The Handbook of Organic and Fair Trade Food Marketing

Edited by
Simon Wright and Diane McCrea

Blackwell
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Contents

Foreword *xiii*
Contributors *xv*

1 The International Market for Organic and Fair Trade Food and Drink **1**
AMARJIT SAHOTA

Introduction 1
Organic global overview 1
Organic Europe 4
Organic market overview 4
Organic farmland 5
Organic sales channels 7
Organic supply chain overview 8
Organic retailer overview 10
Organic North America 14
Organic market overview 14
Organic farmland 15
Organic supply chain overview 16
Organic sales channels 18
Organic retailer overview 19
Organic Asia 22
Organic market overview 22
Organic farmland 23
Organic Australasia 24
Organic market overview 24
Organic farmland 24
Global market for fair trade products 25
Conclusions 27

2 The Organic Consumer **29**
MARTIN COTTINGHAM and ELISABETH WINKLER

Introduction 29
A broadening appeal 30
A mass of motivations 30
Taste and health – the main purchasing triggers 32
A taste to believe in 33
The pleasure principle 35
Food with a story 36
Baby comes first 38
From fruit and vegetables to meat 40
The media and the message 42
A matter of trust 43
A changing climate on the environment 44
A mass of contradictions 46
Prices versus principles 46
Convenience versus conscience 46
Local versus organic 47
Beyond organic 47
Building an organic future – the role of the Soil Association 48
Future trends 50
The challenge of local food 50
Textiles, health and beauty and household cleaning 50
Convergence with fair trade 51
Differentiating primary produce 52
Packaging and health 52

3 The Fairtrade Consumer **54**
HARRIET LAMB

Introduction 54
Cool to be kind: the evolving Fairtrade consumer 55
Facts and figures: the Fairtrade consumer 56
Getting into the habit 59
The Fairtrade Foundation 63
A strategy of collaboration 65
Case Study One: NWFI 65
Case Study Two: Oxfam 66
Fairtrade towns 67
The FAIRTRADE Mark 69
Working with licensees and retailers 70
Fairtrade Fortnight 72

Celebrity endorsement 73
Farmers and workers centre-stage 73
Mind the gap 75
The international reach of Fairtrade 79
Fairtrade in facts: a quick look at Fairtrade 79
The future of Fairtrade 80

Successful Organic and Fair Trade Brands 83

4 **Case History: Yeo Valley Organic** 85
GRAHAM KEATING

The origins of Yeo Valley 85
The farming focus at Yeo Valley 87
Yeo Valley Organic – the early years, 1994–2000 88
Development of the brand 2000–2002 90
Developing the brand range and identity, 2002–2004 98
New kids on the block, 2005 103
2006 and beyond 104
Conclusions 107

5 **Case History: Green & Black's** 109
CRAIG SAMS

Whole Earth Foods 109
The birth of Green & Black's 110
Belize 115
Maya Gold 117
Unforeseen benefits 119
Competition at last 121
Restructuring 122
Supply chain management 125
Evolution 125
Growth 127
Quality and flavour – smallholders versus plantations 127

6 **Case History: Abel & Cole** 130
ELLA HEEKS

Introduction 130
Customers 131
Communication 132
Anticipation 134

Range 135
Box schemes 135
Abel & Cole box service 137
Broader range development 138
Service 139
The customer relationship 139
Web trading and the customer relationship 141
Practical service 141
Sourcing 143
Production 144
Location 144
Producer relationships 144
Price 145
Transport 145
Policy development 146
The buying team 146
Ethics 147
Running an ethical business 147
The benefit of working ethically 148

7 Case History: Clipper Teas 150
LORRAINE BREHME

Introduction 150
Challenging conventions 151
Thinking outside the basket 151
Going organic – the total solution 153
Burnside, Stockholm and the first fair trade tea 154
Launching change 155
Into the mainstream 158
The Clipper brand emerges 163
Innovation 166
Proving the difference 168
Marketing 170
Conclusion 172

8 Case History: Duchy Originals 173
PETRA MIHALJEVICH

Introduction 173
The Foundation seed 173
The creation of a brand 174
The circle of integrity – virtuous circle 175

Code name 'Duchy Originals' 175
Manufacturer model 175
Baking the Oaten biscuit 176
The visual brand 178
Distribution 179
The Oaten launch 179
1993–1999: brand development 180
1999–today: organic success 181
Environmental factors 182
Supporting market growth 183
Unique selling points 183
Product development 184
Duchy Selections – free range 188
Non-food development 188
Duchy Home Farm and raw material sourcing 188
Quality of manufacturing partners 189
Ensuring absolute quality 190
Adding value through the process 190
Distribution 191
Awareness and promotion 192
Packaging 192
Telling the story 192
Imagery 193
Clean ingredients listings 193
Tactile packaging 193
Environmental packaging 194
Public relations 194
Advertising and promotion 194
Consumer insights 195
Future growth 195
Measuring brand success 196
Conclusion 196

9 **Case History: Sainsbury's SO organic** **198**
RUTH BAILEY

Background 198
The need for change 200
Understanding our customers 201
Building the Sainsbury's organic proposition 204
The development of the Sainsbury's SO organic name and design 206
The relaunch 207
Merchandising and signage 209

Customer communication 211
Colleague engagement and belief 214
The results 214
Future challenges 217
Conclusion 217

10 Organic and Fair Trade Marketing in Germany 219
HUBERT ROTTNER

History 219
The eight organic grower associations 220
Wholesalers 220
How is organic food distributed? 220
Driving forces 221
Is there room for the big players? 221
Organic products become franchise businesses:
Dennree takes new marketing paths 222
Who is the organic consumer in Germany? 223
Organic as a matter of taste and principle 223
Consumers' motivation 223
Organic: energy and fitness 224
Marketing insights 224
Media 224
Shows 225
More organic ingredients in restaurants and catering 225
Natural organic cosmetics 225
Fair trade 226
Future trends 226
Outlook 226

11 Organic and Fair Trade Marketing in Italy 228
PAOLA CREMONINI

Review of the market for organic food and drink 228
Consumer profile and purchasing motives 229
Focus on organic brands 230
Fattoria Scaldasole 230
Alce Nero 231
Ecor 231
Naturasi 232
Multiples carrying an organic private label 233
Auchan 233
Carrefour 233

Conad	233
Coop	234
Crai	234
Despar	234
Esselunga	234
Gruppo PAM	235
Rewe italia	235
Selex	235
Review of the market for fair trade food and drink	236
Coop Italia	236
Botteghe del Mondo	237
CTM Altromercato	237
Commercio Alternativo	237
Libero Mondo	237

12 Organic and Fair Trade Marketing in tbe USA **239**
ELAINE LIPSON

Introduction	239
Projected growth of the organic market	240
High growth organic categories	241
Challenges to the organic dairy sector	242
The quandary of imported ingredients	242
The development of USDA organic standards and labelling	243
Four categories of organic labels	244
National Organic Standards Board	244
Harvey v. Veneman and changes to USDA organic standards	245
Sales outlets for organic foods in the USA	247
Whole Foods Market	247
Wild Oats	248
Trader Joe's	248
Independent natural foods stores	249
Mainstream supermarkets	249
Mass-market stores and Wal-Mart	249
Farmers markets and CSA farms	251
Fair trade in the USA	251
US sales of fair trade coffee	252
Other fair trade commodities in the USA	253
Consumer interest in other eco-labels	253
Organic and eco-labels for non-food products	254
Conclusion	254
Appendix	255
Acronyms	255

Trade, advocacy, research and regulatory organizations: contact information 255
Companies: contact Information 257
Recommended periodicals 260
Books 260
Trade shows 261

13 Organic and Fair Trade Crossover and Convergence 262
JOHN BOWES AND DAVID CROFT
Setting the scene 262
The ethical consumer 263
Who cares about ethics? 265
In the beginning 266
Making the breakthrough 267
Dealing with the devil? 271
New challenges ahead 274
Convergence and divergence 277
Managing momentum 280

Appendix: Further Information – Useful Organic and Fair Trade Websites 284
SIMON WRIGHT

Organic brands 284
Organic organisations 285
Organic certifying bodies 285
Fair trade brands 286
Fair trade organisations 286
Retailers 286
Consumer orientated 287
Trade magazines and information services 287
Trade shows 287

Index *289*

Foreword

Sainsbury's is the leading organic and fair trade retailer within the UK and we are proud to be sponsoring this handbook. No other sectors within the UK food and drink industry are growing at the rates of organic and fair trade, and no other sectors are experiencing such fundamental shifts in customer buying patterns and attitudes. Organic and fair trade are leaving their niche status behind. The last few years have seen attitudes change dramatically and as a result many different customer groups are buying organic and fair trade for many different reasons.

The need to react to changing customer demands and the increasingly universal appeal of organics was fundamental to the re-launch of our organic range as Sainsbury's SO organic in September 2005. The plans put in place for the re-launch, with over 100 new lines and lower prices on 100 everyday items, have been fundamental in making organics more accessible to many of our customers, encouraging those previously not buying organic food and drink to *try something new*.

Fair trade's success mirrors organics. Never before have customers been so engaged on issues of poverty alleviation and never before have so many realised how much difference fair trade makes. We were the first major UK retailer to sell fair trade products. Recently, we have built on this heritage by converting all of our own-brand rose bouquets to fair trade and placing the largest ever single order of fair trade cotton for our Sport Relief T-shirts. These initiatives, coupled with a steady stream of additions to both the branded and own-label ranges, make us the largest fair trade retailer in the UK.

The rapid journey that has brought organics and fair trade to the position that they enjoy today is a theme that runs through many of the chapters in this book. Many of the contributing manufacturers, retailers and brands chart their history from small or family-run businesses to much larger companies, operating successfully in multinational markets. These impressive accounts bear testament to the speed at which the organic and fair trade markets have grown, but also reflect the ability of these companies to quickly adapt to and satisfy rapidly changing customer demands.

Readers of this book can access at first hand the insights and strategies that the authors have adopted and the challenges that they have overcome in order to drive forward their products within the organic and fair trade markets.

If you are new to this sector, you will find the *Handbook* useful. Even if you are established in the sector, you will still find much of interest. I hope it motivates you to do more in this important and rapidly developing sector.

Justin King
Group Chief Executive, Sainsbury's

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Chapter 1

The International Market for Organic and Fair Trade Food and Drink

Amarjit Sahota
Director, Organic Monitor

Introduction

This chapter gives an overview of the global market for organic and fair trade products. The focus is on the organic food and beverages market as its market size dwarfs that of the fair trade products market.

This chapter is divided into six sections. An overview of the global market for organic food and drink is given followed by separate sections for western Europe, North America, Asia and Australasia. These regions have the most important markets for organic products in the world. Other regions such as Africa, Latin America, and central and eastern Europe are becoming important although they have low significance compared to the regions covered. A section on the global market for fair trade products is followed by future projections in the conclusion.

Organic global overview

The global market for organic food and drink was valued at $US27.8bn in 2004. Global sales surpassed the $US30bn mark in 2005 with the highest growth occurring in North America. Organic food and drink sales in the USA and Canada are expanding by over $US1.5bn a year. Although organic farming is practised throughout the world, the most important markets are in North America and Europe, which comprise 96% of global revenues, as shown in Figure 1.1.

The proportions of organic farmland are more evenly split across the globe, as shown in Table 1.1. About 31.5 million hectares of farmland was certified organic in 2005.[1] Australasia leads with 12.2 million hectares followed by Latin America (6.4 million hectares) and Europe (6.3 million hectares). Organic land area does not equate to organic food production since not all the land is farmed – for example, countries such as Australia and Argentina have vast organic land areas that are not used for farming.

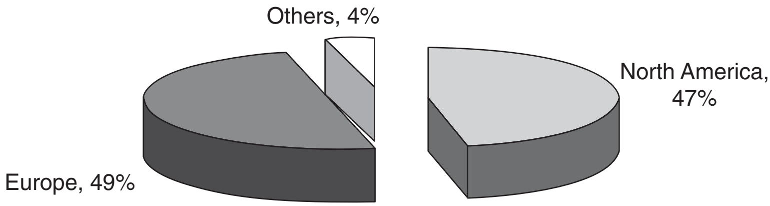

Figure 1.1 Distribution of global organic food revenues, 2005. Note: all figures are rounded. Source: Organic Monitor.

Table 1.1 Breakdown of organic farmland by region, 2005.

	Organic farmland (m ha)	% of total
Africa	1.026	32.6
Asia	4.064	12.9
Europe	6.500	20.6
Latin America	6.363	20.2
North America	1.378	4.4
Oceania	12.171	38.6
TOTAL	31.503	100.0

Note: All figures are rounded. Source: FiBL Survey 2005/2006

Table 1.2 lists the countries with largest areas of organic farmland. Australia dominates because of significant areas of the great outback used by organic cattle farmers. Argentina also has large areas of organic pasture, whereas China has seen a large rise in organic farmland in recent years. The country is fast becoming a global supplier of organic ingredients.

Important consumer countries with large areas of organic farmland are Italy, USA, Germany and the UK. Countries such as China, Brazil and Uruguay are important producers of organic crops but the majority of production is for export markets.

Alpine countries have the largest proportion of organic farmland relative to total land area, as shown in Table 1.3. Over 10% of the farmland in Lichtenstein, Austria and Switzerland is managed organically.

Table 1.4 lists the countries with the most organic farms. Mexico leads with 120 000 organic farms. The country has many small producers of organic crops such as coffee, cocoa, avocados and papayas. Indonesia has many small producers of organic crops such as vegetables, coffee and herbs. Most of the 36 639 organic farms in Italy are in the south of the country.

Table 1.2 Countries with largest areas of organic farmland, 2004.

	Organic farmland (×1000 ha)
Australia	12 127
China	3 467
Argentina	2 800
Italy	954
USA	889
Brazil	888
Germany	768
Uruguay	759
Spain	733
UK	690
Chile	640
France	534
Canada	489
Bolivia	364
Austria	345
Mexico	295
Czech Republic	260
Peru	260
Greece	250
Others	3 993
TOTAL	31 502

Note: All figures are rounded. Source: FiBL Survey 2005/2006

Table 1.3 Countries with largest proportion of organic farmland, 2005.

Country	Organic area as % of total agricultural area
Liechtenstein	26.4
Austria	13.5
Switzerland	11.3
Finland	7.3
Sweden	6.8
Italy	6.2
Czech Republic	6.1
Denmark	5.8
Portugal	5.4
Estonia	5.2
Uruguay	5.1
Slovenia	4.6
Germany	4.5
UK	4.4

Note: All figures are rounded. Source: FiBL Survey 2005/2006

Table 1.4 Countries with largest number of organic farms, 2005.

	Number of organic farms
Mexico	120 000
Indonesia	45 000
Italy	36 639
The Philippines	34 990
Uganda	33 900
Tanzania	30 000
Kenya	30 000
South Korea	28 951
Peru	23 400
Others	239 902
TOTAL	622 782

Note: All figures are rounded. Source: FiBL Survey 2005/2006

Organic Europe

Organic market overview

The European market for organic food and drink was the largest in the world until it was overtaken by North America in 2005. The European market was worth $US13.7bn in 2004 and sales are estimated to have reached $US14.4bn in 2005. Sales of organic products increased by about 5% in 2005 although some countries reported higher growth rates.[2]

Germany has the largest market for organic foods in Europe, valued at about $US4.5bn in 2005. Sales are growing by 10–12% a year as the number of channels offering organic products expands. A growing number of conventional supermarkets are offering organic products and the number of organic supermarkets continues to increase with 40 new organic supermarkets opening in 2004 alone.

The UK market continues to show healthy growth with 10% growth reported in 2004. The UK market, valued at about $US2bn, is the third largest in the world. Like most European countries, the highest growth is being observed in the fruit and vegetable, and meat and dairy categories. Much of the growth in the UK market is occurring in non-supermarket channels such as organic food shops, box schemes and farmers' markets. A growing number of catering and food service companies in the UK are also offering organic foods.

The Italian and French markets are the next most important in Europe but growth rates have slowed in these countries. Other important markets are in Switzerland, Austria, Sweden and the Netherlands.

There is a small market for organic foods in central and eastern Europe (CEE) with the region comprising less than 3% of European revenues. Although the amount of organic farmland in CEE countries is rising, mostly primary products such as grains, seeds and herbs are grown. There is a lack of organic food processing in the region with a high volume of the organic crops exported to western Europe. Organic food companies export some of the resultant finished goods back to the region. Demand for organic products is growing rapidly in countries such as the Czech Republic and Hungary, especially in the country capitals.

Since western Europe accounts for most revenues in the European organic food industry the focus is on this region in the sections that follow.

Organic farmland

Europe has 6.5 million hectares of organic farmland of which about 5.3 million hectares are in western Europe.[1] Central and eastern European countries with large areas of organic farmland are the Czech Republic (260 120 hectares), Ukraine (241 980 hectares) and Hungary (128 690 hectares).

Organic farmland comprises 3.3% of the total farmland in western Europe and the amount of organic farmland in the leading countries is given in Table 1.5. All the countries are members of the European Union (EU) except Switzerland.

Italy has the largest amount of organic farmland, 954 361 hectares, representing 18% of the EU15 total. The country has the fourth largest amount of organic farmland in the world. About 36 639 farms practice organic agriculture in Italy, the highest number in western Europe. Most of the organic farms are in the south with

Table 1.5 The amount of organic farmland in western European countries, 2005.

	Organic farmland (×1000 ha)	% of total
Austria	328.8	12.90
Belgium	24.2	1.73
Denmark	165.1	6.20
Finland	160.0	7.22
France	550.0	1.86
Germany	734.0	4.30
Greece	244.5	6.24
Ireland	28.5	0.65
Italy	1 052.0	6.86
Luxembourg	3.0	2.00
The Netherlands	41.9	2.17
Norway	38.2	3.68
Portugal	120.7	3.17
Spain	725.3	2.84
Sweden	207.5	6.80
Switzerland	110.0	10.27
UK	695.6	4.42
EU 15	5 080.5	3.17

Note: All figures are rounded. Source: FiBL Survey 2005/2006

Sicily and Sardinia accounting for over half of Italian organic farmland. The amount of organic farmland has decreased from 1.23 million hectares in 2001 because many farmers quit the profession.

Germany, with 767 891 hectares, has the second largest amount of organic farmland in western Europe. Organic farmland represents 4.5% of total farmland in the country. About half of the 16 603 organic farms are in the southern states of Baden-Württemberg and Bavaria.

Spain has 733 182 hectares of organic farmland, representing less than 3% of total farmland in the country. Much of the organic crops are exported to other European countries with the country having a small market for organic food and drink.

The amount of organic farmland in the UK has stabilised after years of high growth. Over half the 690 270 hectares of organic farmland is in Scotland where there are large areas of pastures. 4.4% total farmland is organic.

France has 534 037 hectares of organic farmland making up 1.8% of total farmland. The amount of organic farmland has stabilised in line with consumer demand for organic products.

Other countries with high levels of organic farmland are Austria, Greece, Portugal and Sweden. Greece has shown a large rise in organic farmland partly because many livestock farmers have opted for organic production methods. The country had just 31 100 hectares of organic farmland in 2001.

Sweden has the largest area of organic farmland in the Nordic region. Organic farmland in Denmark and Finland also comprises more than 5% of total farmland.

The share of organic farmland in Austria at 13.5% is the second highest in the world. Organic farmland has represented over 10% of Austrian farmland since 2000. Switzerland also has a large share of organic farmland, 11.3%. Large areas of alpine pastures in these countries are managed organically.

One reason behind Austria, Finland and Sweden having large areas of organic farmland is these countries were late entrants to the EU, joining in the mid 1990s. Their late entry allowed most farmers to practise extensive forms of agriculture and some of these farmers converted to organic farming methods upon joining the EU.

There is much variation in the amount of organic farmland between European countries. Two factors are broadly responsible for the variation:

(1) Financial subsidies/conversion grants given to farmers
(2) The number of extensive farms

The European agricultural sector is heavily subsidised by the EU in the form of the Common Agricultural Policy. Financial incentives are arguably more important to organic farmers since they need to be encouraged to practise extensive forms of agriculture. Farmers also need to be compensated for the conversion period, which can be up to three years, during which they cannot sell organic products. There is a link between the level of financial subsidies provided to farmers and the amount of organic farmland. Italy has the highest land area of organic farmland partly because of the high level of subsidies provided to organic farmers. There was only a high take-up rate of organic farming in the UK after a new government increased financial support to British organic farmers in the late 1990s.

The number of extensive farms in a country also has a bearing on the conversion rate to organic farming. Extensive farms have low reliance on chemical inputs such as pesticides and the conversion process is easier than for larger intensive farms that are more dependent on chemical inputs. This factor is partly responsible for the large number of organic farms in Austria, Switzerland, Finland and Sweden.

In the UK, there was a large rise in organic farmland in the late 1990s because many extensive farms in Scotland converted to organic agriculture. The large amount of organic farmland in Germany was also partly a result of many extensive farms converting to organic farming. East Germany had many state-owned extensive farms and some converted to organic farming after re-unification. More farmers converted to organic agriculture in eastern Germany in the five years after re-unification then had done so in western Germany in the preceding 70 years. The same trend is currently being observed in EU accession countries, which are showing large rises in organic farmland.

Organic sales channels

Figure 1.2 shows the sales breakdown of organic foods by marketing channel.[2] Mainstream retailers make up about 50% of organic product sales in Europe. The highest market share is in Scandinavian and Alpine countries where over 85% of sales are from supermarkets. In countries such as Germany, the Netherlands and France, mainstream retailers usually focus on core products such as organic milk, potatoes, bakery products and cereals. A much wider product assortment is found in specialist retailers.

Specialist retailers accounted for most organic food sales until the late 1990s when their market share was overtaken. Organic food shops and other specialists accounted for about 46% of total sales in 2005. The market share has been in decline because of increasing sales from the supermarkets. Only in two leading countries – France

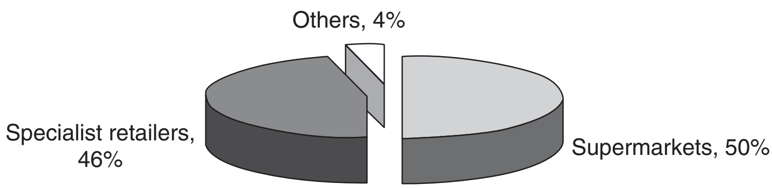

Figure 1.2 Organic food sales breakdown by channels, 2004. Note: all figures are rounded. Source: Organic Monitor.

and Germany – do specialist retailers still have the majority of organic food sales. Specialist retailers were also the most important sales channels in the Netherlands and Italy up to 2002.

The other marketing category includes direct marketing, professional box schemes and the catering and food service (CFS) sector. About 4% of organic food sales went to these channels in 2005. There is increasing demand from the CFS sector with a growing number of restaurants, bars and cafés serving organic food. The public sector is also an important buyer of organic fresh produce with many national governments promoting organic food consumption in hospitals, schools and government buildings.

Although supermarkets account for most sales at the total level, their market share is in decline in some European countries. In the UK, for example, the supermarket share shrunk in 2003 and 2004 because of a higher volume going into other sales channels. Direct marketing and specialist retailers are showing a higher increase in sales than the supermarkets, possibly because British consumers preferring to buy regionally produced organic products.

Organic supply chain overview

The largest number of organic food and beverage companies is in Europe. There are estimated to be over 8000 companies involved in organic food production and distribution in Europe. Table 1.6 lists some of the most important companies in the European organic food industry.

Table 1.6 lists companies that focus on organic foods and related products.[3] The leading traders and wholesalers of organic foods are not listed. The list focuses on some of the leading suppliers of organic foods.

Many conventional food companies are involved in organic foods. Indeed, many sectors of the organic food industry are dominated by non-organic food companies:

- The organic meat products market is controlled by large conventional meat companies. For instance, most of the organic meats in the UK are supplied by large slaughterhouses such as St Merryn and Anglo Beef processing. Large conventional meat companies such as Danish Crown, Dumeco and Swedish Meats have strong market positions across Europe.
- Large European dairies have a high market share in the organic dairy products market. Arla Foods, Europe's largest dairy group, is the dominant supplier of organic milk in Denmark, Sweden and the UK. Other dairy companies with a high market share include Dairy Crest (UK), Lactalis (France), Campina Melkunie (the Netherlands) and Valio (Finland).

Most conventional food companies have come into the organic food industry by starting production lines of organic products. Some have entered by acquiring dedicated organic food companies. Important acquisitions in 2005 include:

- Green & Black's, the leading organic chocolate brand in Europe, being bought by Cadbury Schweppes in May 2005
- The Dutch bank ABN Amro buying Nutrition et Sante, a leading French organic soya products company, in November 2005
- Premier Foods acquiring Cauldron Foods, a leading British organic vegetarian foods company, in October 2005

Table 1.6 Selected list of leading organic food companies in Europe, 2006.

Company	Country	Company Details
Hipp	Germany	Largest organic baby food manufacturer in the world
Andechser Molkerei	Germany	Largest organic dairy company in Germany
De Vau Ge	Germany	A leading organic health and organic food company
Biotropic	Germany	A leading German organic fresh produce company
Rapunzel	Germany	Leading German brand of organic foods
Pro Natura	France	A leading supplier of organic fruit & vegetables
Triballat Noyal	France	Large producer of organic dairy & non-dairy beverages
Bodin et Fils	France	Europe's largest producer of organic poultry
Distriborg	France	Leading organic food company in France
Organic Farm Foods	UK	Leading organic fresh produce company in the UK
Yeo Valley Organic	UK	One of Europe's leading organic yogurt producer
Duchy Originals	UK	A leading British brand of organic foods
Bioitalia	Italy	A leading Italian organic food company
Probios	Italy	Leading Italian brand of organic foods
Alpro	Belgium	Europe's leading producer of organic dairy alternatives
Hain Celestial	Belgium	Owns Natumi, Lima Foods, Biomarche and other firms
Royal Wassenen	The Netherlands	Well-diversified Dutch conglomerate
EOSTA	The Netherlands	Largest supplier of organic fresh produce in Europe

Source: Organic Monitor

Organic retailer overview

Specialist retailers

There are up to 10 000 specialist retailers in Europe.[2] About half are organic food shops and the number continues to expand as investment increases and as chains develop. Some of the important developments since 2002 have been:

- Whole Foods Market, the largest natural and organic food supermarket in the world, entering Europe by acquiring Fresh & Wild (UK) in February 2004.
- Rewe, the leading conventional supermarket in Germany, is investing in a chain of dedicated organic supermarkets with the first opening in Düsseldorf in May 2005.
- The number of organic supermarkets in Germany is expanding fast with 40 new stores opening in 2004. Leading chains such as Basic and Denn's Bio opened new stores in 2005.

Table 1.7 lists the most important organic food shop chains in Europe. Germany and France have the most organic food retail chains. Southern European countries tend to have more dedicated organic food retailers than northern European countries.

Alnatura is the leading chain in Germany with 16 organic supermarkets in 2004. The average size of an Alnatura supermarket is 500 m^2 housing about 6000 organic products. The retailer reported €117m sales in 2004 and there are plans to open five more supermarkets in the short term. Alnatura is also a wholesaler of organic products, selling to German retailers as well as retailers in Central Europe. Basic AG is the second leading organic supermarket chain in Germany. The retailer reported a 39% sales increase to €39m in 2004 with one new store opening in Hamburg that year. Basic AG is planning to open five new supermarkets in 2005. Dennree, the leading wholesaler of organic products in Germany, has entered the organic retail sector with its Denn's Bio retail chain.

Fresh & Wild is the leading chain of organic food shops in the UK. The seven-store chain was acquired by Austin-based Whole Foods Market for €57m in 2004. All seven stores are based in southern England with six in London. Whole Foods Market plans to open its first American-style supermarket in London in January 2007. Planet Organic is the second leading British chain with three stores.

Collobora B'io is the largest chain of organic food shops in Italy. There are approximately 230 franchised stores with the B'io brand in the country. The franchise system has been set up by the organic food wholesaler, Ecor. NaturaSí is a chain of 38 organic supermarkets, located in the north and centre of the country. NaturaSí has also set up franchised butchers and restaurants. Bottegae Natura is a chain of organic food shops owned by the Ki Group wholesaler. Terra d'Incanto is another organic food shop chain set up by the wholesaler, Baule Volante.

Table 1.7 Leading organic food shop chains in western Europe, 2005.

Supermarket	Country	No. of shops	Details
Alnatura	Germany	16	Retailer and wholesaler of organic products
Basic AG	Germany	11	Large supermarket format stores
Denn's Bio	Germany	7	Subsidiary of the leading wholesaler Dennree
SuperBiomarkt AG	Germany	8	Some stores located in cathedrals
Supernatural AG	Germany	5	Based in North-Rhine / Westphalia region
Erdkorn	Germany	5	Stores are located in Northern Germany
Eat Organic (e.o.)	Germany	5	Berlin-based organic supermarket
Fresh & Wild	UK	7	Owned by US-based Whole Foods Market
Planet Organic	UK	3	London-based organic food retailers
Collabora B'io	Italy	230	Franchised stores set up by Ecor wholesaler
NaturaSi	Italy	38	Chain of organic supermarkets in major cities
Emporio Alcatraz	Italy	10	Franchised chain of organic food shops
Bottegae Natura	Italy	9	Owned by the Ki Group wholesaler
Terra d'Incanto	Italy	7	Set up by Baule Volante wholesaler
Biocoop	France	232	Fast growing organic food retailer
La Vie Claire	France	122	Long established natural food chain
Biomonde	France	33	Stores located in south of France
Naturalia	France	25	Paris-based organic food shop chain
Satoriz	France	19	Shops located in Eastern France
La Vie Saine	France	10	Grouping of 10 organic food shops
L'Eau Vive	France	7	Grenoble-based retail chain
Terra Verda	Spain	15	Mainly in the Valencia area
Ecoveritas	Spain	10	Organic supermarkets mainly in Barcelona

Source: Organic Monitor.

In France, Biocoop with 232 stores has the largest number of organic food retailers in Europe. The typical store size is over 200 m^2 with over 7000 organic and natural products. Biocoop reported about €166m sales in 2004 and it plans to increase its number of stores to 300 in 2006.

La Vie Claire is the oldest natural food shop chain in Europe, established in 1946. It operates a franchise of 122 stores in France. Biomonde is a chain of 30 organic food shops in the southwest and southeast of France; it plans to expand to 40 stores in 2005. Naturalia is a chain of organic food supermarkets and it also operates an online home delivery scheme in the capital. Other important French chains are Satoriz, La Vie Saine and L'Eau Vive.

Ecoveritas has ambitious expansion plans to become the dominant organic food retailer in Spain. There are plans to increase the 10 Véritas organic supermarkets to 40 in the coming years. Half of the current number is in Barcelona. Terra Verde has 15 organic food shops, mainly in the Valencia area.

Mainstream retailers

Mainstream retailers are responsible for the majority of organic food sales in Europe, however, most multiple retailers have only a basic assortment of organic lines. The product range is increasing in Germany, France and Spain.

Table 1.8 lists the leading supermarkets marketing organic foods in western European countries. The approximate number of organic items in their product range is given as well as the names of their private labels.

Tegut is one of the most successful conventional supermarkets marketing organic foods in Europe. The retailer has 400 supermarkets in the states of Hessen and Thüringen, which market up to 1800 organic products. Organic foods sales, at €110m, make up about 10% of Tegut's total sales. Rewe is the largest food retailer in Germany with about 4000 supermarkets, although organic foods comprise a small fraction of total sales. Organic food sales in Edeka supermarket account for about 2% of its total sales.

Tesco, the second largest retailer in Europe, has the largest market share for organic food sales in the UK. Organic food sales were estimated to have surpassed €450m in 2004. Sainsbury's is the second leading retailer in terms of organic food revenues with roughly €420m sales in 2004. Waitrose, a much smaller retailer with 140 supermarkets, has the highest market share in terms of total food sales; organic products comprise 15% of all food sales.

Co-op Italia is the second leading food retailer in Italy but it has the highest market share for organic food sales. Many of its organic products are marketed under its Bio-logici Co-op private label. The market share of Esselunga is in decline because it significantly reduced its range of organic products in 2003 and 2004.

Carrefour is the dominant retailer of organic foods in France and organic products are found in all its hypermarkets. About 25% of its organic products are marketed under its Carrefour Bio private label. Auchan is the second most important French retailer of organic products with about 700 items in its product range.

Albert Heijn is the dominant food retailer in the Netherlands and it accounts for most organic food sales. Although organic food sales continue to increase, the number