Organic in the supermarkets – global trends

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Dr. Toralf Richter

Forschungsinstitut für biologischen Landbau

FiBL

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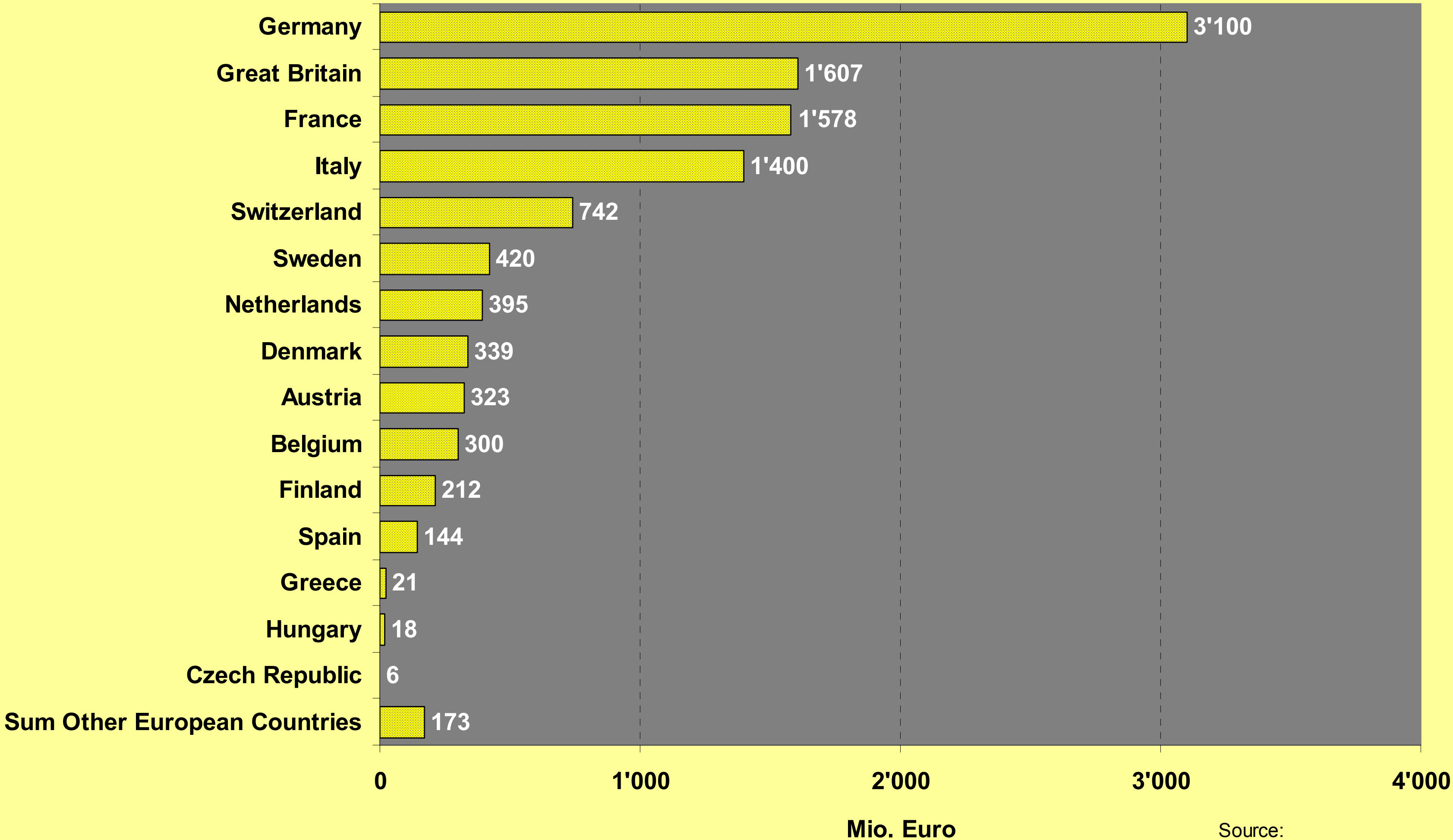
Sales for Organic Food in European Countries (2003)



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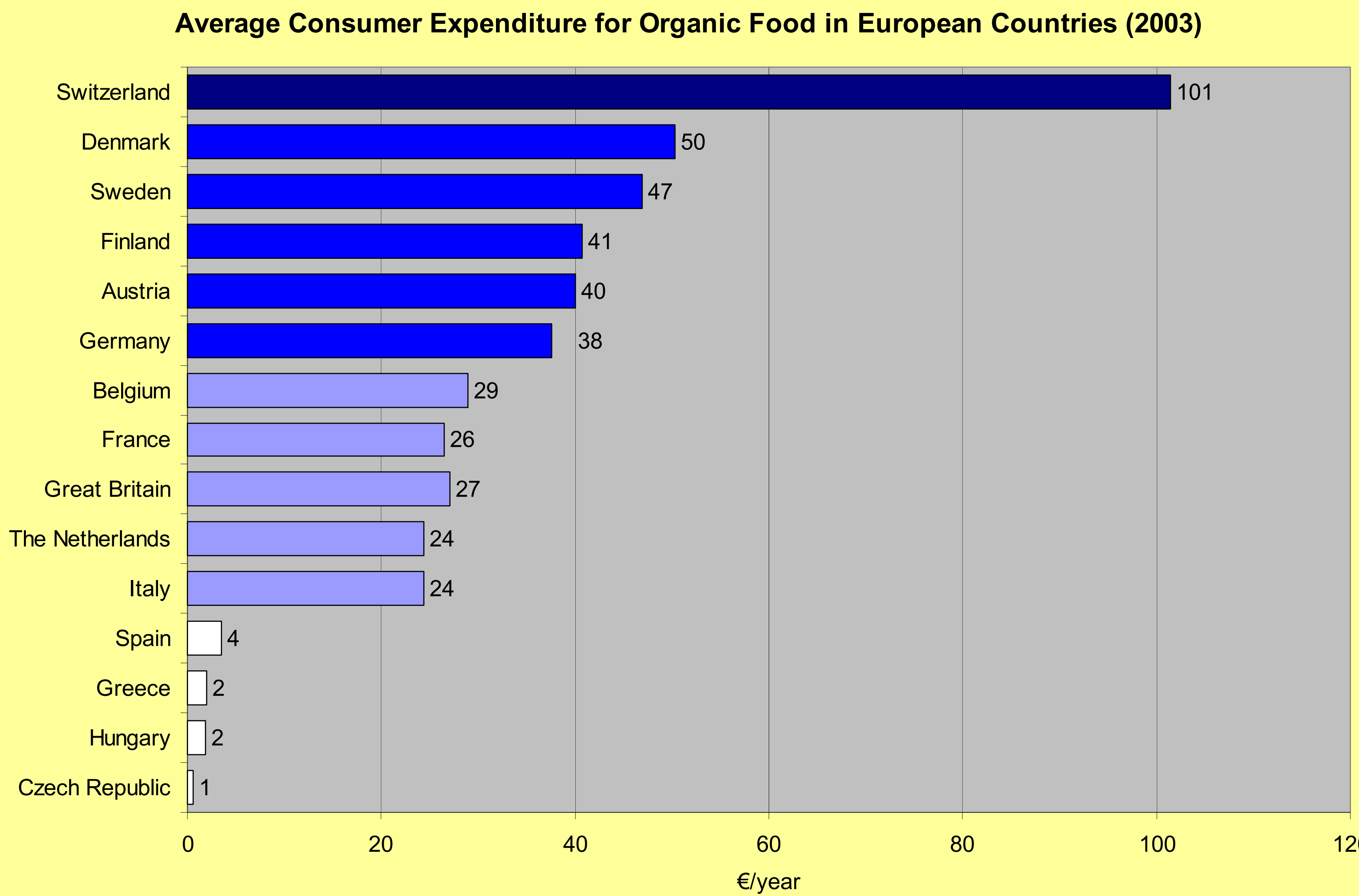
Europe



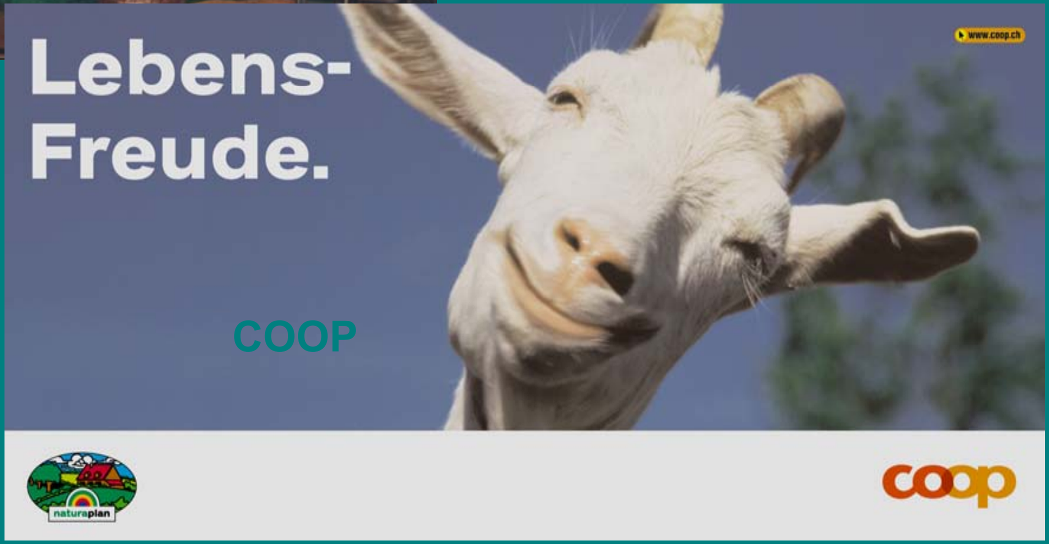
Average Consumer Expenditure for Organic Food in European Countries (2003)
Switzerland
Denmark
Sweden
Finland
Austria
Germany
Belgium
France
Great Britain
The Netherlands
Italy
Spain
Greece
Hungary
Czech Republic
101
50
47
41
40
38
29
26
27
24
24
4
2
2
1
0
20
40
60
80
100
120
€/year

Three-phase model for the development of organic markets

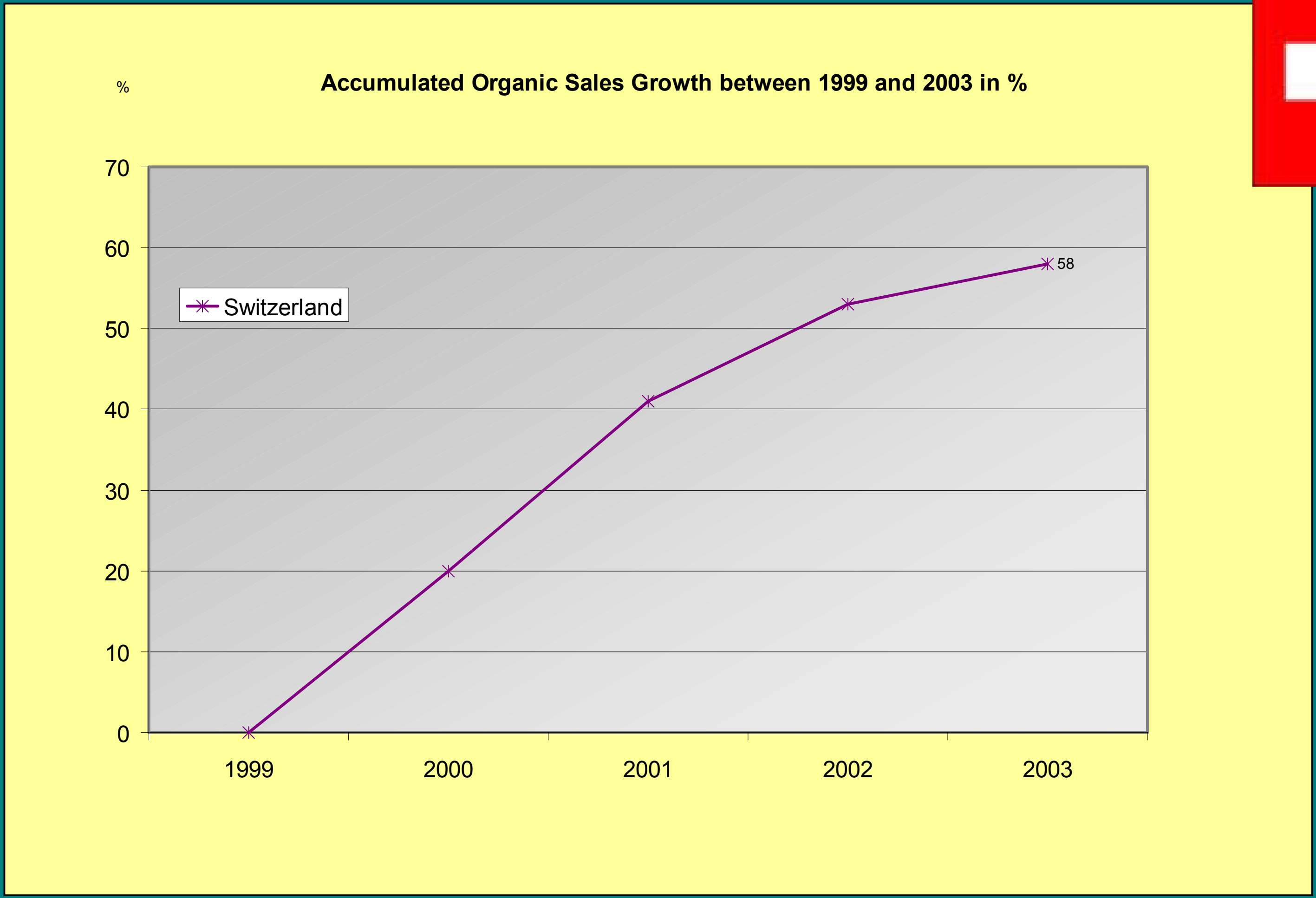
Matured Market	Growing Market	Emerging Market
• Austria • Switzerland • The Netherlands	• Germany • UK • USA	• Australia • China • Czech Republic
Market Development: • Growing rates up to 5 % or lower • Partly decreasing sales development	**Market Development:** • Growing rates 5 – 15% • Steadily growth	**Market Development:** • Rapid market growth starting from a low level

Countries with matured organic markets

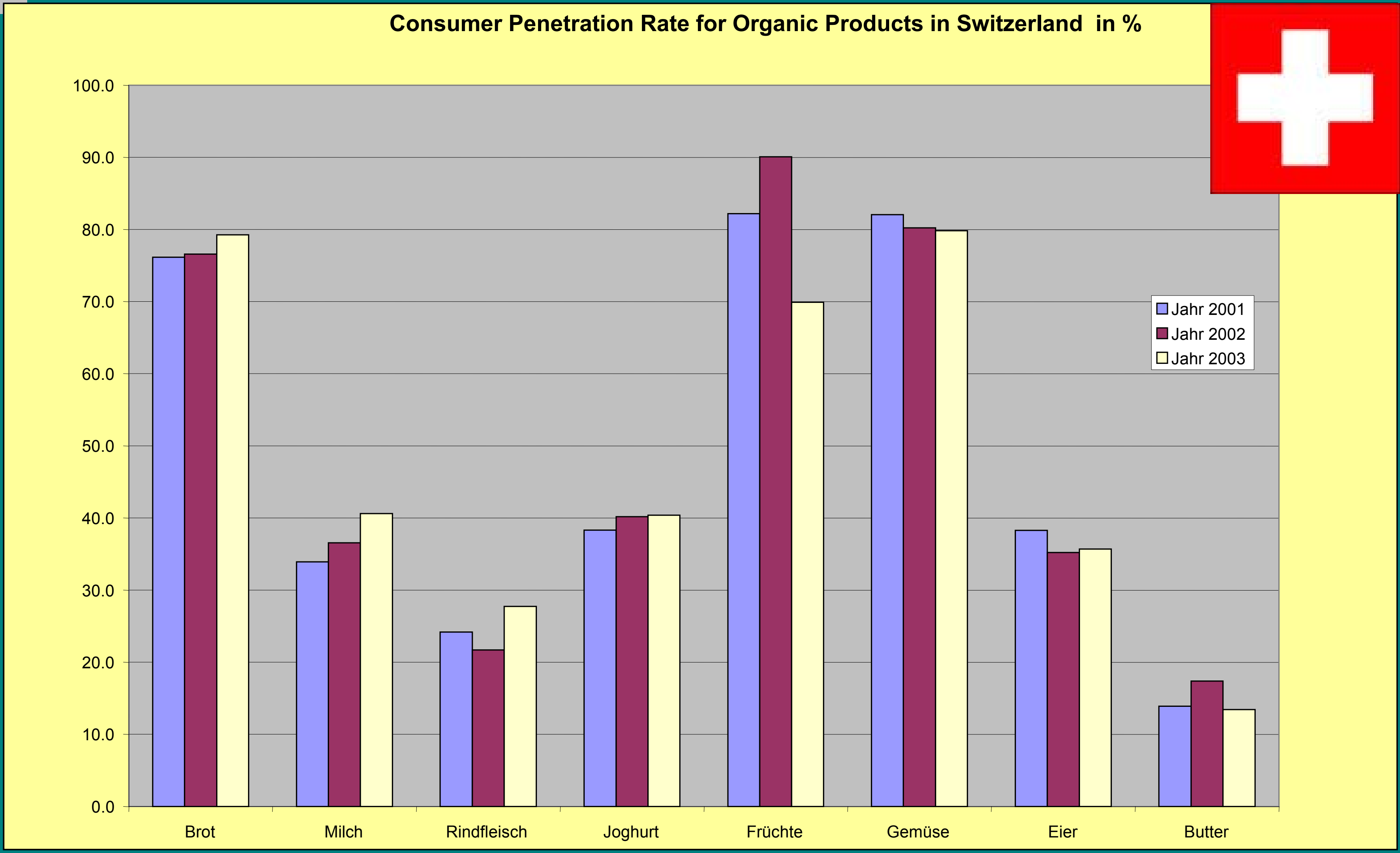
Country Snap Shots – Organic Benchmark Switzerland



Country Snap Shots – Organic Benchmark Switzerland



Country Snap Shots – Organic Benchmark Switzerland



Switzerland – Organic Market

- Matured organic market: 742 Mio. € organic sales (2003)
- Market share organic products (OP) by value: 4.3% (2003)
- Market growth 2004 app. 5%
- Expected market growth until 2010: 70%
- Main distribution channels: COOP, Migros (more than 80% of total Swiss organic sales)
- Carrefour with 100 organic items small player in Switzerland
- High percentage of regular org. buyers (app.15%)
- High percentage of occasional org. buyers (app. 70%)
- Strong private organic label ("Knospe" / "Bud")
- Strong retailer brand ("naturaplan" - COOP)

Switzerland – Organic Market Environment

- Aldi is coming soon
  - ⇨ COOP and Migros extend discount product lines
  - ⇨ Consumers become more price consciousness
  - ⇨ Consumers state: “We got cheated with high prices over years.”
  - ⇨ Consumers and media start to ask: “Why to pay more for organic?”

- COOP (7% market share in organic products)
  - ⇨ Naturaplan 10 years anniversary pushed organic
  - ⇨ New discount line ‘Prix Garantie’ increases consumer’s perception towards prices
  - ⇨ Organic meat sales grew strongly

- Migros: (3% market share in organic products)
  - ⇨ New conventional premium brand ‘Heidi’ for dairy products from mountain areas for many organic consumers more attractive than organic products

Case Study – Retailer: COOP Switzerland

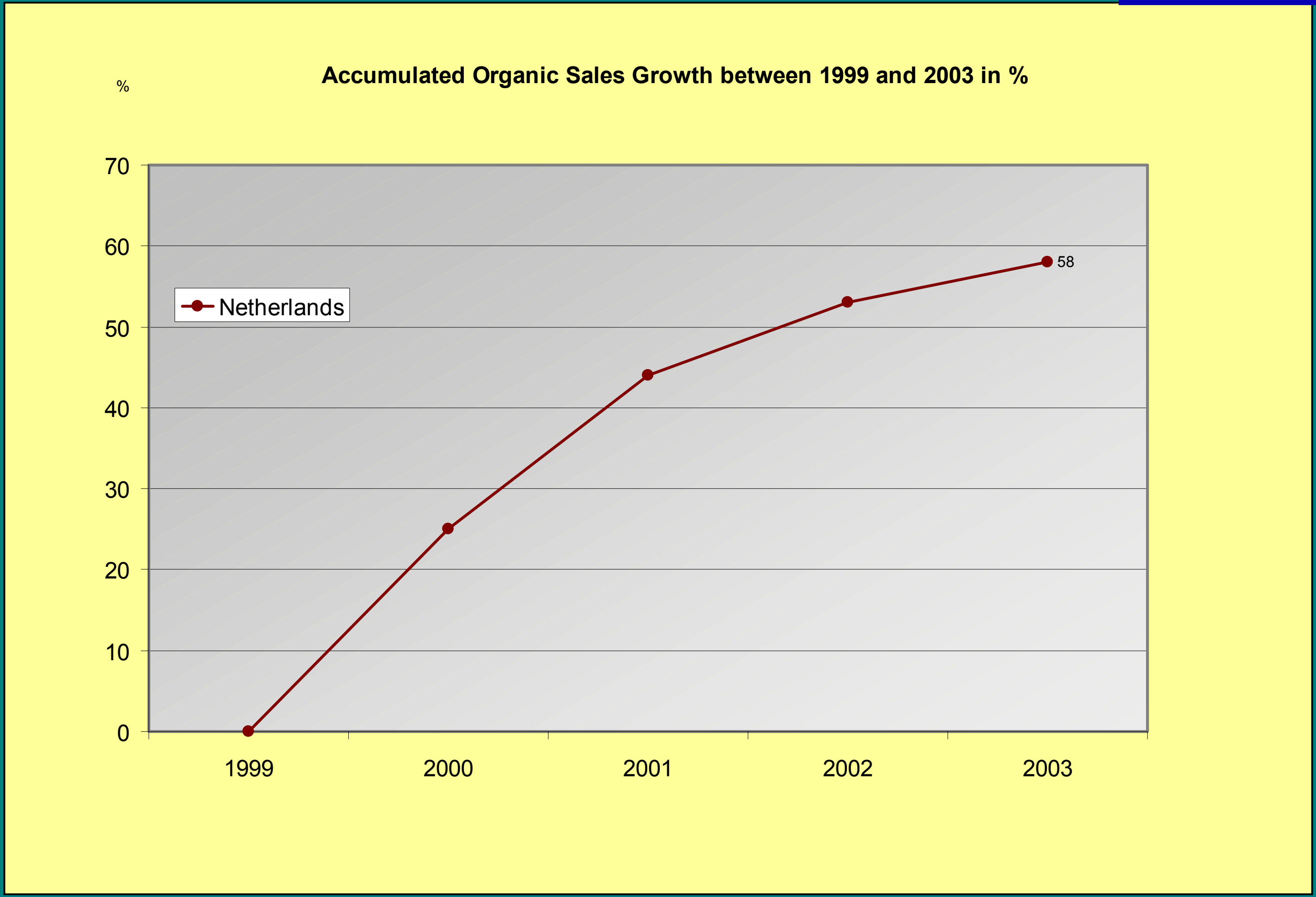
Strong competition from the integrated farming sector

Country Snap Shots – The Netherlands

De Groene Weg
Biologisch Ambachtelijke Slagerij

EKO

Country Snap Shots – The Netherlands

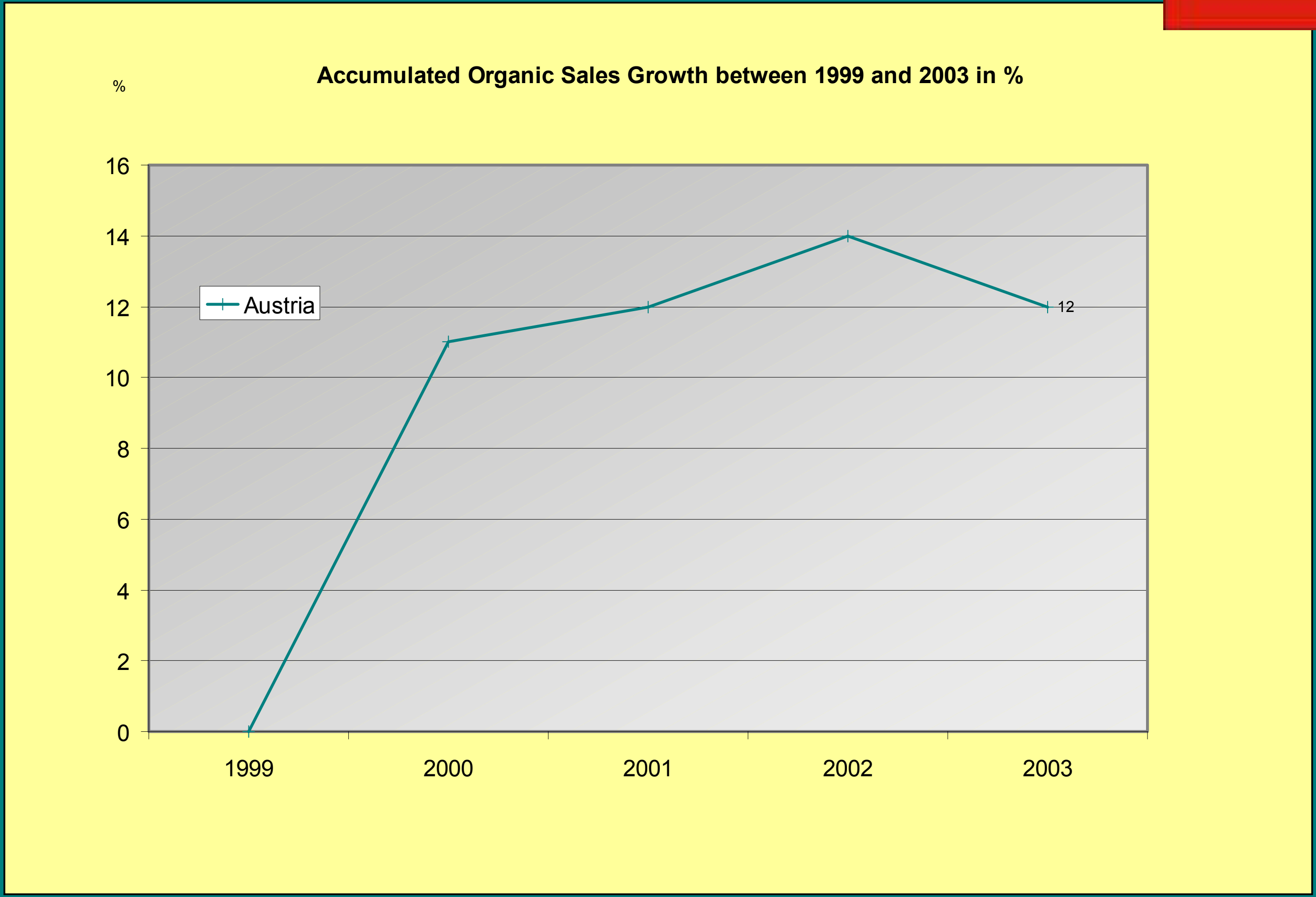


The Netherlands – Organic Market

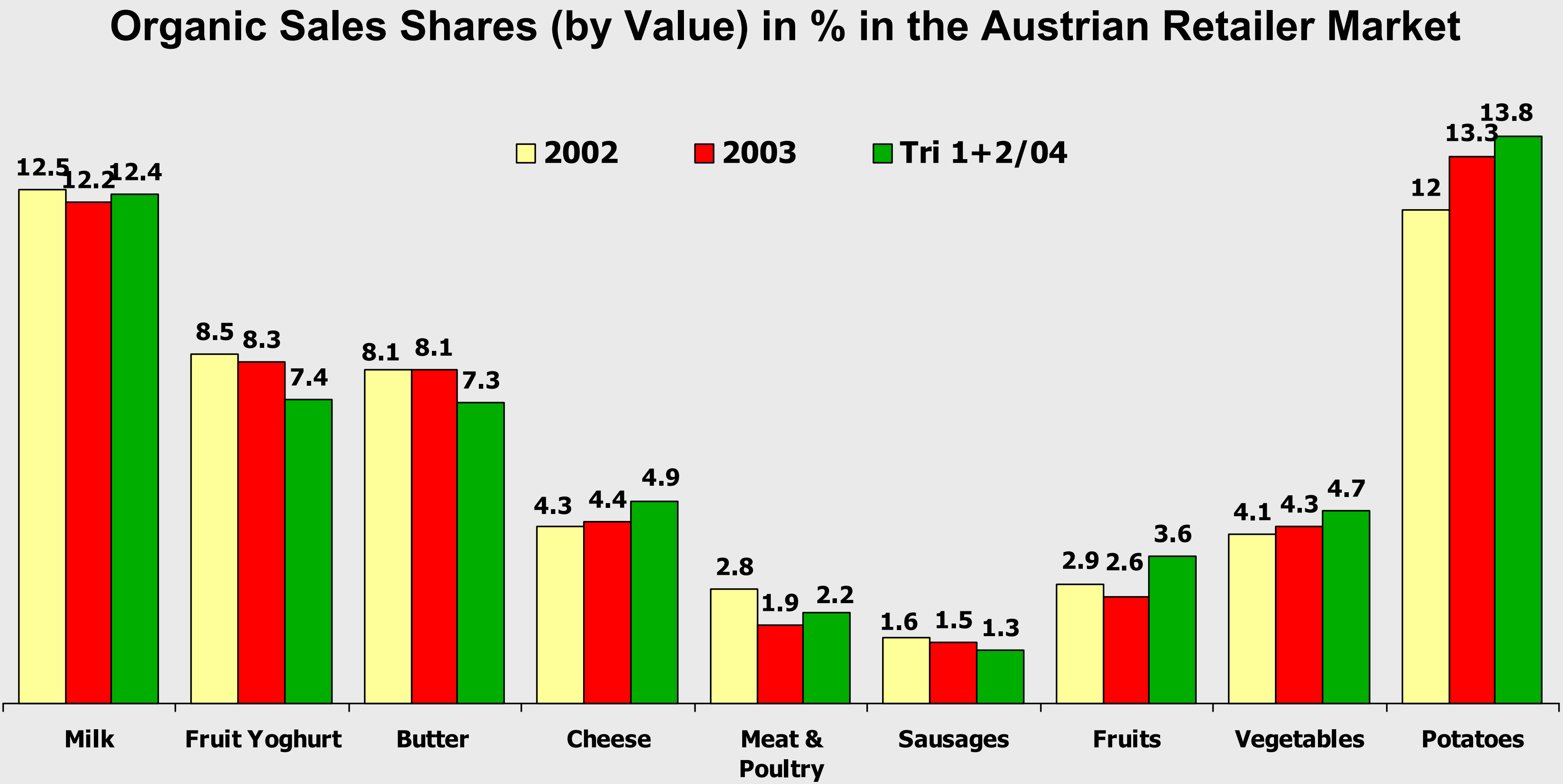
- Matured organic market; 395 Mio. € organic sales (2003)
- Market share organic products (OP) by value: 2.8% (2003)
- Market growth 2004 app. 5%
- Most growing product groups: sausages (+250%), pork (+35%), poultry (+22%), Vegetables (+11%)
- Main distribution channels: conventional retailer 45% and organic retailer 41%
- Number of organic products on Dutch retail chains on average 65 organic items
- Conventional retailer grew above average (+10%)
- Dutch organic action plan focus mainly on organic market stimulation by retailer support

Country Snap Shots – Austria

Country Snap Shots – Austria



Country Snap Shots – Austria



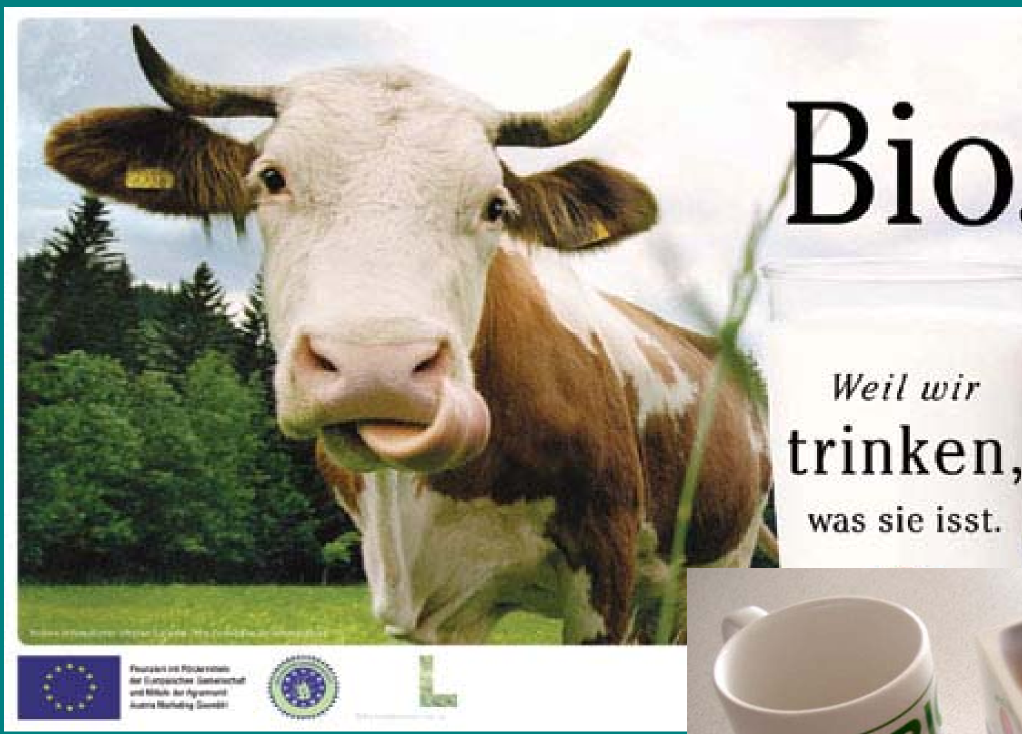
Source: RollAMA / AMA Marketing

Austria – Organic Market

- Matured organic market; 323 Mio. € organic sales (2003)
- Market share organic products (OP) by value: 3.0% (2003)
- Market growth 2004 app. 5%, nevertheless exist a supply pressure
- New organic umbrella association: BIO AUSTRIA
- Main distribution channels: Rewe, Spar, Hofer (app. 15% of total Austrian organic sales)
- **Rewe**: Organic sales 32 Mio. € (decline by 20% betw. 2001 and 2003)
- **Hofer**: Organic sales 14 Mio. € (sales more than quadruplicated between 2001 and 2003)
- **Spar**: Organic sales 10 Mio. € (decline by 35% betw. 2001 and 2003)
- All three main actors have growing rates in the range of 5 – 20% in 2004

Austria – Organic Market

Communication activities to support ‚PULL‘- Effects in 2004



How to stimulate Matured Organic Markets?

Product related marketing	Branding	Unpremeditated buying activities
• Improve quality problems • Optimise product convenience (package, package size) • Optimise premium character of product appearance • Optimise availability	• Exclusive brands for organic products in conv. retailer (e.g. regional product lines, speciality lines) • Attractive manufacturer's brand close to retailer's organic trademarks • Emotional customer messages (rational messages send no strong impulses for occasional buyers)	• Sales promotion activities • Visual merchandising (Optimise placement, product presentation) • Emotional consumer messages

Stimulate occasional buyer of organic food

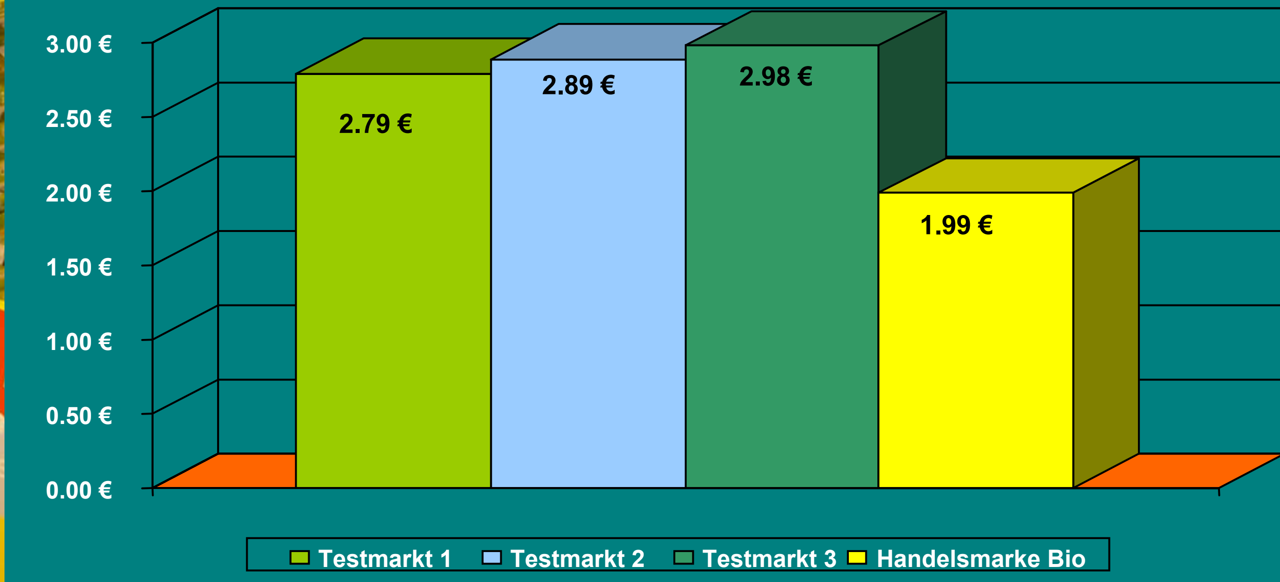
Case Study Branding: Ei-Q

- New organic manufacturer brand for eggs with organic standards
- Position: ‚Away from the world of happy hen'; Organic = modern; responsibility; traceability
- ‚Organic' logo not dominantly used as communication tool

Germany – New Organic Brands: Ei-Q

Store tests

Consumer prices in store test
(Packung 6 Eier)



Germany – New Organic Brands: Ei-Q

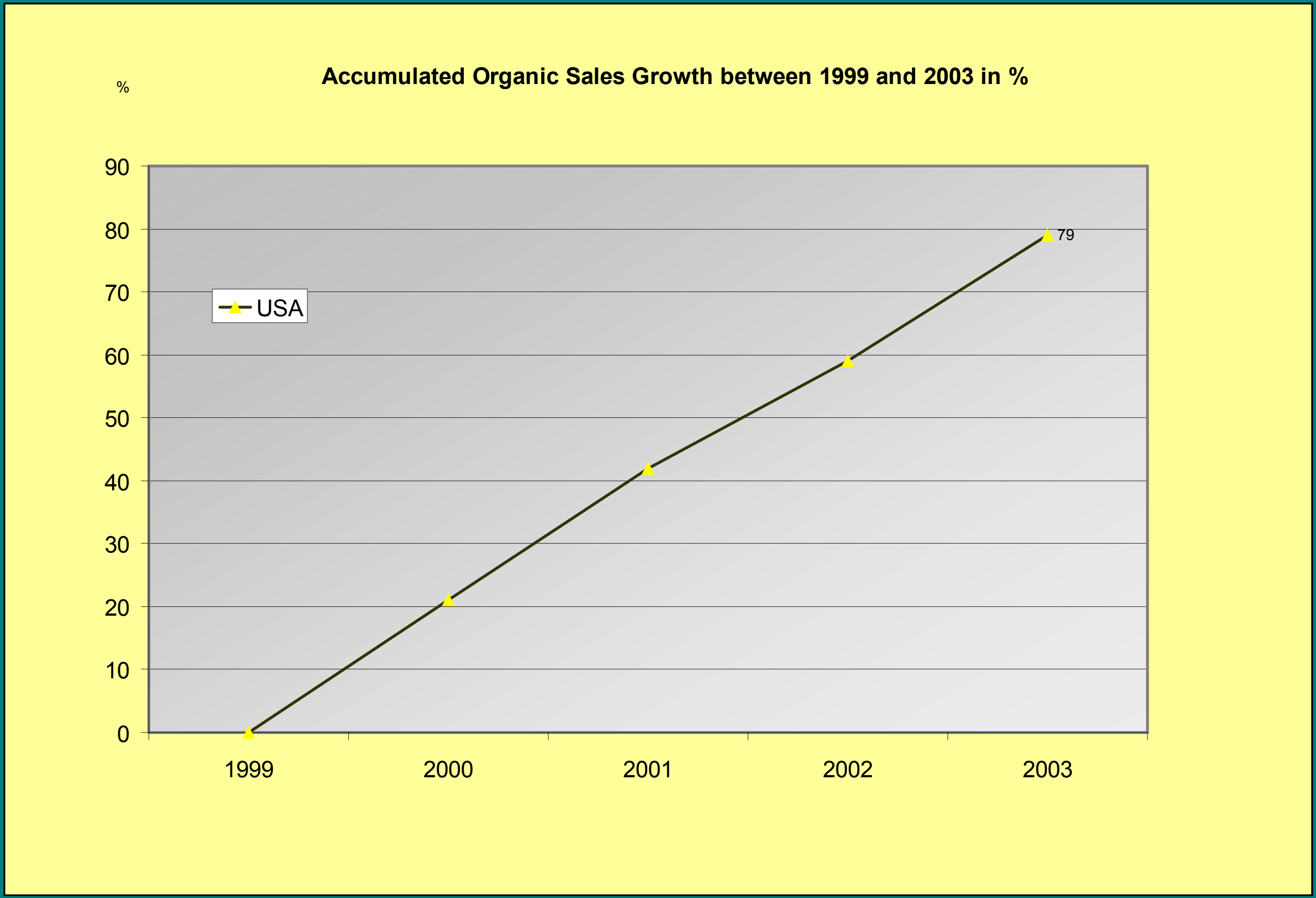
Available at TEGUT, selected EDEKA and organic supermarkets

- Revenues higher than clear cheaper organic trademark
- Growth sold volume organic eggs: + 24%
- Growth yield organic eggs: + 64%
- Development market share organic eggs: 6.9% ⇨ 10.5%
- Estimated annual turnover / m^2: 230.000 €
- Profit rate: 14%

Countries with growing organic markets

Country Snap Shots – USA

Country Snap Shots – USA



USA – Organic Market

	Organic Food ($Mil)	Organic Food Growth	Total Food Sales ($Mil)	Organic Penetration
1997	$3,566	na	$443,724	0.8%
1998	$4,272	19.8%	$454,071	0.9%
1999	$5,043	18.1%	$474,678	1.1%
2000	$6,104	21.0%	$498,379	1.2%
2001	$7,359	20.6%	$521,831	1.4%
2002	$8,624	17.2%	$538,033	1.6%
2003	$10,381	20.4%	$554,830	1.9%

Source: NBJ, 2004

USA – Organic Market – Hot Product Groups

Major Categories	03 Sales	03 Growth
Total Organic Food	10,381	20.4%
Dairy	1,385	20.3%
Breads and Grains	966	22.9%
Beverages	1,581	19.3%
Snack Foods	484	29.6%
Packaged/Prepared Foods	1,326	16.0%
Condiments	229	23.5%
Fruit & vegetables	4,336	19.9%
Meat, fish, poultry	75	77.8%

Source: NBJ, 2004

USA – Organic Market – Market Penetration

Organic Penetration Ranked	Total Food Sales 2003	Organic Food Sales 2003	Organic Food % 2003
Dairy alternatives	1,578	973	61.6%
Frozen Prepared Foods	7,794	509	6.5%
Produce	83,789	4,019	4.8%
Refrigerated Prepared Food	3,138	140	4.5%
Baby Food	4,507	175	3.9%
Frozen Fruits & Vegtables	3,902	149	3.8%
Canned & dry soup	4,598	165	3.6%
Dry breakfast foods	9,620	293	3.0%
Snacks & bars	16,305	455	2.8%
Dairy	49,486	1,371	2.8%
All Food	554,775	**10,381**	1.9%

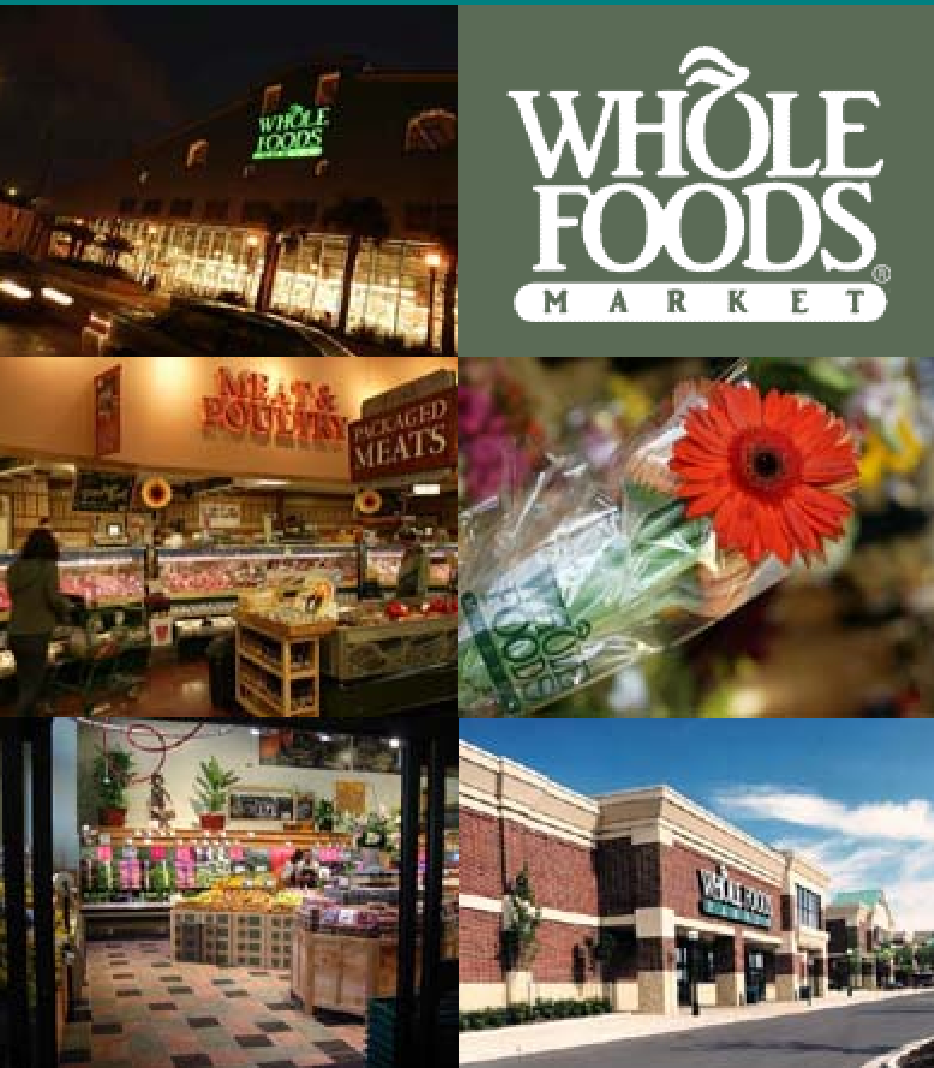
Source: NBJ, 2004

USA – Organic Market – Sales Structure

Channel	1997	2000	2003	2008
Mass Market	26%	33%	44%	50%
Natural Food & Health Food	65%	59%	48%	43%
Direct, farmers markets, bakeries, other	9%	8.9%	8%	7%
Mass Market	921	1,989	4,571	9,923
Natural Food & Health Food	2,324	3,569	5,022	8,603
Direct, farmers markets, bakeries, other	316	541	786	1,304
Total Organic Foods Sales	3,561	6,100	10,380	19,830

Source: NBJ, 2004

USA – Organic Market Leader – Whole Foods

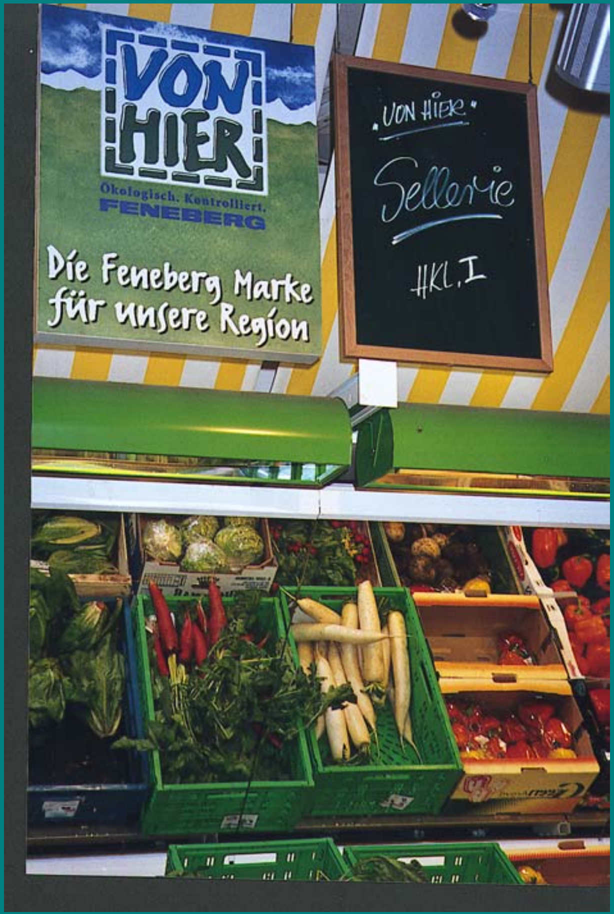


- Founded 1980
- $ 4 billion sales in 2004
- Stock index increased by 300% in 5 years
- 163 outlets
- App. 30 – 40% organic share of items in assortment
- Luxury product presentation
- Philosophy: feature foods that are free from artificial preservatives, colours, flavours, sweeteners, and hydrogenated fats.
- Nowadays starting activities in Europe

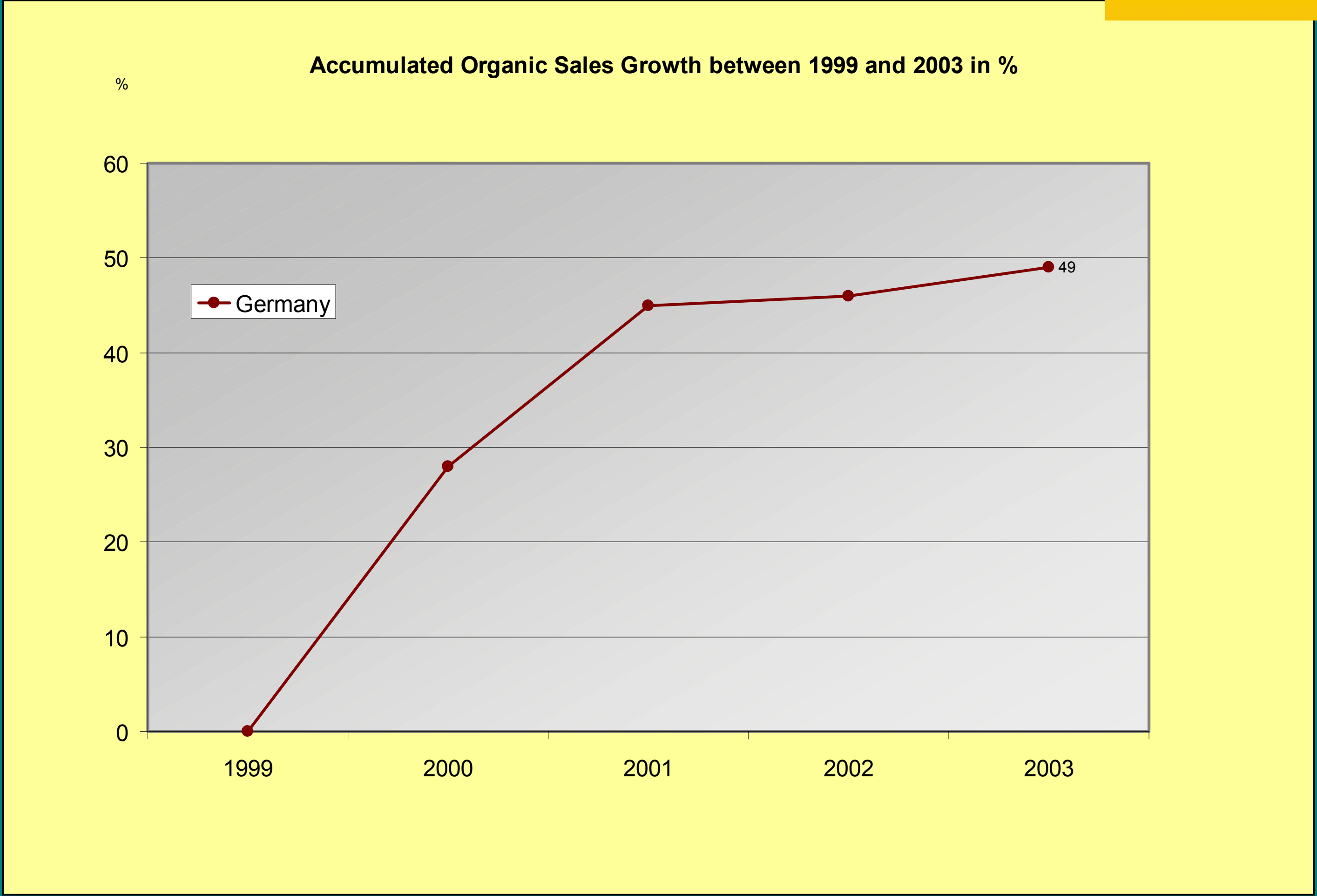
USA – Organic Market Leader – Whole Foods

USA – Organic Market Leader – Whole Foods

Country Snap Shots – Germany



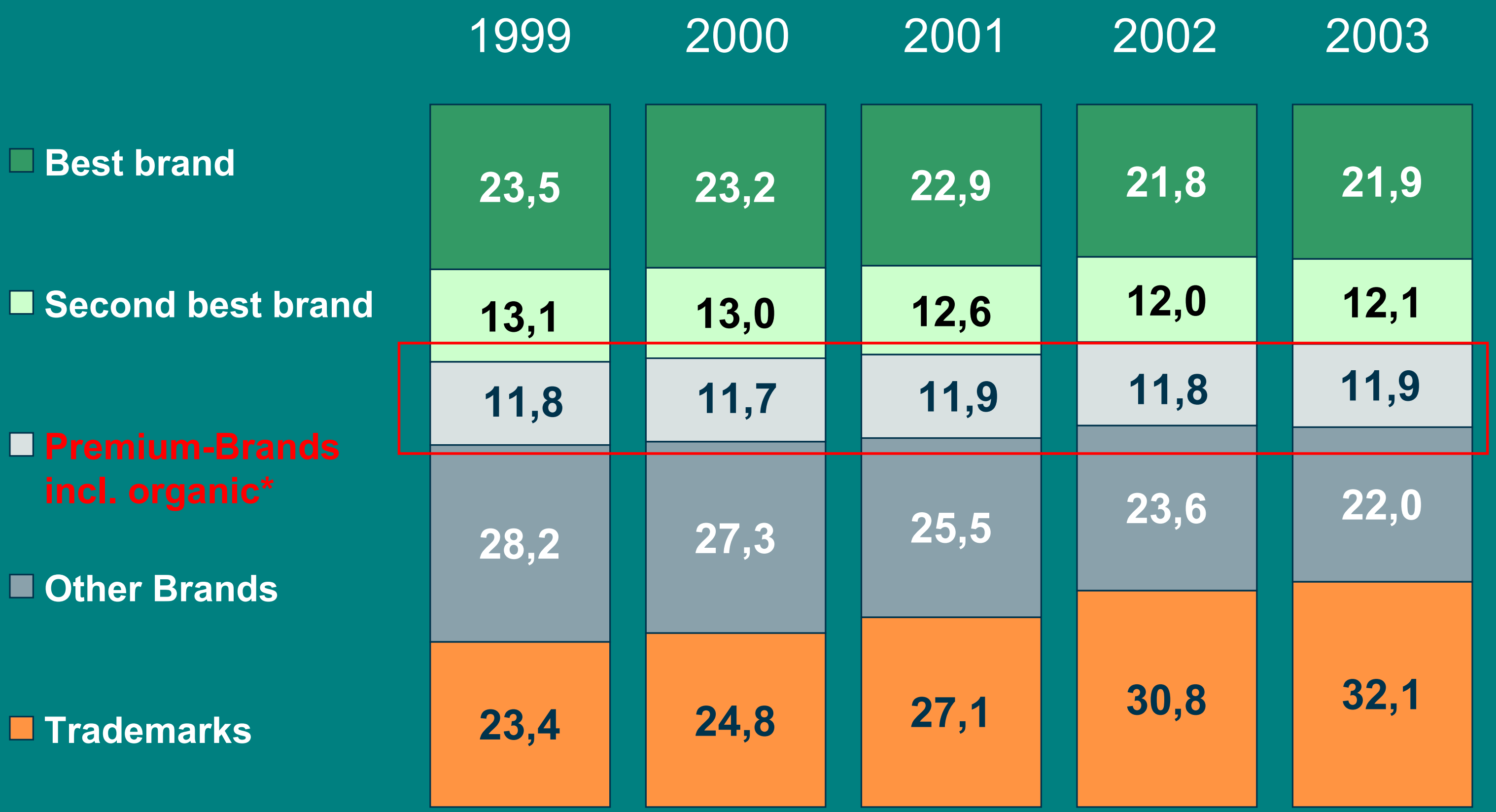
Country Snap Shots – Germany



Germany – Organic Market

- Growing organic market; € 3.5 billion organic sales (2004)
- Market share organic products (OP) by value: 2.6% (2003)
- Market growth 2004 app. 10 %
- Expected market growth until 2010: 80% - 300%
- Main distribution channels: both conventional + organic retailer
- Main organic consumption in South part of Germany
- Organic consumption under represented in Eastern Germany
- 19% of organic consumers responsible for 54% of organic sales

Germany – Organic Market



* Average Price >= Price Market Leader

Based on 75 Product Groups
Source: 12.000er GfK Haushaltspanel ConsumerScan; 15.000er ConsumerScan Confectionery; 20.000er ConsumerScan BHC

Germany – Retailer Product Competences

- **Conventional** Retailer Organic TOP 10 (Source ZMP/CMA)
  - ⇨ Eggs, milk, potatoes, cheese, yoghurt, muesli, carrots, butter, baby food, bread
- **Organic** Retailer Organic TOP 10 (Source ZMP/CMA)
  - ⇨ Bread, Cheese, yoghurt, sausages, milk, eggs, juices, potatoes, apples, pasta
- Main promising organic **mass products** for conventional retailers in Germany: Fruits / vegetables, meat & sausages
- Main promising organic **niche products** for conventional retailers in Germany: dairy and meat alternatives

Germany – Retailer Product Competences

Germany – Retailer Development

- Organic assortment as opposite strategy to discount get more importance again
- Retailer learn how to handle premium lines, like organic
- More and more organic retailer brands in conventional supermarkets
- Strong growth for organic supermarkets (growing rate 2004: +16%)
- Conventional retail chain ‘Rewe’ plans to start an own organic supermarket
- Retailer trademarks get competition from new attractive organic brands (however high barriers for smaller companies by promotion costs for retailer to get ordered)

Country Snap Shots – United Kingdom

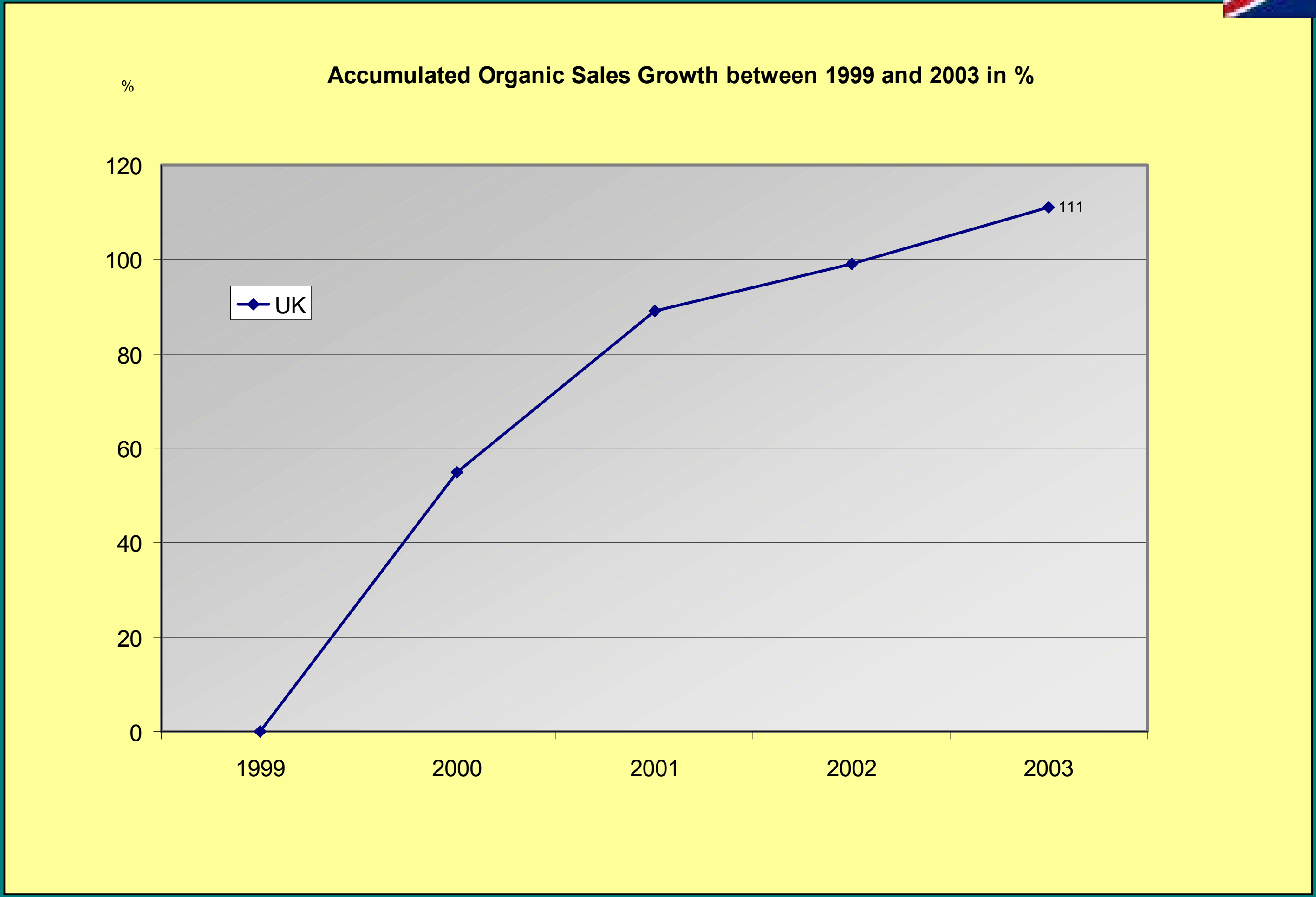
TESCO
Every little helps

Organic

ORGANIC

Sainsbury's
making life taste better

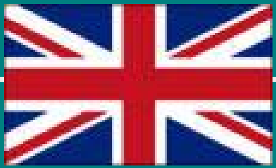
Country Snap Shots – United Kingdom



UK – Organic Market

- Growing organic market; € 1.6 billion organic sales (2003/04)
- Market share organic products (OP) by value: 1.2% (2004)
- Market growth 2004 app. 10%
- Main distribution channels: conventional retailer (80% of total organic sales in UK)
- High percentage of org. buyers (77%)
- Increasing organic food basket per org. buyer
- Increasing price pressures
- Policy target: 70% domestic products (presently 56% products imported)

UK – Retailer development



- Sainsbury's
  - ⇨ Organic supermarket of the year 2004 (SA award)
  - ⇨ Sells 65% of all organic food in UK
  - ⇨ "Organic taste experience" road show
- Tesco
  - ⇨ Strong organic growth through direct mailing to 250'000 organic customer households, furthermore by tasting and promotion campaigns
- Waitrose
  - ⇨ Solid organic market (growth rates for wine, chicken, eggs)

Countries with Emerging Organic Markets

Country Snap Shots – Czech Republic

Czech Republic – Organic Market

- Emerging Organic Market; € 5.7 million organic sales (2003)
- Share Organic Area: 6% (2003)
- Market share Organic Products by value: 1.1% (2003)
- Market growth 2003 app. 17%
- Main distribution channels: conventional retailer (50-60% of total organic sales in CZ)
- Organic market mostly grow in bigger cities like Ostrava, Brno, Prague
- National organic action plan since 2004 promotes domestic processing structures
- Organic demand for processed products and fruits/vegetables > supply
- Leading retailer which sell organic food: HYPERNOVA (AHOLD), REWE, CARREFOUR, DELVITA (DELHAIZE), GLOBUS, TESCO

Czech Republic – Organic Market

- Retailer with 50 – 200 organic items (mainly grocery, dairy and meat products)
- Organic grocery as block next to health food products
- Most organic products bear governmental organic logo
- In pioneer phase most retailer follow basic assortment strategy with organic products
- Deficits in PoS marketing (visual merchandising) in most markets

Country Snap Shots – China

China – Organic Market

- Emerging Organic Market; € 50 million organic sales (2003)
- Expected sales 2010: € 350 million
- Market share Organic Products by value: 0.025% (2003)
- Annual market growth: 50 – 100%
- Share organic area: 0.06% (2003)
- Main distribution channels: conventional retailer and direct selling
- Organic market mostly grow in prospering cities like Shanghai, Beijing
- Mostly sold organic products: Vegetables, fruits, rice, tea
- Chinese government is encouraging the development of the organic industry
- "Organic" mainly competing to "Green" Food (integrated approach)
- Low quality of PoS marketing for organic products by now

Country Snap Shots – Australia

Australia – Organic Market

- Organic market value: App. € 180 million
- Organic market share < 1%
- Annual growth: 10 – 29%
- Organic sector characterised by absence of dedicated organic industry, a fragmented certification sector and very small retail sales of organic food
- “clean and green” competes organic food
- Main distribution channel: conventional and organic retailer
- COLE and WOOLWORTH conv. retailer with organic assortments
- The major food retailers have not yet made organic food to a central component of their PR strategies
- Consumer price premiums very high (50 – 100%)
- Sales arguments mainly related to pesticide / chemical / antibiotics free production

Conclusions

- In 2004 organic market growth in most observed countries
- Conventional retailer furthermore play dominant role as organic market driver
- Many countries with growing or emerging markets
- Also matured organic markets provide possibilities for market growth
- Organic and quality food as opposite trend to discount food