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*Organic*  
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2014 organic industry survey



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executive summary

# U.S. organic industry overview

More than a decade after the National Organic Program went into effect, the U.S. organic product market continues to experience strong expansion. In 2013, U.S. consumer sales of organic products—both food and non-food—reached \$35.1 billion in sales, adding approximately \$3.6 billion in new annual sales. Organic market growth of nearly 12%, the highest rate posted since 2008, exemplifies the industry’s resiliency after the single-digit growth experienced during the recession. Over the past three years, the organic industry has posted an average growth rate of 10%, well above the 5% and 7% growth posted in 2009 and 2010. Although the organic industry is unlikely to return to the 18% average growth experienced from 2003-2008, it is adding new sales dollars to the industry at a rate that has only been surpassed once in the past eleven years when new sales dollars were \$3.9 billion in 2008.

Growth in organic product sales continued to outpace total sales of comparable conventional food and non-food items, which grew a total of only 3% in 2013, down from the 4% growth posted in 2012. Accounting for 92% of the organic market, organic food sales grew 11% last year, while conventional food sales only experienced a growth of 3%. The growth of organic non-food sales also continue to outpace the conventional non-food market, with organic growing at 13% while conventional only increased 3%.

Although organic continues to chip away at total market share of food and non-food products sold, the overall share of organic products being sold marks only a small dent in total product sales. Organic food account for roughly 4% of total food sales (up from 2% back in 2003), while non-food still accounts for less than 1% of total comparable non-food sales.



figure 1-1  
Total U.S. Organic Sales and Growth, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
% of Total Organic	95.6	95.2	94.7	94.3	93.9	92.9	92.6	92.4	92.3	92.2	92.1
Organic Non-Food (%)	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
% of Total Organic	4.4	4.8	5.3	5.7	6.1	7.1	7.4	7.6	7.7	7.8	7.9
Total Organic	10,065	11,689	14,005	16,567	19,370	23,220	24,297	26,097	28,531	31,478	35,104
Growth (%)	19.6	16.1	19.8	18.3	16.9	19.9	4.6	7.4	9.3	10.3	11.5

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



# organic food market .....

In 2013, the grocery channel continued to play a significant role in the growth of organic as the bigger stores are realizing the potential return on investment of catering to the health-minded shopper. Private label organic is also increasingly playing a role in grocery, and it continues to play an even stronger role in the natural retail channel, where consumers trust that the store is vetting product for them and therefore they can easily trust a broader spectrum of private label offerings.

Overall consumer trust of the organic label continued to be stymied by label confusion as “natural” remains ubiquitous and the debate heated up over GMO labeling with numerous labeling bills at state and national levels. These discussions affected organic foods, but carried over to organic non-food products as well, such as personal care, pet food, supplements and flowers.

Although the organic non-food sector only accounts for roughly 8% of the overall organic market, it continues to

maintain high growth and has almost doubled in market share since 2002, thanks to an eight-fold increase in sales over that time period. The non-food categories remain relatively small in terms of sales dollars, with flowers and household products both garnering under \$100 million in sales. However, these categories — including organic fiber, personal care and pet food — are still anticipated to be poised for tremendous growth.

The personal care sector continues to make gains, thanks primarily to Whole Foods Market’s policy implementation in 2012 for organic personal care products to carry the National Organic Program or NSF label. Organic fiber is expected to see continued growth as the industry starts to fine tune its value proposition and take certification more seriously. Likewise, more stringent organic rules are expected to be in development for pet food and seafood in 2014. The flower industry is another category that could benefit from better-communicated parameters around the organic label.

The organic food market continued its climb in consumer popularity in 2013, posting a growth rate of 11% with \$32 billion in U.S. consumer sales and accounting for 92% of total organic sales. Growing consumer understanding of the correlation between what we eat and our health continued to spur consumer interest in healthier products. Debate over the labeling of Non-GMO products and the use of the term “natural” worked both for and against organic.

The organic food industry grew \$3.3 billion in 2013, with the fruit and vegetables category accounting for 46% of those new dollars, representing \$1.5 billion in new sales. The relatively small organic condiments category posted the strongest growth, at 17%, to reach \$830 million in total sales. Both organic snack foods and fruits & vegetables recorded 15% growth, up slightly from the 14% and 13% growth, respectively, these categories recorded in 2012. The organic breads & grains segment posted fairly strong growth, at 12%, with gluten-free still being the key driver in this segment. In fact, six of the eight food categories posted increased growth in 2013, and only dairy and beverages posted single digit growth.

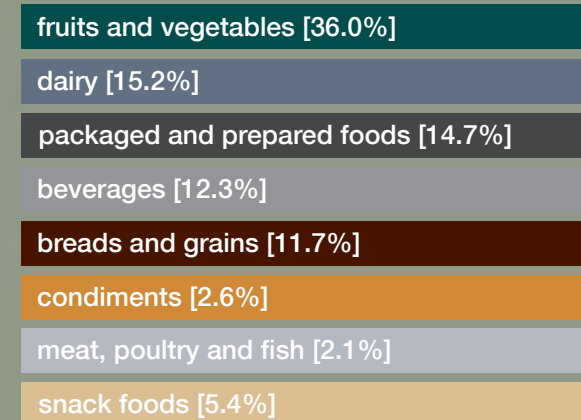
The organic food industry grew \$3.3 billion in 2013, with the fruit and vegetables category accounting for 46% of those new dollars, representing \$1.5 billion in new sales.







figure 1-2  
**U.S. Organic Food Sales by Product in 2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

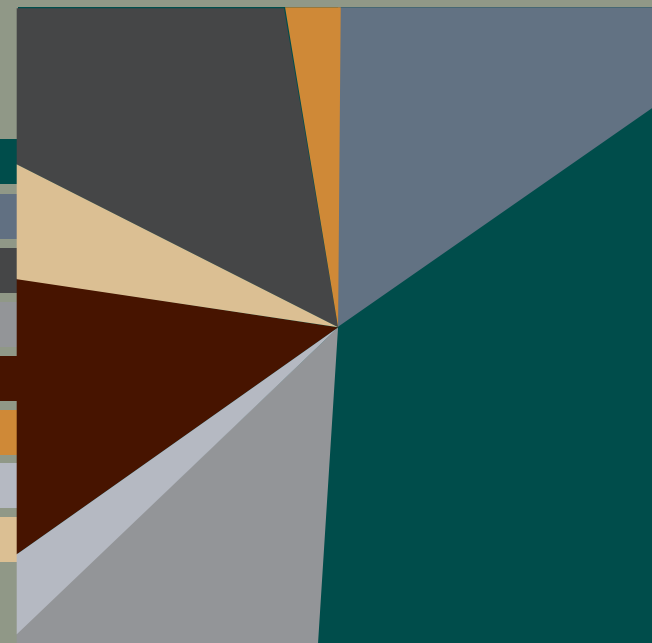
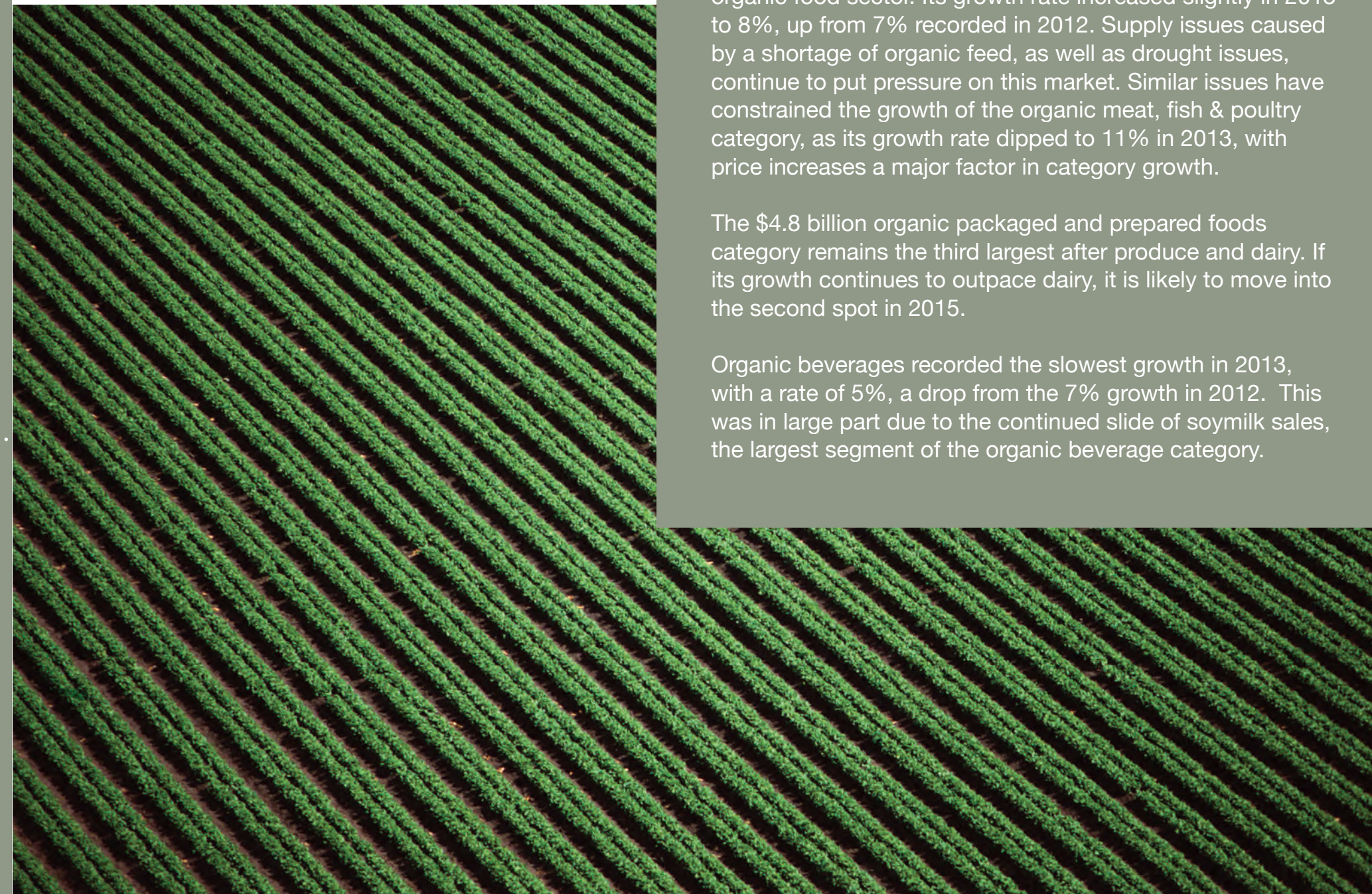


figure 1-3  
**U.S. Organic Food vs. Total Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Total Food	535,406	544,141	566,791	598,136	628,219	659,012	669,556	677,354	713,985	740,450	759,963
Growth (%)	0.9	1.6	4.2	5.5	5.0	4.9	1.6	1.2	5.4	3.7	2.6
Organic (as % Total)	1.8	2.0	2.3	2.6	2.9	3.3	3.4	3.6	3.7	3.9	4.3

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



The \$4.9 billion dairy category is still the second largest organic food sector. Its growth rate increased slightly in 2013 to 8%, up from 7% recorded in 2012. Supply issues caused by a shortage of organic feed, as well as drought issues, continue to put pressure on this market. Similar issues have constrained the growth of the organic meat, fish & poultry category, as its growth rate dipped to 11% in 2013, with price increases a major factor in category growth.

The \$4.8 billion organic packaged and prepared foods category remains the third largest after produce and dairy. If its growth continues to outpace dairy, it is likely to move into the second spot in 2015.

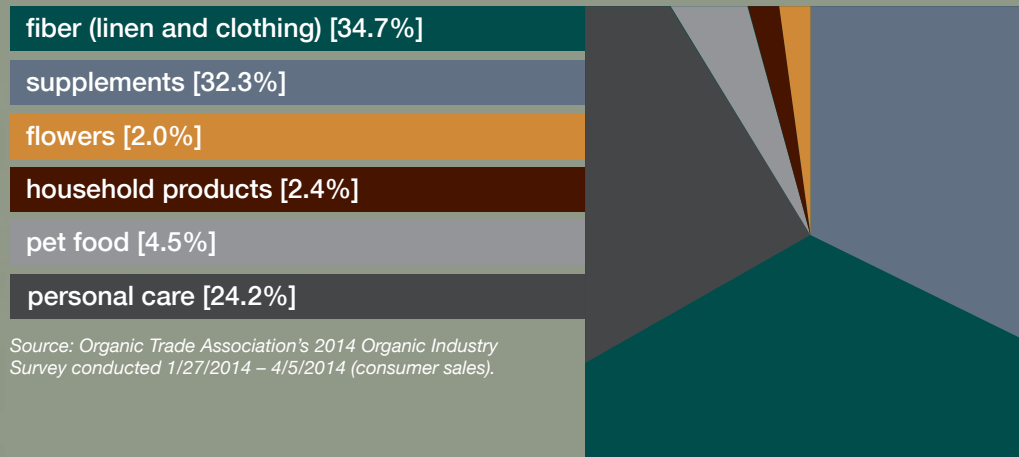
Organic beverages recorded the slowest growth in 2013, with a rate of 5%, a drop from the 7% growth in 2012. This was in large part due to the continued slide of soymilk sales, the largest segment of the organic beverage category.

# organic non-food market

The organic non-food segment continued to show strong overall growth of 13% in 2013 to reach \$2.8 billion in total sales. Growth was up a percentage point from the 12% recorded in 2012, and the category added \$315 million in new annual sales. The organic non-food industry continues to grow faster than the more established organic food market. Although the organic non-food industry's growth rate is still significantly down from the 40% growth recorded in 2008, the sector has continued to become more established and has fine-tuned its value proposition. The non-food category now accounts for 8% of the overall organic market, and sales are now three times larger than they were in 2006. Although growth has been steady, this segment still only accounts for less than 1% of the overall non-food market.

Organic fiber, including apparel and household linens, continued to be the largest organic non-food category, accounting for approximately 35% of sales in the non-food segment and reporting 16% in overall growth. As this market matures and starts to take organic certification more seriously, and corporate responsibility in relation to the environment and people gains in importance, organic fiber looks poised to see a continued rate of growth in the near future. With market penetration remaining at about one-third of a percent, there is definitely room to grow.

figure 1-4  
U.S. Organic Non-Food Sales by Product in 2013



The organic supplements category, which dropped in rank in 2012 to be the second-largest non-food sector, still pulled its weight. Supplements accounted for 32% of sales in the organic non-food category, with \$894 million in sales. Personal care held steady as the third-largest category with 13% growth and \$669 million in sales, while pet food saw the largest jump in growth, from 8% in 2012 to 14% in 2013, achieving \$124 million in sales. This follows the humanization-of-pets trend — as consumers begin to eat healthier, they are looking for healthier foods for their pets as well. Organic flowers and household products continue to be the smallest categories, each accounting for significantly less than \$100 million in sales.

figure 1-5  
U.S. Organic Non-Food vs. Total Non-Food Sales, Growth and Penetration, 2004-2013

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Non-Food	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Total Non-Food	317,661	331,870	344,399	356,803	370,049	365,488	378,700	397,638	419,359	434,010
Growth (%)	6.5	4.5	3.8	3.6	3.7	-1.2	3.6	5.0	5.5	3.5
Organic (as % Total)	0.18	0.22	0.27	0.33	0.45	0.49	0.52	0.55	0.59	0.64

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



# methodology and acknowledgements

The Organic Trade Association's (OTA's) 2014 Organic Industry Survey was conducted and produced on behalf of OTA by Nutrition Business Journal. The survey was conducted from January 27, 2014, through April 5, 2014. More than 200 companies responded to the survey, including revenues reported in narrow ranges, sales growth, revenue by product, and sales channel breakdowns.

The Organic Trade Association's 2014 Organic Industry Survey was managed and conducted by Carla Ooyen, Director of Market Intelligence at Nutrition Business Journal and New Hope Natural Media, with the help of the NBJ staff. Laura Batcha, OTA's CEO & Executive Director, and Angela Jagiello, Associate Director, OTA's Conference and Product Development, provided project direction.

## data collection

A primary objective of this project was to collect and compile data from the manufacturing community in the organic industry. To maximize the amount of information collected, NBJ structured a survey similar to previous OTA's surveys to facilitate quantitative assessment and comparison, and to assess qualitative issues impacting the organic industry. NBJ distributed the survey and collected the responses through an online survey network. Further e-mails and telephone calls were used to improve response rate and clarify survey responses. In the survey, NBJ assessed the "universe" of manufacturers in organic products so that survey data could be most effectively modeled into total industry statistics. In other words, traditional statistical modeling usually involves

random sampling of defined subcategories (i.e., organic manufacturers between \$5 million to \$10 million in sales) and conversion to total based on the knowledge of the survey universe.

In this case, we used a somewhat hybrid approach, where respondents were not randomly selected, but rather "self-selected" by their responses and our efforts to make the entire industry aware of the survey. Distinct efforts were made to obtain responses (or, as a last resort, revenue product breakdown and sales channel estimates) from the top 100 or so manufacturers and private label brands to maximize the "revenue capture" of the survey database and industry model.



## data compilation and industry model

Data collected from the survey process were structured into a database and spreadsheet in order to create an industry model based on manufacturer data. The goal for each manufacturer in the database was to have wholesale sales figures, product breakdowns into at minimum the top level organic categories (beverages, condiments, supplements, etc.), sales channel breakdowns (natural food stores, grocery, farmers' markets, etc.), exports, employment and other statistics.

The industry model of manufacturers was the basis of industry quantification, but considerable effort was also placed in compiling information from other sources to make sure the data results could be reconciled with statistics from other portions of the supply chain. In addition to the new data collection from manufacturers, we compiled published data on the organic industry pertinent to market size, market growth history, product breakdowns, and other areas including private label. Secondary sources included SPINS, IRI Group, and Natural Foods Merchandiser's annual industry survey, among others.

Assessments were performed on all levels of the organic supply chain from farms to processors to branded manufacturers to distributors to retail stores and unique sales venues like co-ops, CSAs and farmers' markets and, lastly, to consumers.

## acknowledgements

### *Organic Trade Association*

The Organic Trade Association (OTA) is the membership-based business association for organic agriculture and products in North America. OTA is the leading voice for the organic trade in the United States, representing over 6,500 organic businesses across 49 states. Its members include growers, shippers, processors, certifiers, farmers' associations, distributors, importers, exporters, consultants, retailers and others. OTA's Board of Directors is democratically elected by its members. OTA's mission is to promote and protect the growth of organic trade to benefit the environment, farmers, the public and the economy.

### *Nutrition Business Journal*

Nutrition Business Journal (NBJ) is a research, publishing and consulting company serving the nutrition, natural products and alternative health care industries. Nutrition and natural products include, but are not limited to, dietary supplements, herbs & botanicals, vitamins & minerals, natural & organic foods, and natural personal care. Alternative health care embraces services related to insurance, HMOs, investment and alternative therapies (e.g., chiropractic, acupuncture, naturopathy). NBJ publishes a monthly executive journal focusing primarily on the nutrition industry. NBJ also addresses how this industry impacts the larger food, pharmaceutical and health care industries. Each issue discusses business activities, market size/growth, trends and opportunities in the nutrition industry, which NBJ defines as dietary supplements, herbs, natural foods and natural personal care products.

NBJ is based in Boulder, Colorado, as a business unit of New Hope Natural Media, a division of Penton.





organic market performance

# organic market overview .....

Putting the recession of 2009-2010 further behind it, the U.S. organic product market continues to experience strong expansion, recording 11.5% growth in 2013. Total U.S. consumer sales of organic products reached \$35.1 billion. Market growth is the highest rate posted since 2008, exemplifying the organic industry's resiliency after the single-digit growth experienced during the recession. Organic industry sales increased \$3.6 billion in 2013 — adding new sales dollars to the industry at a rate that has only been surpassed once in the last eleven years, in 2008 when new sales dollars were \$3.9 billion.

Growth in organic product sales continued to outpace total sales of comparable conventional food and non-food items, which grew a total of only 3% in 2013, down from the 4% growth posted in 2012. Accounting for 92% of the organic market, organic food sales grew 11% last year, while conventional food sales only experienced a growth of 3%. The growth of organic non-food sales also continue to outpace the conventional non-food market, with organic growing at 13% while conventional only increased 3%.

While organic continues to chip away at total market share of food and non-food products, the overall share

of organic products sold makes only a small dent in the total market. Organic food accounts for roughly 4% of total food sales (up from 2% back in 2003), while non-food still accounts for less than 1% of total comparable non-food sales. Attaining market share requires persistent, long-term dedication. While the path to mainstream may seem long, low market share also signals the tremendous potential for future growth that still exists.

If supply can keep pace with demand, there are significant signs that the next decade's growth may pave the way to mainstream faster than ever before. Overall, the issues surrounding the organic industry are covered in the media with more regularity than ever before. And while organic food and produce are the primary growth drivers for organic, categories such as organic fiber are beginning to be taken very seriously by large, mainstream apparel manufacturers.

On the retail front, organic sales continue to grow faster in the traditional grocery channel than the specialty channel, which reflects a more mainstream shift that consumers are taking toward health and wellness. Yet, store growth on the specialty side also speaks to the increased demand for organic and healthier products.



figure 2-1  
Total U.S. Organic Sales in 2013

Category	2013 Sales	2013 Growth
Organic Food	32,335	11.4%
Organic Non-Food	2,770	12.8%
<b>Total Organic</b>	<b>35,104</b>	<b>11.5%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

organic food [92.1%]

organic non-food [7.9%]



“I’m intrigued on the retail side. I think the store growth in the natural and specialty format is interesting to watch. Whole Foods, Sprouts and Vitamin Cottage are aggressive. The expansion of the number of doors is phenomenal and really good for the industry. Likewise, Kroger has its strategic plan to be the number one natural foods retailer in the United States. There are a lot of positive food trends in retail,” says Rudi’s Organic Bakery’s SVP of Marketing and Conventional Sales Doug Radi.

Across categories in the organic industry, manufacturers and producers report an awareness that more and more consumers are looking for healthier options. These consumers are starting to make the correlation between what they put in their bodies and how the food they eat is grown or made. As Arran Stephens, Executive Vice President of Nature’s Path, says, “Health and wellness continue to grow. We’re not talking about organic as a fad. It’s here to stay. It’s a movement, not just an industry, but a movement.” These new health-minded consumers are seeking transparency concerning ingredients as well as business practices. Key players driving this movement are Millennials — consumers ranging in age from the late teens to early 30s.

This group is starting to bring its own spending power to the table, and is the first generation of consumers to be raised on the likes of Whole Foods Market. For these consumers, eating healthy and buying sustainable products are second nature, not something they need to learn how to do.

Although organic benefits from the health and wellness

conversation, its message can be lost next to the presence and pricing of “natural” products and the growing conversations around GMOs. These conversations have caused confusion for consumers as to which label best serves them.

On the “natural” front, ongoing lawsuits brought by consumers against companies over the misleading use of the term “natural” have helped to bring awareness to the fact that “natural” it is not a regulated term. In 2013, Kellogg (Bear Naked), Pepsico (Naked Juice) and Chobani all came under fire, resulting in the removal of the term “natural” from their labels.

Within the organic community, there is a resounding plea that the entire organic industry needs to rally around helping consumers better understand and appreciate all the values and attributes that certified organic brings to the table. This sentiment is echoed from industry leaders across categories. The industry is very aware that consumer education is critical to grow the organic industry.

Supply challenges have developed as a result of increased demand. As the industry evolves, finished products and ingredient palettes have become more diversified. It can be a challenge to maintain a consistent ingredient supply, especially with less mainstream ingredients such as organic lime, chipotle or tomato powder and even jojoba oil. Companies that have been in the organic business for a long time, such as Amy’s Kitchen and Nature’s Path, cite having strong ties with their supply chain, farmers and ingredient producers as the key to success.

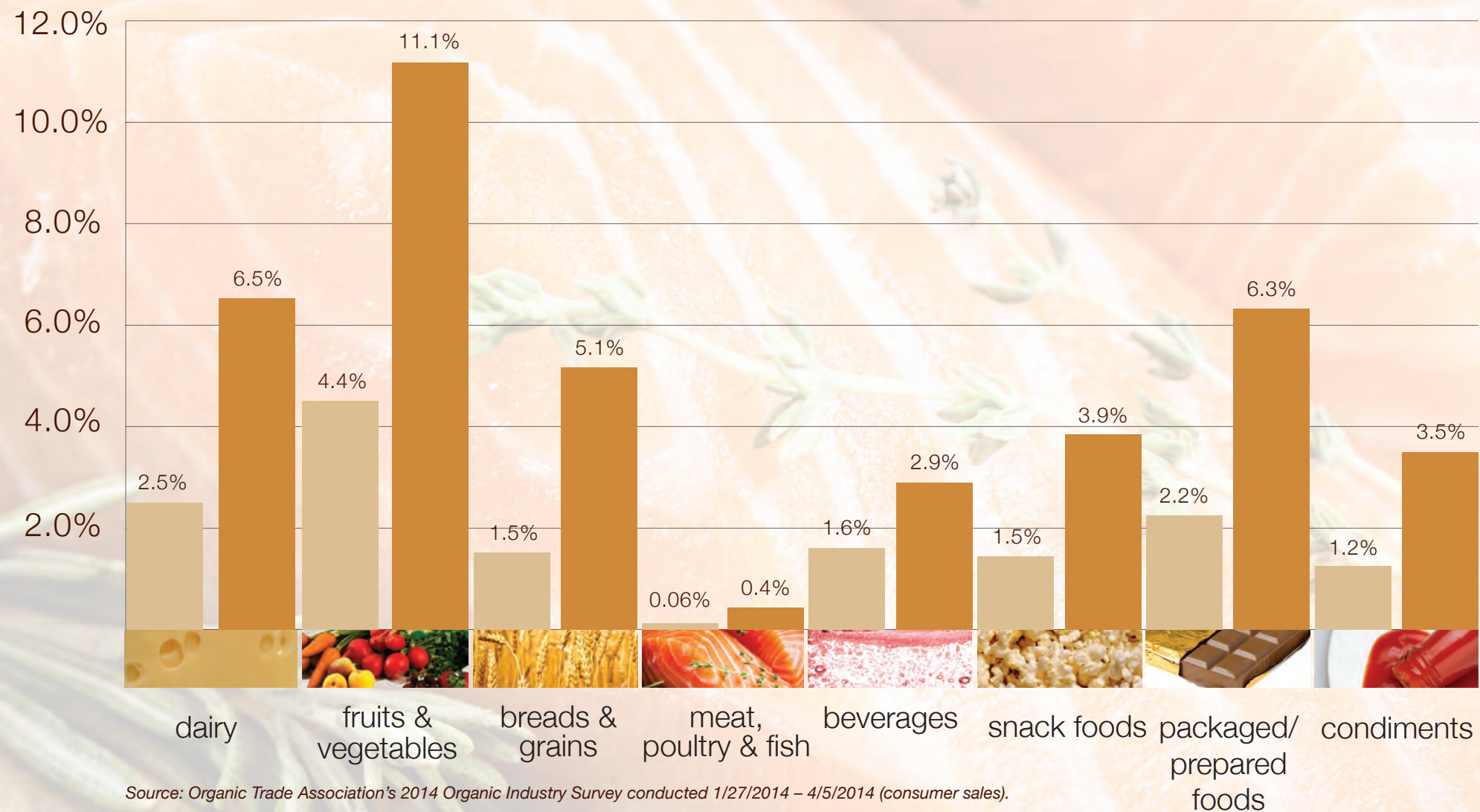
figure 2-2  
Total U.S. Organic Sales and Growth, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
% of Total Organic	95.6	95.2	94.7	94.3	93.9	92.9	92.6	92.4	92.3	92.2	92.1
Organic Non-Food (%)	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
% of Total Organic	4.4	4.8	5.3	5.7	6.1	7.1	7.4	7.6	7.7	7.8	7.9
Total Organic	10,065	11,689	14,005	16,567	19,370	23,220	24,297	26,097	28,531	31,478	35,104
Growth (%)	19.6	16.1	19.8	18.3	16.9	19.9	4.6	7.4	9.3	10.3	11.5

Source: Organic Trade Association’s 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

figure 2-3

### U.S. Organic Food Penetration of Total Food Market by Category, 2003 vs. 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



Obtaining some ingredients is challenging to everyone. In 2013, securing enough organic feed supply continued to be a challenge, which affected both the dairy and meat, poultry & fish categories. Although demand is there for organic milk and dairy products, companies have had to monitor growth forecasting based on organic feed availability. Of course, pricing also plays into demand. As demand for organic wheat increased, so did its price, much more than many manufacturers had anticipated.

There are also such factors as bacteria, disease and even the weather to consider. In 2013, the yet-to-be-remedied greening disease continued to hit citrus in Florida hard and began to spread to Texas and California. Likewise, Fire blight continued to affect apples and pears in Washington and the northeast. These are just two examples of challenges facing produce growers. The damage or lasting effects of California's drought (a drought which actually extends through the Midwest) will not be totally understood until farmers see what happens with moisture in the first half of 2014.

Even if it does rain, industry insiders know there will always be a shortage somewhere. Organic Valley's

Mission Executive Theresa Marquez suggests the industry needs to work together to be better prepared for climate extremes. "In the organic industry, we have to acknowledge that we are in a climate crisis. We will have some crisis every year, and we will see climate extremes. If it's not going to be flood, it's going to be a drought. It's time we start talking about these issues."

Although several companies cited that they currently avoid sourcing ingredients from China until they have a better understanding of how well the certification process is upheld there, many manufacturers do take advantage of the European equivalency agreement for sourcing. Similarly, the U.S. inked an equivalency agreement with Japan in the fall of 2013. Due to the popularity of superfoods and ancient grains, companies continue to forge partnerships with farmers in South America, India and Africa.

Securing ingredients can be particularly cumbersome for new organic players who do not yet have strong ties in the industry. Yet, it was pointed out by one industry veteran, newcomers now entering the field will find the market is well established for them.

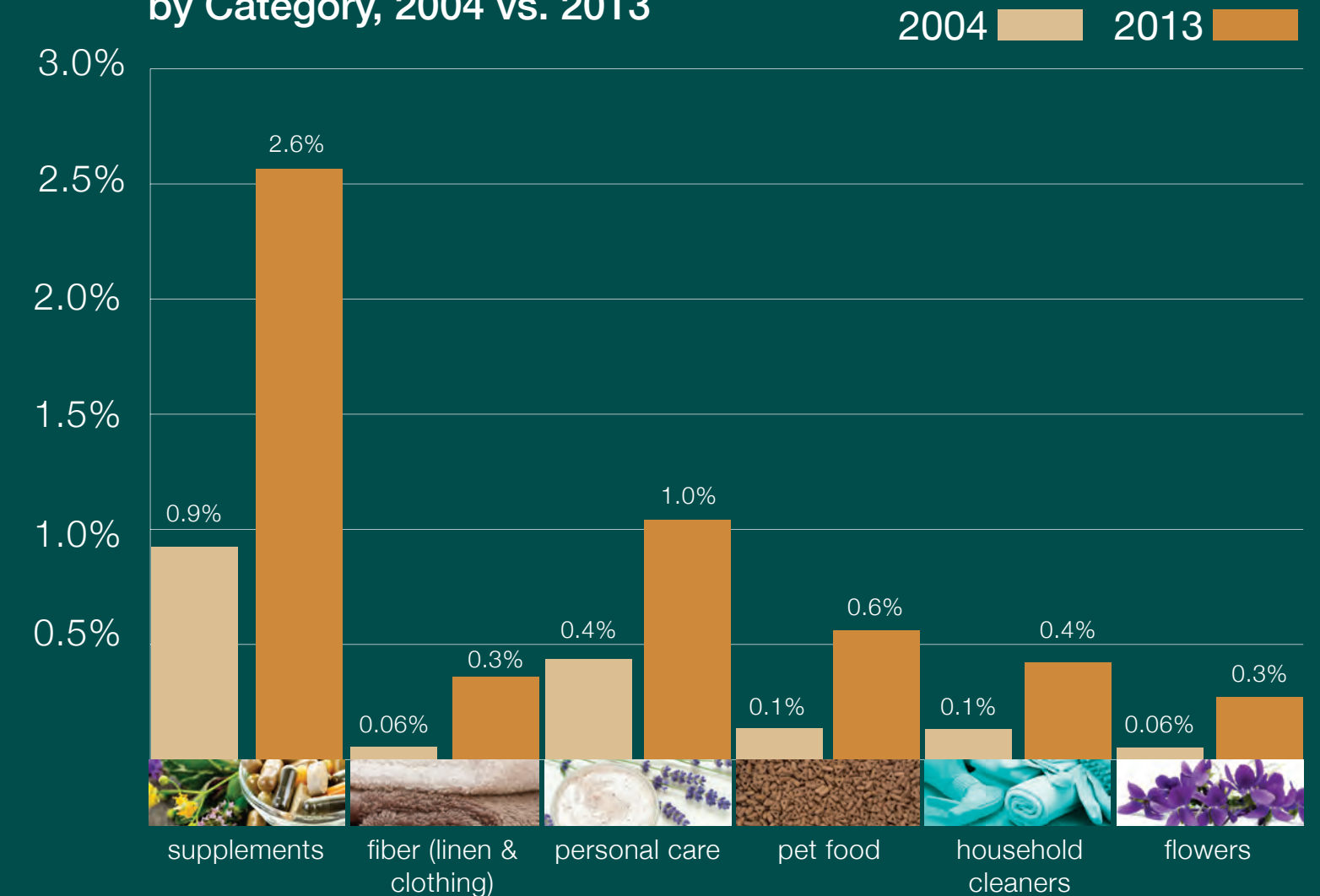


In the early days of organic, it was relatively unclear whether the consumer market was there for organic products. Now, with \$35 billion in sales, there is clearly a market for organic products.

The issues of supply ultimately did not stop the industry from innovating and meeting mainstream trends head on. Several companies that have held significant market share in other categories began to branch out. For example, WhiteWave entered the packaged & prepared foods category by launching its Mac & Cheese product. Packaged & prepared foods are one of the most competitive landscapes in organic as manufacturers in this category also meet stiff competition from more conventional companies that are retooling product lines to partake in the organic movement.



figure 2-4  
**U.S. Organic Non-Food Penetration of Total Non-Food Market by Category, 2004 vs. 2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (consumer sales).

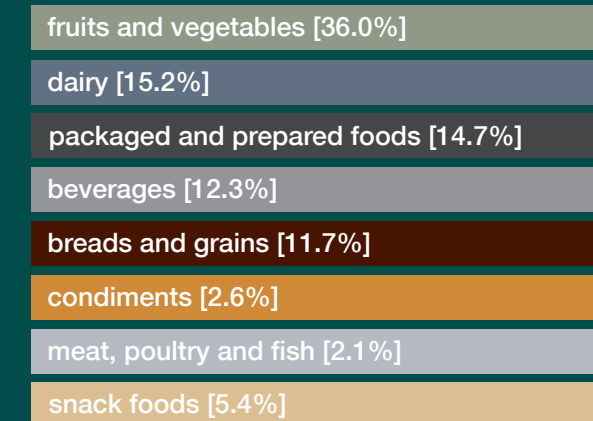
# organic food market

## sales and growth

The organic food market continued its climb in consumer popularity in 2013, posting a growth rate of 11% with \$32 billion in U.S. consumer sales and accounting for 92% of total organic sales. Growing consumer understanding of the correlation between what we eat and our health continued to spur consumer interest in healthier products. Debate over the labeling of Non-GMO products and the continued use of the term “natural” worked both for and against organic.

The Non-GMO debate helped to drive interest in organic as more people came to understand that the organic label means “Non-GMO” (it is written into the National Organic Program standards that organic products cannot include GM ingredients). Yet, consumer confusion over labels, and, in particular, the term “natural” continued to hinder faster growth for organic. Many industry leaders interviewed for this report stated that more consumer education on organic is necessary.

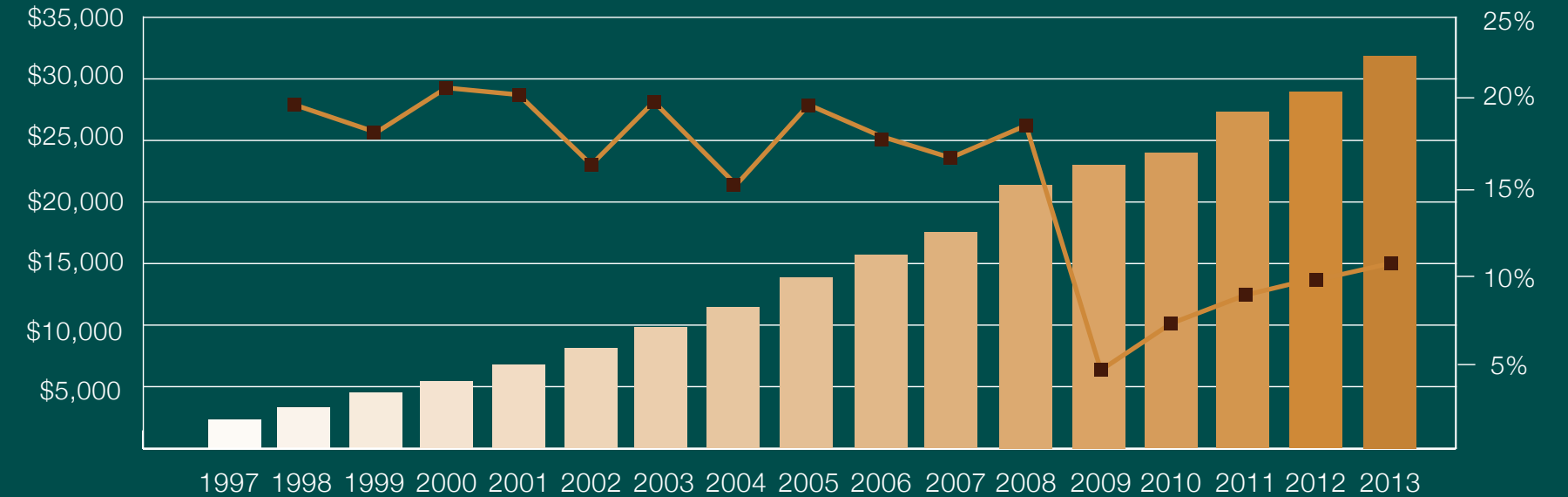
figure 2-5  
U.S. Organic Food Sales by Product in 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

Category	2013 Sales	2013 Growth
Dairy	4,925	7.8%
Fruits and Vegetables	11,629	15.1%
Breads & Grains	3,788	11.6%
Meat, Poultry & Fish	675	11.1%
Beverages	3,976	4.6%
Snack Foods	1,747	15.0%
Packaged / Prepared Foods	4,766	10.4%
Condiments	830	17.3%
<b>Total Organic Food</b>	<b>32,335</b>	<b>11.4%</b>

figure 2-6  
U.S. Organic Food Sales & Growth, 1997-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

figure 2-7  
U.S. Organic Food vs. Total Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Total Food	535,406	544,141	566,791	598,136	628,219	659,012	669,556	677,354	713,985	740,450	759,963
Growth (%)	0.9	1.6	4.2	5.5	5.0	4.9	1.6	1.2	5.4	3.7	2.6
<b>Organic (as % Total)</b>	<b>1.8</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.9</b>	<b>3.3</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.9</b>	<b>4.3</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



The organic food industry grew \$3.3 billion in 2013, with the fruit and vegetables category accounting for 46% of those new dollars, totalling \$1.5 billion in new sales. The relatively small organic condiments category posted the strongest growth, at 17%, to reach \$830 million in total sales. Both organic snack foods and fruits & vegetables recorded 15% growth, up slightly from the 14% and 13% growth these categories recorded in 2012. The organic breads & grains segment posted fairly strong growth, at 12%, with gluten-free still being the key driver in this segment. In fact, six of the eight organic food categories posted increased growth in 2013, with only dairy and beverages posting single digit growth.

The \$4.9 billion dairy category is still the second-largest organic food sector. Its growth rate increased slightly in 2013 to 8%, up from the 7% recorded in 2012. Supply issues

caused by a shortage of organic feed as well as drought continue to put pressure on this market. Similar issues have constrained the growth of the organic meat, fish & poultry category, as its growth rate dipped to 11% in 2013, with price increases a major factor in sales growth.

The \$4.8 billion organic packaged and prepared foods category remains the third largest after produce and dairy. If its growth continues to outpace dairy, it is likely to move into the second spot in 2015.

Again, organic beverages recorded the slowest growth in 2013, at a rate of 5%, a drop from the 7% growth posted in 2012. This was in large part due to the continued slide of soymilk sales, the largest segment of the beverage category. Frozen juice also declined in sales, and the growth rate of coffee slowed significantly from that recorded in 2012.

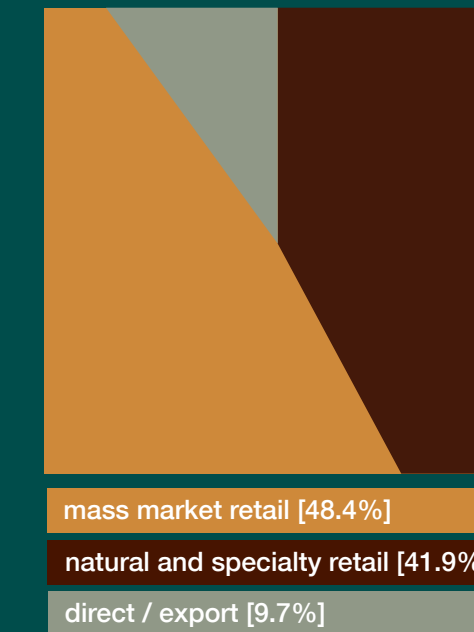
## channel distribution

In 2013, natural food stores and groceries were the two largest channels of distribution for organic products. Organic sales in the grocery channel are growing faster than those in the natural channel, with mass market retail accounting for 48% of organic food sales, and natural and specialty retail accounting for 42%. As one distributor noted, it is easier to grow when penetration is lower, as it has been in conventional grocery stores.

The grocery channel continues to play a significant role in the growth of organic as the bigger stores are realizing the potential return on investment of catering to the health-minded shopper. This was evident when Kroger recently proclaimed its intent to be the leading retailer of natural products. But this charge is not without competition. There are many contenders now catering to the health-conscious consumer, including Safeway, Costco, Wal-Mart and even Target, which launched its Simply Balanced natural and organic line in 2013 and expanded its inventory of natural, organic and sustainable goods in 2014 under a new category, “Made to Matter—Handpicked by Target”



figure 2-8  
U.S. Organic Food Sales by Channel in 2013

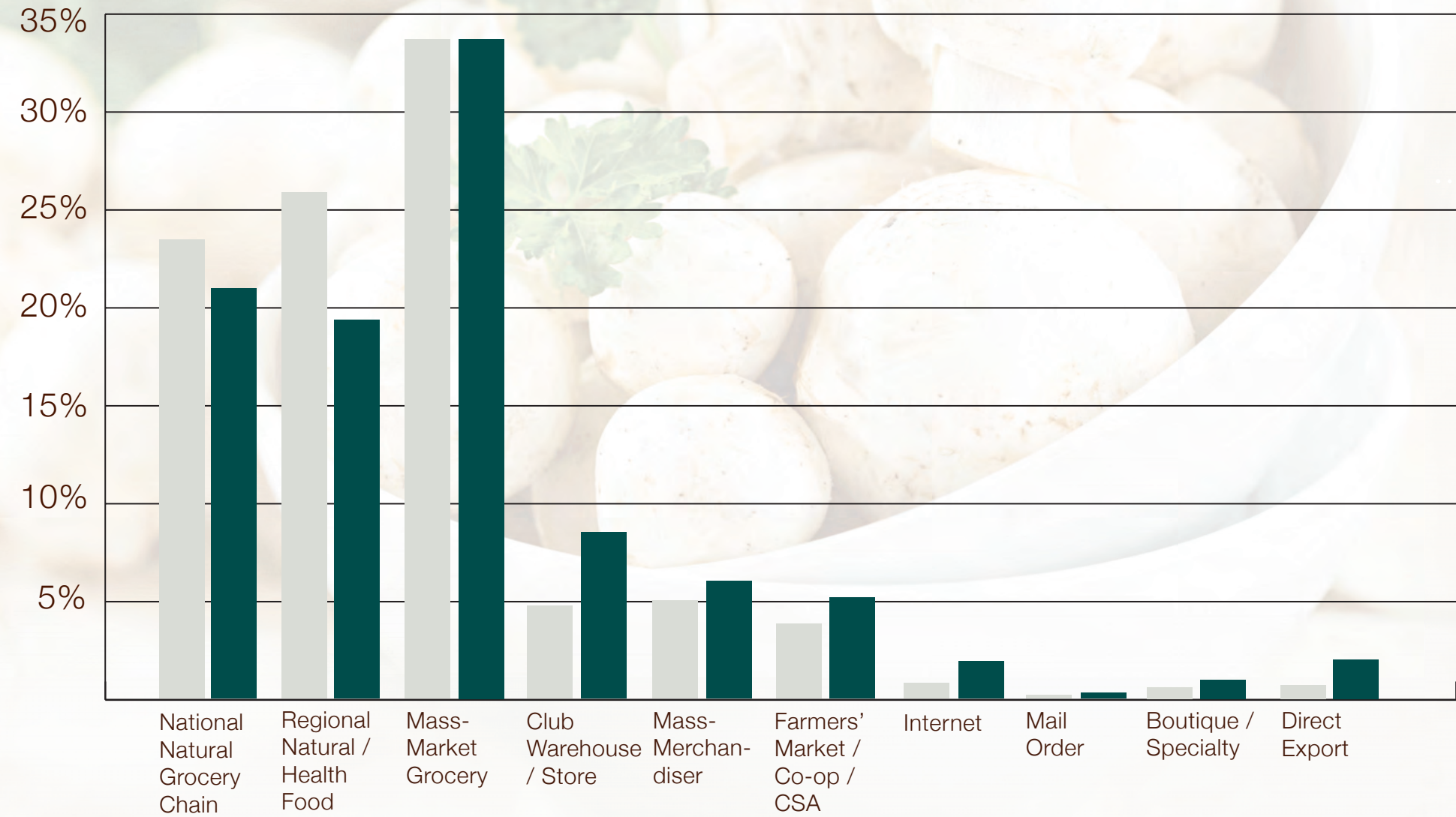


Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

Channel	2013
National Natural Grocery Chain	21.0%
Regional Natural/Health Food	19.5%
Mass-market Grocery	33.8%
Club/Warehouse Store	8.6%
Mass Merchandiser	6.2%
Farmers' Market/Co-op/CSA	5.3%
Internet	2.0%
Mail Order	0.4%
Boutique/Specialty	1.1%
Direct Export	2.1%
<b>Total Organic Food</b>	<b>100%</b>

figure 2-9

**U.S. Organic Food Percent of Market by Channel, 2005 vs. 2013** 2005 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



It's important to not discount the role the natural channel plays in the organic market. The natural channel continues to be able to differentiate itself and pick up innovative products faster than the bigger retailers. The traditional grocery channel stores tend to only adjust their store line-ups once or twice a year. The natural channel has the competitive advantage of adjusting more often, and, therefore, being able to be a leader and better support new product lines. Likewise, the health food stores and natural channel tend to provide better consumer education, giving consumers better access to new ingredients and product offerings.

Moreover, private label is increasingly playing an important role in the conventional channel. Private label is prominent in the category of staples such as dairy, eggs, meat and produce, with an increasing number of products in infant and children's foods as well as pet products. In categories such as dairy, private label is putting a significant dent in the market share of traditional brands. Private label also continues to

play an even stronger role in the natural retail channel, where consumers trust that the store is vetting product for them, and, therefore, they can easily trust a broader spectrum of private label offerings, including snacks and packaged & prepared foods.

Beyond the grocery store, organic is making in-roads into foodservice. Yet, there was not much dialogue about this among manufacturers. This arena seems to involve a slow but steady penetration process. Counter to this, the direct-to-consumer market is growing rapidly. This includes CSAs, farmers' markets and direct-delivery services such as Washington and California's Spud.com or Colorado's Door-to-Door Organics. Although it's hard to determine exactly how large the organic CSA market is, the number of active CSAs across the country is estimated to be about 4,000. This increase was first driven by a desire for "local" and "fresh." Now, with the increased possibility of GMOs, this movement has translated to an overall increased interest in organic.



### category performance

The \$11.6 billion organic fruits & vegetable market, with \$10.5 billion in fresh produce sales, remains by far the biggest segment of the organic food market. Organic produce alone accounts for 33% of the \$32 billion organic food market and accounts for 11% of total produce sales.

The \$4.9 billion dairy category accounts for 15% of organic food sales, while the \$4.8 billion packaged & prepared foods sector is fast on dairy's heels, accounting for just under 15% of the organic food market. The highly competitive packaged & prepared foods category grew faster than dairy, and therefore may be poised to overtake dairy as the second largest category.

In packaged & prepared foods, conventional companies such as Kraft competed against the likes of Rudi's, Annie's and now WhiteWave. The jump in growth of refrigerated prepared foods, from 15% in 2012 to 25% in 2013, spoke to consumers' desire for "fresh" and "convenience." Organic dairy was one of the slower-growing categories in

2013, hindered in part by a shortage in organic feed. This shortage also affected organic meat, poultry & seafood, the smallest of the food categories. The National Organic Program (NOP) is expected to focus on refining standards for organic seafood in 2014, which may help to buoy sales in this category.

The \$4.0 billion organic beverage category, the fourth largest in organic food, saw the lowest rate of growth of the food categories, at 5%, in 2013. This is in large part due to the continued downturn in soymilk sales. Sales of fresh juice, non-soy dairy alternatives such as almond and coconut milk, soft drinks, and even alcoholic beverages, however, remained strong.

In organic breads & grains, the fifth-largest organic food category, gluten-free continued to be a key driver of growth as the category's growth rate increased from 8% in 2012 to 12% in 2013 with \$3.8 billion in sales. Organic snack foods and condiments maintained high growth rates in 2013, at 15% and 17%, respectively.

figure 2-10  
U.S. Organic Food Sales by Category, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Dairy	1,385	1,732	2,139	2,629	3,201	3,609	3,573	3,895	4,267	4,570	4,925
Fruits and Vegetables	3,580	3,964	4,406	5,027	5,777	6,467	7,165	8,008	8,949	10,107	11,629
Breads and Grains	966	1,141	1,359	1,667	2,001	2,708	2,825	2,952	3,140	3,393	3,788
Meat, Poultry & Fish	75	165	256	333	400	448	456	476	538	607	675
Beverages	1,581	1,715	1,940	2,174	2,451	3,158	3,266	3,310	3,539	3,801	3,976
Snack Foods	484	564	668	809	1,000	1,110	1,138	1,220	1,329	1,520	1,747
Packaged and Prepared Foods	1,326	1,572	2,150	2,588	2,959	3,580	3,554	3,701	3,964	4,318	4,766
Condiments	229	274	342	402	400	491	521	561	609	708	830
<b>Total Organic Food</b>	<b>9,626</b>	<b>11,127</b>	<b>13,260</b>	<b>15,629</b>	<b>18,188</b>	<b>21,571</b>	<b>22,497</b>	<b>24,123</b>	<b>26,336</b>	<b>29,023</b>	<b>32,335</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

figure 2-11  
U.S. Organic Food Sales Growth by Category, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Dairy	20.3%	25.1%	23.5%	22.9%	21.8%	12.8%	-1.0%	9.0%	9.6%	7.1%	7.8%
Fruits and Vegetables	18.0%	10.7%	11.1%	14.1%	14.9%	12.0%	10.8%	11.8%	11.8%	12.9%	15.1%
Breads and Grains	21.2%	18.1%	19.1%	22.7%	20.0%	35.4%	4.3%	4.5%	6.4%	8.0%	11.6%
Meat, Poultry & Fish	77.8%	119.5%	55.2%	30.1%	20.0%	12.0%	1.9%	4.4%	13.0%	12.8%	11.1%
Beverages	19.3%	8.5%	13.1%	12.1%	12.7%	28.9%	3.4%	1.4%	6.9%	7.4%	4.6%
Snack Foods	29.6%	16.5%	18.5%	21.1%	23.6%	11.0%	2.5%	7.2%	8.9%	14.4%	15.0%
Packaged and Prepared Foods	16.0%	18.5%	36.8%	20.4%	14.3%	21.0%	-0.7%	4.1%	7.1%	8.9%	10.4%
Condiments	23.5%	19.6%	24.7%	17.5%	-0.4%	22.5%	6.1%	7.7%	8.5%	16.3%	17.3%
<b>Total Organic Food</b>	<b>19.6%</b>	<b>15.6%</b>	<b>19.2%</b>	<b>17.9%</b>	<b>16.4%</b>	<b>18.6%</b>	<b>4.3%</b>	<b>7.2%</b>	<b>9.2%</b>	<b>10.2%</b>	<b>11.4%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (consumer sales).

## growth and forecast

In 2013, manufacturers reported growth on almost all fronts, leading to increases in both sales and employees. This growth is expected to continue to remain strongly in double-digit territory throughout 2014 and into the near future.

There are still a few key areas where supply challenges may limit growth. These include dairy and meat. Organic feed is expected to continue to be in short supply in 2014. Although the shortage did not stop these categories from growing, companies have had to curb growth forecasting to make sure it is inline with feed availability. The drought in California and the Midwest played a role in the feed shortage as well as the availability of other crop-derived ingredients. The dance of balancing the cost of supply shortages and the price of products will continue through 2014.

A shortage in organic eggs also hit the dairy sector for the latter part of 2013 into 2014. As California grapples with a ruling on increasing egg-laying hen cage sizes, it is expected this shortage will continue as a portion of commodity eggs will come out of the supply chain to make room for more egg-laying hens.

Organic wheat costs increased more than expected in 2013. Farmers are now able to store wheat better, therefore they can hold onto it longer to negotiate price.

In other categories, mainstream food trends continue to help drive sales in organic. Organic gluten-free continues to be held as the golden standard for gluten-free because of the ingredient transparency organic companies are willing to provide. The demand for gluten-free is expected to remain strong with new variations of gluten-free products appearing across categories in snacks, breads, packaged foods and frozen. Gluten-free also translated to an ongoing desire for grain-free in pet food.

Transparency goes hand-in-hand with a desire for purity of product, which is why ancient grains such as quinoa continue to jump in growth. Varying organic ancient grain products are expected to continue to perform well. However, the consumer love affair with quinoa is also creating supply challenges and driving up the price of this grain as well.

As more multi-national companies enter the organic market, manufacturers expect the squeeze on supply to continue, especially as they believe farmland in the U.S. is not converting to organic at the pace needed to meet growth in demand. Yet, as organic works out supply issues behind the scenes, growth is expected to remain strong, with the grocery channel leading the way in bringing new customers to the industry.



figure 2-12  
Organic Food Forecasted Growth 2014-2015 vs. 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

# organic non-food market

## sales and growth

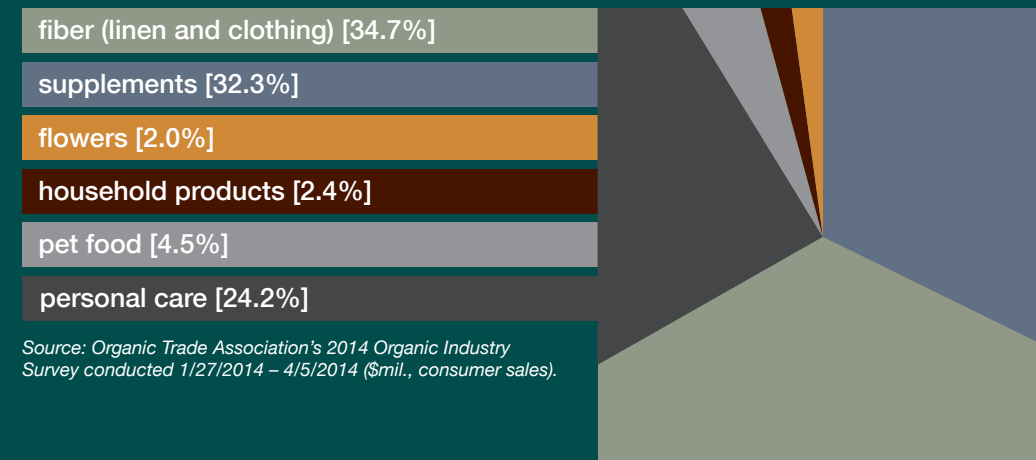
The organic non-food segment showed strong overall growth of 13% in 2013 to reach \$2.8 billion in total sales. Growth was up one percentage point from the 12% recorded in 2012 and the category added \$315 million in new annual sales. The organic non-food industry continues to grow faster than the more-established organic food market. Although the organic non-food industry's growth rate is still significantly down from the 40% growth recorded in 2008, the sector has continued to become more established and has fine-tuned its value proposition. The organic non-food sector now accounts for 8% of the overall organic market, and sales are three

times larger than they were in 2006. Although growth has been steady, this organic segment still only accounts for less than 1% of the comparable general non-food market.

Organic fiber, including apparel and household linens, continued to be the largest organic non-food category, accounting for approximately 35% of sales in the segment. The \$960 million category recorded 16% in growth in 2013. Although this category represents less than 1% of the overall textile market, organic fiber looks poised to see a continued rate of growth in the near future as this market matures and begins to take organic certification more seriously.

figure 2-13

## U.S. Organic Non-Food Sales by Product in 2013

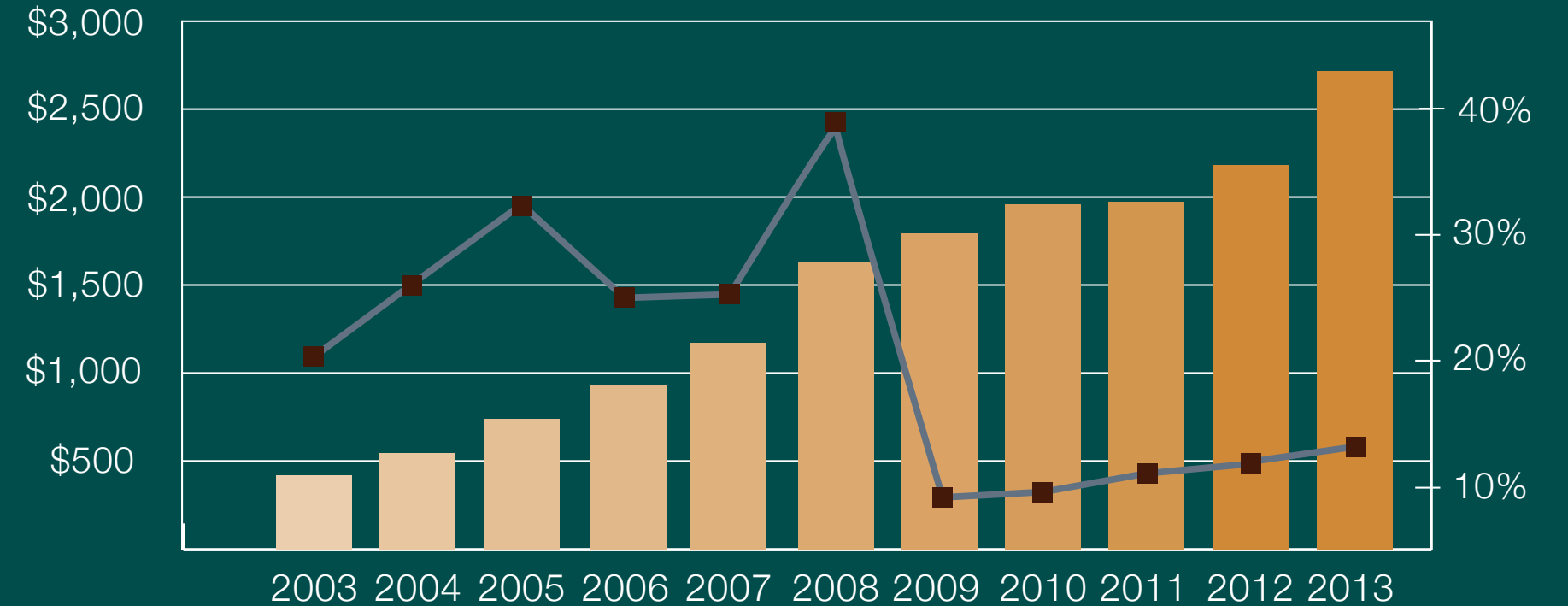


Category	2013 Sales	2013 Growth
Supplements	894	10.1%
Fiber (Linen & Clothing)	960	16.2%
Personal Care	669	13.0%
Pet Food	124	13.7%
Household Products	67	4.4%
Flowers	55	6.8%
<b>Total Organic Non-Food</b>	<b>2,770</b>	<b>12.8%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

figure 2-14

## U.S. Organic Non-Food Sales & Growth, 2003-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

figure 2-15

## U.S. Organic Non-Food vs. Total Non-Food Sales, Growth and Penetration, 2004-2013

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Non-Food	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Total Non-Food	317,661	331,870	344,399	356,803	370,049	365,488	378,700	397,638	419,359	434,010
Growth (%)	6.5	4.5	3.8	3.6	3.7	-1.2	3.6	5.0	5.5	3.5
<b>Organic (as % Total)</b>	<b>0.18</b>	<b>0.22</b>	<b>0.27</b>	<b>0.33</b>	<b>0.45</b>	<b>0.49</b>	<b>0.52</b>	<b>0.55</b>	<b>0.59</b>	<b>0.64</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).



## channel distribution

Similar to the organic food category, mass market retail (45% market share) and natural and specialty retail (46% share) were the primary sales channels for organic non-food products. Although the regional and national natural grocery chains serve as the primary channels of sale for this category, mass-market grocery has shown the most growth in organic non-food products.

In 2005, mass-market grocery accounted for just 5% of organic non-food sales. In 2013, this number grew 16%.

During this same time period, mass merchandisers' sales of organic non-food products also jumped dramatically, from 1% to 13% share of market. This makes sense as retailers such as Bed, Bath and Beyond have had success selling organic linens and household products.

Alternatively, from 2005 to 2013, the percent of sales of organic non-food products at national natural grocery chains dropped from 35% to 21%, and regional natural & health food store sales dropped from 30% to 19%.

figure 2-16  
U.S. Organic Non-Food Sales by Channel in 2013



mass market retail [44.7%]  
natural and specialty retail [46.4%]  
direct / export [8.9%]

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

Channel	2013
National Natural Grocery Chain	21.2%
Regional Natural/Health Food	18.9%
Mass-market Grocery	15.8%
Club/Warehouse Store	7.6%
Mass Merchandiser	13.0%
Farmers' Market/Co-op/CSA	2.0%
Internet	3.0%
Mail Order / Other Direct	2.0%
Boutique / Specialty	6.3%
Department Store	8.4%
Direct Export	1.9%

Total Organic Non-Food 100%

The organic supplements category, which dropped in rank in 2012 to be the second-largest non-food sector, still pulled its weight. Supplements accounted for 32% of sales in the organic non-food category, with \$894 million in sales. This was on par with 2012's growth rate, which brought in \$812 million in sales. Although the numbers are still small, supplements account for the greatest penetration in the overall non-food market, with an overall market share of 2.6%.

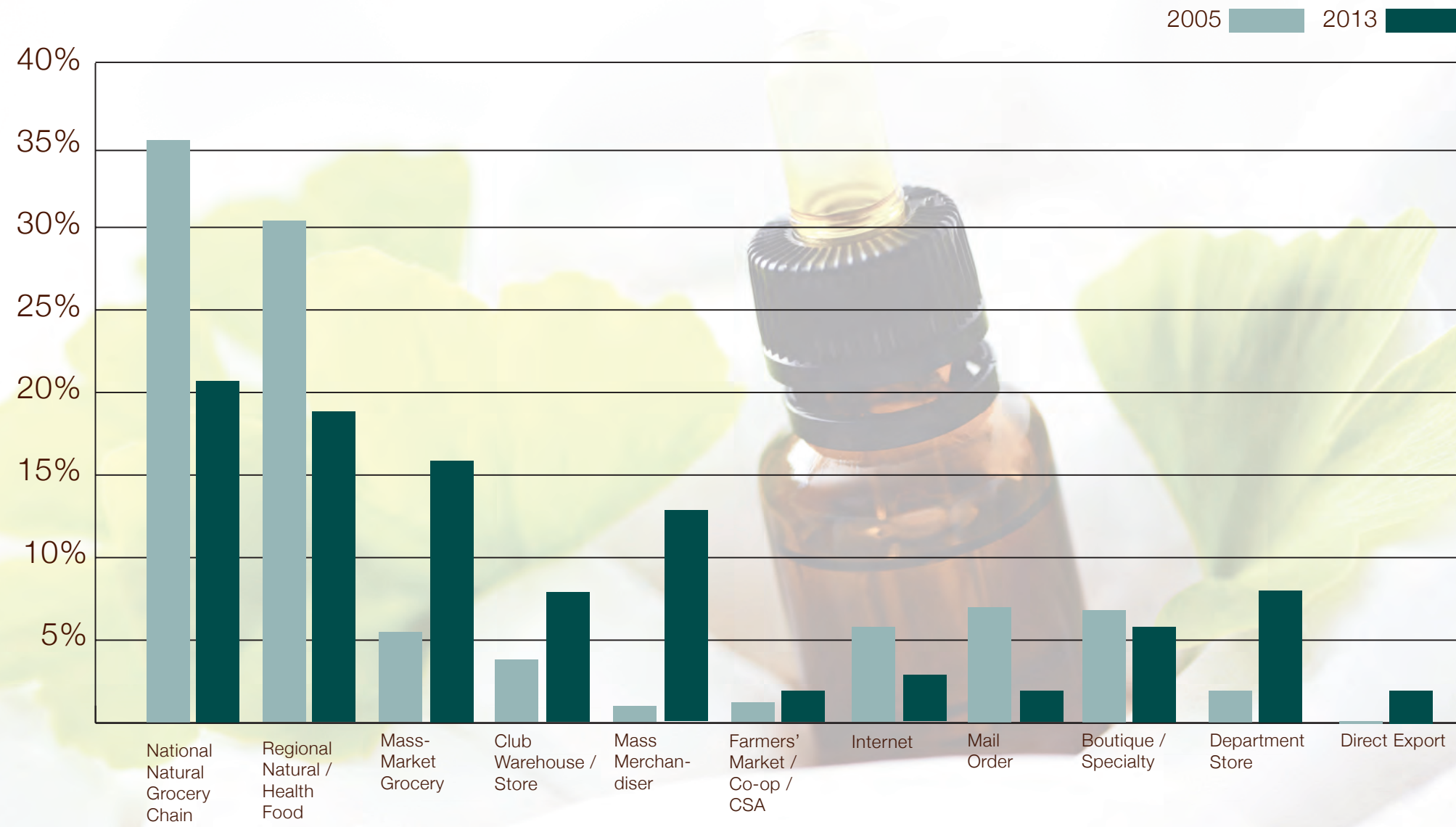
In 2013, organic personal care sales continued to grow, increasing 13% to \$669 million in sales, and this sector maintained its position as the third-largest non-food category. This was up from 10% growth and \$592 million recorded in 2012. Insiders see tremendous opportunity for growth in this category as it accounts for just 1% of overall personal care product sales.

Pet food saw the largest jump in growth in 2013, from 8% and \$109 million in sales in 2012 to 14% and \$124 million. This follows the humanization-of-pets trend — as consumers begin to eat healthier, they are looking for healthier foods for their pets as well. In this vein, gluten-free and grain-free products are also growth drivers in pet food.

Organic household products and flowers both experienced growth in 2013, but continue to be the smallest non-food categories, each accounting for less than \$100 million in sales. Household product growth was the smallest of all the organic non-food categories at just 2%. Flowers reported a 7% increase to bring the market to \$55 million. Supply challenges and label confusion continue to limit faster growth for the organic flower category.



figure 2-17  
**U.S. Organic Non-Food Percent of Market by Channel, 2005 vs. 2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



Competition has definitely gotten steeper for these retailers over the past decade. In keeping with the organic food market where sales in mass-market grocery have surpassed sales in natural and specialty, it is very likely that growth in mass-market grocery will do the same in the organic non-food market.

It is natural that as more consumers look to mass grocery retailers for organic food, they will also begin to look for non-food items there as well. Also, as companies such as

Kroger and even Target take a stronger stance in the healthy lifestyle market following Safeway's lead, more products will be available to consumers in these channels.

Organic flowers seem to sell best in the natural or mainstream grocery channels wherever organic food is available, rather than traditional floral stores. Organic fiber products have limited availability in the natural channel. Specialty clothing stores, online outlets, and inclusion by large national brands are the main sources of these sales.

## category performance

The non-food organic market remains the nascent side of the organic industry. The largest category, the \$826 million organic fiber market, is smaller than seven of the eight organic food categories. Combined, all non-food organic sales account for \$2.7 billion, which is still smaller than five of the food categories.

The non-food category industry currently falls into two clear product tiers, with supplements, fiber and personal care each well in excess of \$600 million in annual sales and meaningful contributors to the overall category performance. In a distant second tier, pet foods accounted for \$124 million in sales in 2013, while household cleaners and flowers remained very small with sales of only \$67 million and \$55 million, respectively.

In the past, the non-food organic categories have suffered from certification confusion and lack of clear value-proposition for consumers. Fortunately, with some of those issues being addressed, the future of non-food organic is beginning to look brighter.

The organic fiber category grew 16% in 2013, and industry experts expect increased growth, thanks to allowance by USDA of organically grown fibers that have been processed according to the Global Organic Textile Standard (GOTS) to be marketed as organic, with certain restrictions. Although this category represents less than 1% of the overall textile

market, an increasing number of mainstream retailers such as H&M and Target have been upping their commitment to organic cotton as a result of growing consumer concern around corporate social responsibility.

For the \$894-million organic supplement industry, growth is strengthening as more organic supply becomes available. As in the organic food category, sourcing and supply can be challenging, especially as the desire for Non-GMO product steps up. Limited supply can also pose challenges to pricing, as costs can vary widely. Still, as consumers become increasingly interested in organic, green and whole foods, their interest turns to organic supplements.

Organic personal care sales grew 13% to \$669 million last year. As consumers start to understand the importance of what they put in their bodies, it's not a big leap to think about what they put on their skin. Similarly, the pet food category reported \$124 million in sales, up from \$109 million in 2012.

Household products remain the second-smallest organic non-food category, reporting a minimal growth rate of 4% and \$67 million in sales. Meanwhile, flowers maintained 7% growth on \$55 million in sales. While flower growers reported sales being up and interest increasing in organic flowers, they still are limited by supply challenges. In addition, most cited organic certification as challenging to maintain in this category.

figure 2-18

## U.S. Organic Non-Food Sales by Category, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Supplements	151	184	238	300	410	566	634	681	739	812	894
Fiber (Linen & Clothing)	85	111	160	203	286	472	521	605	708	826	960
Personal Care	170	220	282	350	372	443	459	490	536	592	669
Pet Food	14	21	30	41	51	76	84	94	101	109	124
Household Cleaners	11	15	19	25	35	50	58	59	63	65	67
Flowers	8	11	16	19	27	42	44	46	48	51	55
<b>Total Organic Non-Food</b>	<b>439</b>	<b>562</b>	<b>745</b>	<b>938</b>	<b>1,182</b>	<b>1,649</b>	<b>1,800</b>	<b>1,974</b>	<b>2,195</b>	<b>2,455</b>	<b>2,770</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

figure 2-19

## U.S. Organic Non-Food Sales Growth by Category, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Supplements	15.1%	22.2%	29.0%	26.1%	36.7%	38.0%	12.0%	7.4%	8.5%	9.9%	10.1%
Fiber (Linen & Clothing)	22.7%	30.7%	44.0%	26.9%	40.9%	65.0%	10.4%	16.1%	17.1%	16.6%	16.2%
Personal Care	19.4%	29.6%	28.0%	24.1%	6.4%	19.0%	3.7%	6.6%	9.5%	10.5%	13.0%
Pet Food	75.0%	46.8%	46.0%	36.7%	25.2%	48.0%	9.9%	12.5%	7.3%	8.1%	13.7%
Household Cleaners	22.2%	33.9%	29.0%	31.6%	40.8%	42.0%	15.0%	2.0%	7.6%	2.4%	4.4%
Flowers	60.0%	33.3%	50.0%	18.8%	43.5%	54.0%	5.0%	3.5%	4.6%	7.2%	6.8%
<b>Total Organic Non-Food</b>	<b>20.3%</b>	<b>28.0%</b>	<b>32.6%</b>	<b>25.9%</b>	<b>26.0%</b>	<b>39.5%</b>	<b>9.1%</b>	<b>9.7%</b>	<b>11.2%</b>	<b>11.8%</b>	<b>12.8%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

### growth and forecast

The sentiment around sales of organic non-food products was one of hard-earned growth that seems to be challenged on a daily basis. Manufacturers reported the challenges of sourcing and maintaining supply, followed by the difficulty of maintaining an appropriate cost structure. The non-food market can be particularly challenging to new and young companies that are new to sourcing in these markets, and that often are not making enough volume of product to guarantee the ingredient supply they need.

On the organic fiber front, there is not enough organic cotton produced domestically. Hence, smaller companies are left to source in other countries. This can be particularly challenging while trying to maintain organic certification. Yet, for those companies who are a bit larger and well-connected in the marketplace, there is potential for large growth as the industry begins to take organic certification more seriously.

A large driver of this growth is a consumer push for corporate social responsibility from the larger apparel makers such as H&M. The organic fiber story is as much focused on the impact of conventional cotton production on the environment as it is on the health of the farm workers.

Subsequent to Whole Food's implementation in 2012 of its policy requiring personal care brands making organic claims to obtain USDA Organic or NSF/ANSI 305 certification, growth is also expected to continue in the personal care market. The national retailer itself has become a springboard to launch several new organic personal care lines, such as Nourish Organic Food for Healthy Skin. Growth is expected to come as new product innovations in organic preservatives, surfactants and emulsifiers move forward, and as teenagers and Millennials interested in transparency and sustainable products become more aware of organic personal care offerings.

In the pet food market, consumers are not only looking for healthier pet food, they are buying along the same food trends they use for themselves. Thus, grain-free and gluten-free have become popular pet food categories. While organic household product growth remains slow, organic flower growers see that aside from the labeling issues surrounding the flower market, there is an increasing demand for organic flowers and an opportunity for new flower growers to enter the market to help with supply.

figure 2-20  
Organic Non-Food Forecasted Growth 2014-2015 vs. 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

# private label

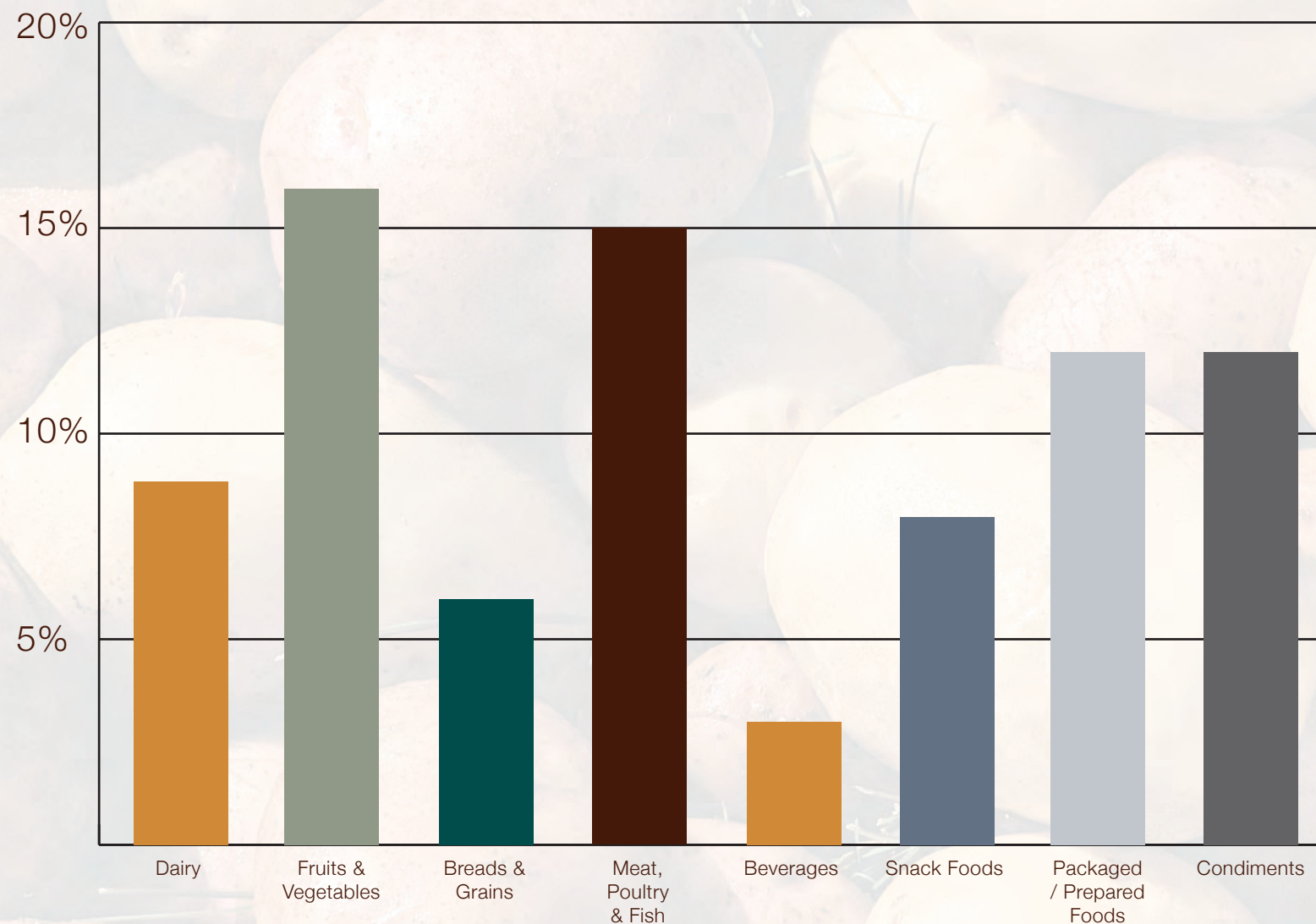
Private label continues to increase its role in the growth of organic in both mass market grocery and natural channels. For consumers, private label is easy to buy into because it offers products that have already been vetted by a brand they trust, their retailer. Usually, these products are offered at a lower price point than their organic brand counterparts, making them even more attractive.

In 2013, Target showed its support for organic with the launch of its Simply Balanced natural and organic line of products, followed by its 2014 launch of “Made to Matter—Handpicked by Target” line of natural, organic and sustainable goods. In 2012, Kroger launched its Simple Truth Organic line. Of course, Safeway’s “O” and Whole Foods Market’s “365” private labels are still holding steady. Today, most major conventional grocery chains offer their customers an organic private label option. These private label lines have become significant competitors to major brands.

Traditionally, organic private label has focused on staple products — products that consumers are comfortable with and purchase regularly, such as milk, eggs and produce such as baby carrots. Yet, private label is increasingly playing a larger role in grocery by diversifying into a broader range of categories, including infant and children’s products and pet food.



figure 2-21  
U.S. Organic Food Private Label Category Growth in 2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

Of the companies that provided sales breakdown information for OTA's survey, 48% indicated that at least some of their sales were generated from private label products. This is an increase compared to findings in the 2013 survey when only 38% participated in private label organic production. Comparatively, only 19% indicated some contract manufacturing arrangements versus 32% last year. Only a small percentage of companies (16%) indicated that they did not sell branded products along with their private label or contract manufacturing business (slightly up from the 13% reported last year).

In 2013, the largest growth in private label took place in fruits & vegetables (16%) and meat, poultry & fish (15%). Double-digit growth was also seen in the packaged & prepared foods and condiments sectors, which both grew 12%. The higher growth in these latter two categories, as well as in meat, is not surprising given that private label in these categories has held a smaller percentage of overall category sales, with just 10%-20% penetration. Baked goods & grains as well as beverages currently have the highest penetration of private label at 30%-40%.

Private label organic fruits & vegetables and dairy both recorded 10%-20% penetration of total sales. Many companies noted that private label organic dairy, in the mass market grocery channel in particular, is putting a significant dent in the market share of traditional brands. In 2013, private label organic dairy grew at 9% — faster than total organic dairy, which grew at 8%.

Private label also continues to play a strong role in the natural retail channel, where consumers shop in part because they trust that the store is vetting product for them. These consumers, therefore, are open to trusting a broader spectrum of private label offerings, including snacks and packaged & prepared foods.

figure 2-22  
**U.S. Organic Food Private Label as % Total Category Organic in 2013**

Category	% Total Organic
Dairy	30-40%
Fruits & Vegetables	30-40%
Baked Goods & Grains	30-40%
Meat, Poultry & Fish	10-20%
Beverages	30-40%
Snack Foods	10-20%
Packaged/Prepared Foods	10-20%
Condiments	10-20%

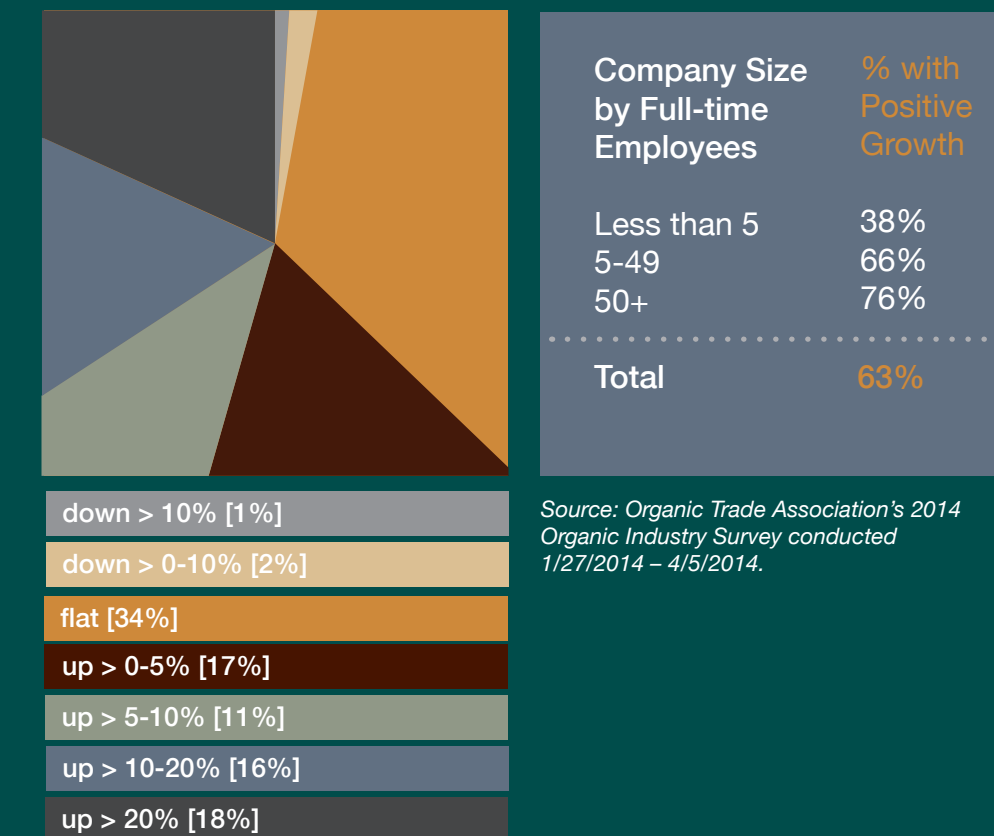
Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

## employment trends

As organic continues to grow, so do the companies producing these organic products. In 2013, more companies were hiring new employees in both the organic food categories and non-food sectors. In fact, 63% of companies who completed OTA's annual survey reported an increase in full-time employment in 2013, with 18% of these companies saying they increased their employee base by more than 20%. Another 33% of companies said they increased their part-time employee base. Not surprisingly, the largest companies were most likely to have added employees.

Despite tough market conditions for some companies, such as drought and disease concerns, only 3% of companies reported a decline in employment levels. Many companies tended to hold steady on employment, with 34% noting that full-time employment levels stayed the same.

figure 2-23  
**Full-time Employment Growth, 2013 vs. 2012**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

figure 2-24  
Part-time Employment Growth, 2013 vs. 2012

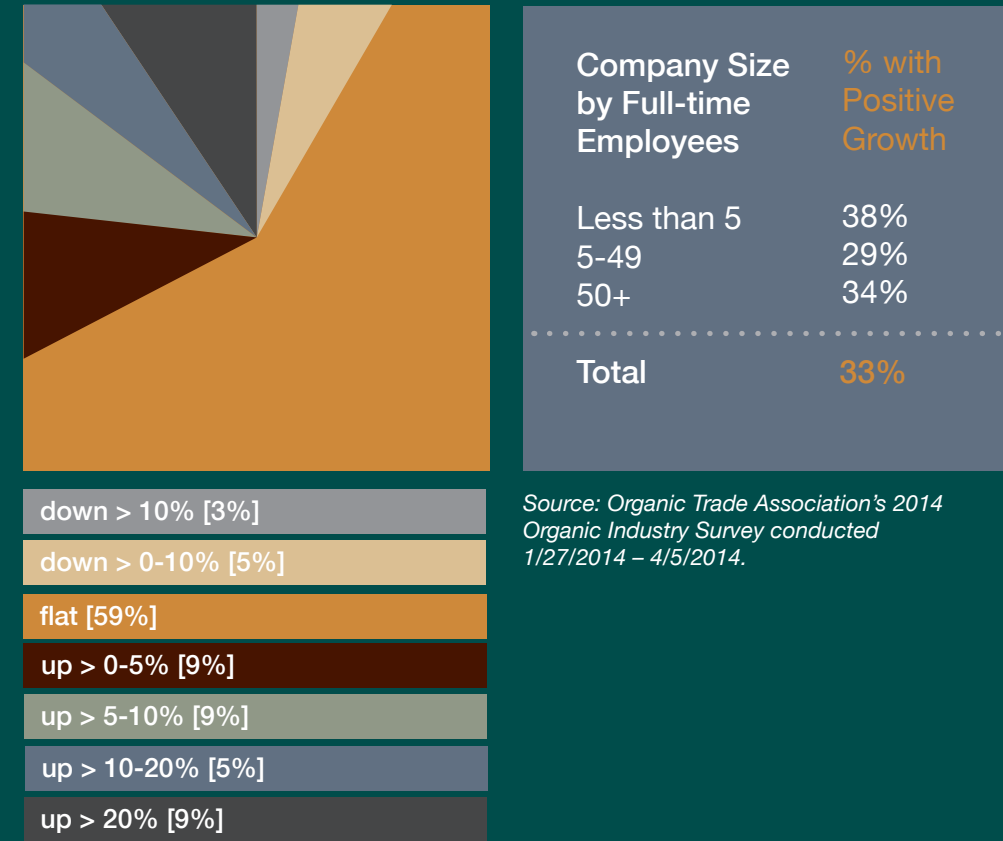
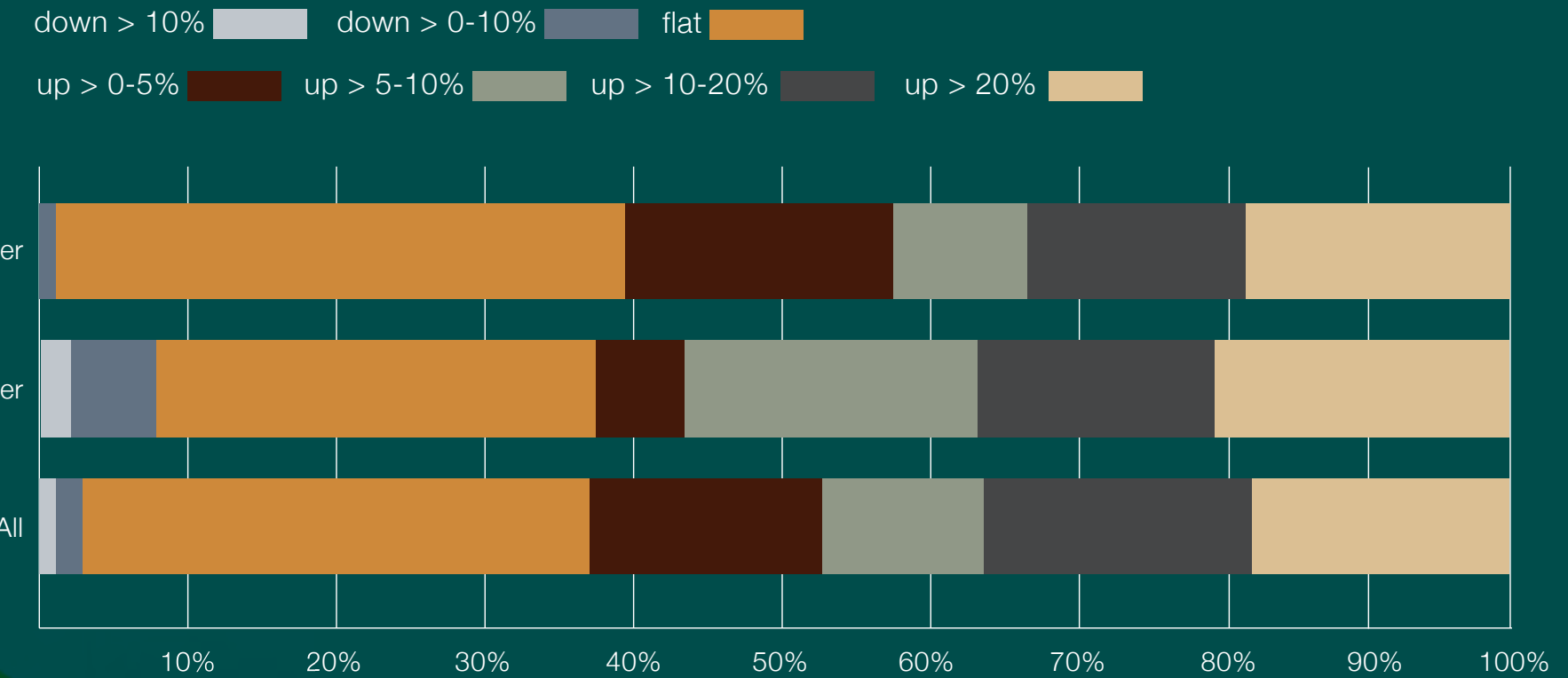


figure 2-25  
Full-time Employment Trends in 2013 by Company Type

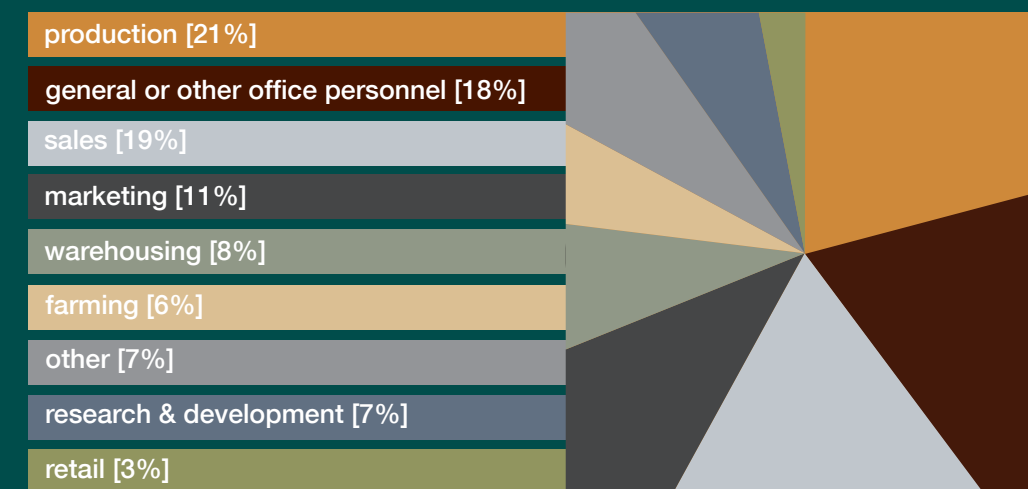


Companies with more than 50 employees grew the most in 2013, with 76% saying they added employees, 66% of companies in the 5 to 49 employee range said they increased their numbers, while 38% of companies with less than 5 people enlarged their employee base. Manufacturers were more likely than other company types to have reported an increase in employment, with 70% reporting an increase.

Production is the biggest area of employment for organic companies, with an average of 21% of staffing falling in this area. Also important are sales roles (19%) and general or other office personnel (18%). Marketing was also an important role, with 11% filling this position. Other areas of employment included warehousing, research & development, retail and farming.

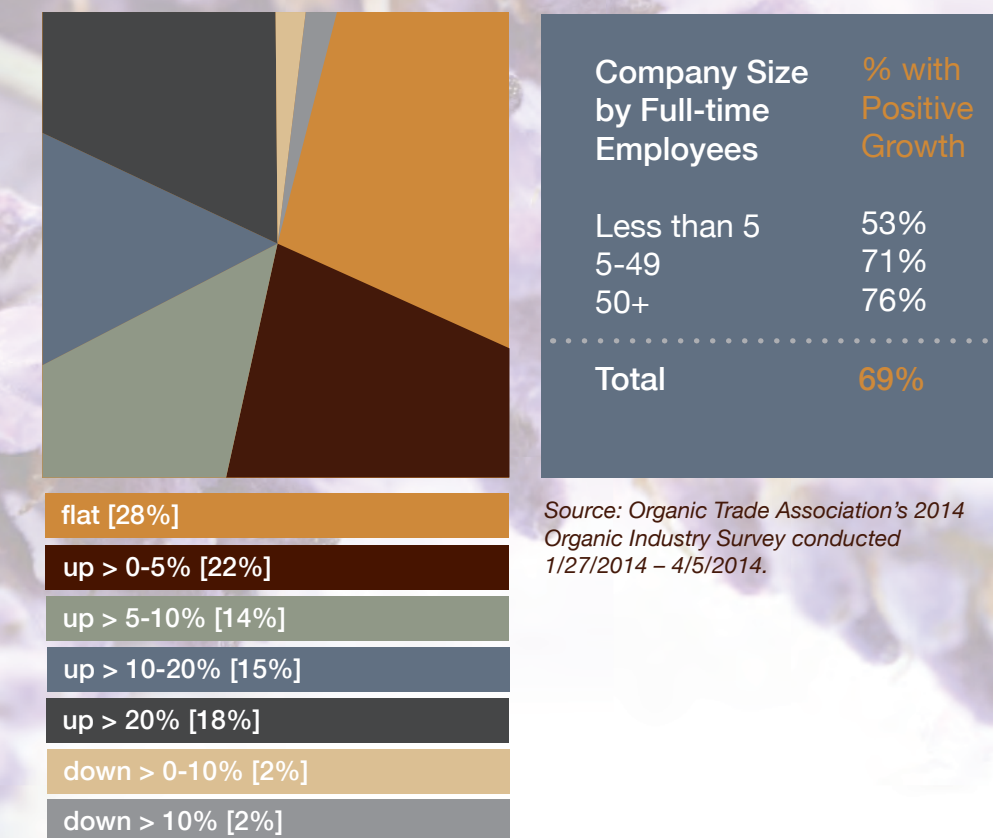
Looking to 2014, more than two-thirds of survey respondents are expecting to increase employment levels in 2014. Three out of four companies with more than 50 employees are expecting to hire new staff this year.

figure 2-26  
**Employment by Employee Type in 2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

figure 2-27  
**Full-time Employment Growth Forecast, 2014 vs. 2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.



organic food categories



# dairy

Organic dairy remains the second largest organic food category, though a distant second to the organic fruits & vegetables sector. In 2013, this segment recorded \$4.9 billion in sales, falling just short of crossing the \$5 billion mark. Although the 8% growth rate is still shy of the 10% and 9% reported in 2011 and 2010 respectively, it is up from the 7% reported in 2012. This is amid reports that conventional dairy sales were nearly flat in 2013. Overall penetration of organic dairy into conventional dairy is 6%.

Organic milk is still one of the first products consumers, especially families with small children, transition to when they begin to purchase organic products. The promise of milk that has no added hormones and no antibiotics, as well as being from animals that are raised humanely on grass and feed that is produced without the use of toxic and persistent pesticides or genetic engineering, is a tangible guarantee that is easier for some consumers to prioritize over buying organic snacks or crackers.

Organic milk essentially plays the role of poster child for organic as it has become ubiquitous. Whether a consumer is purchasing a half-gallon or single serve, organic milk is a staple at both natural retailers and conventional grocers, and more and more at convenience stores, fast food restaurants and in food service. Furthermore, as conventional milk prices have continued to increase, the

cost gap between organic and conventional milk has recently become as small as a 20-cent difference, making it much easier for consumers to consider trading up to organic.

In the marketplace, the biggest competition to sales of branded organic milk is private label. Private label offers a product from a trusted retail brand and usually at a price lower than that of traditional brands.

Behind the scenes in production, one of the biggest and ongoing obstacles the dairy category is faced with is still the ability to secure enough organic feed. Without the trust that there is enough feed available to grow supply, companies have to be vigilant in how they forecast; demand may be there, but the ingredients they need for a secure supply may not.

The other ongoing challenge is managing supply in the face of ongoing climate crises such as drought. As long-time industry advocate and Mission Executive at Organic Valley Theresa Marquez suggested, “We need to develop a climate strategy. We will have some crisis every year, and we will see climate extremes. If it’s not going to flood, it’s going to be drought. We’ve already seen Texas go through devastation with drought. And I don’t know if any of us are prepared for what is happening in California right now.”

figure 3-1  
U.S. Organic Dairy Sales by Subcategory in 2013

Subcategory	2013 Sales	2013 Growth
Milk/Cream	2,813	7.3%
Yogurt	1,021	-0.2%
Eggs	439	16.9%
Cheese	331	18.9%
Butter / Cottage Cheese / Sour Cream	261	17.9%
Ice Cream	60	19.1%
<b>Total</b>	<b>4,925</b>	<b>7.8%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

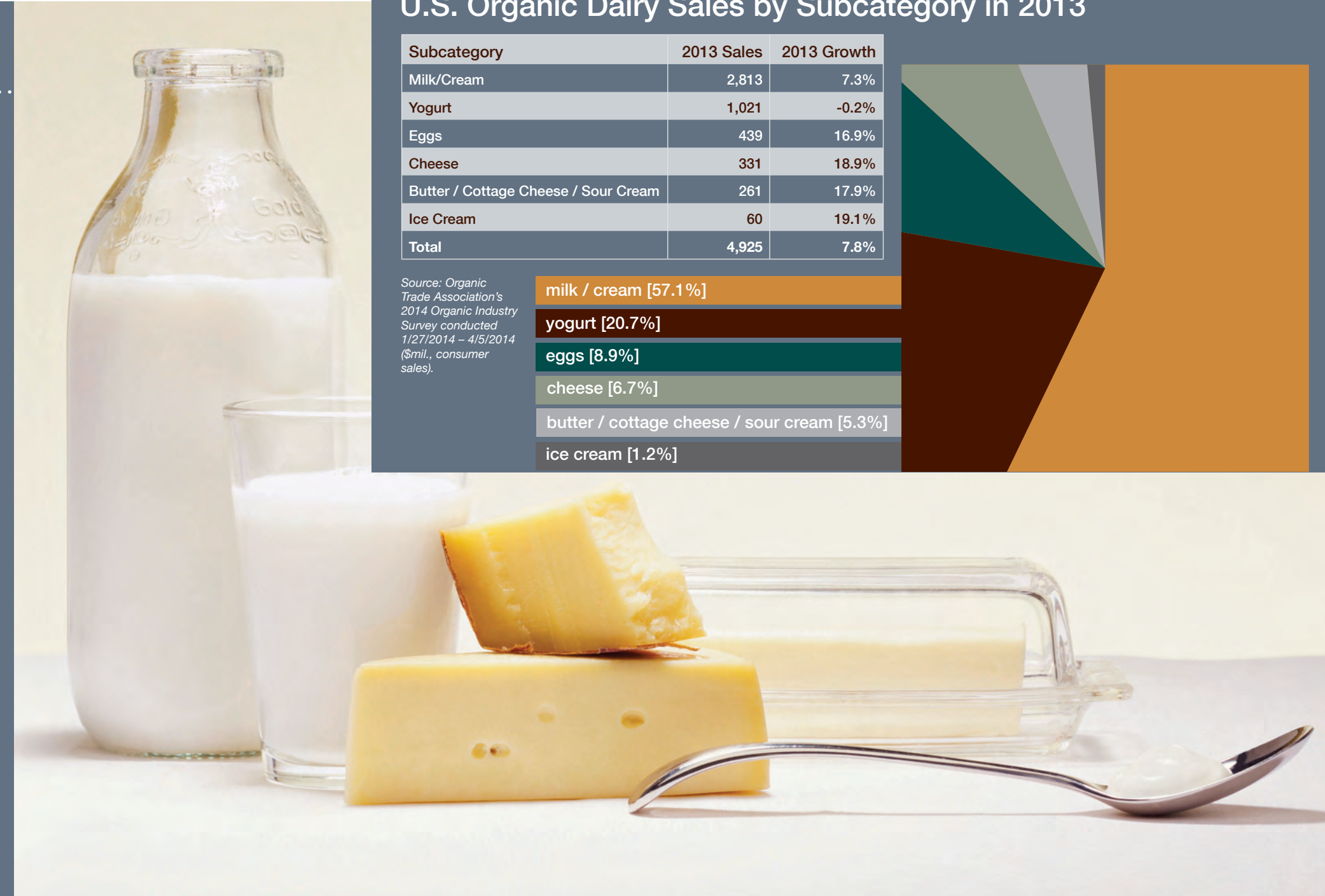
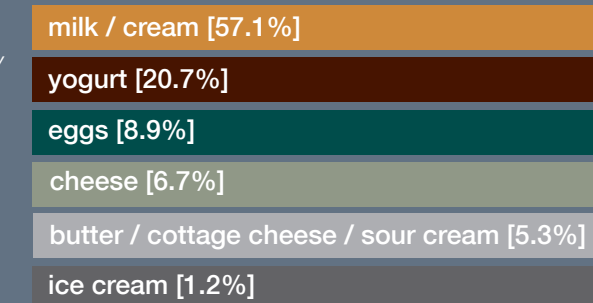




figure 3-2  
**U.S. Organic Dairy vs. Total Organic Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Dairy	1,385	1,732	2,139	2,629	3,201	3,609	3,573	3,895	4,267	4,570	4,925
Growth (%)	20.3	25.1	23.5	22.9	21.8	12.8	-1.0	9.0	9.6	7.1	7.8
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,366	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Dairy (as % Total)	14.4	15.6	16.1	16.8	17.6	16.7	15.9	16.1	16.2	15.7	15.2

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

The organic egg market has also faced the challenge of getting forecasting right to appropriately manage the supply flow. While this segment continued to grow at a rate of 17% (just off the 18% reported in 2012), in the spring of 2013, there were too many organic eggs on the market. By Thanksgiving, however, the pendulum had swung back to a shortage, which had not corrected itself by the beginning of 2014. Organic egg sales in 2013 reached \$439 million, up from \$375 million in 2012.

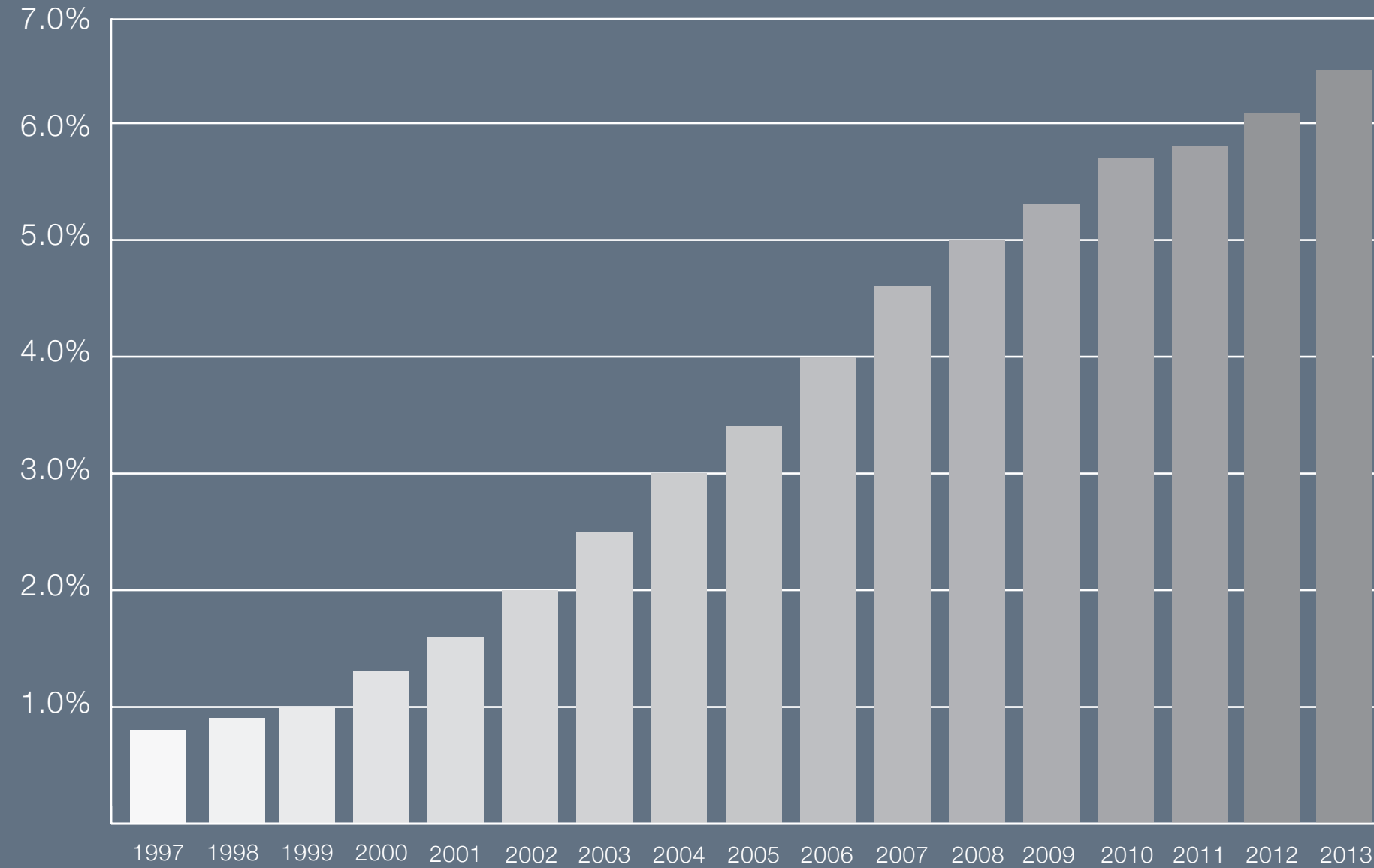
Organic producers expect demand for organic eggs to continue, especially if a new California law, passed in 2010, goes into effect in 2015. The law states that all eggs sold in California must be from egg-laying hens who have at least 116 square inches of floor space per bird. The current requirements are 67 to 86 square inches per bird. Under the ruling farmers are going to have to make more room for egg-laying hens. It's anticipated, therefore, that this will take a lot of commodity eggs out of the supply chain in California, create shortages and force consumers to buy specialty eggs such as "cage-free" or organic. Several states have joined a lawsuit to challenge the law, saying it is unconstitutional and violates the principle of interstate commerce. It remains to be seen whether the organic egg market will actually feel a positive impact.

While the organic egg market continued to grow at a rate of 17% (just off the 18% reported in 2012), supply issues effected growth.



figure 3-3

### U.S. Organic Dairy Penetration into Total Dairy Market, 1997-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



Organic yogurt is the second largest organic dairy subcategory, with \$1 billion in sales. This market has remained relatively flat for several years now. Many see this as a result of over-saturation, largely related to the Greek yogurt boom. However, the “natural” and “non-GMO” discussions have also put some pressure on yogurt makers. Greek yogurt maker Chobani, which had over \$1 billion in sales in 2013, was sued for its “natural” claim because it contains GMO ingredients and was dropped by Whole Foods Market. Chobani now has plans to introduce an organic line, which will be available by late 2014 in select retailers.

Although yogurt remains flat, cheese and such products as butter, sour cream and cottage cheese had banner years. These are small categories, which makes it easier to report large growth. Organic cheese sales growth increased from 9% in 2012 to 19% in 2013 to reach total sales of \$331 million. Likewise, the butter/cottage cheese/sour cream subcategory reported 18% growth in 2013 over 2012's 11% growth.

Ice cream, which made a huge leap in growth in 2012, made another jump in 2013. The subcategory had maintained slow to plateaued growth until 2012, when a group of new entrants and a variety of new flavors took it from 3% growth in 2011 to 23% growth in 2012, increasing from \$41 million in sales to \$50 million. In 2013, organic ice cream sales grew 19% to reach \$60 million, thanks to new and unique flavor introductions as well as more product formats, including organic bars, gelatos, and non-dairy varieties.

# fruits and vegetables

The organic fruits and vegetables category continues to be the leader in the organic food market. The sector reached \$11.6 billion in sales for 2013, up from \$10.1 billion in 2012. This equated to a 15% growth rate, an improvement over 2012's already impressive 13% increase. Penetration of organic fruits and vegetables into the conventional market, at 11%, is the highest of any of the organic categories.

As consumers become more health conscious, fruits and vegetables serve as a natural gateway to organic. With the boom of organic baby food, organic fruits and veggies are now some of the first organic foods we feed our children. With these products, it's also easy to understand the correlation between pesticides used in the growing process and those pesticides going into our bodies. According to Samantha Cabaluna, VP Marketing & Communications at Earthbound Farm, "When you're eating fruits and vegetables, even if they're canned or frozen, they're coming to you in very close to the same form they were handled in the field."

For consumers, nothing says healthy more than fresh. Hence, fresh produce continues to garner the bulk of the fruit and vegetable category dollars. In 2013, fresh produce grew at 15%, up slightly from 2012 and hitting \$10.5 billion in sales.

Along with an increased consumer interest in eating healthy comes a desire for convenience. It is the convenience of pre-washed, de-stemmed, ready-to-use greens that continues to drive consumer interest in packaged salads and greens. The price differential between conventional and organic packaged greens is nominal, making it easy for consumers to upgrade to organic. Likewise, packaged greens have become a great way to introduce consumers to less familiar types of greens such as kale, chard and Asian mustards. With additional consumer interest in vegan, vegetarian, plant-based, paleo and raw diets, we can expect to see more varieties of prepared and packaged greens and salads on the market in 2014. "Kale paved the way. People are opening their eyes up to other greens," says Cabaluna.

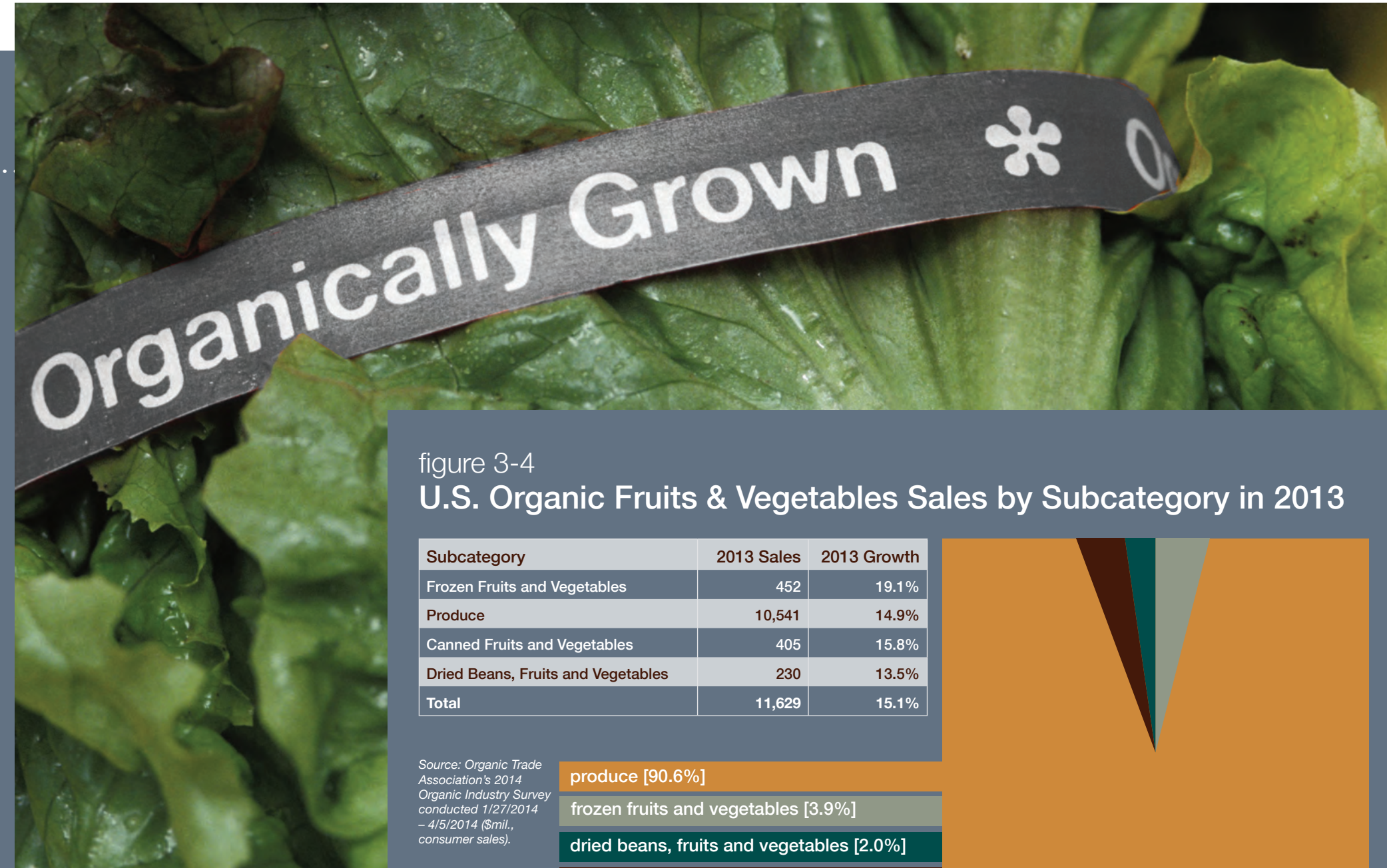
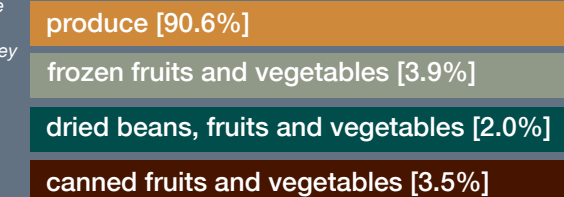


figure 3-4  
**U.S. Organic Fruits & Vegetables Sales by Subcategory in 2013**

Subcategory	2013 Sales	2013 Growth
Frozen Fruits and Vegetables	452	19.1%
<b>Produce</b>	<b>10,541</b>	<b>14.9%</b>
Canned Fruits and Vegetables	405	15.8%
Dried Beans, Fruits and Vegetables	230	13.5%
<b>Total</b>	<b>11,629</b>	<b>15.1%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).





Beyond the grocery store, the direct-to-consumer market has seen significant growth through CSAs, farmers' markets and online delivery grocers such as Colorado's Door-to-Door Organics. Although it's hard to be sure exactly how large the organic CSA market is, the number of active CSAs is estimated to be about 4,000. Growth was first driven by a desire for "local" and "fresh," but has translated to an increased interest in organic.

Frozen organic fruits and vegetables also offer convenience. Although much smaller than the fresh produce sector, frozen saw the highest growth rate, at 19%, in 2013, increasing sales from \$380 million in 2012 to \$452 million in 2013. As with packaged salads, no longer do you just find organic strawberries and peas and corn in the organic section. There is an increasing variety of greens, such as collard greens, and veggies and fruits available in the frozen section. Frozen fruit and veggies can also be easily used to make healthy breakfast drinks and smoothies, another rising trend.

The canned organic fruit and vegetable sector also posted strong growth in 2013, up 16% in 2013 versus the 10% increase experienced in 2012. This increase took this subcategory to \$405 million in sales. The small absolute cost differential between a can of organic vs. conventional goods such as beans is small enough that it is an easy entry point for transitioning consumers. Additionally, as with frozen offerings,

consumers are more open to different varieties of canned organic fruits, vegetables and legumes, and now are dabbling with items such as canned sweet potatoes and pumpkin throughout the year, not just during the holiday months. Consumers don't have to worry about storing these fruits and veggies properly or eating them in a timely fashion.

Despite its success, organic produce companies are facing other outside pressures. Primarily, more conventional companies are jumping into the organic game. For these large and well-funded entities, adding organic SKUs and putting them on retail shelves may not be as arduous as for smaller, organic-only companies. Some organic brands fear that supermarkets that carry only one or two organic SKUs in each category may switch to a conventional company's organic products in efforts to streamline the process. Another hit came in 2012, when Stanford University published research that claimed organic food was "no more nutritious" than conventional. Although this research's many flaws were apparent and eventually reported upon, mainstream media jumped on the anti-organic message so quickly and fiercely that companies fear organic took a serious public relations hit.

Still, the proof is in the numbers. Consumers are increasingly becoming aware of the benefits of eating foods that haven't been sprayed with synthetic pesticides and are not genetically modified.

figure 3-5  
U.S. Fruits and Vegetables vs. Total Organic Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Fruits & Vegetables	3,580	3,964	4,406	5,027	5,777	6,467	7,165	8,008	8,949	10,107	11,629
Growth (%)	18.0	10.7	11.1	14.1	14.9	12.0	10.8	11.8	11.8	12.9	15.1
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,366	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Fruits & Vegetables (as % Total)	37.2	35.6	33.2	32.2	31.8	30.0	31.8	33.2	34.0	34.8	36.0

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

The establishment of the U.S. and European organic equivalency program was expected to have a big effect on the organic fruit and vegetable market, but significant effects still remain to be seen. Equivalency is seen as another way to bring organic produce into the United States when domestic supply is short and to increase U.S. exports of organic product to the European Union.

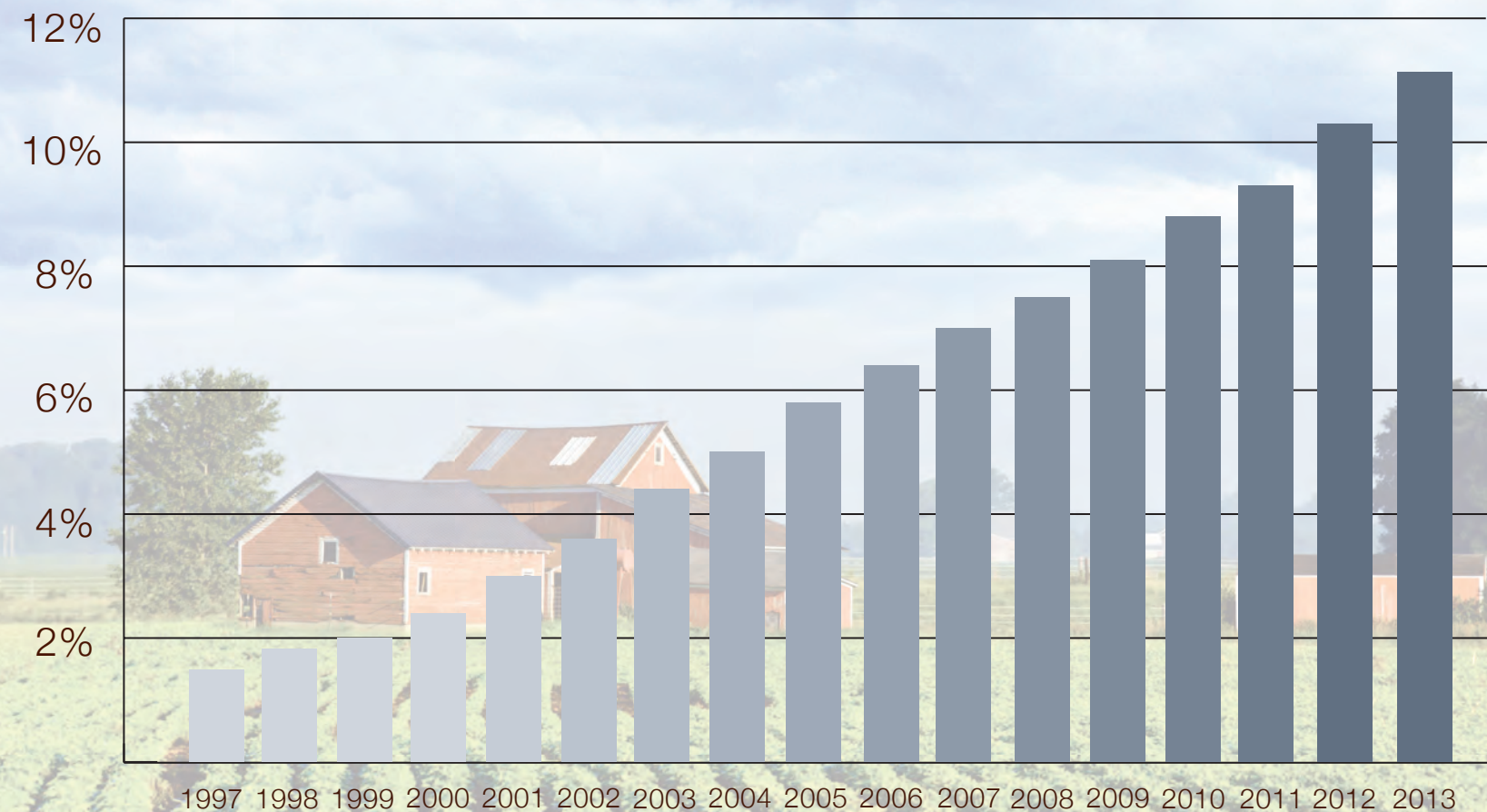
In Florida, the citrus greening disease still has a stronghold on the region. The disease has also shown up in Texas, and there are signs of its presence in California. Brazil, a powerhouse in citrus, has been hit harder than Florida, leaving limited options for companies in need of citrus fruit for

manufacturing. Already fruit crop production rates are down for 2014. Citrus greening disease is affecting both organic and non-organic crops. Members in the organic industry have begun working with researchers on possible organic practices to address this challenge for all citrus growers.

Fruit and vegetable crops are also highly vulnerable to weather and climate changes. The freeze that hit Californian crops in early 2013 as well as drought conditions are both examples of the challenges farmers face. The price of fresh organic citrus, in particular, is expected to rise in 2014 because of the California freeze and greening disease issues in Florida.

figure 3-6

### U.S. Organic Fruits and Vegetables Penetration into Total Fruits and Vegetables Market, 1997-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



As for the California drought, spring rain could help to mitigate some of the loss of water that will result from a low snowpack. If the spring does not bring showers, the real pinch from the drought will show itself in 2015. "I think in the next six months, you'll see prices go up on both organic and conventional orange juice, and fresh organic citrus is already up because of the California freeze and issues in Florida," explains Matt McLean, CEO/Founder of Uncle Matt's Organic.

Supply is a large concern for the organic produce segment. There is an overwhelming sentiment that farmers are not converting fast enough to organic. Organic farmland still accounts for less than 1% of farming acres in the country. An absence of supply in the United States is forcing companies to seek supply from other countries and regions. Even then, supply issues still exist.

# bread & grains

In 2013, sales of organic breads and grains grew at a rate of 12%, a notable jump from the 8% recorded in 2012. The category reached \$3.8 billion, adding \$395 million in new annual sales. Organic now accounts for 5% of all bread and grain sales.

Consumer awareness and a desire to eat healthier helped to drive growth. As Rudi's Organic Bakery's SVP of Marketing & Conventional Sales, Doug Radi, says, "Simple and clean ingredient labels are really driving the sector." Consumer desire for transparency is on the rise. This is in part because of the non-GMO labeling debate and the associated media attention, but rising dietary allergies, such as celiac disease,

and restrictions are also important factors. Consumers not only want to know what is in their food; for health reasons, many need to know.

The ambiguous use of terms such as "sustainable" and "natural" have also driven consumer desire for transparency, as many lawsuits have now been brought against companies who have purportedly misled consumers by using these terms.

To this end, a continued interest in ancient grains and gluten-free helped to buoy growth for organic breads and grains as many new brands and SKUs entered the market.

figure 3-7  
U.S. Organic Breads and Grains Sales by Subcategory in 2013

Subcategory	2013 Sales	2013 Growth
Frozen and Fresh Baked	1,117	13.4%
Cookies	340	10.8%
Crackers / Rice Cakes	153	15.8%
In-Store Bakery	237	8.4%
Baking Needs	203	18.2%
Dry Breakfast Goods	1,276	8.9%
Rice, Grains & Potato	212	23.1%
Pasta	248	6.4%
<b>Total</b>	<b>3,788</b>	<b>11.6%</b>

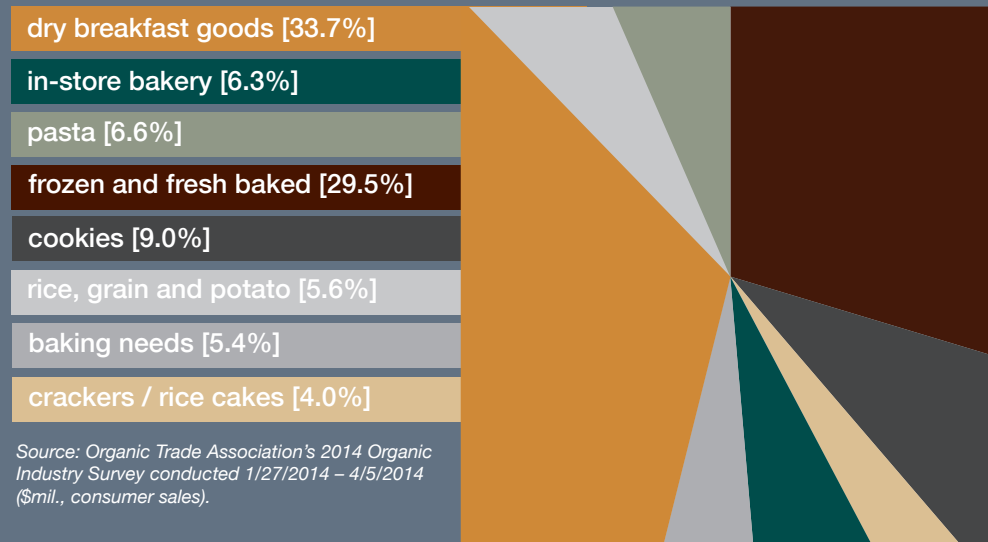


figure 3-8  
U.S. Organic Breads and Grains Penetration into Total Breads and Grains Market, 1997-2013

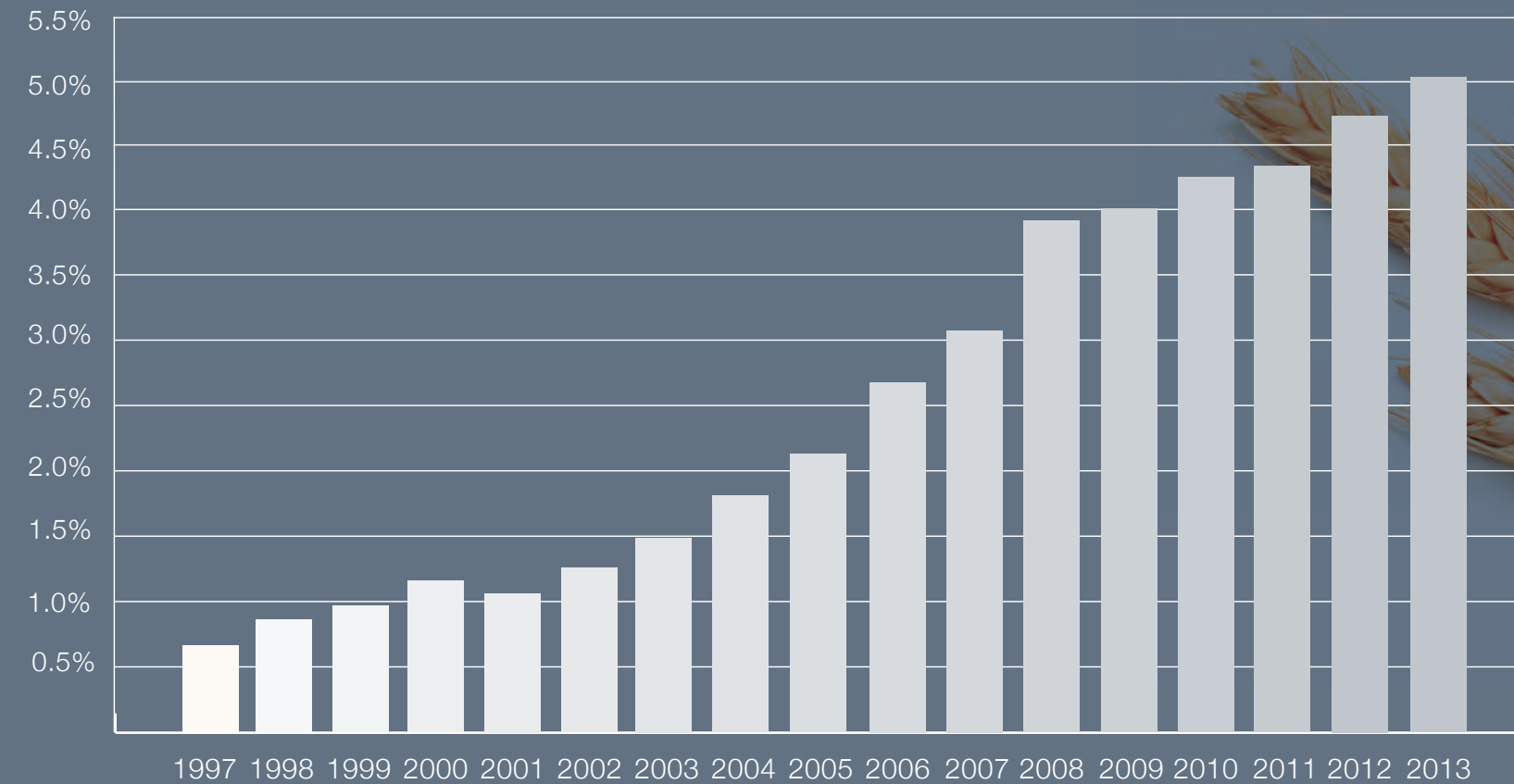


figure 3-9  
U.S. Organic Breads and Grains vs. Total Organic Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Breads and Grains	966	1,141	1,359	1,667	2,001	2,708	2,825	2,952	3,140	3,393	3,788
Growth (%)	21.2	18.1	19.1	22.7	20.0	35.4	4.3	4.5	6.4	8.0	11.6
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Breads and Grains (as % Total)	10.0	10.3	10.2	10.7	11.0	12.6	12.6	12.2	11.9	11.7	11.7

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

Growing mainstream awareness of organic in this sector was reflected in the fact that more conventional retailers (including their private label offerings) are interested in organic baked goods and varieties of rice and grains. There has also been greater demand for organic and gluten-free in food service.

All subcategories in this sector reported growth in 2013. The \$1.3 billion organic cereal market is the largest within the breads & grains sector. It reported an increase of 9% in 2013, up from 5% growth in 2012, adding \$104 million in new sales. Organic pasta reported the smallest rate of growth, at 6%, and it was the only organic bread and grain segment to report lower growth in 2013 than in 2012.

The tiny organic rice, grains and potatoes subcategory experienced strong growth in 2013, posting the highest growth — 23% — in this sector. This equated to an increase in annual sales of \$40 million to reach \$212 million total. Ancient grains are still poised for dramatic global growth, enough so that the United Nations called 2013 the International Year of Quinoa. The UN feels strongly that quinoa could play a critical role in world health in countries suffering from food insecurity. As a result, many companies are entering this market and trying to grow quinoa. Likewise, interest in millet, amaranth and teff is starting to percolate. Not surprisingly, as interest in quinoa continues, questions around supply are increasing as demand begins to outstrip the available supply worldwide. As a result, the price of quinoa is rising.

Convenience is also driving many of these categories.

It is well known that quinoa is easy to cook, which adds to its popularity. New and convenient ways to serve rice and ancient grains, such as quick-prepared packaged products, are also being offered. Supply continues to be an issue overall for this sector. Balancing ingredient and supply availability with forecasting to maintain a pipeline of ingredients to satisfy demand is critical, and making sure the supply chain is not out of balance was a sentiment voiced by many.

It can be particularly challenging to access a stable supply of ingredients that create unique flavors, such as organic lime or organic chipotle pepper. Some companies voiced concern that some suppliers, such as organic corn farmers, may opt out of organic to grow non-GMO corn; this would put additional challenges on supply.

Pricing plays against demand as well. Organic wheat continues to go up in price at a higher than expected rate because the supply is tight. Of course, supply is also compounded by weather and climate issues, such as the drought in California. Rice and other grains have been affected by the drought as well. It is still unsure what will be the lasting effects this year.

While some companies chose to stay the course and introduce few new SKUs on the cookie and cracker front in 2013, others see innovation as the way to stay ahead of competition. Organic graham wafer varieties were a welcome addition, and packaged and frozen dough pretzels continue to appear as new offerings. Basically, the variety of organic products on offer continues to diversify and grow.

## beverages

Beverages, the fourth largest organic food category, was the slowest growing organic food category in 2013. Overall, the category reported 5% growth to tally \$4.0 billion in sales. This was down from the 7% growth reported in 2012 and 2011. The \$1.1 billion soymilk subcategory, which has been on the decline since 2009, is the primary reason for the overall sluggishness of organic beverages. Most other subcategories reported growth, but generally lower than that reported in 2012. Penetration of organic beverages into the conventional market remains below the industry average at 3%.

Although the citrus market has been hit hard by the greening disease in Florida, in particular, and in California by drought and a December freeze, these circumstances have hit fresh produce harder than the fresh juice market, at least in 2013. Some companies reported still being able to import fruit for juice from Mexico and other countries. But as players such as Organic Valley left the fresh juice market in 2013, many are watching to see what crops will produce for 2014. So far, retailers have remained bullish about organic fresh juice, helping to make it the second fastest-growing grocery beverage subcategory with a growth rate of 26%, and \$100 million in new annual sales in 2013, for total sales of \$486 million. This was in keeping with 2012's 26% growth. But many are skeptical whether this growth can continue in 2014, in large part due to supply and the possibility of ensuing price increases.







Similarly, canned and bottled juice drinks maintained a fairly steady growth rate of 11% to reach \$823 million in sales. Frozen juice, on the other hand, continued its steady decline, sliding to \$11 million in sales from a high of \$18 million in 2008. The drop in frozen juice is not surprising as consumers increasingly prefer products that are as close to fresh as possible.

Although organic soymilk remains the largest subcategory in the organic beverage sector, sales have been on the decline for four of the last five years. Sales slid almost 12% in 2013, more than double the 5% decline reported in 2012. Sales growth is much stronger for the ever-widening selection of non-soy dairy alternatives, where sales increased 15% to \$150 million. Sales of organic non-dairy alternatives are increasing more in the refrigerated section than in the aseptic section, partially because consumers appreciate products available in the dairy section of the store.

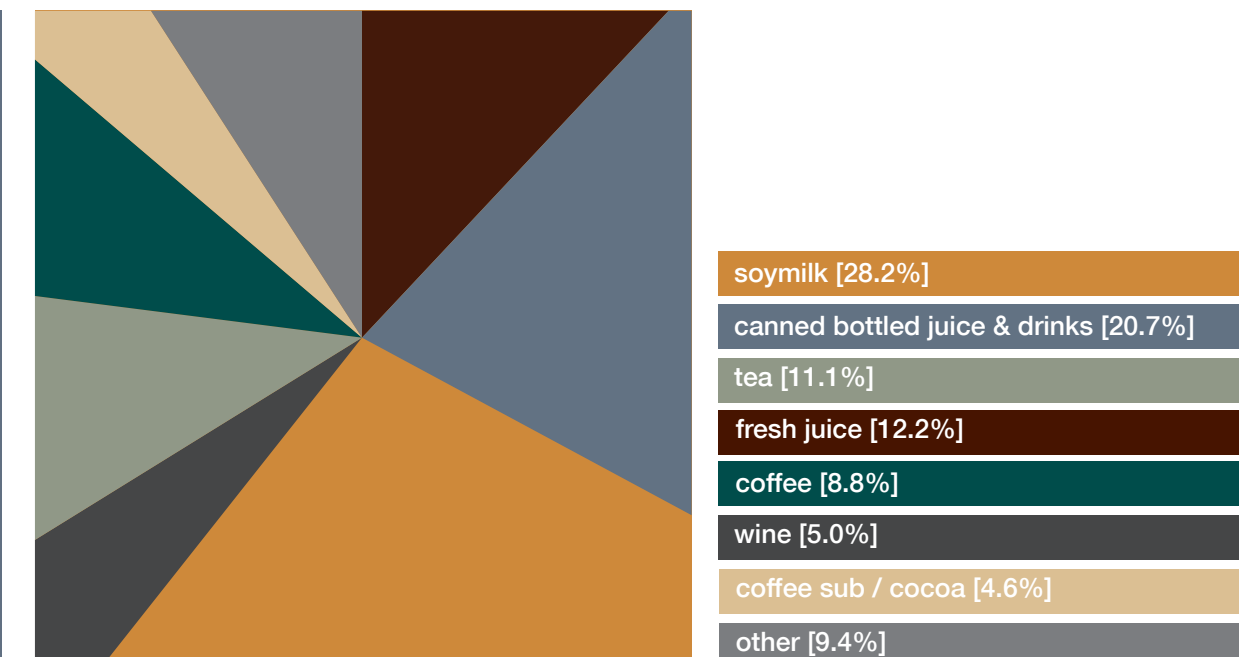
figure 3-10  
U.S. Organic Beverages vs. Total Organic Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Beverages	1,581	1,715	1,940	2,174	2,451	3,158	3,266	3,310	3,539	3,801	3,976
Growth (%)	19.3	8.5	13.1	12.1	12.7	28.9	3.4	1.4	6.9	7.4	4.6
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,366	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Organic Beverages (as % Total)	16.4	15.4	14.6	13.9	13.5	14.6	14.5	13.7	13.4	13.1	12.3

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

figure 3-11  
U.S. Organic Beverages Sales by Subcategory in 2013

Subcategory	2013 Sales	2013 Growth
Fresh Juice	486	25.9%
Frozen Juice	11	-10.7%
Canned & Bottled Juice & Drinks	823	10.9%
Soymilk	1,121	-11.9%
Non-soy Dairy Alternatives	150	15.4%
Beer	79	19.0%
Wine	201	10.2%
Distilled Spirits	14	26.3%
Tea	440	12.6%
Coffee	349	7.5%
Coffee Sub / Cocoa	183	3.6%
Soft Drinks / Sport Drinks	120	12.5%
Total	3,976	4.6%



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

As consumers become more aware of the perils of sugar, especially in the face of obesity and diabetes, traditional soda has become less popular. In light of this, organic soda, perhaps perceived as a healthier option, grew 13% in 2013, a significant jump from the 3% recorded in 2012. Organic sodas use only organic sweeteners while artificial colors and flavors are prohibited — traits that are appealing to consumers seeking healthier alternatives.

The healthier-for-you mindset is even trickling down to sports and energy drinks (whose sales are also included in the organic soft drinks subcategory) with new organic offerings coming into the marketplace, such as newcomer Marquis Sports Drinks with its O3 organic line. The company's intent is to challenge the likes of Red Bull and Monster energy drinks. While many of these companies are still small and gaining traction with distributors, there remains room in the market for more organic offerings in these categories.

On the caffeinated front, while both tea and coffee showed growth in sales, they both reported lower sales growth than in 2012. Organic tea sales grew 13% to reach \$440 million in 2013, just slightly down from the 16% growth reported in 2012. Organic tea continues to move into conventional grocery, drug and convenience stores as well as food service. As more restaurants and hotels embrace an organic platform, they are looking to include tea in that offering. The tea sector also continues to innovate with companies like Numi Organics introducing new flavors such as savory and even chocolate teas.

Organic coffee reported \$349 million in sales, dropping from 28% growth in 2012 to 7% in 2013. It is anticipated that the organic coffee supply could come under increasing pressure in 2014 as the side effects of the rust disease that has hit the Central and South American coffee markets become fully known. As supply decreases, prices are expected to increase. Likewise, consumers still seem to be more concerned with Fair Trade over organic when it comes to purchasing coffee.

Although organic wine, beer and liquor definitely face the challenges of varying label and liquor laws by state, these categories are also finding their niche and growing. The very small organic liquor market is the fastest-growing sector within the beverage category, growing 26% in 2013 with just \$14 million in sales. As consumers push for transparency, it is expected that this subcategory will

grow. At the moment, liquor companies are not required to list ingredients on labels. Therefore, organic becomes appealing for those consumers who are both ingredient savvy and who also want to ensure that sustainable practices were used in the production of what they are drinking.

Yet, the biggest challenge organic liquor makers face is gaining distribution and competing against larger companies who can mimic their unique flavors but not be held accountable to their ingredients. Just like in food, the “natural” moniker can be and is used by many liquor companies when in fact there is nothing “natural” about the ingredients. As Allison Evanow, Founder of Square One vodka expressed, “Some companies are saying they are ‘natural.’ The average consumer doesn’t know that in packaging, the word natural is broadly defined by regulators, so it could still have a lot of unnatural things in it but still be called ‘natural’. If I say on my label there are cucumbers in it, you can be guaranteed that I used the real product.”

Organic beer is also finding its niche in the market, recording 19% growth in 2013 with \$79 million in sales. Organic beer makers don’t feel they are competing against the big beer companies; they categorize themselves more in the craft beer market, which is large in its own right. It is easier to have a conversation about the ingredients in beer than it is with liquor.

People understand barley, wheat and hops, and consumers are starting to make the connection between eating organic food and drinking organic beer. Conventional beer does contain GMO corn bi-products. Hence, growth of organic beer is expected from consumers who are concerned about this issue.

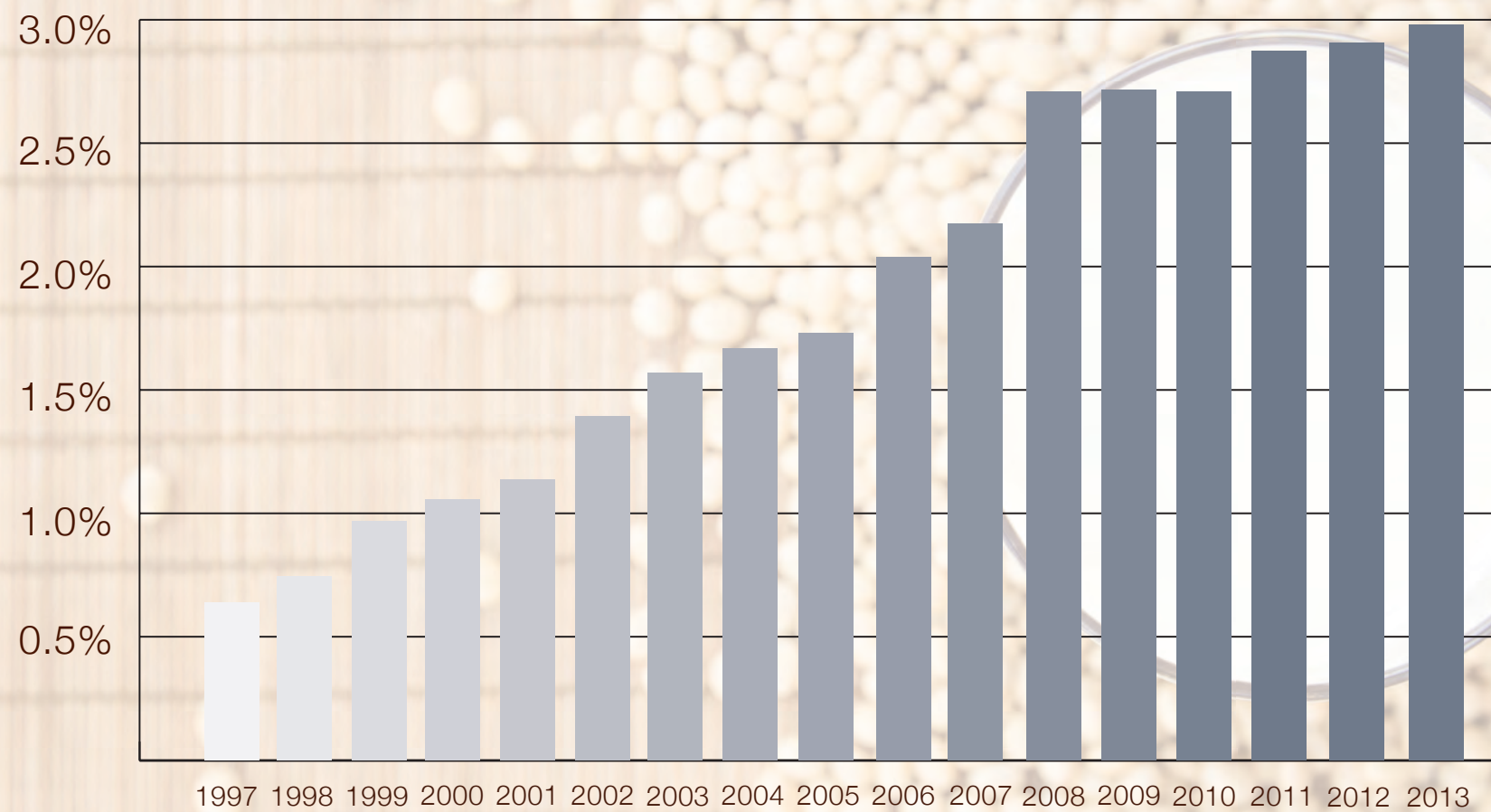
There now are many organic offerings on the market that taste great, and consumers are taking note. Although some brewers were concerned about the implementation of a ruling in 2013 that organic beer could only use organic hops, most companies reported no difficulty in making this transition, stating that it did not affect or limit production. Companies that have good relationships with their hops providers and farmers feel they are still able to innovate, and this ruling has not limited their business.

“To have a great supply chain, you need to invest time and energy into knowing your growers. A lot of people don’t want to do that, so maybe there are hops they can’t get. But to say the selection is smaller and not as exciting as conventional hops is a total lie,” says Jon Cadoux, Founder of Peak Brewing.

Organic wine, which is the largest of the alcohol categories at \$201 million in sales, recorded the slowest growth of all of the organic alcohol categories, recording a still very respectable 10% growth in 2013, up from 2012’s 4% increase. Wine does have a larger gross profit per case potential than beer. But there is still some confusion in the marketplace over what organic wine stands for. Certified organic wine cannot use sulfites, but most of the imported organic wines made with organic grapes do contain natural sulfites. This can make it tricky to import and distribute organic wines. Distribution and state liquor and labeling laws also can make it difficult to gain national traction with organic wine. Domestic organic wine companies are doing well, although if this market segment were to expand dramatically the organic grape supply would become an issue.

# snack foods .....

figure 3-12  
**U.S. Organic Beverages Penetration into Total Beverages Market, 1997-2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

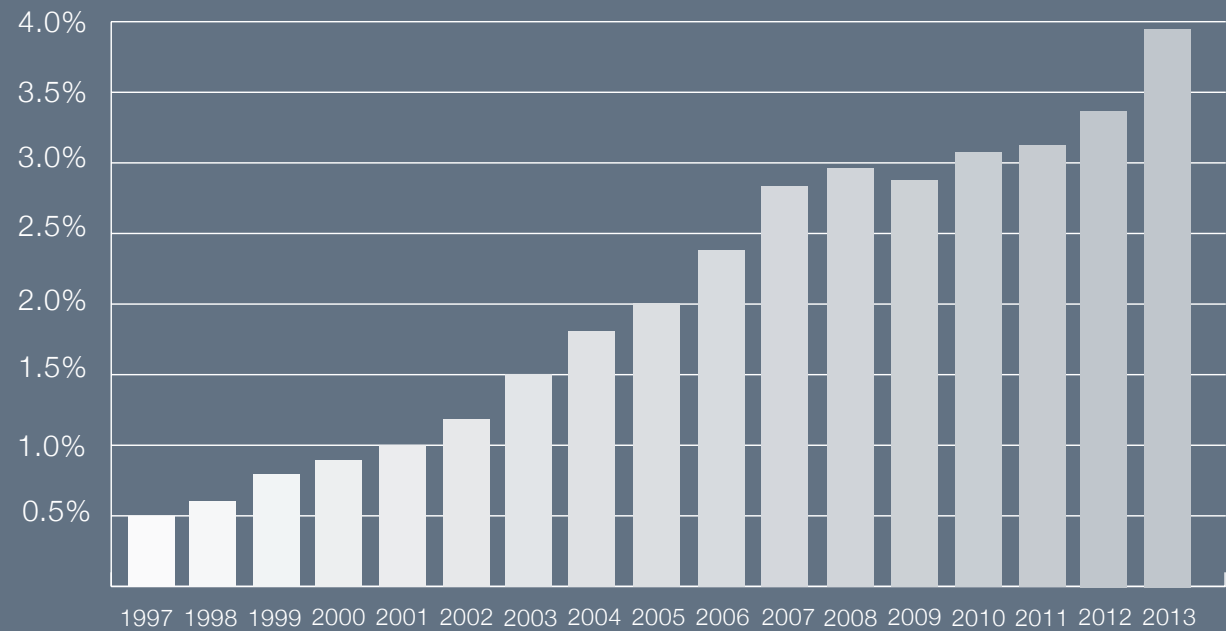
The \$1.7 billion organic snack market continued to maintain steady growth in 2013, growing 15% and adding \$228 million in new annual sales. This was on par with 2012's 14% growth. The category, particularly salty snacks, is growing at nearly double the average of non-organic products. Penetration of organic snack foods into the overall snack market is 4%.

Still relatively small in sales dollars, organic nuts recorded the highest growth in the snack category in 2013 at 21% and \$112 million in sales. Nuts are like produce — available in their original form, making it easy to correlate how they were grown to what you're putting in your body. The nutritional benefits of nuts and seeds have also been discussed frequently in the media. Organic nuts can be perceived as pricey, which is why bulk nuts, seeds and dried fruits are the segment seeing the significant uptick.

Organic salty snacks jumped \$120 million in new annual sales, reporting a 16% growth rate compared to 2012's 10% increase, for total sales of \$884 million. Consumers' desire for transparency of ingredients connected to both gluten-free and food allergens, as well as to the non-GMO movement, has helped to buoy sales in this subcategory.



figure 3-13  
**U.S. Organic Snack Food Penetration into Total Snack Food Market, 1997-2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



figure 3-14  
**U.S. Organic Snack Food vs. Total Organic Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Snack Food	484	564	668	809	1,000	1,110	1,138	1,220	1,329	1,520	1,747
Growth (%)	29.6	16.5	18.5	21.1	23.6	11.0	2.5	7.2	8.9	14.4	15.0
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
<b>Snack Food (as % Total)</b>	<b>5.0</b>	<b>5.1</b>	<b>5.0</b>	<b>5.2</b>	<b>5.5</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.0</b>	<b>5.2</b>	<b>5.4</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

Corn is a poster child for GMO ingredients, hence consumers respond to products made with organic corn. The organic offerings have increased significantly from tortilla chips to popcorn. Organic salty snacks are bringing new flavor and ingredient profiles to the market shelves, which include seeds such as chia and ancient grains. When consumers choose organic salty snacks, they at least feel they are eating healthier options. Likewise, snacks with simple ingredient profiles play into consumers' desire for transparency, such as Lundberg Rice Chips made with organic whole grains and sea salt.

Organic nutrition bars, chocolate and candy all showed growth in 2013, but at slower rates than those experienced in 2012. The organic nutrition bar segment now offers a wide range of options, from raw to paleo, high protein and gluten free, but still has great room to grow within the \$3.6 billion nutrition bar and gel industry. Bars play a role in healthy

convenience and that easy on-the-go lunch snack, and there truly is something for everyone, including kids these days. Organic bar sales grew 13% in 2013, down from the 20% increase posted in 2012, and reached \$530 million in sales.

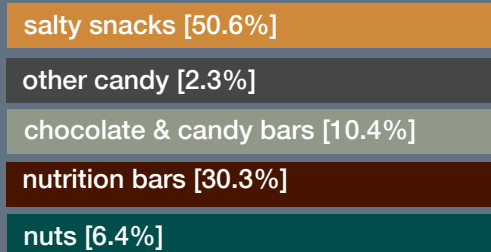
Chocolate, too, continues to see new organic players enter the market. Many of these high-quality bars hold a significant price tag.

Although they are worthy of the cost, there is definitely a significant price differential between organic (which is often Fair Trade as well) and non-organic chocolate. Fortunately, chocolate can often serve as a little indulgence with the cost of a single candy bar still being relatively low. The chocolate and candy bar segment maintained fairly steady 17% growth in 2013 to post \$181 million in sales. Sales of other organic candy reached \$40 million, but growth dropped from 23% in 2012 to 7% in 2013.

figure 3-15  
**U.S. Organic Snack Foods Sales by Subcategory in 2013**

Subcategory	2013 Sales	2013 Growth
Nutrition Bars	530	12.7%
Chocolate & Candy Bars	181	16.5%
Other Candy	40	7.4%
Salty Snacks	884	15.7%
Nuts	112	20.9%
<b>Total</b>	<b>1,747</b>	<b>15.0%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).



## packaged and prepared foods .....

Packaged and prepared foods — the third largest organic food market after produce and dairy - continued to grow strongly in 2013. Category sales grew faster than dairy, and are not that far behind in the dollars it draws, recording \$4.8 billion in sales in 2013, bringing in \$448 million in new annual sales. Organic products account for 6% of all packaged and prepared food sales, which is well above organic food's total food penetration of 4%.

This year's growth comes from many segments. All of the subcategories showed growth, with only canned prepared foods, baby food and tofu/tempeh showing slower growth than in 2012. With companies such as WhiteWave entering the boxed macaroni and cheese market, and other brands making similar crossover moves (from say bakery to the freezer section), many manufacturers are starting to test the strength of their brand power by diversifying into new grocery categories.

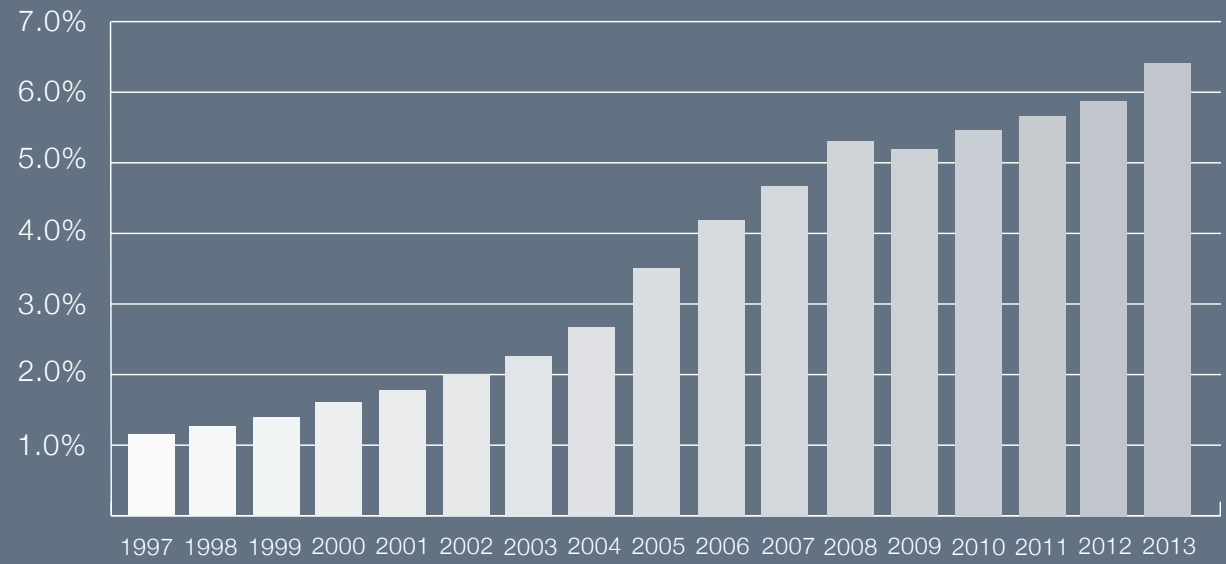
Yet, the biggest competition came from the larger conventional companies. Big manufacturers are starting to retool their product lines and to introduce healthier options in an attempt to present a healthier brand face. As consumers become savvier and better educated about healthy eating and what's in their food, they have started to question non-meaningful branding terms such

as "natural" and call to task companies that are not transparent or are potentially misleading consumers. Many companies realize that "healthier for you" is here to stay, so they need to figure out how to join the movement.

As the big companies have moved into the organic space, mainstream retailers have embraced them. They want the natural and organic consumer shopping in their stores. Packaged & prepared foods speak to consumers' desire for convenience. With convenience, consumers still prefer "fresh" or minimally processed whenever possible. Nothing speaks more to these desires than the jump in growth of refrigerated prepared foods —from 15% in 2012 to 25% in 2013. This growth may simply be due to an increase in offerings of organic prepared foods in the refrigerator section, not just the freezer section. There is limited space in the freezer section, and therefore this sector saw slower growth of 9%.

Organic nut butters had the highest rate of growth in this packaged and prepared foods market, increasing to 25% growth from 16% in 2012, and garnering \$201 million in sales. The jump in sales of nut (and seed) butters is driven in part by the specialty diet market and consumers looking for alternatives to peanut butter.

figure 3-16  
**U.S. Organic Packaged & Prepared Food Penetration into Total Packaged & Prepared Food Market, 1997-2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



Convenience is still offered in dried prepared foods, which grew 14% to \$212 million, up from the \$186 million recorded in 2012. In this sector, the organic macaroni wars have upped the ante, with newcomers such as WhiteWave joining the field, and mainstays like Annie's offering new innovative quick serving cups, all the while still competing with Kraft's organic offering. The most significant innovation in this subcategory came in the form of new quick and easy whole grain rice and ancient grain side dishes and entrée offerings (such as quinoa-based dishes) in both the frozen and dried prepared food sectors. These types of products were introduced by both Lundberg and Ancient Harvest. The latter even launched a quinoa version of Mac & Cheese. Similar to the dried prepared foods, canned and dry soup and broth maintained the same growth pattern as 2012, with 10% growth and \$717 million in sales.

Packaged and prepared organic desserts sales rose 9% in 2013, reaching \$193 million. This increase is, in part, driven by the interest in gluten-free and the specialty diet market, a desire for ingredient transparency, and the fact that people still like their treats — they just want healthier options. Similar in growth patterns, pasta sauces surpassed the growth of pasta and jumped from 2% growth in 2012 to 6% growth and \$130 million in sales in 2013.

In many regards, packaged and prepared foods seem to be the most competitive of all organic categories. It is where new ideas are launched and tested, and companies look to move into this sector to diversify product lines. It also offers myriad options for private label and is a sector where companies can compete against the big players without necessarily incurring a huge price differential between organic and non-organic products.

The rate of organic baby food sales growth dropped from 23% in 2012 to 18% in 2013. This may be, in part, because the novelty of organic baby food in pouches is wearing off, and conventional baby food prices are starting to come down a bit. There were also some organic baby food recalls in 2013 and a number of frozen organic baby and children's foods that did not perform well. As one distributor noted, the SKUs expanded, but interest did not.

With that said, many companies cited that as this category grows, supply is an issue. Many of the players in this organic sector rely on others for the ingredients they need. Relationships are critical to being able to diversify in a timely manner, and even then some ingredients are just simply hard to come by. "We didn't have a problem with our key ingredient rice, but when it comes to ingredients like organic powdered tomato, we did run into supply issues. Every year there is always some organic ingredient that is hard to get hold of," says Lundberg's Todd Kluger. There was also a short supply of organic chipotle pepper in 2013.

This did not stop The Hain Celestial Group from purchasing organic baby brand Ella's Kitchen, expanding its organic baby product offerings and forming the Global Infant, Toddler and Kids Division.

figure 3-17  
**U.S. Organic Packaged and Prepared Food vs. Total Organic Food Sales, Growth and Penetration, 2003-2013**

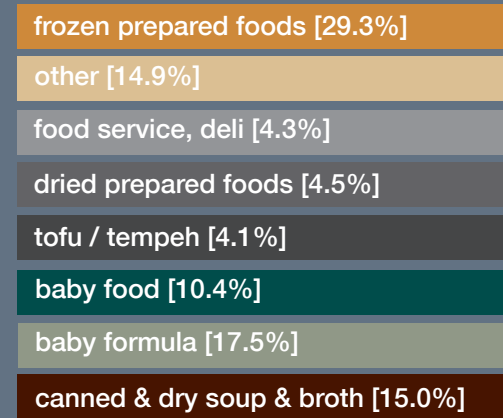
Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Packaged & Prepared Food	1,326	1,572	2,150	2,588	2,959	3,580	3,554	3,701	3,964	4,318	4,766
Growth (%)	16.0	18.5	36.8	20.4	14.3	21.0	-0.7	4.1	7.1	8.9	10.4
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Organic Packaged & Prepared (as % Total)	13.8	14.1	16.2	16.6	16.3	16.6	15.8	15.3	15.1	14.9	14.7

Source: Organic Trade Association's 2013 Organic Industry Survey conducted 1/25/2013 – 4/5/2013 (\$mil., consumer sales).

figure 3-18  
**U.S. Organic Packaged and Prepared Food Sales by Subcategory in 2013**

Subcategory	2013 Sales	2013 Growth
Frozen Prepared Foods	1,395	8.9%
Refrigerated Prepared Foods	33	24.7%
Food Service, Deli	203	9.2%
Canned Prepared Foods	72	6.2%
Dried Prepared Foods	212	13.9%
Nut Butters	201	25.1%
Baby Food	497	17.8%
Baby Formula	836	7.9%
Meat Alternatives / Veggie Burger	84	10.9%
Tofu / Tempeh	193	4.9%
Canned & Dry Soup & Broth	717	9.8%
Pasta Sauces	130	5.6%
Desserts	193	8.8%
<b>Total</b>	<b>4,766</b>	<b>10.4%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).



## condiments and sauces.....

Not surprising, as more consumers become comfortable with buying organic there is a trickle-down effect as they broaden their organic purchases. To this effect, organic condiments and sauces, which is the second-to-smallest of the food categories, saw the largest spike in growth. The category grew 17% to \$830 million in sales in 2013. Organic condiments account for 3% of the overall condiments market but have gained considerable share since 2007 when penetration was only 2%.

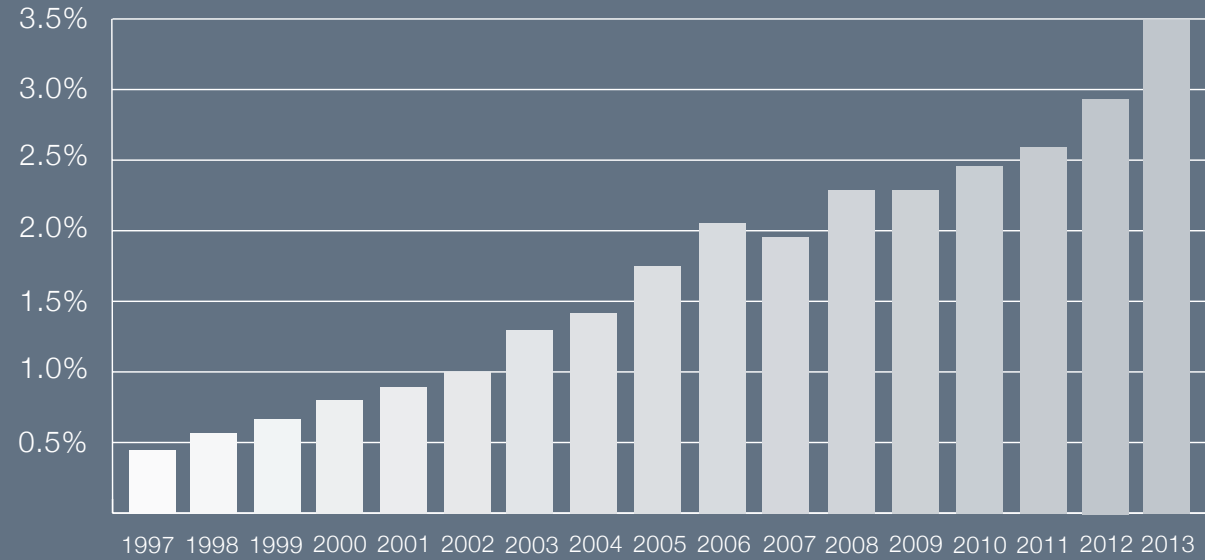
Just as in other categories, with the plethora of cooking shows and focus in the media on eating healthier, consumers are looking for high-quality ingredients as well as diversity of flavor. People are continuing to cook at home, and therefore are paying closer attention to sauces, dips and spices — all of the options available to them to make a flavorful meal. And because condiments are often lower in price or infrequently purchased items, it is easier for consumers to not be put off by price premiums.

Shortenings & oils, along with sweeteners, drive the bulk of the sales in the organic condiment category. Although growth in the organic shortenings and oils category dropped slightly from 30% in 2012 to 27% in 2013, it still added \$54 million in new annual sales, posting \$252 million in total sales.



Consumers are constantly looking for the healthiest oils for eating and cooking. Myriad options have come on the market in the last few years, with coconut oil still being a favorite with consumers. With that popularity has also come supply concerns. Growth of organic sweeteners sales dropped slightly from 20% in 2012 to 15% in 2013, recording \$171 million in total sales and \$23 million in new annual sales.

figure 3-19  
**U.S. Organic Condiments and Sauces Penetration into Total Condiments and Sauces Market, 1997-2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



figure 3-20  
**U.S. Organic Condiments and Sauces vs. Total Organic Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Condiments and Sauces	229	274	342	402	400	491	521	561	609	708	830
Growth (%)	23.5	19.6	24.7	17.5	-0.4	22.5	6.1	7.7	8.5	16.3	17.3
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Condiments and Sauces (as % Total)	2.4	2.5	2.6	2.6	2.2	2.3	2.3	2.3	2.3	2.4	2.6

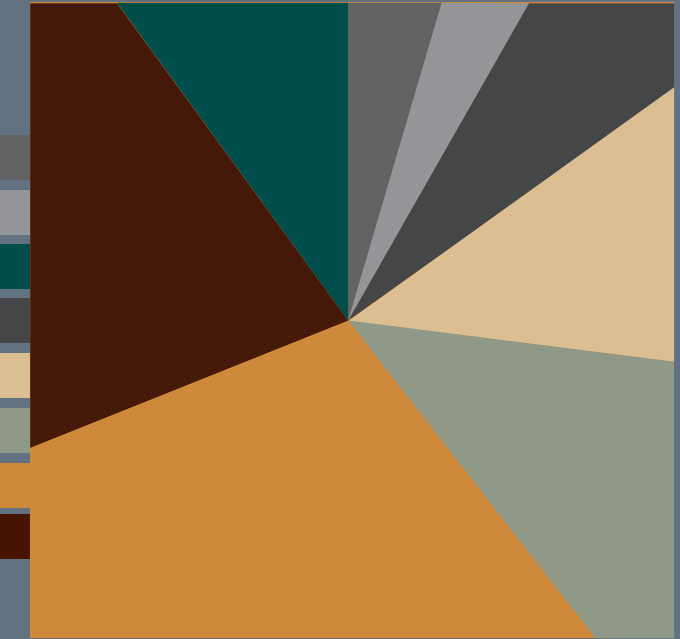
Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

figure 3-21  
**U.S. Organic Condiments and Sauces Sales by Subcategory in 2013**

Subcategory	2013 Sales	2013 Growth
Salad Dressing	37	10.6%
Salsa (Refrigerated and Shelf Stable)	32	9.3%
Dips	30	17.3%
Jams & Preserves	57	6.3%
Ethnic Sauces	30	13.4%
Ketchup	27	13.3%
Other Condiments	100	12.9%
Spices	95	16.6%
Oil & Shortening	252	27.3%
Sweeteners	171	15.3%
<b>Total</b>	<b>830</b>	<b>17.3%</b>

- salad dressing [4.5%]
- salsa [3.8%]
- dips, ethnic, and ketchup [10.4%]
- jams and preserves [6.8%]
- other condiments [12.1%]
- spices [11.5%]
- oil and shortening [30.3%]
- sweeteners [20.6%]

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



The segment firmly put the sugar shortages of 2011 behind it. New entrants in this space include Sunfood's raw coconut nectar, which is low on the glycemic index.

Dips posted strong growth in 2013, moving sales upward 17% to reach \$30 million in sales. Jams and preserves' growth increased slightly to 6%, recording \$57 million in sales, while ketchup growth jumped to 13%, increasing annual sales by \$3 million to a total of \$27 million for 2013.

As the market for ethnic sauces and spices continues to grow, in keeping with the increasingly diverse nature of the U.S. population, organic ethnic sauces sales rose from \$26 million in 2012 to \$30 million in 2013, and salsa sales grew from \$29 million to \$32 million. Although the ethnic sauces subcategory showed a bit of a slowing in growth from 18% in 2012 to 13% in 2013, the salsa market was essentially flat at 9% growth. Spices, too, maintained strong growth at 27% and just missed breaking the \$100 million mark, with \$96 million in sales.



# meat, poultry and fish .....

The organic meat, poultry & fish category posted an 11% growth in 2013. In 2012, the industry surpassed the \$600 million marker for the first time. In 2013, this number came in shy of \$700 million, at \$675 million. This sector, which remains the smallest of the organic food categories, has not managed to get on the radar of the overall meat market, with less than 1% market share.

Increasing consumer awareness, interest in humanely raised animal production, and antibiotic- and hormone-free poultry and meat products continue to be driving forces behind growth in this category. However, the cost of organic meat has often remained prohibitively high due to supply issues, cost and availability of ingredients, and drought, which have continued to hinder availability.

A primary rule of the organic standard is that to produce organic meat, the animals need to be fed organic feed. Attaining and affording organic feed, in particular organic corn, has proven problematic for farmers. The cost of organic corn has remained high while its availability has remained limited.

Furthermore, as severe to exceptional drought continued to spread from the Midwest to California, the number of cattle in the United States reached the lowest it has been since the 1950s. Organic ranchers continued to reduce herd numbers as cattle became too expensive to feed or they didn't have access to grass to feed their herds. The sentence atop the website of Diamond M Ranch in Northern Arizona is telling of the state of the organic beef market: "Due to the economy and the rising costs of grass and seed, we have sold all of our beef calves..."

The cost of meat is expected to stay high and the cattle supply low until confidence returns in corn and water supplies. California is the largest cattle state in the U.S. and was the hardest hit by drought in 2013. Once confidence returns to increase cattle supply, it will take another few years to see this change because of the time needed to raise a steer until it is actually ready for market.

With the challenges of raising organic meat and maintaining an organic meat supply, most big players in the meat industry have maintained a "USDA natural" program, which emphasizes no hormones or antibiotics but does not impose restrictions on feed.

figure 3-22  
U.S. Organic Meat, Poultry & Fish Sales by Subcategory in 2013

Subcategory	2013 Sales	2013 Growth
Beef	160	12.0%
Lamb	8	2.2%
Pork	23	27.1%
Poultry	401	9.3%
Fish	7	11.1%
Sausages / Deli Meats	76	15.8%
<b>Total</b>	<b>675</b>	<b>11.1%</b>

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

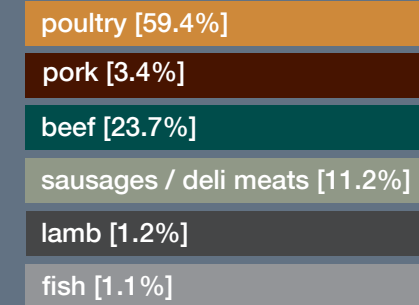


figure 3-23  
U.S. Organic Meat, Poultry and Fish vs. Total Organic Food Sales, Growth and Penetration, 2003-2013

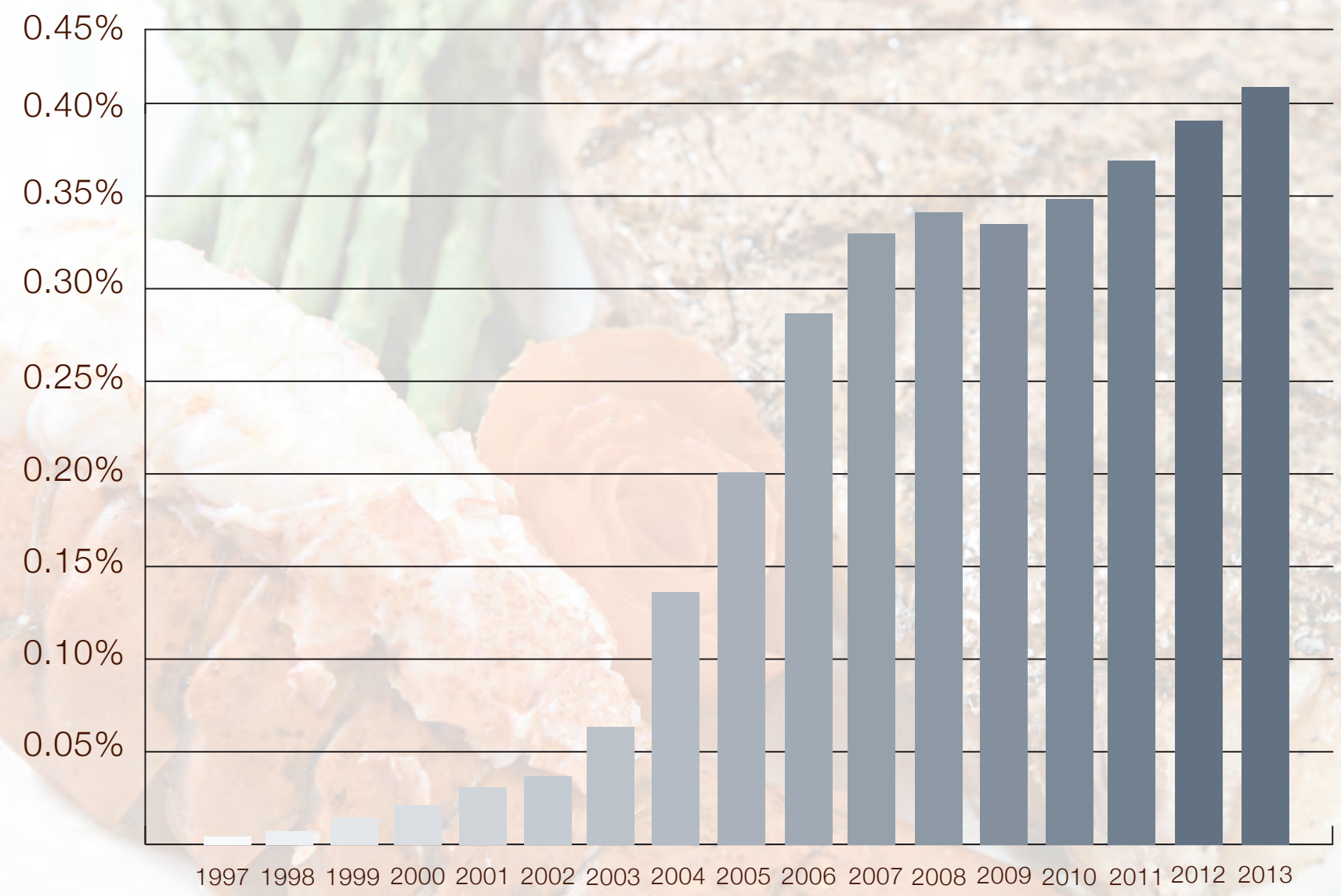
Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Meat, Poultry and Fish	75	165	256	333	400	448	456	476	538	607	675
Growth (%)	77.8	119.5	55.2	30.1	20.0	12.0	1.9	4.4	13	12.8	11.1
Total Organic Food	9,626	11,127	13,260	15,629	18,188	21,571	22,497	24,123	26,336	29,023	32,335
Growth (%)	19.6	15.6	19.2	17.9	16.4	18.6	4.3	7.2	9.2	10.2	11.4
Meat, Poultry and Fish (as % Total)	0.8	1.5	1.9	2.1	2.2	2.1	2.0	2.0	2.0	2.1	2.1

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).



figure 3-24

### U.S. Organic Meat, Poultry and Fish Penetration into Total Meat, Poultry and Fish Market, 1997-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

Organic beef maintained a growth rate of 12% and \$160 million in sales. But this was down from a high of nearly 20% growth in 2012. The price of feed also affects pork, which still records low sales. 2013 saw 27% growth in organic pork sales from \$18 million to \$23 million. As long as the costs to produce organic beef and organic pork remain high, market size is expected to remain limited.

Another problem associated with producing beef and pork products is trying to convince farmers to raise animals organically and in a humane manner when companies can't necessarily buy all of the parts of the animal. Pigs and cattle have multiple parts and a producer has to try to sell every part at a big enough premium to make a profit. Therefore, it can be difficult for manufacturers to convince farmers to raise animals this way if the manufacturer does not intend to buy all of the parts.

Poultry is easier. Processors only view poultry as two parts, legs and breasts, and feed for poultry is much cheaper than that for pigs or cattle. The time to market for poultry is also much shorter than for beef or pork. Therefore, it is easier for players in this organic segment to respond more quickly to market input and demand changes. Poultry, therefore, still accounts for the greatest portion of organic meat, poultry & fish sales (60% of the market), recording 9% growth in 2013. With \$401 million in sales, organic poultry hit a new milestone, crossing the \$400 million mark for the first time. In the face of increased consumer awareness to eat healthier, many experts recommend eating less meat or

cutting it out altogether, whereas chicken has maintained its place as a healthy, lean and easy-to-cook option.

The desire for convenient and healthy products has continued to drive interest in sausages and deli meats. The subcategory growth jumped to 15.8% in 2013 to record sales of \$76 million. New products in prepared meats such as varieties of breakfast sausage and packaged chicken products are expected to continue to develop as consumers look for more easy-to-make, protein-based products. Neil Leinwand from Applegate points out, "Increasingly parents are looking for great tasting, convenient meat products that provide peace of mind."

A small amount of imported organic fish is sold here each year. Although aquaculture is included in the Organic Foods Production Act (OFPA), the organic regulations currently do not include specific standards for aquaculture, and therefore aquaculture products cannot currently be certified organic under the USDA organic regulations. The National Organic Program (NOP) has made it a top priority to complete rulemaking on aquaculture in 2014. NOP is following suit based on the recommendation by the National Organic Standards Board (NOSB) in 2007 that aquaculture standards be adopted by NOP. The NOP ruling will clarify the processes and ingredients that will be allowed if an organic operator wants to sell NOP certified seafood products in the United States. Sales in the organic seafood market are expected to increase once these national organic standards for aquaculture have been adopted.



organic non-food categories

# personal care

Heightened consumer awareness of organic food and what we put in our bodies continues to extend to the personal care category and what we put on our skin—the largest organ of our body. Once again the organic personal care category continued its trajectory of growth, reporting an increase of 13% in 2013, to reach sales of \$669 million. This is a positive jump from the 10% growth and \$592 million in sales recorded in 2012.

In 2012, Whole Foods Market’s policy requiring personal care brands making organic claims to obtain USDA Organic or NSF/ANSI 305 certification went into effect. The push for labeling has brought more transparency to personal care ingredients and marketing. This has helped organic personal care sales to continue on an uptick.

Whole Foods became a springboard for the launches of several new organic personal care lines, including Nourish Organic Food For Healthy Skin, which offers USDA Organic skin care and deodorant. The U.S. Food and Drug Administration (FDA) and the U.S. Department of Agriculture (USDA) still do not regulate the use of “organic” on personal care products. However, NOP, as applied by Whole Foods, offers three standards:

- “Organic,” meaning a product contains at least 95% USDA certified organic ingredients;
- “Made with Organic,” meaning a product contains more than 70% USDA certified organic ingredients, and no prohibited ingredients or processes;
- “Contains Organic,” meaning a product meets the more lenient NSF/ANSI 305 Personal Care Standard, which calls for at least 70% organic ingredients but allows for certain processes and ingredients the USDA prohibits.

Although there continues to be a significant amount of conversation around what should be allowed on the National List of ingredients that do not fall under the NOP food standards (many that would act as organic preservatives, surfactants and emulsifiers and create major challenges for personal care manufacturers), those who have forged ahead in making “organic” products do not want to see rules loosen or slacken for the sake of the beauty industry. “I feel strongly that if I can deliver others should be able to,” said Rob Robillard, CEO of Sensible Organics. “NSF is designed to have ingredients that are beauty-specific to the list. That is the right certification if people can’t meet the food standard. Those are still very clean formulas.”



NSF has proven to serve a role as companies work to find or make ingredients that have previously been difficult to replicate in an organic format. Early versions of organic personal care products were very simple. As the market matures, there is a demand for more complex products, especially in skin care.

In 2013, the discussion around shelf stability and product/ingredient preservation continued to be an issue. There are many organic ingredients that still need to be stabilized and preserved in some form of suspension or lather.

figure 4-1  
**U.S. Organic Personal Care vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Personal Care	170	220	282	350	372	443	459	490	536	592	669
Growth (%)	19.4	29.6	28.0	24.1	6.4	19.0	3.7	6.6	9.5	10.5	13.0
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Personal Care (as % Total)	38.7	39.2	37.9	37.3	31.5	26.9	25.5	24.8	24.4	24.1	24.2

Source: Organic Trade Association’s 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



Because of shelf life limitations and a concern for freshness in products, smaller companies, at least, can't do mass production. They have to do shorter manufacturing runs to ensure product is sold while still fresh. Thankfully, innovation is happening in the form of organic preservatives, surfactants and emulsifiers.

In addition to the use of go-to organic plant-based ingredients, including almond, palm, jojoba, safflower and coconut oils, soy and oat derivatives, and cocoa and shea butters, formulators are seeing new bioactives, particularly for skin care. Formulators are also emphasizing the marriage of science and organic. Many ingredient companies are on the cusp of releasing new actives, some of which are backed by clinical trials, so that they can make an active claim. Organic plant stem cells, which are up to 1,000 times more potent than the plant itself, continue to be explored and are beginning to show up in product lines, such as Intelligent Nutrients' Plant Stem Cell Science Nourishing Cleansing Crème and Acure's "Skin-Immune Technology" skin products.

Supply can be an issue for organic personal categories where organic versions of ingredients are often not widely available. It can be particularly difficult for smaller companies entering the marketplace to secure supply. For instance, in 2013, relative newcomer Dolphin Organics ran up against a shortage of jojoba. "Last year, there was a huge shortage of jojoba, and the one place we used had a huge fire that wiped them out. We spent so much time

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Many ingredient companies are on the cusp of releasing new actives, some of which are backed by clinical trials, so that they can make an active claim.

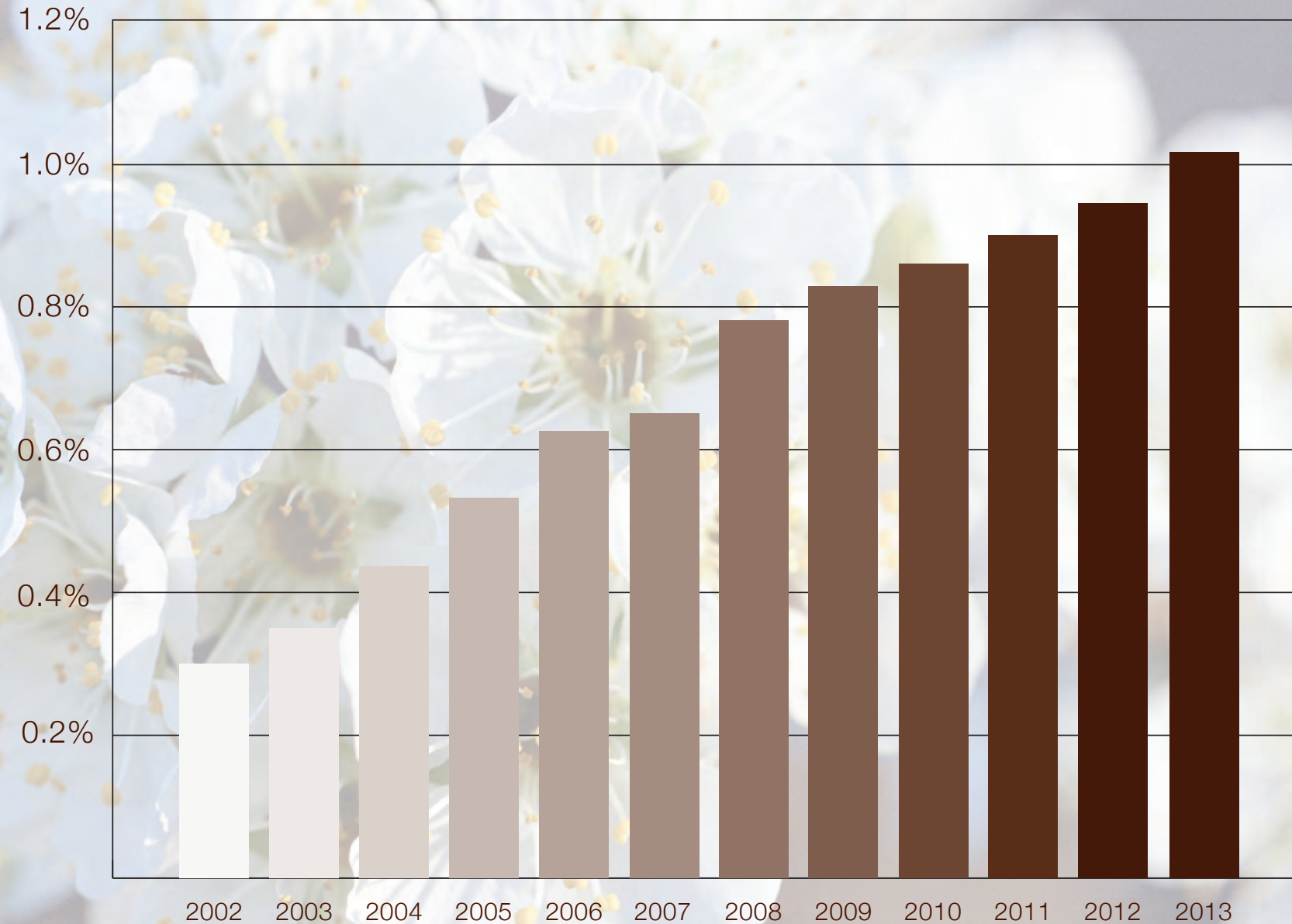
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sourcing before we went to market, but we didn't take the time to get backup sources, so we ran out of a few products," says Ayo Hart, founder and managing partner of Dolphin Organics. Even when there is sufficient supply, there is a geographic dependency on raw materials that can be daunting. Many of the ingredients come from a single region — for instance, shea butter from Ghana and aloe from Texas and Mexico.

As new ingredients are developed, consumer education will be necessary. Yet, those in the industry are confident that each year women (and men) will become more comfortable spending money on cleaner beauty products. As teens and younger consumers enter the market, buying green or clean products is second nature to them. Although overall the organic personal care industry still only contributes about 1% of total sales in the personal care market, many feel that this category is poised for great growth in years to come.

figure 4-2

## U.S. Organic Personal Care Penetration into Total Personal Care Market, 2002-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (consumer sales).

## fiber

For the second year in a row, organic fiber is the largest non-food organic category and now accounts for approximately 35% of organic non-food products sold. In 2013, the organic fiber category recorded the strongest growth in the organic non-food sector, with sales rising 16% to \$960 million.

Although the organic fiber category still represents less than 1% of the overall textile market, there is more awareness of organic textiles on the consumer front. This is largely driven by Millennials and even teens (think Teens Turning Green), who are seeking more sustainable products. As industry pioneer Marci Zaroff, President of the Portico Group/Under the Canopy, says, "There is a rising tide in terms of consumer engagement and on the brand side through collaborations with a variety of non-profits."

This growing consumer concern around corporate social responsibility has led many manufacturers to increase their commitment to organic cotton. Concerns are primarily focused around the impact of conventional cotton production on both the farm workers and the environment.



In 2013, the top global users of organic cotton included H&M, Nike, Williams & Sonoma, Anvil Knitwear, Target and European-based C&A, according to research conducted by the Textile Exchange. Although many of these retailers and manufacturers have committed to using organic cotton, it is not always readily obvious to consumers that these companies are doing so. Continued education that organic cotton exists and is being used is needed.

Lifestyle brands Patagonia and prAna have continued a commitment to organic cotton in their lines and have always been more vocal about this use. Growth in the apparel sector is not exclusive to brands. Indigenous Designs sells its collection through premium retailers, but it also provides private label production that is retailed in major department stores. Both channels are performing well for Indigenous, which has been making eco-sensitive clothing since 1994.

Still, for smaller manufacturers such as Synergy Organic, even consistent growth does not always outweigh the cost of maintaining organic certification. Securing an organic cotton supply can pose a problem, adding to the challenge of maintaining certification, as these companies often have to source overseas because the U.S. organic cotton supply is limited.

In addition to apparel, the market for household textiles and baby products also continues to drive sales. Like organic baby food, there is a perceived health advantage to organic products and materials produced with fewer chemicals. Baby gear is still one of the first categories of organic fiber products that consumers seek. Sales of household textiles such as linens, towels and bathrobes continue to grow. Likewise, interest in organic cotton products for hotels and spas continues to increase as more hotels, such as W and Kimpton Hotels, commit to sustainability programs.



Although the Textile Exchange notes that on the retail side there is a growing commitment to organic cotton, there are some barriers to growth at the farmgate level, causing a decline in the production of organic cotton. This decline, however, is seen as a correction in the marketplace. “If you think back on the organic food movement in the early days, the more that regulation stepped up, the more fallout there was of people who were making claims that weren’t really backed up,” says Zaroff.



figure 4-3  
**U.S. Organic Fiber vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Fiber	85	111	160	203	286	472	521	605	708	826	960
Growth (%)	22.7	30.7	44.0	26.9	40.9	65.0	10.4	16.1	17.1	16.6	16.2
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Fiber (as % Total)	19.4	19.8	21.5	21.6	24.2	28.6	29.0	30.6	32.3	33.6	34.7

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).



This is the case with organic cotton. Production growth is taking place where farmers are well connected to a market partner. Yet, many companies do not have faith that the organic standards are being upheld in some foreign countries, regardless of what the label says. Hence, as certification becomes more stringent and brands are developing better practices such as requiring certification, farmers who are not connected to a market partner, and who may not have been playing stringently by the rules, are leaving the marketplace.

To this extent, many large companies are working together with the Textile Exchange to develop a standard of what best business practices look like with regards to the organic fiber market. These large players can drive change, but best practices, such as requiring certification, must be in place to make sure it's done right.

The increased focus on certification follows a 2011 decision by USDA to implement expanded certification options. In addition to NOP organic fiber products being allowed to carry organic labeling, USDA allows products containing organically grown fibers that have been processed according to the Global Organic Textile Standard (GOTS) to be marketed as

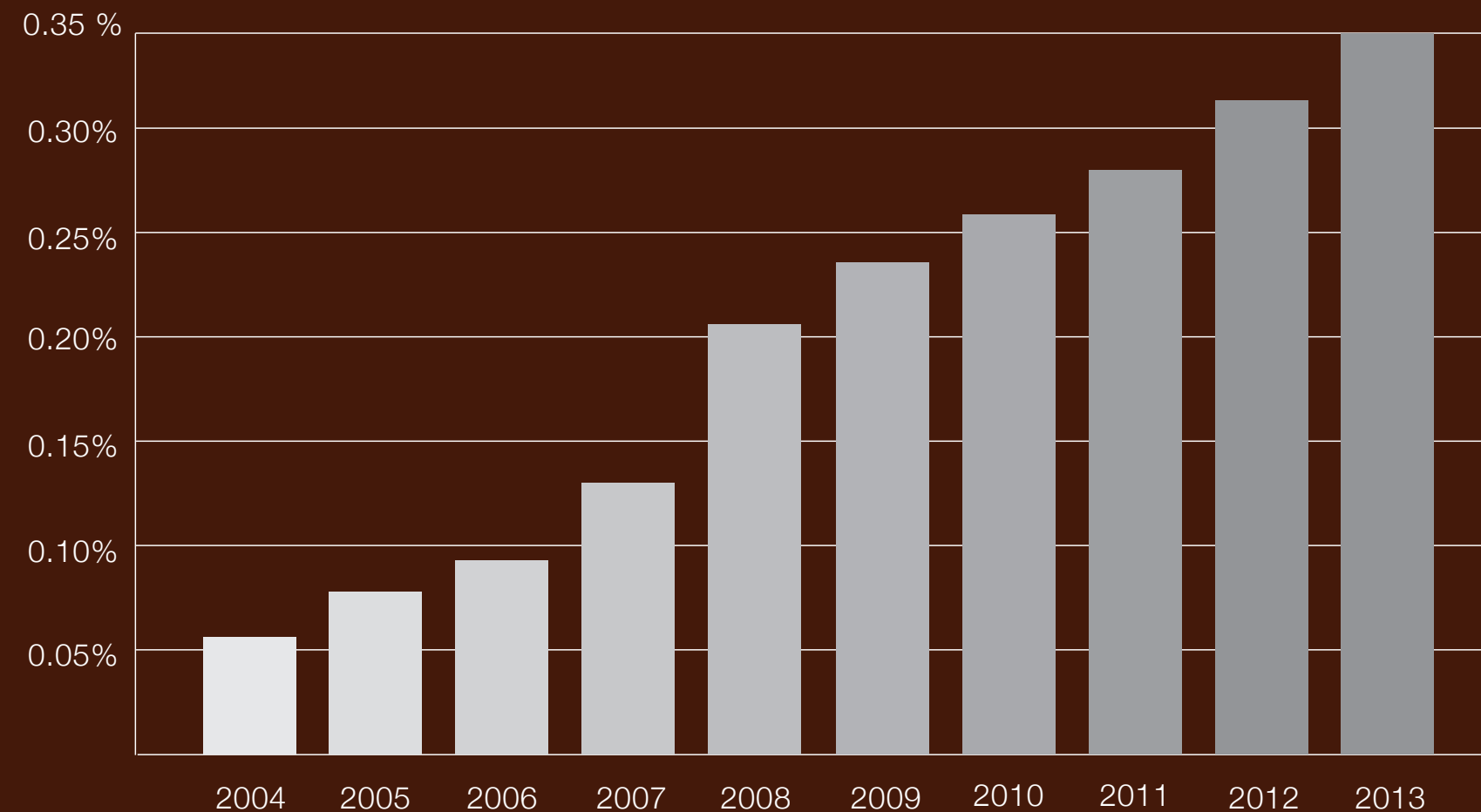
organic, with certain restrictions. GOTS is the voluntary global processing standard for organic fibers covering the entire textile supply chain. Most of the fiber manufacturers that complete the annual OTA survey use GOTS certification.

Other issues confronting the organic cotton industry include the limited availability of non-GMO seed. Genetically modified (GM) seeds have become dominant in the marketplace as major seed companies have purchased smaller labels and discontinued their organic, non-GM and non-treated cottonseed offerings. Therefore, commercial availability of organic seed continues to be a hurdle for organic cotton producers.

Weather and geography play a big role in organic cotton production. Drought conditions that have affected much of the western United States for the past three years continued into 2013, although the primary cotton-growing region in west Texas saw slightly more rain than in prior years. In North Carolina, a wet spring gave weeds a head start over the slower germinating cotton, causing some growers to abandon crops in that region.

figure 4-4

### Organic Fiber Penetration into Total Fiber Market, 2004-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



# supplements

Supplements are the second largest non-food organic category, recording \$894 million in sales in 2013 and accounting for approximately 32% of the non-food organic market. The category grew 10% in 2013, in keeping with the near 10% growth recorded in 2012 on \$812 million in sales. This number still represents less than 3% of total supplement sales, which is not surprising given that the number of companies in the organic supplement space remains small.

Those companies with history in this space, as well as newcomers to the space, find that not only is certification expensive, but sourcing and securing a consistent supply of organic ingredients can be difficult and pricey. For instance, Vega foods opted to not make its protein powders organic

figure 4-5  
**U.S. Organic Supplements vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Supplements	151	184	238	300	410	566	634	681	739	812	894
Growth (%)	15.1	22.2	29.0	26.1	36.7	38.0	12.0	7.4	8.5	9.9	10.1
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Supplement (as % Total)	34.4	32.8	31.9	32.0	34.7	34.3	35.2	34.5	33.7	33.1	32.3

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

because it has proven too difficult to secure a large supply of organic pea protein, the product's key ingredient. As in food, non-GMO is a concern in the supplement category. Consumers are looking for non-GMO supplements. This is helping to buoy sales of organic supplements and will hopefully help to spur increased production of organic ingredients. Finding and securing organic or non-GMO ingredients continues to be a challenge.



One significant factor is that China has traditionally been a supplement ingredient supplier, yet many companies question the validity of organic ingredients sourced from China. Companies going through the Non-GMO Project for verification of ingredients have found it to be a lengthy process due to the paperwork needed to verify each ingredient in any one supplement. Companies still feel education is needed for consumers to understand that buying organic means they are buying non-GMO products.

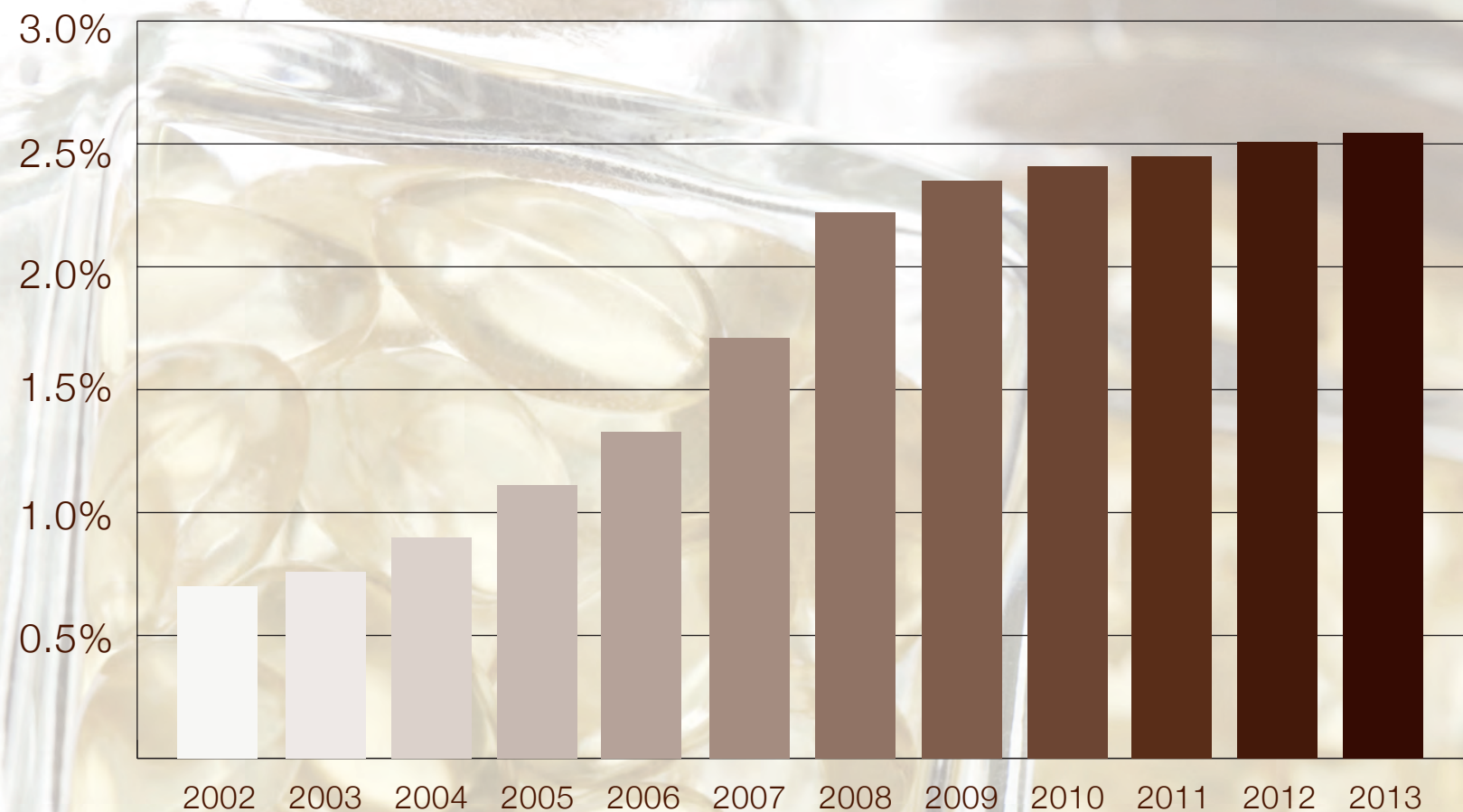
Because organic ingredient supplies can be limited, costs can vary widely. Many companies mentioned having to eat the extra cost of going organic simply because they can't push the price of their product higher, even if it is warranted. Some manufacturers have even dabbled in expanding their product offering, such as Natural Vitality with its organic vitamins, only to put the line on hold due to cost. If pricing changes too

dramatically, supplement production can become a losing proposition. A lack of supply has also driven some companies to focus on operating their own farms to better control the flow of organic raw materials. Vega has opted to work directly with a farm to secure its own organic pea supply. New Chapter has its own organic farm in Costa Rica (although demand has outgrown what the farm can supply), and Tangut operates a 10,000-acre certified organic farm in Tibet.

For many organic supplement manufacturers, their ability to show the organic seal on labeling is limited by the inability to obtain organic gelatin capsules. Encapsulation can still be a barrier for organic companies. Organic options don't always work with certain products or formulations. New developments are underway, but challenges are ongoing related to what formulations are effective and what is compliant with organic standards.

figure 4-6

### U.S. Organic Supplements Penetration into Total Supplement Market, 2002-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).



Organic raw material suppliers like Organetics and NP Nutra are experiencing strong growth for their organic product offerings. One key factor for both companies is ingredients that are used in both functional foods and supplements. NP Nutra reported that organic barley greens and kale have been large growth categories—a not too surprising revelation that what is popular for food crosses over to supplements.

Categories that performed well included plant-based supplements such as those derived from elderberry, which is known for its immunity properties. Children's vitamins, such as Hero's organic gummies, also continued to do well. The sweet spots for companies

are still baby makers and baby boomers. As with food, people become more interested in organic and what they put in their body when they become pregnant. This organic focus extends to what they feed their children, hence the interest in children's vitamins. Baby Boomers are at a stage of life where they are trying to take more control of their own health and mitigate any ongoing health issues.

Despite challenges, more entrants are expected to enter the organic supplement market in 2014. Already this year, Garden of Life has launched its new Kind Organics line—featuring organic, Non-GMO Project Verified, vegan whole-food supplements.

# pet food

As consumer awareness around organic rises and people increasingly consider their pets as family members, the organic pet food category continues to grow. In 2013, this fourth largest non-food organic category reported \$124 million in sales with nearly 14% growth, an uptick over 2012's 8% growth and \$109 million in sales. Although organic pet food contributes to 4% of total organic non-food sales, it still contributes well less than 1% in the total pet food market.

The growth in this sector continues to relate to increasing consumer interest in health and wellness. Pets are part of the family, and the "humanization" of pets means they receive the trickle-down effects of our own changing habits. According to Mintel custom research, 26 percent of pet owners in 2013 said they were buying organic and natural food for pets more often than they did in 2012. Owners are looking to improve the diet of their pets. When a household eats organic, the pets of that household are more likely to be fed organic, too. This category is also influenced by the continued escalation of gluten-free, the ongoing interest in the paleo diet, and the strong growth in products that are labeled grain-free. Grain-free products are primarily wheat- and corn-free, and contain higher protein content.

Following the idea of "eating clean," owners are looking to give their pets a more wholesome, biologically appropriate diet with grain-free products. There is an ongoing perception that foods that are higher in protein and meat, and free of grains, are healthier for pets. However, there is currently no substantial research to back this.

The high-protein trend extends to treats, which have also become more humanized as "cookies" instead of "treats" or "biscuits." For example, Castor & Pollux recently launched a new Organix Jerky Chip Cookie for dogs that contains "protein-packed" jerky chips. Yet with this surge in interest in protein for pets, a challenge that faced organic pet food manufacturers in 2013 was securing an ample protein supply. Organic protein, beyond chicken, continues to be difficult to procure in sufficient quantities.

Interest in organic pet food may be spurred by ongoing pet food recalls. Pet food companies also continue to see strong consumer interest in local products or products that are sourced domestically. It is likely that this stems from the numerous recalls over the years that have involved pet food supply contamination overseas.



figure 4-7

## U.S. Organic Pet Food vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Pet Food	14	21	30	41	51	76	84	94	101	109	124
Growth (%)	75.0	46.8	46.0	36.7	25.2	48.0	9.9	12.5	7.3	8.1	13.7
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Pet Food (as % Total)	3.2	3.7	4.0	4.4	4.3	4.6	4.6	4.8	4.6	4.4	4.5

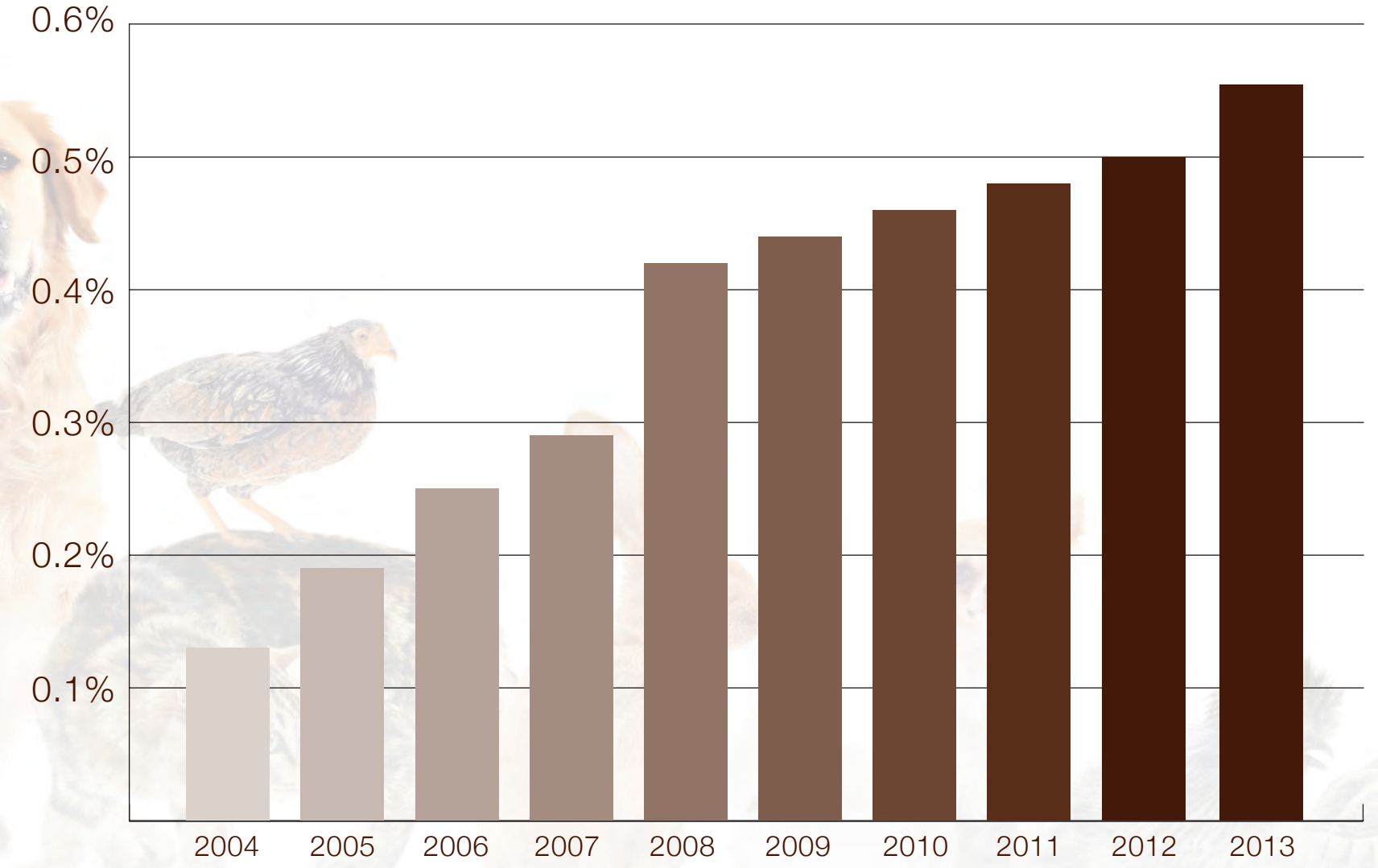
Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014 (\$mil., consumer sales).

Confusion over natural versus organic label claims continues to drive consumers away from organic. There are many “natural” contenders in the pet food marketplace that are lower in price and perceived to be as good as organic. Non-GMO has not played as much of a role in the pet food market, but it does continue to create confusion in labels even in this sector. Still, as “natural” gets taken to task, organic pet food is growing faster than the non-organic market.

Currently, organic regulations do not include specific standards for manufacturing pet food. The National Organic Program has made it a top priority to focus on completing the rule-making on organic pet food in 2014 and to outline the processes and ingredients that will be allowed if an organic operator wants to sell NOP certified pet food in the United States. A significant increase in sales of organic pet food products is anticipated once national organic standards for pet food are established.



figure 4-8  
**U.S. Organic Pet Food Penetration into Total Pet Food Market, 2004-2013**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

# household products

In 2013, household products — the fifth largest organic non-food category — experienced a small increase in growth, recording 4% growth and \$67 million in sales. This category is one of the hardest organic categories to address. It originated as products safe for use in organic production facilities, but now companies like Greenology and Econuts are producing organic certified household cleaners.

Certified organic facilities must comply with all food safety regulations, making cleaners, sanitizers and disinfectants an integral part of any certified operation. In general, the NOP regulations allow for the use of non-organic cleaners, sanitizers and disinfectants provided they do not come in contact with certified organic product. If a certified operator is using a sanitizer to clean food contact surfaces, it may use the product that best does the job provided there is an intervening event, such as a rinse, that ensures the sanitizer does not come in contact with the organic product.

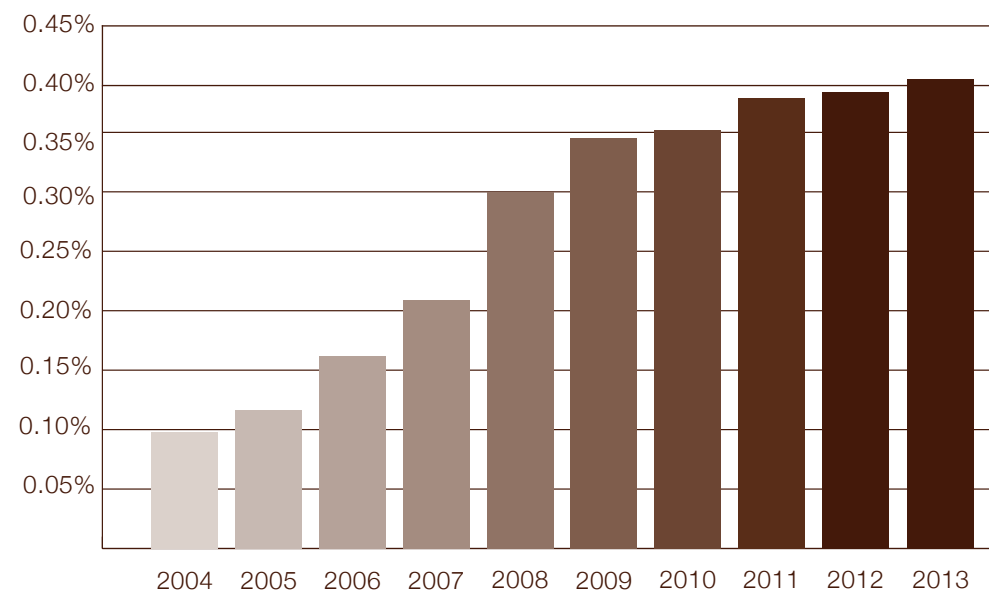
Should an operator use a non-rinse cleanser/sanitizer on a food contact surface, or a sanitizer that comes in direct contact with organic product, it must be one that is on the NOP National List of approved substances. This list is generic and very short, and includes peracetic acid, chlorine, hydrogen peroxide, ozone and phosphoric acid.

There are material review organizations such as OMRI and WSDA that review and approve cleaners and sanitizers based on their compliance with the regulations and the National List.

Outside of manufacturing facilities, consumer interest in organic cleaners is rising, but it remains a niche industry. Companies such as Greenology and Dr. Bronner's make organic products, but many companies opt to provide clean ingredients without obtaining organic certification. As organic household products slowly gain more shelf space, and environmental toxins gain more coverage in mass media outlets, sales are destined to rise.

One such toxin is triclosan, which as of December 2013, continues to be under review by FDA, but is still in products. Triclosan is a common ingredient used in cleaning products and consumer products to reduce or prevent bacterial contamination. Animal studies have shown that triclosan alters hormone regulation. It is also thought to be a potential contributor to cancer and reproductive toxicity. Several non-profits and watchdog groups, including the Environmental Working Group, have called on the Environmental Protection Agency to ban triclosan. The agency responded by accelerating its review of the chemical.

figure 4-9  
U.S. Household Products Penetration into Total Household Cleaners Market, 2004-2013



Yet, to date, triclosan is still in products. FDA has noted that it has no evidence that triclosan added to antibacterial soaps and body washes provides extra health benefits over soap and water.

This type of challenge to toxins has only helped to buoy sales of natural antibacterial solutions such as thyme oil, oregano oil and coleus oil, as well as organic household cleaners in general.

figure 4-10  
U.S. Organic Household Products vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Household Products	11	15	19	25	35	50	58	59	63	65	67
Growth (%)	22.2	33.9	29.0	31.6	40.8	42.0	15.0	2.0	7.6	2.4	4.4
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Household Products (as % Total)	2.5	2.6	2.6	2.7	3.0	3.0	3.2	3.0	2.9	2.6	2.4

Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

# flowers

In 2013, organic flowers — the smallest of the organic non-food categories — continued to see rising sales with 7% growth on \$55 million in sales. This was essentially equal to 2012's growth. Overall, the organic flower market continues to benefit from increasing consumer interest in products that are organic, green and sustainably made. However, there are several key barriers that continue to challenge faster growth of this category. These include supply challenges, confusion over labeling, and the threat of GMOs.

Supply continues to limit the market. In some key areas of the country, such as Washington and California, growers connected to the marketplace are selling through their inventory while turning down inquiries from would-be buyers. Typically, growers find they only have enough inventory to focus on one market channel. Trying to satisfy too many distribution channels can prove more costly than profitable. Grocery and natural products stores showed more interest in organic flowers than floral shops, perhaps because in grocery stores it's easier to capture the organic buyer.

Growers find they have the most success if they focus on one distribution channel. For instance, California Organic Flower Growers owner Mark Kessler says his

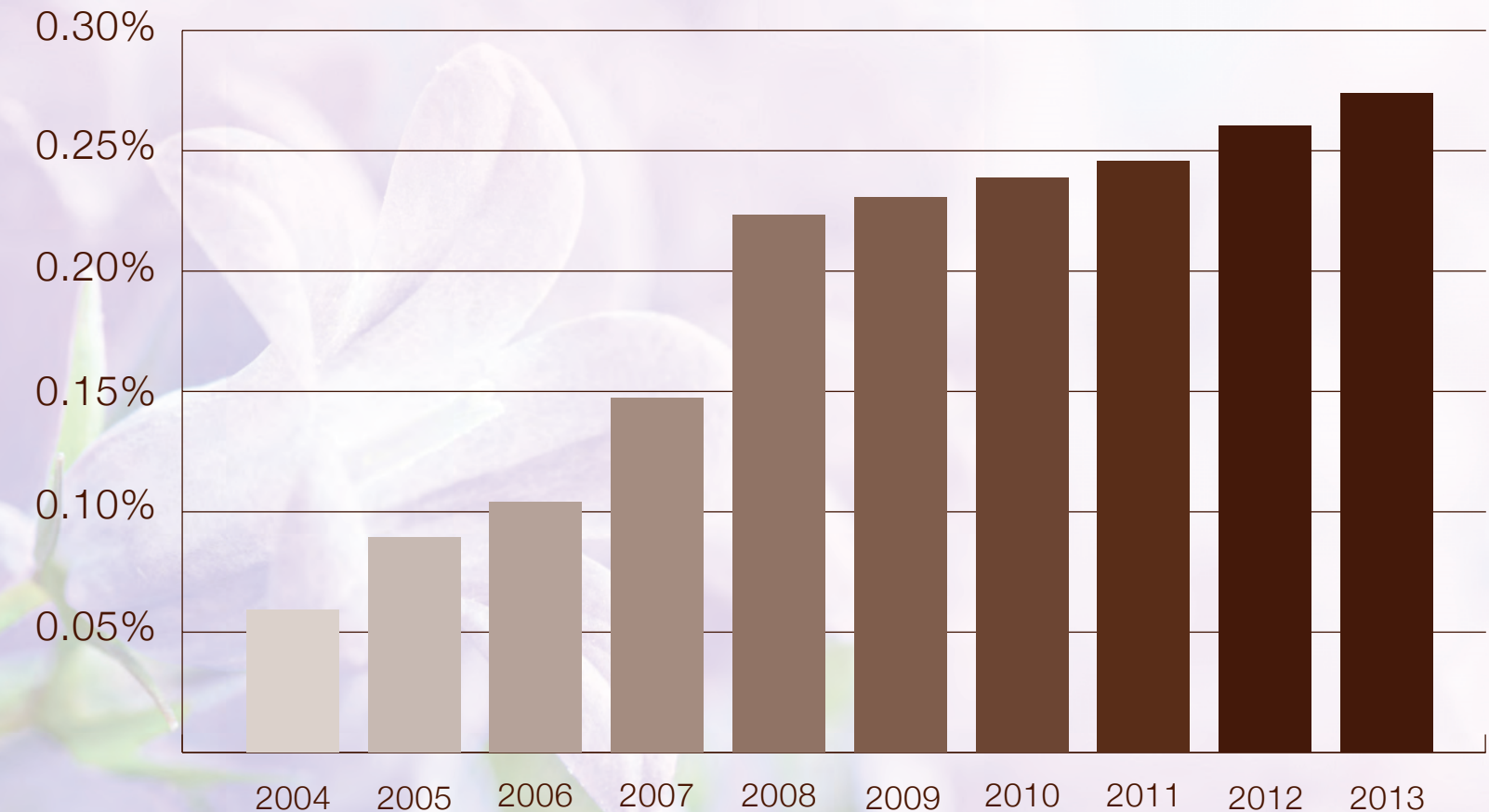
company focuses on its own retail and farmers' markets. One bonus of doing this is that he can keep the cost to the consumer down. Washington-based Floret sells specifically to grocery stores, not floral shops, and as co-owner Erin Benzakein says, "We could have grown so much more than we have. We have demand to do ten times what we're doing. There is huge demand on the grocery level." But meeting the needs of a Safeway or Costco is beyond many U.S. flower growers.

The average size farm is roughly three acres. Several growers noted that they are limited by size and looking to expand. But others said they have no intent of growing bigger even though the demand is there. Some of the grower hesitancy is due to the costs to maintain organic certification. Growers noted that the certification is not made for flower growers and is incredibly tedious for them.

Another challenge that growers face is getting seed producers to disclose what seeds are encased in. Seeds can't be treated, but even if seeds are just coated with clay, flower seed producers are more apt to treat the casing like a trade secret and won't disclose what they use. If they don't disclose what's in the casing, organic flower growers can't use that seed.

figure 4-11

## U.S. Organic Flowers Penetration into Total Flower Market, 2004-2013



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (consumer sales).

“Access to raw seed is tough, especially when you’re little,” says Benzakein, who also feels that food seed producers are more willing to disclose information and work with food companies because of the size of the organic food market. A proliferation of pseudo-labels in the marketplace has challenged sales in this sector.

There has also been an ongoing wave of “green washing” as companies position themselves to appeal to the conscious consumer without having to incur the costs of certification. “The average consumer doesn’t know the difference between Veriflora and certified sustainable and pesticide free.

There are very little standards involved,” says Kessler. Many consumers think they are purchasing NOP certified products when they see these terms and labels, but they are not actually buying organic flowers. The perception that they are buying something better makes the average consumer willing to pay an extra \$1 for a pseudo label. This makes it hard for the certified organic grower whose flowers may be double that price. “I think it really dilutes the organic label and that is a problem to rule out for food. It’s really a mess with flowers,” says Kessler.

The “Veriflora” seal is a sustainability certification for floriculture and horticulture businesses conducted by Scientific Certification Systems—a global third-party certifier

figure 4-12  
**U.S. Organic Flowers vs. Total Organic Non-Food Sales, Growth and Penetration, 2003-2013**

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Organic Personal Care	8	11	16	19	27	42	44	46	48	51	55
Growth (%)	60.0	33.3	50.0	18.8	43.5	54.0	5.0	3.5	4.6	7.2	6.8
Total Organic Non-Food	439	562	745	938	1,182	1,649	1,800	1,974	2,195	2,455	2,770
Growth (%)	20.3	28.0	32.6	25.9	26.0	39.5	9.1	9.7	11.2	11.8	12.8
Personal Care (as % Total)	1.8	1.9	2.1	2.0	2.3	2.5	2.5	2.3	2.2	2.1	2.0

Source: Organic Trade Association’s 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014 (\$mil., consumer sales).

of agricultural, environmental and sustainable product claims. But this seal does not certify that a product is grown organically. The presence of genetically modified crops also threatens the organic flower market. GMO and GE crops affect seed and fertilizer availability, a challenge when organic seed is already hard to procure, but contamination through cross-pollination is also a fear. This is more of a problem in the food sector, but is always a concern for outdoor bed flower growers.

The larger foreign flower growers out of Colombia and Ecuador are more apt to service the larger demand for organic flowers. Many of the foreign countries that grow flowers have historically been some of the worst offenders in using large amounts of toxic pesticides. If more domestic organic farmers can figure out how to truly marry the expertise of flower growing with organic practices, it would provide another revenue stream and the opportunity for crop diversification.





organic labeling & supply issues





U.S. organic standards allow four different labeling options based on the percentage of organic ingredients in a product and the processing practices a company uses. These categories determine how a company can use the word “organic” on its packaging.

**Category 1:** 100 Percent Organic. Products that have been produced using exclusively organic methods, containing only organic ingredients (excluding water and salt) are allowed to carry a label declaring “100 percent organic.”

**Category 2:** Organic. Products that contain at least 95% organic ingredients (by weight, excluding water & salt) may bear the USDA label. The remaining contents can only be natural or synthetic ingredients approved by the National Organic Standards Board. These ingredients must not be available in an organic form.

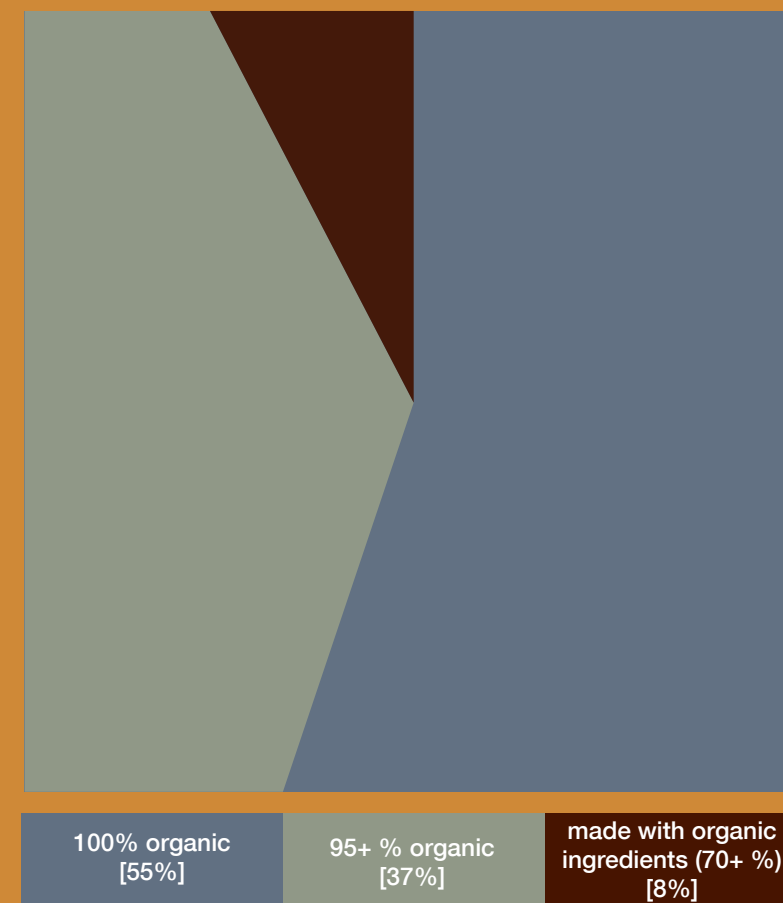
To assist consumers, USDA has designed a USDA Organic seal that may be used only on products labeled as “100 percent organic” or “organic.”

**Category 3:** Made with organic. Products with 70% to 94% organic ingredients may display “Made with organic [with up to three specific organic ingredients of food groups listed]” on the front panel. All three of these categories prohibit the inclusion of any ingredients produced using genetic engineering, irradiation or sewage sludge.

**Category 4:** Ingredient Panel. Products with less than 70% organic ingredients can only list the organic items on the ingredient panel. Companies cannot mention the word “organic” on the front panel.

# organic content

figure 5-1  
Organic Content of U.S. Organic Products



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

In 2013, organic companies surveyed continued to increase their use of organic ingredients. On average, 55% of survey respondents' sales are from 100% organic products —the same percent as in 2012. However, on average, 37% of reported sales were in the 95%+ organic category, an increase from 21% in 2012. Only eight percent of organic certified sales fell into the 70%+ organic category, versus the 24% average reported in 2012. Forty-two percent of respondents indicated that all of their organic products were 100% organic.

Overall, these numbers continue to represent a notable shift from 2005, when respondents said that only 32% of their organic products were 100% organic. Yet, the current percentage of sales falling into the 100% organic category is still down from the 66% reported in 2010 and 63% in 2009.

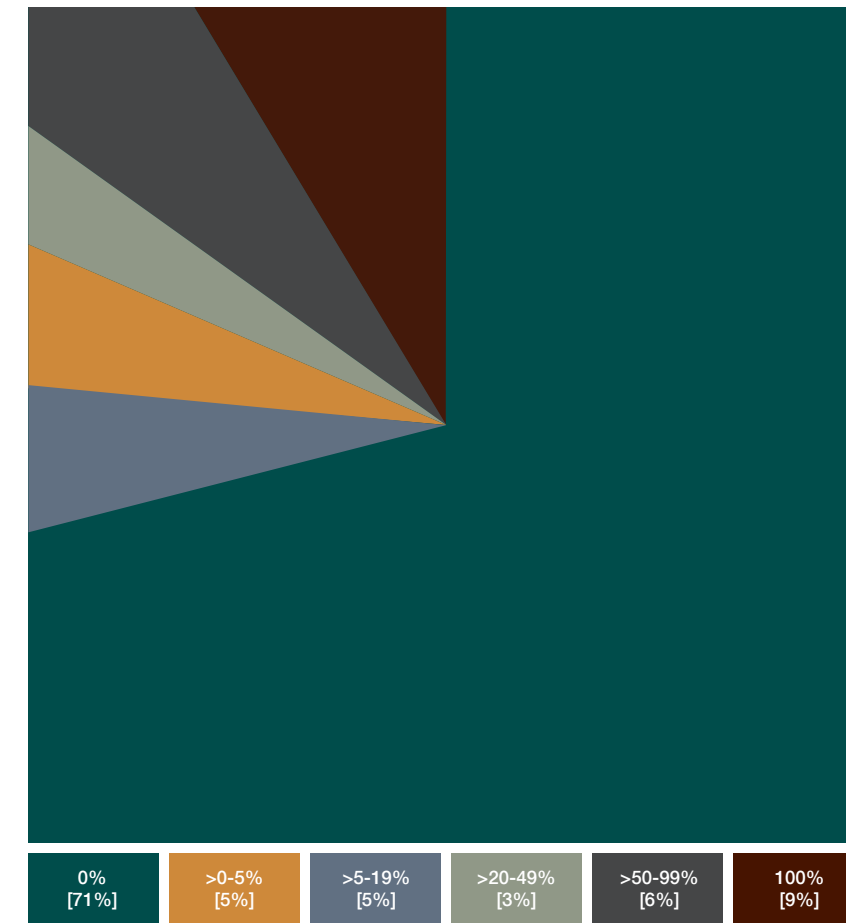
As the organic industry's offerings have become more diverse, using a wider variety of ingredients, supply issues have become a regular challenge for companies. As one industry expert said, “There is always some organic ingredient that is hard to get.” This may be a reason for companies to focus on 95% organic instead of 100%. The Whole Foods Market personal care policy, which required brands making organic claims to seek USDA Organic or NSF/ANSI 305 certification, went into effect in September 2012. This is likely another reason why the number of companies seeking 95%+ organic content has increased.



If manufacturers are going to go organic, they often create products with as much organic content as possible.



figure 5-2  
**Percentage of Total Sales from Products Containing More than 0% but Less than 70% Organic Ingredients**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

The majority (71%) of 2013 survey respondents did not generate any sales from products containing 0% to 70% organic ingredients, which is down from the 85% who fell into this category in 2012. Companies reporting large sales in this category were generally producers of non-traditional organic inputs such as fertilizer or raw materials.

Packaging rules force companies with products that include less than 70% organic content to advertise their use of organic on ingredient labels rather than the front panel of their product. If manufacturers are going to go organic, they often create products with as much organic content as possible. In general, manufacturers are not interested in spending a premium on organic ingredients for products that might otherwise be considered conventional, or on products in which the organic content would not be readily recognized by the consumer.

# usda organic seal



The percent of surveyed companies displaying the USDA Organic seal on their products showed a noticeable increase in 2013, with 76% of respondents saying they display the seal, versus the 67% reported in 2012 and 65% in 2010 and 2011. In keeping with previous years, the higher the sales volume a company has, the more likely it is that the company will display the seal. In 2013, numbers to this effect increased again, with 93% of companies with sales over \$5 million stating they use the seal on products. This is up from 88% in 2012 and 79% in 2011.

The number of smaller companies using the seal was also up significantly in 2013. Sixty-five percent of companies under \$1 million in sales that completed the survey reported they display the seal. This number is significant compared to the 42% recorded in 2012 and 53% in 2011. The number of companies with sales between \$1 million and \$5 million that say they display the seal came in at 64%, just up from 2012's 62%.

The overall uptick in the number of companies using the seal could be due to the increased number of personal care companies seeking the organic label following the Whole Foods Market ruling, which required brands making organic claims to seek USDA Organic or NSF/ANSI 305 certification.

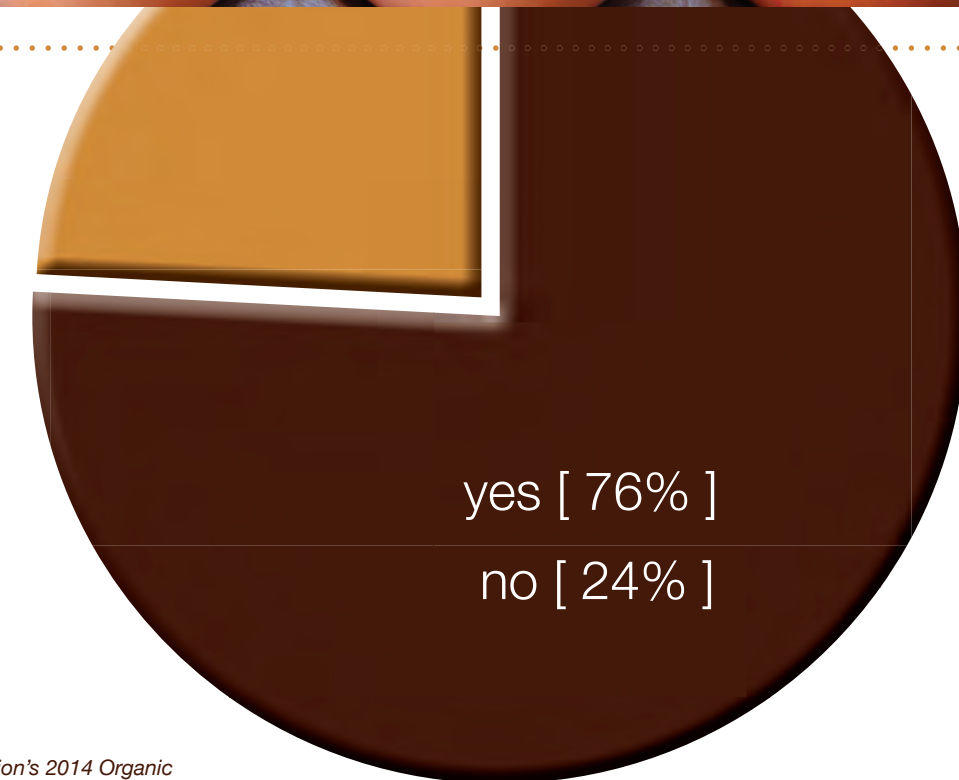
Likewise, as the industry growth rate continues to rise, companies are producing more new products. The SKUs of organic non-food categories such as pet food and supplements have notably increased.



figure 5-3

## Do you display the USDA Organic seal on any of your products?

Company Organic Sales	% Displaying USDA Organic Seal
Under \$1M	65%
\$1M – \$5M	64%
Over \$5M	93%
<b>Total</b>	<b>76%</b>



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

# inventory and sales.....



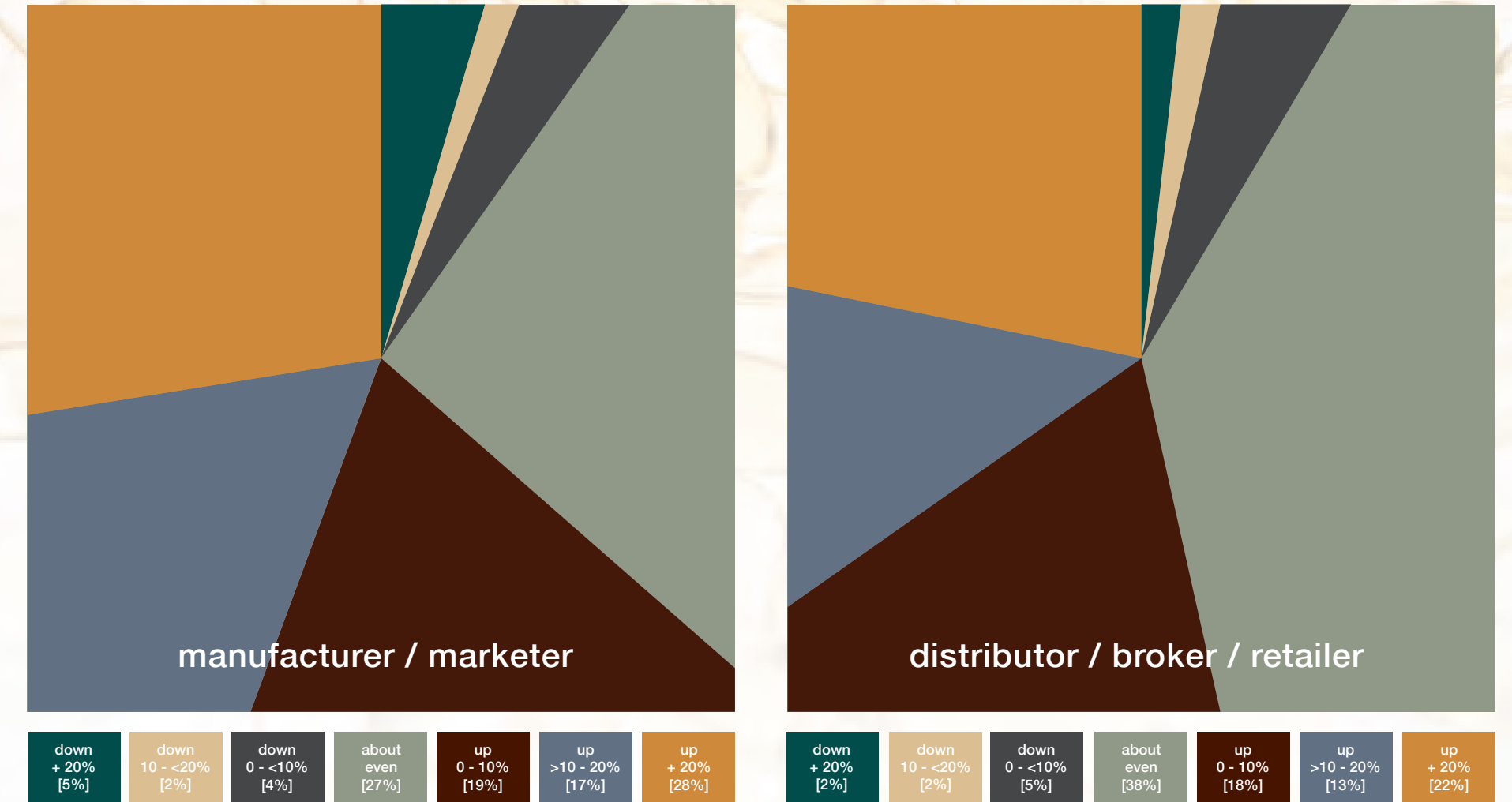
## Inventory levels in 2013 vs. 2012

Inventory expansion at organic companies stayed on par with the growth reported in 2012, with 63% of manufacturers and marketers increasing inventory in 2013. In 2013, 28% actually reported inventory increases of more than 20%, up from 18% in 2012. Growth in inventory is well up from the 55% of companies reporting growth in 2011. These numbers continue to be in contrast to the downturn of 2009, when only 36% of manufacturers and marketers saw an increase in inventory.

Compared to manufacturers and marketers, distributors, brokers and retailers noted a much smaller increase in inventory levels in 2013 versus 2012. In 2013, 53% stated they had an increase in inventory, down from the 72% noted in 2012. Many (38%) distributors, brokers and retailers said that inventory stayed even in 2013, while only a couple reported declines.

figure 5-4

## How did your inventory levels change in 2013 vs. 2012?



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014.

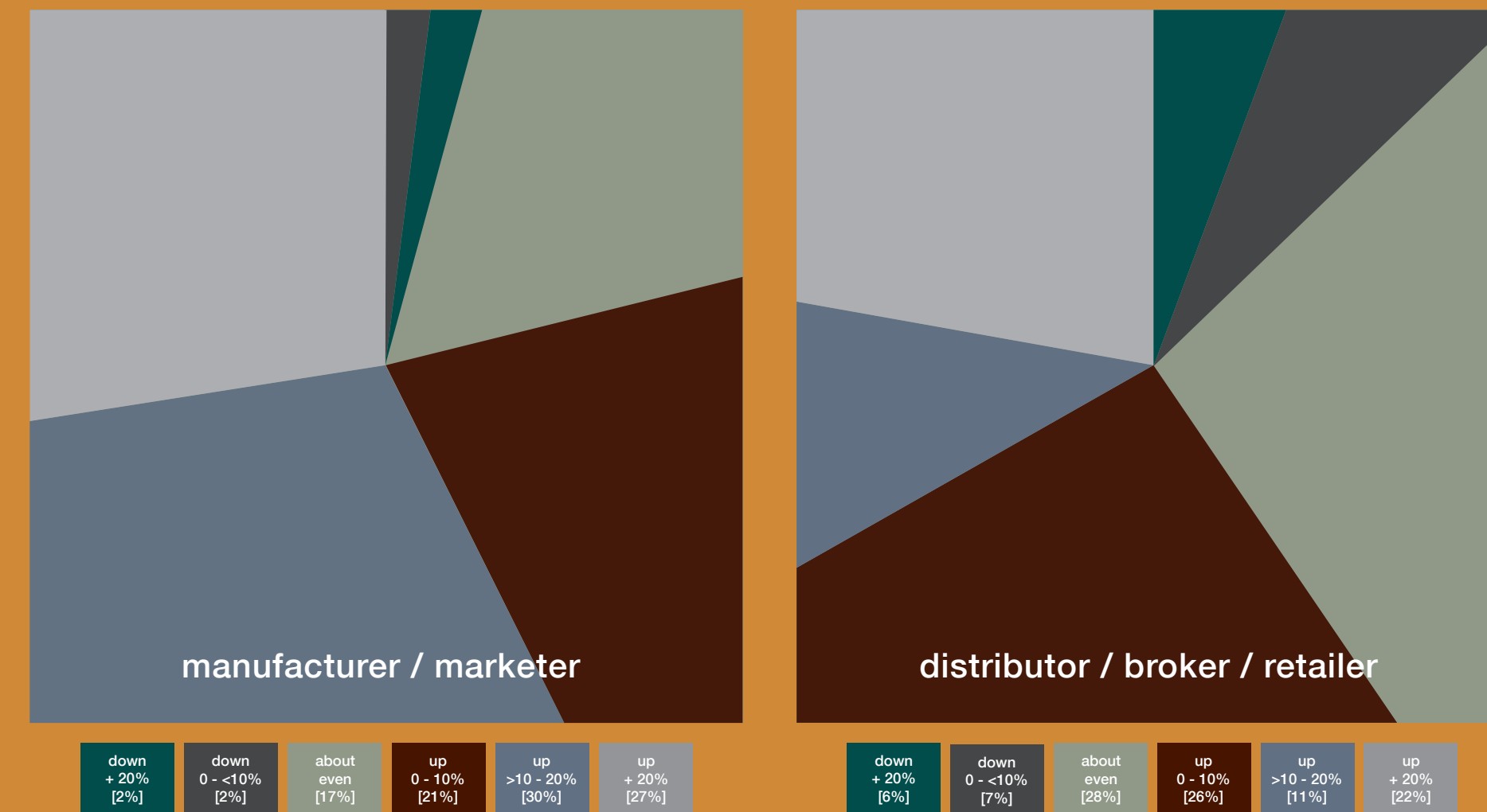


## Forecast Inventory for 2014 vs. 2013

For this year, 79% of surveyed manufacturers and marketers expect to increase inventory levels while few are expecting a decrease. The distributor/broker/retailer group is more likely than manufacturers/marketers to expect inventory to remain at the same level as 2014 — 28% versus 17%, respectively. Over the last few years, inventory seems to have been buoyed by a rebounding economy, increased consumer demand and even non-food companies, such as personal care, turning to organic. Inventories continue to increase, but as the organic industry growth rate settles into a more consistent pattern, inventories may stabilize to remain even in certain categories.

figure 5-5

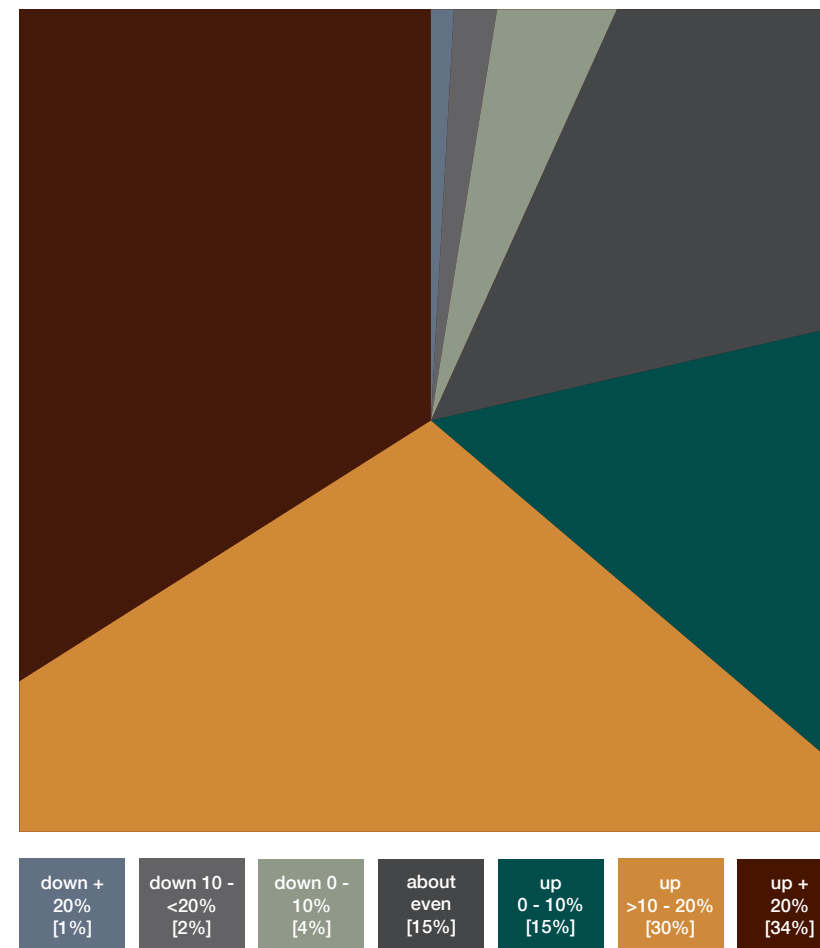
Do you foresee any changes in your inventory levels in 2014 vs. 2013?



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.



figure 5-6  
**Manufacturer/Marketer: How did order levels from distributors and direct-order retailers change in 2013 vs. 2012?**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 - 4/5/2014.

## How did order levels from distributors and direct-order retailers change in 2013 vs. 2012?

In 2013, 79% of manufacturers and marketers reported that orders from distributors and direct-order retailers were up, essentially the same percentage that reported improvement last year. This is up from the 64% reporting growth in 2011 and 57% recorded in 2010. In keeping with 2012, only 7% reported decreased order levels from distributors and direct-order retailers — again an improvement over the 10% reported in 2011 and 19% reported in 2010.

# raw materials

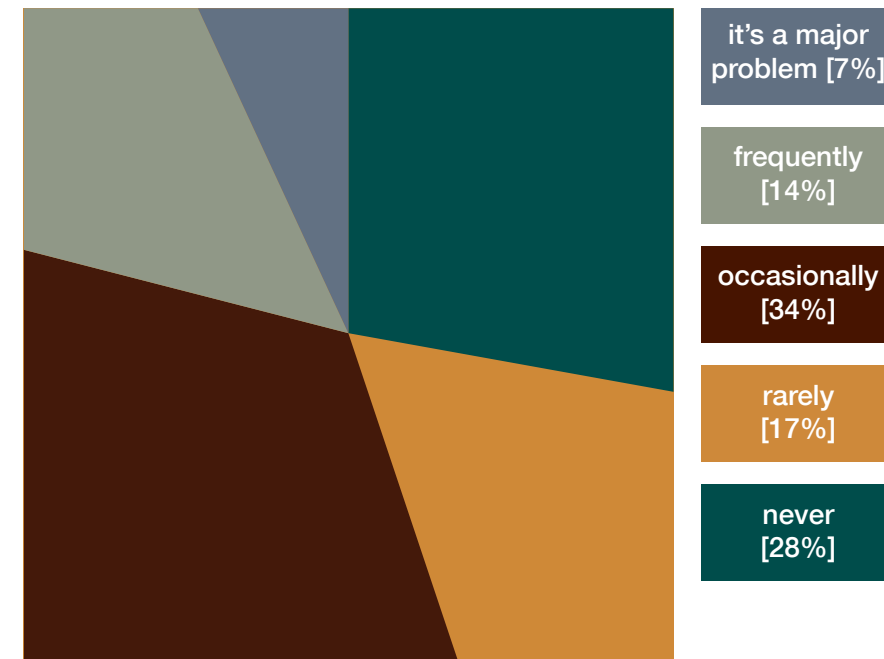
## Did a lack of a dependable supply of organic raw materials in 2013 limit your company's product innovation or sales of organic products?

In 2013, the number of respondents who reported having difficulty obtaining raw materials stayed on par with 2012 and 2011. Fifty-four percent of respondents reported at least occasional difficulties generating more sales due to an unreliable supply of organic raw materials. This figure has remained steady for the last few years, and was at a high in 2010 when 61% reported some level of supply challenges.

The majority of 2013's respondents reporting difficulties fell into the "occasionally" (34%) category, while 14% percent said they "frequently" are challenged to find materials (slightly up from the 12% reported in 2012). In keeping with 2012, 7% said a dependable supply is "a major problem" that significantly impacted their operations. Another 17% reported that they rarely have problems finding a dependable supply of organic raw materials, and 28% said they never have a problem.

Although supply issues continue to arise, especially as demand increases, the 2013 findings are an encouraging sign that supply chain issues are not only resolving, they are evolving to meet the new demands being put on organic.

**figure 5-7**  
**Did a lack of a dependable supply of organic raw materials in 2013 limit your company's product innovation or sales of organic products?**



Source: Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.

## Which organic raw material supplies need to be more reliable?

The 2014 survey respondents listed more than 120 different raw materials that they had difficulty obtaining, compared to roughly 100 specific items in 2012. As such, there was little consensus on explicit products that were difficult to obtain. Some of those mentioned by several people included beans, corn, soy, seeds, and coconut. Looking toward future product development, quinoa was the ingredient most often mentioned as a supply concern.

figure 5-8  
**How has the U.S/ Canadian Organic equivalency agreement signed in 2009 affected your export sales to Canada?**



declined [4%]    even [26%]    increased [25%]

do not export to Canada [46%]

*Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.*

figure 5-9  
**How has the U.S/ European Organic equivalency agreement signed in 2012 affected your export sales to Europe?**



even [10%]    increased [17%]

do not export to Europe [73%]

*Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.*

figure 5-10  
**How do you expect the U.S./Japan Organic equivalency agreement signed in 2013 to affect your export sales to Japan?**



even [6%]    increased [20%]

do not export to Japan [75%]

*Organic Trade Association's 2014 Organic Industry Survey conducted 1/27/2014 – 4/5/2014.*



## Equivalency Agreements & Global Trends

The first organic equivalency agreement went into effect in 2009 between Canada and the U.S. and has helped pave the way to further agreements and increased trade.

On February 15, 2012, the US-EU Equivalency Agreement went into effect, forging a trade deal between the world's two largest organic markets. Many manufacturers noted that they do business in Europe and they take advantage of the European equivalency agreement. Several noted that this agreement supports business, stating that Canada's equivalency agreement is not as user friendly. Similarly, the U.S. inked its equivalency agreement with Japan in the fall of 2013.

While Canada is the only country to which the majority of our survey respondents export products, all agreements are viewed fairly positively. Of those that are exporting to these

regions already, most are expecting exports to increase as a result of the agreements.

Many companies noted a reluctance to do business with China, stating they do not trust that China's organic standards are as stringent as in other countries. Yet, with supply shortages, companies are looking to foreign providers for ingredients. Due to the popularity of superfoods and ancient grains, companies continue to forge partnerships with farmers in South America, India and Africa. Likewise, some companies that have always produced citrus in the U.S. are now having to look south of the border for citrus to help maintain the fresh juice market. Foreign markets are relied upon heavily for the organic non-food markets. In particular, supplement companies source globally. Moreover, the United States does not grow enough organic cotton or organic flowers to meet demand.



# supply & demand

U.S. consumers' appetite for organic products has grown at a steady clip, averaging nearly 14% each year for the past decade. The market for U.S. organic food has blossomed from \$6 billion when the final rules defining organic went into effect in 2000, to more than \$35 billion in 2013. But while the outlook is strong on the demand side, the supply side has its own distinct set of challenges.

According to USDA, acreage devoted to organic agriculture comprises less than 1% of total U.S. cropland, even as organic now represents four percent of total food sales. Consumer demand is clearly outpacing growth in the domestic supply chain. Potentially exacerbating this challenge is the recent announcement of major private label programs and exclusive offerings from Walmart and Target, the nation's number one and three retailers, respectively.

Several factors keep organic acreage from coming online in a timely manner to fill the gaps in the supply chain. For starters, land requires three years under organic management in order to produce certified organic crops. During that period, farmers invest the increased labor and capital to farm organically, but generally must sell their crops at conventional prices.

Cultural factors are often at work, particularly in rural

areas where growers risk raising eyebrows of family, neighbors, and even bankers and insurers for straying from conventional practices.

Fortunately, more help is becoming available to assist farmers in making the transition to organic. OTA has convened its Farmers' Advisory Council (FAC) to formalize and improve communication between organic producers and the trade association. The FAC held its first in-person summit at OTA's 2014 Policy Conference in Washington, D.C. Also at the Conference, U.S. Agriculture Secretary Tom Vilsack discussed the launch of a new pilot program for insuring crop losses on diversified and organic farms. The new program, called Whole-Farm Revenue Protection, was authorized by the 2014 Farm Bill and will provide farmers flexible coverage options for specialty crops, organic production, and diversified cropping systems. USDA offers certification cost share, which helps to offset the expense of organic certification for smaller growers.

Additionally, CCOF and UNFI foundation have combined forces to launch a series of grants that support students in choosing careers in organic. Finally, institutions that focus on organic research – including The Organic Center and Organic Farming Research Foundation continue to sponsor and publish research that empower current – and future – organic farmers.



## Organic Trade Association's 2014 Organic Industry Survey

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