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Opportunities and Challenges for Organic from the Retailing Perspective

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This is an unusual place for me to be speaking. I spend a lot of time talking to growers, shippers, and processors about the opportunities they have to expand their markets and improve some of their returns by planting and cultivating organically. Today, I want to speak about the opportunities and challenges we have in the market. I will cover sales and consumption trends, supply and availability of organic items, opportunities for organic produce, challenges to the industry, and the taste "revolution."

As retailers, we have a good-guy, bad-guy image. Coming from the natural and organic channel of retailing, I hope that we are the guys in the white hats most of the time. I grew up on a family farm in northern Colorado on the Platte River. I remember my father and uncle worrying each year about what they were going to grow on their farm. What to grow has always been a big challenge for growers. I believe, as a retailer, we have a responsibility to give them a market.

First, I want to talk a bit about Wild Oats. Wild Oats has been around since 1987. We have 115 stores across the country, scattered all around, but none in Washington, DC. We really do not have any saturation except in Colorado and California. That is not a great thing from the distribution standpoint. We are starting to build larger stores now. We have a lot of stores around that are 10,000 to 12,000 square feet. The new prototype being built is 25,000 square feet, still about half the size of a conventional supermarket.

Wild Oats has always been a believer in a lifestyle: we sell a natural and organic lifestyle. I want to take you on a tour around the store with my powerpoint slides. One of the first places a consumer walks into in one of our stores is the fresh produce department. We try to carry a wide variety of product in the produce section, about 325 fresh items and many varieties. Of those, 70% are organic. I have been asked many times why that number isn't higher. We used to have a higher percentage of organic — around 80 to 85% — but we also had gaps in supply at the time. We would have an item for a while, and then we wouldn't. It is very hard for consumers to get used to their buying habits when you have an item in and out all of the time. During the summer, some of our stores run up to 90% with the use of local growers.

We decided to go with the presentation method of bulk display at Wild Oats. We frequently get asked why we don't do more packaging of produce like some of our competitors. We found, however, that every time we try to sell more packaged produce, customers have a number of concerns. One is economic, and the other is ecological in that they don't like the wrapped product and the resources that go into things like plastic. They also want to make their own selection. They want the farmers' market appeal where they can grab what they want.

Organic floral was mentioned earlier. We do sell some organic items in the floral department. We also sell reduced pesticide items from the United

States, and from overseas from people working to improve the overall health and welfare of those harvesting the items, especially in Columbia and Central America. We also work with small growers who are local and organic.

In the seafood section, we are now using organically-farmed salmon. We also buy shellfish produced without additives or phosphates, methods prevalent in the conventional sector. Also, very important to the seafood people are the line- and naturally-caught ocean and salmon fish that we buy. In the meat section, this is where the conventional stores can't or don't have the where-with-all to compete. They no longer have the labor to service the meat counter, which goes back to what we said in produce in that people want to select what they want to buy. The meat section has both meat products, like chicken and beef, and prepared products such as stuffed pork chops. The products are "natural," some are organic, but the largest sales are with meat that has been produced without artificial hormones or antibiotics.

The dairy section is the biggest area in which organic is making inroads in stores because it is so easy to integrate. For instance, these containers are no different than ones that might have the brand name Lucerne on them. You can find Horizon in conventional stores now. But what you won't find there are private-label organic. Whole Foods, Wild Oats, and a lot of the natural and organic channel retailers are going to private labels in dairy to distinguish themselves, as well as other products to supplement those: juices and yogurts, for instance. The dairy section in Wild Oats is probably one of the most conventional looking parts of the store.

The bulk section of the store is something that the conventional stores have abandoned. For Wild Oats, however, it is a very big deal because the consumer we service and the new consumers coming into our stores enjoy shopping for the spices and bulk nuts and everything else that is in the bulk section from the grains, to the oats and flours. Bulk is disappearing from almost all conventional stores, but is very popular in our stores.

Cheese is a huge department as well at Wild Oats. We have organic and "natural" cheeses and also artisan cheeses from the across the globe to appeal not only the organic customer, but to the more "foodie" types. We also have an olive bar in this section with some organic olives. The bakery section is another section that uses organic products (organic flour) and focuses on Old World recipes.

One of the fastest growing areas in all stores is food service. Our food service area is a little different than most. You are going to see a large selection of salads made from organic ingredients, from the chicken salad to the organic barbeque tempeh salad. Again, sometimes it is "natural" chicken, and sometimes it is organic. Other parts of the food service section include organic pizzas, sushi bar, dessert bar, and the salad bar. A lot of conventional stores are abandoning salad bars but it is a huge thing for us. One of the primary contacts we have with the occasional consumer is the organic salad bar.

The other part of the natural and organic grocer is the "holistic health" section. This has been called a number of things over the years but it is the section with vitamins and supplements.

Last but not least, the standard grocery place in the middle of the store. This really gives the look of conventionality to the store. However, if you walk down the chip isle, I can guarantee that you won't find Frito Lay. This area includes the frozen section, which is a lot smaller than what you are used to in the conventional sector mainly because of the variety that we carry in there.

Mentioned earlier was the issue of fair trade. This is one of the signatures of Wild Oats over the last few years. We carry fair trade coffee and tea. We also now buy, as often as we can, fair trade bananas, pineapples, and mangoes. We do have some supply issues there from time to time still.

I want to talk a bit about retail sales of organic: sales are estimated to double between 2002 ($15 billion) and 2007 (over $30 billion). This is just a tremendous amount of growth, and this amount of growth is not being seen anywhere else in the food industry except maybe with some occasional items. And I don't see any reason why it won't continue to have strong growth into the future. You look at the trends in the organic and natural retail sector versus those in the conventional sector, and we see 60% growth over the next 5 years versus 2.5 to 3% in the conventional sector.

In produce, the growth trend is very similar, but maybe a bit steeper climb. This growth is primarily facilitated by the fact that bigger companies are introducing organic items. This is also where we are seeing the growth in availability and the increase in people trying organic. Back in 1990, only 15% of people tried organic. In the last survey I saw in 2004, almost 60% tried organic at least once in the last month. The message is getting out there.

We did an "Organic Produce Availability" chart to find out the percent of supply in different months of the year in the stores so that we could show growers where some of the opportunities are, especially for those in southern areas like Arizona, Florida, and then also California. As many of us know, during the winter months we do not have enough organic production. During the summer, it is really easy to get the supply and what we do then is focus on local growers, to give that store in say Ohio that local feeling. I also show growers more specific charts on products such as green bell peppers, tomatoes, and cucumbers – three of the items in shortest supply almost all year-round. Again, there are some excellent opportunities for growers in Florida, Arizona, California, and even Texas.

Finally, I want to also talk about the challenges to the industry. These include:

1. Regulations and requirements. The county of origin labeling, which Wild Oats has already complied with, but will leave some problems out there, especially for the growers because the retailers are going to shove the identity down that low. Procedures for displaying organic are additional issues. Insurance is a big problem for the small growers; they cannot come to us without insurance, especially in terms of food safety. What we are doing is working with the Farm Bureau to put together a blanket policy for 6 to 8 growers to participate so we can use those growers.
2. Traceability. Traceability is a major issue, and one that the industry is worried about. I know the FDA wants to be able to trace the food should there be a food safety problem. That requires records on our part and on the part of the growers, and this represents an added burden.
3. Supply of product, which has been talked about, is also a concern. We need to get additional sources of supply, especially during the winter, so that we can continue the growth in organic.
4. Transportation is going to become a critical challenge. Most of the small retailers, like Wild Oats, don't own trucks. So, the issue is both the availability of trucks and the cost of fuel. The recent changes in the cost of fuel have been scary. Another component of that is that the trucking industry says in the next 6 years, half of their drivers will retire.
5. "Modified" products — GMOs — are also a challenge. We are going to have problems with this, especially in our industry as we try to make sure that consumers don't worry about modified products and organic food.

6. Consumer product and industry knowledge is also a challenge. On the retail end, because the cost of goods and of growing organic food is higher, we have a problem with sticker shock. Produce is not so bad, but meat and some of the other goods are. So, we have to look at consumer education and talk about the benefits of organic food. This is a huge challenge for us.

The last thing I want to touch on is taste. In the past, we have taught people to buy with their eyes and look at appearance. People want pretty. But, this is changing; most of the dollars that are going into regular breeding programs are for developing better tasting items. Recent studies by Food Marketing Institute on consumer preference have shown a change. Even six years ago, quality and appearance of the food were ranked higher than taste by consumers. Now, taste is the most important. Although the standard for organic is that it takes longer to mature in the field, but especially in the fruit, the taste is better than the conventional.

The key thing to remember is that with the demand for organic produce continuing, we are going to depend a lot on growers to get behind it and give us what we need to continue the growth. Because demand is going to be there. More people will continue to see they need to eat better and smarter. The kids we raise are more exposed to it and will continue the trend.