

Trends in US Organic Food and Drink Product Introductions

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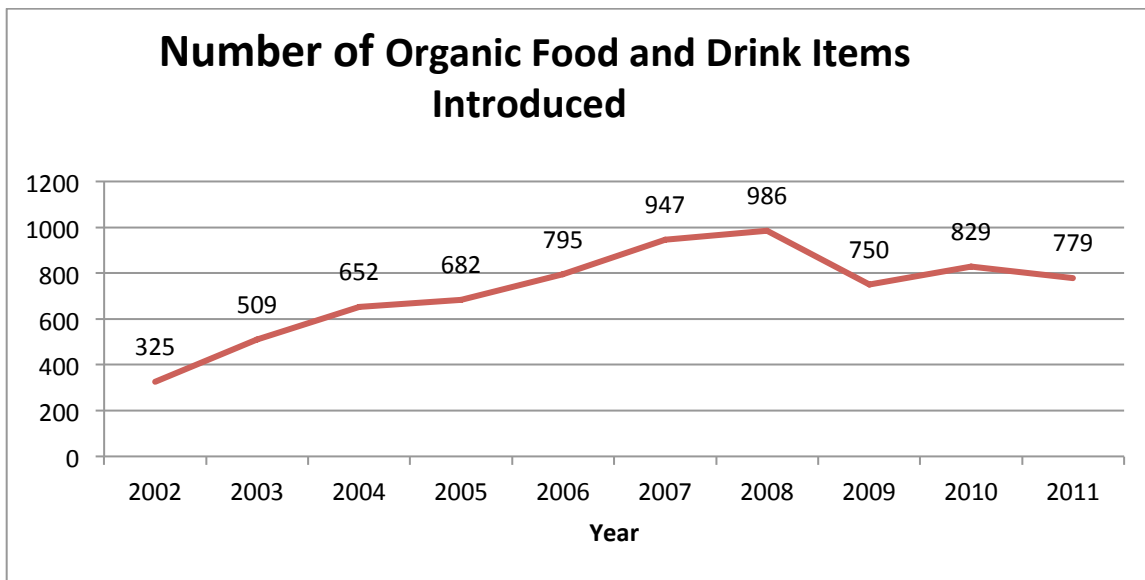
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Summary

According to data acquired from Mintel's Global New Product Database, 779 new organic food and beverage products were introduced in the United States between January 2011 and December 2011. This is a 6% decrease from 2010, but a slight increase from the large decline in 2009. The trend of US Department of Agriculture (USDA) certified introductions 2002-2011 is shown in the chart below. The majority of the 2011 organic products fall in the $\geq 95\%$ organic tier, 66.2%. Organic products accounted for 779 out of 11,904 (6.5%) food and beverage products introduced in the United States in 2011. Product data was analyzed to determine organic content, presence and location of the USDA seal, certification firm, category, private label vs. national brand, and presence of ingredients from the National List. Finally, ingredient and price analyses are conducted which show an average organic price premium of 21% and 6 versus 8 ingredients in organic compared to conventional food and beverage innovations. Implications of these trends for the US organic market are suggested.



Background

The US Department of Agriculture (USDA) launched the National Organic Program (NOP) on October 21, 2002. This required all products making an organic claim to be held to its guidelines, with the goal of creating consistency within the market. In an attempt to establish clear and consistent communications to consumers, the NOP provides labeling standards. Organic products can be divided into the following four tiers of organic content: “100% organic”, “organic,” “made with organic ingredients,” and “less than 70% organic.” Single ingredient products must be 100% organic. Multiple ingredient foods and beverages pose a more complex communication challenge. “Organic” products contain $\geq 95\%$ organic ingredients. The great majority of products launched in 2011 fall within the top two tiers of organic content, $\geq 95\%$ and 100%. Only these products are permitted to include the USDA organic seal on their labels.



“Made with organic ingredients” products contain greater than or equal to 70% but less than 95% organic materials ($95 > x \geq 70\%$ organic). These products are allowed to use the term “organic” anywhere on the package and are permitted to include the phrase “made with organic ingredients” but cannot use the USDA seal. Lastly, there is the category of products containing less than 70% organic. These products are not permitted to use the word “organic” on their primary display panels and may only list organic ingredients in the ingredients lists. Products in the “100% organic,” “organic,” and “made with organic ingredient” tiers must be certified and display the name of the certification firm (or seal) on their package.

The “National List” identifies nonorganic (in some cases even synthetic) ingredients that are allowable exceptions in multi-ingredient products. The National List applies to products in the “organic” tier only, those $\geq 95\%$ but less than 100%. These ingredients are permitted for use in organic products but are to be categorized in the non-organic portion of the product unless specifically noted as an exception, which is the case for water and salt. These allowed ingredients are determined by the

National Organic Standards Board (NOSB), a 15 member board appointed by the Secretary of Agriculture. The presence of ingredients on the list is justified by the goal of the NOSB to increase the range of organic products available to consumers. To accomplish this goal the NOSB tries to strike a balance between two objectives: limiting barriers for manufacturers to encourage innovation and maintaining sufficient strictness of organic standards to uphold the organic ideal. These allowances are intended to remove the possible barrier of a lack of supply of organic varieties of certain minor ingredients needed in product manufacturing. It is argued that the National List creates a paradox. The items are on the National List because there is insufficient supply of the ingredient produced organically. Yet, its presence on the List reduces the motivation for producing more of this ingredient organically (Van Camp et al. 2010).

Findings

A total of 779 organic food and beverage products were introduced in the United States between January 2011 and December 2011. Categories contributing the greatest amount of organic products are Sauces & Seasonings (96), Snacks (92), Hot Beverages (67), Dairy (64), and Bakery (60). Together, they account for 48.7% of all organic products (table 1). Analysis of organic content suggests that the overwhelming majority of products belong to the second tier >95% organic (66.2%). The top two tiers of organic content account for 76.6% of all products introduced.

The Hot Beverages and Sauces & Seasonings categories contain the greatest amount of products in the 100% organic tier, 18 and 17 respectively. Within Hot Beverages, teas (10) and coffees (8) are the sub-categories offering 100% organic products. The Oils subcategory accounts for 14 of the 17 100% organic products in Sauces & Seasonings category. The majority of 100% organic products (48 of the 81) are made with a single ingredient.

Table 1: Organic Content of US Food and Beverage Introductions (Jan-Dec, 2011 by Category)

Category	100% Organic	>95% Organic	Made w/ Org, 95%>i>70%	Some Organic, <70%	Missing Data	Category Total	Category Percentage
Sauces & Seasonings	17	62	9	4	4	96	12.3%
Snacks	6	58	17	6	5	92	11.8%
Hot Beverages	18	38	2	4	5	67	8.6%
Dairy	2	57	4	0	1	64	8.2%
Bakery	6	33	11	2	9	61	7.8%
Sweet Spreads	8	26	2	1	4	41	5.3%
Juice Drinks	6	22	3	1	6	38	4.9%
Breakfast Cereals	2	28	2	0	5	37	4.7%
Side Dishes	5	25	2	0	1	33	4.2%
Meals & Meal Centers	0	12	18	1	0	31	4.0%
Chocolate Confectionery	2	20	5	0	3	30	3.9%
Processed Fish, Meat & Egg	1	19	3	1	0	24	3.1%
Baby Food	2	19	1	0	1	23	3.0%
Desserts & Ice Cream	2	15	2	3	0	22	2.8%
Fruit & Vegetables	1	19	0	0	2	22	2.8%
Alcoholic Beverages	0	11	7	0	2	20	2.6%
Other Beverages	1	9	2	1	1	14	1.8%
Sugar & Gum Confectionery	0	7	5	1	0	13	1.7%
Ready to Drink Beverages	0	8	1	2	0	11	1.4%
Sweeteners & Sugar	2	8	0	0	1	11	1.4%
Soup	0	7	0	0	2	9	1.2%
Carbonated Soft Drinks	0	3	0	3	1	7	0.9%
Savory Spreads	0	5	0	1	0	6	0.8%
Sports & Energy Drinks	0	3	1	0	0	4	0.5%
Water	0	2	0	1	0	3	0.4%
Grand Total	81	516	97	32	53	779	100.0%

Third Party Certification Agents

Another recent trend in the food industry (especially in the US) is the expanding role of private label products, those brands managed by the retailer. Due to economic conditions, private label foods have shown a 34% increase in dollar sales in the US since 2006, reaching an estimated \$37.4 billion in 2011 (Mintel, 2011). Of the 779 organic products introduced in the United States in 2011, 119 are private label products (15.3%). Table 2 lists the retailers offering new organic private label food and beverage products in 2011. Leading producers are Trader Joe's (34), Target (12), and Whole Food's (11).

Wal-Mart, the largest food retailer in the US, only introduced one new organic product in 2011. Organic content trends for private label products are aligned with the organic content trends of all products. Again, the ≥95% organic content tier accounts for the vast majority of products (81.5% of all private label organic products). The top two tiers account for 88.2% of all organic private label products.

Table 2: Organic Content of Leading Private Label Products by Company

Company	100% Organic	>95% Organic	95>i>70% Organic	<70% Organic	Missing Data	Company Total
Trader Joe's	2	28	3	0	1	34
Target	0	12	0	0	0	12
Whole Foods Market	0	9	0	0	2	11
Winn-Dixie Stores	0	7	0	0	0	7
H-E-B	0	5	0	0	0	5
Costco Wholesale	0	3	0	0	1	4
Delhaize Group	1	2	0	0	1	4
Tesco	0	4	0	0	0	4
Winn Dixie	0	4	0	0	0	4
Cost Plus World Market	0	2	0	0	1	3
Hy-Vee Manufacturing	0	3	0	0	0	3
Kroger	0	3	0	0	0	3
Publix	2	1	0	0	0	3
Roundy's	1	2	0	0	0	3
Publix Super Markets	1	1	0	0	0	2
Topco Associates	1	1	0	0	0	2
Wegmans	0	2	0	0	0	2
Totals	11	97	4	0	7	119

The following firms launched 1 private label organic product in 2011: Wegmans, Earthfare, Harris Teeter, Napa Valley Naturals, Royal Ahold, Safeway, Sam's West, Starbucks Coffee, Supervalu, The Food Emporium, The Fresh Market, Vegan Essentials, Wal-Mart, and Williams-Sonoma

Products in the “100% organic,” “organic”, and “made with organic ingredient” tiers are required to be assessed by an accredited third party certifier before they are able to make the organic claim. Table 3 lists the market share of third party certification firms whose seals appear on organic food and beverage products introduced in the United States in 2011. Quality Assurance International (QAI) certified the greatest number of products by far, nearly 35%. Certification firms include both those

inside and outside of the United States. While the majority of firms are located within the United States, about 9% of products were certified by a firm located outside of the US.

Table 3: Third Party Certification Agents

Certifying Agent	Abbreviation	# of products	State/Country
Quality Assurance International	QAI	268	California
Oregon Tilth Certified Organic	OTCO	85	Oregon
California Certified Organic Farmers Certification Services	CCOF	36	California
Ecocert	Ecocert	28	France
Washington State Department of Agriculture	WSDA	24	Washington
Organic Certifiers, Inc.	OCI	20	California
Pennsylvania Certified Organic	PCO	12	Pennsylvania
Baystate Organic Certifiers	BOC	10	Massachusetts
Organic Crop Improvement Association	OCIA	10	Nebraska
Midwest Organic Services Association	MOSA	8	Wisconsin
Stellar Certification Services	SCS	8	Oregon
Maine Organic Farmers and Gardeners Association	MOFGA	7	Maine
Northeast Organic Farming Association of New York	NOFA-NY	7	New York
Pro-Cert Organic Systems Ltd.	Pro-Cert	7	Canada
Colorado Department of Agriculture	CDA	6	Colorado
Indiana Certified Organic	ICO	6	Indiana
International Certification Services	ICS	6	North Dakota
Quality Certification Services	QCS	6	Florida
Global Culture	GC	5	California
Institute for Marketology	IMO	4	Switzerland
Agrior Ltd.	AGRIOR	3	Israel
bio inspecta AG	BIO INSPECTA	3	Switzerland
Consorzio per il Controllo dei Prodotti Biologici	CCPB	3	Italy
Iowa Department of Agriculture and Land Stewardship	IDALS	3	Iowa
Natural Food Certifiers	NFC	3	New York
Soil Association Certification Ltd.	SACL	3	England
Texas Department of Agriculture	TDA	3	Texas
Utah Department of Agriculture and Food	UDAF	3	Utah
Austria Bio Garantie	ABG	2	Austria
bioagricert SRL	BIOAGRICERT	2	Italy
Control Union Certification	CUC	2	Netherlands
Guaranteed Organic Certification Agency	GOCA	2	California
Istituto per la Certificazione Etica e Ambientale	ICEA	2	Italy

Lacon Quality Certification	Lacon	2	India
Suolo e Salute	SUOLO E	2	Italy
The Ohio Ecological Food & Farm Association	OEFFA	2	Ohio
Missing Information		158	
TOTAL		779	

The following organizations certified 1 product in 2011; Abcert (Germany), Australian Certified Organic (Australia), Bio Latina Certificadora (Peru), CERTISY (Belgium), Fraser Valley Organic Producers Association (Canada), Global Organic Alliance, Inc. (Ohio), Idaho State Department of Agriculture (Idaho), Maryland Department of Agriculture (Maryland), New Mexico Organic Commodity Commission (New Mexico), New York State Department of Agriculture & Markets (New York), New Hampshire Department of Agriculture, Markets & Food (New Hampshire), Oklahoma Department of Agriculture Food and Forestry (Oklahoma), Organic Consumers Association (Minnesota), Organic National and International Certifiers (Illinois), Pacific Agriculture Certification Society (Canada), QCertificazioni S.R.L. (Italy), Irish Organic Farmers and Growers Association (Ireland), Vermont Organic Farmers (Vermont)

Total certified inside the United States: 550

Total certified outside the United States: 71

Seals and Marks

Use of the USDA seal is permitted only on 100% and >95% products. Yet use if voluntary within these 597 products. 45 chose not to use the seal (table 4, image 1 provides an example). Most frequently the seal is placed on the primary display panel.

Table 4: USDA Organic Seal Location

Position	Total	Position	Total
Front Only	353	Front/Left	2
Back Only	55	Front/Top/Right	2
Front/Back	54	Bottom	1
Front/Top	27	Front/Back/Left	1
Top	18	Front/Back/Right	1
Front/Right	13	Front/Back/Top/Right/Left	1
Right	7	Front/Bottom/Right	1
Left	6	Front/Right/Left	1
Front/Back/Top	4	Front/Back/Top	1
Back/Top	3	Top/Right	1
Total			552

Image 1: Product with 100% Organic Ingredients but no USDA NOP Seal

Some products chose to feature the seal of the certification firm rather than the USDA seal. The choice may be logical if the products are ineligible for the USDA seal. However, if the product were USDA seal eligible, it would seem that the greater benefit would come from featuring the seal with greater recognition. The third party



certification seals are not as recognizable as the USDA seal but are intended to serve a similar purpose, which is to make the consumer aware that the product has organic content. By including the USDA seal, the product is highlighting that it has organic content of $\geq 95\%$. Assuming the certification firm is USDA-accredited; both seals imply that the product is being held to the NOP standards.

Image 2: Certifying Agent Seal in Place of USDA NOP Seal



Some products include the exact amount of organic content of the product on the label. This strategy may appeal to

consumers, as the organic content information is stated and not just implied. Although this strategy is most often used to indicate 100% organic content, it

Image 3: Includes Exact Organic Content



is also used for products in other organic content tiers. The USDA does not require that this information be listed on the product's label. Canada, however, requires that the exact organic content be listed for products within the 95% to 70% organic tier. Thus, the strategy may be most common for products also sold in Canada.

Certain products have used an alternate seal to indicate organic content, neither the USDA organic seal nor a third party certification agent seal. The seal has no implied meaning outside of containing organic ingredients. Unlike the USDA seal, such an organic indicator implies nothing about the percentage of organic content in the product. Unlike the certifying agent seal that implies that the product follows NOP standards, the indicator implies nothing about the guidelines that the product follows. Therefore, this seal does not provide much information to the consumer.



Image 4: An Alternative Organic Seal

Organic Prices

Consumers tend to expect organic products to cost more than conventional products. Price analysis shows that this consumer perception is correct in some product categories but incorrect in others. It should be noted that this price analysis uses the manufacturers' Suggested Retail Price (SRP) and not actual (net of promotions) prices which likely vary by market conditions. Alternatively, the SRP captures the food firms' valuation of the product attributes at time of introduction. Comparisons were made by calculating the price per unit of measurement for each organic and conventional food and drink introduced in the US in 2011, taking the average and difference (Table 5). Certain categories had a wide range of prices.¹ In categories such as Baby Food and Fruits & Vegetables, the organic variety is considerably more expensive, approximately 269% and 181% more per unit of measurement

¹ These are organic; baby food, chocolate confectionary and sweeteners/sugars, and conventional products; hot beverages, sauces/seasonings, sweeteners/sugars, other beverages and sports/energy drinks.

respectively. However, in categories such as Sports & Energy Drinks, Other Beverages, and Sweeteners & Sugar, the organic variety is actually less expensive, 93%, 82%, and 56% less respectively. The weighted average difference among all categories is 21.3%, suggesting organic products are on average 20% more expensive than conventional products.

Table 5: Price Comparison Organic and Conventional Food and Drinks

Category	Organic		Conventional		Difference (\$)	Difference (%)
	# of Products (776)	Price/Unit	# of Products (10,487)	Price/Unit	Organic-Conventional	
Baby Food	23	0.1059	52	0.0287	0.0772	268.99%
Fruit & Vegetables	22	0.0287	281	0.0102	0.0185	181.37%
Juice Drinks	38	0.0129	239	0.0055	0.0074	134.55%
Sugar & Gum Confectionery	13	0.1307	448	0.056	0.0747	133.39%
Savory Spreads	6	0.0375	142	0.0166	0.0209	125.90%
Chocolate Confectionery	30	0.1188	542	0.0553	0.0635	114.83%
Sweet Spreads	41	0.0274	217	0.021	0.0064	30.48%
Alcoholic Beverages	20	0.0294	1065	0.0228	0.0066	28.95%
Processed Fish, Meat & Egg Products	24	0.0272	726	0.0211	0.0061	28.91%
Meals & Meal Centers	31	0.016	635	0.0125	0.0035	28.00%
Snacks	92	0.0696	1013	0.0573	0.0123	21.47%
Side Dishes	33	0.0108	362	0.0091	0.0017	18.68%
Desserts & Ice Cream	22	0.0244	363	0.0225	0.0019	8.44%
Breakfast Cereals	37	0.0145	285	0.0157	-0.0012	-7.64%
Bakery	61	0.021	1356	0.0229	-0.0019	-8.30%
Carbonated Soft Drinks	7	0.008	148	0.009	-0.001	-11.11%
Dairy	64	0.0163	712	0.0223	-0.006	-26.91%
Hot Beverages	67	0.0883	316	0.1274	-0.0391	-30.69%
Sauces & Seasonings	96	0.0356	1090	0.0584	-0.0228	-39.04%
Soup	9	0.0085	125	0.0153	-0.0068	-44.44%
Ready to Drink Beverages	11	0.0043	46	0.0093	-0.005	-53.76%
Sweeteners & Sugar	11	0.123	57	0.2804	-0.1574	-56.13%
Other Beverages	14	0.0288	198	0.1582	-0.1294	-81.80%
Sports & Energy Drinks	4	0.016	69	0.2134	-0.1974	-92.50%
Weighted Average of Categories		0.0430	-	0.0387	0.0043	21.34%

Simpler Products?

Average ingredient counts were considered for products introduced in the United States in 2011, both organic and conventional. Certain consumers assume that products are more “simplistic.” Indeed, in nearly all categories, organic products contain fewer ingredients than their conventional counterparts (Table 6). Considering all categories, organic products contained 2.4 fewer.

Table 6: Ingredient Counts, Organic and Conventional Food and Drinks

Category	Average for Conventional	Average for Organic	Difference Conventional – Organic
Breakfast Cereals	14.86	7.84	7.02
Other Beverages	11.53	5.75	5.78
Desserts & Ice Cream	10.98	5.68	5.30
Side Dishes	7.81	3.33	4.47
Chocolate Confectionery	9.01	5.52	3.49
Sports & Energy Drinks	11.21	8.00	3.21
Sauces & Seasonings	8.41	5.30	3.12
Baby Food	8.31	5.36	2.94
Fruit & Vegetables	5.24	2.50	2.74
Sweet Spreads	5.32	2.59	2.73
Bakery	11.11	8.51	2.61
Carbonated Soft Drinks	8.42	5.83	2.58
RTDs	7.30	5.00	2.30
Sugar & Gum Confectionery	8.86	6.58	2.28
Juice Drinks	7.24	5.14	2.09
Savory Spreads	11.16	9.17	1.99
Sweeteners & Sugar	3.17	1.20	1.97
Dairy	7.68	5.97	1.71
Water	4.59	3.00	1.59
Hot Beverages	3.96	3.08	0.88
Snacks	9.42	8.90	0.52
Processed Fish, Meat & Egg Products	6.31	5.89	0.43
Meals & Meal Centers	9.96	10.40	-0.44
Alcoholic Beverages	1.34	2.60	-1.26
Soup	10.26	12.44	-2.19
Weighted Average of All Categories	8.12	6.05	2.39

ingredients than conventional products. The greatest differences were found in the Breakfast Cereals, Other Beverages, Desserts & Ice Cream and Side Dishes categories. Exceptions include the following categories: Meals & Meal Centers, Alcoholic Beverages, and Soup. Within these categories, organic products contained a greater number of ingredients than conventional products. However, there are outliers – one organic snack listed 51 ingredients!

The ingredient content of the organic products were analyzed further to determine the number of products that include ingredients from the National List and which ingredients were most frequently used. Approximately 159 of the 779 products in this study contained ingredients from the National List, 20.4%. The most commonly used ingredients are citric acid, lecithin, yeast, carrageenan, and xanthan gum.

In Closing

It appears that a post-recessionary increasing trend in the number of organic food and drink introductions are returned to the US market. Most products eligible to display the USDA NOP seal do so prominently on the front panel of the label. Consumer perceptions that organic food and drink is more expensive and simpler than conventional appears well based, with an average price premium of 21% and an average of 2.4 less ingredients for organic introductions. Concerns over market power for a handful of certifying agents justify further research into whether the mission of the NOP is well served by these third parties.