Organic and Natural 2012

THE CONSUMER EVOLUTION CONTINUES

Organic usage is once again front page news as studies call into question the nutritional benefits of organic foods compared with conventionally-processed counterparts. While consumers still find the organic and natural product landscape confusing to navigate, findings in this new report suggest that these recent studies are unlikely to alter consumer purchase and usage behaviors. Consumers historically adopt and continue their purchase and consumption of organic foods and beverages for reasons that extend beyond nutritional values.

In 1997, when The Hartman Group published its first strategic analysis of the rapidly-changing organic market with the aptly titled report *The Evolving Organic Marketplace*, we accurately predicted not only a fast-changing corporate game board within a vibrant subset of consumer packaged goods (where large conglomerates would begin to dominate a fragmented market through acquisition of small, pioneering brands), but also correctly envisioned the explosive growth of the organic category. At the time, organic was just under 1% of the $500 billion food market, but we believed organics was capable of growing several times beyond that size.

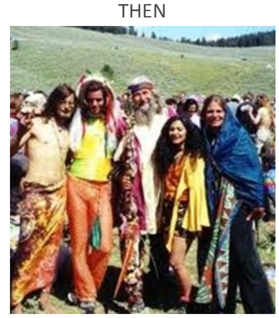
In 2010, such predictions indeed proved true: One-third of U.S. consumers used organics at least monthly. Yet, the organic and natural landscape remained a confusing place to navigate. Consumers ranging from the Core to the Periphery of the World of Organics have different beliefs and interests when it comes to integrating organics into their lifestyles—and these beliefs shift and evolve over time.

Organic and Natural 2012 is the latest in our long-running consumer-centric syndicated research series exploring the organic and natural trend in America. This report delivers rich insights to understand where consumers are today, and where they will be in the near future. Areas of exploration include:

- Consumer interest in and purchases of organic and natural products
- Understanding of organic and natural
- Organic usage: triggers, motivators, adoption pathways and barriers (past three-month category usage)
- Understanding of symbols, labels and claims
- Purchase criteria
- Consumer attitudes and preferences toward organic and natural
- Organic and natural consumer segments and their profiles
- Category analysis (similarities and differences, organic vs. natural)
- Shopping channels
- Organics while dining away from home
- Organic and natural brand familiarity
- Issues of strategy: trends opening the door to opportunities and market threats

The organic and natural food shopper has evolved.

THEN



NOW

hartman GROUP

Organic and Natural 2012

THE CONSUMER EVOLUTION CONTINUES

EXECUTIVE SUMMARY

Organic and Natural 2012 is the latest in our long-running consumer-centric syndicated research series exploring the organic and natural trend in America. Since 1997, when we first began examining the organic marketplace, we have seen consumers' approach to organic and natural products grow and evolve. Today, we find that consumers across all segments possess greater knowledge about organics and that this increased knowledge is leading them to ask more questions than ever before.

Is this product really organic? Is it truly better for me? How do I know for sure?

In this uncertain climate, consumers are wary about purchasing a product based on "organic" and "natural" labeling alone. They want to know what the claims really mean; the story behind the product. However, this is not to say the demand for organic and natural products is on the decline. Just the opposite, in fact—with increased availability of organic and natural products across categories, consumers continue to aspire to the ideal that organic and natural products promise but at a price they can afford. In this journey, consumers continue to demand transparency from manufacturers and look toward retailers as docents in the product selection process.

Key Observations

The meaning of "organic" is becoming more diluted.

- This is driven in part by the expansion of larger companies into the organic marketplace. This may lead to lower prices for organics, but also consumer skepticism and cynicism about whether or not large companies can "do organic correctly."
- The term "organic" is all about the absence of negatives, primarily those associated with growing methods (e.g., absence of pesticides, herbicides, antibiotics).
- Consumers distinguish organic fresh foods from those that are processed and packaged, and they place a higher premium on the former.
- An organic label does not lead consumers to automatically assume the product is nutritionally healthier. The presence of organic ingredients does not transform "junk food" into "health food."

Compared with organic, natural is about simple, real foods.

- Natural products have a minimum of processing, contain the fewest number of ingredients possible and are as fresh as can be.
- Natural also connotes the lack of "bad stuff" in the food itself.
- Using the term "natural" in a marketing context still leads to consumer skepticism (in part due to a lack of standards). Companies must demonstrate that their products "walk the talk."

Organic and natural meats are an area of growing consumer interest.

- This is driven by concerns over the safety and ethics of industrial meat production.

TABLE OF CONTENTS

ABOUT THE REPORT

Report Length: General report in PowerPoint format, 138 pages

Market Coverage: United States

Release Date: September 2012

Price: $15,000

Organic and Natural 2012

THE CONSUMER EVOLUTION CONTINUES

EXECUTIVE SUMMARY continued...

“Local,” with connotations of community, economy and environmental stewardship, is becoming complementary to “organic” and “natural.”

The path to adoption of organic products is usually through produce, followed by milk and eggs.

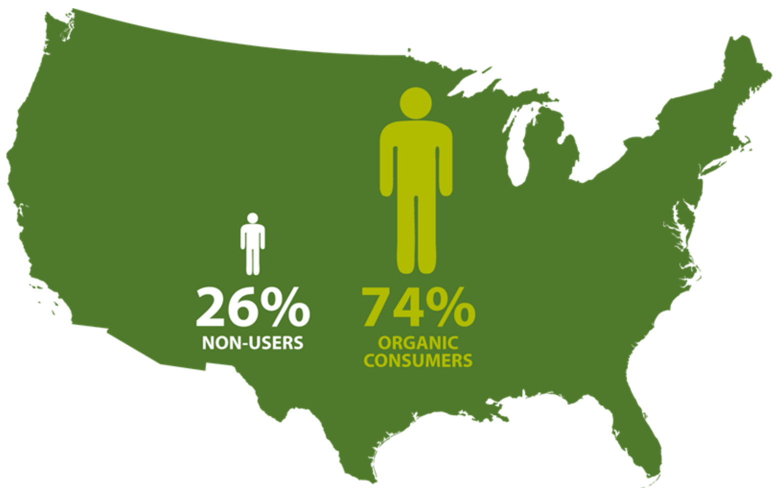
- As organic category purchasing becomes more habitual, consumers add organic breads and grains, cereals and high quality proteins (e.g., natural and organic meats) to their menus.

For most consumers, price remains the biggest barrier to increased consumption of organic and natural foods, leading to compromises and trade-offs regarding which of these products are likely to have the greatest positive impact.

- Categories with the least price sensitivity for organics include cheese, yogurt and baby food.

Organic purchasing is often motivated by a desire for better personal health.

- This attitude is increasingly connected to perceived linkage between processed foods and epidemic maladies such as obesity, diabetes, hypertension and cancer.
- Despite a desire to be good environmental stewards and support small, sustainable and local farming, the main reasons for buying organic still concern personal health and safety, including avoidance of chemicals, pesticides, growth hormones and genetically modified foods.



Mainstream retail channels continue to rise in importance as sources for organic foods and beverages. Local farmers’ markets are also on the rise.

- Specialty retailers are becoming less and less important.
- Consumers look to retailers to vet organic and natural products for them, hoping they will only stock those that are legitimate.

Brand preferences among most organic purchasers tend to be relatively low. Exceptions include Kashi in the cereal category and Horizon in dairy.

- Private labels are almost as popular as branded choices.
- Consumers look to retailers as curators of organic and natural products.

While over half of consumers are aware of government regulations governing organic labeling, the USDA Organic label only generates moderate levels of trust. This is in part due to a broader climate of big corporate and government distrust.

- An emerging issue in certification is a growing awareness of and unease with GMOs.

Organic and Natural 2012

THE CONSUMER EVOLUTION CONTINUES

Methodology

Organic and Natural 2012 combines best-in-class ethnographic consumer analysis with leading-edge quantitative modeling.

Qualitative
In-depth interviews held in Seattle and Atlanta. These included consumers with various levels of engagement with organic and natural. Topics explored included: attitudes around organic and natural, the meanings of organic and natural, reasons and triggers for purchasing organic and natural foods and shopping behaviors. All participants completed a homework assignment involving journaling about their top 4 favorite organic and natural foods.

Quantitative
An online survey of 1,569 U.S. adult (ages 18-69) primary shoppers provided data on such topics as: associations with organic and natural, usage and purchase of organic products/brands, trust of USDA organic seal and usage of other information sources, paying a premium for organic, organics while eating out and views on GMOs and raw food diets. Fielded July 2012.

A LOOK INSIDE (sample pages)