

# Natural Products Research Report

## Organic & Soy Sales Lead Category

By Michelle Moran



Once upon a time, natural and organic products were driven by consumer interest, which flowed during a health or safety crisis, then ebbed afterwards. Today, these ever-evolving categories are more consumer friendly, benefiting greatly from the interest in overall health generated by the advancing age of Baby Boomers.

As 2001 comes to a close, sales of natural and organic products are expected to continue their double-digit growth, exceeding their combined sales of \$32 billion in 2000. Figures from the Organic Trade Association reveal retail sales of organic products have grown steadily for the past ten years — a compounded annual growth of 22.7 percent. Assuming steady growth at a conservative rate of 20 percent, retail sales of organic products in 2001 are projected to be about \$9.3 billion and by 2005, organic sales alone are

expected to reach nearly \$20 billion — intriguing numbers for an industry that comprises only two percent of the products sold in the United States.

### The Marketplace

Consumer demand has led specialty retailers to expand natural products departments and increase their focus on the category. Forty-eight percent of consumers currently use organic products at least occasionally, according to market research firm The Hartman Group. While core users make up six percent of the organic market, mid-level users make up 35 percent, and low-level users make up 59 percent. Common factors motivating purchases include: Having children; having specific health conditions, such as food allergies or cancer; and seeking a healthy lifestyle. And, organic consumers are much more

likely than the general population to shop specialty stores for two specific reasons. They believe that grocery stores and discount stores neither carry the variety nor offer the quality of products that they desire. Thus, they go to a specialty store, such as a natural food store or a farmers' market, to find products.

New Hope Media reports sales of natural products at natural products retailers increased nine percent in 2000. The largest contributing increase came from foods, up 11 percent. Organic represents 29 percent of total sales — up from 27 percent in 1999 — and 45 percent of food sales. The largest food category reported is packaged grocery with 11.2 percent of sales, followed by produce with 8.5 percent.

The focus on natural and organic foods is leading retailers of all shapes and sizes to reconsider the category. Many are adding or enlarging natural products

departments within their stores.

Oklahoma City-based Pratt Foods Supermarkets, a family-owned conventional grocery chain, has offered certified organic food and nutritional supplements at three of its eight locations since 1989.

Pratt's Food & Health Store, a natural food store concept, is integrated into the grocery store. The challenge was to locate the organic and natural foods in each category within the store departments and somehow distinguish them from the conventional products. The "wellness stores" are a retail success story, with organic and natural food products representing over 16 percent of total store sales. Those sales remain steady today, ranging from 16 to 20 percent and birthed another Pratt concept — Pratt's WellMarket, a 32,000-square-foot natural products grocery store which opened this summer in Edmond, Okla.

Owner J.B. Pratt, Jr. explained, "There were a lot of changes in the marketplace with dry goods companies going into grocery. I think it was a good business decision to make a format change."

The store's signature is "Quality of Life Foods" and it's comprised of prepared foods, frozen, deli, and meat and has on staff a registered dietician.

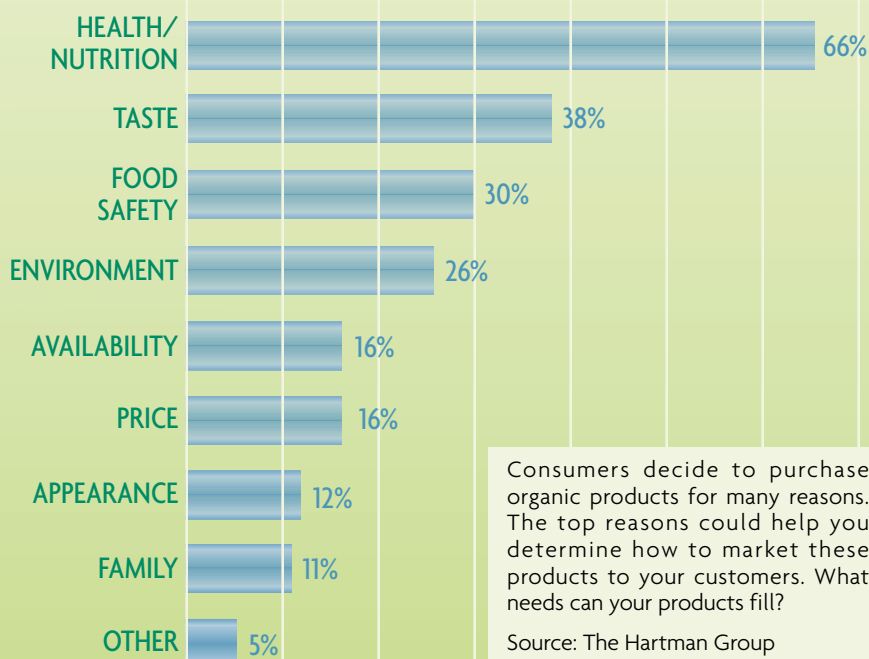
"We have a lot of clean gourmet foods in there as well, really fine gourmet foods people like to buy," boasted Pratt.

## Hot Message, Cool Results

A concerted effort is being made by organic and natural products manufacturers to impress your customers daily. The OTA's marketing efforts this year generated over 71 million media impressions. During a comparable period in 1999, OTA's public relations generated 61 million media impressions. Whether it's a medical report that olive oil may squelch your appetite (*Prevention*, June 2001) or an NBC "Today Show" report on functional beverages (June 5, 2001), consumers are getting an education on the healthy benefits and great tastes the new generation of natural products can provide.

The International Food Information Council Foundation studied media messages during a three-month period in 1999. Their report of 1,260 nutrition, health, and food safety stories over those three months showed a 53 percent increase over a similar 1997 study. The most important message is the fact that food was portrayed as friend, rather than foe. Twenty-nine percent of all discussions focused on the general wellness and health-boosting aspects of food — the role of food in disease risk reduction, foods' functional components, and the antioxidants, vitamins/minerals, and fiber in foods.

### Top Motivators for Organic Food and Beverage Purchases - Organic Users



Customers who once flooded supplement aisles looking to live healthier lives are now filling the food aisles, and the marriage of organic and natural with frozen convenience has industry members up and down the supply chain gulping down double-digit sales growth. In the mainstream arena particularly, some companies see profitable opportunities and are rushing to take advantage. The end result: Those in the natural products industry are facing increasing competition from conventional food manufacturers.

Interest in the frozen food category alone shows increased evidence of conventional food manufacturers moving in. Heinz recently purchased natural frozen foods maker Ethnic Gourmet. The company already owns a 19.5 percent stake in natural foods and beverages maker Hain Celestial Food Group. General Mills bought Small Planet Foods in 1999 — the parent company for Muir Glen organic tomato products and Cascadian Farms organic foods. Kellogg's purchased Worthington Foods — maker of Morningstar Farms frozen foods.

The mergers alone are a good indication that frozen foods represent a prime growth category for natural products. In natural foods markets, natural frozen foods sales grew 21.5 percent in 2000, according to SPINS, a San Francisco-based market research firm. New Hope Media research shows organic frozen entrees, pizza, and convenience foods grew 23.4 percent in 2000 to garner \$134 million in sales.

Pratt said frozen foods are one of the highest-growth categories in his stores and he attributes their success to more offerings and better quality.

"There are a lot more choices; that's the reason we put organic products in — to give people choices. We're just tickled it's expanding because it makes it look like we knew what we were doing," Pratt said. "I am just glad to see organic become involved in these areas. People want it to be convenient and taste good."

Customers at the four Earth Fare locations in North Carolina, South Carolina, and Georgia drive growth in frozen foods sales, according to John F. Swann, purchasing director for the Asheville, N.C.-based natural products markets.

"Frozen is a very happening category. Category sales are up across the board. We see a definite increase in frozen food offerings," Swann said. "Where we're seeing the excitement is in the entree area."

Earth Fare has expanded the frozen

sections in each of its current locations, and in planning its fifth store, added more cooler doors to the design as well.

General acceptance of the nutritional value of frozen foods has likely increased with the recent endorsements by the U.S. Department of Agriculture and the Department of Health and Human Services. This year, in releasing their dietary guidelines that advise five servings of fruits and vegetables a day, those agencies reiterated their position that frozen varieties have nutrient profiles on a par with, and in some cases exceeding, fresh produce alternatives.

## The Organic Label

According to the Food Institute's Food Industry Review 2000, organic products represent 30 percent of natural food manufacturer sales. With the National Organic Program becoming fully implemented in 2002, consumers will be exposed to new certification identification and you can count on the media covering the process, focused on educating the public as to what all this means.

"It's the best thing that could happen for consumers," Pratt said. "It will build consumer confidence and eventually, encourage more farmers to go organic."

Pratt said all categories of organics are performing well at his stores. From organic meat to processed foods to organic dairy, organic is Pratt Foods' fastest-growing category. Buoyed by new federal regulations and better manufacturer introductions, Swann agreed that sales of organic products are booming across the board.

"I think the federal regulation has brought a legitimacy to the category," he explained. "It's going to continue to grow and become more of an accepted food category."

At Earth Fare, all certified organic categories are gaining consumer attention. Swann said it's the fastest-growing category in the store, as well as the fastest-growing category on manufacturer sell sheets.

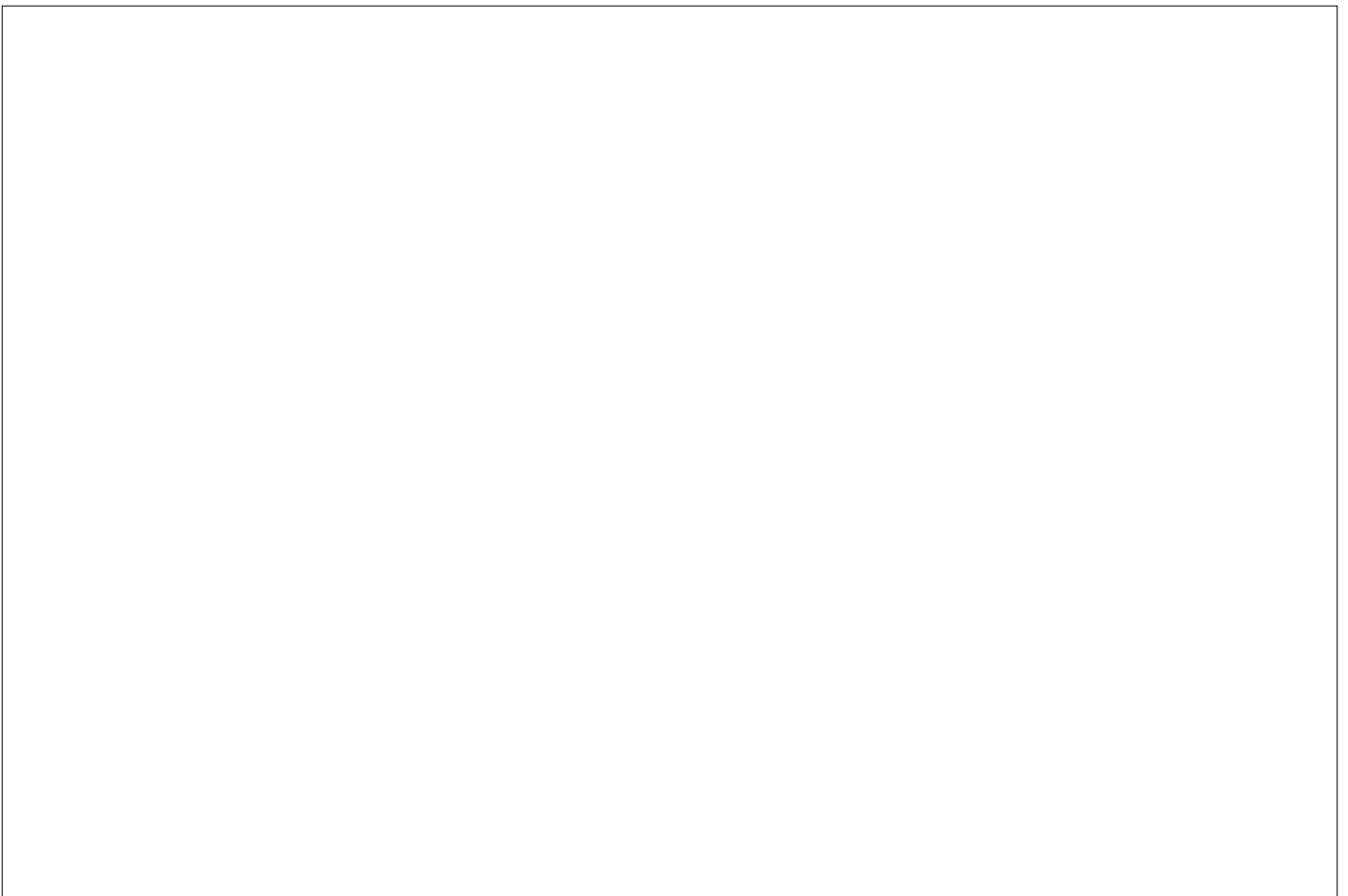
"At the Haddon House show, I noticed that a lot of items I had rejected in the past because of the preservatives and other ingredients had cleaned up their act," Swann said. "Many gourmet lines are cleaning up their products and are offering their alternatives in the natural channel. We think that's great because it enables us to carry recognizable brands

POWER DRINKERS		LIFESTAGE					
		18-34 w/ kids	18-34 w/o kids	35-54 w/ kids	35-54 w/o kids	55-64	65+
LIFESTYLE	Upscale Suburbs	3	1	1	3	1	1
	Traditional Families	4	4	2	4	1	1
	Mid/Upscale Suburbs	3	2	2	2	4	4
	Metro Elite	3	3	3	3	1	4
	Working Class Towns	4	4	4	4	4	4
	Rural Towns and Farms	4	4	4	4	4	4
	Mid Urban Melting Pot	2	3	2	3	4	4
	Downscale Rural	4	4	4	4	4	4
	Downscale Urban	2	3	3	3	1	4

1	2	3	4
soy drinks	natural drinks	soy and natural drinks	low demand for soy or natural drinks

This chart illustrates the high-demand populations for soy and natural drinks, according to consumer lifestyle. Spectra created a profile of people likely to consume at least 20 percent more than the average consumer.



our customers want.”

As a wider audience is introduced to organic products, the consumer profile as laid out in The Natural Marketing Institute's *2001 Health & Wellness Trends Report* might expand. But as of today, the average organic user tends to have a higher income than the general population and is more likely to have a college degree. Most households have one or two members and reside in cities or urban settings. A “Whole Foods” questionnaire in the consumer magazine *Better Nutrition* revealed a majority of female respondents. The median age was 54 and almost half (49 percent) of those responding were married. The survey also revealed purchases made by these consumers illustrated gains in specific natural products, including honey, soup mixes, seasonings, cheese, nut butters, milk, hot cereal, and meat.

## Soy Be It

Another winning category is soy. In 2000, manufacturers brought to market over 300 soy-based products. SPINS released *Soyfoods 2001: The U.S. Market* in June; it addressed growth in all segments of the

\$2.5-billion soyfoods category.

Soy consumers — most highly populated in the Pacific and New England regions — were greatly impacted by the FDA's approval of a new heart claim that can be used on soy products. In the study, two-thirds of Americans professed a willingness to add soy to their diet. About one-third said they had used organic products within the last three months, and according to *American Demographic Magazine*, about 60 percent were willing to try soyfoods.

“Soy products are wonderful. Two of my best-selling items are soy nuts and Edamame,” Janet K. Ostrow, president of Kenmore, N.Y.-based Premier Gourmet said. “Happiness is when Edamame came out of the shell. Now that you can buy them frozen and out of the shell, people use them for everything. Those two products are two of my best-selling grocery products.”

Within the soy category, SPINS research revealed that nondairy beverages are the fastest-growing mature category, with an 18.7 percent growth in natural foods markets and 93.7 percent in mainstream food stores, drugstores, and mass merchants. The new category of cold cereals realized a 42,204 percent

growth — the highest growth rate of all soy categories in the mainstream. The category grew to \$3.5 million, or 970 percent in natural foods stores.

Pratt said his stores are no exception. Soy nuts, edamame, soy cereals, and soy milk are top sellers.

“It's really a remarkable category and growth is incredible. We started to promote soy four years ago,” Pratt said. “Soy drinks seems to be the big one, but there are an increasing number of people who are asking about a variety of soy products.”

Swann said the vegan category is also gaining more customer attention, with particular interest in meat analogs and anything with a soy base.

“Silk product from WhiteWave is leading the pack. It's an organic soy-based milk. It's a killer product. Whoever had the idea of getting it out of the aseptic package and putting it in the dairy case was a genius,” he said. “We're seeing an increase in anything that is soy-based. The heart-healthy claims they are now able to make are a lot of the driving force as are the animal scares — mad cow and foot and mouth.”

But Swann said the headlines aren't scaring customers away from meat. He is quick to add his customers are seeking out the store's meat department for high-quality product they can trust.

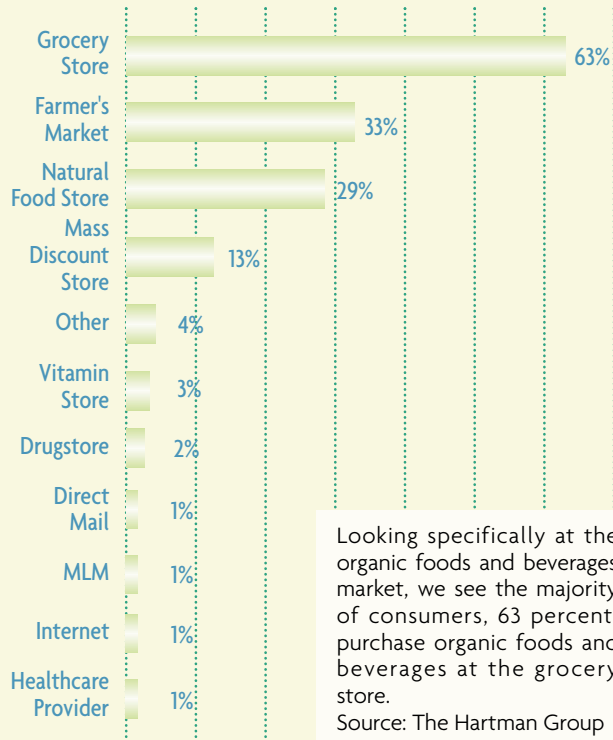
“There are just more and more concerns and we're seeing it in our meat department. People want to be sure they know where their meat is coming from because headlines are raising their awareness,” he said.

## The Beverage Boom

Beverages as a whole led the natural products food segment in 2000. Fueled by concerns about growth hormones, nondairy beverage sales rose 58.3 percent and dairy jumped 34.2 percent. According to New Hope Media reports, sixty-one percent of nondairy is organic, as is 46 percent of dairy.

New York City-based Spectra Marketing ([www.spectramarketing.com](http://www.spectramarketing.com)) compared soy (organic) to competing natural drink consumers for *The Gourmet Retailer* to determine their ethnicity, education, and income. A predominant number of soy consumers are professional/executives with post-graduate degrees and an income higher than \$75,000 annually. While a large number said they were His-

## Where Consumers Shop for Organic Foods and Beverages - By Individual Channel



panic, an even larger portion noted “Other, Non-Hispanic,” while black and white populations were represented evenly.

Other beverages — energy drinks, waters, enhanced bottled waters, juices, and other functional beverages — saw sales climb 84.2 percent, up to \$413 million from \$224 million. The market for functional beverages alone has nearly doubled in the last four years and accounted for about \$4.7 billion in sales last year.

Ostrow said her customers can't get enough of the category — “All the power drinks and the energy drinks do really well.”

## The Future

Looking into the crystal ball, we see that organic/natural product demand is not a trend, but due to a fundamental change in consumers' attitude. According to a new study, *Walnut Acres Certified Organic Future*, done by Roper Starch Worldwide for Acirca, about 68 percent of the survey respondents predict that organic foods and beverages will be a major force in the new millennium. Statistics show that about 40 percent of Americans will increase their families' use of organic products within the next year and 50 percent within five years.

The International Dairy•Deli•Bakery Association's *2002 Trend Report* pays close attention to natural and organic products.

“The organic and natural food business will also continue to expand into more gourmet products,” the report states. “This will take the form of ‘feeding stations’ that are conveniently located close to transportation to and from work. These outlets will provide ready-to-eat gourmet-style or ready-to-cook gourmet ingredients.”

The IDDBA study goes on to report these stations might

take the form of prepared food sections in local supermarkets. To illustrate this, the report gives examples of two independent retailers that offer organic and natural segments in all grocery sections, as well as carry “from-scratch” items, such as tofu entrees, rotisserie and broasted chicken using Amish free-range chicken, soy products, and vegan pates.

Functional foods, which totaled about \$23.4 billion in general sales in 2000, also garnered IDDBA attention. The report notes probiotics as a category worth watching, pointing out Dannon’s new product test Dannon Actimel, a dairy drink supplemented with a variety of live cultures, including *Lactobacillus casei*. Other probiotic introductions include: Parmalat’s Plus Omega 3 enriched milk, Vita7 (vitamin-enriched milk), and Andeshser Molkerei Scheitz’s Bio-Activ probiotic cheese slices.

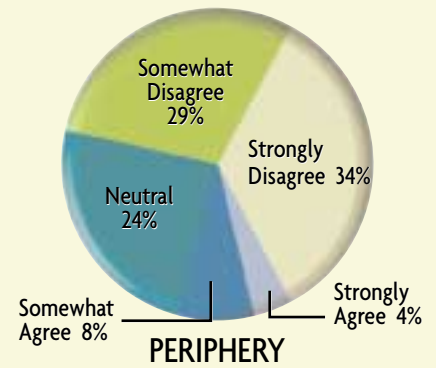
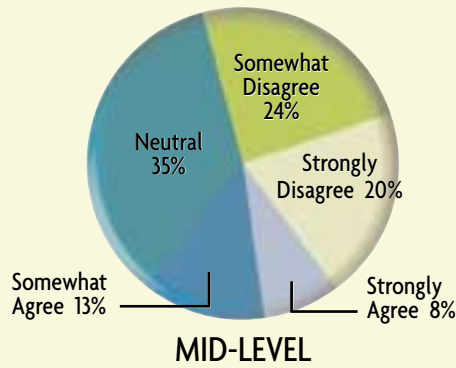
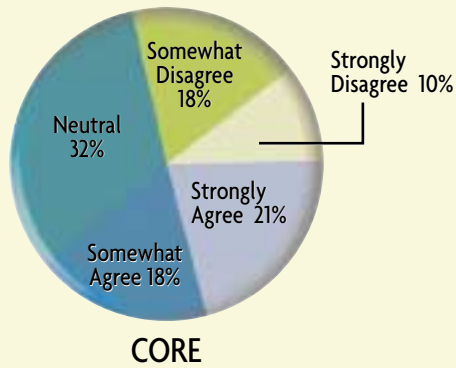
Swann is wary of functional foods using herbal supplements as additives. Instead, he is supportive of products that simply have a functional value like flax-based and fiber-enriched cereals. Products using natural ingredients which have healthy claims associated with them — such as natural tomato extract for prostate cancer prevention — will provide retailers with sales longevity.

“I see a coming storm on the horizon from the FDA and consumers on the standardization of the use of herbs. It’s boiling down to, ‘Is it food or is it a supplement?’ Crossing those boundaries is going to get us into trouble. I am still seeing growth in the functional foods category, but personally I don’t think it’s going to last,” Swann said. “We have seen some of these items just bomb on the shelves. The main thing is food has to taste good. If it doesn’t taste good, adding ginkgo biloba isn’t going to make it sell. The products that are doing well are value-added products.”

Private label is another arena IDDBA reports as healthy, with some retailers finding these programs as another way to bring in more revenue to the category. Another good selling point for private label is The Natural Marketing Institute’s *2001 Health & Wellness Trends Report* which shows brand awareness for organic consumers is low, but loyalty is high. The report goes on to claim organic consumers are slightly more likely to buy local and to try new products. Still, only 43 percent said they most often choose the store brand.

Wild Oats has a premium brand

# I Shop the store I shop because of the knowledgeable salespeople - Core to Periphery



The Hartman Group's *Organic & Natural Products Spring 2001 Report* analyzes wellness consumers' shopping behavior, illustrating the importance of maintaining a knowledgeable staff. Thirty-nine percent of core (dedicated) wellness consumers believe having knowledgeable salespeople is important, compared to only 21 percent of mid-level (frequent), and 12 percent of periphery (infrequent) wellness consumers.

which is primarily organic and its Wild Oats Down to Earth Value Brand, a commodity-based all-natural line. Big sellers for the store are rice, soy milk, and cereal.

But natural products supermarkets aren't the only ones with private labels. Pratt's offers a Natural Value line featuring 48 items, with its best-sellers being peanut butter, pasta, and pasta sauce. Cincinnati, Ohio-based Kroger's is also developing its own organic line called Naturally Preferred.

"We have a line that you would call a house brand. It's doing very well because it's very popularly priced. Not all the items are organic, but the ones I am interested in are organic. It offers a price differential and allows more people to buy organic," Pratt said. "I have a lot of people who are on a budget and I would like to see them be able to buy organic like everyone else."

As consumers' organic experiences continue to increase and food safety issues continue to make headlines, there seems to be no end to the growth potential of natural and organic products.

"I see it going nowhere but up — particularly organic. We have our regulations and consumers are aware of more health concerns," Pratt concluded. "When you ask yourself what the best choice is to avoid the serious nature of things, everywhere you turn the best source is organic. Know what you are eating, buy organic — that's really what it amounts to. It is the gourmet of the 21<sup>st</sup> century." GR