Title:

Mainstreaming of the US organic milk and produce markets: opportunities and risks to Vermont organic production sustainability

Preparer:

Gary Deziel; reviewed by Allen Matthews and Vern Grubinger

Abstract:

The organic foods industry is a small but vibrantly growing segment of the food economy in the US. Due to increased consumer demand based on perceived social and ecological sustainability issues, progress in organic production knowledge that has enabled larger production acreages, consolidation in the retail marketplace, and the lure of high profitability, the organic foods landscape is changing.

Market channels for organic foods are shifting to conventional supermarkets from health food stores. Multinational corporations are developing profitable niche subsidiaries specializing in organics. Organics are becoming commoditized in the market place. Organic farmers are wary of price pressures.

Vermont organic production of milk and produce is increasing. Farmers require information about market channels, the implications of large-scale entrants to the Vermont marketplace, the opportunities for Vermont producers to leverage their Vermont brand, and consumer preferences for social and ecological equity. This information will help provide knowledge to producers and consultants regarding sustainable market strategies. An opportunity for Extension exists to compliment the efforts of NOFA and others by providing academic rigor and technical assistance in the marketing of organic products.

Scope:

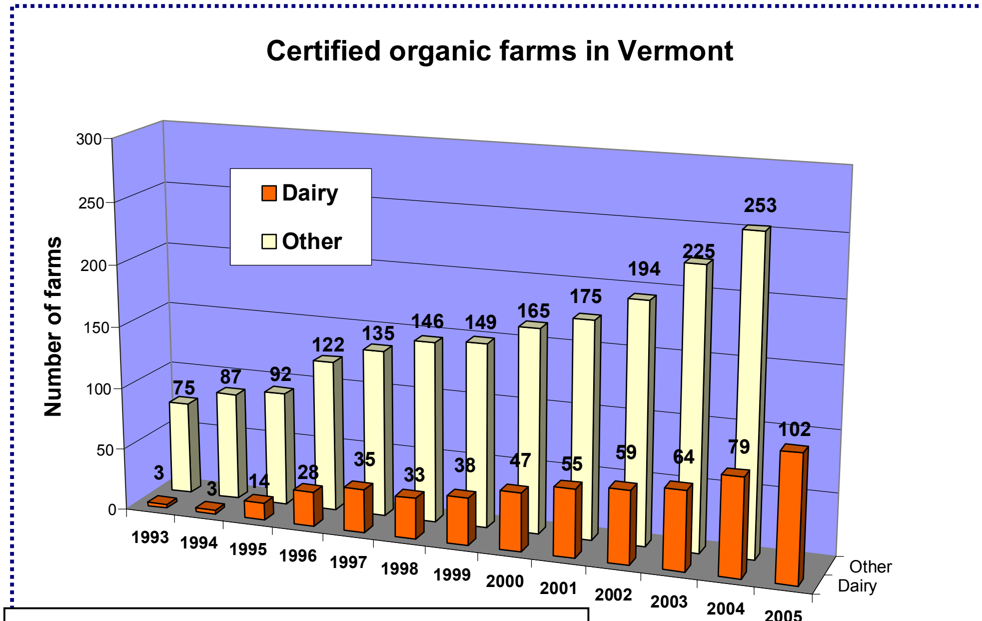
This brief covers the following topics; Vermont organic fruit, vegetable, and milk production; organic production and manufacturing consolidation; implications and opportunities for Vermont organic producers.

Current Situation/Issue:

Driven by beliefs about nutrition and environmental stewardship, combined with reduction in obstacles for wider market penetration – including price, quality, and distribution -- consumer demand for organic foods is growing by nearly 20% annually and is expected to generate $32.2bn in sales by 2009[1,2]. A 2003 study by Whole Foods Market revealed that 54% of Americans have tried organic foods with 29% claiming to have consumed more organic foods and beverages than in the previous year.

Fruits and vegetables represented 42% of organic sales in the US in 2003 and continue to be the heavy favorite among organic shoppers – 92% of all organic users buy organic fruits and vegetables. Organic beverages represent 15% of organic sales, and dairy and prepared foods represent 13% of US organic foods sales[3]. Organic dairy is growing in New England faster than anywhere else according to an Organic Valley source[4].

Organic foods are becoming more "conventional" with each passing day. According to the Food Marketing Institute, 47% of organic sales in 2003 were attributable to the natural food channel (natural foods stores, e.g. City Market), and supermarkets accounted for 44% of sales, with the remainder from farmers' markets, food service, non-retail stores, and exports. Supermarket sales in 1998 accounted for only 31%. Two-thirds of organic dairy products are delivered through conventional supermarkets[5]. The proliferation of private label organic products from such retail heavy weights as Safeway, Kroger, and Wegmans provides stronger proof of the mainstreaming of organic foods in the US.



2004 Statistics on Organic Agriculture in Vermont, Courtesy NOFA Vermont; 2005 dairy farm projection from N. Bacon

Increasing sales of organic foods has attracted major food corporations that recognize the heady potential for profits. Dean Foods (owner of White Wave (Silk and Sun Soy brands) soy milk and Horizon Organic Dairy [which itself owns organic production facilities in the UK as well as a 4,000 acre organic dairy farm in Idaho][6]), Unilever (owner of Ben & Jerry's), Coca-Cola, Kraft, and General Mills are a sample of the multinational corporations that have entered the market. Hood and Stoneyfield Farms are currently working to launch a line of organic fluid milk products[7,8]. Stoneyfield is owned by Group Danone, the worldwide leader in fresh dairy products and packaged water with net sales of €13.1bn [approximately $16.3bn] in 2003[9].

While market consolidation is generally seen as growing the organic industry overall through scale efficiencies in everything from research to distribution, price pressure and fairness to farmers is a significant issue[10] and one which may put pressure of Vermont producers. The question of who will bear the brunt of potentially failing organic prices – farmers, distributors, or others – is an open question. Farmers, situated at the bottom of the supply chain, have traditionally been price-takers rather than price-makers. A 2004 Farmers' survey by the Organic Farmers' Research Foundation (OFRF) reported that 52% of farmers reported steady prices, with 27% wary of prices falling in the future[11]. In a 2004 report released by the Organic Farmers and Growers (UK), 63% felt their rate of profitability was low, while 12% said their business was unviable at current organic prices[12].

While market consolidation is an important factor, the developed body of knowledge surrounding organic production is allowing farmers to produce organic produce on larger acreage. These larger growers have the infrastructure – packing houses, bagging equipment, sorting and cleaning equipment, etc. – that allows for market provision at lower prices[13].

Impacts and Consequences if issue is not addressed

According to the OFRF 2004 Farmers' survey 79% of organic farmers reported that their vegetables were sold within 100 miles of the farm[14]. Additionally, 86% of vegetable products produced were priced at delivery on the spot market, which exposes them to considerable market price risk. Thirteen percent of products were sold in consumer-direct channels, 53% in direct-to-retail, and 34% wholesale.

Vermont organic producers will be confronted with increasing price pressures from regional and national producers and manufacturers as the availability, quality, and distribution of organic products, particularly fruits, vegetables and milk, improves with time. Vermont organic producers must come to understand the opportunities and threats this developing market condition presents, and where to apply leverage to the market based on perceived strengths to thrive.

Changes/Needs

Research and education about market channels (barriers and opportunities), the implications of large-scale entrants to the Vermont marketplace (whether it be Dean Foods, Group Danone, or a sweet corn producer in New Jersey), the opportunities for Vermont producers to leverage the value of the Vermont brand, and consumer preferences for social and ecological equity will help provide knowledge to producers and consultants regarding sustainable market strategies.

Who else is addressing the issue?

Organic products market industry trends are widely reported in the press; guidance for farmers is not. Organic associations and growers are aware and concerned with the commodization trend[15], although they generally are working with limited resource capability on certification and production issues. NOFA has led Vermont on bringing technical assistance to organic producers in the past and present. It is the Land Grant role to compliment their effort and add academic rigor to the discussion, while relying on NOFA and other organizations for advice about research, technical, and educational needs.

Vigorous research thoughtfully put into practice through education and technical assistance will be vital to help Vermont growers maintain quality and production while keeping costs down given the development of an increasingly competitive organic products market. Alternatively, unique and unanticipated methods of marketing or distribution – paradigm shifts -- may come out of the research. No other Land Grant in the region is providing dedicated organic technical assistance at press time[16] although the University of New Hampshire is shifting part of their herd to organic with a commitment from the College of Life Sciences and Agriculture to include organic [with a $200,000 grant from Stoneyfield] production research and teaching across the board in coming years[17]; Vermont has a niche opportunity.

The US government has allocated minimal monies for data collection, standards (National Organic Program), organic transitions, and Sustainable Agriculture Research and Education. There is a funding opportunity for this topic through the Department of Agriculture (USDA), Cooperative State Research, Education, and Extension Service (CSREES) Organic Agriculture Research and Extension Initiative (OREI)[18].

What resources/research is available at UVM?

Research and expertise regarding consumer perceptions towards organic, locally-grown foods are available from the Community Development and Applied Economics Department (Jane Kolodinski, contact), and the Center for Rural Studies (Fred Schmidt, contact). Additionally, marketing and branding expertise is available from within the organization (Lisa Chase), and in the School of Business (Tom Noordewier, possible departmental contact; Dann Van Der Vliet, CE/Vermont Business Center contact).

Citations

[1] Organic foods and drinks market growing by almost 20% annually. Just-food.com, November 23, 2004
[2] Current trends in the industry: The future of the global organic food and beverage industry. Just-food.com, Management Briefing, December 2004
[3] Ibid
[4] Maine dairy farms find success with organic milk, Sharon Mack, Bangor Daily News, September 27, 2004
[5] Ibid
[6] Factiva.com industry search on *Dean Foods Co.*; *Horizon Organic* website [http://www.horizonorganic.com/about/farming.html] ; *Suiza* web suite [http://www.suizafoods.com/], both accessed January 13, 2005
[7] Introducing Stoneyfield Organic Milk, http://www.stonyfield.com/OurProducts/Milk.cfm, accessed January 25, 2005
[8] Demand for organic milk increases, but number of organic farms lagging, by Howard Weiss-Tisman, Brattleboro Reformer (Vermont), January 13, 2005
[9] Group Danone, http://www.danone.com/wps/portal/_pagr/110/_pa.110/632, accessed January 25, 2005
[10] Uprooting the dream, The Grocer, November 20, 2004
[11] Fourth National Organic Farmers' Survey Results, Organic Farmers' Research Foundation. 2004.
[12] Current trends in the industry: The future of the global organic food and beverage industry. Just-food.com, Management Briefing, December 2004
[13] Farmers predict falling prices for organics, Supermarket News, August 23, 2004
[14] Fourth National Organic Farmers' Survey Results, Organic Farmers' Research Foundation. 2004
[15] Personal communication with Nat Bacon, Dairy & Livestock Advisor, NOFA-Vermont, January 26, 2005
[16] E-mail communication with Vern Grubinger, Berries & Vegetables Specialist, UVM Extension, January 19, 2005
[17] UNH shifting part of dairy herd to organic, Steve Taylor, Weekly Market Bulletin, Department of Agriculture, Markets and Food, January 12, 2005, Volume 83
[18] FY05 appropriations for sustainable and organic agricultural programs, from Organic Farming Research Foundation. 2004.

Feedback:
MAINSTREAMING OF THE U.S. ORGANIC MILK & PRODUCE MARKETS: OPPORTUNITIES & RISKS TO VERMONT ORGANIC PRODUCTION SUSTAINABILITY

Helping to keep Vermont niche
Marketing dollars are available
Mixed response

Well written
Alternative coverage – 1-2
Fit – 4
Attractiveness – 3
Competitive position - 4

Skills to move it
Reservoir of clientele
Delivery structure
Takes the mystery out of what niche is
Need for research = is happening with a VIRECA grant
Situated well
Can move away in the future
Political (uncomfortable) places
    Re: raw vs organic
    Needs to be addressed
Potential for stronger connections
Would need to build on the research
Need to see cash flow (Bob P.)

Discussion on Ag and Rural Communities (focus on div ag.)
    s about niche marketing
    Maybe it should be marketing for sustainability and include organics and local foods

---

Organic milk
    Needs to be broadened
    (3 yr—research and application)
    Markets for sustainability?
    Connect with local foods/organic
    Could be leader
    Needs more clarification

---

1. Yes – timely issue--market growing
2. Partners are there; ag resources available
3. Not sure if we can be the best = marketing?
4. Can measure the impacts

- Is a niche in Vermont
- Recognized by bigger players (Price Chopper, etc)
- Possible multi-state partnerships
- Buy local, environmental concerns, health concerns
- Not really marketing issue;
- Is a vacuum for info "academic rigor"
- Local is chosen over organic (Cynthia Barstow)

To me, a single parent hovering on the edges of poverty level income, this is a no brainer. If *I* drive 30 or 60 miles to a grocery or market specifically to purchase locally grown, organic, and expensive food products, because I think they are safer, better for my family and to support local businesses ~ then it must be an issue important to me and neighbors. Once in a while my friends and I make a day of shopping and lunch at City Market!

Organic, home grown, local, and personal shopping and consuming of products is here to stay and the sooner Extension gets on board with research, education, and outreach the better.

Consider the attendance, enthusiasm, determination, and political power of NOFA, which was displayed at the recent annual conference. Extension could present many beneficial and informative educational opportunities there and deepen relationships with this young, innovative, courageous, risk taking, and educated audience.

Any biases, and there are plenty, that Extension personnel have about Organic, need to be addressed and put aside. They may not have been our traditional audience, but they are now.

Can Extension achieve excellence in this area?

- Perception history of Extension, commoditization of what Extension can do differently to enhance viability of organic in Vermont
- Is milk working for farmers in Vermont?
- They are starting to help farmers transition to organic milk; is this good for Vermont? Is it profitable for Vermont? Will it change, as more people get involved?
- Can Extension help farmers make organic milk a profitable specialty product (the marketing, brand, VT label)?
- Currently 6% of milk from VT is used in VT
- VT has smaller niche farms and are dealing with production
- Giving people tools to be involved marketing
- Can Extension develop and teach a model on how to (produce, marketing, skills, etc.)
- Small operations end or build into larger conglomeration?
- How does Extension become involved in niche markets?
- How can farms diversify? What products can be made from milk (niche markets using VT label)
- Organic vegetables – doesn't have the commodity channels that milk has

- How much of market stays within the state, plenty is going out such as organic vegetables to Boston markets. Fruit: apples and blueberries, but have shipping problems with berries.
- Organic has higher prices.
- Currently have difficulty moving products out of state
- In-state – organic / or local (no difference, same price)
- Perception of “organic” -- confusion of what is organic

How can Extension help:

- People skills / build customer relationships
- An understanding of organic growing / processing
- Production
- Financial skills
- How to be profitable “organic”

Can Extension achieve excellence in this area?

- Investigate new markets for organic
- What’s happening in organic – commoditization to maintain value piece in marketing
- In VT there is a need for more markets
- “Organic” – what about wholesome foods
- How can we support only “certain people” (i.e., organic farmers) – what about all farmers?
- Extension would be viewed as pulling away resources from all
- Many farmers are more alike than different
- Markets – organic producers are looking for technical assistance (they have a really good market now and it is hard to meet the need)
- Direct marketing – not competing with large growers
- Commodity marketing – are competing with large out-of-state growers
- Small farms – good for organic milk
- Extension may not need to use VT resources in VT, because in VT, demand is strong
- Big dairies – organic – is not Vermont
- Organic VT dairy producers may need VT branding of milk – group disagreed; need to organize, to stabilize market / price
- Small diversified farms need help where to direct-market to; farmers’ markets, restaurants
- Organic farmers now are asking for technical production assistance <u>not</u> marketing
- Be fair to all farmers, a universal asset
- Do <u>not</u> focus on organic, but maybe <u>VT</u> or <u>local</u>
- What potential does this have for VT farmers? Will organic keep some of the farms in business? Is VT organic profitable?
- Should we work with one target small audience (organic)? Should we do a program for all!
- Northeast Organic Farmers Association (NOFA) with 13 employees and Intervale are helping organic producers.
- Extension should not build walls – by reaching out to specific groups but work with all farms in Vermont.

- Instead: Does Extension want to invest in marketing? VT used a seal of quality (clover) do they do this now?
- Organic marketing – does need more help, but is this Extension's role?
- To increase price is it production or marketing? It depends…
- Production might be better to focus on.
- Non-commoditized markets need more marketing
- Extension can work with specific groups, if there is a need. All producers might have a need.
- How much of a percentage do we need to target organic (only 5% of farms are organic)
- Extension could do research – certain skills we could provide
- NOFA doesn't do research
- Extension needs to have a person who knows a lot about organic (can answer organic questions), but still serve all.

Can Extension achieve excellence in this area?

Extension – working with organic now? We do not really work with organic. Sustainable Ag Center – special funding (has asked legislature to fund organic). Vern Grubinger works with organic berries

- Northeast Organic Farmers Association (NOFA has technical piece with legislature)
- VT Viability Program – VT Legislature (may include farms, with business plans, small business development)
- Organic vs. non-organic
- Certification process: Extension may not be included with certification. Extension could deal with technical assistance - soil bacteria, composting, how to farm, etc.
- Problem with organic farmers – splits our small state; organic vs. conventional. (We all could use technical assistance, example: controlling weeds)
- Need education to all farms using the best practices
- Do not want to see label "organic" marketing
- VT organic markets – standards for Vermont (developed 10 yrs) – National standards
- VT farmers do not want National standards – large group – business decisions with organic
    - *Ex: Booth Brothers label "no BGH" milk label
    - *Marketing terms
- Focus needs to be wider than organic, process based (organic certified) not for Extension
- Extension is result-based, ex: does organic product yield a more nutritional vegetable?
- Extension can provide un-biased information, ex: Good soil screens yield crop
- Small VT farm stands may disappear if consumer can find cheaper organic at large markets (big corporations)
- Help local foods (meat, veg., fruit) knowing where food comes from "organic" - think local
- Large corporations providing cheaper products – but will families purchase?
- Out of state processors – use of 'natural' label yet do they care about family farms?
- Terms – natural – what's the claim? Term has declined to what it means; is it the perception of organic?
- Extension is stretched now; how can we do this?
- NOFA has 13 employees dealing with organic production.

- National Sustainable Agriculture Information Service deals with the transfer of technology.
- Small % of Vermonters practicing organic – Extension should be doing it or finding referrals and resources to help producers.
- Should one person in Extension deal with organic?
- Is this a seasonal position for vegetables & fruits, but not dairy (milk)?
- In Extension, do we have a marketing group? This is marketing? (Lisa is doing some; Vern & Sustainable Ag - marketing)
- Perception of what is organic; is it profitable?
- Organic Certification Boards exists for dairy, berries, and vegetables – trying to include maple
- Extension should provide skill and expertise in hot topics, but could be involved in marketing
- If 100 organic farms, Extension can help farms keep going
- Should help ALL farms, not just a few organics only
- Be careful about jumping on "new issues" – "pasture management" is for all, general topics needed for all
- Why do we want to be doing something NOFA does for a specific group – need help for common issues – labor costs / general farm issues

---

Can we achieve excellence?

- Dairy farm – great prices to produce organic markets
- Organic milk (niche market) - Organic grain; transportation / changing over (transitioning)
- Need to promote organic foods / are people purchasing?
- Are prices sliding when products go to large corporations
- Very little data relating to nutritional value on organic products – expensive, hard to purchase organic food on a low budget
- Local foods has more nutrition than produce / milk from another state
- Organic is normally small scale: large farms (corporations) switching to organic hurt small farms
- Cost high for organic fruits, more economical for vegetables
- Ex: Hannaford doesn't present organic foods attractively, so people not purchasing
- People will purchase local over organic
- Will people purchase VT organic products?
- VT brand equity strong in NE / New York, but not out west
- UVM did study at Westfield – local milk vs. organic milk; there is brand recognition. Ex: VT green wood production – only a few other organizations started selling only certified wood products, demands high; prices drop
- Is there a value for organic? There is out of state.
- Need advertising / marketing help
- Need information on organic farming (production side). Do farmers want to make the investment in organic? Cost of production? Availability of grants (for farmers and others) to help transition?
- Do something that Northeast Organic Farmers Association (NOFA) is not doing (ex: Cornell work book – how to transition)

- What is the value of small VT farms? What it does for America? Ex: large corporations/Walmart, money goes elsewhere. Dean foods leaving Vermont .
- VT / Rural VT co-op (Anthony Pollina) – proposed processing of organic milk
- Expands markets for organic milk
- Look at what is happening in VT; how do we bring info to NOFA/organic, and what to do with it?
- Is it LOCAL or ORGANIC? Farmer's Market – why purchase; know the people, instate markets.
- Agency of Ag / Dept. of Ed. – How to use local foods in schools

---

Should Extension work on this issue due to limited number of producers?

- Product going out of state, who is it benefitting? It's a small number of people.
- 79 organic farms – should we be working with such a small number of people?
- Dept Ag (Legislature) promotes organic; isn't that enough?
- Is NOFA doing enough with organics; what about local wholesale produce?
- Do we need to focus on local, fresh? Use correct terminology - Marketing: Organic / certified
- Need ecological, local, wholesome, natural VT family farm
- VT doesn't have to go corporate; promote that small VT farms are good!
- Hesitance to spend resources on organic

More on "local" value (treat as part of whole)