Organics Trend Overview in CPG Industry

Is the Organic Sales Explosion Over?

October 2008

nielsen

Executive Overview

Not many categories can claim tripling dollar sales over six years and continuing steady growth at rates of 13% to 33%. Organic products, however, can. Despite shrinking wallets and reduced discretionary income for many households, along with significant increases in food, gasoline, healthcare and education costs, organic sales continue to rise and are one of the fast growing market segments within the food industry.

Organic dollar sales total $4.7 billion and make up 1.3% of all department sales. Organic dollar sales are up 23% and units sales are up 20% vs. one year ago. However, the most recent twelve weeks are illustrating a slight slowdown with growths less than 20%. Latest four weeks (through 9-6-08) are showing growths of only 13% for dollar sales and 8% for unit sales, compared to growths of 23% and 33% for dollar sales two and three years ago respectively for the same timeframe. Organics continue to grow and outpace many categories. However, recent weeks are showing slower growths, possibly a start of an organics growth plateau. It will be interesting to watch future week trends as organics typically dip during December holiday season and regain momentum for New Year's resolutions.

Dry grocery, dairy and fresh produce are the leading departments with the highest organic dollar sales, making up 89% of all organic sales tracked. Nielsen LabelTrends captures organic sales of 76 categories illustrating organic presence in 61% of categories tracked. Organic share of category makes up less than 1% for most categories with organic items, illustrating significant opportunities for new item introductions. Milk and fresh produce are two leading categories for highest organic sales and organic share for both categories is above 5%.

The future for organics shows significant opportunities in many categories and consumer education will become more important as an increased clientele embraces the organic lifestyle. Experts* believe that by 2025, 68% of U.S. food manufacturers will have one or more organic products and between 13% to 27% of U.S. pantries will stock organic items and eating organics will be mainstream and available in all channels.

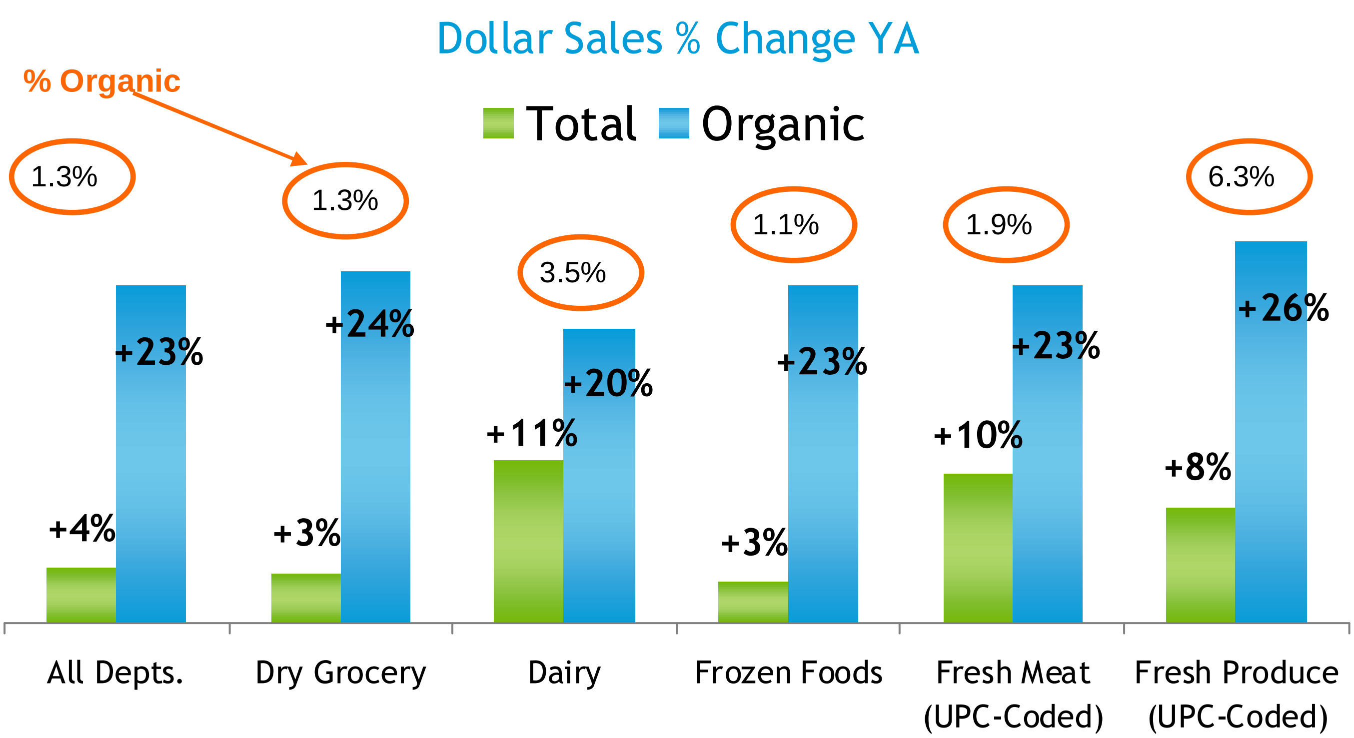
*Based on The Past, Present and Future of the Organic Industry Report by the Organic Trade Association (OTA) in conjunction with Natural Marketing Institute, Nutrition Business Journal, Organic Valley, Packaged Facts, Smucker Quality Beverages, SPINS, Stonyfield Farm, and The Hartman Group.

Organics Dollar and Unit Growth

Organic Sales Continue to Grow Despite Shrinking Wallets but at Slower Rates

Despite a struggling economy with rising commodity and gasoline pricing and declining housing values, organic products have generated continuous growth. Total organic products tracked by Nielsen generated a 23% increase in dollar sales and 20% increase in unit sales over year ago. For the past four years, organic products have been trending at dollar sales growths of 13% to 33% and organic sales have tripled since the year 2002. However, there is a sign of a recent slight slowdown as percent changes were +23% vs. year ago and +26% and +30% for two and three years ago respectively. The latest twelve weeks have been showing dollar sales growths less than 20% with the most recent 4 week at a growth of only +13% (as of 9-6-08).

Organic dollar sales totaled $4.7 billion for FDM and made up 1.3% of all department sales. The chart below illustrates percent changes for total and organic sales by department along with organic share. Although organics don't comprise a significant percent of sales for the departments, organics growth has significantly surpassed each department's growth.



Nielsen LabelTrends, FDM, 52 weeks ending 8/9/08

Department Findings for Organic Products

Dry Grocery, Dairy & Fresh Produce Are Sales Leaders for Highest Organic Dollar Departments

Dry grocery, dairy and fresh produce departments generate the highest organic sales volume and make up 89% of all organic sales tracked. Total organics are showing dollar sales growths of 23%. For comparison, alcoholic beverages surpassed the increase significantly, up 32% since one year ago. Fresh produce department leads all departments in the highest organic share at 6.3% with substantial sales of $869 million.

Food products in the organic industry make up approximately 95% of all organic sales with the remaining 5% in products such as personal care products, nutritional supplements, fiber, household cleaners, flowers, and pet food. (Source: Organic Trade Association)

Department	52 week Organic Dollar Sales	% Chg. YA	% of Dept. Organic
1. Fresh Produce (UPC-coded)	$869 Million	+26%	6.3%
2. Dairy	$1,475 Million	+20%	3.5%
3. Fresh Meat (UPC-coded)	$30 Million	+23%	1.9%
4. Dry Grocery	$1,836 Million	+24%	1.3%
5. Frozen Foods	$339 Million	+23%	1.1%
6. Deli (UPC-coded)	$28 Million	+27%	0.5%
7. Packaged Meat	$37 Million	+25%	0.4%
8. Alcoholic Beverages	$24 Million	+32%	0.1%
9. HBA	$41 Million	+27%	0.1%
TOTAL	**$4,680 Million**	**+23%**	**1.3%**

Nielsen LabelTrends, FDM, 52 weeks ending 8/9/08

Category Findings for Organic Products

Milk & Fresh Produce Are Organic Sales Leaders

Approximately 19% of U.S. adults are weekly organic users and categories that continue to be of high interest to consumers are dairy, fruits and vegetables, prepared foods, meats, breads and juices. (The Hartman Group, The Many Faces of Organic, 2008).

The list below outlines the top fifteen categories with the highest organic dollar sales. Milk and fresh produce lead the organic dollar contribution by far, making up 40% of all organic sales tracked. Canned vegetables, eggs, coffee and tea have seen the highest sales percent changes within these top categories. Categories with lower organic dollar sales but significant increases since year ago include baking mixes, pickles/olives/relishes, carbonated beverages, nuts, dairy snacks/spreads/dip, breakfast foods and ice cream. Overall 17 out of 76 categories (22%) have generated remarkable growth above 50%. Healthy gains in many categories illustrate a need and demand for new item representation. Organic product consumption has become a lifestyle for millions of people worldwide and although the most recent weeks are showing a slight slow down we don't anticipate the organics growths to flatten out anytime soon.

Category	**52 week Organic Dollar Sales**	**% Chg. YA**	**% of Total Organic Sales Tracked**
Total Organics	$4,680 Million	+23%	100%
1. Milk	$1,018 Million	+18%	21.8%
2. Fresh Produce (UPC-coded)	$869 Million	+26%	18.6%
3. Snacks	$200 Million	+13%	4.3%
4. Cereal	$185 Million	+12%	4.0%
5. Yogurt	$180 Million	+21%	3.8%
6. Baby Food	$167 Million	+23%	3.6%
7. Frozen Prepared Foods	$153 Million	+18%	3.3%
8. Eggs	$142 Million	+29%	3.0%
9. Soup	$139 Million	+17%	3.0%
10. Bread & Baked Goods	$104 Million	+17%	2.2%
11. Condiments/Gravies/Sauce	$95 Million	+11%	2.0%
12. Juices Drinks – Shelf Stable	$78 Million	+25%	1.7%
13. Canned Vegetables	$72 Million	+36%	1.5%
14. Coffee	$70 Million	+27%	1.5%
15. Tea	$70 Million	+28%	1.5%

Nielsen LabelTrends, FDM, 52 weeks ending 8/9/08

Organic Products Make up Less than 1% Share for Most Categories

The chart below illustrates categories with the highest dollar volume organic share of category. Only four categories out of 76 with organic products generated over 5% organic category share. Most categories (42 categories) fell under 1% and 25 categories generated between 1-3% organic share. Low organic shares definitely show areas of opportunity as consumers turn to organics for its benefits including more nutritional value, less pesticides and the support for sustainable agriculture. Milk, fresh produce and non carbonated drinks have the highest organic share of categories while breakfast foods, dried fruit and jams/jellies/spreads have generated the largest increase in dollar sales since one year ago within these top share categories.

In 2007 a total of 2,968 organic food and beverage items were introduced and made up 6.2% of all new item introductions for those categories. Only one health and wellness characteristic, items coded as Natural, surpassed the number of new SKUs at 4,533 and made up 9.5% of all new items within food and beverage.

Rank	Category	Organic Dollar Sales	% Chg. YA	Organic Share of Category
1.	Milk	$1,018 Million	+18%	7.5%
2.	Fresh Produce (UPC-coded)	$869 Million	+26%	6.3%
3.	Soft Drinks – Non Carb	$67 Million	+4%	6.1%
4.	Yogurt	$180 Million	+21%	5.0%
5.	Baby Food	$167 Million	+23%	4.4%
6.	Eggs	$142 Million	+29%	4.1%
7.	Dessert/Fruit/Toppings Froz	$40 Million	+36%	3.6%
8.	Soup	$139 Million	+17%	3.3%
9.	Dried Fruit	$34 Million	+46%	3.0%
10.	Jams/Jellies/Spreads	$52 Million	+45%	2.9%
11.	Tea	$70 Million	+28%	2.8%
12.	Cereal	$185 Million	+12%	2.5%
13.	Breakfast Foods	$56 Million	+60%	2.4%
14.	Flour	$12 Million	+37%	2.4%
15.	Canned Vegetables	$72 Million	+36%	2.2%

Nielsen LabelTrends, FDM, 52 weeks ending 8/9/08

Organic Pricing is Higher than Non-Organic Version but Price Gaps Differ

Organic products are almost always higher priced than the comparable non-organic product and the price gap differs across categories, manufacturers, products and even sizes. An analysis of the top dollar selling item vs. comparable non-organic version yielded the following results however please keep in mind that these are solely the observations based on a limited sample of items within the following six categories, excluding private label products.

Category	Average Retail Price: Organic	Average Retail Price: Non-Organic	Price Gap	Organic Price Premium
Whole Milk, ½ gallon	$3.74	$2.47	$1.28	+52%
Baby Strained Food, sweet potato, 3.5 oz.	$1.46	$1.07	$0.39	+36%
Eggs, dozen	$3.98	$2.69	$1.28	+48%
Tomato Sauce, 15 oz.	$1.82	$0.90	$0.92	+102%
Chicken Soup Broth, 32 oz.	$3.14	$2.61	$0.54	+21%
Ground Coffee, 12 oz.	$8.95	$7.34	$1.61	+22%

Nielsen LabelTrends, FDM, 52 weeks ending 9/6/08

Private Label Organic Trends

Overall 20% of organic sales are private label (PL) and organics generate 1.9% share of private label food and beverage sales. Organics also generate 1.9% share of branded food and beverage sales. The top ten private label organic items are all dairy and produce items. Nuts, carbonated beverages, unprepared frozen meat & seafood, packaged meat, jams/jellies/spreads, frozen dessert/fruit/toppings, canned vegetables, eggs and fresh produce are all categories with high private label organic presence.

Private label organics are under-developed for some categories and well-developed for others when comparing organic share of total food & beverage products for PL and branded.

Category	Organic Share of Category: PL	Organic Share of Category: Brand	
Organic Milk	1.9%	**16.0%**	
Organic Yogurt	2.7%	**5.3%**	***Under-developed PL***
Organic Eggs	2.0%	**9.6%**	
Organic Fresh Produce	**13.1%**	5.1%	
Organic Snacks	**4.0%**	1.7%	***Well-developed PL***
Organic Baby Food	**9.5%**	4.3%	

16% of all branded milk is organic and only 1.9% of PL milk is organic.

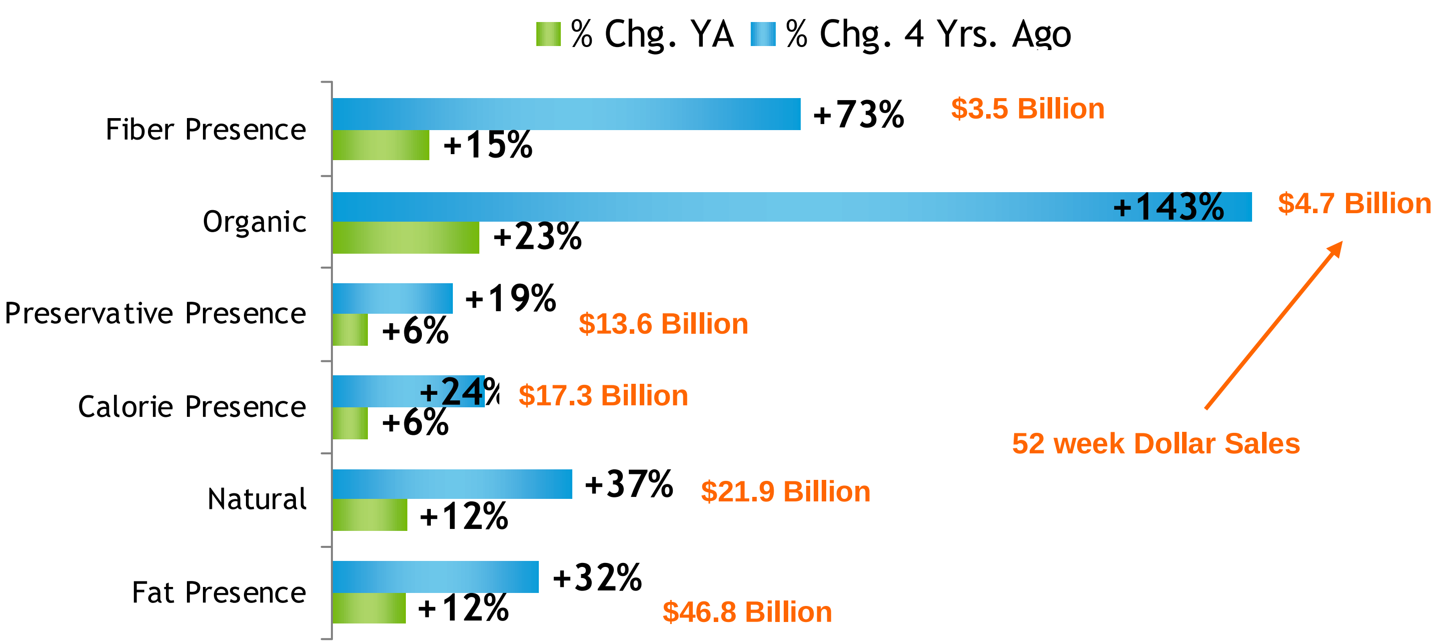
Nielsen LabelTrends, FDM, 52 weeks ending 9/6/08

Organic Comparison to Other Health & Wellness Claims

Organic Growth Surpasses Other H&W Claims but Sales Relatively Small

Organics have generated one of the largest sales increases among all the health and wellness claims when compared to sales four years ago. The chart illustrates significant dollar volume claims and the growths they experienced one and four years ago. Even though organics are showing significant growth along with probiotic, antioxidants, genetic modification and sterol claims, organic dollar sales are relatively low when compared to other claims such as fat presence or natural. Items with Fat Presence (reduced fat, absence of specific fat, fat free) make up the largest dollar volume at $46.8 billion, followed by Natural products at $21.9 billion and Calorie Presence (reduced calories, no calories) at $17.3 billion.

Dollar Sales % Change for Health & Wellness Claims

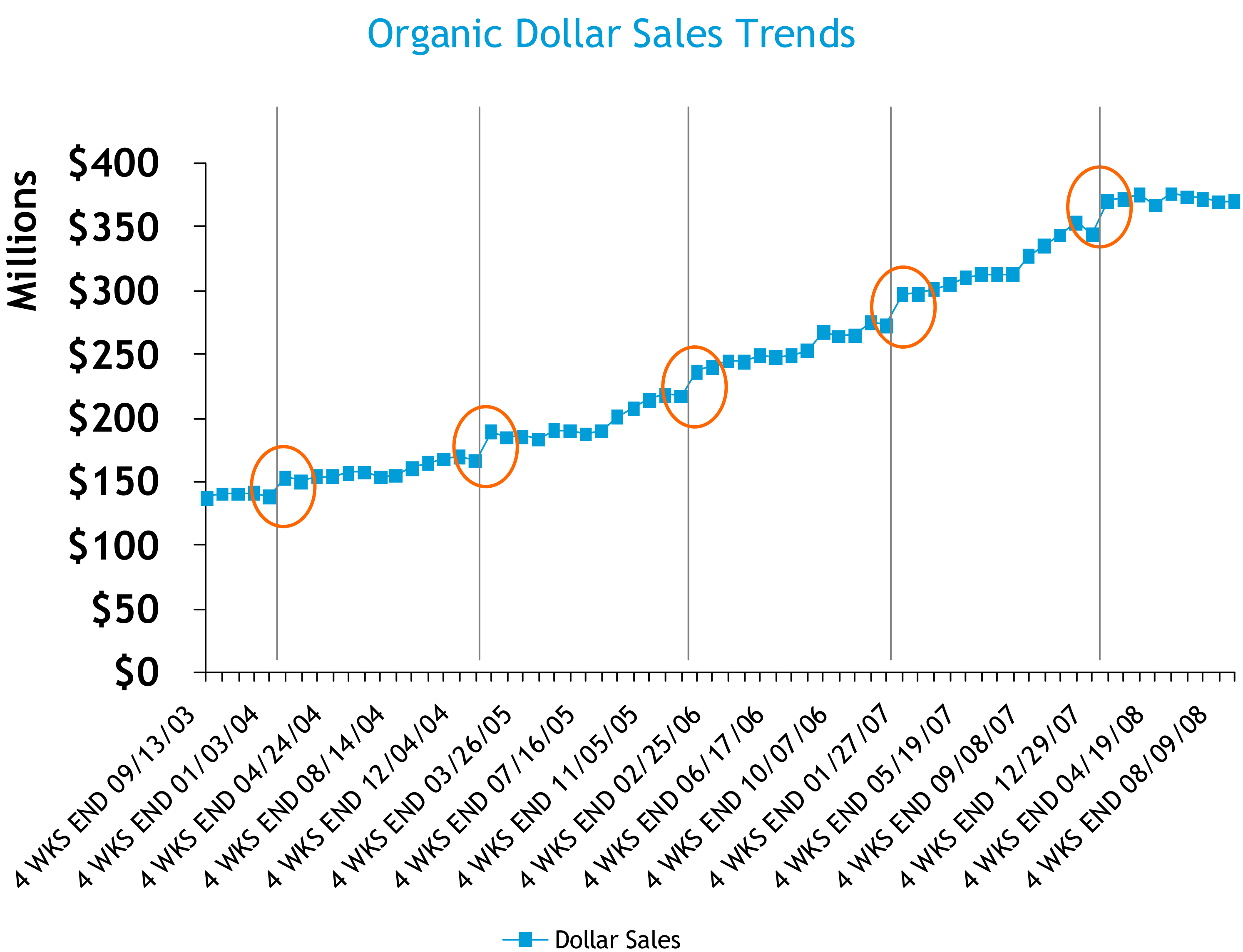


Nielsen LabelTrends, FDM, 52 weeks ending 8/9/08

Five Years of Organic Sales Trends

Organic Sales Have Grown Considerably over the Years

The chart depicts five years of steady growth in the organic movement. There is not much seasonality in organic foods although small spikes can be observed at the beginning of the year showing that consumers make promises to eat healthier and turn to organic consumption. Recent weeks illustrate slower organic growths, possibly the start of an organic plateau.



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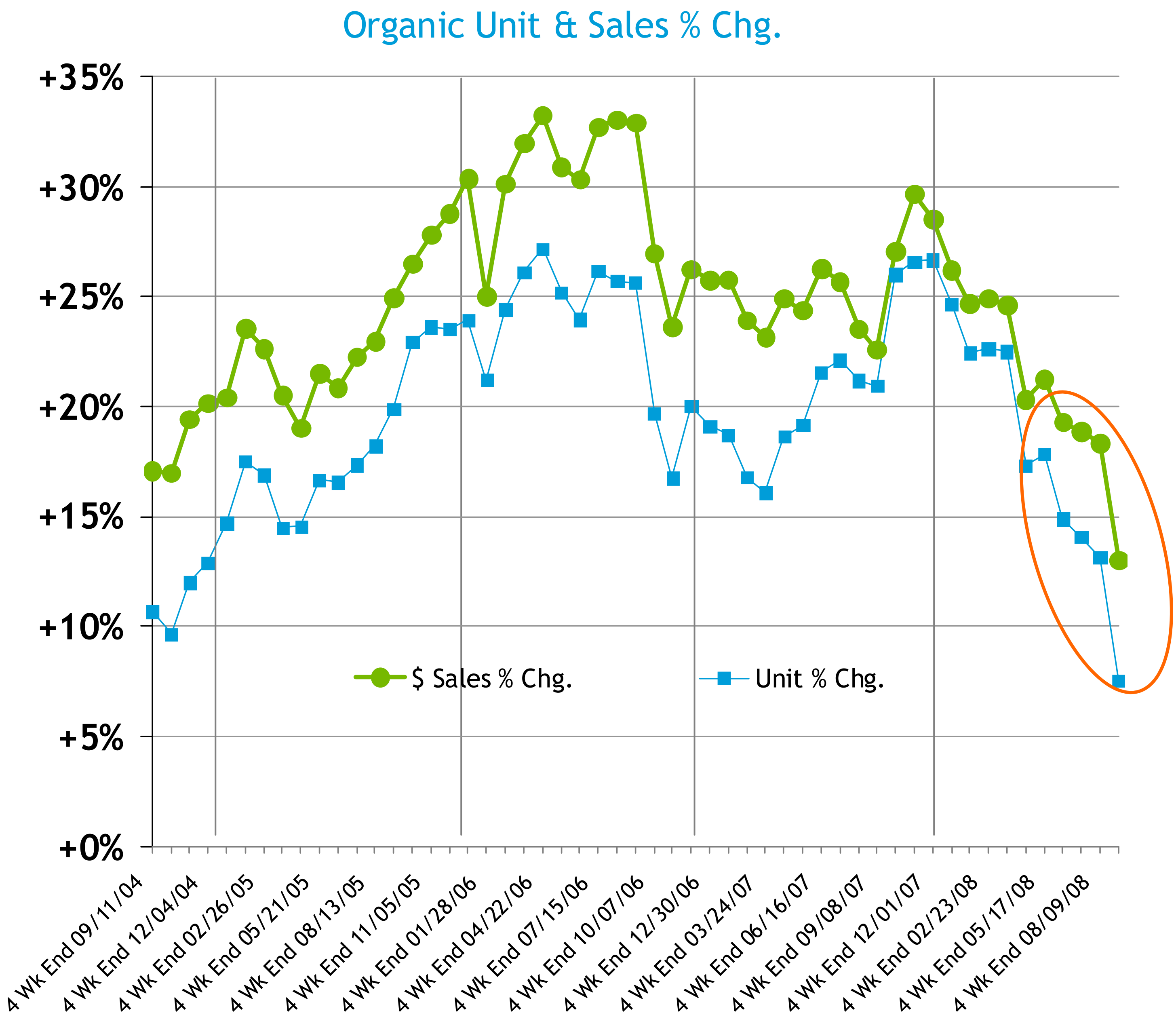
Organics dollar sales percent changes have seen significant spikes and dips throughout the years. The recent 12 weeks illustrate smaller gains than we have seen in the past years. Both units and sales increases are at the lowest increase levels. We will continue monitoring organic trends to analyze if organics will continue growths above +20% or if we will start seeing growths around 5% to 10% as some experts predict. It may be too soon to state that the CPG industry has reached an organic plateau however we are definitely seeing less aggressive growths.



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Future of Organics

Future Trends as Envisioned by Organic Trade Association in Conjunction with Other Leading Experts

In the year 2025 . . . .

- The organic industry will continue to grow and thrive at a steady rate over the next 20 years, but at a slower pace than the current 20 percent average annual sales growth.
- The average consumer household in 2025 will contain at least one, if not many, organic products on a regular basis. This includes not only food items but organic clothing, household cleaning products and personal care items.
- All organizations agree that by 2025, organic products will be sold anywhere and everywhere. Increased sales in restaurants were mentioned by more than one as a trend that will continue to 2025.
- The overall increase in organic sales and acceptance should also translate into increased organic acreage.
- Younger shoppers will continue to find organic food of interest, especially as Gen Xers continue to pass down their belief systems. Ethnic shoppers including Asian Americans and Hispanic Americans will also continue to be more likely to be organic shoppers, in proportion to their representation in the population.
- Government support of organic agriculture will be crucial to maintain the industry's growth potential. The group feels that the U.S. government needs to support farmers in their transition to organic production, and must continue to enforce the standards to minimize consumer confusion.

Many experts believe that shopping for organic products will be commonplace by 2025 and not reserved for an organic niche clientele. Many envision that most products will have an organic version and that organic products of all types will be accepted and routine in consumers diets. Many believe that organic sales will slow down to about **5% to 10% yearly growth** and that organics can't sustain +20% increases year after year. Natural Marketing Institute estimates that organics will taper off to a 10% growth by 2008 or 2009 and approximately 5% by 2020. It is estimated that **organics will comprise 13% to 27% of U.S. pantries** and 68% of U.S. food companies will have one or more organic product offering. It is expected that organic clothing can reach up to 10% of all apparel purchases and non food grocery items around 9% by the year 2025. Categories such as meat, processed foods, baby food, alcohol, "stage of life foods" (pregnancy, nursing, puberty, senior) are expected to generate significant increases.

Source: Organic Trade Association

Consumer Dynamics

Below are some interesting points about a typical organics consumer:

- Naturalites Segment of LOHAS – 19% of U.S. population or **40 million people** are focused on natural/organic consumer packaged goods with a strong health focus when it comes to foods/beverages
- Annual household income of $86,000/year – 22% higher than the national average
- Spend an average of $127 on their weekly household grocery bill – 10% higher than the national norm of $115
- Young, affluent, and big spenders on groceries
- 19% more likely than the national average to be ages 18-34 and 13% more likely to have two or more children at home
- Hispanics are less likely to purchase organic products, African Americans are more likely to purchase organics in certain markets
- Consumers in markets in the Northeast and on the West coast are more likely to purchase organic products and markets like Boston, Hartford, New York, San Francisco, Portland and Seattle are huge organic markets

Affluent suburban spreads have the highest index for organic consumption, especially for start up families with children under six.

Organics Consumer Total Consumption BehaviorScape Framework

BehaviorStage	LifeStyle						
	Cosmopolitan Centers	Affluent Suburban Spreads	Comfortable Country	Struggling Urban Cores	Modest Working Towns	Plain Rural Living	Total
Start - Up Families HHs with Young Children Only < 6	**219**	**247**	**146**	**115**	**135**	106	**161**
Small Scale Families Small HHs with Older Children 6+	**118**	**150**	92	75	86	73	98
Younger Bustling Families Large HHs with Children (6+), HOH <40	**118**	**134**	106	70	91	83	98
Older Bustling Families Large HHs with Children (6+), HOH 40+	111	**146**	104	58	85	73	101
Young Transitionals Any size HHs, No Children, < 35	**135**	**148**	93	79	88	76	101
Independent Singles 1 person HHs, No Children, 35 - 64	105	**126**	86	81	83	59	88
Senior Singles 1 person HHS, No Children, 65+	69	81	53	62	48	42	55
Established Couples 2+ person HHs, No Children, 35 - 54	**142**	**156**	114	99	100	78	**115**
Empty Nest Couples 2+ person HHs, No Children, 55 - 64	**119**	**162**	105	71	85	78	108
Senior Couples 2+ person HHs, No Children, 65+	100	85	92	59	80	69	81
Total	**123**	**145**	100	78	87	72	100

Very High: 150+ High: 120 - 149

Source: Spectra (07C), Homescan Product Library 2007

- Primary reasons given for buying organic products:
    - To avoid products that rely on pesticides or other chemicals
    - To avoid products that rely on antibiotics or growth hormones
    - For nutritional needs
    - To support the environment
    - To avoid genetically modified products
    - Health reasons other than allergies
    - They taste better
    - To support sustainable agriculture

Appendix

Definition of Organics

According to the Environmental Protection Agency (EPA), organic foods cannot be treated with any synthetic pesticides, sewage sludge, bioengineering, or ionizing radiation. They may use pesticides derived from a natural source. When buying organic, look for the following regulated terms on food labels:

- Food labeled "100% organic" has no synthetic ingredients and can legally use the USDA organic seal.
- Food labeled "organic" has a minimum of 95% organic ingredients. It is eligible to use the USDA organic seal.
- Food labeled "made with organic ingredients" must contain at least 70% organic ingredients. It is not eligible for the USDA seal.
- Meat, eggs, poultry, and dairy labeled "organic" must come from animals that have never received antibiotics or growth hormones.

Nielsen Codes Organics

Nielsen classifies organics as items with the USDA seal and items labeled as “organic.” As the USDA regulations are very strict, this means that the item must be created from at least 70% organic products. With questions on coding or LabelTrends please contact your Nielsen representative or Gina Miller-Mohr, Product Manager at 920 405-7960.

Resources

Organic Labeling and Marketing Information by USDA
http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELDEV3004446&acct=nopgeninfo

Organic Trade Association
www.ota.com