



2019 Organic Produce Performance

January 15, 2020



Overview — 2019 Organic Produce

BACKGROUND

- This report covers organic fruit and vegetable performance for the Total U.S. as well as four U.S. regions.
- Reporting period covers 52 weeks of 2019 vs. the same period last year.
- This report was prepared by Category Partners exclusively for the **Organic Produce Network**.
- Data in this report is provided under contract by Nielsen. Coverage is the database for total food sales in the United States including all outlets, i.e. supermarkets, mass merchandisers, club stores, dollar stores, convenience stores and military commissaries. Nielsen offers the industry's broadest measurement of total retail food inclusive of UPC and fresh non-UPC (random-weight) products across the entire store, for roughly 90,000 stores nationwide.
- Data coverage includes all fresh fruit and vegetable categories sold in produce departments. The data also includes some non-fresh products that are often sold in produce. Examples are refrigerated/non refrigerated salad dressings, nuts and seeds, some bulk food products, some health/nutrition snacks and bars, salad toppings, dried fruits, etc.
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Report Highlights

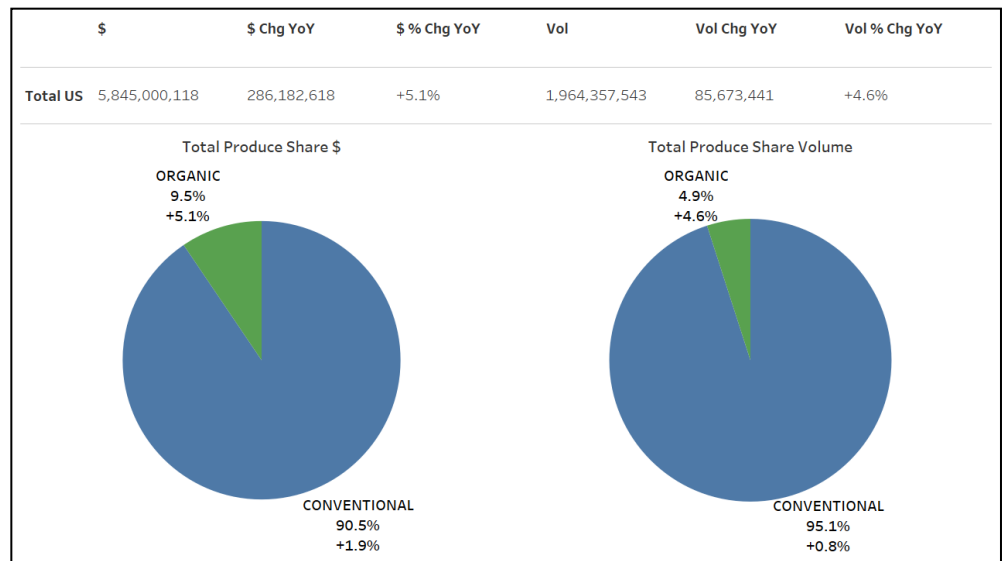
- Organic Fruits and Vegetables remain one of the strongest food product growth segments.
- Organic Fruit and Vegetable sales increased 5.1% in 2019 compared to a dollar increase of only 1.9% for conventional products. Organic dollar share increased to 9.5% up from 9.2% in the previous year.
- Organic Fruit and Vegetable volume increased by 4.6% compared to a volume change of 0.8% for conventional items. Organic volume share increased to 5.0%, up from 4.7% last year,
- Dollar and volume rate of growth decreased from 2018. However, organic performance continues to increase at a much faster rate than conventional produce.
- The West continues to be the strongest region in the U.S. for organic performance.
- Organic fruit and vegetable sales continue to be more concentrated within top categories than conventional product alternatives, indicating opportunities for expansion.
- Organic pricing remains significantly higher than conventional product alternatives.

Total U.S. Organic Performance — 2019

In 2019, organic fruits and vegetables continued to be among the star performers in produce departments nationwide. For the year, dollar sales of organic fruits and vegetables increased by 5.1% while volume moved up by 4.6%. Comparatively, in 2019 conventional fruits and vegetables grew by 1.9% in dollars and only 0.8% in volume.

2019 growth for organic fruits and vegetables for the year was slightly lower than the rate of recent years. Over the last five years the growth trend line for organics has gradually moved lower yet continues to perform significantly stronger than conventional produce substitutes.

Several factors likely play a role in the slowing rate of retail growth for organic produce. Production limitations which restrict retail distribution to a narrower mix of organic fruits and vegetables is likely a factor that is impacting growth. This shows up in retail sales of organic fruits and vegetables that are more concentrated in select product categories than conventional items.



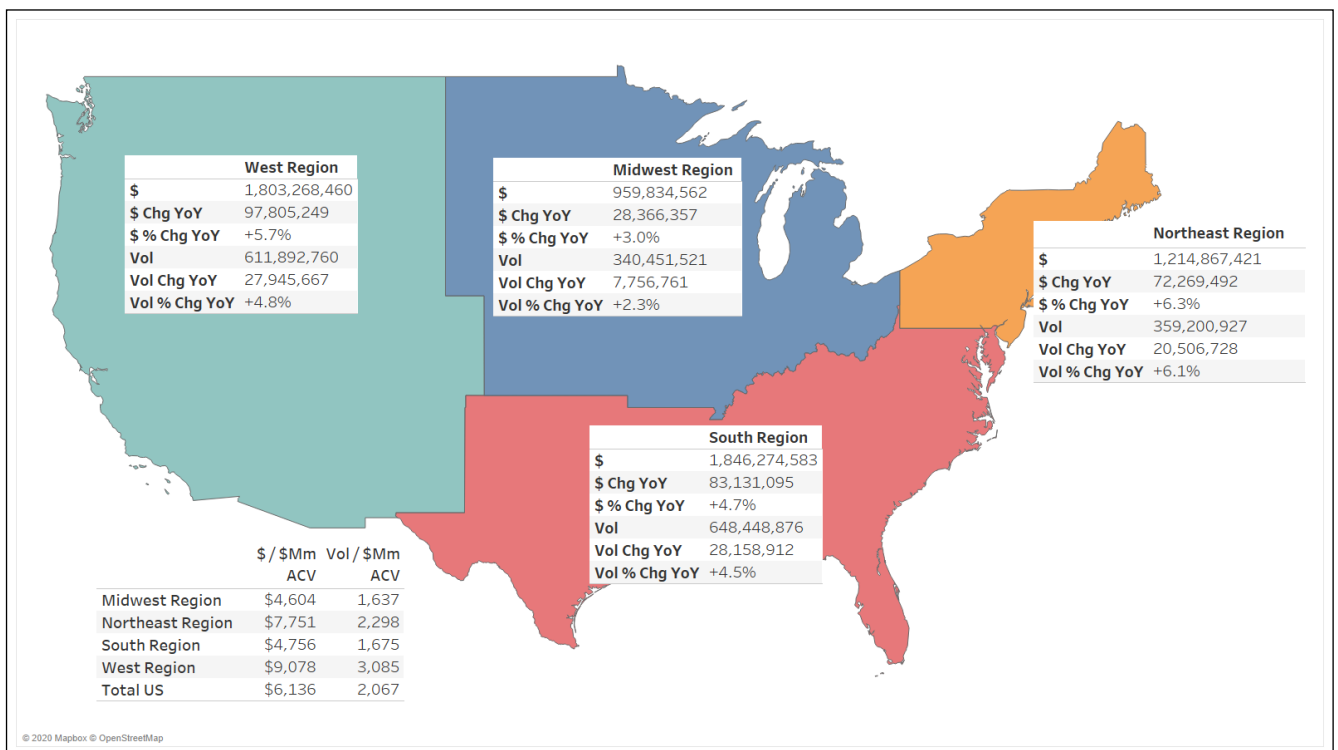
Lack of availability of some organic produce items across the full calendar year is also a factor impacting retail growth. In addition, constraints on retail shelf space continue to limit displays of organic produce in many stores. While retail allocation of organic products is increasing, the physical limitations of supermarket assortment disproportionately impacts organics which must often displace a conventional items to secure a position on the shelf.

Despite these headwinds, organic produce continues to grow at more than double the rate of conventional produce. As a result, 2019 was a another strong year for organic fruits and vegetables at retail.

Overview

Regional Performance Highlights

Organic produce increased in all regions of the U.S. in 2019. The Northeast showed the greatest increase in both organic dollars (+6.3%) and organic volume (+6.1%). This compares well to conventional fruits and vegetables in the Northeast which had no increase in volume and 0.6% in dollars.



The West region had the 2nd largest gain in organic produce, increasing 5.7% in dollars and 4.9% in volume.

In looking at organic measures such as Dollars per million ACV (\$/\$Mm ACV) and Volume per million ACV (\$/\$Mm ACV), the West is by far the strongest region. ACV dollars in the West for 2019 were \$9,078. This dollar ACV in the West is 48% higher than the Total U.S. and 17% higher than the Northeast, the second strongest U.S. region.

The largest opportunity for organic growth would appear to be in the Midwest and South regions. Organic ACV dollars in the Midwest were 33% below the U.S. average. In the South region, organic ACV dollars were 22% below the Total U.S. average.

Top 10 Produce Categories — Organic Performance

In comparison to conventional products, organic performance tends to be more concentrated around key product categories. In organics, we see that the top 10 categories drive 61% of dollars and 69% of volume. In conventional, these same categories drive only 38% of total sales and 53% of volume. This concentration presents both good and bad news for retailers. On one hand, retailers can efficiently tap the organic opportunity by simply focusing on a narrower set of products. On the flip side, with this concentration of sales in top categories, increasing organic performance likely requires an expansion of organic product assortment into the categories and products with lower dollar velocity. Given limitations and competition for shelf space, expanding and optimizing organic assortment will be a key opportunity going forward.

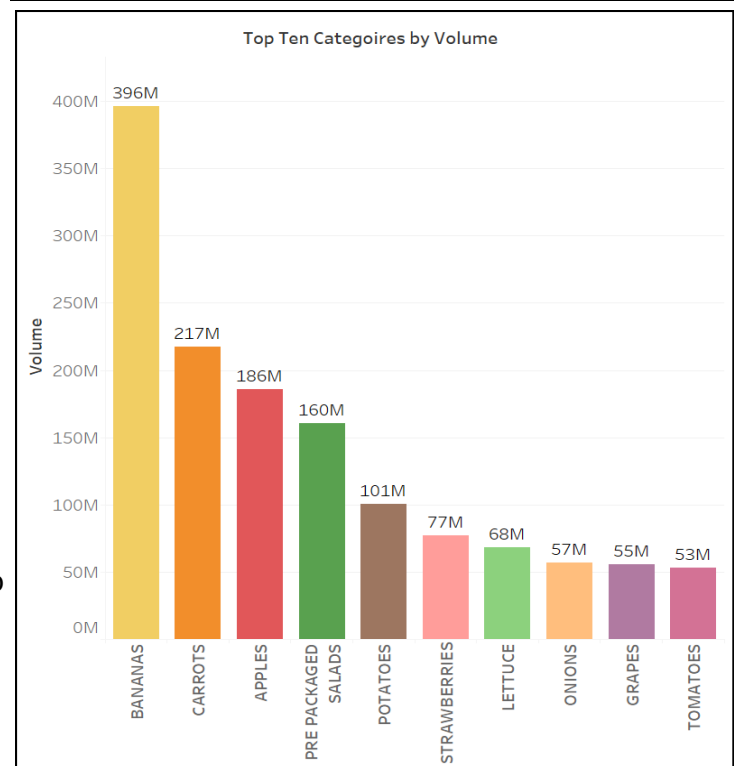
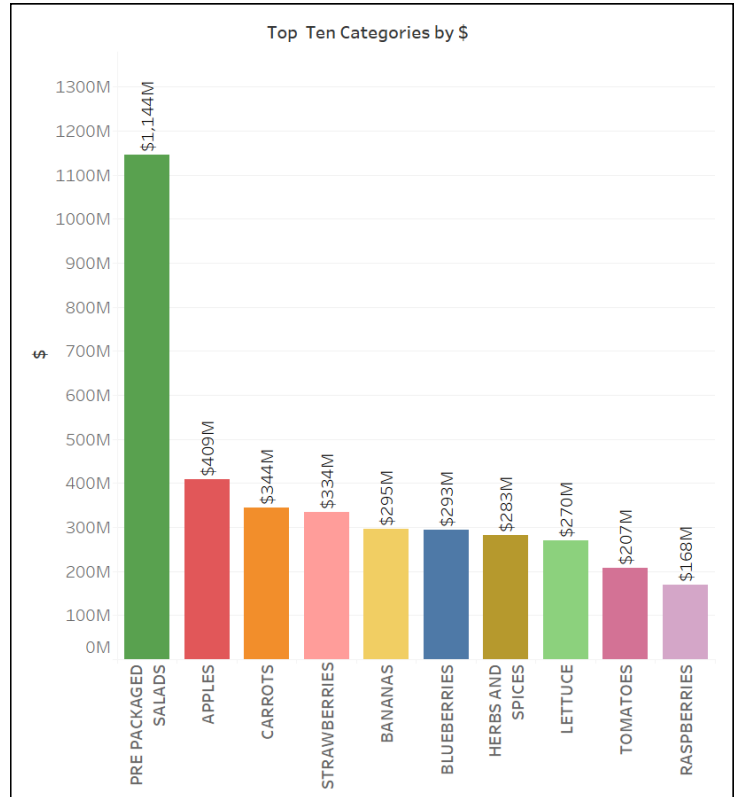
Dollar Performance

Packaged salads are the single largest driver of organic dollars. This category alone accounts for nearly 20% of all organic sales. The power of the Berry category cannot be overstated. Total Berries rank second in organic dollars when the strawberry, blueberry, raspberry and blackberry categories are combined. These four berry products drive 15% of organic dollars. Considering the comparatively small retail footprint organic berries occupy on supermarket shelves, this is a tremendously productive revenue category for supermarkets.

Volume Performance

Bananas, carrots and apples rank as the top drivers of organic volume at retail. Bananas alone drive 20% of all organic volume and these three categories generate 41% of total organic volume.

This strong volume performance is certainly related to the fact that these three categories also carry among the lowest price variance between the organic and conventional products. This narrow price premium reduces switching costs for consumers and creates incentives for trade-up purchases to organic.

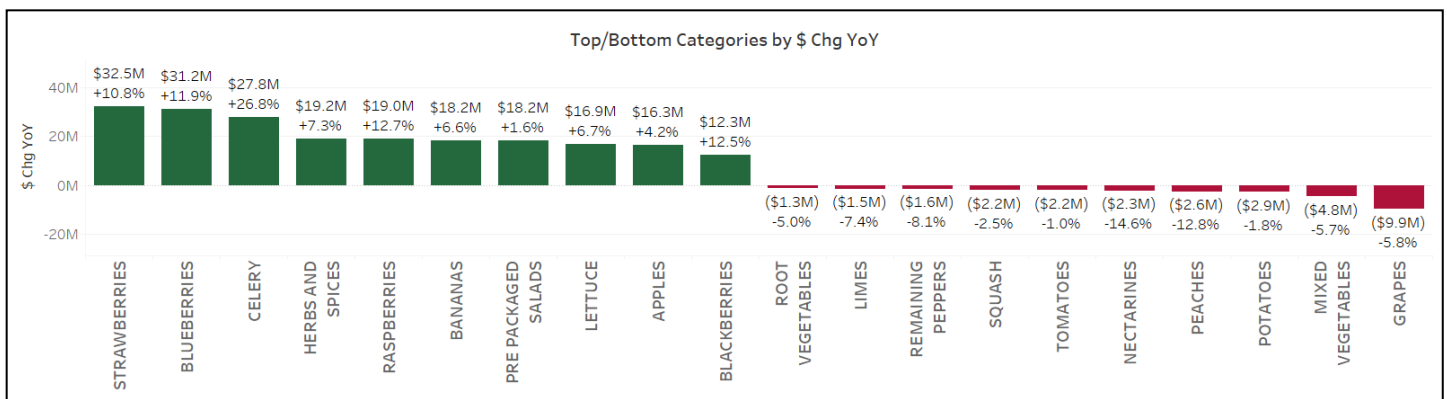


2019—Top and Bottom Growth Categories

Dollar Performance

The Strawberry, blueberry and celery categories generated the strongest growth in organic dollars in 2019. Organic strawberries and blueberries alone generated \$63 million in incremental dollars, driving 20% percent of all organic dollar growth for the year. Organic celery was also among the strongest major growth items, jumping 27% in sales and driving 9% of organic dollar growth. Celery dollar growth was accelerated by an increase in average retail price.

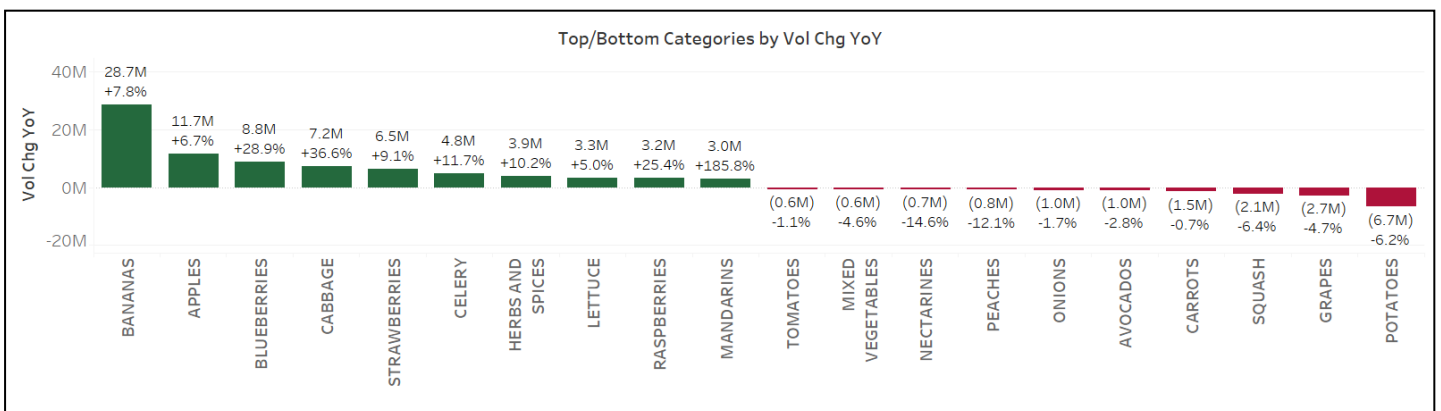
Organic grapes and stone fruits declined in sales during 2019. Organic grape dollars declined nearly six percent while organic peaches (-12.8%) nectarines (-14.8%) and potatoes (-1.8%) also had significant dollar drops. These dollar declines were likely a result of regional production declines as conventional volume dropped as well.



Volume Performance

As noted earlier in this report, organic bananas are not only the #1 volume category in total organic produce, but they also generated the largest volume increase in 2019. Organic bananas jumped 7.8% and added nearly 29 million pounds of incremental volume. Organic blueberries had one of the largest volume increases (+28.9%) of the major fruit categories. Apples generated a strong volume increase of 6.7% but deflation hurt category dollar performance.

Mandarins generated among the strongest increases in volume (+185%), likely a result of increasing availability of organic mandarins entering the market and consumers responding with incremental purchases.

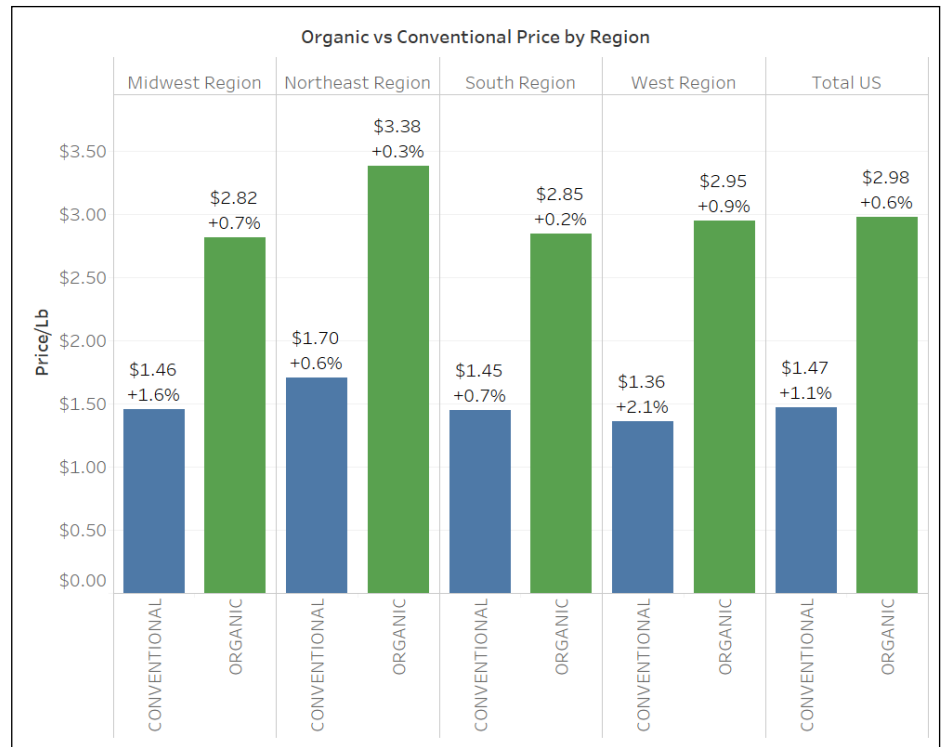


2019—Price by Region

Organic Pricing

Organics have long sustained consistent dollar and value growth despite a significant gap between organic and conventional prices. For 2019, the average price per pound in produce for conventional products was \$1.47 lb. compared to \$2.98 lb. for organics. This indicates that across the department as a whole, on average, consumers are paying \$1.51 lb. more for organic produce.

In total, organic produce pricing across the department was nearly unchanged (+0.6%) versus the previous year. Department wide pricing on conventional fruits and vegetables increased by 1.1%



Total price gaps between organic and conventional produce are reasonably consistent across all regions. The key question, is whether production increases or organic fruits and vegetables will create retail price deflation. Results from 2019 are not conclusive. However, is also worth noting that for the Total U.S. and in all four regions pricing of conventional products increased at higher rates than organics. This suggests that competitive pressures are beginning to impact retail pricing.

Pricing of conventional produce is lowest in the West while pricing of organics is lowest in the South. The East region carried the highest average pricing on both organics and conventional produce, likely a reflection of higher transportation and input costs.

2019—Key Product Pricing

Conventional/Organic Price Premiums

As noted on the previous page, there is a significant price gap between conventional and organic fruits and vegetables. However, when looking at individual fruits and vegetables we see these price gaps show substantial variations across the produce department.

Berries are among the items with the highest price variances between conventional and organic items. Organic blackberries (\$3.59), raspberries (\$3.45), blueberries (\$3.16) all maintained premiums above \$3.00 lb. on an equivalized basis. Even strawberries had a price premium of \$1.75. However, as noted on earlier pages, the berry category generated some of the strongest organic dollar gains in the department.

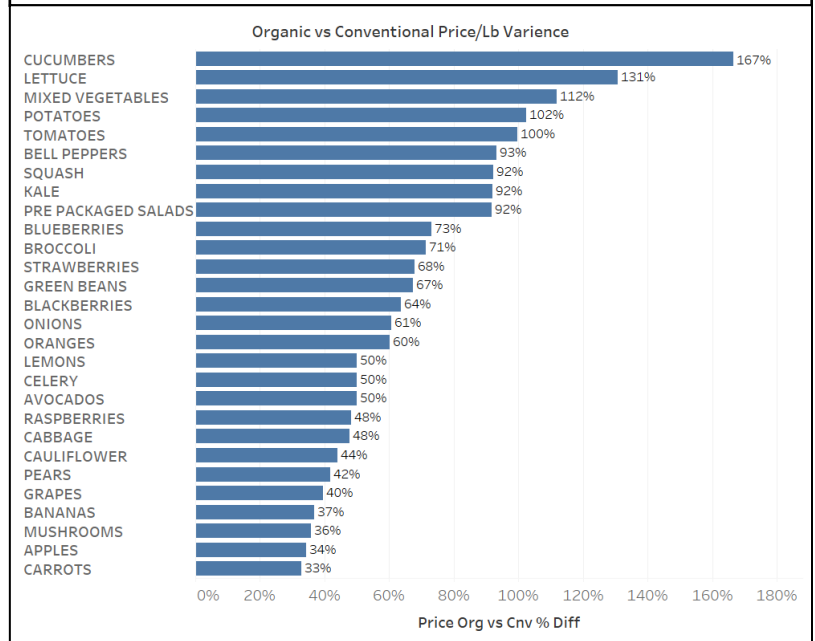
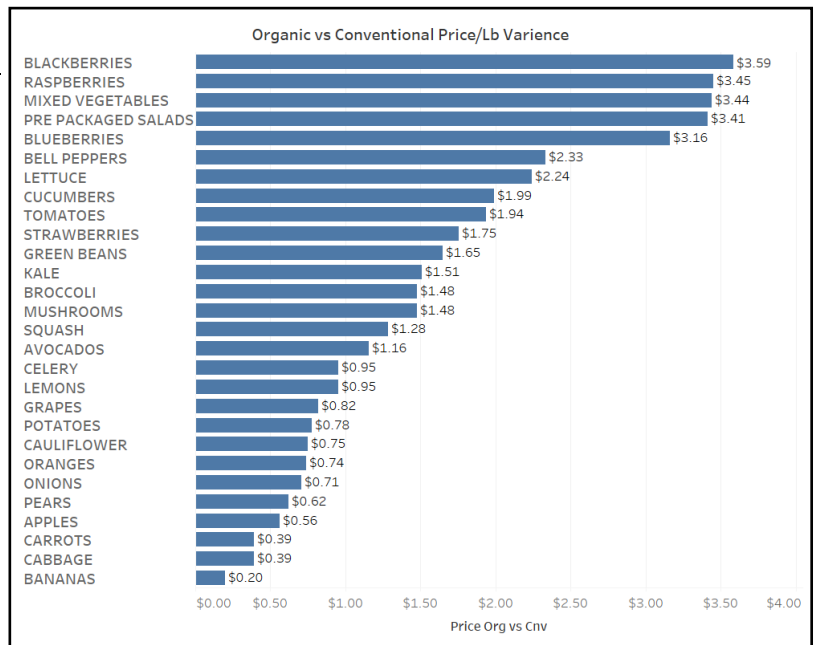
Conversely, some of the highest volume organic products in the produce department are those with the smallest price premiums between conventional and organic. Bananas, carrots and apples are the three highest volume organic categories and also have among the lowest price premiums, minimizing the switching costs for consumers to substitute organic items from conventional.

Organic/Conventional Percentage Variance

Price variance reveals switching costs: how much must a consumer pay to shift from a conventional product to the organic alternative. We know that for the produce department as a whole the incremental cost for a consumer to trade up to an organic item over the same conventional product averages nearly 100%. However, beneath the department averages, there are multiple products that sell significantly at prices close to conventional products.

As noted in the chart at the top of this page, carrots and apples are two categories that show a comparatively narrow gap between conventional and organic. On average, organic carrots are priced 33% higher than conventional and organic apples are priced 34% higher. Other categories with narrow price variances include mushrooms (36%), grapes (40%), pears (42%) and cauliflower (44%).

In general, vegetables exhibit higher organic price variance than fruits. Nine of ten categories with the highest price variance are vegetables, topped by cucumbers at 167%. Six of ten categories with the lowest price organic/conventional price variance are fruits.

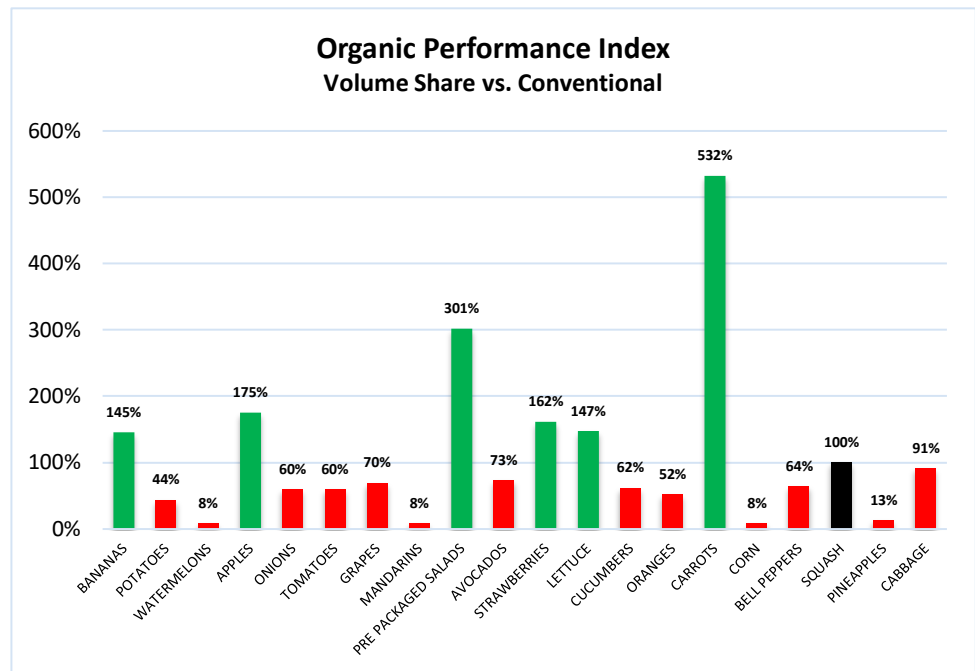


2019—Organic Volume Index

Product Opportunities

A key opportunity for boosting organic performance lies in boosting organic distribution of the higher volume products where consumers already purchase a conventional version of the same product. As noted earlier in this document, organic volume is more concentrated within the top selling categories. This indicates that through some combination of either availability, product quality or price resistance, consumers are not choosing the organic versions of many conventional fruits and vegetables that they regularly purchase.

For example, comparing category share for conventional products to organic provides insights into where these sales deficits are most acute. Top volume categories represent products that consumers are purchasing frequently. Therefore, these are product categories where shoppers ought to be equally receptive to converting to organics.



When we compared the volume share of total produce for the 10 top conventional categories to the organic share we see that only three categories are selling at the expected rate (bananas, apples, packaged salads). In fact, those categories significantly over-perform with organic packaged salads selling at 301% of the expected rate. Of the top 20 categories, 13 categories sell below the average share index.

Price certainly plays a factor in consumer purchase conversion from conventional products to organic. However, it is worth noting that some of the highest performing categories for total organic volume are also those with high price variances (packaged salads, strawberries, blueberries and lettuce are all top performing organic categories). So factors beyond price alone must be causing the volume share opportunity gaps we see in the chart above.

Given these large volume share gaps, it appears that food shoppers can be enticed to increase organic purchases across multiple fruit and vegetable categories. However, increased organic production and expanded year-round availability is required from producers. At the same time, to broaden the organic produce base supermarkets will need increased organic assortment, expanded shelf sets and improved visibility for organics within the produce department as a whole.

Background

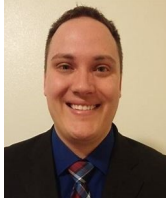
This report on organic produce performance was compiled and developed under the direction of Matt Seeley of the Organic Produce Network by Steve Lutz and Mike Long of Category Partners.

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Category Partners is a strategic insights company focusing exclusively on the fresh industries in the retail grocery channel. The company works exclusively with growers, marketers and retailers of conventional and organic fresh foods by providing data solutions, analysis, and insights on product performance, consumer preferences and industry trends.



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