



ERS *Report Summary*

Economic Research Service

September 2009

U.S. Department of Agriculture



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Marketing U.S. Organic Foods: Recent Trends From Farms to Consumers

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Organic foods now occupy prominent shelf space in the produce and dairy aisles of most main-stream U.S. food retailers, while offerings of organic meats, eggs, breads, grains, and beverages have increased. The marketing boom has pushed retail sales of organic foods up to \$21.1 billion in 2008 from \$3.6 billion in 1997. Supermarkets, club stores, big-box stores, and other food retailers carry organic products, many retailers have introduced lines of organic private-label products, and manufacturers continue to introduce large numbers of new organic products.

What Is the Issue?

The rapid growth of the U.S. organic industry has caused a major shift in the types and numbers of organic food retailers, manufacturers, and distributors and has widened the retail customer base. In addition, organic farmland acreage more than doubled from 1997 to 2005. With those changes has come an increased desire for research and analysis of the U.S. organic marketing system. The 2008 Farm Act allocated \$5 million in initial spending for an expanded organic data collection initiative, along with an additional \$5 million per year of authorized funding for researchers to:

- collect and distribute comprehensive reporting of prices relating to organically produced agricultural products
- conduct surveys and analysis and publish reports relating to organic production, handling, distribution, retail, and trend studies (including consumer purchasing patterns)
- develop surveys and report statistical analysis on organically produced agricultural products

While new data are being collected and analyzed, policymakers and other interested groups have expressed particular interest in: what types of consumers purchase organic food; how structural change has affected the retailing, distribution, and manufacturing of organic food; and why increases in the supply of organic products at the farm level lag behind growth in demand at the retail level. This study analyzes the most recent data available to examine each level of the organic supply chain.

What Did the Study Find?

The number and variety of consumers of organic products has increased, but those consumers are not easily categorized. The one factor that consistently influences the likelihood of a consumer's buying organic products is education. Consumers of all ages, races, and ethnic groups who have higher levels of education are more likely to buy organic products than less-educated consumers.

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Other factors, such as race, presence of children in the household, and income do not have a consistent effect on the likelihood of buying organic products.

Retailing of organic products has evolved since 1997, when natural foods stores were the main outlet. By 2008, nearly half of all organic foods were purchased in conventional supermarkets, club stores, and big-box stores. Although produce remained the top-selling organic category, sales of dairy products, beverages, packaged and prepared foods, and breads and grains grew to 63 percent of total organic sales in 2008, up from 54 percent in 1997.

On the wholesale level, by 2007, the share of organic handlers' sales to conventional retailers and club stores increased, while the share of sales to wholesalers and other distributors declined. Organic handlers are firms that buy organic products from farmers and other suppliers, process or repack the goods, and then sell the value-added resulting products to retailers, institutions, and other handlers, or directly to consumers or restaurants. Because of the competition for organic ingredients, handlers in recent years have relied on contracts versus spot-market sales to procure needed inputs.

While organic farmland acreage increased from 1997 to 2005, growth was not swift enough to prevent periodic shortages of some organic products. Certified organic farmland designated for raising grains and soybeans grew slowly, placing pressure on sectors such as dairy and meat sectors that depend on these inputs. The 2002 USDA National Organic Standards regulation in most cases requires farmland to be dedicated to organic farming for 3 years before that farm's products can be labeled as organic. This creates a lag between increases in retail demand and supply from farms.

How Was the Study Conducted?

New ERS research was combined with existing ERS and academic research, industry studies, and available public data and select private data sources to quantify trends in the organic sector from 1997 to 2007. ERS researchers examined consumers, retailers, handlers, and farmers, and took a closer look into the production, marketing, and consumption of four major organic-product groups: produce, dairy, meats and eggs, and feed grains.