



**Market Trends in the Organic Industry**

**Mark Retzloff**  
President and Chief 'Organic' Officer  
Aurora Organic Dairy



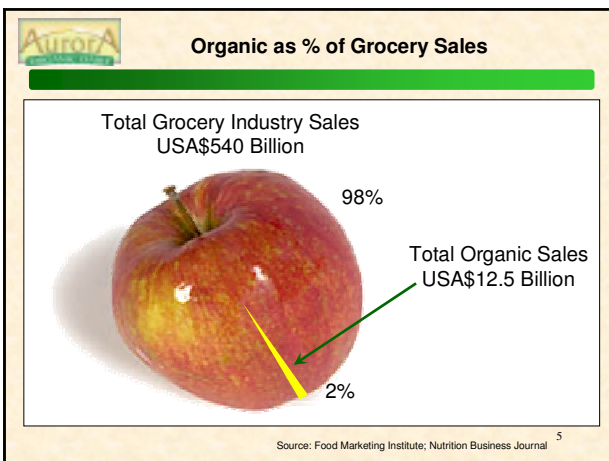
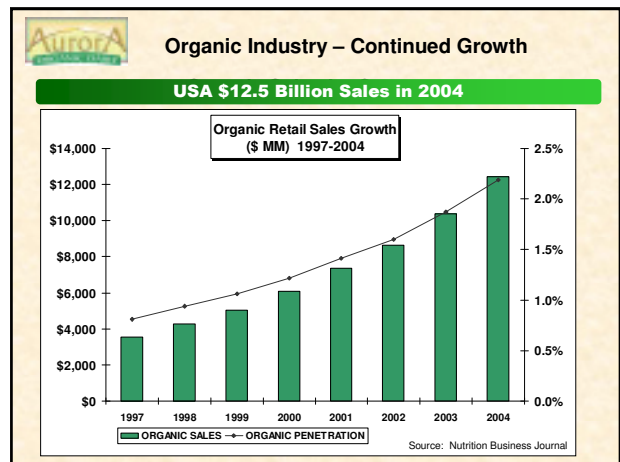

**Agenda**

- GREETINGS.**
- U.S. ORGANIC INDUSTRY TRENDS.**
  - Size & Growth.
  - Categories.
  - Organic Consumers.
  - Industry & Infrastructure.
  - Regulatory.
- KEY GROWTH OPPORTUNITIES.**
- LOOKING TO THE FUTURE.**




**Greetings**

Several of my Affiliations Over the Past 35 years.

**Importance of Organic for Grocery Growth**

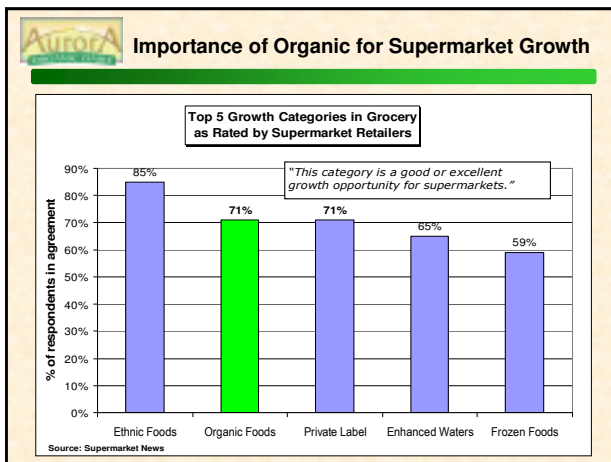
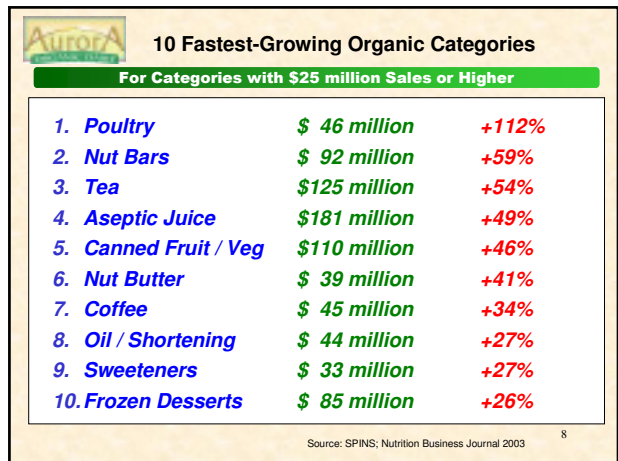
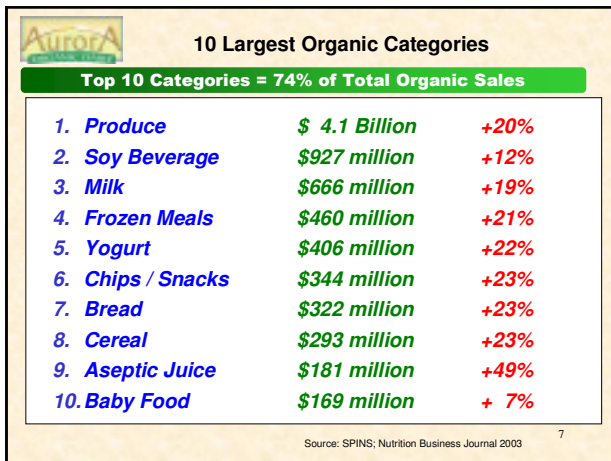
**Small Percent of Sales - - Large Percent of Growth**

**Organic is:**

- > **2% of Grocery industry size.**
- > **25% of Grocery industry growth.**

	\$ Sales (MM)	% of Sales	\$ Growth (MM)	% of Industry Growth
Non-Organic Grocery	\$ 527,550	98%	\$ 6,100	75%
<b>Organic</b>	<b>\$ 12,450</b>	<b>2%</b>	<b>\$ 2,000</b>	<b>25%</b>
Total Grocery	\$ 540,000	100%	\$ 8,100	100%

Source: Food Marketing Institute; Nutrition Business Journal



### Key Drivers of Organic Growth

**1. Consumer Interest.**

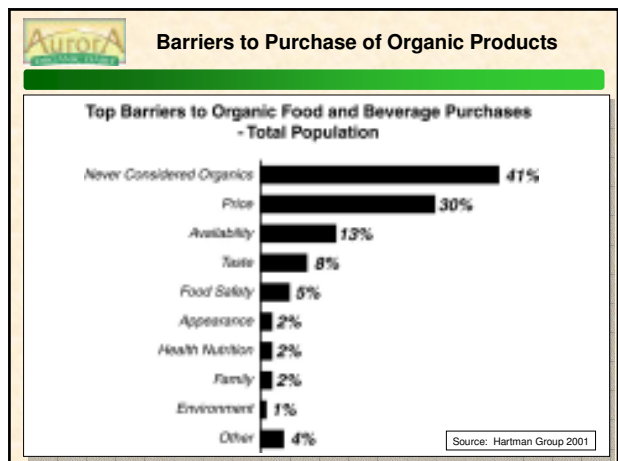
- Food Safety:**
  - Concern about pesticides, hormones & other residues in foods.
  - Organic offers "Peace of Mind."
- Health:**
  - Desire to have higher quality of life over longer period.
  - Frustration with healthcare system.
- Taste:**
  - Belief that organic tastes fresher, better, more flavorful.
- Environmental:**
  - Concern about pesticides and other toxins in the environment.

### Which Foods do Organic Consumers Buy First?

**Consumers Adopt certain categories before others.**

<b>1<sup>st</sup> Level of Adoption:</b> <ul style="list-style-type: none"> <li>• Produce</li> <li>• Dairy</li> <li>• Non-dairy Beverage</li> <li>• Baby Food</li> </ul>	<b>2<sup>nd</sup> Level of Adoption:</b> <ul style="list-style-type: none"> <li>• Juice</li> <li>• Meat / Poultry</li> <li>• Cereal</li> <li>• Snacks</li> </ul>
<b>3<sup>rd</sup> Level of Adoption:</b> <ul style="list-style-type: none"> <li>• Frozen</li> <li>• Breads</li> <li>• Pasta, sauce etc.</li> </ul>	<b>4<sup>th</sup> Level of Adoption:</b> <ul style="list-style-type: none"> <li>• Canned</li> <li>• Bulk</li> </ul>

Source: Hartman Group - January 2004



**Aurora** Key Drivers of Organic Growth

**2. Lower Production Costs.**

1. *Narrower Premium for Organic Commodities.*
2. *Higher Organic Productivity.*
3. *Better Infrastructure.*



**Aurora** Key Drivers of Organic Growth

**2. Lower Production Costs.**



**Aurora** Key Drivers of Organic Growth

**3. Industry Development.**

1. *Larger Retail Outlets in More & Better Locations.*



15

**Aurora** Key Drivers of Organic Growth

**3. Industry Development.**


2. *Larger, More Mainstream Retail Formats Appeal to a Broader Consumer Base.*



**Aurora** Key Drivers of Organic Growth

**4. Regulatory Support.**


1. *Development of Organic Standards.*
2. *National Organic Program.*
3. *USDA – Accredited Certifiers.*
4. *Worldwide Equivalency of Standards (partial).*



**Aurora** Questions about Certification

**When Will True Equivalency of Standards Develop?**



 **Regulatory Challenges**

**Harvey Lawsuit Has Disrupted U.S. Certification.**

**Background:**

- Arthur Harvey, blueberry producer, filed suit against USDA, charging that NOP was not being implemented as written.
- 9 Original counts – 3 were eventually upheld.

**Judicial Rulings on 3 Key Issues:**

1. "Approved Synthetics" must be removed from processed organic foods.
2. Non-organic agricultural ingredients must each be studied and specifically approved for use.
3. Dairy herd conversion will require 100% organic feed rather than split of 80% organic / 20% conventional.

**Industry Implications:**

 **Looking to the Future**


**Five Key Considerations for Organic Worldwide.**



1. Successful implementation of equivalency of standards worldwide.
2. Stimulate additional scientific research on the benefits of organic food & farming systems.
3. Make sure that "organic" applies to all scale, sizes and geographies - small, medium & large.
4. Develop Southern Hemisphere organic that results in sustainable communities and social justice.
5. Implement fair trade standards on a broad scale.

**THANK YOU !**

**Mark Retzloff**  
President and Chief 'Organic' Officer  
Aurora Organic Dairy



View of Aurora Organic Dairy in Colorado, USA