USA: Natural Food Report

Content

Scope of the sector as treated in this report

A standard definition of what constitutes a natural product does not exist, rather the definition is a function of such elements as the types of ingredients used, the method of production and the processing practices employed or all of the above. In some cases the degree of "naturalness" of a product is indicated by the labeling, in others by a certification. The term "natural" is still being used rather loosely. In 1982 the U.S. Department of Agriculture (USDA)'s labeling requirements stated that it could be used only with products that contained no artificial ingredients, colorings or chemical preservatives and the ingredients of which had not been more than minimally processed. This report will focus on natural food products involving the category of organically grown and processed foods, functional foods also known as neutraceuticals and natural beverages. Cosmetics, and health products are not considered here as they merit separate treatment.

Market Overview

Organic foods

Sales of organic products have grown steadily at a compound annual growth rate of 22% from 1996 to 2000 (Source: Natural Foods Merchandiser). Market growth has been prompted by several factors:

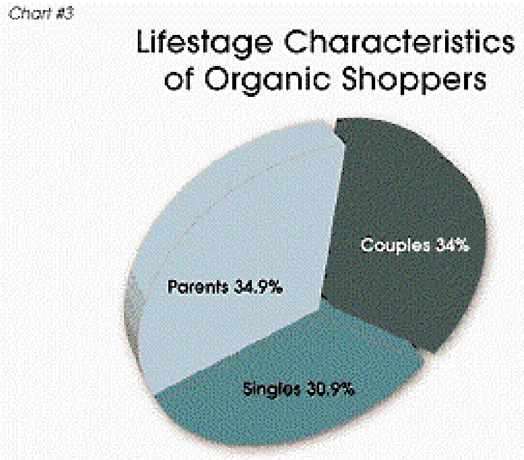
- increased environmental consciousness of the consumer
- market entry of large food marketers such as General Mills, Kellogg, Mars, Heinz
- rapid growth of niche market suppliers and natural food retail chains
- growing acceptance of natural products by mass-market retailers
- increased availability of natural ingredients

- increasingly competitive pricing
- broadening of available product choices

Nevertheless, natural and organic food sales represent only 2% of the $ 500 billion U.S. food industry. Functional food sales broadly defined as manufactured foods with ingredients added specifically for health purposes account for merely 3.5% of the total all of which points to significant room for growth

Consumer characteristics

Shoppers for organic foods have been categorized by The Hartman Group in terms of the extent of their concern for wellness ranging from at one end "gurus" which may be considered experts and committed to an organic life style to "traditionalists" at the other end which are less health conscious and traditional in their buying habits. The latter are mainly driven by convenience, price, appearance and show little product loyalty.



On the other hand, the adjacent chart shows that the demographics reveal no discernible preference. Couples, parents and single persons have a similar likelihood of purchasing organic products (Source: The Hartman Group, 2000). Recommendation by members of the social network as well as health care providers provide main impetus for purchase decisions. Also the degree of environmental awareness and interest are motivating factors. Those shoppers for whom environmental quality is a significant concern have, according to a survey of the Food Alliance in Portland, Oregon, listed eight product qualities as "extremely important" :

ingredients:

a. no synthetic pesticides,
b. b. no synthetic herbicides,
c. no e-coli or other harmful bacteria,
d. no artificial ingredients or preservatives,
e. no synthetic fertilizers,

production facilities

a. a in compliance with environmental permits,
b. using only earth- sustainable techniques,
c. using techniques that protect water resources.

U.S. Organic food sales by product category

As the following chart shows, in organic food markets sales of produce are the dominant category with a 42% market share. Next in consumer preference are packaged groceries (15%), dairy products (11%), frozen foods (8%), bulk foods and soy (6% respectively), beverages (5%), meats (3%), snacks and candy (2%) (Source: Promar International: From Sub-Culture to Supermarket: Organic Foods Grow Up).

For food, drug and mass-market outlets sales and growth rates by product category show the following ranking according to the above mentioned Promar study:

Product	Rank (sales volume)	Growth rate (1999 vs. 2000
Meal replacements and supplement powders	1	6.8%
Miscellaneous supplements	2	12.6%
Carbonated beverages and single-serve drinks	3	20.7%
Vitamins and minerals	4	-1.9%
Energy bars and gels	5	48.9%

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Natural Foods Supermarkets ($2million annual sales per store)

Product	Rank (Sales volume)	Growth (1999/2000)
Vitamins and minerales	1	-1.3%
Frozehn entrées, Pizzas, convenient food	2	17.6%
Milk, half & half, cream	3	26.6%
Non-dairy beverages	4	19%
Refrigerated juices and Functional beverages	5	30.4%

In **mass-market channels** convenience items such as energy bars and diet formulas show the fastest growth rate due to the overriding concern with weight loss and quick energy intake.

In natural product supermarkets juices and functional beverages showed the strongest growth followed by low-fat milk and creams and non-dairy beverages.

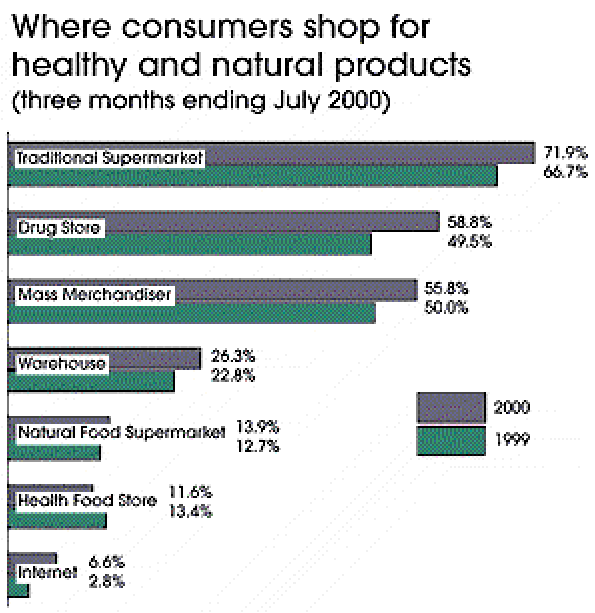
Consumers who purchase mainly in traditional supermarkets tend to be unwilling to spend more for natural foods than for those grown by traditional methods. Frequent buyers at natural food stores who tend to go there for a specific purpose are willing to pay more. That is not to say however, that there is no limit to the markups that consumers will tolerate and exporters should keep that in mind.

Trends:

1. Promotion of weight loss has become more important than the "naturalness" of a product in the advertising appeal.
2. Brand awareness is mostly lacking among consumers,
3. chocolate and candy producers have switched from an emphasis on fortifying candies with vitamins and minerals to adding organic ingredients in light of the lackluster performance of the Body Smarts line of candies,
4. functional weight loss foods and beverages will increasingly become part of the daily diet,

5. the growth of soy-based products is likely to continue with soy being used also in frozen entrees, packaged grocery and snacks, 6. the future role of vitamins, minerals, herbs and other dietary supplements remains unclear and suppliers will attempt to achieve greater brand differentiation.

Chart #7



Retail sales channels

The above data indicate that certain types of products are sold preferably in certain types of retail outlets. Convenience items such as meal replacements, supplements, single-serve drinks and energy bars predominate in mass-market channels. Natural product retail chains are the preferred outlet for dairy products and organic foods. The chart at right shows where consumers shop and how often (Source: Promar International, 2000).

Wholesale distribution

Most importers of organic foods are located in the northeastern part (New York, New Jersey) of the U.S. and California on the west coast. They tend to specialize in certain product groups such as fruits and vegetables, dried fruits and nuts, spices and herbs, healthy beverages and sports drinks etc. Regionally some major wholesale distributors dominate the distribution although some have national reach such as United Natural Foods, Inc. which supplies over 7000 retail stores, Tree of Life covering nearly 15000 retailers. Most retail stores including the chains do not import directly but acquire their products from the major whole- sale distributors.

Industry standards and labeling

The U.S. National Organic Program (NOP) which became effective April 2001 and is to be fully implemented by October 2002 has three purposes:

1. establish national standards for marketing of organically produced products
2. assure the consumer that consistency in the production is achieved
3. facilitate inter-state commerce for organically produced goods

Certification by an accredited body is required before the "USDA Organic" seal issued by the U.S. Department of Agriculture can be placed on the label and the product be marketed as such.

Trade Fairs

Natural Products Expo West is the largest U.S. show for this industry and is held every spring in Anaheim near Los Angeles. in 2003 it is scheduled to take place on March 6-9. See also www.expowest.com

Natural Products Expo East is held every autumn in Washington, D.C., www.expoeast.com

Organic Conference & Trade Show is held every year in Austin, Texas, www.ota.com

Conclusions

1. The U.S. market for natural foods is growing more rapidly than that for traditional foods and as such offers a more advantageous point of entry for a foreign supplier
2. The higher markups on natural foods also favor foreign exporters
3. The new National Organic Standards provide a predictable business environment with regard to marketing and labeling
4. There is a lack of brand awareness among the consumer which can be profitably exploited by a foreign exporter or marketing group, especially for products sold in natural product stores and retail chains
5. The large food producers are making strong efforts to attach their already well-known labels to weight-loss products sold primarily in traditional and discount supermarkets which makes this segment more difficult to penetrate
6. Credibility of the producer, educational value of the promotional message and consistency in the brand message are critical factors in creating customer loyalty which is more important for sales in natural food stores than in traditional department store chains.

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ANNEXE

(From The June 2002 Issue of Natural Foods Merchandiser)

New Product Review's Top 40

Each month, *The Natural Foods Merchandiser* polls retailers throughout the United States to determine what products are their top sellers. To participate in the Top 40, contact lpiscopo@newhope.com.
Diane Fischer
owner, **Organic Cupboard, Great Bend, Kan.**

Grocery
1. Food For Life Ezekiel 4:9 Original Bread
2. Brown Cow Plain Yogurt
3. Blue Diamond NutThins
4. Dixie Diners Bean Nuts
5. Fall River Wild Rice Garlic Chips

Supplements
1. Olympian Labs Co-Q10
2. Barlean's Flax Products
3. Country Life Cal-Mag Target Mins
4. Store Brand Vita Super Multi
5. Nature's Plus Ultra Cranberry 1,000

HABA
1. Source Naturals Progesterone Cream
2. Jason Satin Body Washes
3. Avalon Lavender Lotion
4. Bee & Flower Sandalwood Soap
5. Now Foods Lavender Oil

Miscellaneous
1. Wanda's Ear Candles
2. Seventh Generation Natural Dish Liquid
3. Lotus Light Power Stones
4. Shoyoido Jewel Series Incense
5. ActiPet Pet Supplements

Anne Halloran
owner, **Bamboo Market Health Foods, Steamboat Springs, Colo.**

Grocery
1. Edensoy Extra Original Soy Milk
2. Annie's Naturals Shiitake & Sesame Dressing
3. Annie's Homegrown Organic Shells & White Cheddar
4. Boulder Potato Chips
5. Imagine Foods Free-Range Chicken Broth

Supplements
1. Rainbow Light Just Once Women's One Multivitamin
2. Rainbow Light Just Once
3. Source Naturals Wellness Formula 90s
4. OHCO Cold Snap
5. Herb Pharm Super Echinacea

HABA
1. Giovanni Tea Tree Triple Treat Shampoo
2. Giovanni Tea Tree Triple Treat Conditioner
3. Burt's Bees Cuticle Cream
4. Burt's Bees Lip Balm
5. Avalon Shampoos

Miscellaneous
1. Nature's Plus Spiru-tein Shakes, vanilla
2. Guayaki Yerba Mate Teas
3. Aura Cacia Essential Oils

4. Chocolove Chocolate Bars
5. Luna Bars

Robert Worobec
owner, **Oak Street Natural Market, Bozeman, Mont.**

Grocery

1. Sesmark Rice Thins
2. Thai Kitchen Instant Rice Noodles
3. Stonyfield Farm Yo Squeeze Yogurts
4. Robert's American Gourmet Pirate Booty
5. R.W. Knudsen Spritzers

Supplements

1. Solaray Magnesium Asporotate
2. Source Naturals Ultra Calcium Nite
3. Planetary Formulas Olive Leaf Extract
4. Source Naturals Wellness Formula
5. Nature's Plus Calcitron

HABA

1. Avalon Organic Shampoos
2. Nature's Gate Organic Hair Care
3. Now Foods Tea Tree Oil
4. Kiss My Face Moisturizers
5. Earth Therapeutics Foot Repair

Miscellaneous

1. Luna Bars
2. Barlean's High-Lignan Flax Oil
3. Now Foods Acidophilus
4. Trinity Springs Water
5. Penta Water

Barbara Ahrens and David Runyon
co-owners, **Appletree Natural Market, Brooklyn, N.Y.**

Grocery

1. Amy's Kitchen Burritos
2. Sunshine Burgers
3. Tinkyada Rice Pasta
4. Soyfee's Choice Soy Coffee
5. O' So Lo Foods Lo-Carb Muffins

Supplements

1. Solgar Glucosamine Chondroitin Complex
2. Solaray Red Yeast Rice
3. Solgar VM-75
4. Carlson Vitamins Co-Q10
5. Nutrina CalMac Calcium Powder

HABA

1. Zia Ultimate Moisture
2. Zia Ultimate Exfoliant
3. Mountain Ocean Skin Trip
4. Burt's Bees Lip Balm
5. Herbatine Herbal Hair Color Gel

Miscellaneous

1. Himalayan Institute Neti Pot
2. George's Aloe Vera Juice
3. Nag Champa Incense
4. Bean Pod Tea for Diabetics
5. CarboLite Zero-Carb Chocolate Bars

Ashley Rundall
whole health specialist, **Harmon's Whole Health Center, South Jordan, Utah**

Grocery

1. Kashi Good Friends Cereal
2. Kashi GoLEAN Crunch Cereal
3. Kettle Chips Salsa with Mesquite
4. Mi-Del Swedish Style Ginger Snap
5. Amy's Kitchen Cheese Enchilada Whole Meal

Supplements

1. Nature's Answer Acidophilus
2. Alacer Emergen-C, cranberry
3. Continental Vitamin Co. Natural Acidophilus Culture, strawberry
4. Twinlab Nutritional Support Joint Formula
5. Twinlab L-Lysine Free-Form Amino Acids

HABA

1. Jason Ester-C Crème Moisturizer
2. Jason Deep-C Orange Peel Facial Cleanser with Vitamin C
3. Desert Essence Jojoba Oil
4. Desert Essence Blemish Touch Stick with Eco-Harvest Tea Tree Oil
5. Dr. Bronner's Magic Soap, peppermint

Miscellaneous

1. Living Arts Yoga Essentials Tools For Yoga
2. Living Arts Yoga Mats
3. Living Arts Yoga Power Strength Video
4. *Yoga Journal*'s Yoga For Relaxation Video
5. Living Arts Yoga Stress Relief Video

Jon Quinn
president, **Papa Jon's Natural Market & Café, Long Beach, Calif.**

Grocery

1. Have A Natural Corn Chips, regular
2. R.W. Knudsen Just Cranberry Juice
3. Black Mountain Distilled Water
4. Trinity Springs Water
5. Penta Hydrate Purified Water

Supplements

1. Nature's Plus Regeneration Multivitamin
2. Supernutrition Multivitamin
3. Boiron Oscillococcinum
4. Nature's Secret Ultimate Cleanse
5. Natrol CLA

HABA

1. Wally's Ear Candles, Lavender
2. Wally's Ear Candles, Beeswax
3. Emerita Progest Natural Cream
4. Nature's Gate Organics Shampoo and Conditioner
5. Source Naturals Skin Eternal Serum

Miscellaneous

1. Tushie's Tender Care Disposable Diaper, Gel-Free, large
2. Tushie's Tender Care Disposable Diaper, Gel-Free, medium
3. Dr. Bronner's Magic Soap, peppermint
4. Tushie's Disposable Diaper
5. Natracare Tampons

Jim Foley
scanning coordinator, **Food Conspiracy Co-op, Tucson, Ariz.**

Grocery

1. Trinity Springs Water
2. Westbrae's WestSoy Vanilla Low-Fat Soy Drink with Calcium
3. Blue Sky Cherry Vanilla Soda
4. Westsoy Plain Low-Fat with Calcium
5. Rice Dream Original

Supplements

1. Alacer Emer'gen-C, all flavors
2. Superior Ginseng Royal Jelly
3. Lumina Health Cell Food
4. Boiron Arnica Montana 30C
5. Spectrum Veg-Omega 3 Organic Oils

HABA

1. Aero Classic Ear Plugs
2. Sappo Hill Oatmeal Soap
3. Burt's Bees Lip Balm
4. Natracare Tampons
5. Bee & Flower Sandalwood Soap

Miscellaneous

1. Seventh Generation Bath Tissue
2. Co-op Cat Food
3. Natural Value Cat Food
4. Natural Value Kitchen Sponge
5. Marcal's Aspen Facial Tissues

Gregory F. Binns
store manager, **Good Energy Foods, Elkins, W.Va.**

Grocery

1. Food For Life Ezekiel 4:9 Original Bread
2. Thai Kitchen Instant Noodles
3. Tree of Life Almond Butter
4. Reed's Extra Ginger Brew
5. Imagine Foods Soy Dream Ice Cream

Supplements

1. Nature's Plus Source of Life
2. Natural Max CLA with Tonalin
3. Solaray Red Yeast Rice
4. Now Foods Glucosamine & Chondroitin
5. Now Foods L-Arginine

HABA

1. Burt's Bees Milk and Honey Lotion
2. Burt's Bees Lip Balm
3. Dr. Bronner's Castile Soaps
4. Earth Science Pure Essence Shampoo
5. Rachel Perry Citrus Face Wash

Miscellaneous

1. Pet Guard Cat Food, premium
2. Earth Rite Cleansers
3. Now Foods Flaxseed Meal
4. First Colony Organic Coffees
5. Tapas Yoga Mat