

May 2005

## Organic Opportunities

By Elizabeth Fuhrman

### Organic beverage sales are booming. But why, and who are these consumers?

No longer considered specialty products, organic foods and beverages are earning mainstream popularity as more consumers are finding their way to organic products. For the 52 weeks ending March 19, 2005, organic beverage sales reached more than \$1.1 billion, which was up 14.1 percent from the same period a year ago, according to San Francisco-based SPINS' SPINSscan Conventional and Natural Channels.

Organic dairy beverages are leading the organic beverage category with \$263.6 million in sales. Along with organic non-dairy beverage sales at \$213.7 million, organic teas at \$131.8 million, organic shelf stable juices and functional drinks at \$102 million and organic refrigerated juices and functional beverages at \$66.3 million, the top five organic beverages make up about 70 percent of the total category.

Top Five Organic Beverage Categories	
Category	Sales (in millions)
Milk, Half & Half, Cream	\$263.6
Non-Dairy Beverages	\$213.7
Teas	\$131.8
Shelf-Stable Juices & Functional Drinks	\$102.0
Refrigerated Juices & Functional Drinks	\$66.3

Source: SPINSscan Conventional and Natural Channels for the 52 weeks ending March 19, 2005 in conventional food, drug and mass and natural supermarkets.

According to the Natural Marketing Institute (NMI) in Harleysville, Pa., total organic food and beverage sales in the United States reached \$10.9 billion in 2004. While overall organic food and beverage sales have doubled during the past five years, year-to-year growth rates have been receding from 23 percent in 2000 to a more modest 18 percent in 2004. This could indicate a slowing of sales growth to a more sustainable rate, but could also be a sign that the number of organic consumers must be increased to sustain industry growth, according to NMI's Organic Consumer Trends Report 2005. Assuming that sales continue growing at slower annual rates, by 2007 organic food and beverage sales are projected to reach \$15.4 billion, the report says.

Ten years ago, the large majority of organic food and beverage sales were found in natural food channels. As recently as 2000, 60 percent of organic sales were in the natural channels such as Whole Foods Market, Wild Oats and Trader Joe's, while 30 percent came from grocery. However, in 2004 the gap between natural and mainstream channels narrowed to 46 percent in natural channels vs. 44 percent in mainstream grocery.

An increase in overall food and beverage sales in mass merchandise outlets also resulted in increased organic sales. In 2004, organic sales in grocery plus mass channels surpassed 50 percent of total industry sales for the first time. NMI expects these trends to continue with organic sales in grocery stores anticipated to surpass organic sales in the natural channel this year and with mass merchandisers' share approaching 10 percent of the total organic sales by 2007.

“There are now more organic products available than ever before, and they are available in more venues than before so more shoppers have the chance to see the product, try the product and hopefully continue to use the product and find products that meet their tastes,” says Holly Givens, communications director for the Organic Trade Association in Greenfield, Mass. “There really is now an organic product out there for every taste, and beverage is included in that.” With regard to consumers’ need to use organic beverages, the category compared to packaged food and produce, showed the least necessity (27 percent vs. 35 percent and 44 percent, respectively) in NMI’s Organic Consumer Trends Report 2005. Twelve percent of consumers currently are using organic beverages, with another 15 percent of the population indicating a desire, but not currently using them.

**Making sense of organic**

The term organic relates to the way ingredients are grown and processed. Little scientific evidence exists to prove that organic foods or beverages are healthier than non-organic. However, consumers have embraced organic as being synonymous with health. More than half of devoted organic consumers first tried organic beverages for their overall health, reports NMI.

“As shoppers learn more about their health and are concerned about living healthfully, they also see organic as fitting in well with that,” Givens says. “So even news about the food pyramid generally raises people’s awareness a little bit, gets them thinking and sometimes translates into interests in organic.”

Another third of regular organic users feel organic beverages are better for their families. Taste, nutrition content, preventing health issues, environmental concerns and safety then follow as reasons consumers start using organic beverages.

It’s true that official standards have been in place since 2002 and organic beverages continue to generate more consumer dollars, but being organic isn’t so simple. In order to sell products labeled as USDA Organic by the U.S. Department of Agriculture, manufacturers must adhere to a strict set of regulations. Organic processors must be certified by an agency that has been accredited by the USDA, which fully inspects farm and factory to make sure all the rules necessary to meet USDA Organic standards are followed. Companies that handle or process organic products must be certified as well. The name and address of the government-approved certifier also must appear on all packaged products that use organic ingredients.

**But what does it really mean?**

Organic food is grown without relying on synthetic chemical pesticides. Organic farmers are required by the National Organic Standards to minimize soil erosion, implement crop rotations and prevent contamination of crops, soil or water by plant and animal nutrients, pathogenic organisms, heavy metals or residues of prohibited substances. Organic farming also conserves natural resources by recycling natural materials and encourages an abundance of species living in balanced ecosystems.

La Farge, Wis.-based Organic Valley Family of Farms began in 1988 with just seven farmers and has grown into America’s largest independent cooperative of organic farms and one of the largest organic brands on the market. Organic Valley announced its best-ever year in 2004 with \$208 million in sales, increasing 33 percent over its \$156 million in 2003. It grew to a total of 689 organic farmers in 20 states. Organic Valley expects to continue this course of growth in 2005 with projected sales of \$259 million.

New to the company’s beverage lineup, Organic Valley released Soy in Original, Vanilla and Chocolate varieties. The half-gallon cartons are vitamin A-, B2-, B12- and D2-fortified and have no beany aftertaste or chalkiness. Offering a complete line of organic milk and juice products, Longmont, Colo.-based Horizon Organic, a division of Dallas-based Dean Foods Co., owns and operates an organic farm in Idaho and dairy farm in Maryland. This year, the Cornucopia Institute, an advocacy group for small family farms, filed a complaint with the USDA about three major dairies, including Horizon Organic, alleging that these operations don’t comply with organic rules that require cows to feed on pasture grass. Instead, the complaints say, farms confine cows to feedlots and feed them organic grain, a less expensive method of production. The USDA has started an investigation into the complaints.

Reasons devoted organic users choose organic beverages	
Overall health	55%
Better for me/family	32%

Taste	29%
Nutrition content	25%
Prevent health issues	22%
Environmental concerns	20%
Safety	14%
Source: The Organic Consumer Trends Report 2005, The Natural Marketing Institute, Harleysville, Pa.	

Horizon Organic, the largest U.S. organic dairy marketer, says it strongly believes in the importance of organic agriculture, not only to provide the best-tasting, highest-quality dairy and juice products, but also to encourage a safe future for the planet. One of its top priorities, the company says, is the humane treatment of animals. Cows that supply Horizon Organic with milk are not treated with antibiotics or growth hormones, and are fed only 100 percent certified organic cottonseed, hay and grain. The cows also have access to clean water, fresh air, pasture and exercise. Horizon Organic also purchases about two-thirds of its organic milk from family and independent certified-organic dairy farmers across the country. Through the company's feed and milk supply purchases, it says it supports more than 200,000 acres of organic farmland.

To keep the organic message alive, Horizon Organic launched a national education initiative dubbed the "Year of Organic Good Beginnings." The campaign aims to promote "the positive role that organic food plays in the overall health and well-being of consumers." The program includes a grant to a nonprofit group – the National Healthy Mothers, Healthy Babies Coalition – to develop and distribute a brochure on organic foods and nutrition. In a back-to-school campaign this fall, the company will focus on promoting organic foods in children's lunch boxes.

Regarding lunch boxes, Horizon Organic launched a line of kid-friendly smoothies in 2004, made with organic nonfat yogurt and fruit juices. The beverages are available in four flavors – Wild Berry Blast, Strawberry Banana Splash and Tropical Fruit Punch – and deliver calcium and 100 percent of the recommended daily intake of vitamin C per serving. The company also released Horizon Organic Single Serve Aseptic Juice in multipacks of eight 6.75-ounce boxes. The shelf-stable Apple, Grape and Fruit Punch flavors contain 100 percent juice and contain 100 percent of the recommended daily intake of vitamin C.

### Crossovers

The billion-dollar organic beverage market has proved difficult for some major players to ignore. Starting in August, Ocean Spray in Lakeville-Middleboro, Mass., will begin distributing Ocean Spray Organic 100 Percent Juice Blends. Available in Cranberry Blend, Cranberry Blueberry and Cranberry Raspberry, the products are certified USDA Organic and are packaged in 32-ounce glass bottles for \$3.99.

"Our short-term plan is to get into natural food channels like Whole Foods and Wild Oats, and then depending on our crop supply as well as our ability to support, we're going to expand regionally into some groceries," says Jared Konstanty, director of marketing, domestic beverages, for Ocean Spray. "At the moment, the company is accessing the marketplace where the highest development is for the organic section and where we thought would be the most opportunity for us."

Ocean Spray is an agricultural cooperative owned by more than 650 cranberry growers as well as more than 100 Florida grapefruit growers. Ocean Spray has been a best-selling brand in the canned and bottled juice category since 1981 and posted fiscal gross sales of roughly \$1.4 billion in 2004.

"We believe our brand name in the organic world will definitely be an advantage, primarily due to the fact that we have a long association with farming, obviously with the harvesting of fruit, but also just our trusted brand name and our strong tie to high-quality products and cranberry expertise above all else," Konstanty says.

Ocean Spray feels the organic launch will attract new consumers for two reasons. "No. 1, it's a really different benefit that consumers are looking for that in our current line we don't deliver," Konstanty explains. "Consumers take those benefits very seriously and they behave very rigidly within that world."

No. 2, the line is distributed in a different section of the grocery store and different channels that Ocean Spray traditionally hasn't gotten into. "An \$18 billion organic and natural food segment has emerged that we don't participate in," Konstanty says.

Jones Soda Co., Seattle, entered the organic food trade this year, too. In April, Jones Soda released a new line of organic teas called Jones Organics. The six tea flavors – Strawberry White Tea, Cherry White Tea, Berry Green Tea, Mandarin Green Tea, Tropical Red Tea and Peach Red Tea – will all be featured in 12-ounce glass bottles.

"Organics is a nice segue into offering products that are more healthy and natural," says Mike Spear, brand manager for Jones Organics.

Bethesda, Md.-based Honest Tea Inc. already has established itself as a leader in the ready-to-drink organic tea category with 40 percent of the market share in dollar sales for the year ending March 19, 2005, according to SPINSscan Natural, which tracks sales in natural supermarkets. But Honest Tea isn't planning on stopping at success only in natural channels. Honest Tea's Heavenly Green Tea has been a strong crossover product – an organic product that commands attention in all channels – says Seth Goldman, president and "TeaEO" of Honest Tea.

"We have seen this item gain approval everywhere from 7-Eleven to vending machines," he says. "In fact, a [Washington] D.C.-based vending machine company just ordered five vending fronts with a big picture of a bottle of Heavenly Honey Green on the front. This to me is a great illustration of how organics are moving beyond the usual natural foods channels."

Unlike organic beverages of the past, Heavenly Honey Green also delivers a mainstream taste and packaging with the health benefits of green tea. "It is packaged with a visually compelling label and bottle that makes it competitive with any bottled green tea on the market," Goldman says.

### **Organic beers**

Although not in the top five leading organic beverages yet, organic beers are proving to be another way for the organic and craft brewer's categories to grow. Wolaver's Organic Ales, a division of Otter Creek Brewing in Middlebury, Vt., offers five styles of ales – India Pale Ale, Pale Ale, Brown Ale, Oatmeal Stout and Wit Bier – distributed in 22 states, primarily in the East Coast, West Coast and Mid-Atlantic.

With the more than 200 million barrels of beer consumed in America per year, only 30,000 barrels are organic, estimates Morgan Wolaver, president of Otter Creek Brewing/Wolaver's Organic Ales. As the largest producer of domestic organic beer, Wolaver's Organic Ales will sell about 8,000 barrels of organic beer in 2005, which represents at least 50 percent of the domestic organic market, he says.

"Certainly when you look at the number of organic breweries out there, there are not that many of us," Wolaver says. "We're so small now. Craft-brewed beers are only 4 percent of the total beer consumption and then if you look at organic beers we're just a fraction. I think there soon will be more styles than what's available now." While domestic organic beers still are the primary products in the U.S. market, a significant number of imported organic beers began entering the domestic market in 2004. "Organic beers have taken on a much bigger awareness in Europe than they have in America," Wolaver says.

If many consumers turn to organic beverages because organic products are perceived healthier, why then would an organic user be attracted to beer when it's not typically considered a health drink?

"Organics is really a bigger issue than thinking of our health," Wolaver says. "It's also the health of our environment. It's really part of the sustainability of our planet as well. Our core consumers certainly look at it in that respect to see if we are good stewards of our environment ... They know with their buying power they can make a difference in the environment."

Organic beer consumers are label readers as well. Alcohol beverages and even craft brewers aren't required to list ingredients, but Wolaver's Organic Ales lists everything that goes into the products. The other feature organic beer consumers are interested in is brand relevance.

“They want to take a step further and look at us as a company to see what we’re doing, whether it’s being a sustainable company, whether it’s energy efficiencies or whether we’re environmentally conscious,” Wolaver says. **BI**  
Organic, biodynamic and beyond

The USDA Organic label can be confusing enough to some consumers, but some producers think the designation isn’t enough. The commercialization of organics has started a backlash from activists who are trying to popularize other terms, such as “Biodynamic” “Food Alliance Certified,” “local” and even “beyond organic.” Below is a brief breakdown of what these labels represent:

Food Alliance Certified – indicates that the food was grown on a farm that met specific standards for the treatment of farm workers, wild life habitat and pesticide use. The Food Alliance, Portland, Ore., certifies both producers and processors.

Biodynamic – depicts farms that are almost complete ecosystems. Demeter Inc., Junction City, Ore., oversees the term and certifies producers, processors and handlers.

LIVE – stands for Low Input Viticulture and Enology Inc., Veneta, Ore., and represents soil management, biodiversity, conservation and watershed protection for wineries and vineyards.

Certified Naturally Grown – represents a producer who is held to the same standards as the USDA National Organic Program materials list as well as residue testing, soil management and biodiversity regulations by New Paltz, N.Y.-based Certified Naturally Grown.

Local, Sustainable and Beyond Organic – are terms not overseen by special agencies, but are used by various food producers to indicate alternative practices.