Organic food markets: here to stay

A Canada-wide survey was conducted for the Saskatchewan Department of Agriculture and Food by Ed Weymes of the Faculty of Administration at the University of Regina. Funded by the Saskatchewan Agricultural Development Fund with the purpose of investigating the potential market for organic foods in Canada, the research sought to identify opportunities for Saskatchewan producers.

Organic foods were considered to be those which are produced in an environment which is certified free from chemical fertilizers and no chemicals have been added during the growth phase.

The survey was conducted between May and December 1990 and involved a mail survey to producers of organic foods, retailers and distributors of meats and fresh fruits and vegetables. Food processors were interviewed by telephone. A total of 110 producers, 32 retailers and 23 food processors responded to the survey.

While the sample of producers must be considered biased, since all of the participants were involved in organic farming, the retailers and food producers were selected to ensure that the major Canadian players were involved in the survey.

The sample cannot be considered to be statistically accurate since a convenience sample was used for the selection of organic producers. However, the results of the survey do provide the reader with an indication of how the market for organic foods is growing and the forecasting system provides the best available information on how the market for organic foods will develop.

The results to this survey must be considered exploratory in that they provide an indication of where the industry is headed, but the method of sampling prevents presentation of the results with statistical accuracy. This survey does represent the views of the major retailers and food processors and thus provides an assessment of where the industry is headed.

Future directions

Results from this study indicate that the market for organically produced foods is going to remain a permanent part of the Canadian food market.

Slow growth is expected until the turn of the century, when the market is predicted to be about 10% of the food market. A more rapid increase in growth is then predicted with the market having the potential to attain 25% of the food market by 2010.

Organic produce is expected to maintain its premium price until at least the end of the decade. Many industry participants predict that organic products will always maintain a price advantage. Three years ago, consumers stated that they would pay up to a 25% premium for organically produced vegetables. When supermarkets added organic fresh vegetables into their product mix, the results were, however, disappointing.

Many supermarkets have abandoned this market segment, stating that the market will only increase in size when the premium price is eliminated. However, when food processors were contacted, both at the national and the regional level, a number indicated that they were considering the addition of organic to their product line, since research had indicated a considerable demand for organic products.

Contradiction

It would appear that the market research, being conducted by the food processors, is contradicting the experiences of the retailers. When a consumer purchases fresh fruit or vegetables in a supermarket and compares the price to the organic produce, the consumer can "see" little advantage or rationale for the organic product which may be three times the price.

Food processors who add little value to the product, e.g. canned beans or vegetables, suggest that the price of the product will have to drop before volume increases. However, producers who add more value to the product, e.g. those who use the produce as an ingredient in the manufacturing process, indicated that they can position their product in a market segment which is growing and which will be prepared to pay a premium price.

These manufacturers have the power of large marketing budgets which can be used to educate the consumer and the consumer finds it more difficult to make a price comparison when the "fresh product" has been processed.

Many of the national food producers are at the research stage of product development and the next 12 to 24 months should provide an indication of the future growth in this market. A number of the national companies indicated that the demand has been substantiated and now they are attempting to obtain supply. If these initial companies are successful in launching their organic product they will have succeeded in informing the consumer and this may in turn encourage the consumer to seek the organic label on products with less value added, thus increasing the size of the market.

Confusion

Education is required to inform the consumer about organic foods. All respondents indicated that the term "natural" was confusing and misleading, that the consumer could not distinguish between "organic" and "natural," and that the consumer equated the term "natural" with products which contained few or no chemicals.

Supply and distribution channels are a major problem in the industry. The majority of producers are small and are not able to provide the quantity and quality of produce required by the large supermarkets and food processors. Those national processors who were looking at entering the market found continuity of supply to be a restraining factor.