

2017

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# ORGANIC INDUSTRY SURVEY

Report prepared September 2017 for:



ITALIAN TRADE AGENCY  
ICE - Italian Trade Commission  
Trade Promotion Section of the Consulate General of Italy

# U.S. Organic Industry Overview

In 2016, the organic market held steady in growth compared to the downward pressure on pricing that continued to hit conventional markets.

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The organic industry maintained steady growth in 2016, with a rate of 8.4% compared to the almost stagnant 0.7% growth rate for overall food and non-food markets. Organic's growth translated to \$47.0 billion in sales, an increase of \$3.7 billion in sales over 2015. Specifically, in 2016 the organic food market grew at a rate of 8.4% compared to the 0.6% growth rate of overall food, while organic non-food grew at a rate of 8.8% compared to an overall non-food growth rate of 0.8%.

This growth continued to translate to jobs across the supply chain in 2016. In 2016, organic farms, suppliers and handlers created jobs across the country by opening, expanding and retooling handling, manufacturing and processing facilities. Over 60% of organic businesses with more than five employees completing the 2017 Organic Trade Association survey reported an increase of full-time employment during 2016, and forecast continued full-time employment growth in 2017. More than 65% of organic farms sold product in wholesale markets, creating a distinct value chain in the greater food economy. From processors to packers, distributors to marketing cooperatives, the organic industry employed Americans across the entire supply chain in 2016.

"The organic industry continues to be a real bright spot in the food and agricultural economy both at the farm-gate and the check-out counter," says OTA's Chief Executive Officer Laura Batcha. "Organic offers in many cases the choice for growth and more viable, stable prices for farmers and food manufacturers," added Batcha.

At the retail level, organic reached greater penetration than ever before beyond traditional natural and specialty retailers. Conventional grocers and mass-market stores have successfully taken organic mainstream, while new channel opportunities continued to emerge through convenience and drug stores, foodservice and the internet.

As the consumer desire for convenience, fresh and prepared meals remains strong, grocery stores are having to rethink their in-store experience. The strong growth of online meal delivery companies (such as Green Chef and Blue Apron), has also pushed this rethinking. "It's about the customer experience in addition to the product that sells," says Conrad Skelton of Lucky's Market "The only way the four-wall grocery concept survives is because of the experience in the perishable department. You can never order an experience online to get shipped to your house."

While the ultimate example of fresh is the \$15.6 billion fruits and vegetables category that accounted for 36.3% of sales in the entire organic food industry, convenience translated to steady growth for packaged and prepared foods, where frozen prepared foods is the largest category.

Consumer desire for fresh also meant strong sales of organic beverages, the fourth largest food category. Spurred by continued strong growth in fresh juices and drinks—such as cold-pressed juices and kombucha, the organic beverage category had the strongest growth of the top four food categories.

Yet, in 2016, the largest growth was recorded by the two smallest categories—condiments and meat, poultry and fish. Within condiments, dips and spices both hit home runs, recording the highest growth rates within the food categories. And, for the first time in many years, organic poultry moved beyond supply shortages, growing at a rate of 23.0% in 2016 compared to 9.2% growth recorded in 2015.

Although oversupply was noted in dairy, produce and eggs, the pendulum was already beginning to swing the other way for produce at the time of writing this report. As a case in point, egg supply is expected to stabilize during the latter half of 2017. Industry experts noted that the change in the organic marketplace from 2015 to 2016 from undersupply to oversupply simply exemplified the ebb and flow of supply and demand as the industry grows.

"The biggest challenge is how to grow at a rate that allows for farmers to be paid fairly for the extra work they

do in organic that they deserve for farming organically, while also assuring stability of supply, shortage versus glut, spikes in prices versus drops in prices," says Cliff Bar's Matt Dillon.

Sales of non-food organic products increased by almost 9 percent to \$3.9 billion, as consumers continue to transfer the awareness they have developed around organic food to other products they ingest, put on their skin or use in their homes. Traceability and transparency are the driving trends in these markets as consumers want to know what's in their supplements and personal care products, and how their clothes are made. While organic fiber and organic supplements remain the two largest non-food categories, the much smaller household products sector had the strongest growth of non-food products at 11.3% in 2016.

In the face of a regulatory gap for organic non-food, the marketplace in large part has stepped forward to fill the void. OTA has issued guidance to its members in areas such as pet food, personal care and organic fiber, where gaps exist. In organic fiber, private standards such as the Global Organic Textile Standard (GOTS) and the Textile Exchange's Organic Content Standard (OCS) and in personal care NSF/ANSI 305 certification have provided avenues for non-agricultural products made with organic ingredients to achieve certification throughout the supply and processing chains. High integrity retailers committed to organic have also put their own standards in place, which is having a palpable effect in the marketplace.

FIGURE 1.4. U.S. Organic Food vs. Total Food Sales, Growth &amp; Penetration, 2007–2016

CATEGORY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Organic Food	18,188	21,571	22,497	24,123	26,336	29,023	32,335	35,952	39,754	43,094
Growth (%)	16.4%	18.6%	4.3%	7.2%	9.2%	10.2%	11.4%	11.2%	10.6%	8.4%
Total Food	628,219	659,012	669,556	677,354	713,985	740,450	760,486	787,575	807,998	812,907
Growth (%)	5.0%	4.9%	1.6%	1.2%	5.4%	3.7%	2.7%	3.6%	2.6%	0.6%
<b>Organic (as % Total)</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>	<b>4.6%</b>	<b>4.9%</b>	<b>5.3%</b>

FIGURE 1.5. U.S. Organic Non-Food vs. Total Non-Food Sales, Growth &amp; Penetration, 2007–2016

CATEGORY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Organic Non-Food	1,182	1,649	1,800	1,974	2,195	2,455	2,770	3,152	3,555	3,866
Growth (%)	26.0%	39.5%	9.1%	9.7%	11.2%	11.8%	12.8%	13.8%	12.8%	8.8%
Total Non-Food	356,801	370,047	365,486	378,698	397,664	419,453	433,890	443,846	456,130	459,651
Growth (%)	3.6%	3.7%	-1.2%	3.6%	5.0%	5.5%	3.4%	2.3%	2.8%	0.8%
<b>Organic (as % Total)</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>	<b>0.71%</b>	<b>0.78%</b>	<b>0.84%</b>

SOURCE: ORGANIC TRADE ASSOCIATION'S 2017 ORGANIC INDUSTRY SURVEY CONDUCTED 2/2/2017–3/31/2017 (SMIL, CONSUMER SALES).

# Organic Household Penetration

## Feature Article

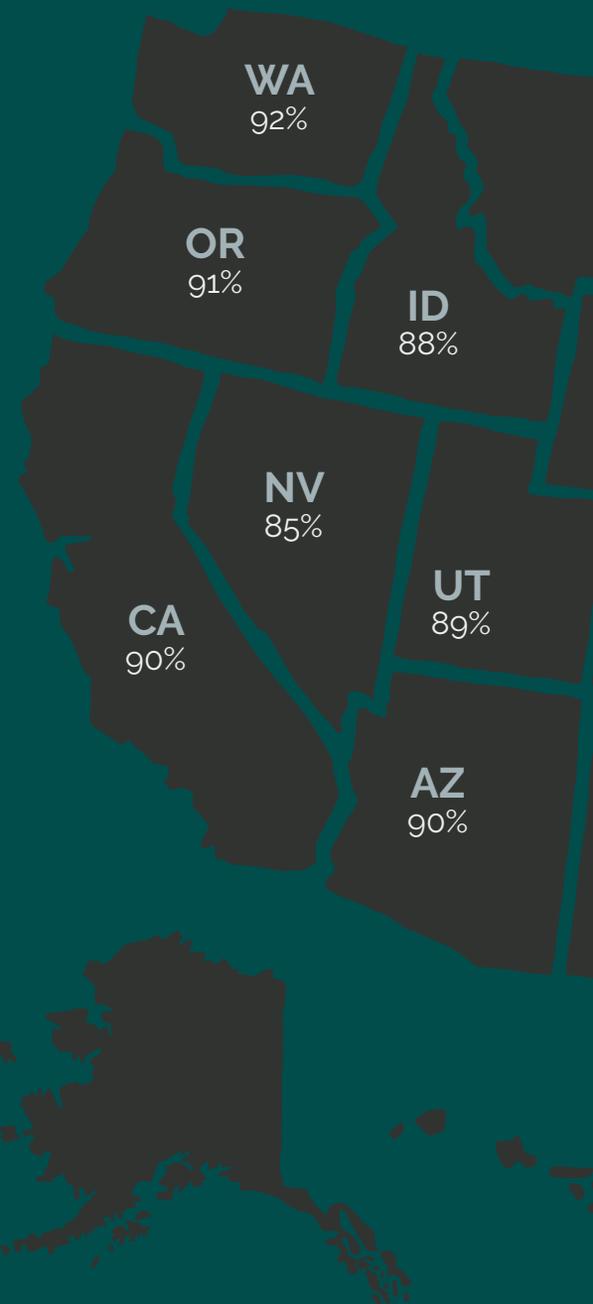
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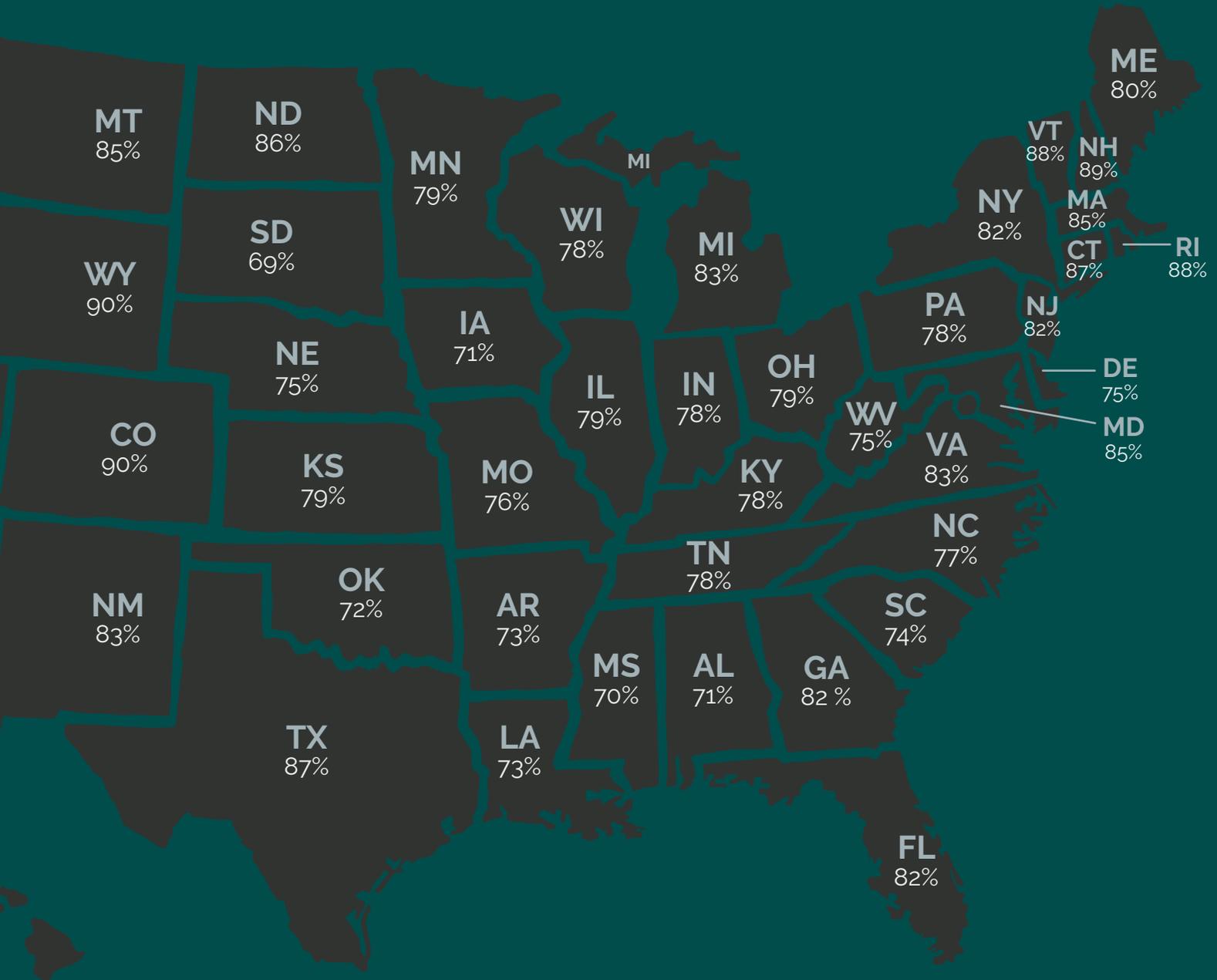
Over the last decade, the organic market has grown from being a produce-centric industry wherein organic products could really only be found in natural and specialty retailers in select areas, to one in which organic products are widely available across grocery aisles from produce to personal care and across the country in all channels from grocery and convenience stores to major online retailers such as Amazon.

In the first comprehensive look at organic purchases by households on a state-by-state level, a nationally representative Nielsen study of 100,000 households conducted in 2015 and 2016 showed that more households than ever bought organic food on a regular basis. The national average climbed 3.4 percent in 2015 to 82.3 percent. The state showing

the biggest jump in households purchasing organic was North Dakota, where 85.6 percent of households participating in the Nielsen study reported buying organic in 2016, up a robust 14.2 percent from 2015.

Only three states—Alabama, Minnesota and New Mexico—reported a downturn in penetration, but even these shifts were slight. And while Mississippi reported the lowest household penetration of 70.1 percent in 2016, this was up from 67.5 in 2015. North Dakota, Rhode Island, South Dakota, Wisconsin and Wyoming reported the highest growth in penetration from 2015 to 2016, while perhaps not surprisingly, Washington, Colorado and California recorded the highest overall percentages in the nineties. Penetration numbers are not available for Hawaii and Alaska.





# Methodology & Acknowledgements

The Organic Trade Association's (OTA's) 2017 Organic Industry Survey was conducted and produced on behalf of OTA by *Nutrition Business Journal* (NBJ).

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## **Data Compilation & Industry Model**

The organic industry model was created using a variety of data sources that reflect sales data for the 2016 calendar year. Inputs include, but are not limited to point-of-sale data, expert interviews, annual report data and survey data collected between February 2, 2017, through March 31, 2017.

Numerous data sources were compiled to create as complete a picture as possible of the organic industry, an industry which consists largely of private companies. The goal when compiling data for this annual report was to have as much information on wholesale sales figures, product breakdowns into the top level organic categories (beverages, condiments, supplements, etc.), sales channel breakdowns (natural food stores, grocery, farmers' markets, etc.), exports, employment and other facts in order to accurately report on industry growth and trends.

While the industry survey of manufacturers is an important part of the industry quantification effort, con-

siderable effort was also placed in compiling information from other sources to ensure the robustness of reported industry statistics. 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, Natural Foods Merchandiser's annual industry survey, public company financial filings, industry expert interviews and media reports.

## **Survey 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 surveys to facilitate quantitative assessment and comparison and to assess qualitative issues impacting the organic industry. NBJ distributed the survey and collected



## Assessments were performed on all levels of the organic supply chain from farms to processors and retailers to consumers.

the responses through an online survey network. Further e-mails and telephone calls were used to improve the response rate and clarify survey responses. The survey was conducted from February 2, 2017, through March 31, 2017. More than 300 companies completed a significant portion of the in-depth survey.

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 conjunction with other data sources. 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 organic industry. 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 40 to 50 manufacturers and private label brands to maximize the "revenue capture" of the survey database and industry model.

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 more than 9,500 organic businesses across 50 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 *organic* with a unifying voice that serves and engages its diverse members from farm to marketplace.

#### **NUTRITION BUSINESS JOURNAL**

*Nutrition Business Journal* (NBJ) is a research, publishing and consulting company serving the nutrition, natural products and alternative health care industries.

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