FAIRHAVEN STRATEGY GROUP

Innovative Solutions for Growing Organizations

ORGANIC INDUSTRY TRENDS & PERSPECTIVES

OCTOBER 27, 2008

GREETINGS

HORIZON ORGANIC

Pet Promise brand
let byproducts be bygones™

THE ORGANIC COW OF VERMONT

Since 1972 Cascadian Farm

MUIR GLEN Organic

AurorA ORGANIC DAIRY

The Organic Center for Education & Promotion

FANTASTIC ALWAYS NATURAL

FAIRHAVEN STRATEGY GROUP

Dave Carter

- ✓ NOSB Chair
- ✓ Rocky Mtn Farmer's U.
- ✓ Nat'l Bison Association
- ✓ Co-ops / Producers

Larry Yee

- ✓ U. Cal. Ag. Extension
- ✓ Ag of Middle Task Force
- ✓ Food Alliance; ROC
- ✓ UC Hansen Trust

Steven Harper

- ✓ NOSB Member
- ✓ R&D – Small Planet Foods
- ✓ New Products
- ✓ Bellingham Food Co-op

Betsy Hitchcock

- ✓ Horizon Organic
- ✓ Celestial Seasonings
- ✓ Earth's Best
- ✓ Frontier Co-op

Clark Driftmier

- ✓ Small Planet Foods
- ✓ Horizon Organic
- ✓ Aurora Organic
- ✓ Ralston Purina

AGENDA

1. *Industry Trends*
2. *Consumers*
3. *Store Brands*
4. *Organic Ag. Priorities*
5. *Thoughts for the Future*

CURRENT STATUS - RETAIL

TOP ORGANIC RETAILERS

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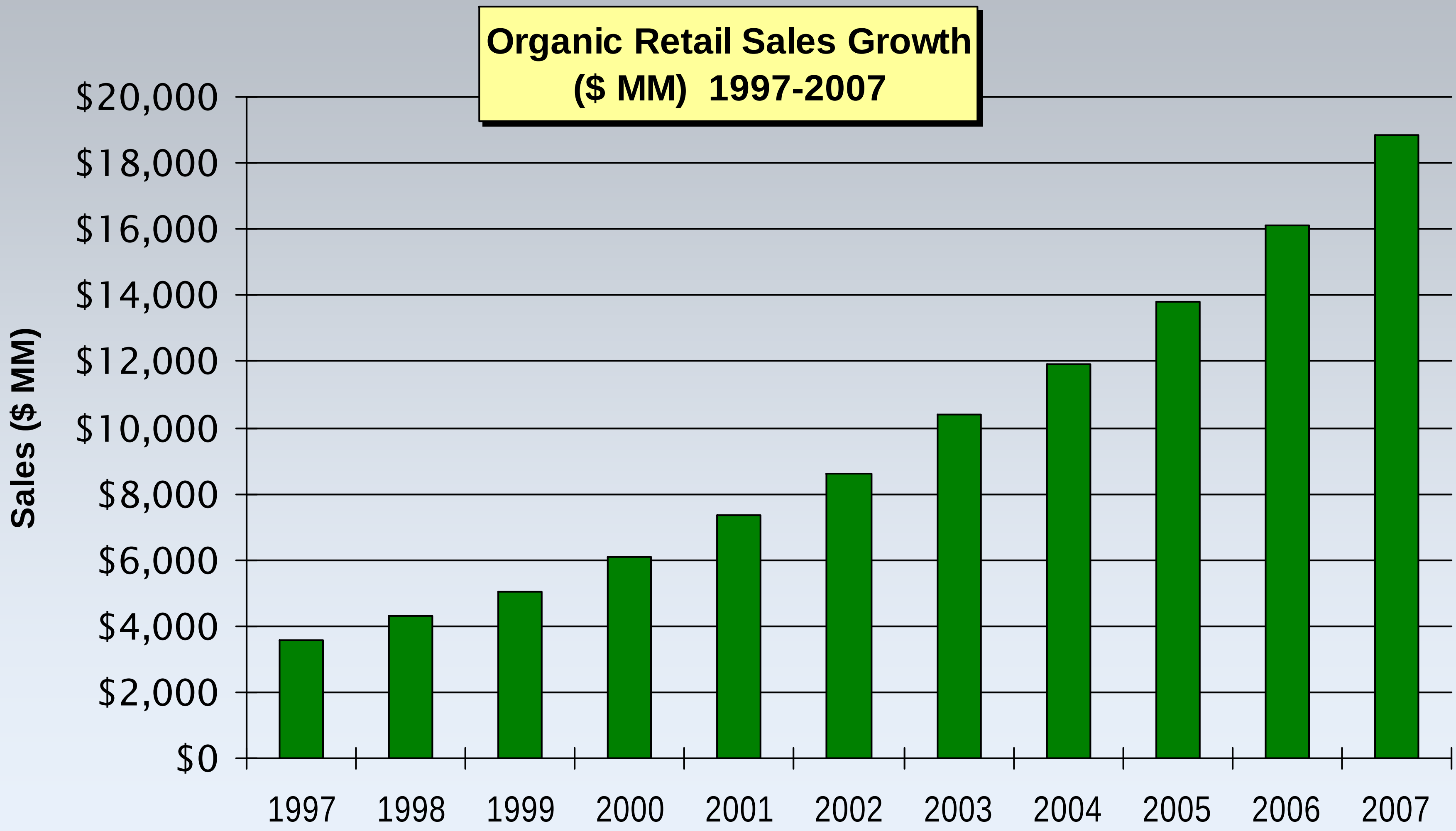
Source: Scarborough Research

ORGANIC SALES GROWTH



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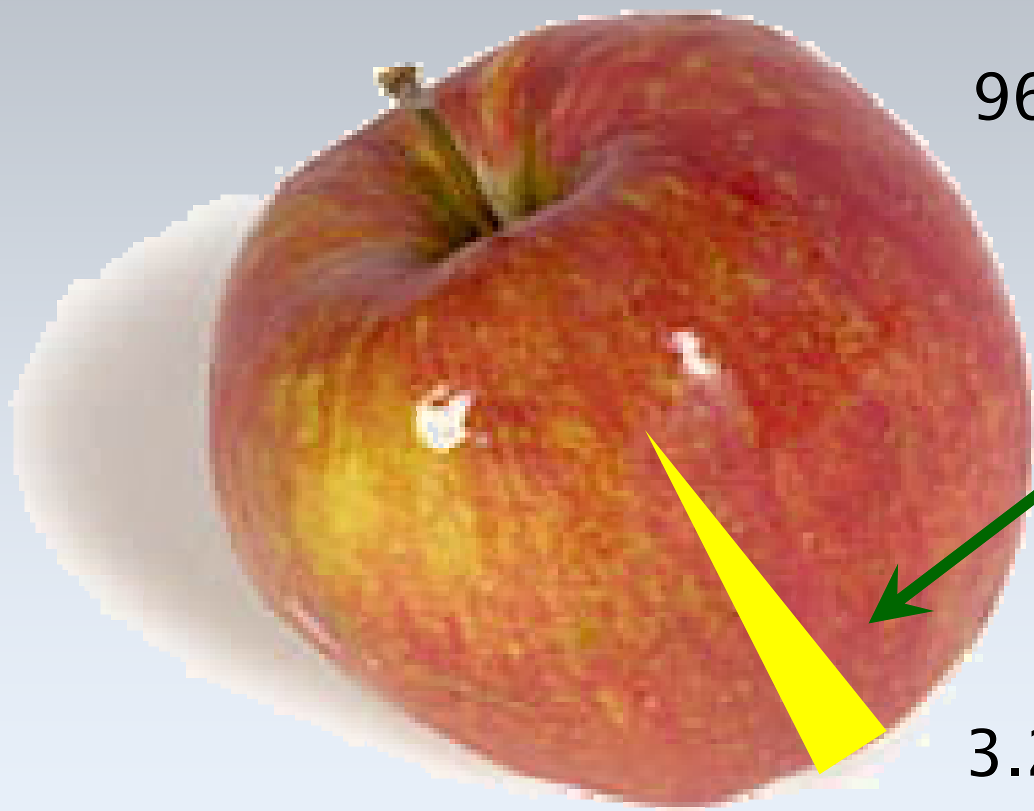
Source: OTA / NBJ

Percent Organic Sales

Total Grocery Industry Sales: $588 Billion



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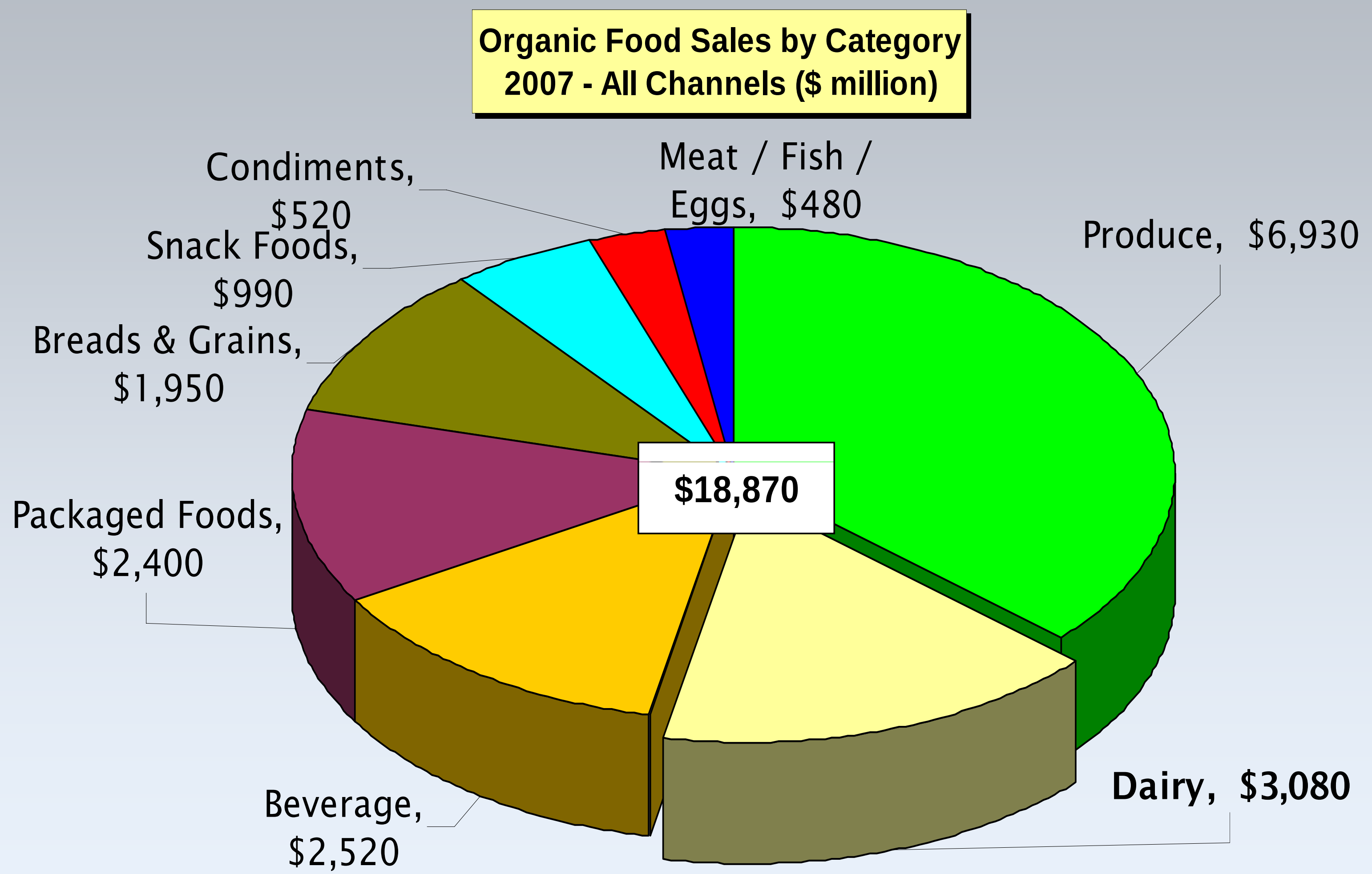
Source: FMI / NBJ

SALES BY CATEGORY



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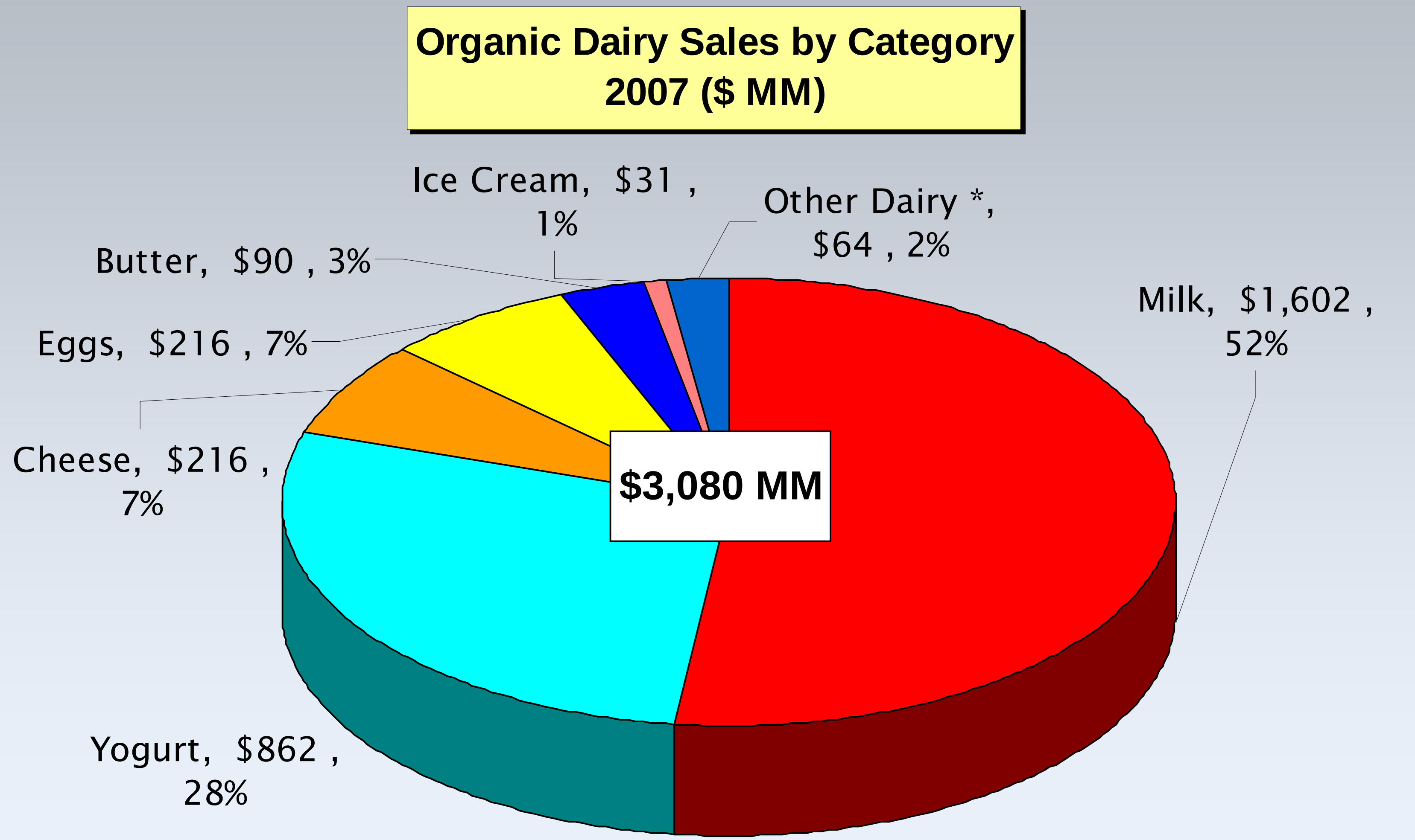
Source: OTA / NBJ

Dairy Sales by Category



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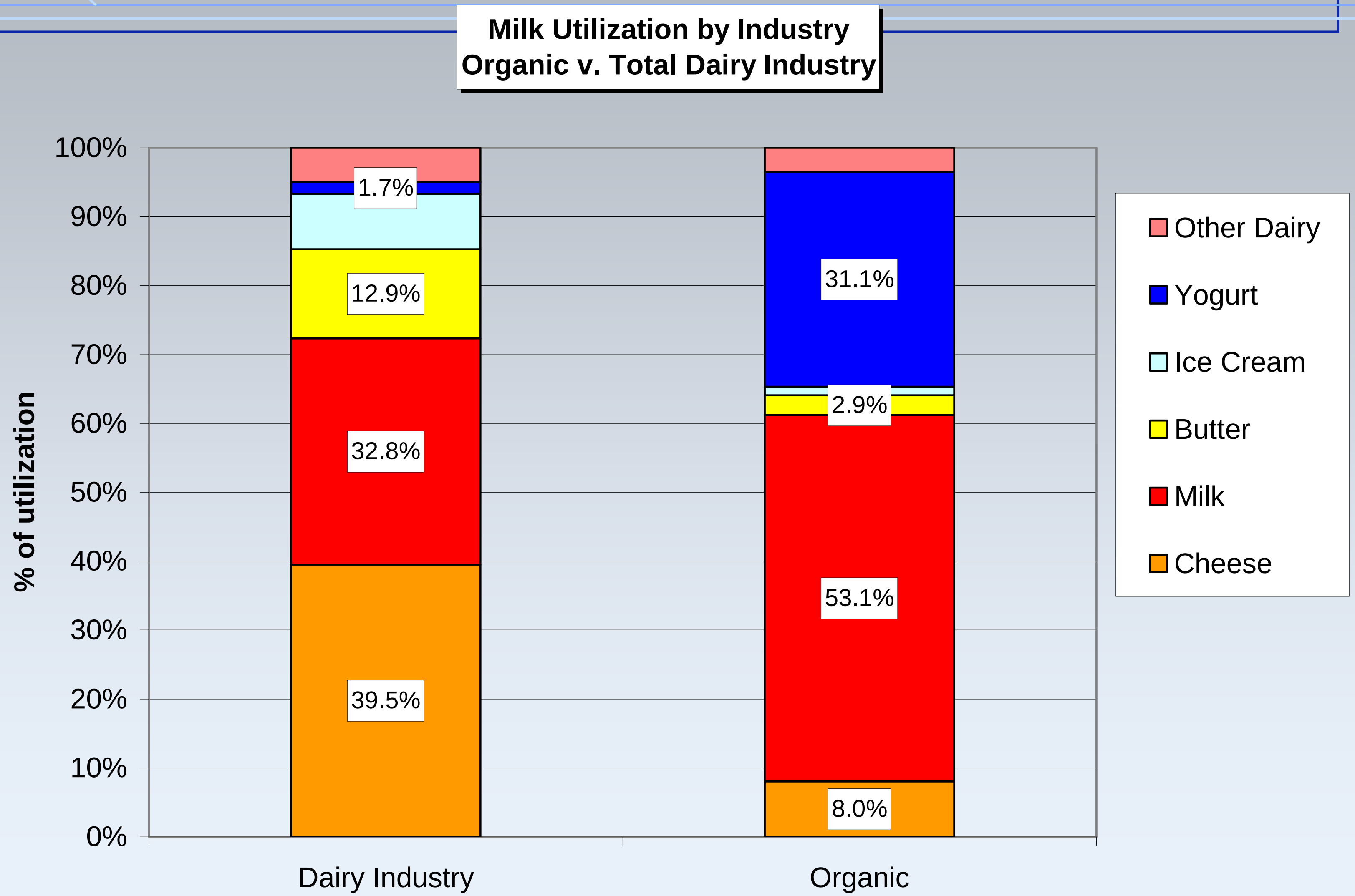
Source: OTA / NBJ

MILK UTILIZATION



Source: OTA / USDA

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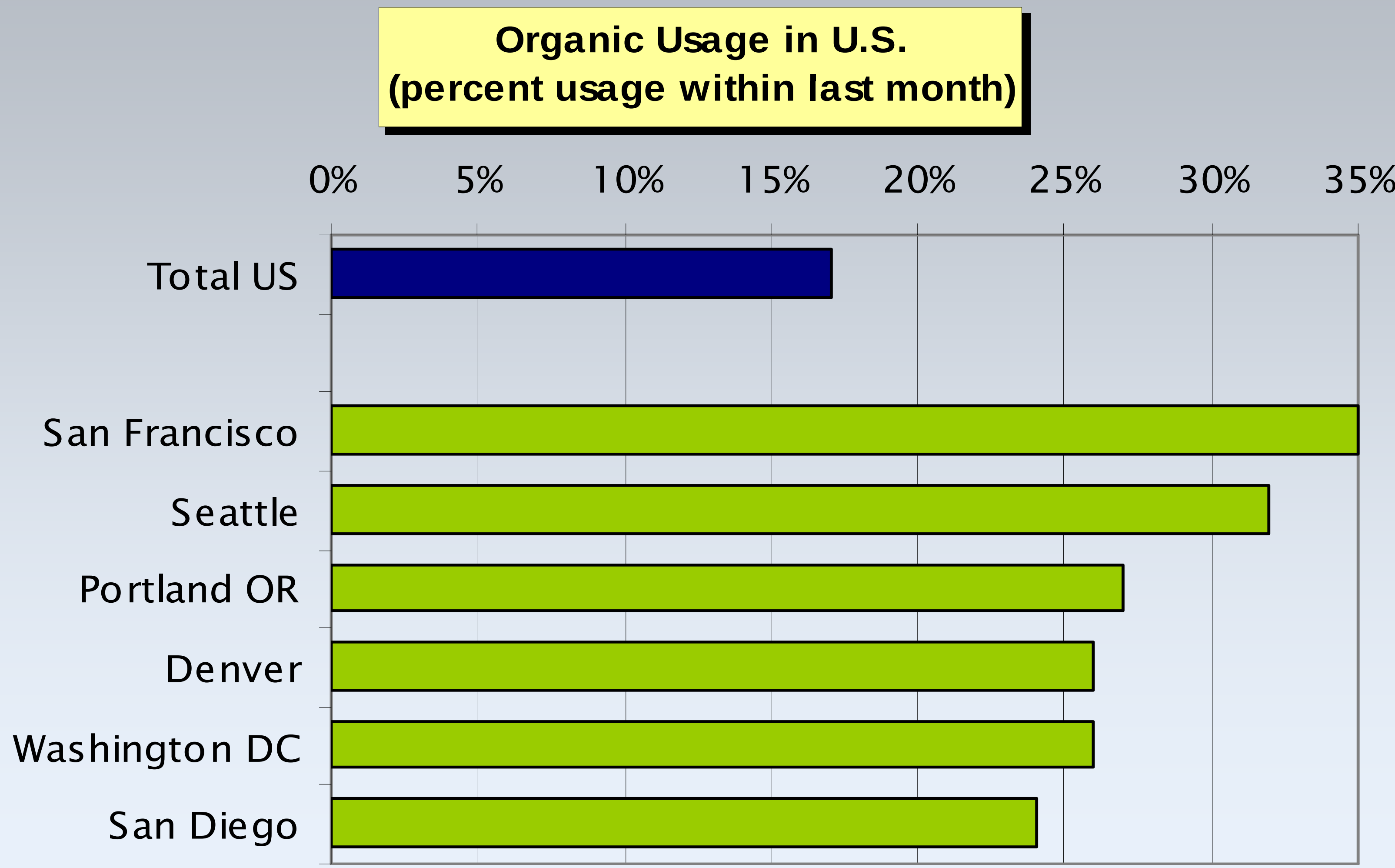
RECENT ORGANIC USAGE



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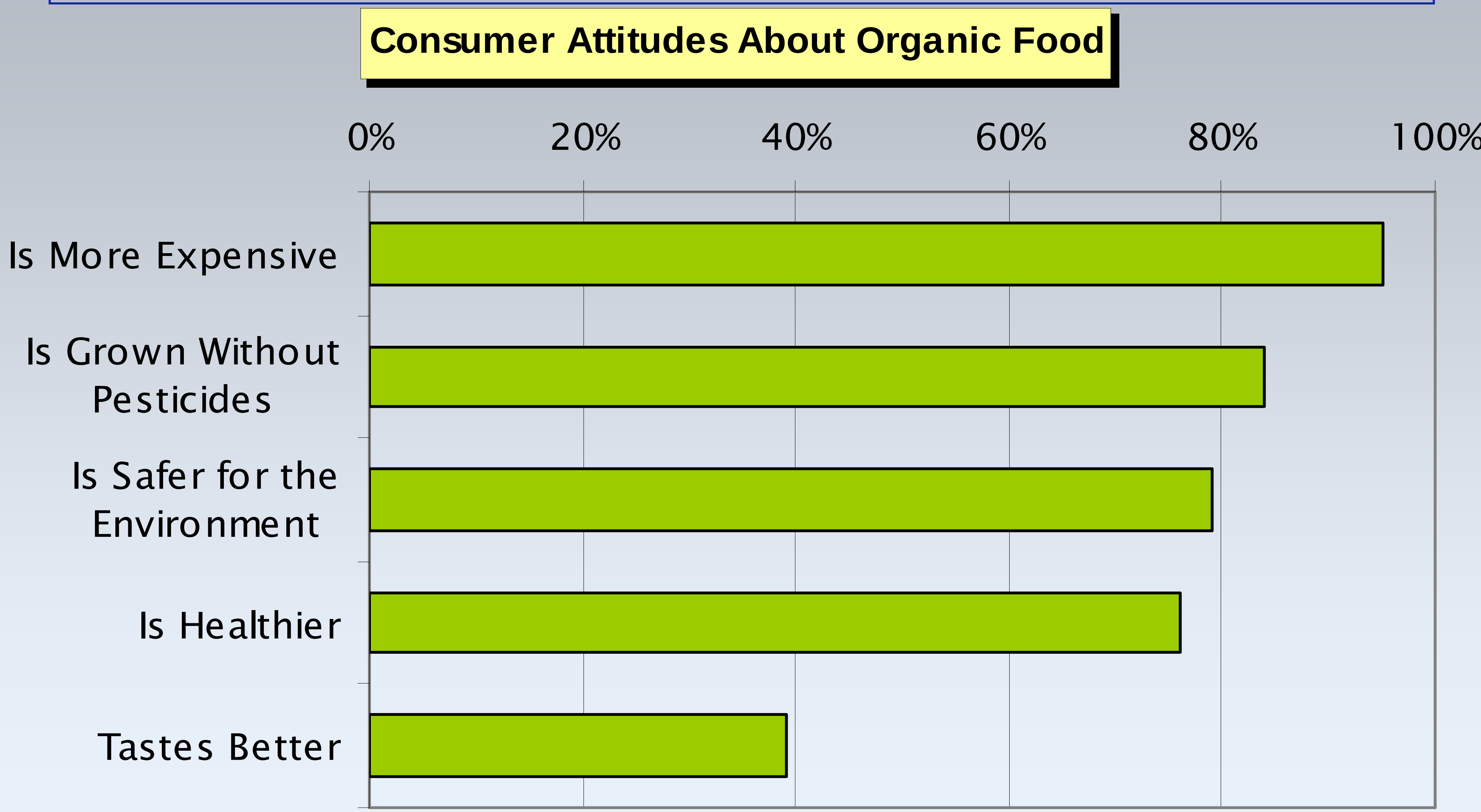
Source: Harris Interactive

Consumer Attitudes



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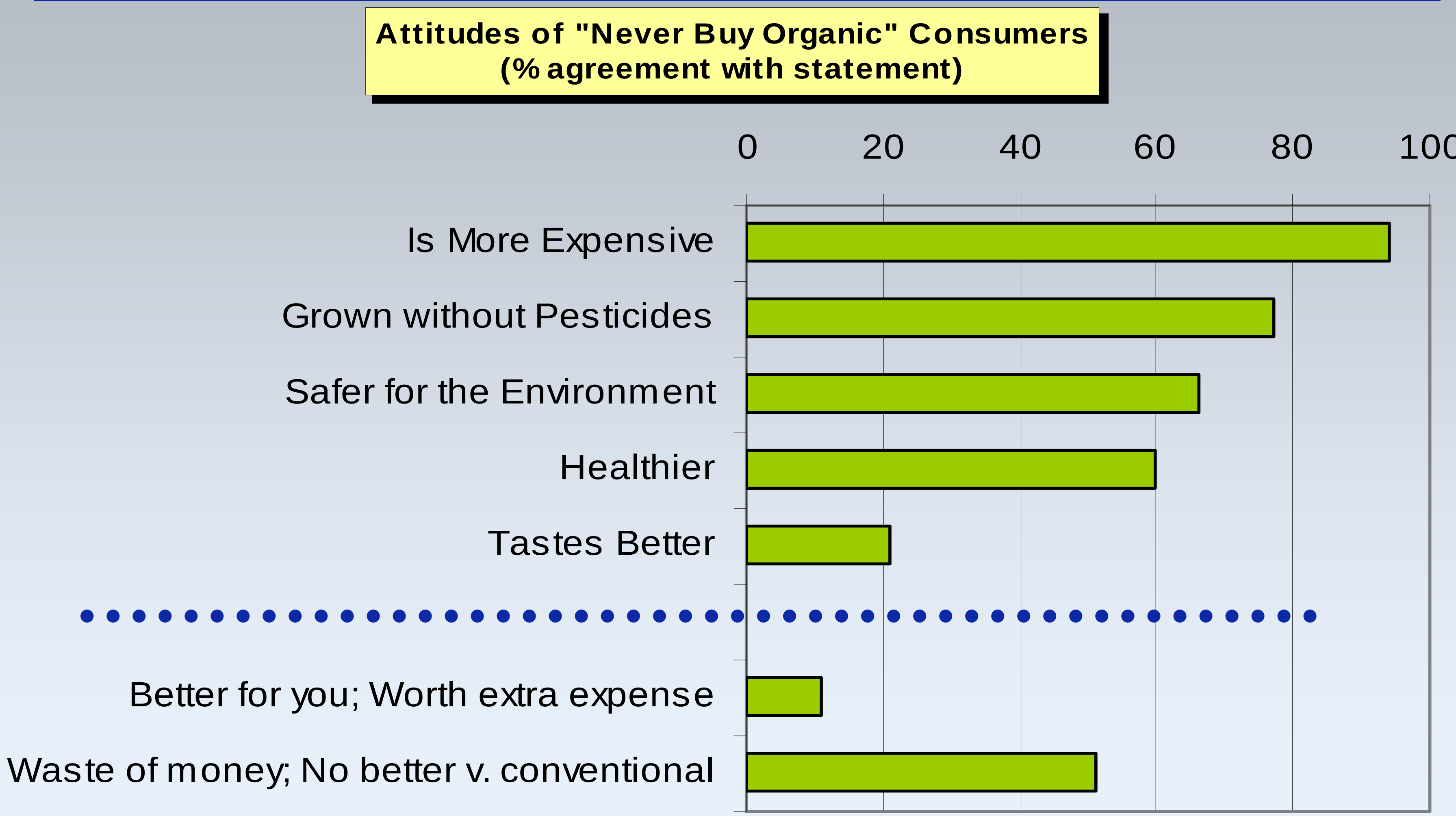
Source: Harris Interactive

Attitudes of Non-Users



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Source: Harris Interactive

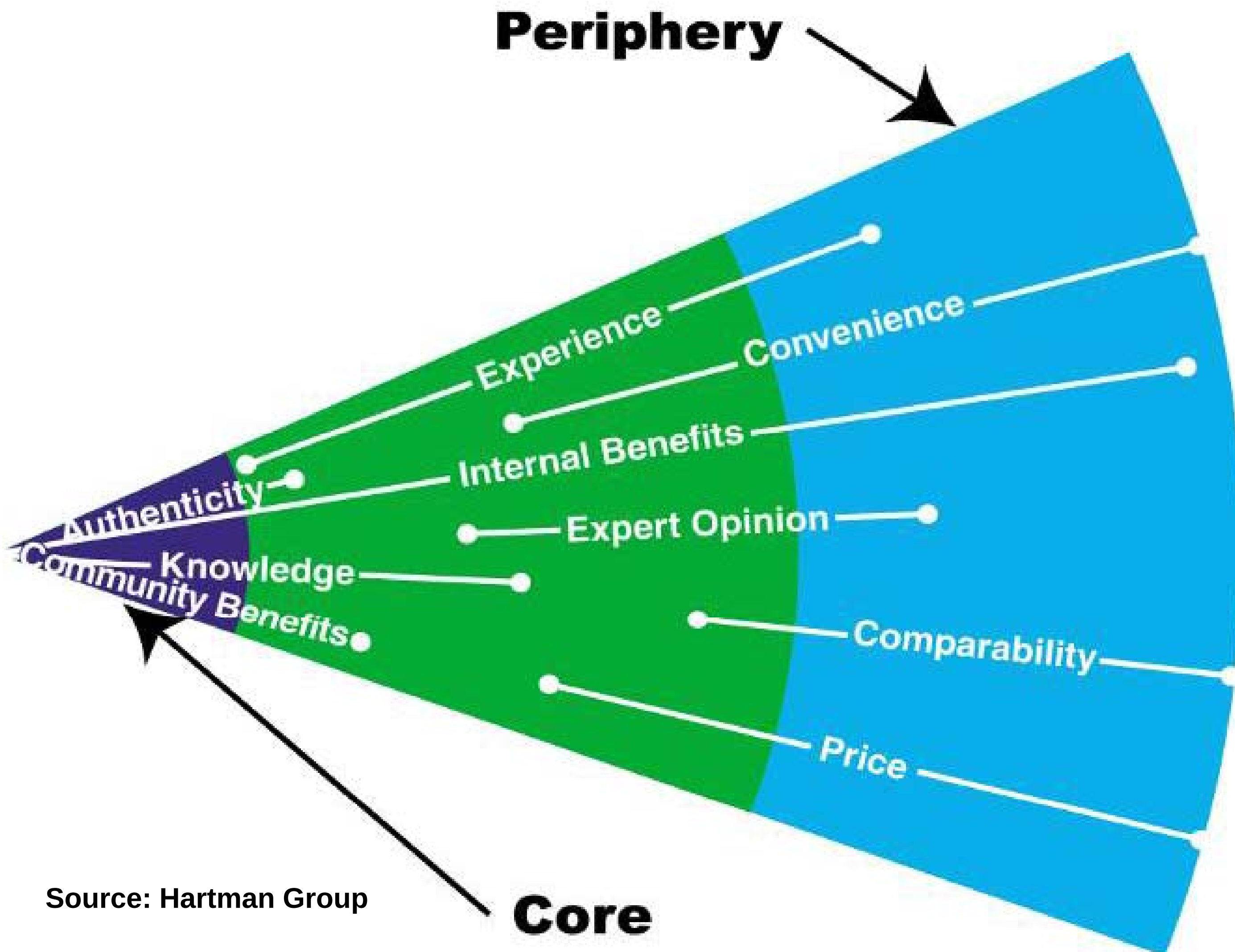
NON-USERS ARE SKEPTICAL

1. **60% to 83% of population does not purchase organic products . . .**
2. **Organic is acknowledged to have some benefits – but . . .**
3. **What's Wrong With My Diet?**

HURDLES TO ORGANIC ADOPTION

1. **Price**
2. **Taste**
3. **Understanding of Organic Benefits**
4. **Belief that Change is Needed**

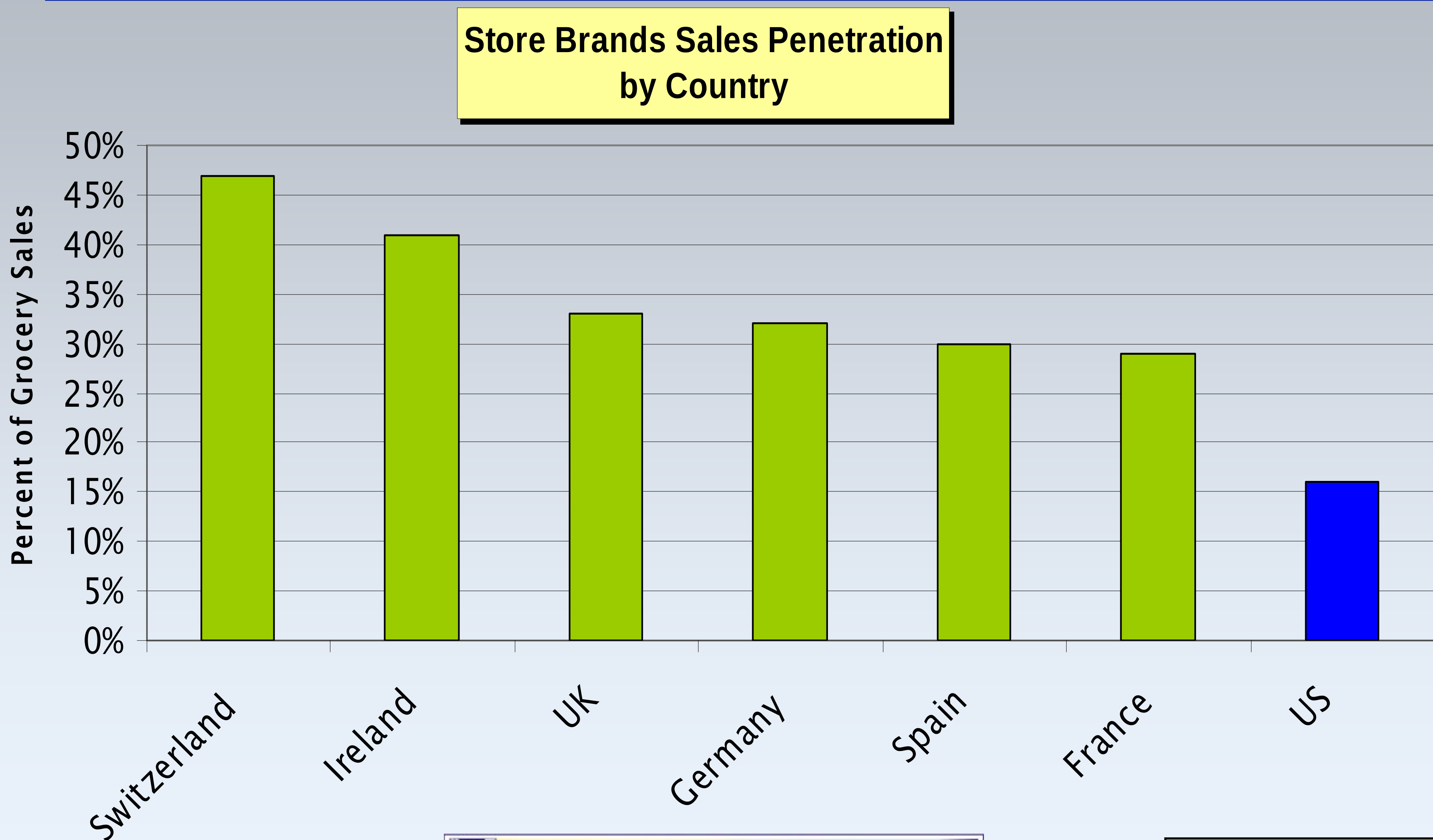
MOTIVATIONS IN ORGANIC



Source: Hartman Group

STORE BRANDS

SALES BY COUNTRY



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Source: A.C. Nielsen

MULTI-TIER RETAIL STRATEGY

Value Tier

FMV
FOR MAXIMUM VALUE

Perfect CHOICE®
QUALITY GUARANTEED

FIRST CHOICE
YOUR CHOICE FOR EXCEPTIONAL QUALITY & VALUE

health PRIDE

Premium Tier

Private Selection
Everything Premium, (but the Price)

O ORGANICS

Nature's Promise

MASTER CHOICE
FINE FOODS

ARCHER FARMS
TASTY FOOD TASTY PRICE

SAFEWAY SELECT
PREMIUM QUALITY

TESCO
Every little helps

Source: A.C. Nielsen

WHY RETAILERS LOVE STORE BRANDS

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4. **Retailers receive greater margin:**

3 Types of Shoppers

"Budget" Shoppers		
➢ Financial constraints. ➢ Budget and value are important. ➢ Store brands meet quality & value needs within available family budget. 		

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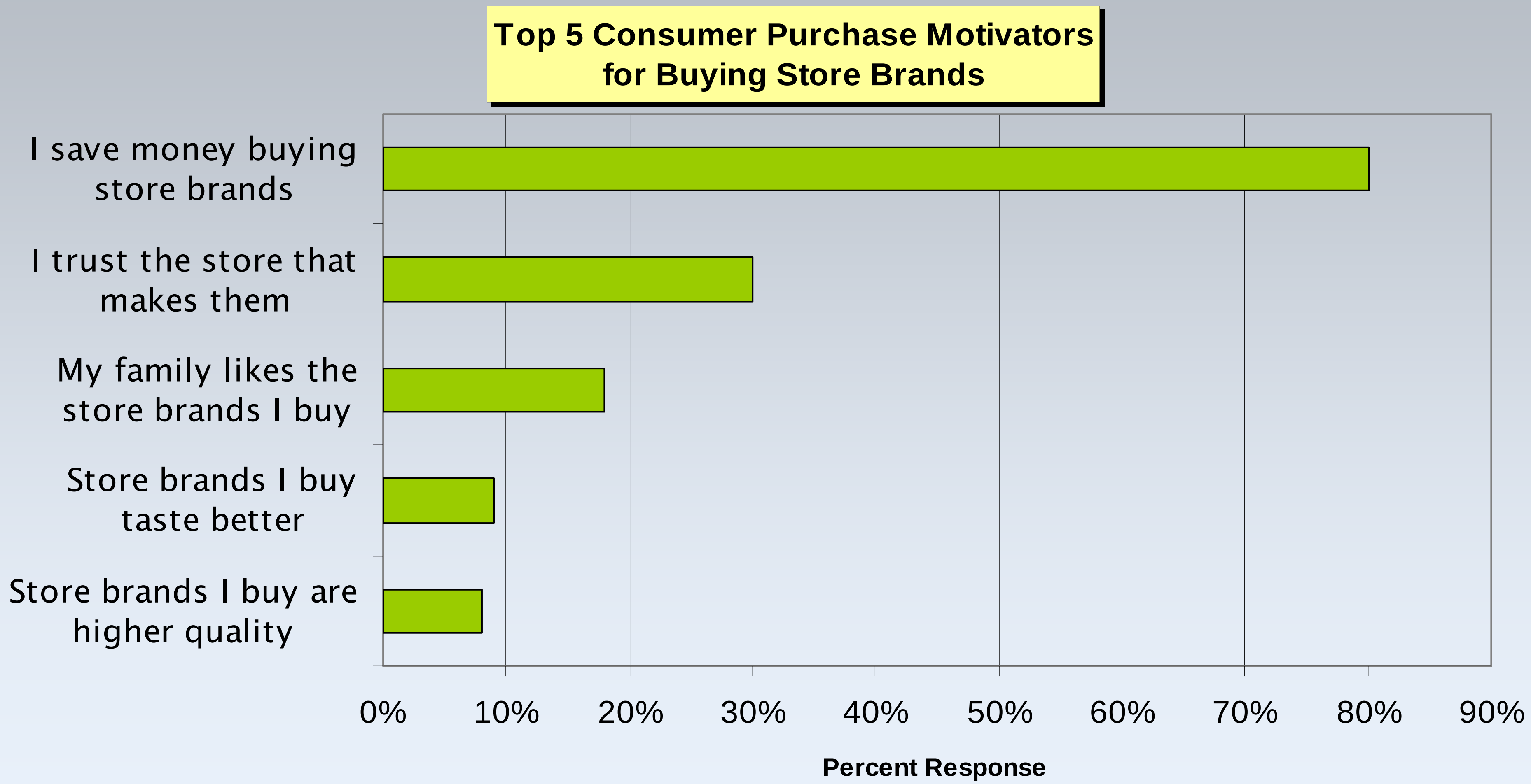
"Smart" Shoppers

- Believe themselves to be smart & savvy.
- Think they've "figured out" how store brands operate.
- Can afford brands, but don't see why they should pay extra for "marketing."

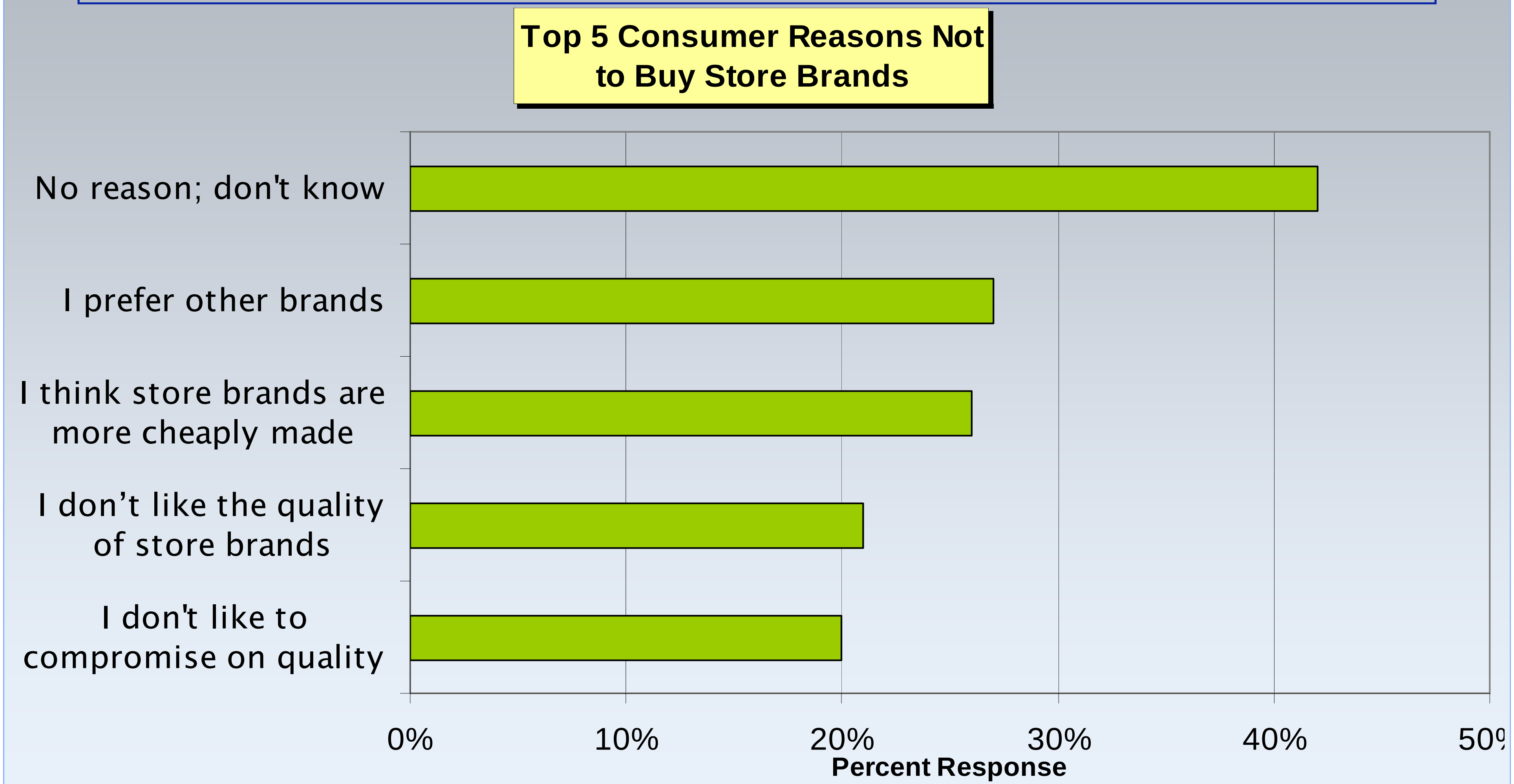
Top Reasons to Buy



FAIRHAVEN STRATEGY GROUP

Source: A.C. Nielsen

BARRIERS TO PURCHASE



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Source: A.C. Nielsen

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And You Should Too !

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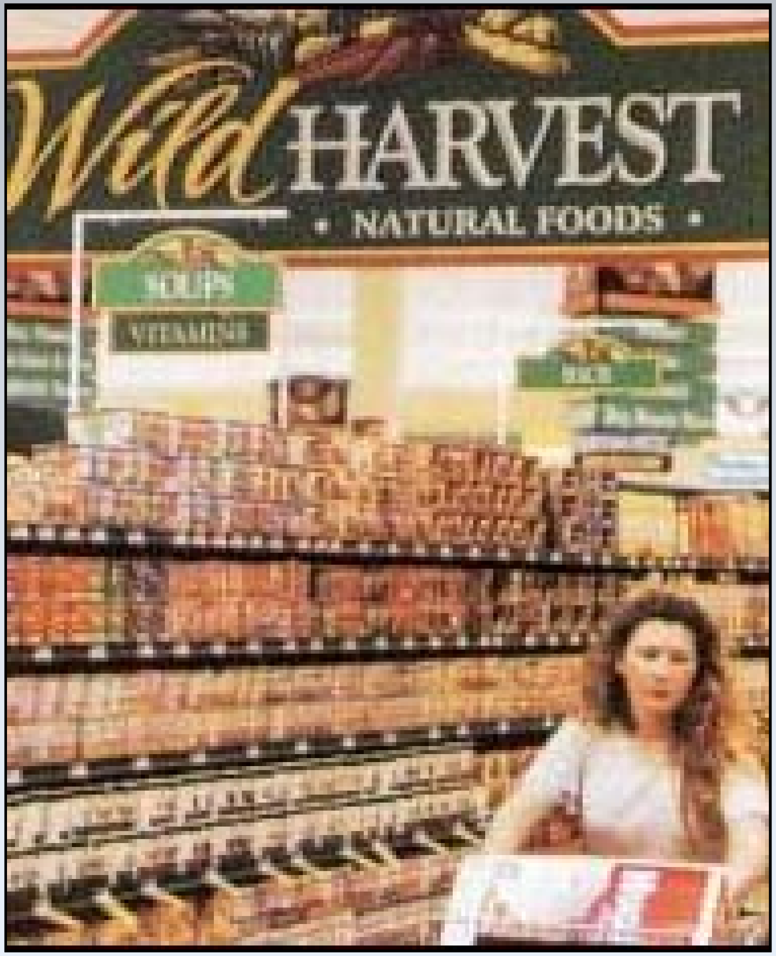

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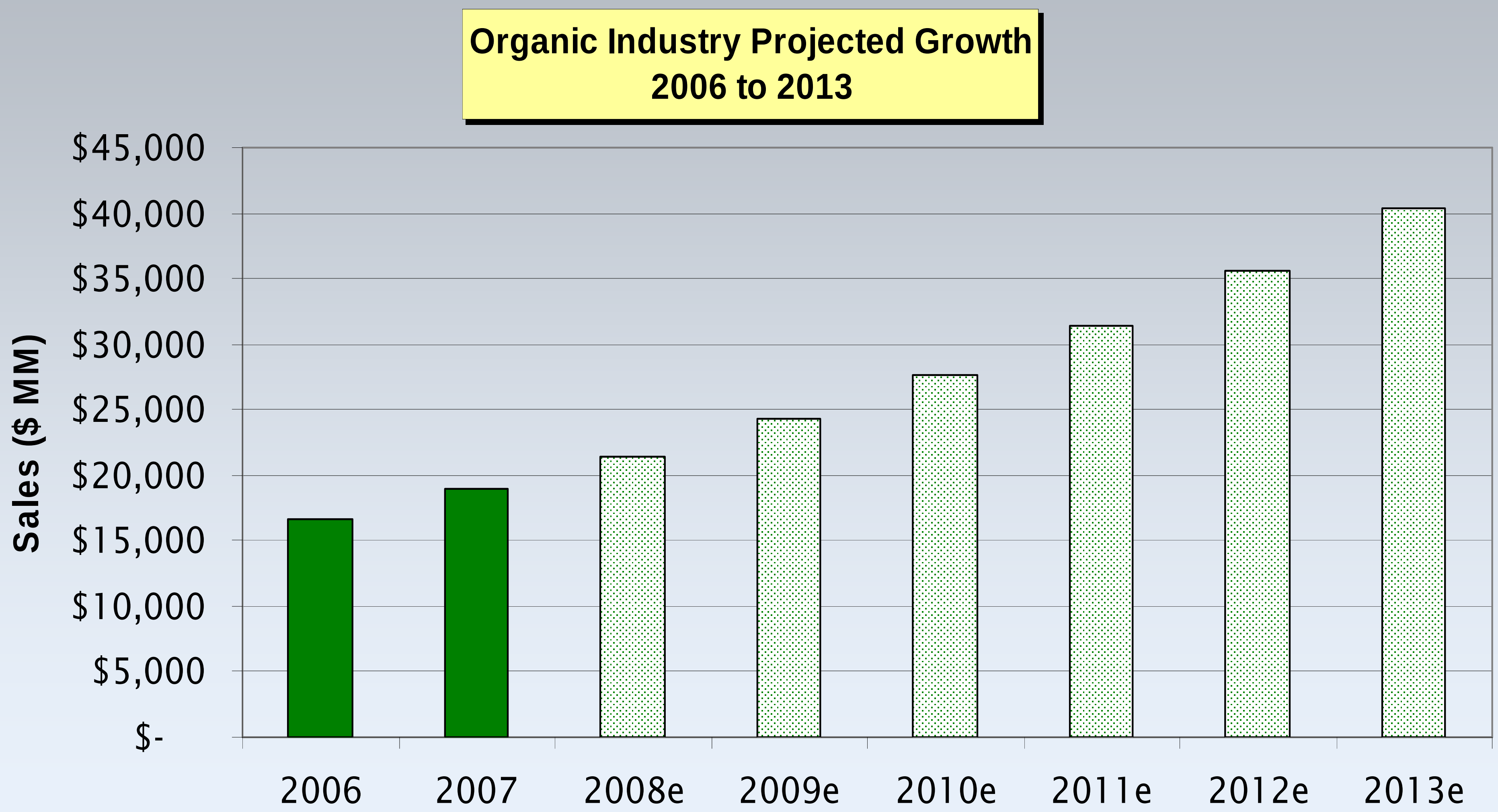
4. **Today's store brand organic purchase is tomorrow's branded purchase:**

Future Organic Growth



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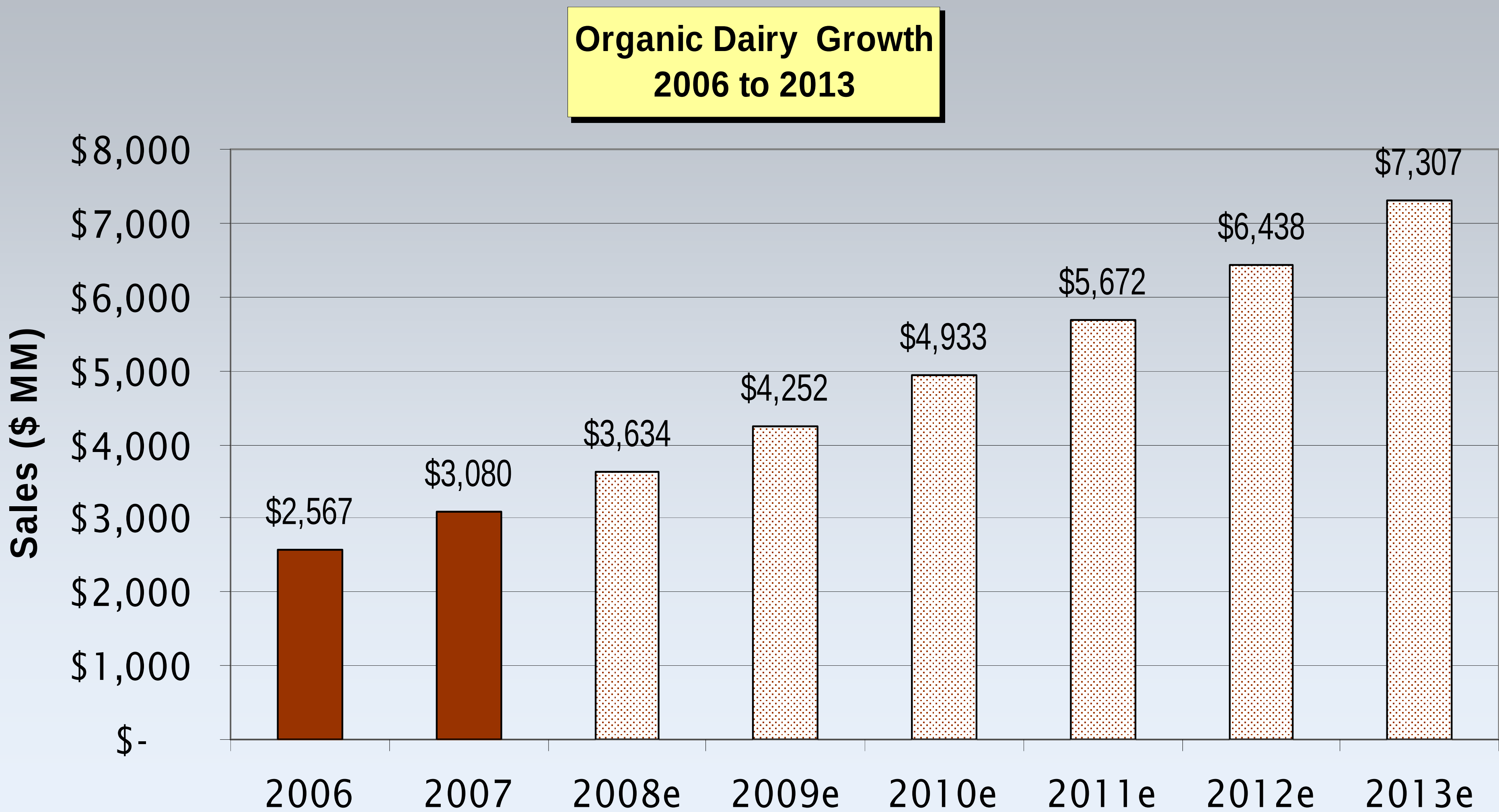
Source: OTA / NBJ

FUTURE DAIRY GROWTH



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Source: OTA / NBJ

Organic Dairy in 2013

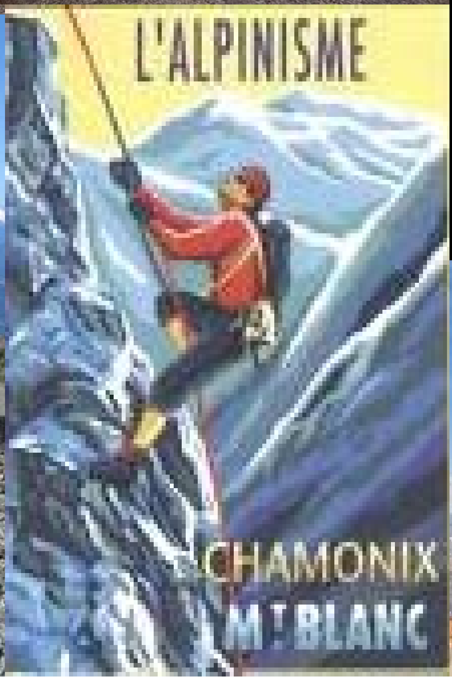
October 2008	October 2013
Total Organic Sales $21 billion *	$40 billion
Organic Dairy Sales $3.6 billion *	$7.3 billion
170,000 Cows in milk **	340,000 Cows in milk
1,600 Organic dairy farms **	3,200 Organic dairy farms
820 NODPA Members **	1,640 NODPA Members

Source: * OTA; ** NODPA

SET OUR SIGHTS HIGHER

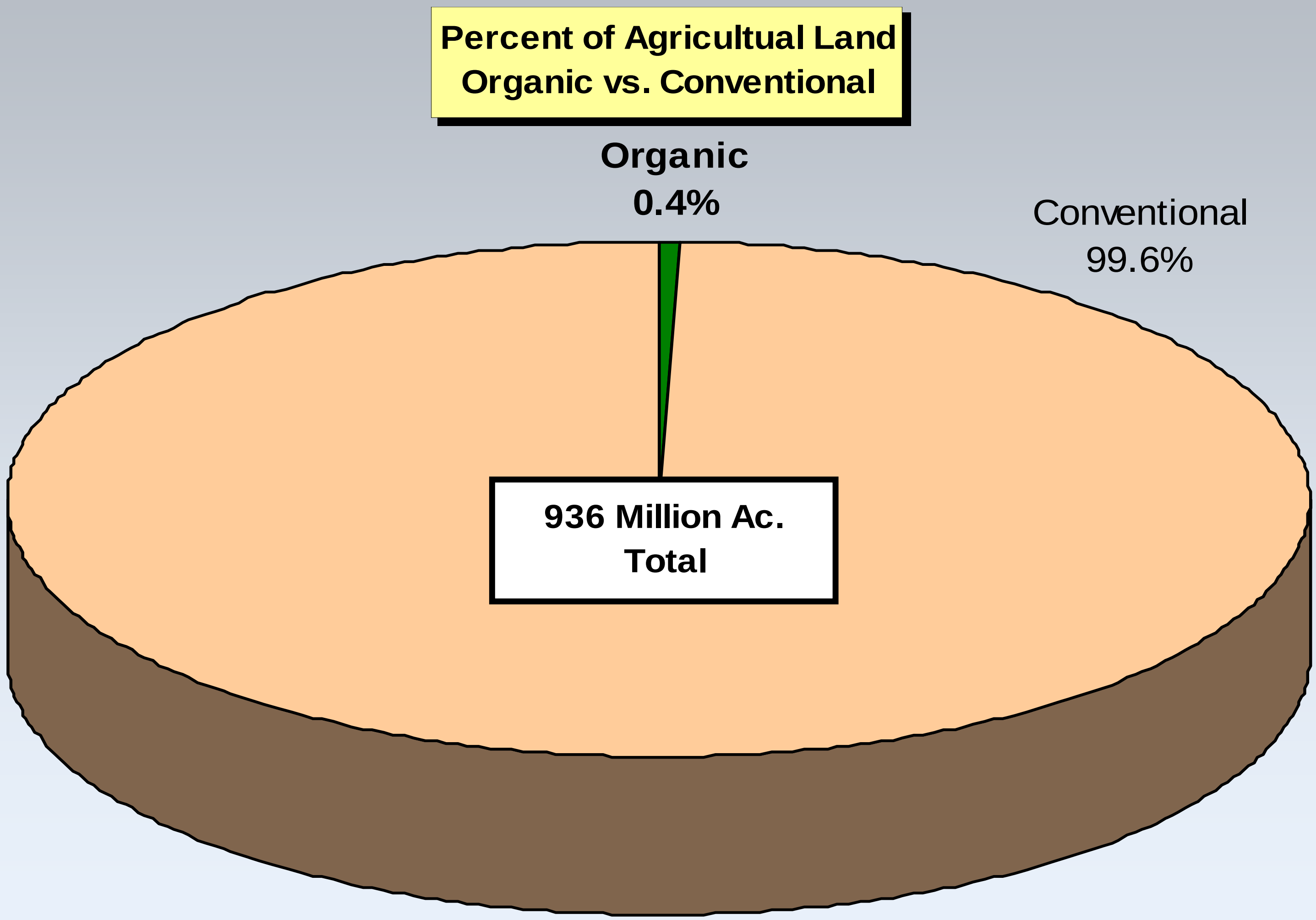






Opportunity:
Create Major Change in Agriculture



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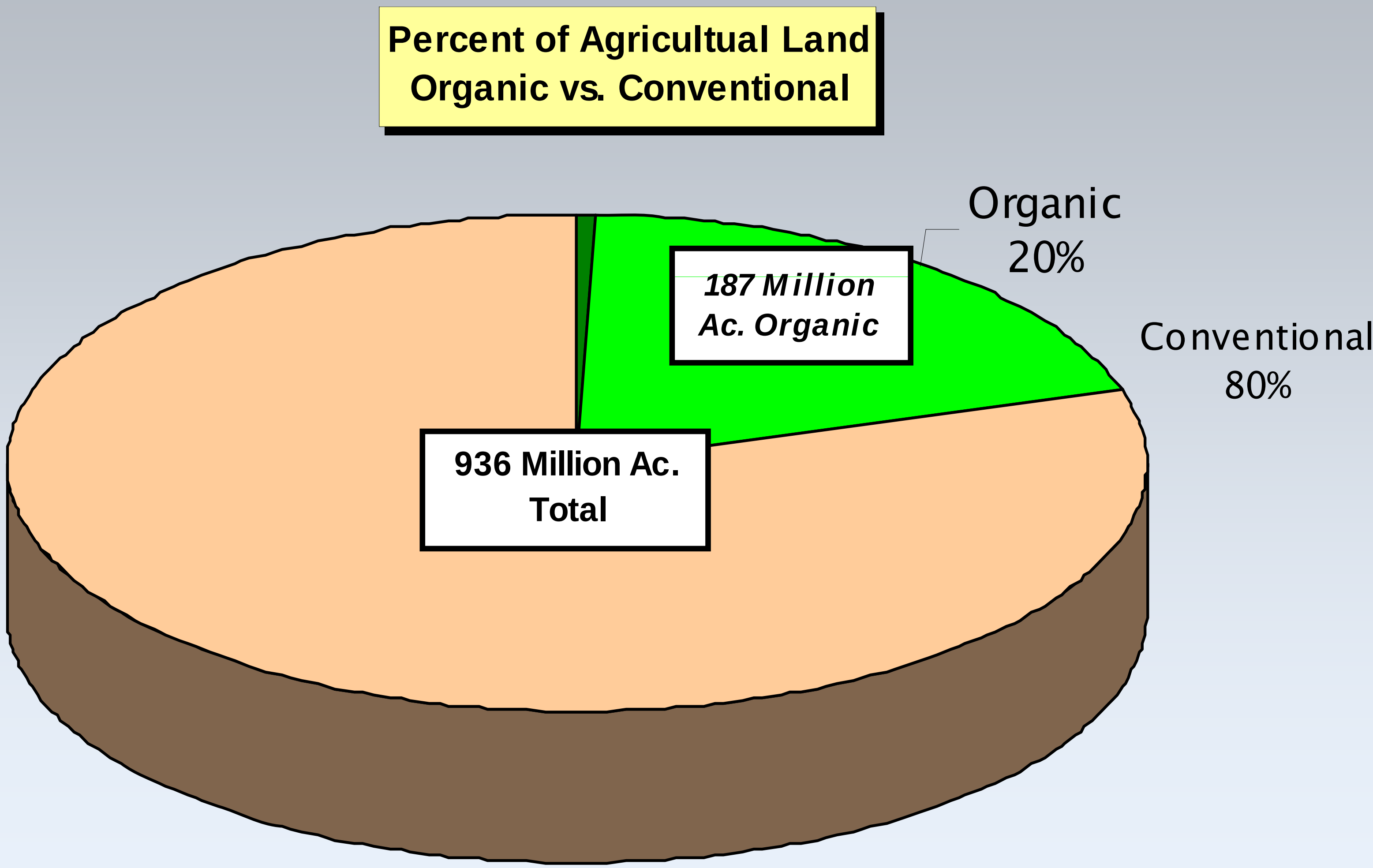
Source: USDA

Opportunity:
Let's Build Organic to 20% of U.S. Ag.



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Source: USDA

GROWTH TO 20% - CROPS

	2005: Conventional	2005: Organic	Goal: 20% Organic	Increase
Corn	81,759,000	130,700	16,351,800	125 X
Soy	72,142,000	122,217	14,428,400	118 X
Hay & Silage	61,649,000	411,300	12,329,800	29 X
Wheat	57,229,000	277,487	11,445,800	41 X
Cotton	14,195,000	9,500	2,839,000	299 X

Source: USDA

GROWTH TO 20% - LIVESTOCK

	2005: Conventional	2005: Organic	Goal: 20% Organic	Increase
Dairy Cows	**9,058,000**	**87,000**	**1,811,600**	**21 X**
Chickens	9,088,567,000	12,821,000	1,817,713,400	141 X
Swine	60,501,000	10,000	12,100,200	1,210 X
Beef Cattle	32,915,000	36,113	6,583,000	182 X
Sheep & Lambs	6,230,000	4,500	1,246,000	277 X

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Source: USDA

KEY SUPPORT

Measure	Total	Organic	Needed
USDA Budget	$93 Billion	< $3 million	Today: $375 million Future: $15 Billion
USDA Staff	112,843	9	Today: 450 Future: 20,000 +
# Ag. Colleges	69	5	20 +
Ag. Research	$8-9 Billion	< $5 million	$1-2 Billion
Ag. Research Staff	Thousands	< 20	Hundreds
Trade Assoc. Budgets	$500 million +	< $2 million	$75-100 million
Trade Assoc. Staff	Thousands	19	100 +

Source: USDA / OTA

WHY CHANGE OF THIS MAGNITUDE ?

1. We are still poisoning our land, water, air and people.

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3. **We must prepare for the post-petroleum society.**

4. **It will take 50 years or longer to transform agriculture.**

All Stakeholders Need to Work Together

Unity is Key To Our Progress

Put Aside Differences to Work for the Greater Good

We Must Continue to Surprise and Delight U.S. Consumers


THANK YOU !

FAIRHAVEN STRATEGY GROUP

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