



AAOCH/FAO SEMINAR



The UK Organic Market and the Commercialisation of the Organic Sector

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Points for discussion

- General background to the UK organic market.
- How consumers have driven market growth.
- How supermarkets have developed their organic categories – Sainsbury's case study.
- Issues facing the commercialisation of the organic market.
- What the future holds?

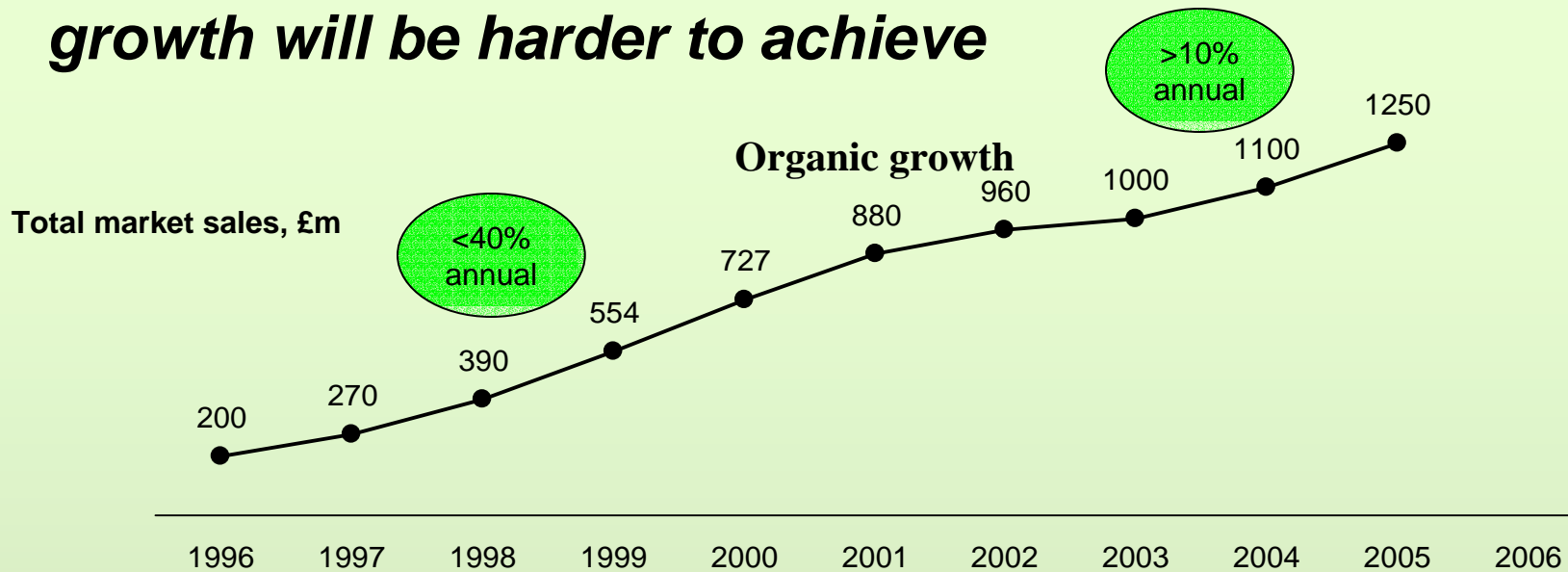


UK organic background

- UK market now worth just over £1 billion;
- Organic agriculture represents 4.3% of British farmland (458,000 ha);
- 5% of organic consumers are responsible for 55% spend on organic products;
- 82% of organic food is sold in supermarkets – of which 56% is imported.



The UK organic market is entering a second era where growth will be harder to achieve



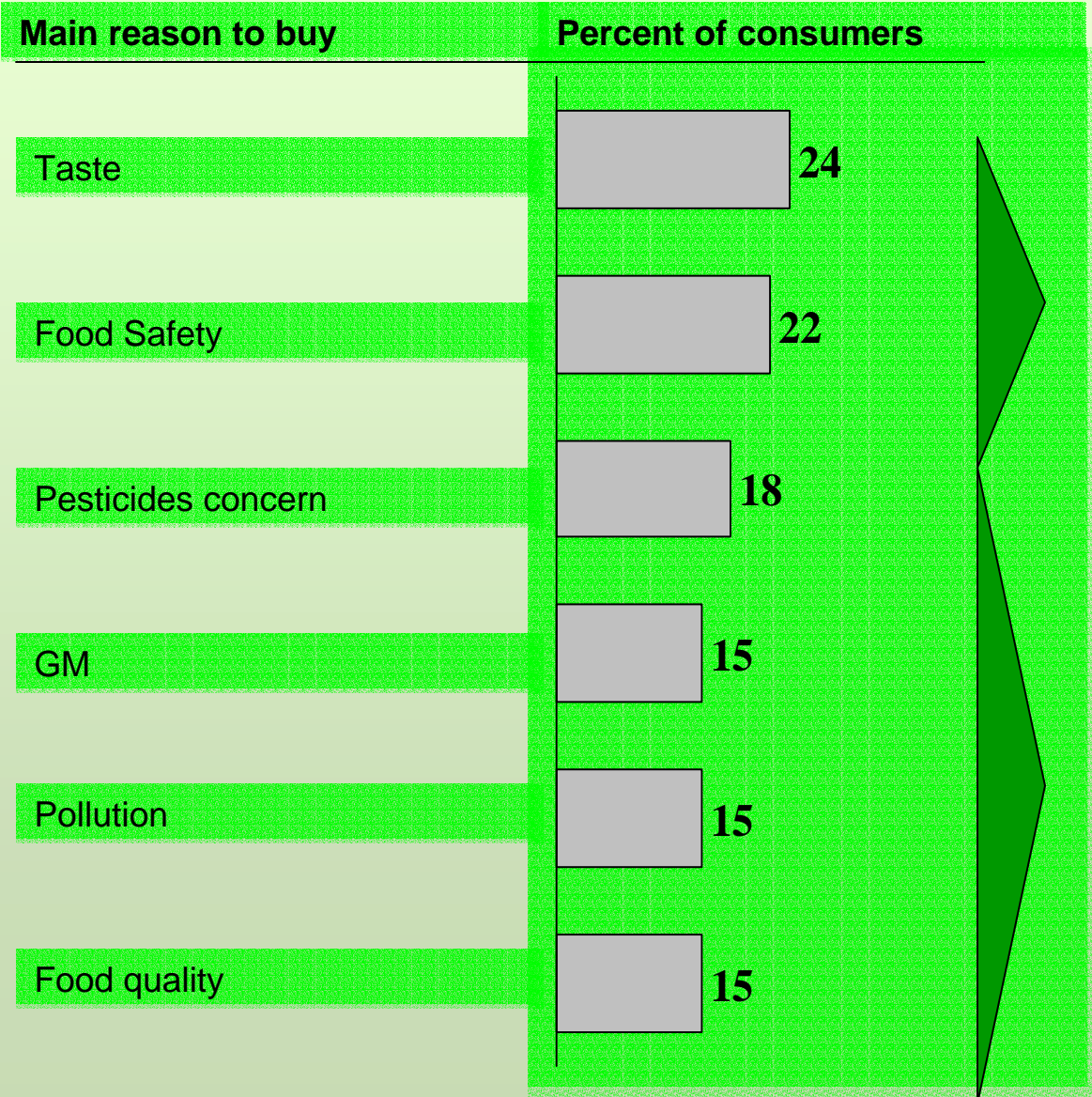
Era 1: Birth

- Food scares drive awareness of and gave need for organic food, yet price is the principal barrier to purchase
- Building of a viable mainstream supply base but with reliance on imports and at high cost (estimated 44% average price premium over conventional)
- Retailers drive organic foods with entry of major brands and sub-brands leading to proliferation of products
- Market value highly concentrated in small group of committed users
- Virtuous cycle of increased awareness, supply and shelf-space leads to 75% overall penetration

Era 2: Mainstreaming

- Growth comes from driving percentage of sales and middle market loyalty
- Government support to increase British organic supply base
- Market boundaries may blur as conventional producers introduce best practices copied from organic standards
- Level of consumer interest will continue to increase, all things being equal, based on demographic and health trends
- Main threat is devaluation of organic integrity

The mainstream organic consumer rates personal factors – health and taste – as the main reason to buy organic food



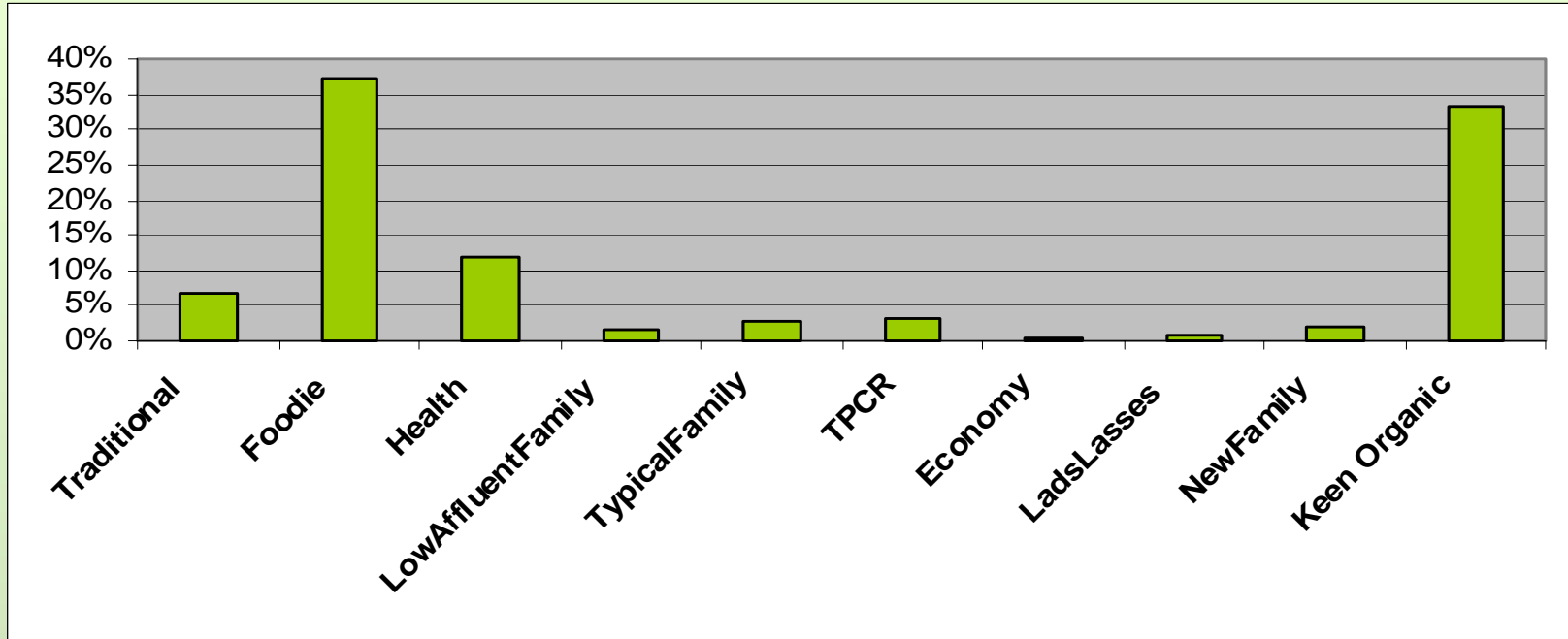
These two reasons are personal benefits but there is little evidence to substantiate any of these claims

These 4 reasons may change as concerns over food issues come and go: eg GM, BSE, avian 'flu

Consumers have generally low understanding of what organic means in a practical sense and, while we have clear organic standards, it remains difficult to make overall claims about the use of pesticides, antibiotics, hormones, etc.

Source: Soil Association Food & Farming Report 2003

ORGANIC CONSUMERS – WHO ARE THEY?





- Majority of sales driven by the Quality segments of Foodies and Keen Organics
- Mostly middle aged parents and couples, young parents and retired couples
- 63% of spend on three categories (produce/dairy/mfp)
- Growth will come from increasing cross-category penetration

Source: Sainsbury's Supermarkets



Organic consumers – how do they shop?

 % customers
 % transactions

Occasional

Regular repertoire

Committed

Increasing commitment 

77

26

20

44

3

30

1 transaction or less

From 1 to 7 transactions

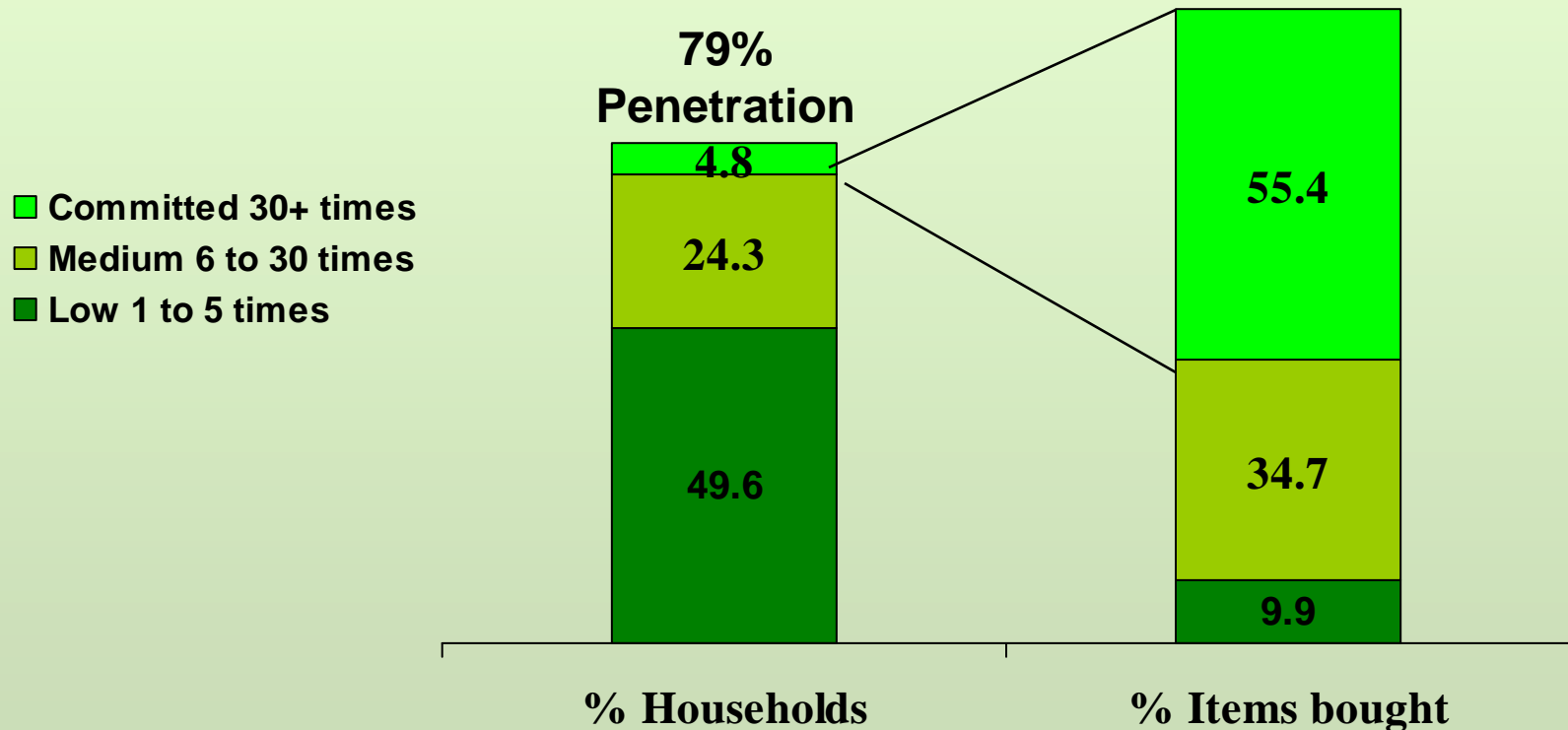
More than 7 transactions

- Occasional purchases
- Price the biggest barrier
- Often buying for reasons other than 'organic', e.g. availability

- Limited repertoire of products purchased regularly mainly in baby-food or fresh produce categories
- Motivated by particular food concerns

- Wide range bought often
- Belief in overall benefit of organic foods, 'the more the better'
- Want consistent availability, quality and innovation

5% of consumers are “committed buyers”, purchasing organic food more than 30 times in a year and accounting for >50% of sales

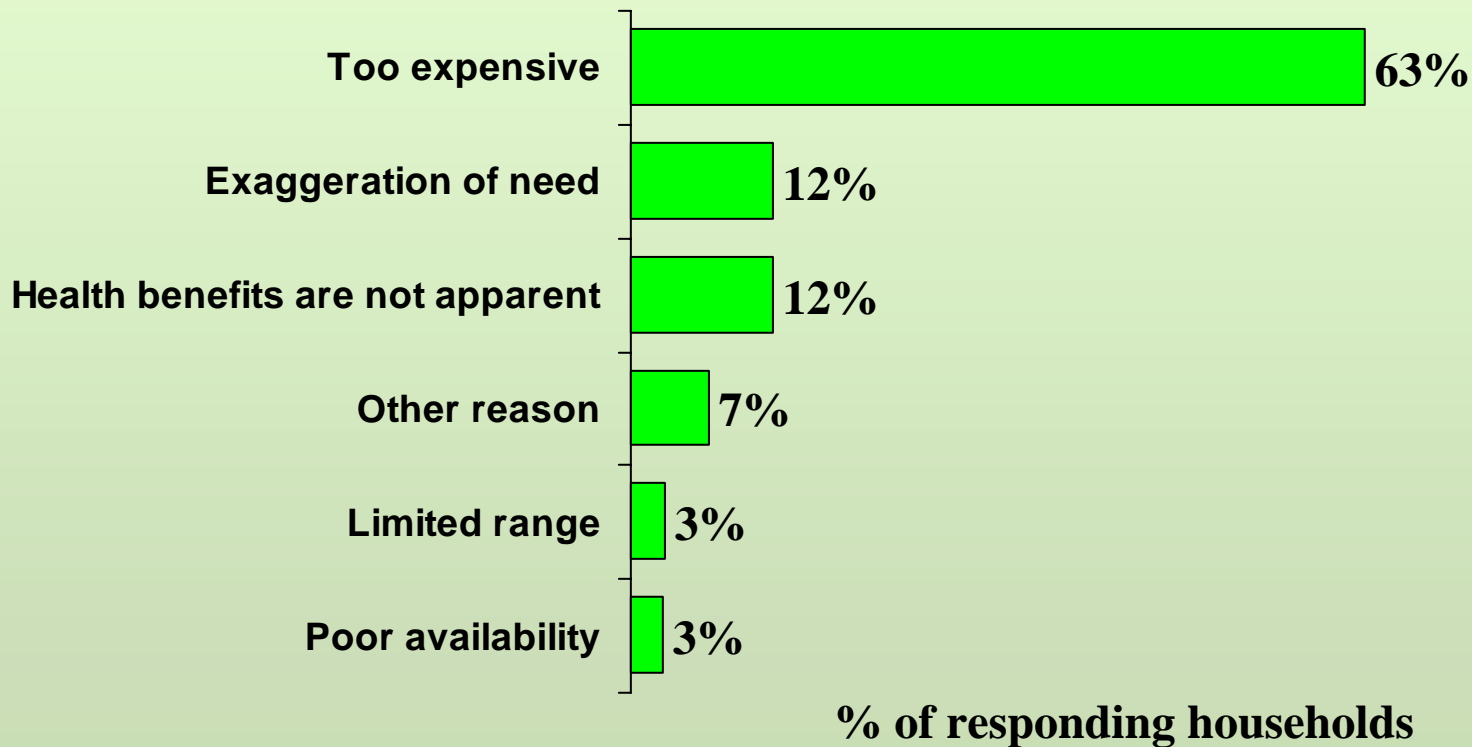


Source: ACNielsen Homescan
52 w/e 22nd Feb 03



Consumers want the benefits of organic food but are not prepared to pay for it .

“If you have never bought organic products, please indicate which of the following reasons explain why?”



Source: ACNielsen Homescan Survey, Feb 2003
Sample = 2,864 households



So, what do supermarkets want?

- Shareholder confidence and customer loyalty;
- Market differentiation and competitive advantage;
- Price, availability, quality, safety, legal compliance and integrity;
- Fulfilment of strategies and policies derived from prioritisation of above;
- Stable supply chain relationships.

Does the above contradict organic interests?



And, what do consumers need?

- Cheaper organic food!?
- To understand more about why some food costs more and to appreciate the effects of 'cheap food' policies eg avian 'flu, GM, BSE;
- Re-connection with farmers and food producers to bring back respect for food whilst appreciating effects of globalisation of food production;
- Clear and reliable messages from governments, supermarkets and interest bodies.



Organic Action Plans

- European Action plan seeks to establish ways of increasing consumption of organic food;
- In the UK more British organic food sources are being encouraged by government and retailers – not such good news for Chilean producers!
- Extending organic consumption opportunities to public procurement – schools and hospitals, too;
- Increasing consumer interest in Fair Trade products, but it has a different focus to that of organic production.



Key issues for the organic retail market

- Defining what acceptable quality & price means;
- Maintaining adequate returns for organic farmers;
- Understanding the issues presented by different standards, be they Regulations, private certifiers' requirements or IFOAM harmonised standards;

- Clear blue water to show difference between organic and conventional justifying reasons to buy



Sainsbury's case study

- 27% UK market share with around 1100 lines and sales upwards of £4m weekly;
- Cohesive policies and strategies on sourcing, price and integrity with a customer offer giving emphasis on choice, value, quality and trust;
- Fresh organic foods represent most important growth with one third of all sales being fresh produce, meat & dairy.



Sainsbury's key organic policies

- Sourcing
- Integrity
- Price
- Communication



Sourcing

- To support British organic farmers, Sainsbury's source 100% British organic meat and dairy products;
- All fresh organic milk, butter, eggs, beef, pork & poultry is already produced on British organic farms;
- Their pledge to increase British organic supply chain proportion to 55% by 2004 was exceeded – actually achieved 63%.



Sainsbury's, IFOAM & IOAS



Integrity

- For Sainsbury's, customer trust and integrity is key;
- FAQ – if its imported how do I know its truly organic?
- Concern over fraud as market attracts new entrants;
- Sainsbury's support for IFOAM standards and its accreditation process by requiring certifiers of all own-label products to be IFOAM accredited;
- 32 ACBs worldwide gives selected choice;
- Customers expect organic certification to be harmonised and standards to be equivalent – but this is NOT always the case;



Price

- Customers should be aware of the true cost of organic food and Sainsbury's prices should reflect that;
- Sainsbury's do not believe in subsidising the retail price of organic foods nor do they propose to make additional profit on comparable organic products of similar quality and value to a conventional comparison;
- They need to work with suppliers and producers to reduce costs within the organic supply chain.



Communication

How Sainsbury's communicates with its organic customers:

Previous meat labels...



New designs!



Sainsbury's organic produce traceability website



The future of the organic market

- Greater understanding of the true value of food in our society and the need for us as citizens to take responsibility for the results of our purchasing decisions;

- Research to establish the nutritional, environmental and social benefits of



Conclusions

- UK organic market growth is consolidating, but still remains healthy;

- Opportunities for export from Chile to the UK limited to out of season production of organic fruits, vegetables and cereals;

- Fierce competition between UK supermarkets could lead to an organic price war that



Thank you to



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