executive officer. The operation continued to grow, but the real growth explosion did not begin for another 10 years—that is, not until after Whole Foods, Wild Oats, and other supernaturals had appeared and given new impetus to the natural/organic market. When Coulombe retired, Trader Joe’s had 30 outlets, still mostly in the Los Angeles and San Diego areas, and averaging 7,500 square feet.

### **Pressure to Sell Only Cage-Free Eggs**

In fall 2005, the Humane Society of the United States (HSUS) conducted a campaign to pressure Trader Joe’s into banning conventionally produced eggs, following the example of Whole Foods, Wild Oats, and Earth Fare (another supernatural—see below). Trader Joe’s refused, saying it would continue to offer customers the option of buying the less expensive conventional eggs, of which it reportedly sells almost twice as many as of the cage-free ones. *Supermarket News* (October 17, 2005) noted that “the issue has gained unusual momentum in the natural food channel, with every major ‘supernatural’ chain, dozens of universities, and

several, smaller independent chains agreeing within the past few months to adopt official policies banning the sale of conventionally raised eggs.”

The publication also noted that Trader Joe’s “has a history of responding to pressure on these types of issues, particularly if negative feedback comes from its own customers.” For example, the retailer’s decision to eliminate GMOs from its store-brand line followed a year of letter-writing campaigns and parking lot protests led by Greenpeace, though Trader Joe’s—in announcing the decision—referred to an internal survey showing that 90% of its customers disapproved of GMOs. In 2003, the year after it eliminated GMOs from its namesake line, Trader Joe received a Best Animal Friendly Retailer award from People for the Ethical Treatment of Animals.

### **Larger Aldi Sister Chain Also Growing Rapidly**

Trader Joe’s parent company operates over 5,000 stores in Europe, the United States, and Australia. The Aldi USA subsidiary, based in Batavia, Illinois, runs a chain of limited-assortment, bare-bones-format food stores under the corporate name that has historically catered to low-income shoppers. The Aldi chain, which entered the U.S. market in 1976 and operates in 26 states, primarily from Kansas to the East Coast, now consists of some 780 stores and has been expanding at an accelerated rate. The Aldi stores have begun targeting affluent, treasure-seeking shoppers by adding national brands and perishables to an assortment that has been, like that of Trader Joe’s, mostly private-label dry grocery items.

## Retailer Profile: Wild Oats Markets

### Overview

In contrast to Whole Foods, Wild Oats has had a bumpy road since its founding, partly from being a second-comer. Its early growth, too, came mainly through acquisitions, but Wilds Oats “lost many early battles to Whole Foods for retail sites, giving it worse locations and smaller stores in many of the same markets” (*Supermarket News*, February 21, 2005).

As of December 31, 2005, Wild Oats had grown to 113 stores in 24 states and British Columbia, Canada, generating sales in excess of \$1,100 million, an increase of 7.2% over 2004. Almost one-quarter of the stores are in Southern California—including Henry’s Farmers Markets and Sun Harvest, acquired companies whose store names Wild Oats has retained, along with the Capers Community Markets name in British Columbia. About 75 of the company’s outlets are Wild Oats Natural Marketplace stores.

In 2005, Yucaipa Cos., a Los Angeles-based investment firm headed by Ron Burkle that has a history of investing in grocery chains, acquired a 9.2% stake in Wild Oats and thus a say in the company’s direction. At about the same time, Burkle acquired a 40% stake in the Pathmark Stores mainstream supermarket chain, and in March 2006 Burkle increased his stake in Wild Oats to 14.9%.

### To Health Foods Via Convenience Stores

Oddly enough, like Trader Joe’s, Wild Oats had its beginnings in convenience stores. Founders Mike Gilliland and Elizabeth Cook, a married couple, entered retailing by opening a convenience store in 1984. They added two more stores before getting into natural foods retailing with the 1987 purchase of Crystal Market, then the only vegetarian natural foods store in Boulder, Colorado, where the company continues to be based. They renamed the store the Wild Oats Vegetarian Market in 1992. The chain grew to 16 stores in five states

through July 1994, including its first supermarket-size store, in Santa Fe, New Mexico, in 1991.

In 1996, after several earlier attempts, Wild Oats finally effected a merger with its closest rival, Alfalfa's Markets. For once Wild Oats got the best of Whole Foods, which had made three attempts itself to acquire Alfalfa's. Both Wild Oats and Alfalfa's were based in Boulder and had about \$100 million in annual sales then, though Alfalfa's store count was 11 (including two Capers Community Markets in British Columbia) to Wild Oats' 21. Wild Oats went public later that same year.

### Responding Aggressively to Whole Foods

Wild Oats responded to Whole Foods' declaration of all-out war by accelerating its expansion—merging with, or acquiring, 41 stores in 1999 alone—and by opening larger, 25,000-square-foot stores while continuing to build small-format stores in certain markets. This was Wild Oats' high-water mark in rate of growth; that year its store count passed 100, sales rose 36%, to \$721 million, and profits grew 23%, to \$17.8 million. However, most of the sales growth was coming from opened or acquired stores. Wild Oats' comparable-store sales increases were only a fraction of Whole Foods', and its sales per square foot, at \$538—while over 20% higher than the mainstream supermarket average—were far below Whole Foods' \$826 mark and Trader Joe's supposedly even higher figure.

### Downturn Leads to Management Change

Sales increased 16% in 2000, to \$838 million, but the company reported a fourth-quarter loss, closed eight stores, and took a \$14 million-\$15 million writedown. In March 2001, Wild Oats' board of directors replaced Gilliland as president and chief executive with Perry Odak, who had held the same positions at Ben & Jerry's Homemade, Inc. Fast forward to the present, and everyone is still “waiting to see if Wild Oats will finally get its act together,” according to *Supermarket News* (August 15, 2005), while Odak described Wild Oats as “an entrepreneurial company that stumbled” and has begun coming out of a “long turnaround.”

Looking back, observers have said that Wild Oats lacked the advantages of either an independent retailer (closeness to customers) or a chain (greater efficiency, bigger footprints).

In response, the company is now targeting denser markets with more customers that fit the natural/organic consumer profile, which is exactly what Whole Foods has done.

Wild Oats opened eight stores in 2005 and had 16 leases or letters of intent for new stores to open in 2006 and 2007. The company's goal is to increase its total square footage by 10% each year, at least through 2007. By 2006, half of the units will be considered "good quality" stores—having the right location and size—according to Smith Barney analyst Greg Badishkanian.

### **Wild Oats Seeks to Grow Private Labels**

To increase its appeal to mainstream shoppers and improve margins, Wild Oats has greatly enlarged its offering of private-label products, which are lower-priced and higher-margin than regular branded goods. In 2005 the company reported that private-label products were generating upwards of 30% of revenue in the categories in which they competed, compared to 8%-9% only a year earlier. It planned to add another 300 to 400 private-label items in 2005 to the 462 food products introduced in 2004 under the Food Origins label, along with 270 more store-brand vitamins and supplements. "Our intent is to build a strong national brand and do it quickly, and without a lot of capital expense," chief financial officer Ed Dunlap (who has since left the company) advised a Banc of America Securities Consumer Conference in March 2005.

### **Strength in Supplements, Personal Care**

Wild Oats' most profitable area has been what it originally called its Natural Living department, which sells herbs, vitamins, and personal care products. The department also accounts for almost one-quarter of company sales. To better differentiate itself, Wild Oats also has been rolling out new store formats with—and remodeling old stores to include—a Holistic Health Center, the first of which opened in May 2004. The Center occupies about 2,200 square feet and features an expanded line of vitamins and supplements including Wild Oats' private-label line, as well as a dedicated staff, a media resource center, and a touch-screen information kiosk (*Drug Store News*, May 2, 2005).

The reformatted department groups products by function instead of by marketer, as was formerly the case. “We went from the brand sets to structure/function and increased our business by double digits,” reported Steve Davis, vice president of Holistic Health (*Supermarket News*, March 28, 2005). “So we feel like we are on to something here.” Educational material, including a HealthNotes computer, is all around. “We find the greatest need for education in the Holistic Health arena,” Davis said. Seminars help teach customers about body care, skin care, vitamins and nutrition, digestive health, and anti-aging products. If a store does not have a community room, seminars are held in the sit-down eating area.

To further extend the department’s offering, Wild Oats was scheduled to introduce a store-brand line of 12 natural (no artificial colors or scents), non-allergenic hair care, body care, and body wash products in the first quarter of 2006. “It is our intention to grow [private-label products] 25% each year in Holistic Health,” Davis said, and indeed strong sales of private-label goods—up 40% through the first three quarters of fiscal 2005—together with Holistic Health products (which boast higher margins than other types of items) did help to restore Wild Oats’ profitability in third-quarter 2005. Also during the third quarter, Wild Oats revamped its higher-margin prepared foods programs—including hot sandwiches, cold salads, and pizza—to better serve the grab-and-go customer.

### Partners with Major Mainstream Supermarket

Interestingly, Wild Oats and mainstream supermarket operator Ahold USA (a subsidiary of Royal Ahold NV of the Netherlands) have formed a partnership—the first such cross-channel collaboration. The partnership furthers Wild Oats’ strategy of building a strong national store brand and of improving margins. Wild Oats has been testing Holistic Health boutiques in two of Ahold’s Stop & Shop supermarkets—in Plymouth, Massachusetts and Fairfield, Connecticut. The boutiques, occupying 1,100 square feet and 1,400 square feet, respectively, are the first of a planned five. About 15% of the boutique’s products are private-label vitamins and supplements. Wild Oats is also distributing its store-brand organic products through Ahold’s Peapod online grocery service.

As for Ahold’s stake in the partnership, consider a spring 2005 study by the Hartman Group, Bellevue, Washington, which found that mainstream supermarkets (along with drugstores)

had been losing share in the vitamins/minerals/supplements category to discount retailers (especially Wal-Mart and Target) and specialty stores (especially natural foods retailers). “Grocery is providing neither the lowest prices nor the added value of information,” the study explained.

### **More Mainstream Fare; Cage-Free Eggs Only**

During 2005, Wild Oats was also working to attract more cross-over shoppers—and counter mainstream supermarkets’ move into natural/organic products—by broadening its assortment to include mainstream fare such as conventional cleansers and paper towels, 20 SKUs’ worth initially. “The [consumer] reaction so far is, we didn’t bring in enough,” Odak told investment analysts less than a week after the items were introduced, citing plans to add another 40 SKUs over the following few weeks, including breads, soups, and other food items that would be more mainstream “but with healthful images and all-natural ingredients.” The products were to be integrated into the Center Store section. A selection of national brand health and beauty care items, including aspirin (such as St. Joseph’s children’s aspirin) and analgesics, was to be featured on its own endcap. Earlier in the year Wild Oats announced an expansion into gourmet, kosher, and gluten-free foods. Odak explained that Wild Oats’ mix had been “too narrow. It was a mistake for us to tighten our standards so tight that we were not beginner-friendly.”

In 2005 the retailer also took a stand on selling only cage-free eggs, drawing fire from United Egg Producers. However, the decision may help Wild Oats image-wise in its battle with squeaky-clean Whole Foods. Wild Oats reportedly used to donate 7.5% of its pre-tax profits to environmental and social causes.

## Emerging Supernaturals

### Overview

**D**espite the inroads being made by traditional supermarkets and the proposed advances of Wal-Mart, most industry observers believe that the supernaturals—supermarket chains founded and grounded in natural/organics—still have plenty of room to grow. Nevertheless, apart from Whole Foods and Wild Oats, only a handful of supernaturals have emerged directly from the natural foods channel, and two of the up-and-coming chains discussed below were started by the founders of other supernaturals, one of them being Wild Oats. This may be because a good deal of the focus in natural/organic is now shifting toward mainstream supermarkets, a number of which are working to establish supernaturals of their own as separate business entities, as is discussed in the next section of this chapter (see “Mainstream Supermarkets”).

### Earth Fare

Earth Fare, based in Asheville, North Carolina, is a supernatural that has been around since 1975 and is pursuing a slow-growth strategy, content to follow in the frontrunners' wake. The privately held company, headed by president and chief executive officer Michael Cianciarulo, operates 14 stores in the Carolinas, Georgia, and Tennessee with combined annual sales exceeding \$100 million. It planned to open its 15<sup>th</sup> store, and its second in Charlotte, North Carolina, in 2006, and eventually to expand across the Southeast. Earth Fare seeks to locate its stores in college towns because many students are devotees of natural foods. The chain's average store size is 28,000 square feet. The 22,900-square-foot Chapel Hill, North Carolina store, which opened in June 2005, offers 20,000 items and full wine, seafood, meat, bakery, and deli departments. The store also has a sushi counter, salad bar, outdoor courtyard seating, and a community room for classes.



**Strong Nutrition & Body Care Department**

Earth Fare's Nutrition & Body Care department is one of its strengths, contributing approximately 18% of total sales. It is also one of the vehicles by which the chain woos mainstream customers. Though natural brands are featured, the product mix is similar to that of mainstream supermarket health and beauty care departments. During 2005, Earth Fare began using monthly merchandising themes to promote the department, which facilitates cross-merchandising and helps non-food sales.

Because mainstream shoppers, unlike dedicated natural foods shoppers, are usually not well versed in dietary supplements and natural beauty care products—and because the beauty products are more expensive than their conventional counterparts—Earth Fare has a trained staff to present them. The staff, consisting of two to 12 people depending on the store, is required to attend at least one vendor-sponsored in-store training seminar per week. The retailer also offers to reimburse those staff members who attend dietary classes at the local health school.

**Sprouts Farmers Market**

A chain ambitious for faster growth than Earth Fare is Atlanta-based Sprouts Farmers Market, which began only in 2002 and already had 11 stores by July 2005 spread out among California, Arizona, and Texas. A total of six openings were scheduled in 2005, and Sprouts has set a goal of 50 units by 2010. The chain was founded by two members of the Boney family, which reportedly pioneered the natural foods supermarket concept more than 30 years ago in San Diego with Windmill Farms. The family went on to establish the Henry's Farmers Markets chain of super-supernaturals (average size: 70,000 square feet), which Wild Oats acquired in 1999.

Sprouts Farmers Market targets the middle ground between high-end supernaturals such as Whole Foods and mainstream supermarkets. "We're really kind of a transitional grocery store," corporate nutritionist Patti Milligan told *DSN Retailing Today* (July 25, 2005). "We're not high end like Central Market [mainstream supermarket operator H.E. Butt's gourmet superstore format] or Whole Foods and we're not traditional. We have been

compared to a fresh Trader Joe's." Sprouts stores emphasize natural and organic foods, but not exclusively.

### ***Produce Is Forte***

The Plano, Texas store that opened in July 2005 measures 33,000 square feet. As the Sprouts name suggests, produce is the retailer's forte (600 SKUs stocked), and the Plano store devotes 35% of its floor space to the department, touting the selection as fresher and better priced than those of most competitors. Sharply competitive prices are offered on locally grown items where possible, and the store also boasts a 700-item bulk goods section. As of early 2006, approximately 20% of the chain's grocery assortment was under Sprouts' private label, which is prominent in the meat and poultry section.

Among the non-food offerings is a large vitamin and supplement department, which also offers health lectures and screenings. Pet food and environmentally friendly pet products, cleaning supplies, and diapers are also available. As an added convenience, the Texas store also has a Sprouts gas station in its parking lot.

Sprouts' décor, like that of Greensboro, North Carolina-based Fresh Market, is reminiscent of an old-time farmer's market, complete with vintage-style signage and antiques adorning the walls. The interior also features a black tile floor, which is buffed every morning, bright track lighting, and a high, white ceiling. Low-level shelving helps customers see across the entire store.

The opening of two Sprouts stores in San Diego County in late 2004, after the Boneys' non-compete pact with Wild Oats had expired, marked the family's return to the area. The family would like to add four to six stores every year across the Southwest.

### **Sunflower Market**

After leaving Boulder, Colorado-based Wild Oats in 2001, founders Mike Gilliland and Elizabeth Cook started another natural foods chain the following year. Sunflower Market, which is based in Longmont, Colorado, had 11 stores in Colorado, New Mexico, Arizona, and Nevada at the end of 2005, as well as plans on the table for further expansion in the Denver area. Like Whole Foods and Wild Oats, the company may pick up some sites from

Albertson's, depending on what becomes available, since the company would "rather not build new...we'd rather use recycled real estate," according to Gilliland (Knight-Ridder Tribune Business News, January 24, 2006). Sunflower Market reportedly has an agreement with supermarket operator SuperValu—which owns the "Sunflower" trademark and has begun opening its own Sunflower Market low-priced natural foods stores—allowing the start-up to use the name in those four states, as well as Utah. Along with all of the foods and beverages, the majority of the non-foods products in Sunflower Markets are natural, although the assortments are customized by region. Packaged Facts estimates Sunflower Market's 2005 sales at approximately \$25 million.

### **Vitamin Cottage Natural Food Markets**

Despite its name, Vitamin Cottage Natural Food Markets (not to be confused with the Vitamin Shoppe chain) is a health foods store that derives 60% of its revenues from health food and natural groceries. The Lakewood, Colorado-based chain, which dates back to 1955, operated 21 stores in Colorado and New Mexico as of fall 2005 and was expecting to open at least three more within the coming year. Among its most recent openings, in late 2005, was a 10,000-square-foot store in downtown Denver's Central Platte Valley area, where there had been "a lot of demand for a natural foods store," according to Vitamin Cottage president Kemper Isely (Knight-Ridder Tribune Business News, October 7, 2005). According to Reed Elsevier, Inc.'s *Directory of Corporate Affiliations*, Vitamin Cottage posted sales of approximately \$55 million in 2005.

## Mainstream Supermarkets

### Taking Up the Challenge

**F**or mainstream supermarkets, natural and organic products present both a threat and a promise. The threat is the competitive one posed by aggressive natural/organic retailers, who are expanding geographically and siphoning off the affluent consumer base, while also attracting shoppers impressed by these stores' "food as theater" presentation and compelling in-store foodservice thrust. In New York City, natural foods chains and local gourmet grocers such as Balducci's have captured nearly a third of conventional supermarkets' business over the past several years, while another city supermarket chain, Food Emporium (a division of A&P), has lost at least half of its sales to specialty stores (*Crain's New York Business*, April 18, 2005).

As for the "promise" part of the equation, natural/organic products are fast becoming a bright spot for many mainstream supermarkets, suggesting higher-margin sales and future growth opportunities, including allowing them to further distance themselves from value players including Wal-Mart. Local supermarkets like D'Agostino's are, for example, adding organic produce and meats to their offerings and upgrading other aspects of their stores to bring them more in line not just with the natural/organic chains, but also with the specific needs and demands of their customers. The lineup of natural meats at D'Agostino's, for example, now includes natural beef, chicken, and veal, as well as a more esoteric offering: venison.

### Opportunity Is Too Good to Miss

On the national level as well, mainstream supermarkets cannot afford to let natural foods retailers cut into their business, which is already under intense pressure from Wal-Mart and other low-priced competitors, as well as from casual and fast-food eateries. Rather, they must seize on the natural/organic trend as a golden opportunity to grow their business in a segment that is less price-sensitive, or one where they may be able to wield the price advantage themselves. To this end, mainstream supermarkets are focusing on customers who are open to trying natural and organic products, believing them to be healthier and better for the

environment—that is, the “crossover” or “transitional” customer who is said to represent between two-thirds and 85% of grocery shoppers today.

“Gaining the business of the natural and organic consumer is extremely desirable,” Bob Burke, principal at the Natural Products Consulting Institute in Andover, Massachusetts, told *Stagnito’s New Products Magazine* (March 2005). “They tend to have larger shopping baskets and are buying more expensive products with a higher profit margin. Offering natural and organic products also creates a more upscale image for a conventional grocery store, and it’s a market that demonstrates huge potential, growing at a double-digit growth rate for the past several years.”

A good indication of the promise natural and organic products hold for mainstream supermarkets was the decision of leading supermarket trade weekly *Supermarket News* to launch a quarterly supplement called *SN Whole Health*. The first issue coincided with the October 2004 eastern edition of the natural/organic market’s leading trade show, Natural Products Expo East.

### **Supermarkets Growing Natural/Organic Market Share**

Whole Foods, Trader Joe’s, and Wild Oats have brought the natural and organics market to new heights and new prominence, and their role in its future promises to be just as great as they continue to expand. For their part, mainstream supermarkets, by their participation, have given the market new legitimacy, and their role in its growth is becoming even greater. Indeed, mainstream supermarkets own the largest single share of market among trade classes—35%-40% compared to 20%-25% for the big three supernaturals—and their share may be growing, given that their sales of organic foods are outpacing those in independent health food stores, which hold a 25%-30% market share. “In many categories, the growth of natural and organic products in mainstream supermarkets is outpacing growth in the natural channel,” the Natural Products Consulting Institute’s Bob Burke told a January 2006 conference on marketing natural and organic products. “In addition, total sales in mainstream supermarkets now exceed the natural channel in several significant organic categories.”

## Keeping Prices in Line on Basic Items

However, mainstream supermarkets, in their eagerness to improve their bottom lines with natural and organic products, have to be careful not to price themselves out of the game, warns Cynthia Tice, senior partner of The Tice-Genuardi Group (*Supermarket News*, May 2, 2005). Tice urges supermarkets to capitalize on the fact that most consumers involved in natural and organic foods—she considers 85% of those involved to be “transitional shoppers”—still mistakenly perceive Whole Foods Market as high-priced across the board, partly because of the “Whole Paycheck” tag that has been applied to the retailer. In fact, Whole Foods is very competitive in price with mainstream supermarkets on commodity-type natural/organic items, according to Tice. Traditional supermarkets’ ability to offer the convenience of one-stop shopping gives them a temporary edge in competing for the transitional shopper—but they must also meet shoppers’ assortment needs and not overprice natural/organic staples. “Remember that for transitional shoppers, key organic items have replaced their conventional counterparts as everyday products,” Tice says.

## Case Study: Safeway

Safeway, Pleasanton, California, the country’s third largest mainstream supermarket operator, has boosted its offering of organic and related items from seven- to ten-fold since 2000, including launching its own O Organics line of bread, shredded cheese, coffee, olive oil, and other items (see Table 5-3 in Chapter 5). More recently, Safeway has been redesigning its stores as “lifestyle centers” to position itself as an affordable alternative to “boutique grocers” such as Whole Foods. Chairman and chief executive officer Steve Burd said he plans to dominate the middle ground of the grocery battlefield and chip away at either side—one represented by Whole Foods Market, the other by Wal-Mart supercenters. Michael Minasi, senior vice president of marketing, told *The Baltimore Sun* (April 15, 2005): “I think we’re trying to appeal as broadly across the spectrum as we can. But we still believe the big opportunity is in the middle market.”

### ***Dominating the Middle Ground***

A store Safeway opened in late 2005 in Alameda, California, shows how this strategy is being implemented (*Inside the Bay Area*, December 10, 2005). The 40,000-square-foot lifestyle

center outlet boasts larger delis, an expanded selection of perishable foods, organic products (including the retailer's private-label line) integrated with the non-organic varieties, a larger wine selection, and softer lighting. The décor also includes a non-skid tile floor in the produce section (in place of linoleum) that resembles wooden planks and more elegant signs numbering the aisles.

As of September 2005, Safeway had redesigned 300 of its 1,800 stores in North America and expected to have 90% of the stores converted by 2009. (Capital expenditures totaled \$1.5 billion in 2005.) To spread the word about the store redesign program, as well as the retailer's new logo and "Ingredients for Life" slogan, Safeway conducted a \$100 million multi-media ad campaign in 2005, the most expensive one in the company's 90-year history.

Helped by the campaign, Safeway's sales have improved since the conversions began. After three years for which same-store sales growth was negative (-1.6%), the retailer had posted healthy gains for the first three quarters of 2005, including an 8% gain in the third quarter which Burd attributed to the popularity of the redesigned stores.

### ***Creating Proprietary Power Brands***

Safeway is also working to revitalize its entire brand portfolio and create in effect a consumer packaged goods company within the retail corporation, Brian Cornell, executive vice president of marketing, told analysts at the chain's annual investor conference in December 2005. The plan is to consolidate Safeway's 70 proprietary brands into 10 "power brands" that will "drive innovation," instead of merely following the national brands, and to extend Safeway's offerings to meet its promise of providing "lifestyle solutions." The strategy links up with the retailer's "Ingredients for Life" theme announced the previous April.

### **Albertson's, A&P Bulk Up on Natural/Organics**

Albertson's, Boise, Idaho, the country's second largest mainstream supermarket operator, began opening Wild Harvest sections in 2004 that feature organic or natural cereals, snacks, and other items. Albertson's also uses the Wild Harvest name for its private-label natural/organic products. In summer 2005 the retailer introduced an all-natural ground beef in all stores nationwide. A&P, Montvale, New Jersey, the 10<sup>th</sup> largest operator of mainstream

supermarkets in the United States, plans to renovate most of its stores to a Fresh Market concept, featuring organic foods and expanded offerings of prepared meals and specialty foods.

### **Merchandising Natural/Organics in Mainstream Supermarkets**

The big question for mainstream supermarkets is no longer whether to expand their selection of natural and organic products, but whether to present them together as a store-within-a-store or to integrate them with conventional products—or to blend the two approaches because each offers advantages. According to a 2004 trends survey by the Food Marketing Institute (FMI), the supermarket trade association, consumers themselves are divided on the question. Forty-eight percent reported wanting a separate natural/organic section, while 37% wanted natural/organic products merchandised next to their conventional counterparts. The FMI also reports that 94% of the new mainstream supermarkets opened in 2003 boasted a natural and organic store-within-a-store, up from 66% in 2002. Overall, 57% of supermarkets, as of 2004, offered a separate natural and organic food aisle or section.

#### ***The Case for Store-within-a-Store Merchandising***

Store-within-a-store merchandising makes it easier for new organic food marketers to gain placement without having to pay slotting fees, and grants marketers of conventional products additional space for their natural/organic variants instead of having to take space away from their other products. One objection to such segregated merchandising is that it forces consumers to deviate from normal shopping patterns and may be less convenient as a result.

Nevertheless, natural and organic products may deserve to be treated as a special case. As noted, making food shopping “an experience for the senses”—that is, food shopping as “theater” rather than as a routine chore—has been a key factor in the success of Whole Foods Market. And indeed, if a retailer makes the shopping experience pleasurable enough, it follows that the consumer will be in less of a hurry to get it over with and may well end up spending both more time and more money in the store.

Proponents of store-within-a-store merchandising also note that the alternative—side-by-side merchandising of natural/organic and conventional products—can lead to “sticker shock,”



given the generally higher prices (from 15% upwards) of organic offerings. Slotting fees and higher volume requirements can also be a significant, if not impossible, hurdle for smaller, specialized marketers of natural/organic fare seeking to have their products integrated with those of major marketers.

### ***Integrated Merchandising Wins New Customers***

One trade magazine describes the move from segregation to integration in supermarket merchandising of natural/organics as a natural progression. “It is relatively standard practice in the supermarket industry to first introduce a new product area as a store within a store, which can raise consumer awareness of the new section and emphasize the store’s commitment to providing a wide product mix” (*Stagnito’s New Products Magazine*, March 2005). As consumers become more aware of the products and as turns increase, stores then reposition them on mainstream shelves. In other words, integration represents a supermarket’s acknowledgement that these products are now part of the regular mix. In addition, the sales potential is greater in mainstream sections.

For supermarket operators without a strong natural/organic food shopper base, integration may be preferable because it is a way to expose and convert non-natural shoppers to the category. Cincinnati-based Kroger, the nation’s number-one operator of traditional supermarkets, has used this approach in some market areas to good effect, and St. Louis-based Schnuck Markets also favors integration as a way to make it easier for customers to find natural/organic items throughout the store.

### ***The Blended Approach***

Integration does not necessarily mean intermixing. Merchandising the products in the regular section, but separating them, has been the answer for some, offering the best of both worlds. Publix Super Markets, based in Lakeland, Florida, which had long featured separate GreenWise Market natural and organic sections—about 750 of the retailer’s over 870 stores had them—began quietly integrating these products (cereal, juices, and dairy, among them) in segregated sets within aisles in 2004. “I really think they’re on to where the future is going to be,” says Neil Stern, partner of retail consulting firm McMillan/Doolittle in Chicago (*Supermarket News*, February 28, 2005).

Supermarket operator H.E. Butt Grocery's Central Market gourmet superstores have come to this intermediate position from the opposite end, moving from full to partial integration of organic produce. The stores, which used to integrate organic varieties with conventional fruits and vegetables, began stocking all organic items together in 2004 to make a stronger statement about the sheer size of the offering—it extends to 140-150 items—and to make shopping easier and more appealing for organic buyers, some of whom felt strongly about keeping organic and conventional produce separate. "Listening to focus groups, we weren't getting credit for all our organics," John Campbell, H.E. Butt's vice president of innovation and the creator of the Central Market concept, told *Supermarket News* (January 31, 2005).

### **Supermarkets Create Own Natural/Organic Formats**

But the response of mainstream supermarkets to the natural/organic phenomenon has gone well beyond just stocking more of these products. Supermarket operators have also been creating their own natural foods formats—impressive testimony both to their belief in the phenomenon's staying power and to the threat posed by growth-hungry natural foods retailers, especially those that have entered the trading areas of mainstream supermarkets.

#### ***H.E. Butt's Central Market Goes Head-to-Head with Whole Foods***

H.E. Butt (HEB), the San Antonio, Texas-based operator of mainstream supermarkets, served notice as far back as 1996 that it would not let itself be upstaged by Whole Foods Market. That was the year HEB introduced its Central Market gourmet/natural and organic superstore format right in Whole Foods' Austin, Texas backyard. It now has two such stores in the city, out of a total of seven averaging 80,000 square feet and featuring wide selections both of fresh food and chef-prepared food, as well as on-site restaurants such as the fast-casual Café on the Run eateries. HEB planned to open its eighth Central Market in spring 2006 in Southlake, in northern Texas. Central Market says it was using the word "theater" to describe the essence of its stores before Whole Foods appropriated the term, which is now often applied to the latter's outlets (*Supermarket News*, March 28, 2005).

Central Market is as much a giant gourmet/specialty food store catering to "foodies" (that is what it calls its salespeople, in fact) as it is a natural foods supermarket. It has also been described as a fresh food warehouse. For example, Central Market offers 800 varieties of

specialty cheeses, as well as other exotic, imported, or hard-to-find items in abundance. The produce department alone in the original store measures 15,000 square feet, and the produce offering includes 140-150 organic items.

### ***Publix to Launch GreenWise Market***

Publix announced in May 2005 plans to launch its own supernatural under the GreenWise Market name, which it has been using for the natural and organics sections in its mainstream supermarkets. The retailer intended to convert an existing Publix supermarket in Boca Raton into a GreenWise Market store in 2006 and is reported to be planning to build one as part of a large new shopping center in Palm Beach Gardens (*Tampa Tribune*, May 13, 2005). The newspaper noted that Whole Foods had moved onto Publix's South Florida turf in a big way, fielding five stores in the Miami-West Palm Beach area, which is also home to many people who fit the natural/organic consumer's affluent, well-educated profile.

### ***Bashas' Battles Supernaturals with Ike's Farmers' Market***

Bashas', a mainstream supermarket operator based in Chandler, Arizona, is planning to open a supernatural called Ike's Farmers' Market in August 2006 in an upscale central Phoenix location. Reportedly two years in development, the format is designed to compete with Whole Foods Market, Wild Oats, the Wild Oats-owned Henry's Farmers Market, Sunflower Markets, Trader Joe's, and Sprouts Farmers Markets—all of which have stores in the area. Johnny Basha, son of Bashas co-founder Ike Basha, described Ike's Farmers' Market as a "high-end organic and natural food store with extremely competitive prices" (*Progressive Grocer*, November 2, 2005). Bashas' banners already include the upscale AJ's Fine Foods as well as its namesake supermarket and the Hispanic-themed Food City discount chain.

### ***Albertson's Bristol Farms Buys Lazy Acres***

In November 2005, Bristol Farms, an 11-store gourmet supermarket chain that had been acquired itself by Albertson's only the year before, purchased Lazy Acres Market, a 19,000-square-foot store in Santa Barbara, California, that has been selling natural and organic foods since 1991. Lazy Acres' lone store racked up an impressive \$26 million in sales for 2002, the latest year for which figures were available. Bristol Farms, which is based in Carson,

California, reportedly plans to grow the Lazy Acres banner to additional locations around Santa Barbara (about 100 miles north of Los Angeles) and into central California.

The fact that the acquisition was officially made by Bristol Farms rather than by parent Albertson's may be significant in itself. One difficulty mainstream supermarkets face in competing against Whole Foods and Wild Oats is that the former are unionized and, as a result, their labor costs higher. Though financial analysts said the Lazy Acres acquisition was mainly to take advantage of the trend toward natural/organic/gourmet/specialty food, Bristol Farms is non-union, and the United Food & Commercial Workers Union has voiced concern that Albertson's is planning to rid itself of relatively expensive union workers by converting many of its namesake stores to the Bristol Farms banner; two such conversions had been announced in fall 2005. Stores opened under the Bristol Farms-owned Lazy Acres banner presumably would be non-union as well.

### ***SuperValu's Sunflower Market Bears Resemblance to Trader Joe's***

SuperValu, which operates approximately 1,600 food stores in 40 states and is reportedly also the country's largest publicly held food wholesaler, has created a value-priced organic foods format called Sunflower Market, whose first store was set to open in Indianapolis in January 2006. Another store was to open in Columbus, Ohio—near the Ohio State University campus—in June 2006, and the Minneapolis-based SuperValu was seeking sites for two other Sunflower Market stores in central Ohio. "Organics is not a fad. It is fast becoming a constant in consumers' lives," commented John Hooley, president of corporate retail for the \$19.5 billion SuperValu. "By offering these items in a convenient neighborhood market at a value price point, we create a compelling proposition for the middle-market consumer."

"With sales from SuperValu's retail division flat through the first half of this year and comp-store sales down 1.6% in the most recent quarter, the company has actively pursued ways to differentiate from rivals, hence the Sunflower concept," observed *DSN Retailing Today* (November 7, 2005). The article also suggested that the success of organic items at SuperValu's Farm Fresh and Cub Foods chains influenced the decision.

The Sunflower Market stores, ranging from 12,000 to 15,000 square feet, will follow SuperValu's 1,280-store Save-A-Lot format, limited-assortment strategy, and pricing, which

will reportedly be 10%-15% below that of both mainstream and natural foods stores, leveraging SuperValu's ownership of specialty produce company W. Newell & Co. "Sunflower Market draws on our expertise in small-box formats and leverages our supply chain expertise, which enables us to deliver outstanding natural and organic products at a price point consistent with consumer expectations," explained Jeff Noddle, chairman and chief executive officer.

In size and pricing, the stores recall Trader Joe's more than Whole Foods or Wild Oats, just as SuperValu's Save-a-Lot stores resemble the namesake Aldi stores of Trader Joe's parent company. Unlike the Save-A-Lot stores, many of which are operated by licensees, all Sunflower Market outlets will be operated by SuperValu. The stores will stock 8,000-12,000 SKUs of natural and organic products, including more than 100 items under SuperValu's recently introduced Nature's Best label, including cereal, juice, apple sauce, and pasta. Departments will include grocery, frozen, dairy, produce, bulk foods, deli, bakery/café, meat and seafood, beer and wine, wellness, and beauty care. One of the operation's trademarks will be a walk-in produce cooler, which will resemble those available in German grocery stores, according to Sunflower Market director John Sturm.

## Opportunities in Store Brands

### Lack of National Brands Creates an Opening

The attraction of natural and organic products to mainstream supermarket operators is not just that the products are becoming increasingly popular with consumers, but also that they offer an exceptional opportunity to build higher-margin proprietary brands that differentiate stores from competitors, build shopper loyalty, and attract new customers. Indeed, the relative absence of national brands in the natural/organic market—they have appeared only quite recently—has left the store-brand door open for retailers of many stripes.

As noted, store brands have been instrumental in the growth of Trader Joe's and Whole Foods, where they now account for 85% and 50% of sales, respectively. Greatly enlarging its store-brand product portfolio is helping Wild Oats with the critical task of improving its bottom line; in just one year's time, Wild Oats more than tripled the share of sales its proprietary brands (Wild Oats Organics, Food Origins) enjoy in the categories in which they compete. Mainstream supermarkets—as well as Wal-Mart and others—have taken note.

In a column in the August 2005 *Private Label Buyer*, Warren Thayer urged mainstream supermarkets to implement aggressive private-label programs in natural/organic products before delay proved costly. “Now is a good time to build private brand loyalty in this growing segment, especially since the major national brands are buying up small organic/natural manufacturers and stepping up promotion to unprecedented levels. It will cost you more to grow your own brand if you wait for these players to become well-entrenched,” Thayer said.

For some time now, most supermarket operators have offered natural/organic products under existing store brands, especially such staples as milk, juice, and eggs. However, creating dedicated natural/organic store brands (while extending the range of products) makes a strong statement about a retailer's commitment to this market and this consumer. Store brands are also a way to reduce the price premium on natural/organic goods, thus making them attractive to a broader base of consumers.

As an article in *Private Label Buyer* noted (July 2005), “Many [store-brand] products can offer high margins and at the same time generate consumer loyalty and goodwill. Consumers will appreciate a retailer...making [healthier] products available and affordable.” The Natural Marketing Institute’s Health & Wellness Trends Database reports that 41% of organic consumers identify themselves as “very brand loyal,” and 36% say they will “most often” purchase a store brand.

Now that natural foods retailers are targeting mainstream shoppers more aggressively, they have to be conscious of keeping their prices more in line with those of mainstream supermarkets. Partly in response to mainstream supermarkets’ expansion of natural and organic products, Whole Foods has been expanding its competitively priced 365 Everyday Value and 365 Organic lines. (Its other private labels include Authentic Foods Artisan, Whole Kids Organic, and Whole Paws pet food.)

### **H.E. Butt Brings Central Market Brand to Mainstream Stores**

In fall 2004, H.E. Butt’s Central Market stores introduced namesake brands of organic and all-natural products, making the products available in all 150 of its mainstream supermarkets the following year. Central Market Organics include canned tomatoes, microwave popcorn, cereal, juices, and olive oil, while the All Natural line includes pasta, cookie dough, and espresso. (Pizza, ice cream, cereal, and cookies were to follow.) Central Market Organics products are made without genetically modified organisms (GMOs), as certification requires, but so are the All Natural products. Trader Joe’s has followed this practice with store-brand products since 2002, as noted, and in July 2005 Whole Foods announced it would actually label its store brands as free of GMOs, becoming the first company to take this step.

### **Early Commitment to Natural/Organics Boosts Harris Teeter**

Harris Teeter, a mainstream supermarket operator with 145 stores in the Carolinas, Virginia, Tennessee, Georgia, and Florida, has had a private-label line of organic and ecologically friendly products called Harris Teeter Naturals since 2002, and the retailer’s early commitment to the natural/organic trend has been a factor in its improved operating performance over the last several years. For example, for fiscal 2005 (ended October 2)

operating profits were up 8.8%, to \$113.6 million, while sales were up 4.7%, to \$2,640 million, and comparable-store sales increased 3.0%.

This performance, in turn, has enabled Harris Teeter to step up its program for new and replacement stores along with the remodeling and expansion of existing stores. The company was planning to open 19 new stores in fiscal 2006, including six acquired from Winn-Dixie Stores, Inc. (then in bankruptcy), increasing its square footage half again as much as in the previous year. The Matthews, North Carolina-based retailer is a wholly owned subsidiary of Ruddick Corp.

### **SuperValu Expanding with Nature's Best**

SuperValu's store-brand effort began about three years ago when the chain launched a "premium" private-label—Nature's Best—around the same time as the company began building its new Sunflower chain of natural/organic stores as a less-expensive alternative to Whole Foods. Indeed, a key competitive appeal of these mainstream natural/organic store brands is their ability to compete on price. As Michael Jackson, SuperValu's chief operating officer, told Wall Street Journal Online (May 4, 2006), "Seeing the mainstream trend that was going on, we wanted to take Nature's Best beyond Sunflower, and take it to our corporate stores. If mainstream consumers said price has been an issue in buying organics, we've addressed the pricing issue."

### **Other Mainstream Chains Also Active**

Other mainstream supermarket companies that have created or expanded proprietary natural and organic brands include industry leaders Kroger (Naturally Preferred), Albertson's (Wild Harvest), Safeway (O Organics), Ahold USA (Nature's Promise), Publix (GreenWise Market), Giant Eagle (Nature's Basket), HyVee (HealthMarket), and Wegmans Food Markets (Wegmans Organic). Kroger, which has been selling organic foods (mainly produce) since the early 1980s, began developing its Naturally Preferred private-label organic line in the late 1990s and has since grown the line to more than 275 items. Safeway recently introduced 150 organic products under its O Organics store label and plans to have as many as 300 "O" products by the end of 2007 (see Table 5-3 in Chapter 5).



## The Foodservice Connection

### The Dining/Food Shopping Dynamic Duo

In addition to competing with one another, supermarket retailers are taking on restaurants in vying for the growing number of customers seeking meal solutions because they are too busy or too tired to prepare meals themselves. About 75% of U.S. consumers use takeout or delivery from full-service restaurants at least once a month, according to a recent survey by Technomic, Inc., a Chicago-based restaurant consulting firm, and twice as many regular users as in the past expect to increase their use of takeout and delivery restaurants in the coming year (*Supermarket News*, September 19, 2005). By comparison, “Consumers in the Deli,” a report from the International Dairy Deli Bakery Association (IDDBA), found that 27% of consumers surveyed reported visiting the supermarket for takeout food in 2004, compared to 19% in 2003 (*National Provisioner*, August 2005).

Underscoring their aim to build their takeout business, some mainstream supermarket chains, including H.E. Butt, have even taken a page from fast-food restaurants and installed drive-through windows to make getting takeout food easier. Moreover, food retailers can offer time-pressed customers something restaurants cannot: the opportunity to combine dining and food shopping in a pleasant and relaxing one-stop venue. At the same time, as the trends toward saving time on meals and healthier eating continue to converge, a reputation for offering healthier fare is proving indispensable in the growing tug-of-war between food retailers and restaurants, and natural/organic products are a fast-growing part of the competitive arsenal.

### Organic Items on the Rise in Restaurants

More than half of fine dining and one-quarter of casual and family-dining establishments now offer at least one organic item, according to the National Restaurant Association (NRA), and both the numbers of restaurants involved and the number of organic items on their menus seem likely to grow. The NRA’s 2005 Restaurant Industry Forecast indicates that 48% of fine-dining restaurant operators, 46% of family restaurant operators, and 39% of casual-

dining operators reported more orders for organic items than two years before. Seattle's Portage Bay Café, opened in 1997, has seen its business triple since introducing organic items in 2002, manager John Gunnar reported (*Supermarket News*, May 2, 2005). The salads and the eggs—all 100% organic—have been the most popular.

In fact, having experienced organic foods in restaurants is leading more and more consumers to seek them out in mainstream supermarkets, suggests Deanna Gorgei, organic buyer for Washington, D.C.'s Restaurant Nora, which has been serving organics since it opened in 1979. At the same time, supernaturals and mainstream supermarkets alike have been working to increase and enhance their prepared foods offering and their in-store eating places. In this area, too, competition is furthering the growth of the natural/organic market.

### **Supernaturals Entering Restaurant Business**

Leveraging their reputation for healthy foods, Whole Foods Market, Wild Oats, and other supernaturals have been entering the “fast-casual dining business” themselves. Their goal is not only to share the benefits of a thriving foodservice industry, but also to keep customers in their stores longer, leading them to increase the amount of their other purchases. In addition, sales of foods prepared in store offer the retailer higher gross margins than other purchases. “It’s branching out into a new market for us. We are opening restaurants. They just happen to be in the middle of the stores,” Whole Foods marketing manager Scott Simons commented on the retailer’s opening of a new store in Denver (*The Denver Post*, September 13, 2005). “The demand for prepared and convenience food is growing dramatically, and every store we open is responding to that more and more.”

The Denver store, like other recently opened Whole Foods stores, incorporates features of the 80,000-square-foot flagship/showcase store the company opened in Austin, Texas in March 2005, including interactive food-prep areas and meal counters with café-style seating scattered throughout. Areas where customers can dine in or take it home are in various departments, from seafood to cookies. Food stations include an Italian trattoria, a mini seafood restaurant, a barbecue station, and a specialty candy counter. The store also boasts no fewer than five salad bars.

To make more room for prepared foods and in-store eateries is the main reason Whole Foods has been opening larger stores. “Prepared foods is ... definitely one of our most rapidly growing categories, and in our big new stores—the 50,000-plus [square foot] stores that we’re developing right now and opening—prepared foods is getting a much bigger percentage of square footage,” chairman and chief executive officer John Mackey noted. The menu includes ever-changing varieties of quick entrees, side dishes, soups, rotisserie grilled items, sushi, and sandwiches—all made with natural ingredients.

In addition, in September 2005 Wild Oats rolled out Toasted Sandwich Creations, positioned as generous, restaurant-quality sandwiches and offered at deli service counters, as well as packaged for takeout. The sandwich program was part of an ongoing upgrade to the retailer’s foodservice departments.

### ***Wild Oats Recruiting from Foodservice***

*Supermarket News* (November 7, 2005) recently reported that Wild Oats has been running classified ads in *Nation’s Restaurant News* seeking people with a foodservice background. Though the ads cited specific opportunities for store managers and assistant store managers, the retailer has had success recruiting higher-level talent from the restaurant industry as well. In 2004, it hired Andre Halston, a chef and former restaurant executive with 30 years of experience, as vice president of foodservice and corporate executive chef. “We found some people who had been chefs or had managed a restaurant, so they had a high level of experience,” said company spokeswoman Sonja Tuitele. “As we have revamped our foodservice department, that has been very valuable to us.”

### **Gourmet Supermarkets Also Reap Benefits of Converging Trends**

Gourmet supermarkets have also seized on the fast-casual dining and takeout businesses, taking advantage of their reputation for quality food. “From Salisbury steak to marinated vegetables to grilled chicken with kiwi barbecue sauce, Ukrop’s is out to prove it’s not your ordinary foodservice offering,” *Convenience Store News* (June 20, 2005) said of Richmond, Virginia-based Ukrop’s Super Markets. Ukrop’s offers full combo-meal options from fried chicken to healthy lean meats and veggies packaged in a microwavable tray for take-home

ease, as well as packaged “Dinner for Two” options. The addition of a heated island merchandiser in the center of the foodservice area has nearly doubled sales of rotisserie chickens, one of Ukrop’s most popular items.

“Consumer are so time-starved these days,” observed Danny Beran, director of procurement. “With the self-service island, they don’t have to wait in line, they don’t have to come see us or pull a number. The products are already there—it has already been cooked, it’s prepackaged, you grab it and go—see you later. It’s a beautiful way to go to market.” “People don’t have the time, so they are looking for things to help them, whether it’s prepared foods or even time-saving ingredients,” echoed Colleen Wegman, president of another independent gourmet supermarket, the family owned Wegmans Food Markets (*Rochester Democrat and Chronicle*, January 8, 2006). The Rochester, New York-based chain has 69 stores, and the foodservice array in Wegmans’ Dulles, Virginia store, for example, includes a sit-down Market Café, a coffee bar, pizza offerings, and an Old Fashioned Sub Shop.



## Chapter 4 Highlights

- The high rate of acquisitions and changes in brand ownership is not surprising, especially coming as it has on the heels of the consolidation among natural foods retailers.
- Today most of the leading U.S. marketers of natural/organics are owned by large conglomerates, with only a handful remaining independent.
- The influx of big money has transformed the market in ways incongruous with the cottage roots of natural/organic.
- Hain Celestial Group, the largest marketer, has been steadily buying up natural/organic companies.
- Especially since the dot-com boom went bust in the late 1990s, venture capital has migrated to natural/organic foods and beverages.
- One element of continuity between the business today and the way it was is that a number of the founding fathers and mothers have remained active.
- The strong growth prospects and mainstreaming of the natural/organic market are stimulating a new spate of entrepreneurial activity.
- With chains like Starbucks and Chipotle Mexican Grill signing on, foodservice is leading the natural/organic thrust in a number of ways.

## Chapter 4: The Producer/Marketer Arena

### Competitive Trends and Case Histories

#### Mainstream Moves to Incorporate Natural/Organics

A flourishing market with demonstrated staying power but made up mainly of small companies with sales of under \$50 million would be tempting to large marketers and investors in any case, but all the more so when the market involves necessities such as food and drink. Indeed, the growth potential of natural and organic foods and beverages must be considered in light of their role within their \$600-billion-plus parent market of groceries, of which natural/organic is a fast-growing slice. Accordingly, the high rate of acquisitions and changes in brand ownership—especially since the late 1990s—is not surprising, especially coming as it has on the heels of the consolidation among natural foods retailers and the stellar rise of Whole Foods.

The move toward consolidation and investment activity in this market actually began quite early. Kraft Foods became one of the first major marketers to buy into the natural/organic market when it acquired Celestial Seasonings in 1984—only to relinquish the herbal tea pioneer four years later in a leveraged buyout by the company's management and Vestar Capital Partners. During 2000, Celestial Seasonings merged with The Hain Food Group to become the Hain Celestial Group, which is today the nation's largest marketer of natural/organic foods and beverages, largely through acquisitions. [Table 4-1]

**Table 4-1**

**Changing Ownership in Leading U.S. Natural/Organic Brands**

New Owner/Holding Company	Brand Name/Company	Date
AEA Investors* .....	Burt's Bees .....	2004
American Capital Strategies* .....	Cloud Nine/nSpired Natural Foods .....	2004
American Capital Strategies* .....	Sunspire/nSpired Natural Foods .....	2004
American Capital Strategies* .....	Tropical Source/nSpired Natural Foods .....	2004
Booth Creek Management*/ BC Natural Foods .....	Pennfield Farms .....	2003

-- continued --

Table 4-1 [Cont.]

## Changing Ownership in Leading U.S. Natural/Organic Brands

New Owner/Holding Company	Brand Name/Company	Date
Booth Creek Management*/ ..... BC Natural Foods	Hans All Natural/Penn Valley Farms .....	2003
Booth Creek Management*/ ..... BC Natural Foods	Coleman Natural Beef .....	2002
Booth Creek Management*/ ..... BC Natural Foods	Petaluma Poultry .....	2002
Booth Creek Management*/ ..... BC Natural Foods	B3R Country Meats .....	2002
Booth Creek Management*/ ..... BC Natural Foods	Gerhard's Napa Valley Sausage .....	2002
Cadbury Schweppes** .....	Nantucket Nectars/Nantucket Allserve/Ocean Spray .....	2002
Charterhouse Group*/ ..... Charter Baking	Rudi's Organic Bakery .....	2005
Charterhouse Group*/ ..... Charter Baking	Vermont Bread Co. ....	2005
Charterhouse Group*/ ..... Charter Baking	Adams Baking .....	2005
Charterhouse Group* .....	Amerifit Nutrition .....	2005
Coca-Cola** .....	Odwalla .....	2001
Coca-Cola** .....	Fresh Samantha/Odwalla .....	2001
Dean Foods** .....	Horizon Organic Dairy .....	2003
Dean Foods** .....	The Organic Cow of Vermont/Horizon Organic .....	2003
Dean Foods** .....	Rachel's Organic (in UK)/Horizon Organic .....	2003
Dean Foods** .....	Silk/White Wave .....	2002
Dean Foods** .....	Alta Dena Dairy .....	1999
General Mills** .....	Cascadian Farm/Small Planet Foods .....	2000
General Mills*** .....	Muir Glen/Small Planet Foods .....	2000
Groupe Danone** .....	Stonyfield Farm .....	2003
Groupe Danone** .....	Brown Cow/Stonyfield Farm .....	2003
Groupe Danone** (20%) .....	Lifeway Foods .....	1999
H.J. Heinz** (16%) .....	Hain Food Group .....	1999
Hain Celestial Group .....	Poultry Raised Right/College Hill Poultry .....	2005
Hain Celestial Group .....	Spectrum Naturals/Spectrum Organic Products .....	2005
Hain Celestial Group .....	Spectrum Essentials/Spectrum Organic Products ....	2005

-- continued --



Table 4-1 [Cont.]

## Changing Ownership in Leading U.S. Natural/Organic Brands

New Owner/Holding Company	Brand Name/Company	Date
Hain Celestial Group .....	Zia Natural Skincare/Zia Cosmetics .....	2005
Hain Celestial Group .....	Jason Natural Cosmetics/Jason's Natural Products .....	2004
Hain Celestial Group .....	Shaman Earthly Organics/Jason's Natural Products .....	2004
Hain Celestial Group .....	Heather's Natural Cleaning Products/Jason's .....	2004
Hain Celestial Group .....	Ethnic Gourmet Foods/H.J. Heinz .....	2004
Hain Celestial Group .....	Rosetto/H.J. Heinz .....	2004
Hain Celestial Group .....	Walnut Acres/David Cole/Acirca .....	2003
Hain Celestial Group .....	Mountain Sun/Acirca .....	2003
Hain Celestial Group .....	Shari Ann's/Acirca .....	2003
Hain Celestial Group .....	Friti de Bosco/Acirca .....	2003
Hain Celestial Group .....	Millina's Finest/Acirca .....	2003
Hain Celestial Group .....	Soy Dream, Rice Dream/Imagine Foods .....	2002
Hain Celestial Group .....	Yves Veggie Cuisine (Canada) .....	2001
Hain Food Group .....	Celestial Seasonings .....	2000
Hain Food Group .....	Earth's Best .....	1999
Hain Food Group .....	Health Valley/Natural Nutrition Group .....	1999
Hain Food Group .....	Arrowhead Mills/Shansby Group* .....	1998
Hain Food Group .....	Terra Chips/Shansby Group* .....	1998
Hain Food Group .....	DeBoles Nutritional Foods/Shansby Group* .....	1998
Hain Food Group .....	Garden of Eatin'/Shansby Group* .....	1998
Hain Food Group .....	Westbrae Natural .....	1997
Hain Food Group .....	WestSoy/Westbrae .....	1997
J.M. Smucker .....	After the Fall .....	1994
J.M. Smucker .....	Santa Cruz Organic .....	1989
J.M. Smucker .....	R.W. Knudsen Family .....	1984
Kellogg** .....	Kashi .....	2000
Kellogg** .....	Morningstar Farms .....	1997
Kineret Acquisition Corp. ....	Hain Pure Food .....	1994
Kraft Foods** .....	Back to Nature/Organic Milling .....	2003
Kraft Foods** .....	Boca Burger .....	2000
Mars** .....	Seeds of Change .....	1998

-- continued --

Table 4-1 [Cont.]

Changing Ownership in Leading U.S. Natural/Organic Brands

New Owner/Holding Company	Brand Name/Company	Date
Solera Capital*/ ..... Homegrown Naturals	Annie's Naturals .....	2005
Solera Capital*/ ..... Homegrown Naturals	Annie's Homegrown .....	2002
Solera Capital*/ ..... Homegrown Naturals	Fantastic Foods .....	2000
Solera Capital*/ ..... Homegrown Naturals .....	Consorzio/Napa Valley Kitchens .....	2000
Tanimura and Antle (33%) .....	Earthbound Farm/Natural Selection .....	1999
Whole Foods Market .....	Allegro Coffee .....	1997

\* Investment firm.

\*\* One of the 25 largest food companies globally.

Source: Packaged Facts

## Factory Farms Dominate Organic Produce

One of the most dramatic examples of the corporate consolidation of organic foods can be seen in the produce category, which is already largely controlled by massive factory farms. Indeed, it is through alliances with larger, conventional growers that Earthbound Farm, San Juan Bautista, California, has emerged as the country's largest grower and shipper of organic produce.

Earthbound Farm was founded in 1984 by a young couple, Drew and Myra Goodman, who began growing organic strawberries on a 2.5-acre farm they were tending for the owners, selling the strawberries by the roadside. The Goodmans bought a 32-acre farm and built a 9,000-square-foot packaging plant in 1989, then landed Costco as a customer in 1992, followed by accounts including Wal-Mart, Kroger, and Whole Foods.

The couple's biggest break came in 1995, however, when they teamed up with Salinas-based Mission Ranches, which converted 6,000 acres to organic farming in exchange for a 50% cut of sales. A few years later, in 1999, Tanimura and Antle (also of Salinas) purchased a one-third stake in Earthbound Farm for more than \$2 million, helping the marketer gain access to what would become 15,000 acres, three-quarters of which is devoted to organic farming.

Since then, annual sales for Earthbound Farm have mushroomed to more than \$250 million, and the company today is the largest grower and shipper of organic produce in North America, offering more than 100 organic salads, fruits, and vegetables, with produce available in 74% of all supermarkets as well as in every major city in the United States.

### **Global Marketers, Investors Now Control Most Natural/Organic Leaders**

The incorporation of natural/organics into the existing structure of food growers, marketers, and retailers has continued apace since the Rural Advancement Foundation's 2004 study *Who Owns Organic?* and Packaged Facts' own November 2004 report, *Natural and Organic Foods: The Mainstreaming of a Trend*. Indeed, today most of the leading U.S. marketers are owned by large conglomerates, with only a handful remaining independent. [Table 4-1]

- Seven of the top 10 natural/organic marketers—as ranked by *Nutrition Business Journal* in 2004—are owned in whole or part by a leading global food marketer or, in one case, by an investment company. These marketers are, in descending rank order, the White Wave and Horizon Organic Dairy businesses of Dean Foods; the Cascadian Farm and Muir Glen businesses of General Mills' Small Planet Foods division (considered as a unit); Kellogg's Kashi and Morningstar Farms businesses (also considered as a unit); Coca-Cola's Odwalla subsidiary; Stonyfield Farm, 75% owned by Groupe Danone; and Booth Creek Management's BC Natural Foods meat and poultry unit.
- Still another top 10 marketer, Earthbound Farm, is one-third-owned by conventional produce marketer Tanimura and Antle, as noted. Of the top 10, only Hain Celestial Group and Hansen Natural, both publicly traded, remain independent. (H.J. Heinz Co. sold off its 16% stake in Hain Celestial in December 2005.) Hain Celestial owes its number-one ranking to acquisitions of its own, which have continued uninterrupted since 1994 (i.e., well before Kineret Acquisition Corp. merged Hain Pure Foods with Celestial Seasonings). Hansen Natural, for its part, is now focusing more on its energy drinks, from which most of its growth has been coming, than on its natural juices and sodas.

- Five other marketers of the remaining 18 ranked by *Nutrition Business Journal* are also part of larger companies: J.M. Smucker's Smucker Quality Beverages unit (including the Knudsen and Santa Cruz Organic brands); Kraft's Boca Burger unit (Kraft also owns Back to Nature cereals); Weetabix-owned Barbara's Bakery; the Ultimate Juice Co.'s Naked Juice unit; and the nSpired Natural Foods business of American Capital Strategies. Also in the rankings is Campbell Soup.
- Remaining top independent marketers, all of which can all be considered candidates for acquisition, include Amy's Kitchen, Newman's Own Organics, Organic Valley Family of Farms (CROPP), Clif Bar, Green Mountain Coffee Roasters, Nature's Path Foods, Clover Stornetta Farms, Pacific Foods, Kettle Foods, Apple & Eve, and Vitasoy USA.

### ***Only CROPP Solely Owned by Organic Farmers***

Organic Valley Family of Farms (milk, cheese, butter, eggs, soymilk, citrus juices) is the only leading organic brand solely owned and operated by organic farmers. It was created when seven farmers organized into a cooperative in 1988, which is now known as the Cooperative Regions of Organic Producer Pools (CROPP), and which has grown to include almost 700 farmers in 20 states. CROPP has been aggressive in marketing its products with a price premium to give farmer members a good return. Sales were projected to reach \$259 million in 2005, making Organic Valley Family of Farms one of the largest organic brands on the market. The cooperative also has a division for organic beef—Organic Prairie.

### **Big Money Influx Is Altering Market**

The natural/organic market would not have grown nearly as much as it has without the hundreds of millions of dollars poured into it in the last 15 years through acquisitions and public offerings. The huge sums invested in the market have promoted growth not only by bringing natural/organic foods and beverages before a much larger audience, but by legitimizing these products in the public's eyes. Moreover, heavy levels of outside investment will continue to drive the market for the foreseeable future; while marketers can fund expansion by putting the money they earn back into the business, they can grow even

faster by tapping external sources—through public offerings, private investment, or acquisition by a larger company with deeper pockets.

The willingness of natural/organic marketers, including industry pioneers, to sell or relinquish control of their businesses for financial gain—even though they know this may compromise their original beliefs about the true mission of organic—is not surprising. Growth takes money, and some entrepreneurs have been able to keep much of their autonomy—for a time, at least—while working for large conglomerates. Others have simply decided to “take the money and run,” in some cases using it to start another natural/organic business harkening back to their earlier beliefs. And, in all fairness, when a market becomes a focus of intense interest to large companies with investment capital, offers to buy in also carry an implied threat—sell or risk being put out of business by the big guys.

While the influx of big money into the natural/organic market has resulted in heady growth and will likely continue to do so for at least the next few years, it has also transformed the market in ways incongruous with the cottage roots of natural/organic, begging such questions as: What effect is big money having on the natural/organic “mission”? Is there any way to safeguard the survival of the small farmers, marketers, and retailers who established this market while continuing to increase its reach? What will happen now that retail penetration for natural/organic foods and beverages is approaching 100% and competition is surging at both the production/marketer and retailer levels? What are the limits to incorporation?

### **Market Transformation Begins with Whole Foods’ IPO**

According to Barney Feinblum, a natural/organic veteran and former president of both Horizon Organic Dairy and Celestial Seasonings, the natural/organic market’s transformation began with the flow of public money triggered by Whole Foods Market’s December 1991 initial public offering. “Before Whole Foods went public, [natural and organic foods] was more of a cottage industry,” Feinblum told *ColoradoBiz* (March 2005). (The executive is currently president of Organic Vintners, which he founded in 2002.) In the years leading up to its IPO, Whole Foods obtained venture capital from Oak Investment Partners, Criterion Venture Capital Partners, and First Interstate Capital Corp. to finance its growth.

## **Hain Celestial Becomes Natural Foods Conglomerate**

Hain Celestial Group, the largest marketer of natural/organic products, with sales of \$620 million in the fiscal year ended June 30, 2005, has been steadily buying up natural/organic companies ever since being bought itself (when the company was Hain Pure Food) by Kineret Acquisition Corp. in 1994. The marketer's biggest acquisition by far—that of Celestial Seasonings in 2000, which resulted in the Hain Food Group's becoming the Hain Celestial Group—took advantage of a \$100 million share purchase by H.J. Heinz in 1999, at the same time Hain was acquiring Heinz's Earth's Best line of organic baby food.

The Heinz connection actually went back to 1997, when Hain signed a five-year agreement with the Heinz-owned Weight Watchers Gourmet Food Co. to manufacture and market food products under the Weight Watchers brand name. Hain also made its first acquisition from Heinz that year—the Alba Foods line of dry milk products. In 1998 Hain began marketing the Earth's Best organic baby food line under license, before buying it from Heinz the following year. Then, in 2004, Heinz passed two more companies on to Hain—Ethnic Gourmet Foods, which Heinz had acquired in 2001, and Rosetto. Ethnic Gourmet markets frozen entrees with natural ingredients, especially popular Asian dishes but also, more recently, Italian and Southwest specialties. Rosetto offers a wide variety of frozen pastas as well as authentic pasta meals.

In December 2005, Heinz disposed of its almost 6.1 million Hain Celestial shares (about 16% of the total) through a public offering at \$20 per share, claiming that the move was part of a strategy to divest itself of non-core businesses. Heinz had taken a three-quarters stake in Del Monte Food Co. in 2004.

## **Venture Capital Migrates to Natural/Organic Market**

Especially since the dot-com boom went bust in the late 1990s, venture capital has migrated to natural/organic foods and beverages, furthering the market's strong, sustained growth. Conspicuous among those who have been buying up natural/organic marketers more recently are private equity firms whose goal often is to assemble a group of companies with related products that can be sold off eventually to a major mainstream marketer. These investors are in effect agents, or advance scouts, of major marketers. Even more so than large marketers

who acquire small natural/organic marketers, investors are concerned mainly with near-term profit, as opposed to being inspired by the principles the natural/organic market is founded on—making the world better through promoting organic agriculture, humane animal husbandry, the survival of small farmers and other small, local businesses, the use of renewable energy, recycling, developing an alternative to agribusiness and “mega-chain retailing,” etc.—and they want to have people running their companies who share their priorities.

### ***Charterhouse Putting Together National Baked Goods Player***

Baked goods represent the third largest category of natural/organic foods and beverages, after produce and dairy. Charterhouse Group, a private equity firm based in New York City, made its third acquisition in the natural and organic baked goods sector with the September 2005 purchase of Rudi’s Organic Bakery, one of several notable natural/organic companies that originated in Boulder, Colorado in the 1960s and 70s. Charterhouse then put Rudi’s and two purchases made earlier in the year—Vermont Bread Co. and Adams Bakery Corp.—under one holding company, Charter Baking Co.

Besides the value of its name, Rudi’s brings to Charter Baking a delivery base covering about half of the continental United States, Charterhouse partner David Hoffman explained to *Buyouts* (September 19, 2005). “Largely, the landscape is such that most companies in the natural and organic baked goods sector are regional in nature. We decided if we could pick up enough good companies with unique product offerings and distribution lines, then we could create a truly national organization. The opportunity for growth is to continue to penetrate the conventional market, the mainstream supermarkets, discount club chains, even convenience stores.”

### ***Solera Capital Assembles Homegrown Naturals Holding Company***

In November 2005, Annie’s Naturals, Inc., which markets 39 natural and organic salad dressings, condiments, and marinades, became the latest addition to the Homegrown Naturals, Inc. holding company created by Solera Capital to house its natural and organic food businesses. These also include Annie’s Homegrown, Inc., a marketer of organic and natural pasta meals and snacks, which Solera acquired in 2002, as well as two acquisitions made in 2000: Fantastic Foods, Inc., a maker of vegetarian convenience foods, and Napa

Valley Kitchen, maker of the Consorzio line of dressings, marinades, and oils. Their combined annual revenues are between \$70 million and \$80 million. Annie's Naturals has annual revenues of \$10 million to \$12 million.

### ***American Capital Strategies Buys Stake in nSpired Natural Foods***

In 2004, American Capital Strategies Ltd., Bethesda, Maryland, invested \$62.5 million to acquire a 78% stake in nSpired Natural Foods, Inc., a San Leandro, California-based manufacturer of candy, salty and specialty snacks, culinary oils, and nut butters. The marketer's chocolate brands include Cloud Nine, Sunspire, and Tropical Source. Nspired planned to use money made available by the acquisition to expand distribution in major accounts such as Whole Foods, Wild Oats, Trader Joe's, and Costco, while also growing its presence in natural foods, grocery, and national supermarket chains.

### ***Investor-Driven Consolidation in Meat Sector***

Meats are the smallest but fastest growing component of the natural/organic market, and this sector is also seeing its share of investor-driven activity. In 2002 and 2003, investor George Gillett's Booth Creek Management Corp. assembled a stable of natural/organic meat companies consisting of Pennfield Farms, Penn Valley Farms, Coleman Natural Beef, Petaluma Poultry, B3R Country Meats, and Gerhard's Napa Valley Sausage—all now part of BC Natural Foods. More recently, when Hain Celestial entered the natural chicken sector in 2005, it did so through a joint venture with private equity firm Pegasus Capital Advisors LP. The joint venture, called Hain Pure Protein Corp., purchased a controlling interest in College Hill Poultry, Fredericksburg, Pennsylvania, which markets natural and organic free-range chicken products from family farms under the Poultry Raised Right brand.

### **Natural/Organic's Boulder Roots and "The Way Things Were"**

Because so much of today's natural and organics market originated in or around Boulder, Colorado, the entrepreneurs involved are sometimes referred to as the "Boulder Natural Foods Mafia." *ColoradoBiz* devoted a March 2005 story to Boulder as "the epicenter, or Silicon Valley, of the natural foods industry," the place that gave birth to Celestial Seasonings, Rudi's Organic Bakery, White Wave, Wild Oats, Alfalfa's Markets, Horizon Organic Dairy, Coleman Natural Beef, and The Brewing Market coffee company and its



successor, Allegro Coffee (acquired by Whole Foods Market in 1997). Though founded in Pennsylvania, New Hope Natural Media, publisher of *Natural Foods Merchandiser* and related titles as well as manager of the industry's two major trade shows—Natural Products Expos West and East—moved to the Boulder epicenter in 1988.

With the exception of Wild Oats, every one of these companies has by now been gobbled up by a larger one, including New Hope Natural Media (by Penton Media), and the effect of investors' moving into the market can be seen in the makeup of attendees at the two Natural Product Expos. "It used to be 10,000 zealots and a couple of suits," Wild Oats co-founder Mike Gilliland told *ColoradoBiz*. "Now you go there and there's 10,000 suits and a couple of hippies. There's a lot of money at stake, a lot of people with interests." Recalling, somewhat ruefully, the cooperative spirit that once characterized the industry, Gilliland went on to say, "I used to send my profit-and-loss statements to John Mackey [a Whole Foods founder and currently chairman and CEO] every month, just to get his advice. Whenever we'd find a [new store] site, we'd call up John and ask him what he thought about it. But that stuff has to change when you become public."

Indeed, for Gilliland personally, bigger was not better, and he opted out as chief executive officer of Wild Oats in 2001. "We were close to a billion dollars [in annual revenues] when I left, and it was certainly past my abilities and my desires to manage 10,000 people and manage 'The Street.' I wanted to get back to a more entrepreneurial environment." As a result, the following year Gilliland founded the Sunflower Markets chain of natural foods stores, which is based in Longmont, Colorado and had 11 stores in operation at the end of 2005.

### **Market Founders Resurface as New Company Leaders**

As Gilliland's new Sunflower Markets venture helps to illustrate, one element of continuity between the natural/organic business today and the way it was is that some of the founding fathers and mothers—most of them still under 60—have remained active, even if not with the companies they founded or helped to build. As another case in point, consider the 25-year-long market trajectory of Mark Retzloff:

- Retzloff and S.M. “Hass” Hassan opened Pearl Street Market in 1979, across the street in Boulder from Steve Demos’ vegan deli and tofu shop (which evolved into White Wave). The pair then opened a larger (20,000-25,000 square feet) Alfalfa’s Market in 1983, one of the early natural foods supermarkets. (Whole Foods and Wild Oats later battled to acquire the chain, with Wild Oats winning out in 1996.)
- In 1990, Retzloff left Alfalfa’s, and the following year he launched Horizon Organic Dairy with friend Paul Repetto, whose own involvement in the industry went back to 1978. Retzloff then went on to build Horizon Organic into the largest organic brand before Dean Foods acquired full control of the company in 2003. He also went on to head Rudi’s Organic Bakery as president and chief executive officer, and to found the Fresh & Wild retail chain in London, which Whole Foods Market acquired in 2004.
- In 2004, Retzloff launched Aurora Organic Dairy, Platteville, Colorado, which provides the private-label organic milk for Safeway, Giant, Costco, Wild Oats, and other leading retailers. Unlike Horizon, which contracts with some 250 independent farmers for its products, Aurora has all of its cows in Platteville.
- Also in 2004, Retzloff joined with former partners Hassan and Repetto, as well as with Barney Feinblum, to create Greenmont Capital Partners, a \$16 million private equity firm that focuses on emerging companies in the natural/organic and sustainable business sector.
- In January 2005, this firm teamed with Sherbrooke Capital of Massachusetts and another Boulder-based private investment company, Tango, to raise \$6.4 million for the Boulder sparkling juice maker IZZE Beverage Co.

### Clif Bar Founder Just Says “No”

One natural/organic entrepreneur who said “no” to big money is Gary Erickson, co-founder of energy bar marketer Clif Bar. In April 2000, Erickson had an 11<sup>th</sup> hour change of heart and turned down a reported \$120 million buyout offer—more than double Clif Bar’s annual sales at the time. Erickson did not want to move Clif Bar to the Midwest, which would have

forced him to part with most of his 65 employees, and he was probably also reluctant to relinquish any decision-making authority, such as he exercised in 2003 when Clif Bar converted its products to organic ingredients despite the 15% increase in costs the move would entail. Mostly, however, “He did not want to cede some of the unique qualities of Clif Bar he had worked so hard to establish—twice-a-month three-day weekends for the staff, the 20-foot climbing wall in the office, and his commitment to backing social causes big and small, from the Undo It global warming campaign to Woody Harrelson’s eco rooms” (*Business 2.0*, December 2004).

On the other hand, Clif Bar co-founder and partner, Lisa Thomas—who had run the business on an everyday basis as chief executive officer and wanted to sell—quit after Erickson’s change-of-heart and demanded a buyout, and the company has been paying her \$4 million a year ever since.

### **The Case of White Wave**

Making a stand of his own, in March 2005 Steve Demos, founder of White Wave, Inc.—the Boulder, Colorado-based company credited with making soymilk a big business—resigned rather than accept a lesser role with Dean Foods Co., the global giant that had acquired full control of White Wave in 2002. Demos had been serving as president of White Wave Foods, a \$1.2 billion subsidiary formed by Dean in August 2004 to house White Wave, Horizon Organic Dairy (acquired in 2003), and Dean National Branded Group. The Dean National Branded Group is Dean Foods’ renamed Morningstar Foods division (not to be confused with Kellogg’s Morningstar Farms division) and consists of the Hershey’s, Jakada, and Sun Soy brands. White Wave Foods vice president and chief financial officer Pat Calhoun, Demos’ former wife, also resigned, reportedly in support of Demos, with whom she had worked since the soymilk marketer’s founding in 1977.

### ***Dean’s Backing Takes White Wave’s Silk to the Top***

Nevertheless, White Wave might never have gotten where it is today—and certainly not as quickly—without Dean Foods. A decade after its 1977 founding, the marketer was netting \$2 million a year. However, by the mid-1990s the company was enjoying a 20% annual growth rate, and in 1996—the year the company created Silk, the first refrigerated soy milk—sales

had reached \$10 million. This strong performance caught the attention of Dean Foods, which purchased a 37.2% share for a reported \$15 million in 1999, then acquired the remaining 62.8% three years later for \$192.8 million. The alliance with Dean launched White Wave into mainstream grocery outlets, and within two years Silk had become a \$550 million brand with distribution in 97% of the nation's supermarkets, as well as throughout the entire Starbucks empire. In 2004 White Wave ran its first national ad campaign, a six-month, \$22.3 million effort involving 2,500 commercials in prime time, along with radio and magazine ads, in-store promotions, and Sunday newspaper coupons.

According to Demos, the big advertising push was needed to capture the mainstream consumer and move beyond the estimated 10 million "health nuts" and "early adopters" who drink soymilk (*The Denver Post*, April 12, 2004). He also noted that Gatorade used the same strategy to lock down the market before larger companies like PepsiCo (which eventually acquired Gatorade, together with parent Quaker Oats Co. in 2001) came out with their own brands of sports drinks. "If we're going to be the Gatorade of the soymilk business, we're going to do it right now" Demos said, telling the paper that his goal was to hit \$1 billion in revenues in three years. Even more ambitious was Demos' goal "to make dairy obsolete."

### ***Incompatible Business Models?***

Although Demos reportedly resisted the Dean Foods acquisition initially and eventually resigned from the company, he clearly came to relish the opportunity to play for big stakes after years of struggling to get by. At the same time, Demos didn't expect White Wave's culture to be compromised by its corporate parent because he thought he had clearly proven effective his approach of "taking idealism out and selling it inside our corporate model." As he told *ColoradoBiz* (March 2005), "The world doesn't listen to you about your ideas and about your intent to change things unless you are out-profiting them. When you out-profit the current model, they'll give you anything you want, and they listen to what you're saying."

### **The Case of Horizon Organic: Going Public to Fund Growth Leads to Takeover**

Natural/organic marketers that go public to raise funds for growth also leave themselves open to possible takeover, as was the case with Horizon Organic, which was founded in 1991 and

made a good many acquisitions itself on its way to being acquired by Dean Foods in late 2002. Two years earlier, when *Marketing Management* (Winter 2000) asked Horizon co-founder Mark Retzliff about the possibility of a takeover, he answered, "If a major corporation attempts a takeover of Horizon, we might not have any choice on whether to sell, but that certainly isn't our goal. The end goal is not to see how much money we can make, it's to leave the earth a better place for my children and the generations after them. "Selling out to the highest bidder would mean compromising personal beliefs and vision," Retzliff added. "I've got a broader vision than financial gain that I've been working on for 30 years. It involves clean air, clean water, and healthy food."

Nevertheless, less than two years later, Dean Foods took over Horizon and Retzliff was gone, and two years after that, Chuck Marcy—then Horizon's chief executive officer—left the company after Dean Foods announced it was consolidating Horizon, White Wave, and the Dean Branded Group into White Wave Foods. Reporting Marcy's departure, *Dairy Foods* (September 2004) commented, "As many of the top natural and organic companies have been bought out by larger, mainstream food companies, some question whether the original mission of those companies can be maintained."

### ***Horizon Factory Farms Called into Question on "Organic"***

During 2005 this very question was brought into public focus when The Cornucopia Institute, a Wisconsin-based family farm advocacy group, filed two formal complaints asking the USDA to investigate alleged violations of the federal organic law by two factory farms operating in Idaho and California, both with ties to Horizon Organic Dairy. The 4,000-head Idaho farm is owned and managed by Dean/Horizon; and the California farm, with 10,000 cows divided between organic and conventional operations, supplies Dean/Horizon with milk. Given that organic livestock management practices require that dairy cows and other "ruminants" consume a significant percentage of their feed from pasture, the complaints asked the USDA to investigate whether it is legal to confine cows in an industrial setting without access to pasture and still label the resulting milk and dairy products "organic." Subsequently, Dean Foods announced it would spend \$10 million to add pasture, more barns, and state-of-the-art milking equipment to its 4,000-cow-plus dairy farm in Paul, Idaho.

The Cornucopia Institute filed a similar complaint against Aurora Organic Dairy, which was founded in 2004 by Horizon co-founder Mark Retzliff, and which supplies some or all of the private-label milk for Safeway, Giant, Costco, Wild Oats, Tops, and Woodstock.

### ***More Bad PR for Horizon***

The Organic Cow of Vermont is an organic dairy business started in 1990 by a married couple on their Vermont farm. H.P. Hood, a large conventional dairy processor, bought the company in 2001, then passed it on to Horizon Organic in 2003, the year the latter was acquired by Dean Foods. According to Maine Public Radio, Horizon then cut the contractually agreed premium to farmers. “This resulted in decreases in farmers’ incomes by as much as \$15,000 per family—even as Horizon reported a 200% increase in profits on net sales of \$160 million that year for the company.”

Delving further into this issue, in late April 2006 the Cornucopia Institute published a report called *Maintaining the Integrity of Organic Milk*. Covering both private-label and name-brand milk suppliers, the report is intended to “help consumers and wholesale buyers select those dairy products produced with the best and most ethical farm production practices,” based on a ratings scale developed through a year of research ([www.cornucopia.org](http://www.cornucopia.org)).

### **Whole Foods as “Whole-Mart”**

No one can dispute John Mackey’s credentials as a pioneer of today’s natural and organics market, and some point to the success of Mackey’s Whole Foods Market as validating an alternative business model—a socially responsible business—because of the retailer’s advocacy of natural foods, better treatment of farm animals, renewable energy, and recycling. At the same time, not all are impressed with Whole Foods business practices. As Mark T. Harris points out in “Welcome to ‘Whole-Mart’” (*Dissent*, Winter 2006), “the Whole Foods business model is more or less the standard stuff of Fortune 500 ambition. This is a vision of mega-chain retailing that involves strategic swallowing up (or driving out of business) of smaller retail competitors. It is a business model that objectively complements the long-term industrialization of organics (that is, large-scale corporate farms) over small family farms.” Harris also notes that Whole Foods has been criticized for its drive to monopolize the natural foods market to the detriment of “local food webs” of small farmers and retailers.

Indeed, the success of Whole Foods may owe as much to its similarities to Wal-Mart, in terms of growth aspirations, as to the appeal of natural and organic foods—and Whole Foods chairman and CEO John Mackey has made no secret of his views along these lines. He prides himself on being a fierce competitor and seeking to dominate natural foods retailing, as well as on being anti-union. Moreover, his outspokenness in this regard has likely been a factor in Whole Foods' success, attracting support from like-minded people along Wall Street with money and influence.

### **Hain Celestial as Whole Foods' Marketer Counterpart**

Hain Celestial Group is to an extent the marketer counterpart of Whole Foods Market's growing retail empire. One of North America's oldest natural foods businesses, Hain Pure Food Co. had been around since 1926, but dynamic growth began only after it passed into the hands of Irwin D. Simon through a 1994 purchase by Kineret Acquisition Corp., Hain's third owner in 15 years. An initial public offering followed, to generate funds for growth, and in fiscal 1995 the company's sales almost quadrupled to \$58 million. Today, the company has a market value of about \$1 billion and more than 30 natural brands, a top executive recently told *Newsday* (May 3, 2006).

Hain's own regimen of acquisitions, which has continued uninterrupted, began in 1995 with Estee Corp., a producer of sugar-free and low-sodium products for those on medically directed diets and for other health-conscious consumers. Estee also set the pattern for future acquisitions whereby Hain sells off the manufacturing facilities of acquired companies and outsources production and distribution to minimize costs. In other words, Irwin Simon has used the same lean, mean business model favored by large corporations.

In this way, Hain Celestial has grown into a diversified natural/organic powerhouse with a strong position in most of the product areas in which it competes, including cereal and bread, ethnic and vegetarian prepared dishes, snacks, baby food, tea, dairy and non-dairy beverages, soups and juices, and personal care products. A cross-category one-stop-shop in the making, the company groups its brands under eight headings: natural food, natural beverages, natural snacks, refrigerated, frozen, specialty, whole body care, and Europe. [Table 4-2]

Table 4-2

## Hain Celestial Group: Product Categories and Brand Lines, 2006

Category/Brand	Products
<b>Baby Food</b>	
Earth's Best .....	Organic baby food and toddler juices
<b>Cooking Oils, Etc.</b>	
Hollywood .....	Safflower, canola, and peanut oil; carrot juice
Spectrum Naturals .....	Oil, vinegar, condiments, butter substitutes
<b>Fresh Meat</b>	
Poultry Raised Right .....	Natural and organic free-range chicken products from family farms (College Hill Poultry)
<b>Grains, Cereal, Etc.</b>	
Arrowhead Mills .....	Organic baking mixes, bread, cereal, and nut butter
Breadshop Natural Foods .....	Ready-to-eat cereal for children and adults
DeBoles .....	Pasta in Jerusalem artichoke flour, semolina, whole wheat, rice flour, and organic varieties
Health Valley .....	Natural fat-free soup, baked goods, and cereal
<b>Milk and Milk Alternatives</b>	
Alba .....	Non-fat dry milk, shake, and hot cocoa products
Rice Dream .....	Dairy-free beverages with nutritional value of milk
Soy Dream .....	Non-dairy beverages with benefits of soy
WestSoy .....	Non-dairy soy beverages in aseptic, wedge, and refrigerated varieties
<b>Prepared Meals (Ethnic, Vegetarian)</b>	
Casbah .....	Vegetarian prepared mixes and side dishes from North Africa
Ethnic Gourmet .....	Frozen meals from the world's cuisines
Rosetto .....	Frozen pasta and pasta meals
Westbrae Natural .....	Meals centered around vegetables, whole grains, soups, and beans
Yves' Veggie Cuisine .....	Meat and cheese alternative products (low-fat, cholesterol-free)
<b>Snacks, Etc.</b>	
Bearitos .....	Natural chilis, sauce mixes, and snacks
Boston's .....	Kettle-popped popcorn
Garden of Eatin' .....	Organic tortilla chips and potato chips
Hain Pure Foods .....	All-natural crackers, cookies, oils, and condiments; functional snacks

-- continued --



Table 4-2 [Cont.]

**Hain Celestial Group: Product Categories and Brand Lines, 2006**

Category/Brand	Products
<b>Snacks, Etc. [Cont.]</b>	
Hain Pure Snax .....	All-natural fun snack products
Harry's Premium Snacks .....	Premium natural and organic snacks, including pretzels, potato chips, and tortilla chips
Little Bear Organic Foods .....	Organic snacks
Terra Chips .....	Natural potato chips and vegetable chips
<b>Soups and Juices</b>	
Imagine Foods .....	Organic soups and broths in aseptic packaging
Nile Spice .....	All-natural soup cups
Walnut Acres Organic .....	Organic juices, canned soups, salsas, and sauces
<b>Specialty</b>	
Carb Fit .....	Low-carb products culled from other Hain Celestial brands
Estée .....	Sugar-free and fructose-sweetened foods for diabetics and others with sugar-restricted diets
<b>Teas</b>	
Celestial Seasonings .....	Natural and specialty teas, including organic
<b>Non-Foods</b>	
Heather's Naturals .....	Natural and organic cleaning products said to be safer than conventional products but still effective
Jason Pure .....	Skincare and haircare products featuring food-grade, organic, and nutritional ingredients
Orjene Organics .....	Beauty and personal care products made with botanicals, natural oils, exotic blooms, and beautifying vitamins
Queen Helene .....	Personal care products
(Para Laboratories)	
Shaman Earthly Organics .....	Skin, hair, and body products created with organic botanical extracts and Rocky Mountain Spring Water
Spectrum Essentials .....	Essential fatty acid nutritional supplements
Zia Natural Skincare .....	Natural skincare products using synergistic blends of whole foods, pure essential oils, and healing botanicals

Source: Packaged Facts

## A New Spate of Entrepreneurship

The strong growth prospects and mainstreaming of the natural/organic market are also stimulating a new spate of entrepreneurial activity. As Horizon Organic co-founder Paul Repetto told *ColoradoBiz* (March 2005, “More and more young people and others see it as an opportunity, therefore more of them have ideas, more of them want to get something started. However, Repetto also notes, unlike those who started their businesses in the early days of the market, those coming into the business more recently are arguably motivated more by profits to be made—and made quickly—than by the original tenets of the organic market.

### The Case of Dakota Beef: Young Entrepreneur Taps into Organics’ “Final Frontier”

When talking about the new breed of natural/organic entrepreneurs, Repetto could have been referring to someone like Scott Lively, who at age 30 and with no food industry experience launched Chicago-based Dakota Beef LLC in October 2002. Within a year, Dakota Beef was able to proclaim itself the largest vertically integrated organic beef producer in the United States, providing private-label certified organic beef to Whole Foods Market and upscale local restaurants. Other major accounts include Raley’s supermarkets, specialty food retailer Williams-Sonoma, and natural/organic mega-marketer Hain Celestial. In search of a new career, Lively researched the food industry and learned that the \$60 billion beef business is the fastest growing segment in the agriculture sector; that organic foods are the fastest growing segment of the grocery market; and that meats are the fastest growing segment—and final frontier—in organic foods. In response, Lively used his own money to launch Dakota Beef.

### ***Maximizing Efficiency to Reduce Prices, Increase Profits***

Lively has also been able to apply his experience in supply chain management and computer software to the venture. Dakota Beef buys cattle from certified organic ranchers, readies the cattle for slaughter in company-managed feed facilities (“finishing”), then processes them in its own plant. As Lively told *Crain’s Chicago Business* (May 10, 2004), “I’ve streamlined the process so there are six fewer guys picking at the pot. I can get a more consistent product at higher margins.”

Lively also developed an in-house software application that manages the three steps in the supply chain. “We can see what’s happening to a beef product at all stages in beef production. It takes the guesswork out of when the cattle will be ready for market,” explains Lively, who has sold the rights to the software in Europe. The software also helps with source verification, which the USDA requires for organic beef certification.

Lively’s goal for 2005 and beyond is to match the lower price of all-natural beef. “As our ranchers begin to maximize their herds and as we tightly manage the supply chain, we can begin to offer organic beef at lower prices.”

### **The Case of Niman Ranch: A Pioneer in Naturally Raised Meat**

In contrast, for Niman Ranch—a marketer of naturally raised beef, pork, and lamb that dates back to the 1970s—success came slowly. The business grew out of a sideline of then elementary school teacher Bill Niman, who used old-fashioned animal husbandry practices on his small farm. Indeed, Oakland, California-based Niman Ranch did not start to put up big numbers until the second half of the 1990s. The arrival in 1997 of Mike McConnell, a former chief executive officer of a Silicon Valley computer peripheral company—who invested \$1 million for a 25% stake in the company and took over the financial side of the business—helped the process along.

### ***Company Makes Mark in Restaurants***

Niman Ranch was still struggling to meet payments when the federal government paid \$1.3 million for its land in 1984 through laws of eminent domain, but allowed the company to continue grazing its cattle there for only \$3,000 a month. Though beef consumption had been declining since 1980 owing to health concerns, sales of Niman Ranch and other branded beef began to increase thanks to an emerging market for naturally raised beef and for value-added beef products, such as marinated strips and fully prepared pot roast. Accordingly, by the late 1990s, Niman Ranch had reportedly become the beef of choice for top restaurants nationwide, and by 2006 the “natural” beef segment was worth almost \$1 billion and continuing to grow strongly, according to *Cattle Buyers Weekly* (January 2006).

***Naturally Raised Pork Enjoys Rapid Growth***

Meanwhile, Niman Ranch had also begun selling naturally raised lamb in 1989, followed in 1997 by naturally raised pork, leading to the formation of a Niman Pork subsidiary in 1998. Around that time, the marketer gained Trader Joe's and Whole Foods Market as accounts, and in 2001 it landed what remains its largest customer—the Chipotle Mexican Grill chain (which was spun off by McDonald's in early 2006)—for whom it supplies pork. Also in 2002, the company began selling to the former Albertson's, and that same year annual sales hit \$31 million—10 times the level of five years earlier.

In recent years Niman Pork has been experiencing annual growth of 15%-20%, and in 2005 naturally raised pork—also known as “niche pork” or “heritage pork”—reportedly accounted for 4% of the pork raised in the United States, up from 1% in 2000. The largest buyer of Niman's natural pork remains the approximately 500-unit Chipotle Mexican Grill chain, which has also added naturally raised chicken and is in the process of adding naturally raised beef, as it continues to distinguish itself from its foodservice competitors by offering “food with integrity.”

***Niman Ranch Helps Hog Farmers Survive***

Niman ranches its own cattle on 1,000 acres in the Point Reyes National Seashore in Marin County, marketing its processed beef nationwide, along with beef and lamb raised by other cattle producers and by sheep ranchers throughout the West. The company's pork comes from almost 500 Midwestern hog farmers, 60% of them in Iowa. Niman Ranch pays hog farmers 10% more per pound than the industry average—45¢ minimum plus offering a premium of up to \$10 per head. Paul Willis, a hog farmer who has become the manager of Niman Pork, told *Library Journal* (September 15, 2005) that, before Niman Ranch, small farmers might have been unable to sell only five or 10 hogs at a time or might only have gotten a reduced price for them. “We were raising the best pork and getting the worst price,” he recalled.

According to Willis, the Niman way of raising animals also calls for rotating fields to prevent soil erosion, avoiding hormones and antibiotics, and treating the animals respectfully, allotting plenty of space for them to graze. Niman cattle, for example, graze on high grass for at least 14 months, then spend five months at low-density (83 cattle per acre) feed lots. Cattle

raised the standard way, on the other hand, spend as little as six months on the range and the next four in packed feedlots.

Commenting on the benefit of natural/organic practices to small farmers and their communities, Rex Thompson, an Iowan who raises hogs for Niman Pork, told the *Des Moines Business Record* (July 25, 2005): “[Niman Ranch is] helping the small farmer be able to compete and stay in business. That has a trickle-down effect that keeps kids in a community, and then it helps the community with schools and businesses.” Indeed, for each new restaurant Chipotle opens, Niman Ranch invites another family farm into its network.

### The Case of Dagoba Organic Chocolate

Another relative newcomer to the market is entrepreneur Frederick Schilling, founder of Dagoba Organic Chocolate Co. A former chef and restaurateur, Schilling emerged from Boulder, Colorado, like Repetto and other industry pioneers, and has also always believed in organic foods. He began “messing around” with chocolate in the kitchen of his Boulder home in 2000, and moved to Oregon the following year for a more amenable and affordable place to live and establish his business.

Dagoba Organic Chocolate—“Dagoba” means “temple of the gods”—is credited as a trendsetter with exotic flavor infusions and single-origin chocolate bars. “Dagoba offers the widest range of Fair-Trade-certified cocoa products in the United States,” Schilling boasts. “We want to buy cocoa beans from estates that treat their farmers well and pay fair wages, provide housing for their employees, and guarantee daily wages” (*Stagnito’s New Products Magazine*, February 2005). Accordingly, Dagoba products are certified by San Francisco-based TransFair USA, and the company uses renewable energy sources at its production facilities.

Introduced in 2005, the marketer’s single-origin offerings includes Conacado, a cocoa bean chocolate product from the Conacado Cooperative in the Dominican Republic; Pacuare (Costa Rican Cru); Los Rios (Ecuadorian Arriba); and Milagros (Peruvian Amazonia). Dagoba believes consumers will come to appreciate the distinct tastes associated with the different regions where the beans are grown, as they have with premium coffee.

## The Lesson of Gardenburger

Just how hard it can be for a natural/organic marketer to navigate today's competitive conditions is shown by the fate of Gardenburger, Inc., the Irvine, California-based company credited with bringing vegetarian burgers into the mainstream. In pursuit of growth, Gardenburger lost sight of the bottom line and ended up filing for bankruptcy in October 2005. "It's a very sad story," founder Paul Wenner told *The Oregonian* (October 15, 2005). "It started out as a wonderful growth story."

Wenner, a former restaurant owner and cooking school director, started the company as Wholesome & Hearty Foods in 1985 and took Gardenburger public in 1992, when sales stood at \$6.9 million. Former Quaker Foods executive Lyle Hubbard became chief executive officer in 1995, with Wenner remaining as senior chairman and chief creative officer. Subsequently, Gardenburger quickly expanded from veggie burgers into soy-based meatless foods and other meat substitutes, or "analogs."

With sales booming, the company spent freely. It acquired Gorilla Foods, maker of the GardenDog frankfurter and other products, and distributor Whole Food Marketing in 1996, and the following year wagered a whopping \$17 million on advertising. Annual sales jumped from \$57 million in fiscal 1997, and to \$100 million in fiscal 1998, with the marketer capturing a 41% share of the meat analog burger category. At the same time, however, the company also suffered a net loss exceeding \$14 million. In addition, though Worthington Foods was GardenBurger's closest rival in its core category, with a 30% share, both Kraft Foods and Kellogg entered the arena at this time through their respective acquisitions of Boca Burger and Morningstar Farms.

GardenBurger's sales dropped back to \$60 million in fiscal 1999, and its net loss more than doubled, arousing speculation the company would be put up for sale. In response, in July 1999 Hubbard announced, "We are changing our business model on a go-forward basis to emphasize near-term profitability over aggressive market growth." Nevertheless, the red ink started flowing again in fiscal 2003, and in fiscal 2005 the marketer lost \$15.7 million on sales of \$44.6 million.

In its late 2005 bankruptcy filing, Gardenburger blamed its problems on the low-carbohydrate movement for encouraging increased meat consumption, which led the marketer to reformulate its veggie burger to reduce carbohydrate content. However, sales had begun to decline even before the Atkins diet took hold, and because Gardenburger was too dependent on one product, it could only watch as the competition ate away at its sales. The bankruptcy filing also indicated that Gardenburger planned to become private upon emerging from Chapter 11.

### **Familiar Faces Among Today's Entrepreneurs**

As noted, a number of the figures starting natural/organic businesses today are industry veterans taking advantage of their market-founding experience. Barney Feinblum, a former president of both Celestial Seasonings and Horizon Organic, started his own company, Organic Vintners, in 2002, while Wild Oats co-founder Mike Gilliland founded the Sunflower Markets chain of natural foods stores. In 2004, Alfalfa's and Horizon Organic veteran Mark Retzloff launched Aurora Organic Dairy, while also joining forces with former partners Hassan (from Alfalfa's) and Repetto (from Horizon Organic), as well as with Feinblum, to create Greenmont Capital Partners.

In addition, in 2001—two years after retiring as president and chairman of United Natural Foods, the leading natural/organic foods distributor—Norman Cloutier founded Fairfield Farm Kitchens, which markets frozen prepared organic foods. Based in Brockton, Massachusetts, the company prepares its soups, sauces, and beef and poultry entrees using small batch techniques rather than mass production methods, the end result being “restaurant-quality taste.” Accordingly, Fairfield's products are “triple certified,” meaning that in addition to assuring that all raw materials are organic, all equipment and manufacturing processes are compliant with USDA standards, and that the products are independently certified by the Quality Assurance International (QAI) agency.

### **Mainstream Marketers Entering Natural/Organic Arena**

On top of takeovers and the creation of new companies to capitalize on the success of the natural/organic market, established players have to contend with an ever-increasing number

of new natural/organic product introductions from major mainstream marketers. In addition to deeper pockets, large mainstream marketers enjoy an entrenched position in the mass-market channels now being targeted by many natural/organic marketers, which may give them a leg up in this sector of the market.

- With the market for all-natural beef having grown to almost \$1 billion (*Cattle Buyers Weekly*, January 2006), Tyson Foods announced in January 2006 that it would add “natural” lines to both its Certified Angus Beef (CAB brand) and Star Ranch Natural Angus Beef lines.
- In January 2006, R.C. Bigelow introduced organic green tea and organic decaffeinated teas in 40-count packages. The teas are all-natural and kosher, and organic was the next step it needed to develop, explained South Pacific region manager Steve Goodwin (*Grocery Headquarters*, November 2005).
- In November 2005, Del Monte Foods Co., majority owned by H.J. Heinz, launched its first organic product—tomatoes—and the company is currently testing additional organic vegetable and fruit lines.
- In a launch whose initial target was natural and health foods retailers, Ocean Spray Cranberries introduced in fall 2005 Organic 100 Percent Juice Blends in Cranberry, Cranberry Blueberry, and Cranberry Raspberry flavors. Ocean Spray also weighed in with a new all-natural line that includes Ocean Spray 100 Percent Pure Unsweetened Cranberry Juice.
- In fall 2005, Campbell Soup Co. introduced Prego Organic pasta sauce, following category leader Unilever’s Ragu brand, along with organic versions of Pace salsas and V8 beverages. Campbell Soup entered the organics arena with its August 2003 introductions of organic broth and tomato juice under the Swanson and Campbell brands, respectively.
- Also in fall 2005, ConAgra brought out certified-organic versions of Hunt’s canned tomatoes and Orville Redenbacher popcorn. The vine-ripened tomatoes are processed without artificial ingredients and preservatives, while the butter-flavored popcorn is grown without pesticides or genetically modified ingredients.



- In April 2005, more competition for Celestial Seasonings came from Jones Soda Co., which entered the organic foods market with a line of organic teas called Jones Organics.

***J&J, Coty Target Natural Personal Care***

The market for natural personal care products is growing at better than 15% annually and is projected to be worth \$3 billion in 2007. Accordingly, in January 2006 Johnson & Johnson Consumer Products Co. unveiled a five-item line of natural baby care products called Johnson's Soothing Naturals. J&J expects the products to appeal to adult users as well. Retailing at \$3.99 to \$4.99, the items are also touted as more affordable than specialty products. In 2005, Coty Beauty's Healing Garden brand introduced Organics Wild Honey, which is touted as the first organic bath and body products designed for the mass market.

## The Foodservice Side

### A Heavy Emphasis on Flavor, Origins

With major chains like Starbucks and Chipotle Mexican Grill signing on, the foodservice sector is leading the natural/organic thrust in a number of significant ways. As noted, one of the most promising sectors in the market—natural meat—is currently experiencing explosive growth, and this growth is being driven in large part by activity on the foodservice side. There are also signs that the foodservice sector may be ahead of the curve in terms of emphasizing the superior flavor of organic foods over their mainstream counterparts as an increasingly important selling point among consumers, pushing beyond the usual emphases on safety and health. Organics' early ties to the ethical treatment of animals, growers, and the land they farm can also be seen in restaurants' growing involvement with fair-trade products, and this may be a bellwether to a return to organics' early underlying principles, which have in some cases been compromised on the grocery side due to "corporatization" and which may be increasingly important in attracting and keeping organic consumers in the years ahead.

### Niman Ranch Banking on Better Tasting Pork

One producer/marketer that has found tremendous success on the foodservice side is Niman Ranch, whose success is attributed both to the superior taste of its meat and to its farming methods. Indeed, Steve Ells, a former chef who is chairman and chief executive officer of the Chipotle Mexican Grill chain, told the *Chicago Tribune* (September 18, 2005) he decided to go with Niman Ranch as his pork supplier once he saw how pigs were raised on a farm used by Niman compared to a factory farm; Chipotle restaurants even post signs to make customers aware that they serve naturally raised pork and chicken. Similarly impressed with Niman's farming practices, Andrew Meek, who owns a restaurant in Windsor Heights, Iowa that serves Niman pork, commented, "As I've developed more knowledge about owning my own business and being independent, I've found it very important to support local farmers and the whole integrity behind Niman Ranch. It's all about supporting the local economy."

According to Larry Cleverly, who grows organic produce near Mingo, Iowa and sells it to restaurants, and who has used his contacts to bring Niman Ranch pork into several Iowa restaurants, the other obvious benefit to these farming practices is superior taste. As Cleverly told the *Des Moines Business Record* (July 25, 2005), “[Niman Ranch pork] tastes the way pork used to taste because it’s raised the way pork used to be raised. There’s nothing new or revolutionary about that. It’s letting pigs be pigs.” On the other hand, Cleverly believes that most shoppers in today’s mainstream supermarkets, which have been a tougher sell for Niman, “don’t know what real food tastes like. They don’t remember what good pork tasted like in the 1950s because we’ve gotten further and further removed from our food.”

### **Bell & Evans Chicken Also Touted as Tastier**

Also supplying Chipotle Mexican Grill is Farmers Pride, which ranks as the leading marketer in the burgeoning natural chicken industry, according to *The Philadelphia Inquirer* (August 5, 2005). With estimated sales of \$150 million, the company’s venerable Bell & Evans brand name dates back to the 1890s, and since 1985 it has been owned by Scott Sechler, who purchased the brand after acquiring a poultry processing plant in Fredericksburg, Pennsylvania. Fredericksburg could bill itself as the capital of the natural poultry industry; both of Bell & Evans’ chief competitors—BC Natural Chicken (part of BC Natural Foods since 2003) and College Hill Poultry (in which Hain Celestial Group acquired a controlling interest in June 2005)—also have plants there.

The demand for natural and organic meat is reportedly growing by 20%-25% per year, and for Farmers Pride as for Niman Ranch much of this demand is coming from restaurants. In addition to Chipotle Mexican Grill, Farmers Pride counts among its largest customers the Panera Bread chain of franchised restaurants, as well as Whole Foods Market, for which foodservice is a key growth area. To Bell & Evans’ credit, when Panera chose Bell & Evans as its chicken brand, it was not looking specifically for a natural chicken—just a better tasting one—product development director John Taylor told *The Philadelphia Inquirer*. Moreover, in a May 2005 conference call Panera chief executive officer Ron Shaich reported that his company’s new antibiotic-free chicken “has succeeded well beyond our expectations,” even though the company was paying 50% more than it used to pay for conventional chicken.

As a result of its success on the foodservice side, Farmers Pride has been experiencing some growing pains. Despite having just completed a \$30 million expansion and upgrading of its plant in spring 2005, the company found itself unable to keep up with the surging demand. Accordingly, Farmers Pride is working on plans to boost capacity by 50%—to 300,000 chickens per day—and possibly to build a second plant. To this end, the company had added 20 farms to its network as late 2005.

### **Green Mountain Coffee's Foodservice Success**

Similarly, much of the recent growth of Green Mountain Coffee Roasters (GMCR) has come from providing premium coffee—including certified organic, Fair-Trade-certified, single-origin (promoting individual coffee-growing regions), and estates varieties—to restaurants, convenience stores, and office distributors. In business since 1981, the Waterbury, Vermont-based marketer became a hot stock in 2005, with net sales rising 17.5% to \$161.5 million. GMCR supplies coffee both under its own name and co-branded with the Newman's Own Organics label.

Since 2004, GMCR has been launching co-branded ice cream/coffeehouse outlets with Burlington, Vermont-based Ben & Jerry's. All of the stores have signs stating, "Ben & Jerry's proudly serves Fair Trade and organic coffee from our neighbor Green Mountain Coffee." Ben & Jerry's had 325 outlets at the time of the agreement, all but 14 of them franchised, and the ice cream company's goal was to have 1,000 co-branded outlets in operation by 2008. Green Mountain Coffee Roasters has its own separate counter in the units, and a second tier of partly co-branded outlets in smaller markets features Green Mountain coffee served at a shared counter or at a self-service kiosk.

Bruegger's Enterprises, Inc., also based in Burlington, Vermont, began offering GMCR brand coffee at its 242 quick-casual food outlets in October 2004. The choice of GMCR over two other competitors hinged both on consumer taste preferences and on the supplier's Fair Trade certification. GMCR's sales growth in supermarkets has also come from its Fair Trade and organic lines, including the co-branded Newman's Own Organics.

## McDonald's Picks Newman's Own Organics Coffee

In October 2005, GMCR signed an agreement with McDonald's to supply Newman's Own Organics coffee to 650 Mickey D eateries in New England. McDonald's is seeking to capture part of the growing gourmet coffee market—reportedly the fastest growing within fast food—and to compete better with Dunkin' Donuts in the latter's regional stronghold, where it has some 2,000 outlets, as well as with Starbucks.

GMCR scored another foodservice coup in 2005 when Rockland, Massachusetts-based Tedeschi Food Shops, Inc. began offering customers freshly brewed Green Mountain coffee in many of the 214 locations operating under the Tedeschi Food Shops, Li'l Peach, or Store 24 names in Rhode Island, Massachusetts, Connecticut, and New Hampshire. GMCR also concluded a new, exclusive long-term agreement with ExxonMobil in January 2005 to supply specialty coffees to more than 1,100 ExxonMobil company-operated locations and On the Run franchises in the United States. The original agreement was signed in 2000.

GMCR's success in restaurants and convenience stores suggests once again that consumers are more receptive than they are sometimes credited with being to selling points for natural/organic foods and beverages beyond the narrowly health-related. Besides better taste and more ethical animal husbandry, these points include providing opportunities for workers in other countries to earn a respectable living. Each year, GMCR contributes at least 5% of its pre-tax profits to support socially responsible initiatives, and the company has appeared for five straight years on *Forbes* magazine's list of 200 Best Small Companies; figured in the top 10 of *Business Ethics* magazine's list of 100 Best Corporate Citizens for two years running; and was one of the Society of Human Resource Management's Best Medium Companies to Work For in America during 2004.

## Chapter 5 Highlights

- Use of “Organic” on new food and beverage products increased by a factor of 2.6 between 1996 and 2005, when it appeared 672 times.
- The three package tags that most often accompany Organic are Upscale, Natural, and Single-Serving.
- Kids are an important audience for many product categories, but they are particularly important to marketers of natural/organic foods.
- Besides the concern for a healthy diet, convenience is the other mega trend influencing organic product introductions.
- Also overlapping with natural/organics, under the “health” umbrella, are functional foods.
- Marketers of natural and organic foods continue to capitalize on the whole-grain trend.
- Fair Trade certification is another key trend, especially with coffee, tea, and chocolate.
- Restaurants have been quicker to accept natural/organic meat than mainstream supermarkets.
- Major food/beverage marketers continue to add organic varieties under well-known brand names.

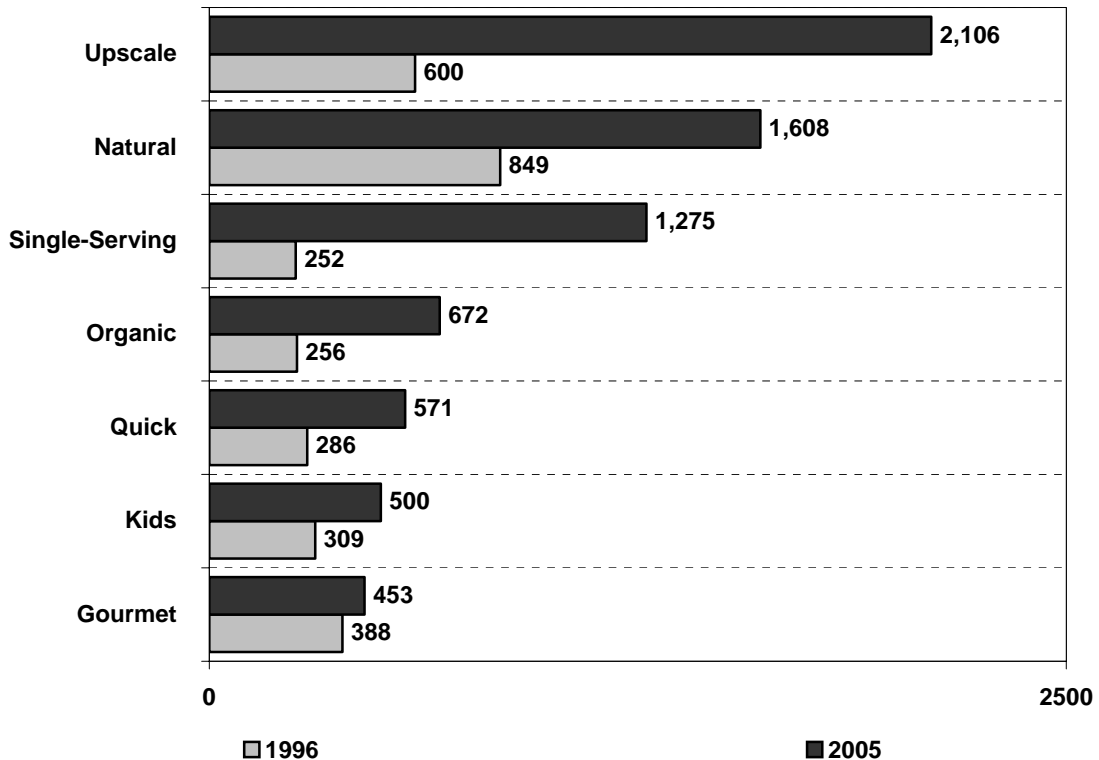
## Chapter 5: New Product Trends in Natural/Organics

### Rapid Growth in Food and Beverage Introductions

The number of new food and beverage products introduced annually more than doubled between 1996 and 2005, reaching 19,544, according to Datamonitor's Productscan Online, 2006 data. (This figure represents the number of new product reports from marketers, not the number of new stock-keeping units, or SKUs, which would be considerably higher.) “Natural” has been one of the two most frequently used package tags on new products during this period, second only to “Upscale.” The popularity of both these terms with marketers stems from the fact that they have good connotations for consumers but no fixed meaning by which marketers must be bound. [Figure 5-1]

**Figure 5-1**

**Top Package Tags on Food & Beverage New Product Introductions, 1996 vs. 2005**



Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

The frequency with which Upscale has appeared on food and beverage introductions has outpaced the growth in introductions overall. The term's 2005 total of 2,106 appearances was 3.5 times higher than its 1996 total. Use of Natural has not quite kept pace with the rise in introductions—its 2005 total of 1,608 appearances was 1.9 times higher than the 1996 tally—but the term is also closely related to many other package tags, including No Artificial Colors/Flavors/Ingredients/Sweeteners, No Preservatives, No Additives, No Chemicals, and, of course, Organic. [Table 5-1]

**Table 5-1**

**Food & Beverage New Product Selling Points by Selected Package Tags, 1996, 2001-2005**

Package Tags	1996	2001	2002	2003	2004	2005
Upscale .....	600	695	905	1,589	1,568	2,106
Natural .....	849	1,063	1,245	1,380	1,364	1,608
Single-Serving .....	252	782	1,119	1,127	1,111	1,275
Organic .....	256	378	443	559	533	672
Quick .....	286	377	443	521	511	571
Kids .....	309	479	539	585	511	500
Gourmet .....	388	417	420	473	507	453
Low Fat .....	676	362	400	441	445	450
Low Calories .....	219	133	185	227	350	405
Microwavable .....	245	244	323	323	326	332
Low Carbohydrates .....	-	82	100	183	867	310
Low Sugar .....	103	94	124	184	285	266
<b>Total Number of Reports .....</b>	<b>8,678</b>	<b>11,149</b>	<b>13,769</b>	<b>16,374</b>	<b>17,922</b>	<b>19,544</b>

Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

## Growth of Organic Intros Outpaces Market

Use of Organic as a package tag on new food and beverage products increased by a factor of 2.6 between 1996 and 2005, when it appeared 672 times. Despite the presence of strict standards regulating its use, Organic has become the fourth most popular new product package tag. New organic entries represented 3.4% of food and beverage new product reports in 2005, and their share of new SKUs may well have been higher. The number of



organic food and beverage SKUs introduced annually more than doubled just between 2001 and 2005 and increased over 1996 by a factor of 3.6.

“Single-Serving,” the third most popular package tag for new products, has seen the sharpest growth of all, increasing in use more than five-fold between 1996 and 2005 (1,275 appearances). Its growth reflects the strength of the convenience and eating-on-the-go trends. [Tables 5-1, 5-2]

### **Organic Linked to Weight, Heart Health Concerns**

Which trends, apart from organic itself, are marketers of organic foods and beverages addressing most? Focusing exclusively on new organic product reports, and excluding tags integral to the organic designation (No Preservatives, No Genetic Modification, Pure, No Pesticides, No Artificial Color, No Artificial Flavor, and No Chemicals), reveals that the three package tags that most often accompany Organic are, not surprisingly, the three most common on food and beverage introductions overall—Upscale, Natural, and Single-Serving. [Table 5-2]

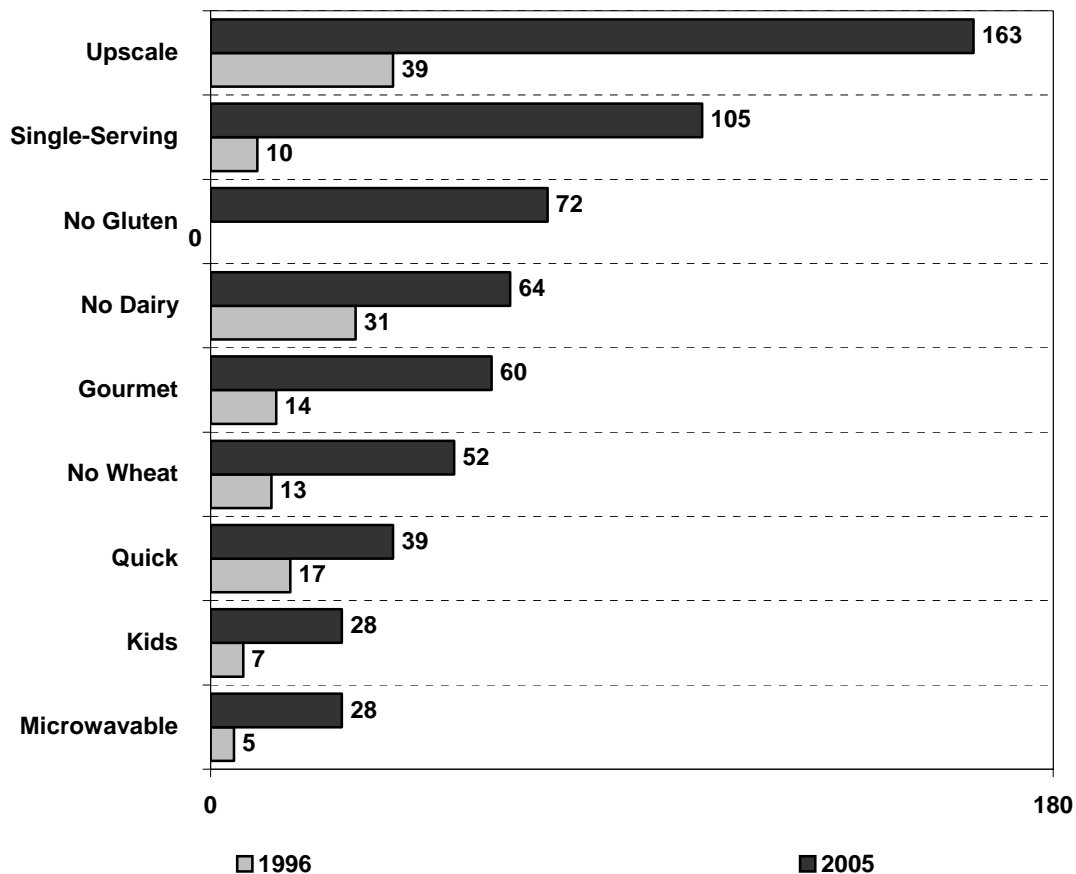
The package tags next most closely associated with Organic relate to weight management and heart health (No Trans Fat, Low Fat, Low Sugar, No Cholesterol), nutritional value (High Fiber, High Vitamins, High Antioxidants, High Omega-3), or dietary restrictions (No Gluten, No Dairy, Vegan, No Wheat, Low Calories, Low Carbohydrates). Note the sharp increase in use of the High Antioxidants tag, from 1 appearance in 2003 to 52 in 2005.

### ***Use of Other Accompanying Health-Related Tags Rises Sharply***

Other diet- and health-related tags whose use on organic introductions rose sharply from 1996 to 2005 include No Wheat (from 13 appearances to 52), Low Sodium (28 to 40), Low Sugar (16 to 67), Low Calories (9 to 40), High Fiber (17 to 77), and High Omega-3 (1 to 41). Use of the No Trans Fat tag, which also has increased sharply, partly reflects the fact that marketers have been anticipating when declaring trans fat content would become mandatory. [Figure 5-2; Table 5-2]

Figure 5-2

**Selected High-Growth Package Tags on Organic Food & Beverage  
New Product Introductions, 1996 vs. 2005**



Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

Products tagged either Low Sugar or No Sugar represented 14% of organic food and beverage new product reports in 2005. On organic introductions, the Low Sugar tag appears more than twice as often as the No Sugar one (67 versus 26 in 2005), and its growth has been more consistent (dating from 2002) and more pronounced. [Figure 5-2; Table 5-2]

### Private Label Growth

The Private Label tag—absent from organic new product reports throughout the late 1990s—surfaced in 2001 and has continued to appear ever since, though its tally has fluctuated. It reflects mostly the commitment to the market of mainstream supermarkets that have created

natural/organic brands. During 2005, the number of products tagged Private Label jumped to 41, up from just 12 the year before but down somewhat from 52 in 2003.

Table 5-2

**Use of Selected Package Tags  
on New Food and Beverage Products Tagged "Organic": 1996, 2001-2005**

Package Tags	1996	2001	2002	2003	2004	2005
Natural .....	100	183	243	243	240	320
Upscale .....	39	45	71	148	164	163
Single-Serving .....	10	60	83	92	88	105
No Trans Fat .....	-	1	4	33	62	102
High Protein .....	7	44	41	74	67	86
Low Fat .....	60	63	69	78	69	86
High Fiber .....	17	42	47	50	54	77
High Vitamins .....	8	41	57	68	67	73
No Gluten .....	-	23	30	54	66	72
Low Sugar .....	16	17	14	32	46	67
No Dairy .....	31	40	53	57	55	64
Vegan .....	-	21	28	48	52	63
Gourmet .....	14	29	39	46	57	60
No Cholesterol .....	41	41	63	74	60	54
No Wheat .....	13	17	30	28	29	52
High Antioxidants .....	-	-	1	1	14	52
High Omega-3 .....	1	18	14	21	30	41
Private Label .....	-	4	23	52	16	41
Low Calories .....	9	11	11	15	28	40
Low Sodium .....	28	13	27	21	27	40
Quick .....	17	26	31	41	39	39
Low Carbohydrates .....	-	4	1	22	51	38
Kids .....	7	13	18	27	24	28
Microwavable .....	5	15	23	21	23	28
<b>Total Number of SKUs .....</b>	<b>1,070</b>	<b>1,877</b>	<b>2,489</b>	<b>3,082</b>	<b>3,313</b>	<b>3,894</b>

Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

## Other Tags Link Organic to Gourmet, Kids, and Convenience

Other high-growth package tags link organic products with the gourmet and convenience trends, as well as with foods and beverages for kids. In addition to the sharp rise in products tagged Upscale, as noted above, those carrying the Gourmet package tag peaked at 60 in 2005, up from just 14 in 1996 and 29 in 2001. Convenience-related tags including Quick, Microwavable, and Single-Serving also increased in frequency, with Single-Serving growing more than ten-fold from 1996 to 2005, from 10 to 105. During that same period, “Quick” more than doubled, from 17 to 39, while “Microwaveable” increased more than five-fold, from 5 to 28. Meanwhile, the number of organic products also tagged Kids went from 7 in 1996 to 28 in 2005. [Figure 5-2; Table 5-2]

## Organic Products Acquire Gourmet Cachet

The package tags accompanying new organic food and beverage products show that their marketers are tying into as many food trends as possible—with health and convenience as the overarching ones—to continue broadening the consumer base. Supporting this effort, marketers also have been improving the quality of organic products overall, which is pushing many of the products in gourmet directions.

As *Candy Industry* (December 2004) noted, “The quality of organic products has significantly improved, thanks to better quality ingredients and wider sources of supply.” As a result, “Organic products are being associated with gourmet products [a matter of consumer perception if not also of marketer package tagging], a reputation long held in Europe.” This association gives organic products the best of both worlds, adding superior taste to an established healthful image.

Moreover, according to *Candy Industry*, the gourmet association is well founded. “Consumers’ fascination with artisanal products, with their emphasis on small batches and quality ingredients, also fits organic product profiles. These products are often made by small companies who must rely upon their reputation for survival.”

## Kids and the Organic Future

Kids are an important audience for many product categories, but they are particularly important to marketers of natural/organic foods and beverages, who want to broaden the base of dedicated consumers and reach beyond today. Like marketers of other kid-oriented products, they do this in part by appealing to parents, in this case playing to the latter's desire to impart lifelong healthy eating habits to their children. Another incentive for marketers is the likelihood that the price premium for organics will prove less of a factor with parents buying for young children.

### *Hain Celestial Focuses on Infants and Toddlers*

The importance of capturing consumers early is reflected in the recent product introductions of the Hain Celestial Group, which fields many diverse brands and is the natural/organic market's largest marketer. Hain has been concentrating on its baby food and toddler brand, Earth's Best Organic, with the latest introduction being an organic infant formula. The milk-based powder is patterned after breast milk for easy digestion and provides vitamins, minerals, and healthy fats. The formula is also free of antibiotics, genetically engineered ingredients, and artificial flavors, colors, and preservatives. Hain Celestial president and chief executive officer Irwin Simon commented, "Our Earth's Best brand now offers a broad product line to start babies on an organic path."

Other recent introductions in the Earth's Best Organic brand include My First Soups, for children 9 months or older, which provide 4g of protein and are free of artificial flavors, colors, or preservatives. Varieties include Country Vegetable Chicken, Split Pea & Carrot, Butternut Squash & Apple Bisque, and Sweet Potato Cinnamon Bisque. The soups are packaged in resealable jars to retail at \$1.09.

Also new for toddlers (October 2005) from Earth's Best are Organic Crunchin' Grahams, touted as an excellent source of iron, zinc, and six B vitamins. Offered in Honey Sticks and Apple Cinnamon Sticks varieties, the crackers are also low in fat and free of trans fat, artificial flavors, colors, or preservatives. Boxes feature the Sesame Street Healthy Habits for Life emblem.

***Raising Kids Organically***

Other marketers as well are working to rear the next generation on organic foods and beverages. For example, Organic Juice USA has introduced Elite Naturel Bambini 100% Organic Juice from Japan for infants over four months and toddlers. The juice comes in two blends called, respectively, Pink (apple, pear, banana) and Blue (grape, pomegranate, apple). A six-pack of 8-oz. bottles retails for \$16.74, a 24-pack for \$66.96.

For toddlers, Clement Pappas & Co. is offering Grown Right 100% Organic Juice in apple and pear varieties. Low in sodium and sugar, the juices are sold in 33.8-oz. resealable plastic bottles.

For school-age kids, Apple & Eve has announced a line of calcium-fortified Organics (aseptic) juice boxes in Apple, Fruit Punch, and Grape varieties. A three-pack of 6.75-oz. boxes retails from \$1.19 to \$1.39. To promote the launch, the marketer offered retailer programs on the theme, Grow Your Kids Organically.

Energy bar specialist Clif Bar contributes the Clif Kids Organic Zbar, formulated to provide the “right combination of protein, carbohydrates, fiber, and 12 vitamins and minerals” (including potassium) to fuel kids’ growing, active bodies. Flavors include Peanut Butter, Chocolate Brownie, and Caramel Apple. A six-count box retails for \$3.99.

Stonyfield Farm/Group Danone has added Orange Strawberry Banana Wave and Surfin’ Strawberry varieties to its kids’ line of refrigerated smoothies made with juice and organic low-fat yogurt. The drinks are high in calcium, protein, fiber, and vitamins (including 100% DV of vitamin C) and also contain six live active cultures and inulin. The smoothies are presented in a four-pack of 6-oz. single-serving plastic bottles.

***Cereals Prominent in Kids’ Intros***

Not surprisingly, a good number of new natural/organic products for kids come from the cereal category. Barbara’s Bakery/Weetabix says its new Cocoa Organic Wild Puffs cereal was formulated to overcome kids’ resistance to healthy cereals. The wheat-free, crunchy, chocolaty little balls of corn and oats reportedly provide a satisfying crunch. The cereal also qualifies as a good source of 11 essential vitamins and minerals, is low in fat, dairy-free, and

also free of refined white sugar, hydrogenated oil, artificial additives, colors, or preservatives. A portion of the proceeds from sales helps support the National Wildlife Refuge Association.

Kashi Co./Kellogg has teamed with pediatrician Dr. William Sears to create Mighty Bites, an all-natural, whole-grain cereal that includes a number of “kid-crucial” nutrients, such as choline for brain development. It also contains 3g of dietary fiber and 5g of protein per serving. Available in Honey Crunch or Cinnamon flavors, the cereal retails at \$3.29-\$3.39 for a 10.4-oz. box.

Cascadian Farm/General Mills avails itself of a licensed character for Clifford Crunch, a certified organic cereal made with whole-grain oats “specifically designed to meet kids’ nutritional needs.” The package features Scholastic Publishing’s Clifford the Big Red Dog character. The cereal provides 5g of dietary fiber and only 6g of sugar per serving, and rates as a good source of vitamins E and D and calcium. Suggested retail for a 13.75-oz. box ranges from \$3.99 to \$4.24.

### ***Healthy Snacks for Kids***

Annie’s Homegrown/Homegrown Naturals/Solera Capital has introduced rabbit-shaped graham cracker snacks made from organic wheat flour and organic cane sugar. Fortified with calcium, free of trans and saturated fats, and containing no refined sugar, Bunny Grahams come in honey, cinnamon, and chocolate flavors. A 7.5-oz. box retails for \$2.99.

Another healthy snack entry for kids is Organic Valley Family of Farms’ Stringles Organic Cheese Sticks in Colby Jack, mozzarella, and cheddar varieties. Pictured on every package (8 sticks for \$4.49) is Ovie the earthworm, whose job is to help kids learn more about where food comes from, including the healthy soil, plants, and animals on an organic farm. Ovie also promotes the Organic Valley Kids Club at [www.organicvalley.coop](http://www.organicvalley.coop).

A line whose packaging is tagged “Kids,” though the products will appeal to older consumers as well, is Alexia Foods’ frozen potato side dishes. The line includes all-natural waffle-cut fries and julienne garlic fries as well as certified organic hash browns. The fries have no trans fat, and the waffle variety is also gluten-free and kosher. The hash browns are fat-free.

## **Convenience Remains Essential**

Besides the concern for a healthy diet, convenience is the other mega trend influencing organic product introductions. Marketers are concerned that new organic foods and beverages be as convenient to use as conventional products—particularly because consumers have to pay more for them, anyway. Thus, recent introductions include microwave-ready organic baby food, organic cereals, organic burgers on a roll, organic gourmet meals, and natural/organic gourmet and ethnic soups.

Golden Gate Brands offers Loving Spoonfuls baby food, made using only spring water and organic fruits and vegetables. Varieties include apples, carrots, peas, peaches, pears, and green beans. Each \$2.99 package contains two 4-oz. microwave-safe serving cups.

Dr. McDougall's Right Foods serves organic, multigrain, non-dairy, microwaveable hot cereals in a big cup size. Varieties include Organic Maple 4 Grain with Real Maple, Organic Apple Cinnamon Oatmeal & Wheat, Cranberry Muesli, and Peach Raspberry Oatmeal & Barley. The suggested retail price is \$1.99.

To Go's Organic Sunshine Burger on a Roll, from Sunshine Burger, is a frozen, pre-baked, meatless burger on a whole grain roll that is "ready to go when you are." The microwave-ready product is wheat- and dairy-free, vegan, and packed in a one-count box to retail at \$2.99.

Fairfield Farm Kitchens has extended its Organic Classics line of frozen, microwave-ready meals with Jamaican Style Jerk Chicken with Wehani Rice, Lemon Chicken Piccata with Wehani Rice, and Chicken Spinach Alfredo. The dishes are said to be low in calories, fat, cholesterol, and saturated fat, as well as free of chemicals, pesticides, and trans fat.

Eden Foods is offering a line of canned heat-and-serve Organic Rice & Beans entrees that pairs Lundberg short-grain brown rice with Caribbean black beans, garbanzo beans, kidney beans, green lentils, pinto beans, and small red beans—all reportedly grown on U.S. family farms. Each low-fat, low-sodium, saturated-fat-free entrée rates as a good source of magnesium and provides 8%-16% DV of dietary fiber per serving. A 15-oz. can retails for \$1.89.



***From the Soup Kitchen***

Spice Hunter has readied a line of quick-to-prepare all-natural soups with organic ingredients. The bowl-sized soups, free of trans fats, come in sealed cardboard cups and retail for \$1.79 and \$1.99. Varieties include Beef Barley, Beef Tagliatelle, Hot & Sour Udon, Miso Udon, Potato Leek, and White Bean & Ham.

Kettle Cuisine is offering all-natural and organic refrigerated soups in microwave-ready, single-serving (10-oz.) cups as a “fresh and natural ‘Grab & Go’ meal.” Varieties include Lobster Bisque, Angus Steak Chili, Chicken Tortilla, and Organic Garden Vegetable. Also offered are Soups of the Season, including Butternut Squash & Apple and Turkey Wild Rice & Cranberry, for fall; Hungarian Mushroom and Chicken & Dumpling for winter; Green Pea with Lemon and Herbs and White Chicken Chili & Cilantro for spring; and Gazpacho and Caribbean Mango for summer.

Mollie’s Natural Kitchen has added new varieties of natural/organic refrigerated soups in reusable, resealable 12-oz. and 24-oz. heat-and-serve containers. The mostly ethnic varieties include Tortilla Azteca, Enchanted Broccoli Forest, Cashew Carrot Ginger, Cuban Black Bean, Prima Minestrone, Moroccan Red Lentil, Hungarian Mushroom, and Russian Cabbage Borscht.

***Healthier Image for Frozen Meals***

The healthy connotation of the terms “natural” and “organic” is a potential boon to frozen meals and side dishes, which have at times been charged with sacrificing quality and nutritional value to convenience. Recent introductions in this category have been numerous.

JMG Natural Foods has introduced frozen Premium Organic Cuisine Chili under the Mimi’s Gourmet brand. The vegetarian chili, certified organic and kosher, contains no gluten, pesticides, preservatives, artificial colors, flavors or additives, trans fat, or GMOs. Presented in 10.5-oz. boxes, varieties include Black Bean & Corn, White Bean & Jalapeno, and Three-Bean with Rice.

Sunrich Naturals/Stake Technology is offering frozen Organic Edamame and frozen Fiesta Blend, featuring corn, edamame, and red pepper. The products are said to be high in protein, low in carbohydrates, free of GMOs, heart-healthy, and kosher.

Celentano Food Products/Rosina Food Products has extended its vegetarian frozen pasta line with Organic Tortellini and Organic Ravioli, both stuffed with organic soy and herbs but without sauce. The vegan, non-dairy products are also low in fat and free of cholesterol.

New 100% Certified Organic Frozen Pasta from Caesar's can be ready to serve in minutes after heating in boiling water. Varieties include Ricotta Gnocchi and Cavatelli.

### **Non-Allergenic Products—Healthy and Safe**

Still another health-oriented trend that overlaps with natural/organics is non-allergenic—eliminating ingredients that can cause serious adverse reactions in certain people, such as gluten and dairy. This approach seems a natural extension for organic foods and beverages, which are characterized by the absence of ingredients such as pesticides, antibiotics, growth hormones, and genetically modified organisms. The “natural” label, too, usually implies an absence of preservatives and artificial flavors or colors. In addition, many new organic foods and beverages are kosher.

Alvarado Street Bakery (October 2005) is offering an organic, low-glycemic bread for diabetics. Diabetic Lifestyles Bread is “made entirely with organic sprouted whole wheat and sweetened only with organic fruit,” and “contains no refined sugars, no added oil, and no flour.” The sliced bread in a plastic wrapper retails for \$1.99.

Naturally ME, Inc. has introduced a Natural Feast line of apple, blueberry, and chocolate mousse frozen pies that are touted as safe for those with food allergies or on special diets. Made with all-natural ingredients, the pies are free of trans fats, cholesterol, wheat, gluten, refined sugars, hydrogenated oils, corn, dairy, soy, artificial additives, or genetically engineered ingredients. They retail for \$1.99 and \$12.50.

**Saying No to Gluten**

Arico Natural Foods states its case plainly with Arico Gluten-Free Casein-Free Cookie Bars, which are made with organic brown rice and eggs. In Almond Cranberry, Double Chocolate, Peanut Butter, and Chocolate Chip varieties, the cookie bars are reportedly high in calcium, fiber, and protein, and contain no trans fat, preservatives, or artificial colors or flavors.

Simon Candy Co. has introduced College Farm Organic Naturepops, “made with only real fruit flavors and natural colors—nothing artificial.” The pops are also free of gluten, nuts, dairy, soy, and eggs, and contain only 60 calories and 14g of sugar each. They are sold in 18-count stand-up recycled paper bags.

Potent Food’s new Organic Maca Bar contains 5000mg of organic Maca and is fortified with rice protein and omega-3-rich flax. Certified organic, kosher, and vegan, the bars are free of various substances that would reduce their audience: wheat, gluten, dairy, soy, peanuts, corn, yeast, cholesterol, and trans fat. Varieties include Organic Maple Chunk Fudge, Organic White Chocolate Chunk Fudge, and Organic Cherry Chunk Fudge.

**Organics Gets Boost from Functional Foods**

Another trend that overlaps with natural/organics, under the “health” umbrella, is functional foods—foods formulated to deliver a certain benefit, usually energy in the case of new organic foods and beverages. Because non-organic functional foods are often pricey themselves, the price premium for organic varieties is less apparent than it would be otherwise.

Addressing three trends simultaneously, Organic Juice USA is offering an organic energy juice for children called Elite Naturel Bionix 100% Organic Health & Energy Source. The lone variety, Fruits/Ginseng & Honey, blends pomegranate, grape, apple, and pear juice with banana, coconut and ginseng root extract, and honey. A six-pack of 8-oz. glass bottles retails for \$19.14, a 24-pack for \$76.56.

The functional food and convenience trends converge in new meal replacement products featuring organic ingredients. Nutritional Institute (September 2005) targets college students with Student Formula “Just Shake It” Whole Food Protein Drink Mix. The Beyond Berry

mix is made with organic berries. Combining half a scoop with water produces a “nutrient-dense energy smoothie,” and two scoops and water can serve as a complete meal. The suggested retail price is \$29.95 for an 11.2-oz. canister.

Another entry in the Student Formula line is “Mama Would Be Proud” Super Green Food Plus Energy Drink Mix. The all-natural Green Latte variety blends chlorella and spirulina (possessing detoxification properties) with organic vegetables, vitamins, enzymes, chlorophyll, antioxidants, trace minerals, flavonoids, and more. The product boasts a multitude of health benefits.

### ***Organic Energy Bars and Drinks Form Subtrend***

Organic energy bar and energy drink introductions constitute a subtrend in themselves. For example, Living Fuel offers a “snack fuel bar” made from unprocessed organic chia seeds, which reportedly give energy, and from organic raw coconut, said to support heart health and normal cholesterol. The Living Fuel Rx CocoChia Ultimate Snack Fuel Bar is billed as high in fiber and omega-3 fatty acids, low-glycemic, and free of gluten, trans fat, and genetic modification. Varieties include Original, Super Sea Greens, Super Berry, and Double Chocolate. A 12-count box retails for \$29.97.

Jay Robb Enterprises (November 2005) claims a first with its Yammit Almond Energy Bar, “the world’s first sweet-potato-enhanced energy bar.” Made with organic almonds, figs, dates, raisins, agave syrup, and Yammit nuggets, the bar is high in calcium, carbohydrates, fiber, iron, protein, and vitamins, and free of gluten, dairy, hydrogenated oils, artificial sweeteners, casein, glycerin, maltitol, acesulfame-K, and aspartame.

NuGo Nutrition (March 2006) has extended its NuGo Organic Nutrition Bar line with a Dark Chocolate Raspberry variety. The bar provides 10g of soy protein, qualifies as high in vitamins and minerals, and has no trans fats or genetically modified ingredients.

### ***Organic Functional Foods Specialist***

Clif Bar has taken advantage of its established position in energy bars and drinks to bring out a number of new products. The marketer has added new cookie flavors to its Luna energy bar line for women, including Peanut Butter Cookie, Cookies ‘n Cream Delight, and Iced

Oatmeal Raisin (made with organic whole raisins). Luna bars are said to be high in soy protein, calcium, vitamins, minerals, folic acid, antioxidants, and fiber, as well as free of trans fat and artificial sweeteners. Each bar also contains no more than 180 calories. The suggested retail is \$1.29.

A new Clif Shot Electrolyte Replacement Drink from Clif Bar is made with organic ingredients and is offered in Lemonade and Crisp Apple varieties, each with 50mg of caffeine. The drink, which comes in powder form, is further described as vegan-friendly and free of GMOs, pesticides, hormones and antibiotics. A single-serving packet retails for \$1.50, a 2-lb. plastic canister for \$21.99.

A Clif Shot Recovery Drink also features organic ingredients and is enhanced with whey protein. The varieties are French Vanilla and Mango Orange. The drink, also in powder form, is free of added hormones, caffeine, antibiotics, genetic modification, pesticides, and trans fat. A single-serving packet retails for \$1.50, a 2-lb. plastic canister for \$26.99.

### **Touring the World's Cuisines—Organically**

Marketers are also catering to American consumers' growing taste for ethnic or foreign dishes to help grow the market for natural and organic foods. Culinary Destinations has extended its line of frozen natural/organic hors d'oeuvres with Latin American, Asian, and Indian varieties. Latin American additions include Organic Vegetarian Empanadas, Organic Chicken & Tomato Empanadas, Natural Chicken & Leek Empanadas, and Natural Pork Empanadas. New Asian appetizers include Organic Vegetable Spring Rolls and Natural Thai Tofu Spring Rolls. Natural Vegetable Samosas (Indian) and Natural Crab Rangoons are also new to the marketer's itinerary.

Galeos has introduced new natural/organic varieties to its line of World's Best Miso Low Fat Dressing & Marinade, featuring Miso derived from organic soybeans. The "Original" Toasted Sesame Seed, Caesar, Dijonnaise, and Ginger Wasabi varieties are also said to be low in sugar, salt, and carbohydrates, to contain no artificial ingredients, wheat, eggs, vegetable gums, or MSG, and to be made with 100% pure sesame oil, rice vinegar, and garden-fresh herbs and spices. Retail prices for a 13-oz. glass bottle range from \$3.49 to \$4.99.

In January 2006, Hain Celestial Group's Garden of Eatin' brand added an Asian Spice flavor to its all-natural Pita Chips line. Made with organic wheat flour, the chips have no trans fat, no genetically engineered ingredients, no artificial flavors, colors, or preservatives, and are certified kosher. A 6-oz. bag retails for \$2.99.

## Cultivating Dairy

As the second most important department for natural/organic products (after produce), dairy continues to draw its share of introductions. According to *Dairy Field* (September 2005), cultured milk products such as yogurt and kefir "could be dairy's next frontier in overall health and wellness." The publication advises marketers to "boost awareness of probiotics and find ways to leverage the better-known functional ingredients." Though the industry's "Got milk?" and "3-A-Day" campaigns remain important, "It's time to start working on a new message." Lending support to *Dairy Field's* contention is the report from Productscan Online's Tom Vierhile that "Yogurt/Kefir" is among the top five retail sales trends.

Stonyfield Farm/Group Danone, which helped popularize organic yogurt, has introduced Organic Banana Berry Smoothie Drinkable Lowfat Yogurt, touted as an excellent source of calcium and protein, and a good source of fiber, as well as containing six live active cultures and inulin. The drink is presented in a 10-oz. resealable plastic bottle.

Lifeway Foods, which is credited with popularizing kefir, a cultured milk drink, in the U.S. market, has recently added Greek Style Kefir, touted as an exceptionally tangy, rich and decadent whole-milk kefir. The beverage contains 10 types of "friendly," active probiotic cultures to promote a healthy immune and digestive system. Made with all-natural ingredients, Greek Style Kefir rates high in protein, calcium, and essential vitamins and minerals. The marketer has also introduced Lifeway Organic Whole Milk Kefir Cultured Milk in Plain, Strawberries n' Crème, and Wildberries flavors. The drink is high in calcium, protein, and vitamins, and also contains "live and active probiotic cultures." It comes in a 32-oz. plastic bottle.

In addition, Lifeway Foods has extended its Lifeway Kefir Cultured Milk Smoothie line with a Pomegranate variety. In addition to other health benefits, the product, which boasts 10 live and active cultures, "may also aid the immune and digestive systems, provide a good source

of both calcium and protein, and may even promote weight loss during a reduced calorie diet.”

### ***Organic Valley Grows Cheese Line***

Organic Valley Family of Farms, the nation’s largest cooperative of organic farms, has focused on expanding its cheese offering—for example, introducing what is said to be the first organic ricotta to have national distribution. Product specs include no trans fat, 3g of carbohydrates, and 6g of protein per serving. Suggested retail is \$4.49 for a 15-oz. tub.

The marketer has also introduced Organic Cheese Crumbles in Blue Cheese and Feta Cheese varieties, touted as rich in protein and calcium. The products are presented in 4-oz. plastic tubs to retail at \$4.49.

Finally, a Mexican Blend variety is new to Organic Valley’s Organic Fancy Shredded Cheese refrigerated line. The blend consists of sharp cheddar, mild Colby, and tart Monterey Jack. A 6-oz. resealable pouch retails for \$4.49.

Organic Valley and White Wave Foods/Dean Foods have both introduced cholesterol- and fat-free organic egg whites to compete with ConAgra’s successful, and non-organic, Egg Beaters. The Organic Valley entry, presented in a 1-lb. gable-top carton retailing at \$4.99, is also said to be high in protein, vitamins, and minerals. White Wave’s entry, marketed under license from sister company Horizon Organic Dairy and presented in a 1-lb. Tetra Pak carton, highlights its low-calorie content as well as its lack of fat and cholesterol.

Organic Valley is also offering what is said to be the first organic milk to be produced and bottled in Texas—Texas Pastures. Available in whole, reduced fat (2%), lowfat (1%), and nonfat varieties, the milk retails at \$3.29 per half gallon, \$4.99 per gallon.

### **Whole Grains Bring Healthier Image to Bread, Cereal, Pasta**

Marketers of natural and organic foods continue to capitalize on the whole-grain trend, which seeks to reverse the unhealthy image refined-grain products—and the categories they belong to—have acquired. Whole grains find favor as a source of those highly desirable heart-healthy properties—fiber and antioxidants—as well as of vitamins and minerals.

Eden Foods has extended its Eden Organic 100% Whole Grain Pasta line with Kamut Elbows, Kamut & Buckwheat Rigatoni, and Spelt & Buckwheat Gemelli. The pastas are high in fiber, proteins, vitamins, minerals (including iron, magnesium, and potassium), antioxidants, amino acids, and carbohydrates, while being free of sugar and sodium, and low in salt and fat. Suggested retail for a 1-lb. package is \$2.99.

Rudi's Organic Bakery/Charterhouse Group has added 14 Grain and Apple 'n Spice varieties to its line of whole-grain and high-fiber breads. The new varieties boast 4-5g of fiber and protein per serving.

Meanwhile, Her-Gee and Co. is offering whole-grain, gourmet, kosher Sibolim CrispBreads. Varieties include Organic Spelt, Rye, and Whole Wheat. The breads are further touted as high-fiber, low-glycemic, sugar-free, and without added fat.

In cereal, Barbara's Bakery/Weetabix has extended its Organic Whole Grain Cereal line with Crispy Flakes, which supplies 4g of fiber and 3g of protein per serving, and with Crispy Flakes & Fiber, providing 11g of fiber and 6g of protein. Both cereals are said to be good sources of vitamins and minerals and to be low in fat, and both carry the "Heart Healthy" emblem. The suggested retail price for a 12-oz. box ranges from \$3.99 to \$4.99.

Kashi/Kellogg's Kashi Organic Promise line adds a Cinnamon Harvest variety that combines organic whole wheat biscuits with organic cinnamon and "natural sweetness." The cereal is reportedly high in fiber, low in fat, and free of sodium.

### ***Trend Extends to Granola Bars, Baking Mixes***

Cascadian Farm/General Mills has supplemented its line of Organic Chewy Granola Bars with a Chocolate Chip variety. Free of trans fat, the bars are touted as good sources of whole grain, which supplies antioxidants, vitamins, minerals, and fiber.

The whole-grain trend extends to baking mixes as well. Goodbaker is offering Goodbaker Gourmet organic baking mixes, including Chocolate Cake and Cupcake Mix, and Pancake and Waffle Mix. The whole-wheat vegan cake mix is said to be high in protein and fiber and free of cholesterol, dairy, eggs, lactose, and trans fats. A 15-oz. bag retails for \$6.49. The Wheat-Free Multigrain Pancake and Waffle Mix blends three whole-grain organic flours



(spelt, buckwheat, soy) with organic oat bran and a touch of organic sweetener. A 16-oz. bag retails for \$5.49.

### ***Whole Grains and Weight Management***

The whole-grain trend also ties in with consumer awareness of the need to maintain a healthy weight, as well as with other health concerns. High-fiber foods help control weight, lower blood cholesterol, and reduce the risk of digestive diseases. In August 2005, Kellogg launched the Fiber Challenge to promote its fiber-rich cereals.

Cascadian Farm/General Mills addresses the weight issue with Great Measure, a premium cereal made from organic whole grains, vanilla, and honey, along with a touch of cinnamon. The crunchy oat cluster and wheat flake cereal contains 9g each of fiber and protein, is low in fat, and qualifies as an excellent source of calcium. An 11.25-oz. box retails for \$3.99.

### **Fair Trade Carries Clout in Coffee, Tea, and Chocolate Intros**

Fair Trade certification, which is intended to assure that people who grow and harvest organic crops in foreign countries are treated and paid fairly, is another trend that overlaps with natural/organics, especially with coffee, tea, and chocolate.

S&C Naturals is offering Rocamojo Wild Fairly Traded Certified Organic Coffee in Breakfast, Espresso, and French Roast blends. The coffee beans used, which are said to resemble red cherries before being picked, are purchased from Growers First, a fairly traded non-profit organization that reportedly assists farmers by getting them 100% of their monies for their coffee while helping their villages medically, economically, and spiritually. A 16-oz. bag retails for \$12.95.

Green Mountain Coffee Roasters addresses both the convenience and Fair Trade certification trends with organic introductions such as Heifer Hope Blend Coffee in a K-Cup, a patented design that holds a single serving of coffee or tea for insertion in a Keurig Single-Cup Brewer, which brews a cup in seconds. The marketer created the K-Cup in cooperation with Heifer International. Many of the beans for the blend come from the La Voz Cooperative in Guatemala. A 24-count box retails for \$13.95.

Green Mountain Coffee's new National Wildlife Blend Coffee, created in cooperation with the National Wildlife Federation, adds cause marketing to the trend mix. The Fair-Trade-certified organic coffee, from La Trinidad in Mexico, also comes in a 24-count box of K-Cups, to retail at \$13.95.

Globe Trends is distributing Taylors of Harrogate Ground Coffee in a Fair Trade Organic Medium Roast version. An 8-oz. foil bag retails from \$7.99 to \$8.49.

Ithaca Fine Chocolates, which claims to be the first Fair-Trade-certified chocolate company in the United States and to offer only organic and Fair-Trade-certified chocolate, has introduced 100% Organic Art Bars. Use of whole, unrefined cane sugar as a sweetener is said to give the bars an almost caramel richness. The varieties are Milk Chocolate, Milk Chocolate with Hazelnuts, Dark Chocolate, and Dark Chocolate with Coconut Flakes. The bars come in 45g and 100g sizes, either singly or in 24-count boxes.

### ***Tea Category Receptive to Innovation***

Herbal tea was among the first natural foods to enter the mainstream, and the tea category continues to be receptive to innovation by natural/organic marketers. The various selling points of natural/organic products, beginning with health, resonate with tea consumers, as can be seen in recent product introductions. Fifty percent of U.S. adults now drink specialty tea, and "Much of this growth can be traced directly to increased awareness of the health aspects of tea," reported Cecilia Atkinson, vice president of marketing for Celestial Seasonings/Hain Celestial Group (*The Gourmet Retailer*, March 2005).

Confirming the dramatic growth of specialty tea sales, marketing coordinator Autumn White of Choice Organic Teas/Granum, Inc. noted Fair Trade certification as another growth factor, and Numi Tea's Reem Rahim observed that tea drinkers are increasingly interested in organics and sustainability, as well as in estate and artisanal teas. Accordingly, Choice Organic Teas/Granum has introduced Choice Organic Fair Trade Certified White Tea, which is reportedly minimally processed so that no bruising of the leaf occurs. The tea is offered in both tea bag and loose-leaf versions.

Numi is offering Artisan Flowering Teas made from organically grown, hand-picked white tender tea buds, top two green tea leaves, and golden-tipped black tea. The leaves are hand-

sewn into bundles or rosettes that, when steeped in hot water, open slowly into a bouquet of shapes. Packaged in dark mahogany bamboo cases, varieties include White Tea in Starlight Rose, Lavender Dream, Flower Jewel, Green Tea in Emerald Sun, Jade Fortune, Black Tea in Midnight Peony, and Black Beauty. Each tea can reportedly be steeped three or four times without tasting bitter.

The Republic of Tea has collaborated with juice marketer POM Wonderful to create Pomegranate Green Tea, a blend of China green tea and POM Wonderful pomegranate juice. Made from all-natural ingredients and preservative-free, the tea comes in tins containing 50 unbleached tea bags for \$9 suggested retail.

The Republic of Tea is donating a percentage of sales from another of its introductions, organic Sip for the Cure Pink Lemonade Iced Green Tea, to the Susan G. Komen Breast Cancer Foundation. The product is available in teabags packed in a six-count Traveler's Tin (\$4.75-\$5.00 retail) and in a ready-to-drink variety in a 12-oz. bottle (\$1.99). Teabags are also offered in a 50-count container (\$10.00) and a 50-count refill (\$9.50).

### ***Bright Outlook for Dark Chocolate***

Now that dark chocolate has been given a good bill of health as a source of antioxidants, it has become even more valuable to natural/organic marketers, who are cultivating an appreciation for regional differences in the product as well as for unusual taste combinations.

Dagoba Organic Chocolate has introduced organic single-origin dark chocolate bars deriving from Pacuare, Costa Rica; Los Rios, Ecuador; and Milagros, Peru. The Peruvian chocolate is also Fair-Trade-certified. Each bar features 68% cocoa content dark chocolate. The chocolate is also available in squares and in bulk. Suggested retails are \$3.99 for a 2-oz. bar, 87¢ for a 9g "tasting" square.

Green & Black Ltd. (U.K.) has added an Organic Dark Chocolate Ginger Bar to its line of organic chocolate products. The bar contains 20% ginger and is over 99% organic. The only non-organic ingredient is soy lecithin, an emulsifier. A 3.5-oz. bar has a suggested retail of \$3.69.

The Sunspire Chocolate brand of nSpired Foods/American Capital Strategies is offering Organic Dark Chocolate Candies in Blueberries, Cranberries, Almonds, Raisins, and Coffee Beans varieties. The candies are sold in 1.2-oz. single-serve bags.

### **Meats: the Final Frontier**

Restaurants of all types have been quicker to accept natural/organic meat than mainstream supermarkets. One such operation, the Vancouver, Washington-based Burgerville chain, is, in fact, dedicated to serving locally produced and sustainable foods (Associated Press, October 12, 2005). Burgerville gets all of its hamburger meat—35,000-pounds-per-week's worth—from the Country Natural Beef cooperative, marketer of the Oregon Country Beef brand.

Partly through the enterprise of restaurants, the public is acquiring a taste for natural/organic meats. The market for natural/organic beef, for example, is estimated to be growing at 20% annually, though overall beef production in 2005 (24.6 billion pounds) was 2% below the level of 1995 (25.1 billion pounds), according to the National Cattlemen's Beef Association. With meat ranking as the smallest but fastest growing sector of the natural/organic foods and beverages market, it comes as no surprise that marketers have been busy beefing up the product offering.

- Coleman Natural Brands/BC Natural Foods, reportedly the largest U.S. all-natural meat company, has introduced a Coleman Purely Natural line specifically for the natural meat sections of mainstream supermarkets. The line includes beef, pork, and lamb items.
- Blackwing has extended its Blackwing Organic Meats brand with an Organic Piedmontese Beef line that includes beef patties, rib eye steak, steak strips, ground beef, New York strip steak, sirloin steak, and stew meat. The “gourmet quality” Piedmontese Beef is said to have less fat, calories, and cholesterol than chicken.
- College Hill Poultry, in which Hain Celestial acquired a majority interest in 2005, has supplemented its Organic Raised Right Chicken line with Cooked Diced Breast Meat and Cooked Diced Thigh Meat. College Hill's chickens are reportedly raised by family farmers in Pennsylvania's

Amish country, fed sun-ripened corn and organic soybeans, with no extenders or artificial ingredients, and given no antibiotics. The meat is phosphate-, nitrite- and preservative-free, and is random-diced to look homemade. It is packaged in 3-lb. vacuum-sealed bags.

### ***Barbecue Goes Organic***

Applegate Farms, marketer of all-natural and organic meats, has added two new bacon varieties, Dry Cured Bacon and Peppered Bacon, which are antibiotic- and nitrite-free. The Dry Cured is also hormone-free. Each variety contains 90 calories per serving, 4g of protein, and 5g of fat (including 2g of saturated fat). The suggested retails are \$4.99 (Dry Cured) and \$3.99 (Peppered). Two deli meats, Black Forest Ham and Honey & Maple Turkey, are also new from Applegate Farms.

Another recent addition to the marketer's line are quarter-pound Organic Beef Burgers, which are 85% lean and have 195 calories, 21g of protein, and 12g of fat (5g of saturated fat). A box of four has a suggested retail price of \$6.99.

Organic Stadium-Style Hot Dogs, also new from Applegate, are each said to contain two full ounces of certified organic beef from cattle raised on vegetarian feed, without growth hormones or antibiotics. The hot dogs, which contain no nitrates or chemical preservatives, are seasoned with garlic and other spices.

### **Major Marketers Add Organic Entries**

Major food/beverage marketers continue to add organic varieties under well-known brand names. For example, Cadbury Schweppes' Mott's division (January 2006) has added Mott's Organics Apple Sauce in regular and unsweetened varieties. USDA-certified 100% organic, the products contain no fat, cholesterol, or artificial ingredients. They are sold in a resealable 24-oz. glass jar and in a four-count sleeve of single-serving 4-oz. cups.

ConAgra Foods has weighed in with a USDA-certified Organic Butter variety of Orville Redenbacher's Smart Pop! Microwave Gourmet Popping Corn. The product is billed as high in protein (4g per serving) and fiber. Like other Smart Pop! varieties, Organic Butter is 94% fat-free, contains no trans fat or cholesterol, and is naturally sugar-free.

In a launch whose initial target was natural and health foods retailers, Ocean Spray Cranberries introduced Organic 100 Percent Juice Blends in Cranberry, Cranberry Blueberry, and Cranberry Raspberry flavors. The juice blends, offered in 32-oz. glass bottles, have no sugars, artificial flavors, or added preservatives. Ocean Spray also launched a new all-natural line that includes Ocean Spray 100 Percent Pure Unsweetened Cranberry Juice.

The Smucker Quality Beverages unit of J.M. Smucker recently added Organic Tangerine Soda to its Santa Cruz line. The soda is reportedly free of caffeine, artificial sweeteners, high-fructose syrup, and artificial colorings. A 750ml resealable glass bottle retails for \$3.49, a six-pack of 12-oz. cans for \$4.49.

Major marketers that have acquired natural/organic brands in recent years continue to support new product development and diversification. Kraft Foods' Back to Nature brand, better known for cereals, has recently introduced organic Peanut Butter Crème Sandwich Cookies, which are said to be low in saturated fat and to contain no trans fat, hydrogenated oils, refined sugars, or artificial preservatives, flavors, or colors. A 9.6-oz. resealable bag retails from \$3.29 to \$3.59.

Smaller marketers of conventional food products have also added organic entries to their lines. Landies Candies Co., for example, is offering Certified Organic Cookies. Presented in "gourmet" packaging, the cookies contain no trans fat, hydrogenated oils, or artificial flavors or colors.

### **Mainstream Supermarkets Create Natural/Organic Brands**

To maximize their share of the flourishing natural/organic market and take advantage of the market's lack of national brands, leading mainstream supermarkets have been developing their own dedicated natural/organic brands, as discussed in Chapter 3. In the second half of 2005, organic product introductions by two mainstream supermarket operators, Safeway and H.E. Butt (HEB), were more extensive than those by any branded marketer.

In December 2005 Safeway, the country's second-largest supermarket operator (after Kroger), introduced the O Organics brand, which aspires to be a complete line of organic

products offering “the unique experience of real food.” The brand’s February 2006 new product reports alone totaled 16 product lines and 59 stock-keeping units.

James D. White, Safeway’s senior vice president of corporate brands, said O Organics represents the broadest offering of organic products by a major retailer, apart from Whole Foods Market, and is intended to enable shoppers to “avoid additional shopping trips.” [Table 5-3]

**Table 5-3**

**Safeway’s O Organics Brand: New Product Introductions, First-Quarter 2006**

<b>Product</b>	<b>Description/Details</b>
<b>Apple Sauce</b> .....	Sweetened and unsweetened varieties, each sold in four-pack of 4-oz. single-serving cups.
<b>Cheese (Shredded)</b> .....	Mozzarella, Monterey Jack, Milk White Cheddar, and Milk White Cheddar & Monterey Jack, sold in 6-oz. resealable plastic bags.
<b>Cheese (Solid)</b> .....	Sharp Cheddar, Monterey Jack, and Mild Cheddar varieties are sold in 8-oz. packages.
<b>Cookies</b> .....	Vanilla Crème Sandwich, Bite Size Teddy Bear Honey Graham, and Bite Size Chocolate Chip varieties; sandwich cookies come in 16-oz. box, bite-size varieties in 8-oz. box.
<b>Frozen Entrees</b> .....	Four Mexican dishes: Black Bean Enchiladas, Cheese Quesadillas, Bean and Cheese Burrito, and Cheese Enchiladas.
<b>Frozen Fruit</b> .....	Mango, Wild Blueberries, Whole Strawberries, and Raspberries varieties are offered in 16-oz. plastic bags.
<b>Ice Cream Bars</b> .....	Dark Chocolate coating; flavors are Vanilla, Strawberry, Coffee, and Blackberry; sold in three-count box.
<b>Macaroni &amp; Cheese Mix</b> .....	Targeted to kids and offered in White Cheddar, Regular, and Alfredo varieties in 7.25-oz. box.
<b>Milk</b> .....	Whole, Reduced Fat 2%, Fat Free, and 1% Lowfat varieties, each available either Pasteurized or Ultra-Pasteurized in 64-oz. gable-top carton.
<b>Oatmeal</b> .....	Instant version made from whole-grain rolled oats; regular variety comes in 7.9-oz. box of single-serving packets, variety pack is in 11.4-oz. size.

-- continued --

Table 5-3 [Cont.]

**Safeway's O Organics Brand: New Product Introductions, First-Quarter 2006**

Product	Description/Details
<b>Olive Oil</b> .....	Extra Virgin variety imported from Italy and available in 16.9-oz. and 33.8-oz. glass bottles.
<b>Popcorn</b> .....	Regular and butter-flavored microwave varieties, sold in three-count boxes; white cheddar and lightly salted varieties sold in 4-oz. and 5-oz. packages.
<b>Preserves</b> .....	Strawberry, Raspberry, Blueberry, Blackberry, and Apricot varieties, sold in 11-oz. glass jars; all fruits but the blueberries (Quebec) come from Europe.
<b>Tea</b> .....	Ready-to-Drink varieties including White with Spearmint, Peach Flavored Oolong, Green with Honey, Black with Lemon, and Berry Herbal Infusion varieties sold in single-serving 16-oz. glass bottles.
<b>Yogurt</b> .....	Blended Lowfat Strawberry, Raspberry, Peach, Maple, Cherry, and Banana Vanilla flavors packaged in 6-oz. plastic cups.

Source: Packaged Facts, based on Datamonitor's Productscan Online, 2006.

**HEB, Wild Oats Continue to Extend Natural/Organic Labels**

Meanwhile, HEB continues to extend its Central Market Organics brand, which is named for the retailer's gourmet superstore division but is available in its HEB and Pantry banner stores as well. Recent additions to the brand include frozen fruit (Strawberries, Wild Blueberries, Mixed Berry Blend), frozen vegetables (Edamame, Haricots Vert), canned vegetables (Tomatoes in Whole, Diced, and Pureed varieties), Peanut Butter (Smooth and Crunchy), Artisan dry pasta (Casarecce, Armoniche, Ricciarelle, Pappardelle, Spinach Tagliatelle), frozen wood-fired pizzas imported from Italy (Mozzarella, Vegetariana, Quattro Formaggi, Apple and Gorgonzola, Organic Cheese), and Veggie Chips. All of the products are tagged "Gourmet."

Of the big three of natural foods retailing, Whole Foods Market and Trader Joe's have well-developed proprietary brand programs—the Trader Joe's brand has long been that retailer's stock in trade. Wild Oats Market, the other member of the big three, began focusing on proprietary brands more recently. One of its latest additions is a line of frozen desserts under



the store name. Four varieties are offered: New York-style cheesecake, flourless chocolate-raspberry torte, lemon-raspberry tart, and apple pie. Each dessert retails for \$5.99.

## Chapter 6 Highlights

- Retail competition will continue to be the primary driver of market growth in natural/organic products.
- At the forefront of retail expansion is Whole Foods, which plans to increase its store count by 25-30 stores per year through 2010, to reach \$12 billion in annual sales.
- For mainstream supermarkets such as Safeway, organic foods and beverages are an essential competitive thrust.
- Wal-Mart is currently “pushing into organics with a vengeance.”
- Private-label products will reach new heights in natural/organics in 2006 and beyond, with much of the heightened activity representing the efforts of mainstream retailers to expand their natural/organic selection.
- The natural/organic market has been dramatically transformed by mergers and acquisitions, and this activity shows no sign of abating anytime soon.
- The number of mainstream marketers tapping into the natural/organic business is growing by leaps and bounds.

## Chapter 6: Looking Ahead

### Retail Competition, Expansion Will Continue to Drive Market

**R**etail competition will continue to be the primary driver of market growth in natural/organic products, with organics in particular serving as a key point of differentiation both within and across key retail sectors. For natural foods supermarket chains like Whole Foods Market, Wild Oats, and Trader Joe's, natural/organics is the bread and butter, and all of these companies are expected to grow both their store count and their sales at a healthy pace for the foreseeable future. Indeed, most states remain virgin territory for these big three of natural foods retailing, and consumers in new markets are eagerly anticipating their arrival.

At the forefront of this retail expansion trend is Whole Foods, which plans to increase its store count by 25-30 stores per year through 2010, with the stated goal of \$12 billion in annual sales, and a possible total buildout of as many as 600 stores (the retailer currently has 180). At the end of 2005, Wild Oats had 16 leases or letters of intent for new stores to open in 2006 and 2007, as well as plans to increase its total square footage by 10% each year through 2007. For its part, Trader Joe's has been opening 15 or so new stores each year, and plans call for continued expansion nationwide. At the same time, smaller natural supermarket chains—including Earth Fare, Sprouts Farmers Market, and Sunflower Markets—are also expanding regionally.

In addition, for mainstream supermarkets such as Safeway—squeezed by Whole Foods and the like on one end and by Wal-Mart on the other—organic foods and beverages are an essential competitive thrust, including under dedicated proprietary brands (see below). According to *Frozen Food Age* (January 2006), some of the greatest opportunities for expanding into organics are in the areas of frozen and refrigerated foods, due to their handling and merchandising advantages over other perishables. As the magazine notes, “Creating an organic section for fresh meat, vegetables, and fruit could easily require store retail footage that is just not that available, while a freezer door unit as an end cap is more easily adapted for adding a product line or two.” A number of mainstream supermarket

chains, including H.E. Butt, SuperValu, Publix, and Bashas, have even launched their own natural foods supermarket formats, which should gain momentum during 2005 and which are viewed as a key long-term growth avenue by these retailers. For example, in January 2006 SuperValu opened its first Sunflower Market store in Indianapolis, and the new chain is expected to expand to at least 50 stores in the next five years. Another up-and-comer is Greensboro, North Carolina-based The Fresh Market, which is on a “short list” of hot retailers to watch in 2006, per Chicago-based retail consultancy McMillan/Doolittle, which specializes in identifying and developing new retail concepts.

A related promising development for the market is retailers’ growing interest in showcasing their commitment to organics by obtaining organic certification, according to Eileen Horton, director of marketing and business development for Quality Assurance International, a third-party certifier of organic programs (*Supermarket News*, January 16, 2006). The certification is awarded to retailers that verify the integrity of the organic products they sell by making sure organic perishables aren’t commingled with non-organics, training employees in handling organics, and opening their facilities to inspections.

### **The Wal-Mart Effect**

Also helping to reshape the natural/organic market in the near term will be the ramped-up initiatives of Wal-Mart. According to a report on CNNMoney.com (May 1, 2006), the company is currently “pushing into organics with a vengeance” with the intention of becoming “the low-priced leader in organics.” Although Wal-Mart has been offering a limited selection of organic food products, including milk and vegetables, for about five years, the pickings have been relatively slim in keeping with its focus on lower-income shoppers. Now, however, Wal-Mart is rapidly “going green” as it looks to grow both its profit margins and its appeal to less price-conscious customers.

During the first five months of 2006, Wal-Mart doubled the size of its organic fresh produce, dairy, and dry food departments, and the retailer will soon be introducing environmentally friendly non-food products, such as organic cotton baby clothes (under the George store brand) and energy-saving light bulbs. “Many of our customers told us that they’re interested in one type of organic product or another,” company spokeswoman Karen Burke told

CNNMoney.com, so we wanted to make it convenient for them to buy it at a Wal-Mart.” Also expanding its organic range is Wal-Mart’s Sam’s Club chain, which began selling organics under the Member’s Mark line in January 2006 and is now adding salad dressings and coffees to the mix.

How much impact Wal-Mart’s organic thrust will have on supernaturals like Whole Foods and Wild Oats remains to be seen, but the short-term effects will probably be fairly minimal. As Andrew Wolf, an analyst with BB&T Capital Markets, told CNNMoney.com, “Right now I don’t see too much of a customer overlap between Whole Foods and Wal-Mart. Whole Foods doesn’t operate in the same markets as Wal-Mart and it caters to a higher-income shopper.” Similarly, Craig Johnson, president of retail consulting group Customer Growth Partners, feels that “The disparity of their customer base is too great, so instead of stealing customers away from Whole Foods right away, I think Wal-Mart could successfully expand the natural food market to low and moderate income shoppers.”

Even more optimistically, Sonja Tuitele, spokeswoman for Wild Oats, believes the market involvement of Wal-Mart could turn out to be a good thing for dedicated retailers of natural/organics: “Maybe these people don’t come to Wild Oats today because of the high prices but at least they’ll start to think about what they’re putting into their bodies. Once they decide to lead an organic lifestyle, they’ll come to us for greater variety of products and the education we provide to consumers about a healthier lifestyle.”

### **Private-Label and Price Pressure**

Already a significant factor in this market, private-label products will reach new heights in natural/organics in 2006 and beyond, with much of the heightened activity representing the efforts of mainstream retailers to expand their natural/organic selection. Offering higher margins as well as a chance to tap into growing consumer interest in natural/organic and build shopper loyalty, private labels also offer mainstream supermarkets a way to push back against specialty chains including Whole Foods, which have been aggressively edging onto what has traditionally been mass-market turf. While still adhering to federal organic standards, the latest surge of natural and organic store brands is expected to cost significantly less than

comparable products sold in specialty stores, and their lower prices should help to broaden the appeal of natural/organics to more price-conscious shoppers.

SuperValu, soon to become the nation's second-largest supermarket chain through its Albertson's purchase, is currently introducing a line of 50 store-brand organic products under the Nature's Best banner, with 100 more products expected to become available by the end of June, and plans to offer approximately 300 by mid-2007. Priced 10%-15% lower than comparable national-brand products, the Nature's Best line will be sold at SuperValu-branded stores, as well as through the company's Cub Foods, Bigg's, and Shopper's Food & Pharmacy chains. Also focusing on private-label organics are other mainstream chains including Safeway, which recently introduced 150 organic products under the O Organics name and plans to have as many as 300 "O" products by the end of 2007; and Ahold's Stop & Shop, with Nature's Promise. Also, in late April 2006, Wegmans Food Markets introduced its own brand of organic milk, which is supplied through Upstate Farms, a cooperative of about 300 dairy farms in New York.

Partly because they do not have to be advertised, private labels cost significantly less than national brands—27% less on average, according to Information Resources Inc., and the price difference in natural/organics may be even more significant. As a result, prices on organics can be expected to drop as the products become more widely available, both through mainstream supermarkets and through mass-merchandise chains like Wal-Mart and Costco. Wal-Mart's foray into organics should also help to bring down prices for consumers due to the pressure Wal-Mart places on its suppliers to become more efficient and achieve cost savings. All of this activity is likely to spur natural/organic chains to beef up their own private-label selections, as Whole Foods has been doing with its competitively priced 365 Everyday Value and 365 Organic lines.

On the other hand, as retailers of all stripes increasingly vie for organic supplies, "There's a potential for supply issues, if the trend continues at the pace it's going," says Mike Minasi, senior vice president for marketing at Safeway, although he add that "suppliers and growers are understanding the opportunity, and capacity is growing" (Wall Street Journal Online, May 4, 2006).

## Additional Mergers and Acquisitions

As discussed throughout this report, the natural/organic market has already been dramatically transformed by mergers and acquisitions, often supported by cash infusions from major investment firms, and this activity shows no sign of abating anytime soon. It's no coincidence that a January 2006 conference on Marketing Natural & Organic Products included a session entitled "Overcoming Merger and Acquisition Challenges: Successful Brand and Product Integration Strategies." Hosted by conference organizer Marketing IQ, the session featured speakers from four natural/organic marketers that had been acquired or were the product of an acquisition: Homegrown Naturals (Solera Capital), Horizon Organic/White Wave Foods (Dean Foods), Country Choice Organic (New Century Holdings), and Coleman Natural Meats (BC Natural Foods).

Currently one of the biggest market consolidation moves is that of private equity firm Charterhouse Group, which made its third acquisition in the natural and organic baked goods sector with the September 2005 purchase of Rudi's Organic Bakery. Charterhouse has since combined Rudi's with two purchases made earlier in 2005—Vermont Bread Co. and Adams Bakery Corp.—under a single holding company, Charter Baking Co., which the company expects to generate nearly \$100 million in revenues in 2006. Charterhouse's goal is to create a multi-hundred-million-dollar company in the next few years through additional acquisitions and "cross-fertilization plays"—then to shop Charter Baking to a major baked goods marketer such as Pepperidge Farm parent Campbell Soup, Sara Lee, or Mexico's Grupo Bimbo. As Joe Rhodes, the Charterhouse partner who oversees Charter Baking, told *Corporate Financing Week* (September 12, 2005), "What Horizon did for [organic] milk, we want to do for [natural/organic] bread."

Meanwhile, top-ranked natural/organic marketer Hain Celestial continues to grow apace, both domestically and abroad, its most recent planned addition being the U.K.-based frozen vegetarian products unit of H.J. Heinz Co., including the Linda McCartney brand. According to *Newsday* (May 3, 2006), Hain expects the deal, which will involve licensing, to take place in June. At the time of the announcement, a company spokesperson said Hain now has a market value of about \$1 billion and more than 30 natural brands, and that its grocery and snacks unit remains strong across brands including Earth's Best, Garden of Eatin', Terra,

Rice Dream, WestSoy, and Imagine. In addition, all of the remaining top independent natural/organic marketers—including Amy’s Kitchen, Newman’s Own Organics, Organic Valley Family of Farms, Clif Bar, Green Mountain Coffee Roasters, Nature’s Path Foods, Clover Stornetta Farms, Pacific Foods, Kettle Foods, Apple & Eve, and Vitasoy USA—can be considered candidates for acquisition.

Similarly, operators of smaller natural/organic “supernatural” chains may also find themselves making deals, especially as more mainstream supermarkets seek to quickly increase their natural/organic market penetration to help offset the inroads being made by Whole Foods, Wild Oats, and Trader Joe’s. The purchase of regional chains including Earth Fare, Sprouts, Boulder-based Sunflower Market, and Vitamin Cottage could give an existing supermarket chain a quick boost in store count, while perhaps also helping to spearhead a swing back to the market’s “purer” origins.” Nor can one rule out the additional acquisitions of smaller natural/organic chains by one of the big three supernaturals. Also, that Sunflower Market reportedly has an agreement with supermarket operator SuperValu to use the “Sunflower” trademark suggests these two retail outfits may have additional collaborative plans.

In addition, in early 2006 mainstream supermarket retailer Albertson’s announced that it would be acquired by a consortium of buyers that includes discount food retailer SuperValu, pharmacy chain CVS Corp., and investors Cerberus Capital Management, Kimco Realty, Schottenstein Stores Corp., Lubert-Adler Partners, and Klaff Realty. The deal is expected to close in Summer 2006.

### **Continued Cross-Over by Mainstream Marketers**

Just as more mainstream retailers are sinking their teeth into natural/organics, the number of mainstream marketers tapping into the business is growing by leaps and bounds. In one of the biggest recent moves, Tyson Foods announced in January 2006 that it would add “natural” lines to both its Certified Angus Beef and Star Ranch Natural Angus Beef lines. The Beef Marketing Group, a cooperative based in Kansas and Nebraska, was reported to be the first cattle feed organization to participate in the initiative. The new Tyson beef products will come from cattle that have never received antibodies or hormones and that have been fed



on a grass and grain diet. Noel White, group vice president of Tyson Fresh Meats, commented, “We believe this program will raise the standard for performance in the production and marketing of fresh, natural beef.” Other major mainstream marketers that have recently expanded their organic offerings include R.C. Bigelow (green tea and decaffeinated teas), Del Monte (tomatoes), Ocean Spray Cranberries (100 Percent Juice Blends), Unilever (Ragu pasta sauce), Campbell Soup Co. (Prego pasta sauce), and ConAgra (Hunt’s canned tomatoes and Orville Redenbacher popcorn).

### **Natural/Organics Tapping into Broader Food Trends**

As discussed in Chapter 5, the package tags accompanying the constantly rising number of organic food and beverage introductions show that marketers of natural/organic foods and beverages are tying into as many hot food trends as possible—with health, upscale/gourmet, and convenience as the overarching ones—to continue broadening the product appeal and consumer base. Kids, too, are an important audience, since the purity and safety of organic products appeal to health-minded parents, and since children can turn into life-long customers. Working along these lines, Hain Celestial Group has been extending its baby food and toddler brand, Earth’s Best Organic, the latest introduction being an organic infant formula.

### **OTA Launches “Go Organic! for Earth Day” Campaign**

Also supporting future market development, during 2005 the Organic Trade Association launched what it hopes will become an annual nationwide educational and promotional campaign called “Go Organic! for Earth Day” ([www.organicearthday.org](http://www.organicearthday.org)). Results from the first campaign, which took place in April, were encouraging. Not only did retailers new to organics see a spike in sales, those with established programs enjoyed a 5% increase [for the month], according to a follow-up survey by the Natural Marketing Institute. Sixty percent of consumers who saw GO point-of-sale materials reported purchasing products because of them. In addition, the campaign increased national awareness of organic products by 8% and generated more than 30 million media impressions. During April 2006, more than 3,500 grocery stores and 50 organic product manufacturers were expected to join forces for the “Go Organic! for Earth Day” promotional event.

## Foodservice Helping to Build Organics Constituency

Strong interest in organic products from foodservice operators will continue to support this market, in no small part by helping to expose more consumers to better-tasting organic foods. More than half of fine dining and one-quarter of casual and family-dining establishments now offer at least one organic item, according to the National Restaurant Association (NRA), and both the numbers of restaurants involved and the number of organic items on their menus seem likely to grow. Quick-casual restaurants such as Panera Bread and Chipotle Mexican Grill are helping to make organic meat widely available, and foodservice is also helping to proselytize for organic and Fair-Trade-certified coffee. Green Mountain Coffee Roasters Fair-Trade coffee is, for example, now available through McDonald's Mickey D eateries, Ben & Jerry's ice cream/coffeehouse outlets, and ExxonMobil's namesake convenience stores and franchised On the Run outlets. At the same time, natural foods chain and mainstream supermarkets alike have been working to expand and improve their prepared foods offerings and in-store eating areas in order to attract on-the-go customers looking for healthier foods, also helping to get the word out about tastier natural and organic fare.

## Organic vs. "Organic. Inc."

Given that so much of the natural/organic business has already been absorbed into the mainstream food business, the question arises: what will happen to the concept of organics as it is increasingly controlled by companies that may have no interest in it beyond relatively short-term gain? This is an important question since market growth rests on consumer confidence that organic products deliver on their basic promises of safety and purity and—depending on how committed the particular consumer is to organics—on other promises as well. Protecting the environment, helping small family farms to survive, paying decent wages to agricultural workers worldwide, treating farm animals well, etc.—all are principles that have helped to bring this market to its current lofty position, and all appear to be in jeopardy of compromise as the market moves further and further away from its roots.

Packaged Facts believes that the continued growth of the organics industry, especially in the long term, is intrinsically tied to its continuing commitment to its original goals. For example, consumer belief in the safety and superiority of organic foods and beverages—their number-one selling point, in other words—simply cannot be separated from the underlying

farming practices. The superior taste of organic foods—an emerging selling point that seems certain to become much more important—also leads back to the question of how the animals are raised or the crops grown, as well as where and by whom. Committed organic consumers understand these principles and demand that they be maintained, and those who are just now beginning to “go organic” will also come to understand them—if only because these essential points must be emphasized by marketers and retailers in order to effectively convert consumers to premium-priced organics.

### **Looser Standards for Organics Could Undermine Market**

Changes made by Congress to organic standards in October 2005—at the request of the Organic Trade Association and large marketers among its members—have two effects. First, they dilute the meaning of “100% organic” by permitting marketers to add non-organic ingredients provided they are “inert,” or provided that organic alternatives are determined to be commercially unavailable. As a result, marketers can now label as “100% organic” products that may be only 95% organic. Previously, products that were less than 100%, but still at least 95%, organic could only be labeled “made with organic ingredients”—a much less desirable label. In addition, the October 2005 changes make it possible for large marketers to influence the U.S. Department of Agriculture to approve non-organic ingredients without having to clear them with the National Organics Standards Board, which was set up for just that purpose and represents the entire organics community.

These changes open the door to possible mischief that could undermine the credibility of the term “organic” itself, and if consumer confidence in the term and its positive associations weakens, the market will suffer. Consider what has happened to the nutritional supplement business, which also grew at double-digit rates in its late 1990s heyday. Like organic foods, supplements had great appeal to aging baby boomers, and becoming de-regulated permitted the business to boom—but it also opened the door to dangerous substances and exaggerated health claims. As a result, sales growth fell off and still hasn’t fully recovered.

## The OTA Survey: Living Organically in 2025

A survey conducted by The Organic Trade Association (OTA) in 2005 polled both industry research organizations and long-time member companies, deriving its findings from a survey of eight leading industry sources: The Hartman Group, the Natural Marketing Institute, *Nutrition Business Journal*, Packaged Facts, and SPINS, as well as marketers Organic Valley Family of Farms, Smucker Quality Beverages (R.W. Knudsen and Santa Cruz Organic brands), and Stonyfield Farm. According to the report, these are trends that will shape the organic industry through the year 2025:

- The organic industry can be expected to continue to grow and thrive at a sturdy rate over the next 20 years, but at a slower pace than the current 20% average annual growth in sales.
- By 2025, 14% of the average U.S. household's budget will be devoted to purchasing organic products.
- The average consumer household in 2025 will buy organic products on a regular basis. These will include food items as well as organic clothing, household cleaning products, and personal care items.
- Sales of organic fiber and textiles will continue to grow and will make up 6% to 7% of all U.S. clothing by the year 2025.
- Organic products by 2025 will be sold anywhere and everywhere, and increased sales in restaurants can be expected.
- Increases in organic sales and acceptance will result in increased U.S. organic acreage.
- Younger shoppers will continue to be interested in organic foods, particularly as Gen Xers pass down their belief systems. Ethnic shoppers, including Asian-Americans and Hispanic-Americans, will continue to be more likely to buy organic products in proportion to their representation in the general population.
- Government support of organic agriculture will be crucial to maintain the industry's growth potential. The U.S. government will need to support farmers in their transition to organic production, and to enforce the standards to minimize consumer confusion.

## **Appendix**

# **Selected Marketers and Retailers of Natural and Organic Foods and Beverages**



**Marketers**

**Amy's Kitchen**

2227 Capricorn Way, Suite 201  
Santa Rosa, CA 95407  
(707) 578-7188  
www.amyskitchen.com

**Aurora Organic Dairy**

1401 Walnut Street  
Boulder, CO 80302  
(720) 564-6296  
www.auroraorganic.com

**Barbara's Bakery, Inc.**

3900 Cypress Drive  
Petaluma, CA 94954  
(707) 765-2273  
www.barbarasbakery.com

**Cedarlane Natural Foods**

1135 East Artesia Boulevard  
Carson, CA 90746-1602  
(310) 886-7722  
www.cedarlanefoods.com

**CharterhouseGroup**

(Adams Bakery,  
Rudi's Organic Bakery,  
Vermont Bread)  
535 Madison Avenue, 28<sup>th</sup> Floor  
New York, NY 10022-4299  
(212) 584-3200  
www.charterhousegroup.com

**Clif Bar**

1610 5<sup>th</sup> Street  
Berkeley, CA 94710-1715  
(510) 558-7855  
www.clifbar.com

**Clover-Stornetta Farms**

91 Lakeville Street  
Petaluma, CA 94952  
(707) 778-8448  
www.clo-the-cow.com

**Coleman Natural Products**

(formerly BC Natural Foods)  
1767 Denver West  
Marriott Road, Suite 200  
Golden, CO 80401  
(303) 277-9263  
www.colemannatural.com

**Dagoba Organic Chocolate**

1105 Benson Way  
Ashland, OR 97520  
(541) 482-2001  
www.dagobachocolate.com

**Dakota Beef**

507 East Highway 34  
Howard, SD 57349  
(605) 772-5339  
www.dakotabeefcompany.com

**Dakota Growers Pasta**

1 Pasta Avenue  
Carrington, ND 58421  
(701) 652-2855  
www.dakotagrowers.com

**Dean Foods Co.**

2515 McKinney Avenue, Suite 1200  
Dallas, TX 75201-1945  
(214) 303-3400  
www.deanfoods.com

**Earthbound Farm**

1721 San Juan Highway  
San Juan Bautista, CA 95045-9780  
(831) 623-7880  
www.ebfarm.com

**Eden Foods**

701 Tecumseh Road  
Clinton, MI 49236  
(517) 456-7424  
www.edenfoods.com

**Fairfield Farm Kitchens**

309 Battles Street  
Brockton, MA 02301  
(508) 584-9300  
www.fairfieldfarmkitchens.com

**Farmer's Pride**

(Bell and Evans)  
154 West Main Street  
Fredericksburg, PA 17026  
(717) 865-6626  
www.bellandevans.com

**Gardenburger**

15615 Alton Parkway, Suite 350  
Irvine, CA 92618-3350  
(949) 255-2000  
www.gardenburger.com

**Green Mountain Coffee Roasters**

33 Coffee Lane  
Waterbury, VT 05676-8900  
(802) 244-5621  
www.gmcr.com

**Hain Celestial Group, Inc.**

58 South Service Road  
Melville, NY 11747-2344  
(631) 730-2200  
www.hain-celestial.com

**Hansen Beverage**

1010 Railroad Street  
Corona, CA 92882  
(909) 739-6200  
www.hansens.com



**Hodgson Mill**

1203 West Niccum Avenue  
Effingham, IL 62401  
(217) 347-0105  
www.hodgsonmill.com

**Homegrown Naturals**

(Annie's Homegrown,  
Annie's Naturals, Consorzio,  
Fantastic Foods)  
580 Gateway Drive  
Napa, CA 94558  
(707) 254-3700  
www.homegrownnaturalfoods.com

**Horizon Organic**

P.O. Box 17577  
Boulder, CO 80308-7577  
(202) 530-2711  
www.horizonorganic.com

**Kashi**

P.O. Box 8557  
La Jolla, CA 92038  
(858) 274-8870  
www.kashi.com

**Kettle Foods**

3125 Kettle Court SE  
Salem, OR 97301  
(503) 364-0399  
www.kettlefoods.com

**Kraft Foods, Inc.**

(Back to Nature)  
3 Lakes Drive  
Northfield, IL 60093  
(847) 646-2000  
www.kraft.com

**Lifeway Foods**

6431 West Oakton Street  
Morton Grove, IL 60053-2727  
(847) 967-1010  
www.lifeway.net

**Nature's Path Foods**

9100 Van Horne Way  
Richmond, British Columbia  
V6X 1W3 Canada  
www.naturespath.com

**Newman's Own Organics**

7010 Soquel Drive, #200  
P.O. Box 2098  
Aptos, CA 95003  
(831) 685-2866  
www.newmansownorganics.com

**Niman Ranch**

1025 East 12<sup>th</sup> Street  
Oakland, CA 94606  
www.nimanranch.com

**nSpired Natural Foods**

1850 Fairway Boulevard  
San Leandro, CA 94577  
(510) 686-0116  
www.nspiredfoods.com

**Organic Milling**

505 West Allen Ave.  
San Dimas, CA 91773  
www.organicmilling.com

**Organic Valley Family of Farms/****Organic Prairie/One Organic Way**

LaFarge, WI 54639  
(608) 625-2602  
www.organicvalley.coop

**Pacific Foods of Oregon**

19480 SW 97<sup>th</sup> Avenue  
Tualatin, OR 97062-8505  
(503) 692-9666  
www.pacificfoods.com

**Small Planet Foods**

(Cascadian Farm, Muir Glen)  
1 General Mills Boulevard, 2BT  
Minneapolis, MN 55426  
(763) 764-7600  
www.smallplanetfoods.com

**Smucker Quality Beverages**

(R.W. Knudsen, Santa Cruz Organic)  
37 Speedway Avenue  
Chico, CA 95928-9554  
www.smucker.com

**Stonyfield Farm**

10 Burton Drive  
Londonderry, NH 03053  
(603) 437-4040  
www.stonyfield.com

**Ultimate Juice Co.**

180 Mount Airy Road  
Basking Ridge, NJ 07920  
(908) 367-6200  
www.nakedjuice.com

**Vitasoy USA**

1 New England Way  
Ayer, MA 01432  
(978) 772-6880  
www.vitasoy.com

**White Wave Foods**

(White Wave, Horizon Organic,  
Dean Branded Group)  
12002 Airport Way  
Broomfield, CO 80021  
(303) 635-4000  
www.whitewave.com

**Retailers****Ahold USA**

14101 Newbrook Drive  
Corporate Point No. 2  
Chantilly, VA 20151-2224  
(703) 961-6000  
www.aholdusa.com

**Bashas'**

22402 South Basha Road  
Chandler, AZ 85248-4908  
(480) 895-9350  
www.bashas.com

**Bristol Farms**

915 East 230<sup>th</sup> Street, Suite 100  
Carson, CA 90745-5005  
(310) 233-4700  
www.bristolfarms.com

**Costco Wholesale**

999 Lake Drive  
Issaquah, WA 98027-8990  
(425) 313-8100  
www.costco.com

**Earth Fare**

300 Ridgefield Court, Suite 318  
Asheville, NC 28806  
(828) 281-4800  
www.earthfare.com

**H.E. Butt Grocery**

646 South Main Avenue  
San Antonio, TX 78204-1210  
(210) 938-8000  
www.heb.com

**Harris Teeter**

701 Crestdale Drive  
Matthews, NC 28105-1700  
(704) 844-3100  
www.harristeeter.com

**Kroger**

1014 Vine Street  
Cincinnati, OH 45202-1100  
(513) 762-4000  
www.kroger.com

**Newflower Market**

(Sunflower Market)  
6105 Monarch Road  
Longmont, CO 80503-8818  
(303) 530-3019

**Publix Super Markets**

3300 Airport Road  
Lakeland, FL 33811-3002  
(863) 688-1188  
www.publix.com

**Safeway**

5918 Stoneridge Mall Road  
Pleasanton, CA 94588-3229  
(925) 467-3000  
www.safeway.com

**Sprouts Farmers Market**

9301 East Shea Boulevard, #132  
Scottsdale, AZ 85260  
(480) 814-8016  
www.sprouts.com

**Supervalu**

11840 Valley View Road  
Eden Prairie, MN 55444-3643  
(952) 828-4000  
www.supervalu.com

**Trader Joe's**

600 South Shamrock Avenue  
Monrovia, CA 91016-6346  
(626) 441-1177  
[www.traderjoes.com](http://www.traderjoes.com)

**Wal-Mart Stores**

702 Southwest 8<sup>th</sup> Street  
Bentonville, AR 72716-6209  
(501) 273-4000  
[www.walmart.com](http://www.walmart.com)

**Wegmans Food Markets**

1500 Brooks Avenue  
Rochester, NY 14624-3512  
(716) 328-2550  
[www.wegmans.com](http://www.wegmans.com)

**Whole Foods Market**

601 North Lamar Boulevard, Suite 300  
Austin, TX 78703-5424  
(512) 477-4455  
[www.wholefoods.com](http://www.wholefoods.com)

**Wild Oats Markets**

3375 Mitchell Lane  
Boulder, CO 80301-2786  
(303) 440-5220  
[www.wildoats.com](http://www.wildoats.com)



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