Organic Trade Association's 2006 Manufacturer Survey

Researched and produced for the Organic Trade Association under contract by *Nutrition Business Journal*

EXECUTIVE SUMMARY

U.S. Organic Industry Overview

The U.S. organic industry grew 17% to reach $14.6 billion in consumer sales in 2005. Organic foods, still by far the largest and most clearly defined part of the organic industry, grew 16.2% in 2005 and accounted for $13.8 billion in consumer sales. Other organic products or 'non-foods'—including personal care products, nutritional supplements, fiber, household cleaners, flowers, and pet food—grew 32.5% from a much smaller base of sales and totaled $744 million in U.S. consumer sales in 2005.

In light of regulatory differences, most analysis of the organic industry in this report is divided into foods and non-foods. Although the final rules for USDA's National Organic Program have been in place since October 2002, rules governing processing and labeling for non-food products remain unclear today.

Organic Food Market

Organic Food Sales, Growth, & Penetration

The $13.8 billion in consumer sales of organic foods in 2005 represented 2.5% of total U.S. food sales, a 'penetration rate' that has grown from 0.8% in 1997. Organic foods have shown fairly consistent annual growth rates of 15% to 21% since 1997, when fairly comprehensive data was first available. Anecdotal data based on historical surveys and interviews with long-time participants in the organic foods business place growth estimates in a similar range of nearly 20% annually since 1990.

With annual growth of total U.S. food sales in the 2-4% range since 1997 and organic foods growth in the 15-21% range, it is clear that organic foods are making continuous progress into the American mainstream, adding more than $10 billion in annual sales since 1997.

Figure 0-1 Total Foods and Organic Foods Consumer Sales and Penetration, 1997-2005

	Organic Food ($Mil)	Organic Food Growth	Total Food Sales ($Mil)	Organic Penetration
1997	$3,594	na	$443,790	0.81%
1998	$4,286	19.2%	$454,140	0.94%
1999	$5,039	17.6%	$474,790	1.06%
2000	$6,100	21.0%	$498,380	1.22%
2001	$7,360	20.7%	$521,830	1.41%
2002	$8,635	17.3%	$530,612	1.63%
2003	$10,381	20.2%	$535,406	1.94%
2004	$11,902	14.6%	$544,141	2.19%
2005	$13,831	16.2%	$556,791	2.48%

Source: *Nutrition Business Journal* estimates based on OTA's 2006 Manufacturer Survey, annual *Nutrition Business Journal* surveys of manufacturers, SPINS, and other sources.

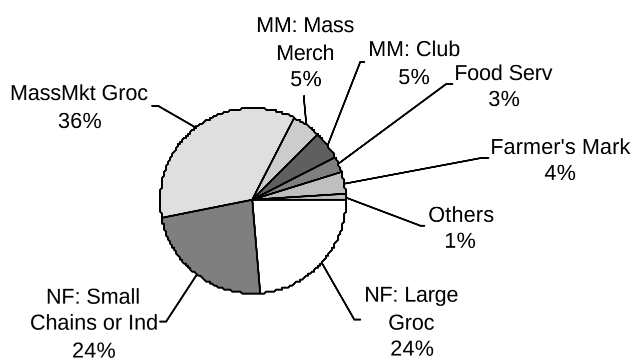
Organic Food Channel Distribution

As organic foods become part of the American mainstream, they are increasingly found in more mainstream retail establishments. Although the independent natural grocery or health foods store laid the tracks for the organic foods manufacturer and supplier, sales have since penetrated many other channels to the point that independent natural food stores represented less than 25% organic food sales for the first time in 2005. The largest natural food chains (led by Whole Foods Market and Wild Oats grocery retailers) represent an estimated $3.2 billion of total organic food dollar sales, so together the natural channel represented 47.2% of U.S. organic food sales in 2005.

Roughly 46% of total organic food dollar volume was sold through the mass-market channel, which includes supermarkets/grocery stores, mass merchandisers, and club stores. The natural food channel, which includes both independent natural product and health food stores and natural grocery chains, still accounted for the largest portion of organic food dollar volume at 47%. The remaining 7% was made up of farmer's markets, food service and other non-retail-store sales.

Figure 0-2 Organic Food Channel Distribution, 2005

Channel	Sales ($Mil)
NF: Large Grocery Chains	3,253
NF: Small Chains or Independent	3,274
Mass Market: Grocery	4,935
Mass Market: Mass Merch	689
Mass Market: Club	638
Food Service	453
Farmer's Market	486
Internet	25
Mail Order	24
Boutique/Specialty	52
Organic Food Total	**13,831**



Source: OTA's 2006 Manufacturer Survey & *Nutrition Business Journal's* organic industry model.

Organic Food Manufacturer, Wholesale, & Retail Universe

Research performed for the Organic Trade Association (OTA) 2006 Manufacturer Survey and comparable research in previous years by *Nutrition Business Journal* (NBJ) indicate that more than 900 companies sell organic food products at the wholesale level in the United States. This number represents companies that sell predominantly through the retail stores that account for well over 90% of total organic consumer sales. A number of farmers and entrepreneurs also sell organic products direct to consumers though farmers' markets and co-ops. Survey results and subsequent analysis produced the following table, which summarizes the 'universe' of organic food manufacturers.

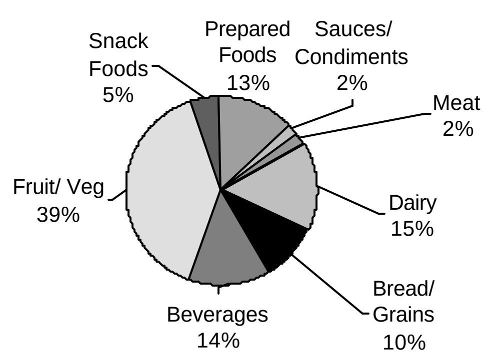
Organic Food/Beverage Manufacturing/Marketing Companies by Organic Sales	Total # of Cos.	Wholesale Organic Sales '05 ($mil)
Greater than $100 million (M)	10	2,076
Greater than $50M-100M	6	348
$20M - $50M	36	1,139
$10M - $20M	66	915
$5M- $10M	90	632
$1M-$5M	237	573
Less than $1M	488	164
Unpackaged Produce		2,195
Wholesale Private Label		882
Total Wholesale	**933**	**8,925**
Est. Markup		1.55
Total Organic Industry at Retail		**13,831**

Organic Food Categories

Looking at the major organic food categories, fruit and vegetables accounts for by far the largest portion of sales at 39% of the $13.8 billion total. Understandably the more established categories like beverages (includes soymilk) and fruit & vegetables grew less quickly in 2005 than less established categories. Smaller, less established categories like condiments and meat & poultry grew at noticeably higher rates in 2005 than more established categories. Data was collected and analyzed in 71 individual food sub-categories that comprise the eight major food categories in the table below.

Figure 0-3 Organic Food Category Share, 2005

Organic Food Categories	Sales ($Mil)	% Growth 2005
Dairy	2,140	23.6%
Bread & Grains	1,360	19.2%
Beverages (incl. non-dairy)	1,940	13.2%
Fruit & Vegetables	5,369	10.9%
Snack Foods	667	18.3%
Packaged/Prepared Foods	1,758	19.4%
Sauces/Condiments	341	24.2%
Meat/Fish/Poultry	256	55.4%
Total Org Consumer Food Sales	**13,831**	**16.2%**

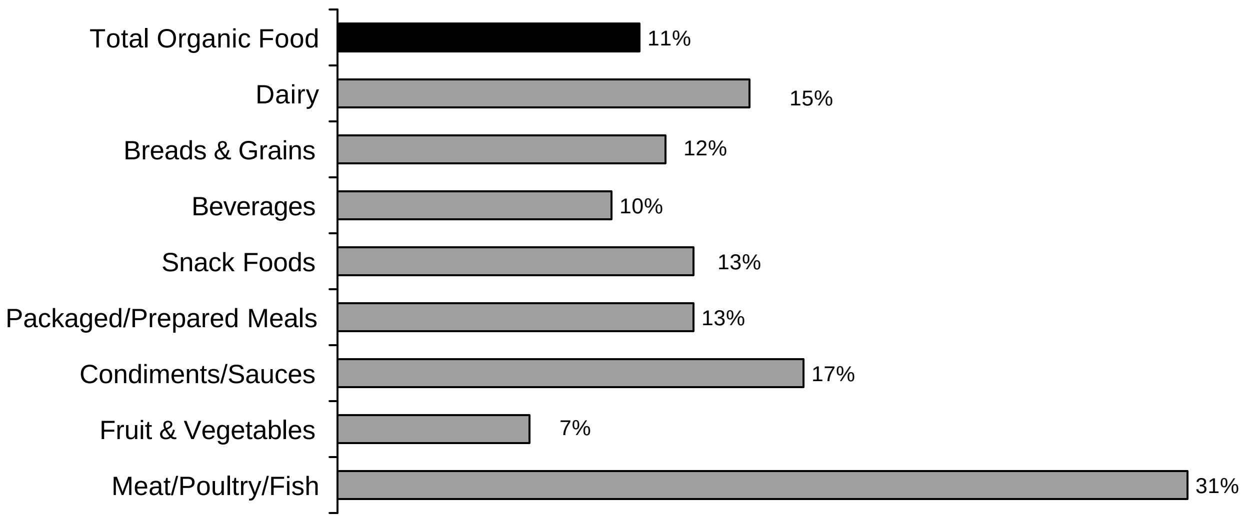


Source: OTA's 2006 Manufacturer Survey. Category and growth estimates derived from survey responses, *Nutrition Business Journal*'s organic industry model, SPINS retail data, and other sources.

Organic Food Forecast

A forecast derived from OTA manufacturer responses in 2006 and NBJ analysis anticipates overall organic food sales will grow 14% in 2006 and anticipates an annual average growth rate of 11% for organic foods from 2007-2010. Meat/fish/poultry is anticipated to be the fastest growing category during that time, with average annual increases of 31%. At the other end of the list, sales of organic fruit and vegetables (the largest major category in dollars) is forecast to grow an average of 10% annually. As categories grow, dollar value of sales increase expands and overall rates of sales increase tend to slow,

Figure 0-4 Organic Food Forecasted Average Annual Sales Dollar Growth, 2007-2010



Source: OTA's 2006 Manufacturer Survey and NBJ analysis

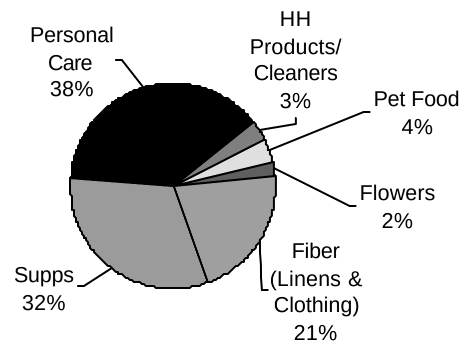
i. Organic Non-Food Market

Organic Non-Food Categories

Other organic products, or non-foods, had consumer sales of $744 million in 2005 and growth of 32.5%. Roughly 38% of organic non-food sales, or $282 million, were personal care products. Compared to organic foods, which had a penetration rate of 2.5% in 2005, organic non-foods are still emerging as a category and accounted for only 0.22% of total sales in their sectors in 2005.

Figure 0-5 Organic Non-Foods Category Share, 2005

Organic Categories	05 Sales ($Mil)	% Growth 2005
Organic Supplements	$238	29%
Organic Personal Care	$282	28%
Organic Household Products/Cleaners	$19	29%
Organic Pet Food	$30	46%
Organic Flowers	$16	50%
Organic Fiber (Linens & Clothing)	$160	44%
Total Organic Consumer Non-Foods Sales	**$744**	**32.5%**



Source: OTA's 2006 Manufacturer Survey. Category and growth estimates derived from survey responses, *Nutrition Business Journal*'s organic industry model, SPINS retail data, and other sources.

b. Organic Labeling, Certification, & Materials Supply

In addition to quantitative questions, a few qualitative questions were asked in OTA's 2006 Manufacturer Survey. The following summarizes some of the responses regarding the USDA Organic seal and its effect, manufacturers' perception of supply of organic materials, and the three 'levels' of labeled organic foods.

- When asked whether they display the USDA Organic seal on 'any' of their products, 61% of OTA 2006 survey respondents answered in the affirmative.
- Of the 39% of OTA 2006 survey respondents that do not currently display the USDA Organic seal, 53% reported that they intend to display the USDA Organic seal on their products in the future.
- 17% of OTA 2006 survey respondents reported that USDA labeling requirements and certification programs had "dramatically increased their ability to generate sales of organic products." 38% reported that labeling increased organic sales somewhat, 43% reported that labeling and certification had not affected sales, and 1% reported that it had decreased sales.
- 52% of survey respondents reported that a lack of dependable supply of organic raw materials has restricted their company from generating more sales of organic products.
- Nearly half (49%) of OTA 2006 survey respondents' organic sales were classified as 95+% organic, while 32% of sales were reported as 100% organic and 19% as 70+% organic.

Methodology & Acknowledgements

The Organic Trade Association 2006 Manufacturer Survey was conducted and produced on behalf of Organic Trade Association by *Nutrition Business Journal*. The survey was conducted in February and March of 2006. More that 200 companies responded to the survey, of which 160 firms submitted complete surveys, including revenues reported in narrow ranges, growth, and product and sales channel breakdowns. NBJ research provided revenue estimates and product and sales channel analysis for an additional 155 companies. These 315 companies represented an aggregate $3.9 billion at wholesale or a survey capture rate of 66% of the $5.8 billion in wholesale sales of packaged organic foods (excluding unpackaged produce and store-label products).

The Organic Trade Association 2006 Manufacturer Survey was managed and conducted by Grant Ferrier and Katja Rauhala of *Nutrition Business Journal*. Project direction from Organic Trade Association was provided by Holly Givens and Lori Wyman. A significant contribution was made by SPINS, which graciously shared register-scanned category data for calendar year 2005 to help reconcile manufacturer-reported sales and complete individual category and size estimates.

The Organic Trade Association (OTA) is the membership-based business association for the organic industry in North America. OTA's mission is to promote and protect the growth of organic trade to benefit the environment, farmers, the public and the economy. OTA's over 1,700 members include growers, shippers, processors, certifiers, farmers' associations, distributors, importers, exporters, consultants, retailers and others.

Nutrition Business Journal (NBJ) is an executive newsletter published monthly since 1996 that defines and tracks the major business segments and distribution channels of the nutrition industry. NBJ is a San Diego-based independent business unit of New Hope Natural Media, a Penton Media company. NBJ also publishes a series of market research reports, a weekly e-mail news update, market data archives on its website www.nutritionbusiness.com, and conducts specialty research projects on behalf of companies, government and industry associations.

Founded in 1995, San Francisco-based SPINS offers information-based solutions to the rapidly growing natural products industry. SPINS offers a range of sales tracking and consumer information services to meet the needs of current industry participants, as well as companies and individuals seeking new opportunities in this segment. SPINS' mission is to offer accurate and appropriate information about the Natural Products Industry that you can apply in a range of contexts. Its contribution was greatly appreciated.

Research Methodology

Project Team:

In December 2003, the Organic Trade Association (OTA) selected *Nutrition Business Journal* (NBJ) to conduct OTA’s third manufacturer survey. A decision was made to expand the scope of previous editions of the survey by adding market size quantification of organic categories. It was also determined that the 2004 survey response should be broadened to include non-members as well as OTA members. In early 2006, NBJ was again selected to perform OTA’s now fourth manufacturer survey using similar methodology to that used in the 2004 version with modest adjustments, many of which were suggested by OTA members.

Manufacturer Model:

To derive 2005 market size figures and growth rates, NBJ first conducted a comprehensive survey of organic food manufacturers. A survey form was developed (see appendix for a copy of the survey) and a database of companies and contacts was built. The survey was distributed and followed up by mail, fax, e-mail and telephone calls, using both a standard paper survey form and an electronic survey form accessed via the Internet. The survey was conducted in February and March of 2006.

While more than 210 companies responded in some manner, 160 firms submitted complete surveys, including their revenues (reported in ranges), growth and sales breakdowns by product and by sales channel (including natural product stores, direct or non-retail sales and all mass market outlets including Wal-Mart). Independent NBJ research provided estimated revenues and product and sales channel analysis for an additional 155 companies (some derived from updated 2004 survey results) for a total of 315 companies from which to analyze wholesale sales in 2005. These 315 companies represented an aggregate $3.9 billion in wholesale organic sales. (The final estimate of total wholesale sales of packaged, branded organic foods—minus unpackaged produce and private label sales—was $5.8 billion, indicating a survey capture rate of 66% of manufacturer wholesale sales.)

Referencing compiled lists of organic manufacturers from a variety of sources (industry directories, trade publication directories and websites, OTA member and prospect lists, exhibitors at the All Things Organic™ Conference and Trade Show and Natural Products Expo East and West, and store visits), NBJ estimated the total number of organic food manufacturers with sales in the United States at 933 in 2005. Survey respondents and the non-surveyed population were classified into the size categories listed in the table below based on 2005 wholesale sales.

In addition, estimates were derived for unpackaged produce (based mostly on distributor interviews and farm data) and private-label or store-brand organic sales (based mostly on store-by-store analysis of major contributors). Finally NBJ estimated an average mark-up from wholesale to retail of 1.55 to derive a consumer level sales value of $13.8 billion in organic food. A summary table of the survey set and NBJ organic industry model is in the table below.

Figure 0-6 Organic Food/Beverage Manufacturing/Marketing Companies

Organic Food/Beverage Manufacturing/Marketing Companies by Organic Sales	Total # of Cos.	Wholesale Organic Sales '05 ($mil)
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2005 Category Figures:

To derive 2005 category figures, wholesale sales dollars from each company in each category were summed for an aggregate total of sales in every category. The 'unsurveyed' amounts were estimated based on the proportions reported on the survey and adjusted when necessary using category data provided by SPINS. Data provided by SPINS in mainstream and natural channels were each multiplied by a consistent factor derived by NBJ to reflect the sales data and stores not captured by the SPINS scanning mechanism.

2005 Growth Figures:

To derive 2005 growth figures in each category, first, the dollar figures for all companies in each category were divided by one plus the reported growth rate for 2005 to derive a 2004 figure for category sales for that company. The 2002 calculated category totals for each company were then summed in each category and aggregated totals were compared to 2003 reported totals to result in a growth figure for each category. The survey set growth figure was then averaged with a 2005 growth figure provided by the SPINS data when there was a direct category match to provide a final category growth figure for those categories.

1997-2004 Category & Growth Figures:

Since 1997, *Nutrition Business Journal* has conducted its own annual surveys of natural and organic food manufacturers and performed market and growth quantification exercises similar to the OTA 2004 and 2006 surveys and industry modeling process described above. Results of this research, reconciled with data from a number of sources such as SPINS data, Natural Foods Merchandiser retail surveys and OTA manufacturer surveys in 1997 and 2001, were the basis for the historical market size and growth figures in major categories used in this report. Comparison to conventional food sales use conventional figures derived annually by NBJ from analysis of reports by *Progressive Grocer*, U.S. Department of Commerce, *Food Processing*'s top 100 food manufacturers and other sources.

2005 Sales Channel Breakdowns:

To derive 2005 sales channel breakdowns for each major category, respondents were placed in groups of companies with more than 75% of their product sales from one major category. (This report features eight major food categories subdivided into 71 individual food sub-categories.) Revenues in each major category from each sales channel were then added to derive percentages of sales from each of the channels in each major category.

2006-2010 Forecasts:

To provide a forecast for each product category, NBJ relied on survey responses as a guidance but as is customary made adjustments to the aggregated response since respondents tend to be overly optimistic. In each category, a number of respondents filled in forecasts. The top two and bottom two responses were eliminated, and the remaining responses in percentages were averaged to provide the final guidance figure for each category. For the major categories, the adjusted forecasts were applied to the 2005 sales total for each of the 71 categories, and the resulting totals were summed and a forecast growth rate for the major category was derived.

Non-Foods:

Figures for non-food categories were derived in much the same way as food, but the response sets were markedly smaller. Similar 'manufacturer universe' tables were constructed as they were for food, and a number of company sales were estimated in ranges based on number of products carrying organic labeling and NBJ's pre-existing knowledge of the larger companies**.**

Data Contributions From Other Sources:

The industry model of manufacturers presented above was the principle basis of industry quantification for this report, but considerable efforts were made to compile and use all existing information from other sources to help formulate the model. NBJ assessments are performed annually on all levels of the organic supply chain from farms to processors to branded manufacturers to distributors to retail stores and unique sale venues like co-ops and farmers' markets and lastly to consumers. Some data exists of varying depth and quality at all of these levels of the organic supply chain, and these sources were assessed to ensure that the results of this research project are not contradictory. Information compiled and published by agricultural economists and experts, including Cathy Greene of USDA's Economic Research Service, Luanne Lohr of the University of Georgia and Karen Klonsky of UC Davis, has also been analyzed by NBJ. Also commercially available reports on organic foods were studied when made available to NBJ. Research examined at each level of the value chain included but was not limited to: consumer spending data (The Hartman Group, Natural Marketing Institute, Roper Starch, Whole Foods Market and others), distributor data (United Natural Foods and Tree of Life records and documents) and raw material supplier or farm data (NBJ, Food and Drug Administration, selected state and Organic Farming Research Foundation surveys), and retail sales figures (SPINS and ACNielsen scanned retail data, and *Natural Foods Merchandiser* magazine store surveys for independent natural foods channels).

SPINS was particularly helpful in providing retail sales data on organic food categories. SPINS retail data consists of Natural Products Supermarkets, which include A-size natural products stores (POS scanning at selected stores with >$2 million in annual sales) with over 65% of Actual Cash Value from natural products. There are approximately 800-900 natural products A-size supermarkets in the U.S. by SPINS' estimates. Food/Drug/Mass includes Mainstream Food Stores, Drug Stores, and Mass

Merchandisers, and is sourced from ACNielsen ScanTrack: SPINS NaturalTrack. There are over 64,000 retailers in this channel in the U.S., according to ACNielsen estimates. Beginning in 2000, Wal-Mart stores were no longer included in this category in SPINS data.