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Beyond Organic & Natural 2010

Resolving Confusion in Marketing Food and Beverages

REPORT OVERVIEW

A HARTMAN GROUP SYNDICATED STUDY I FEBRUARY 2010

Beyond Organic & Natural 2010:
Resolving Confusion in Marketing Foods and Beverages

A report for CPG companies, marketers, retailers, brand and category managers, consumer and shopper insights, and strategic decision-makers

Consumer understanding of organic and natural continues to evolve. Today, consumers are confused, yet continue to be engaged by the vast array of messages, symbols and labels they encounter when making decisions about what to eat or drink and where they shop.

The picture is no longer black or white; it is a colorful mosaic where organic and/or natural intersects and overlaps with attributes such as local, fresh, sustainable, safe, green, quality, lack of additives and many more.

Beyond Organic & Natural identifies the hierarchy among these attributes and points out differences by product category as well as deeper distinctions between "organic" and "natural" themselves. It enables companies to go beyond the clutter of product call-outs to have a singular focus on what matters most to consumers thereby increasing brand loyalty and likelihood of purchase.

In today's rapidly evolving environment, it is imperative to understand the new issues and concerns surfacing among consumers, therefore, this report explores topics such as:

- the impact of the recession on organic purchases
- emerging consumer distinctions between organic and natural
- are private label organic and natural products seen as a step up or down from national brands
- do organic and natural attributes "work" in highly processed goods
- does the mix of organic and natural options affect a store's "halo"

Beyond Organic & Natural 2010: Resolving Confusion in Marketing Foods and Beverages

This report provides the most up-to-date information regarding what consumers say about what they eat (and what they want to eat), how food is grown, produced, marketed and sold, and clarity regarding shopping consumption and usage behaviors.

What's Inside

Looking through the lens of consumers, *Beyond Organic & Natural* is your guide to making sense of a complex and somewhat confusing issue. It provides representative, longitudinal data in order to track how the landscape is changing over time. This includes the following quantitative trending information going back to the year 2000:

- Properties implied by the word "organic"
- Recognition of and level of trust in the USDA organic seal
- Motivators and barriers to organic use
- Channels for organic purchase
- Past 3-month organic product category usage
- Willingness to pay more for specific organic categories
- Organic and natural brand awareness and usage

Cost: *Contact us to discuss pricing options*
Release Date: March 2010

Report Length: over 110 pages (in PowerPoint format) and supporting data tables in Excel format

Market Coverage: US Market

Methodology

Beyond Organic & Natural combined best-in-class ethnographic consumer and shopper analysis with leading edge quantitative modeling.

Data Mining

In addition to in-house expertise in food and in health and wellness trends, previous Hartman Group studies tapped for context and insights included:

- Health & Wellness 2005, 2007
- Organic 2006, 2008
- Sustainability 2007, 2009
- Healthy Eating 2009
- Private Label 2010

QualitatIve Research

Ethnographic qualitative consumer immersions in two major US market locations—including in-home ethnographic interviews, social network parties, shop-and-talks or dine and talks

QuantItatIve Research

Online survey of nationally representative sample of 1,679 adult US consumers

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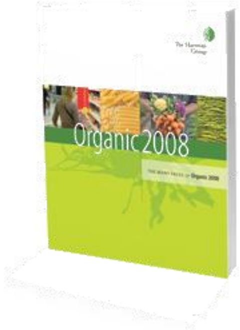
Introduction

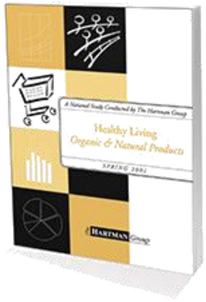
In 1997, The Hartman Group published its first strategic examination of the organic marketplace with the now seemingly prophetic titled report The Evolving Organic Marketplace. Many of our predictions then have come to pass: major corporations seized upon the opportunities created by smaller pioneering brands and drove explosive growth into the organic category. Our 2008 report, The Many Faces of Organic, continued to tell the evolutionary tale of organics as dramatic growth slowdowns (at least in certain organic categories) began to surface. Today, consumers continue to push the organic envelope further as evidenced in the emergence of private label organic and natural offerings in retailers as diverse as Walmart, Target, Safeway and Walgreens.

In *Beyond Organic and Natural, Resolving Confusion in Marketing Foods and Beverages*, we see that consumer understanding of organic and natural continues to evolve. Today, consumers are confused, yet continue to be engaged by the vast array of messages, symbols and labels they encounter when making decisions about what to eat or drink and where they shop.

The picture is no longer black or white; it is a colorful mosaic where organic and/or natural intersects and overlaps with attributes such as local, fresh, sustainable, safe, green, clean, quality, lack of additives and many more.

This report identifies the hierarchy among these attributes and points out differences by product category as well as deeper distinctions between “organic” and “natural” themselves. This enables companies to go beyond the clutter of product call-outs to have a singular focus on what matters most to consumers thereby increasing brand loyalty and likelihood of purchase.





Executive Summary

Beyond Organic & Natural is the latest in The Hartman Group's longest running consumer-centric organic and natural trend exploration series of reports. This comprehensive report, which draws on more than 20 years tracking consumers' lifestyle, shopping and usage behaviors, provides the most complete analysis of the attitudes, perceptions, motivations, triggers, attributes, language and distinctions of quality of organic and natural food and beverage products available.

Beyond Organic & Natural provides timely knowledge about the consumer and the marketplace today and, importantly, where they will be tomorrow. The report delivers strategic and tactical insights on the hierarchy of product attributes and how they ladder up to ownable brand distinctions.

Background

Since the early 1990s, the organic and natural marketplace experienced explosive growth. By 2008, however, signs of a slowdown emerged. In our 2008 report, *The Many Faces of Organic,* we noted that overall consumer usage of organics had perhaps reached its plateau as evidenced in a decline in usage from previous years Today, as you will see within the pages of this report, the organic and natural market is strong even in the face of the economic recession.

While the organic market can be characterized as mature (bordering on the brink of becoming a commodity), the vast sea of products regularly launched and marketed under the mantle of "natural" seems to ebb and flow uninterrupted despite the fact that consumers often perceive the term "natural" simply as a marketing ploy. And yet, what seems to keep the term "natural" alive, is that it fulfills certain symbolic ideals.

Executive Summary

In fact, both organic and natural are seen as complementary attributes by consumers all the way from the Periphery (least intensely involved in the World of Organics) to the Core (more intensely involved). Specifically:

Organic is understood as pertaining to what happens to food *at it's origin* (e.g., the farm, the plant, the animal). Conceptually, consumers think of organic as making a product "more natural." As organic becomes more mainstream it loses some meaning for consumers making additional attributes increasingly necessary. Price is the key barrier to purchasing organic; other barriers are declining.

Natural as a consumer ideal is understood as what happens to the food *after it is grown* (e.g., reducing processing steps). However, skepticism around natural as a marketing term is prevalent throughout the World of Organic, even in the Periphery. Consumers see "natural" as a marketing term, meaningless alone, which may encourage them to investigate the product more, but is not enough by itself. When products labeled natural and/or organic are clearly not healthy (e.g., high in fat, sugar or sodium and low in nutrients) consumer skepticism grows.

Clean goes *beyond organic and natural*: Consumers are continually redefining quality. While natural and organic are still sought by consumers as positive attributes, as natural and organic become more and more diluted in meaning, consumers are seeking more specific information regarding the foods and beverages they buy. The notion of "clean" encompasses a wide variety of attributes that communicate quality to consumers including farming, production, processing and ingredients. To consumers clean has both symbolic associations (fresh, safe, local, healthy) and objective associations (less processed, no chemicals, nothing artificial).

Executive Summary

Consumer Segmentation in the World of Organics

Consumers' orientation toward organic manifests itself in "worlds of activity." How that orientation plays out depends upon the arena of activity that a person is involved in and the intensity of involvement within that world. Organic consumers are continually evolving. Periphery and Mid-Level consumers are more involved in organics than they were in the past and are purchasing more categories than before. Mid-Level consumers can be divided in to the Inner and Outer Mid-Level. Outer Mid-Level consumers are more involved than consumers in the Periphery, but remain occasional organic consumers. Inner Mid-Level consumers use organic products on a regular basis.

Core organic consumers continue to be the largest organic purchasers, and have the largest number of motivations to purchase organic, but their motivations are moving them beyond organic as their ideals continue to evolve and grow. Of the 75% of U.S. consumers who use organics, the majority (62%) is made up of Mid-level organic consumers (24% Inner Mid-level and 38% Outer Mid-level), with smaller segments at the two extremes: 24% are Core consumers and 14% are Periphery consumers.

Overall Organic Usage

rom 2006 to 2010, organic usage has leveled out In 2010, organic usage remains strong. In spite of the economic recession three-fourths (75%) of consumers purchase organics.

Executive Summary

The Economy and Shopping for Organics and Naturals

Most consumers say they are buying the same amount or more of organic, natural, local and fair trade products when compared to a year ago. Specifically, the economy is not stopping organic purchases. Few consumers beyond the Periphery are making trade-offs in their natural/organic purchasing because of the economy. Consumers choose to cut back in other areas (e.g., eating out, travel, etc.). Although the economy may be a barrier to increased natural and/or organic consumption for the Outer Mid-level and Periphery consumers, nearly two-fifths (38%) of Core consumers say they are buying “much more” organic foods and beverages.

Adoption and Purchase of Organics

The adoption of organics begins with products perceived as whole and real. Categories consumers perceive as whole are the first adopted by consumers followed by those seen as more packaged. Categories viewed as whole, and adopted first include: produce, dairy and bread (milk, eggs, bread, yogurt, cheese, ice cream), Animal Proteins (meat and poultry, fish), followed by packaged products (boxed, canned, frozen). Top categories of products purchased in the past three months include, in order, fresh vegetables, fresh fruit, eggs, milk, breads, yogurt , cold cereal, white meat (including deli and fresh), red meat (including deli and fresh) and cheese (including deli and fresh).

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Willingness to Pay a Premium for Organics

Compared to 2008, fewer consumers are willing to pay a 30% premium across all categories, in some cases by substantial amounts. The significant reduction in willingness to pay a 30% premium for organic products is reflective of the equalization between the cost of organic and conventional foods. Consumers recognize that typically it is not necessary to pay a 30% premium anymore for organic foods.

To illustrate this point, regular users of organics are willing, for example, to pay approximately 15% more for natural milk and 33% more for organic milk compared to their conventional counterparts. Consumers are not willing to pay a premium for natural cereal, but will pay more for organic cereal compared to conventional cereal.

Organic and Natural Category Distinctions

Fresh categories remain the most important and most purchased organic categories. Consumers seek a combination of symbolic (e.g., clean, whole, real, etc.) and objective (e.g., no pesticides, no artificial colors, etc.) attributes in the different categories foods and beverages they purchase. Produce is a key gateway category into the World of Organic. Natural is not relevant in this category because consumers perceive fresh produce as inherently natural. Milk is a key product in the dairy category associated with organics. It is often one of the first organic products consumers purchase and is considered a gateway product. Preferences for natural and organic in shelf stable and frozen products vary by orientation to the World of Organic.

Executive Summary

USDA Certified Organic

From consumers' vantage point, "organic is organic" — there are not products that are more organic or less organic, but there are products with additional positive attributes that go beyond organic (e.g., local). Questions about USDA organic certification are relative to consumers' positions in the World of Organic. Periphery consumers are largely unaware of organic certifications and have no questions or skepticism surrounding the USDA organic certification. The word "organic" is sufficient. Mid-Level consumers assume that the USDA organic certification could certainly be better, but look for the certification and appreciate the fact that there are some regulations that are being followed. Core consumers believe that the USDA certification is somewhat flawed and inadequate and prefer other certifications or a personal relationship with the farmer, but believe that it is a step in the right direction and a useful tool for consumers who are less knowledgeable than they are.

Packaging

Consumers "picture" of an ideal natural or organic package include the following key elements:

- a mission statement
- foster a personal connection
- use high quality imagery (of the product)
- highlight production methods
- show raw ingredients
- show the farm (tell the product's and company's stories)
- show specific attributes of the product (e.g., no artificial colors, no preservatives, organic, etc.)
- include certifications

Executive Summary

Dining Out and Organics

Consumers are less vigilant about eating natural and organic products when eating out. This is especially true when the occasions are focused on indulgence and experiences. Freshness commonly overrides the desire for organic and/or natural for most consumers when dining out. Consumers appreciate restaurants that make an effort towards natural and organic offerings, but are often unaware of these efforts. Consumers would have a more favorable quality impression of fast food restaurants if they offered an organic item on the menu. About a third of consumers desire organic options in fine dining restaurants and on school menus.

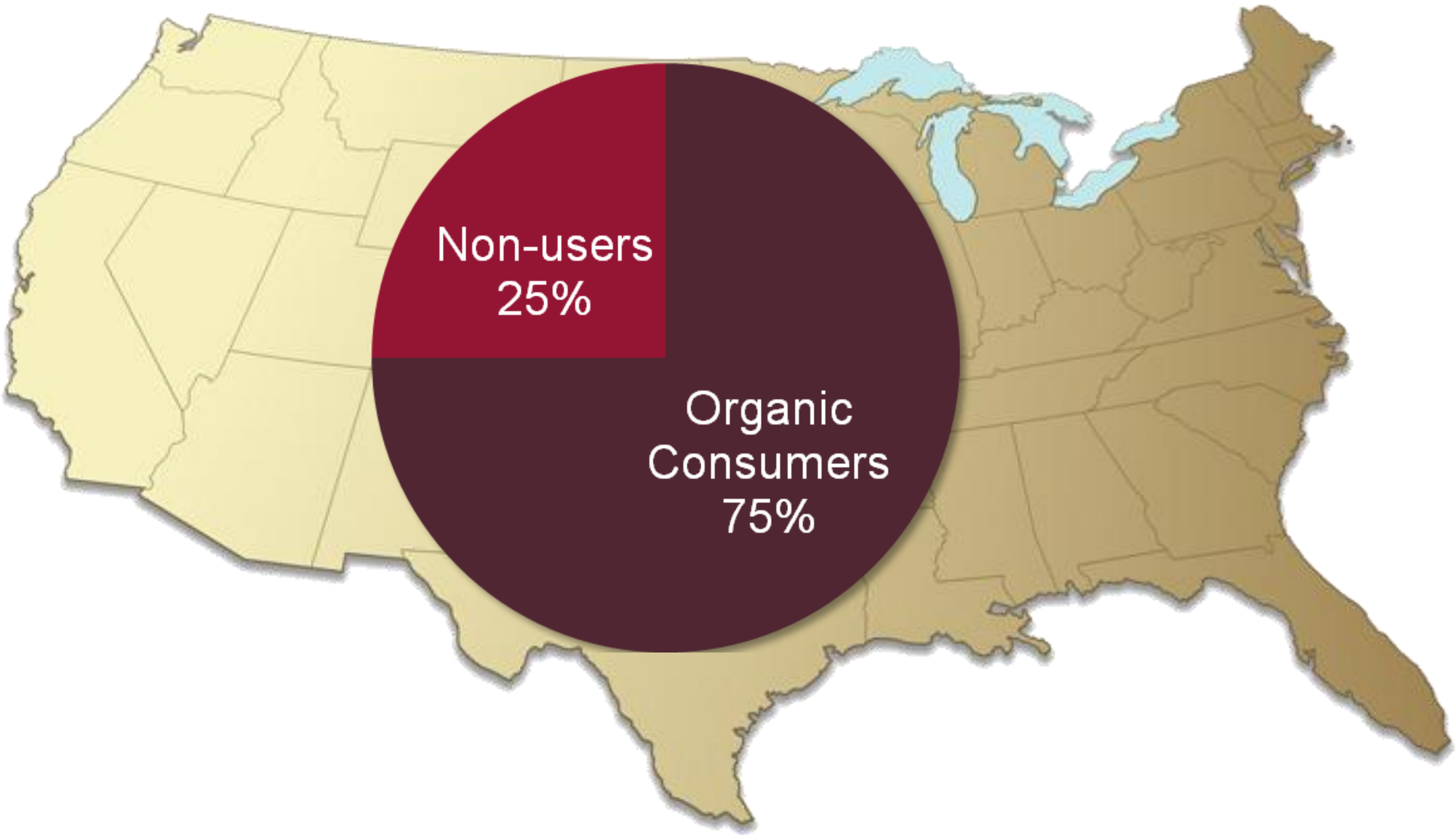
The majority of consumers are willing to pay only 10% more for organics when eating out. Slightly more than half (52%) of Core organic consumers are willing to pay at least somewhat more for organic food when dining out compared to 17% in the Periphery.

Beyond Organic

Consumers in the Core have moved beyond organic. They still see organic as a positive, but it no longer satisfies their social, environmental and personal health standards. These consumers are seeking foods that are traceable through personal relationships with farmers in order to know that they truly align with all of their standards. These consumers are less concerned with certifications, which they see as being insufficient to encompass all of the attributes they are seeking. As these trends originating in the Core move out throughout the rest of the World of Organic, consumers will seek more knowledge about the foods and beverages they purchase and look for products with a wide variety of specific attributes that ladder up to clean.

A brief look at what's inside: examples of how data and information is presented

Percentage of U.S. Consumers Who Purchase Organics



Q14. How often have you used ORGANIC foods or beverages in the PAST THREE MONTHS? If you use some organic products more often than others, please indicate the greatest frequency. For example, if you used organic milk daily and organic fruit occasionally, choose daily. Total n=1679

A brief look at what's inside: examples of how data and information is presented

Evolution of Organic Consumers

Periphery and Mid-Level consumers are more involved in organics than they were in the past and are purchasing more categories than before.

Mid-Level consumers can be divided in to the Inner and Outer Mid-Level. Outer Mid-Level consumers are more involved than consumers in the Periphery, but remain occasional organics consumers. Inner Mid-Level consumers use organic products on a regular basis.

Core consumers continue to be the largest organics purchasers, and have the largest number of motivations to purchase organic, but their motivations are moving them beyond organic in as their ideals continue to evolve and grow.

A brief look at what's inside: examples of how data and information is presented – Outer Mid-level Consumer Profile

Age: 32, Living with Partner

Location: Atlanta

Occupation: Nursing student

Goals: To do well in school and maintain relationships with family and friends.

Is trying to eat more natural and organic foods

*"My overall goal is to eat **healthier** to improve my quality of life, but I know I could do better."*

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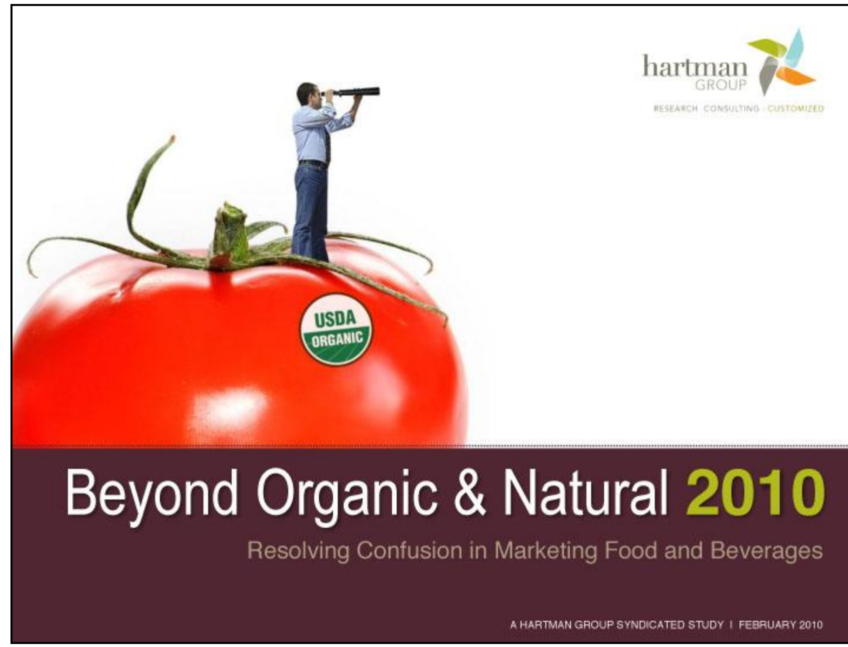
ABOUT THE HARTMAN GROUP

The Hartman Group, located in Bellevue, Washington, blends leading-edge customized research and consulting to understand the subtle complexities of consumer and shopper behavior. Since 1989, Hartman Group has been listening loudly to the underlying motivations and behaviors that move the needle for our clients. To learn more about how Hartman Group stays sharply focused on how consumers live, shop and use brands and products visit:

www.hartman-group.com



If you have questions or would like to learn more about this report, please contact:

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