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Natural Products

by John Norwood, West Des Moines, Iowa
jmnorwood@hotmail.com

National Sales Trends

Natural products, a $36 billion industry,[1] is comprised of four principal segments: natural foods, organic foods, dietary supplements, and natural personal care products. According to Carole Buyers, natural foods analyst for RBC Capital Markets, the natural and organic foods category is currently a $12 billion market, representing less than two percent of overall food sales.[2]

The combined natural/organic foods category has grown significantly since 1990, increasing four-fold in the decade after and averaging 14 percent annual growth (compared to historic growth rates of 4 percent in the overall food industry). It is the fastest growing segment of food retailing. Organic foods have been the key driver of this growth, increasing an average of 23 percent per year since 1990, compared to a 9 percent annual growth rate for natural foods. Organic foods represented 60 percent of the natural/organic category in 2000; up from 24 percent in 1990.

Sales for the natural/organic foods category is projected to continue growing eight percent per year over the next eight years, with organic foods increasing an average 13 percent per year. The natural foods segment of this category is projected to decline five percent per year as a result of many natural food producers and processors converting to organic. Sales for organic foods are expected to reach $20 billion by 2005, accounting for four percent of the total US food market.

Key organic product categories include produce, non-dairy beverages, breads and grains, and packaged/prepared foods. The relative share and growth rate for each category is presented in the table below: [3]

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[1] $36.4 billion in 2002, The Natural Foods Merchandiser, June 2003 (Appendix B, Tab 21, p. 1)
[2] Interview, Wall Street Week with Fortune, April 11, 2003.
[3] Cooperative Development Services, Inc., Selling to Natural Foods Cooperatives and Grocery Chains, Key Considerations for Organic Producers (Appendix B, Tab 1, pp. 3-4.)

Category	% Share of Total (2000)	Rate of Sales Growth (2001-2004)
Produce	40	16
Beverages (non-dairy)	17	21
Breads & Grains	15	26/22
Packaged/Prepared Foods	12	22
Other (Meats/Dairy)	16	N/A
Total	100	

Channels of Distribution

Two primary distribution channels, natural food/specialty stores (70 percent) and mass market retail stores (29 percent), account for virtually all the revenues in this category. The remaining one percent of sales is shared by various direct market channels, including mail order, multi-level, farmers markets, and internet commerce.

Within the organic category, more than half (55 percent) of all sales are generated through natural food/specialty retail stores (including Whole Foods Market, Inc. and Wild Oats Markets, Inc.) Thirty-nine percent of sales are generated through mass-market retail stores. The remaining 6 percent of organic sales are generated through direct channels. Despite the growing presence of Whole Foods and Wild Oats in many markets, the natural food/specialty channel remains highly fragmented.[4]

Growth Drivers in Organic Category

There are a variety of reasons that growth rates for the organic category as a whole are near 20 percent annually, a rate of growth that will support a doubling of the market every 3.5 years.

- *Product Profitability* – profit and growth potential are much higher than conventionally produced;[5]
- *Consumer Preferences* – an aging population which places greater emphasis on health and lifestyle issues;
- *Food Safety* – increased awareness among consumers about how and where their food is produced and/or processed;[6]
- *Product Availability* – increased availability through the growth in the supernatural food stores including Whole Foods and Wild Oats;
- *Product Certification* – Governmental Regulation through the Organic Foods Production Act (OFPA) passed by Congress in 1990, has provided consumers with a higher level of assurance that organically produced products meet consistent production and processing standards;

[4] Ibid., (Appendix B, Tab 1, p. 4)

[5] A January 2003 report by the Hartmann Group noted that "consumers are frequenting high-margin, niche-market, specialty retailers in the same proportions as before the perceived economic slowdown." (Appendix B, Tab 3, p. 1)

[6] Health-conscious food shoppers are also spurring sales growth in Kosher Foods, which "have grown wildly over the last few years, largely because of new customers who buy them not for religious reasons but because they are considered to be healthier than non-kosher products." The New York Times, June 28, 2003 (Appendix B, Tab 30, p. B1 and B4).

- *Affordability* – Standardization of the product category through regulation has created a more stable environment, allowing for increased supplies of, and lower prices for, organic foods.

National Consumer Trends
There are a number of important consumer trends driving the growth of the organic foods market. First, there is an increasing trend among the 76 million baby boomers, which comprise 33 percent of the U.S. population, to connect healthy living, disease prevention and longevity with healthy eating. For many of these people, healthy eating is a lifestyle choice – an affordable luxury.

Second, boomers, and others with younger family members, are increasingly concerned, particularly in the wake of the September 11th terrorist attacks, about their children's personal health and nutrition and believe organic foods will contribute to their families overall health and well being.

And third, consumers are concerned about long-term exposure to toxins in their foods, and looking for ways to reduce their exposure through the types of foods they eat. Many of these individuals are also motivated by the related social and environmental benefits that are derived from organic production practices.

The following table outlines the leading consumer motivations in purchasing organic foods:[7]

Criteria	% of Consumers Motivated by Criteria	Comments
Health & Nutrition	66	Concerned about reducing exposure to toxins through organic foods
Taste	38	Prefer the taste difference provided by organic foods
Food Safety	30	Perceive that organic certification ensures safety[8]
Environmental Health	26	Organic production practices are better for the environment.
Premium Product	16	Consumers with discretionary income via organic foods as "gourmet" or "premium" products

Recent studies are also indicating that there is a strong belief among U.S. consumers that domestically produced foods are superior to imported products on a number of these criteria, particularly on freshness and safety, and that consumers have a strong preference for locally grown products.

For example, a recent survey of 819 U.S. respondents on public attitudes about the increasing globalization of our food supply by Ronald Wimberley, a North Carolina State University

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[7] Cooperative Development Services, Inc., Selling to Natural Foods Cooperatives and Grocery Chains, Key Considerations for Organic Producers. (Appendix B, Tab 1, pp. 5-6)
[8] In early June 2003, Whole Foods Market Inc. of Austin, Tex became the first major grocery chain in the nation to receive independent organic certification for every one of its stores, 140 in all. The New York Times, June 29, 2003. (Appendix B, Tab 30, p. B4).

sociologist, found that 53 percent prefer to buy food they know has been grown on small rather than large farms, 68 percent would pay more for food grown in the United States, 70 percent would pay more for locally produced food, 79 percent think U.S. grown food is safer than imported food, and 80 percent believe U.S. grown food is fresher than imported food.[9]

About the Author

John Norwood has more than 13 years of program development and promotion experience in the public, private and non-profit sectors. Before moving to Des Moines, Iowa, with his wife Lisa, an assistant professor of English at Drake University, Norwood oversaw the investment and management of $50+ million in public and private funds as the executive director of the South Livermore Valley Agricultural Land Trust (SLVALT). An innovative public benefit corporation, SLVALT works cooperatively with three municipal jurisdictions, local developers and other stakeholders in the San Francisco Bay area to achieve jobs, housing, and agricultural enhancement goals.

Prior to that he spent more than 10 years in management positions across the public, private and non-profit sectors, with functional expertise in product marketing, corporate finance, business strategy and operations. Norwood is familiar with many leading consumer trends in natural and certified organic foods, having lived in both the San Francisco Bay and the greater Boston areas for more than 35 years.

A native of Boston, Norwood received his BA from Williams College in 1987. He holds MBA and MEM (Masters' of Environmental Management) degrees from Yale University, 1993. Norwood is a member of Practical Farmers of Iowa (PFI), the New Pioneer Cooperative in Iowa City and the Iowa Network for Community Agriculture (INCA).

[9] "The Globalization of Food: How Americans Feel About Food Sources, Who They Trust, Food Security, Genetic Modification, Food Labeling and the Environment," Ronald Wimberley: http://sa.ncsu.edu/global-food.