



The Natural Foods Market

A National Survey of Strategies for Growth

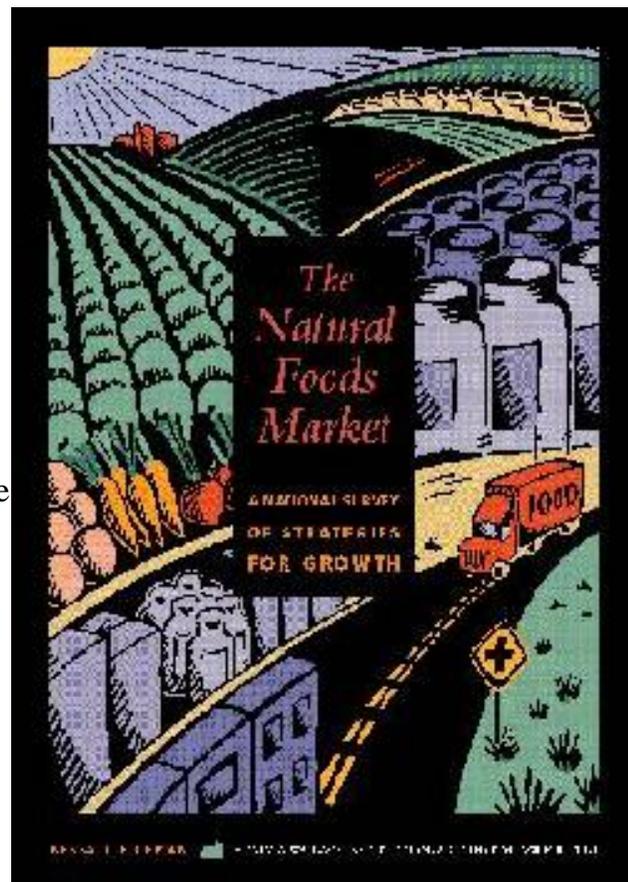
Executive Summary

Nessa J. Richman, policy analyst

April 1999

Contents

- [Acknowledgments](#)
- [Preface](#)
- [Executive Summary](#)
 - Preparing this Report—Scope and Methodology
 - Key Findings—Obstacles to Success in the Natural Foods Market
 - Lack of Standards
 - Different Views and Approaches
 - The Marketing and Pricing Dilemma
 - Business Strategies: Finding Success, Avoiding Failure
 - Creating Natural Foods Labels
 - Hiring Special Staff for Natural Foods
 - Increasing and Diversifying Natural Foods Operations
 - Using Newspaper and Direct Advertising
 - Conclusions
 - Credibility is Key
 - Recommendations
 - Government Agencies
 - Trade Organizations
 - Research and Education Institutions
 - Industry Members
 - Looking Forward



Acknowledgments

This report would not have been possible without the inspiration of Professor Ray Goldberg, the encouragement of Michael Henry, and the support of the staff at the Henry A. Wallace Institute for Alternative Agriculture, including Garth Youngberg, David Ervin, Katherine Clancy, Rick Welsh, Elizabeth Higgins, Lydia Oberholtzer, Suzanne DeMuth, and Joanna Hildebrand. Special thanks to Kate Fitzgerald.

The author also wishes to thank the 27 state and regional agricultural producer organizations that helped us assemble part of our survey sample (see Appendix A), the 290 members of the food industry who answered our survey questions, and the six experts who took time out of their busy schedules for in-depth conversations: Bruce Bechtel, Steven Daugherty, Michael Dunn, Gene Kahn, Jean Kinsey, and Ann Woods.

Important contributions to the project were also made by Karla Chambers, Tanya Pavich, Barry Krissoff, Karen Klonsky, Janise Zygmont, Kenneth Clayton, Lewrene Glaser, Philip Kuehl at the Westat Survey Research Firm, Richard Kashmanian, Mary Gold, Joe Maddox, Bob Birkenfeld, Barbara Meister, Sarah Lynch, Terry O'Connor, Sam Rives, William Iwig, Kai Robertson, and Lori Ann Thrupp.

The author and the Institute also gratefully acknowledge the funding support of the Clarence E. Heller Charitable Foundation of San Francisco, California, and the Charles Stewart Mott Foundation of Flint, Michigan.

Special thanks to Timothy Thomas for his help with literature review and Deanne Kloepfer for her editorial assistance.

April 1999

Preface

Sales of "natural" foods are rising much more rapidly than any other segment of the food market. Evidence of this leading edge of growth comes from a variety of indicators — the exponential rise in farmers' markets, the expansion in natural foods grocery stores, consistently strong stock market showings, and investment by venture capitalists.

Many mainstream supermarkets have joined the trend, offering an array of organic and other natural foods. Although natural products now comprise about two percent of total food sales, the rapid growth rate, if sustained, will quintuple its influence on the farming, processing, distributing, and retailing food stream over the next decade.

Despite impressive growth through the 1990s, achieving the full potential of the natural foods market is not assured. This immature market requires careful policy actions to fulfill its capacity to help satisfy private and public objectives. While the growth in natural food sales holds obvious rewards for the business sector, contributions to public policy objectives should not be overlooked. Scientists and practitioners of sustainable agriculture know that economic viability is key to farming and food systems that leave a lighter environmental footprint across the country. The spread of such systems could contribute to important national environmental objectives; for example, reduced water pollution. However, adoption of these alternative systems of food production has been slow. The strong growth in consumer demand for natural foods offers an economically viable opportunity for wider adoption.

In *The Natural Foods Market: A National Survey of Strategies for Growth*, Nessa Richman identifies the obstacles to achieving the full potential of this market development, and presents private and public strategies to reduce key barriers. Prominent on the list of obstacles is the uncertainty over standards for natural foods products, which would guide the actions of all market participants, from farmers to consumers. Both industry and government agencies have roles in alleviating that uncertainty.

The report's comprehensive analysis combines and interprets a diverse array of private and public information, to help experts and novices understand this developing market. It uses the latest information to chronicle the growth and diversity of the sector. The identification of obstacles draws upon the findings of a new national survey of farmers, food processors, distributors, and retailers. The responses of those already involved in natural foods are contrasted with those who are not already involved, in order to assess the obstacles perceived by each group. Private and public strategies to foster durable market growth are built from the survey findings and from the insights gained from interviews with food industry leaders.

The Henry A. Wallace Institute for Alternative Agriculture offers this report to encourage effective actions in the private and public sectors, which will lower obstacles to growth in the natural foods market. With the report, the Institute's Policy Studies Program undertakes a new initiative centered on analysis of the marketing of sustainable agriculture products. We hope that this report and following publications stimulate a dialogue within and among private and public circles, which moves society toward a sustainable food system.

David E. Ervin
Director, Policy Studies Program

Executive Summary

Natural foods are fast becoming big business in this country. Each year from 1990 to 1997, the retail market for natural foods grew 15% to 25%. In 1997, natural foods posted retail sales totaling \$5.5 billion.

Industry analysts predict similar growth rates over the next five to ten years. If they are correct, natural foods will comprise nearly 10% of the total retail foods market by the year 2008, or more than \$60 billion in retail sales.

This remarkable growth rate outpaced growth in mass market foods sales by a significant amount. Mass market foods sales increased an average of only 3% to 5% from 1990 to 1997.

The food industry is paying close attention. The steady upswing in natural foods sales over the past decade is most directly attributable to greater demand for natural foods products. More and more consumers are seeking healthful, safe food, often with the caveat that it is produced in an "environmentally friendly" way. Companies across the spectrum of the food system are working hard to respond quickly and accurately to these preferences.

This report by the Henry A. Wallace Institute for Alternative Agriculture documents the growth in the natural foods market and takes a critical look at the requirements for continued success. It presents findings of a new nationwide survey of food businesses, which indicate obstacles that may slow or otherwise impede future growth. The report also describes the results of in-depth interviews with food industry experts on the root causes of these obstacles, discusses the reasons why business strategies are or are not succeeding in getting natural foods into more retail outlets, and concludes with recommendations to assist the natural foods market in realizing its full potential.

In 1997, natural foods posted retail sales of \$5.5 billion. If current trends continue, retail sales will exceed \$60 billion by 2008.

Preparing this Report — Scope and Methodology

The data for this report were collected and analyzed in a year-long (September 1997 to August 1998) four-step process summarized below.

The first step consisted of a comprehensive literature search and interpretation. The publications we consulted included academic books, journals, and conference proceedings; industry trade magazines, studies, and reports; and the newsletters of myriad industry groups and natural foods-related non-governmental organizations. We researched Internet resources and conducted informal interviews with members of industry, academia, non-governmental organizations, and government agencies.

The second step was a national survey of 290 food industry businesses, which included approximately 70 randomly selected respondents from each of the following categories:

- agricultural producers,
- food manufacturers (includes processors),
- food distributors (includes wholesalers and brokers), and
- retail supermarkets.

Approximately one-half of the respondents in each category were self-described natural foods industry members (for more information, see Appendix A).

As with all surveys, the results of this one are subject to sampling error. The statistical significance of the numbers and percentages reported were calculated. Comparisons among surveyed groups are statistically significant at levels recorded in Appendix B.

The third step consisted of a series of in-depth interviews with food industry experts, including at least one agricultural producer, food manufacturer, food distributor, academician, representative of a food-related non-governmental organization, and U.S. Department of Agriculture official. This interview process was designed to uncover the root causes of perceived major market barriers that were reported during the survey and to begin developing recommendations to overcome these obstacles.

The final step focused on data and information analysis. Initially, we integrated the findings from the first three steps into a concise statement of the root problem underlying each major market obstacle. Then we developed potential solutions to address these root causes. From this process, we arrived at a set of recommendations for major groups interested and involved in the natural foods market. To complete this step, we followed guidelines devised by David Weimer and Aidan Vining in *Policy Analysis: Concepts and Practice* (Prentice Hall, 1992).

Key Findings — Obstacles to Success in the Natural Foods Market

Trends in the natural foods market are significant, enough so as to affect the entire U.S. food system — from agricultural production to food processing, distribution, and retailing. Natural foods are no longer seen as the exclusive purview of a small, marginal group of consumers. "Mainstream" shoppers are increasingly demanding such products, and businesses selling natural foods now include mass foods marketers.

The rewards for natural foods entrepreneurs are potentially great as growth in retail sales continues. However, the impact could be much more fundamental. Natural foods production has the potential to nurture new farming systems that meet consumer demand, with less environmental degradation than conventional farming methods.

Such change does not come easily. As we found in this study, serious difficulties face the natural foods market, particularly in relation to expansion. Three major themes emerged from our research:

- **There are no universally accepted standards for defining and producing natural foods.**
- **Natural foods and mass market foods companies view the natural foods market and conduct business in critically different ways.**
- **Many natural foods and mass market foods businesses do not understand how best to market and price natural foods.**

Note that no potential barrier was rated highly by all groups of respondents. This is not surprising, given that the natural foods market is growing quickly.

Trends in the "natural" foods market are significant enough to affect the whole food system. Natural foods are no longer the purview of a small group of consumers.

Meet Our Experts
Industry
<p>BRUCE BECHTEL Chief Financial Officer of Stahlbush Island Farms, a producer and processor of sustainably grown fruits and vegetables, based in Corvallis, Oregon.</p> <p>STEVEN DAUGHERTY Director of Government Affairs for Pioneer Hi-Bred International, a seed and feed company based in Iowa.</p> <p>GENE KAHN Corporate Executive Officer of Small Planet Foods in Sedro-Woolley, Washington, the largest organic foods manufacturer in the world. Their brands include Fantastic Foods, Cascadian Farm, and Muir Glen.</p>
Academia
<p>JEAN KINSEY Professor at the University of Minnesota Department of Applied Economics, St. Paul, Minnesota, and Director of the Retail Food Industry Center in Minneapolis.</p>
Government
<p>MICHAEL DUNN Undersecretary for Marketing and Regulatory Programs, U.S. Department of Agriculture</p>
Non-governmental Organization
<p>ANN WOODS Director of the Organic Alliance, a non-profit organization based in St. Paul, Minnesota, which works to advance the introduction of organic foods into mass market supermarkets.</p>

Lack of Standards

The boundaries of the natural foods market are vague. The sectors involved in producing, marketing, and retailing natural foods adhere to various standards. Even where the overall standards seem to agree, the specifics may well be different. For example, many current definitions of natural foods state that the products should be "minimally processed," but differ in their meaning of "minimally."

A key implication of our findings is that establishing standards for "natural" foods is important to many industry members.

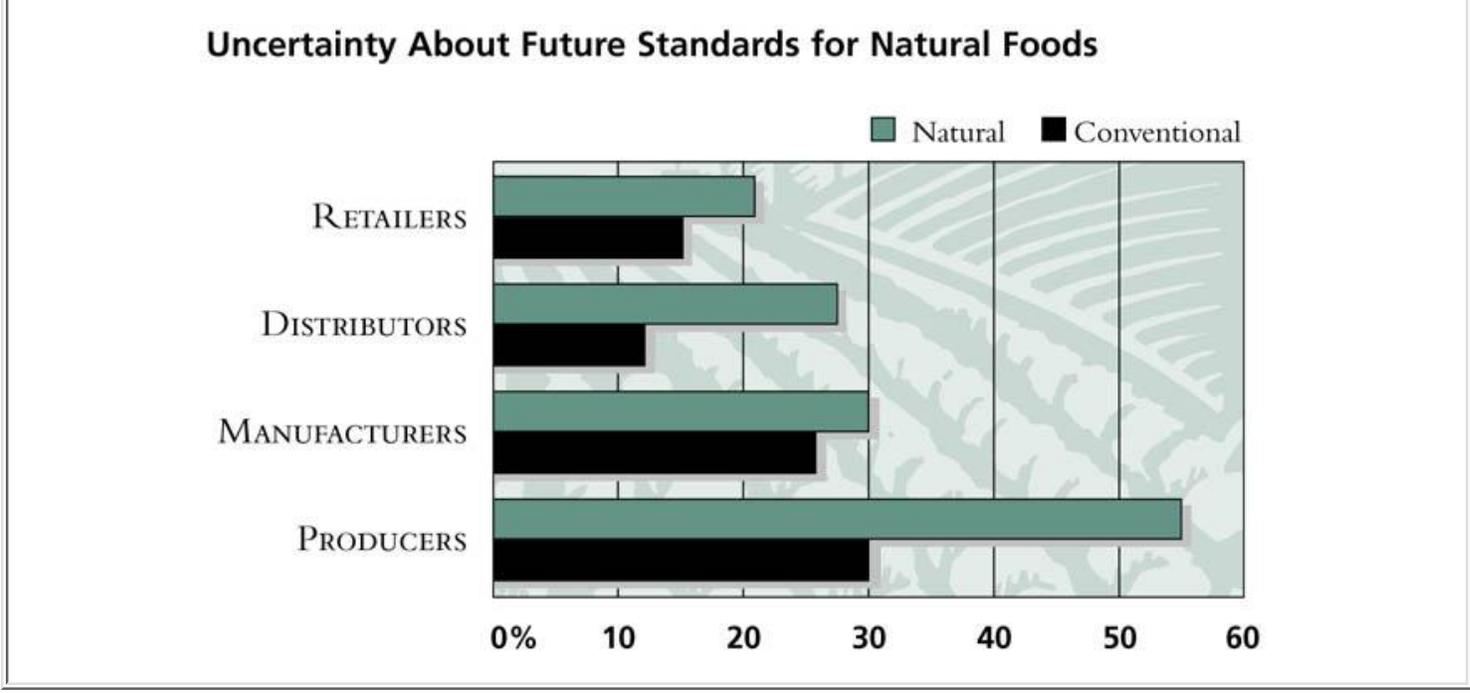
This situation causes confusion and distrust. As a people, Americans have enacted volumes of product-regulation legislation, for everything from cars and toys to food, primarily to help ensure health and safety. In fact, the unhealthy practices of early mass market foods producers led to some of the first U.S. product regulations.

Private markets in this country succeed when they build consumer confidence. Such success stems in large part from the fact that consumers know that standards for products are in place and are being enforced. If they learn otherwise, their confidence in the products may greatly diminish.

It appears that the lack of standards for natural foods poses major problems in long-term expansion of the industry and possibly to the very success of the market. It also appears that in the natural foods market, setting standards is inextricably linked to labeling. Label claims can be useful indicators of food product quality, including food safety and nutritional value, and consumers have grown accustomed to such labels on their food products and now expect to find them.

In our survey, the potential obstacles relating to standards for natural foods were rated relatively highly by the entire survey sample. Specifically, "Uncertainty about future standards for natural foods" topped the list with a mean of 3.4 on a scale of 1 to 6 (1 being "not a barrier" and 6 being "a major barrier"); all segments except mass market foods manufacturers and retailers rated it over 3.0. "Lack of government standards for natural foods" (mean of 2.9) followed closely behind, with natural foods producers and manufacturers rating it as most significant.

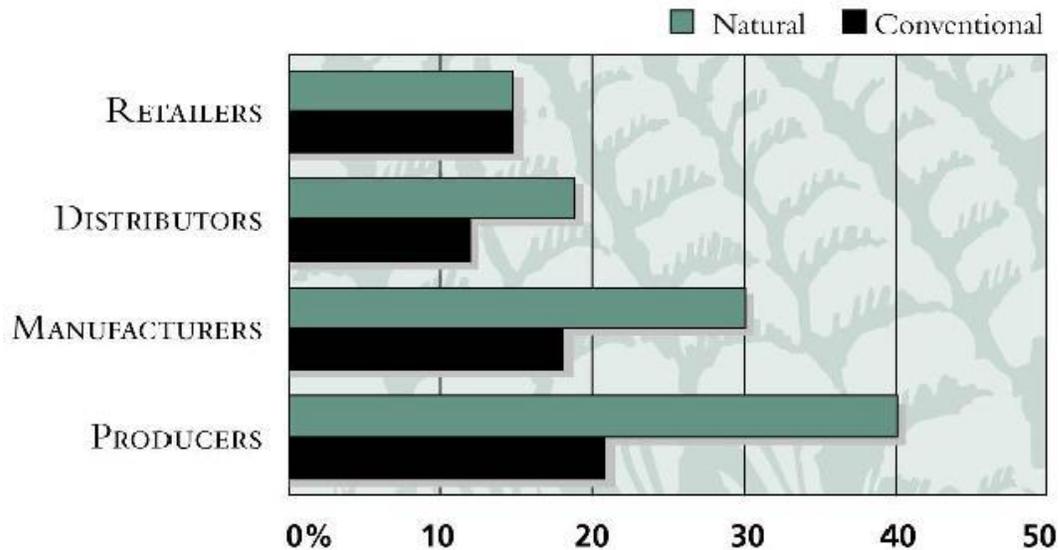
Figure 1a: Response to "Uncertainty About Future Standards for Natural Foods" (percentages indicate perceptions as a barrier or major barrier).



These findings reveal statistically significant differences in the way that natural foods and mass market foods producers and retailers perceive "Uncertainty about future standards for natural foods." Natural foods producers rate this as a more serious obstacle than do mass market foods producers, while natural foods retailers view it as a barrier and mass market foods retailers do not.

Figure 1b: Response to "Lack of Government Standards for Natural Foods" (percentages indicate perceptions as a barrier or major barrier).

Lack of Government Standards for Natural Foods



Our experts agree that the issue of establishing standards for natural foods is important, although not all of them agree that such standards are necessary. Some believe that existing truth-in-labeling laws and similar legislation are sufficient to inform food producers, distributors, and retailers, as well as consumers.

In relation to the variety of responses, Jean Kinsey, Director of the Retail Food Industry Center, made an interesting observation. She divided the survey responses into two main groups: 1) those already succeeding in the market, who do not want new standards that might displace them, and 2) those trying to enter the market, who want standards set before they invest, thus improving their competitiveness with established industry members.

We conclude from the survey and interviews that the lack of standards will likely be a limiting factor to growth in the natural foods market over the long term. If nothing else, confusion about the meaning of "natural foods" could override consumer interest and confidence in natural foods products.

Different Views and Approaches

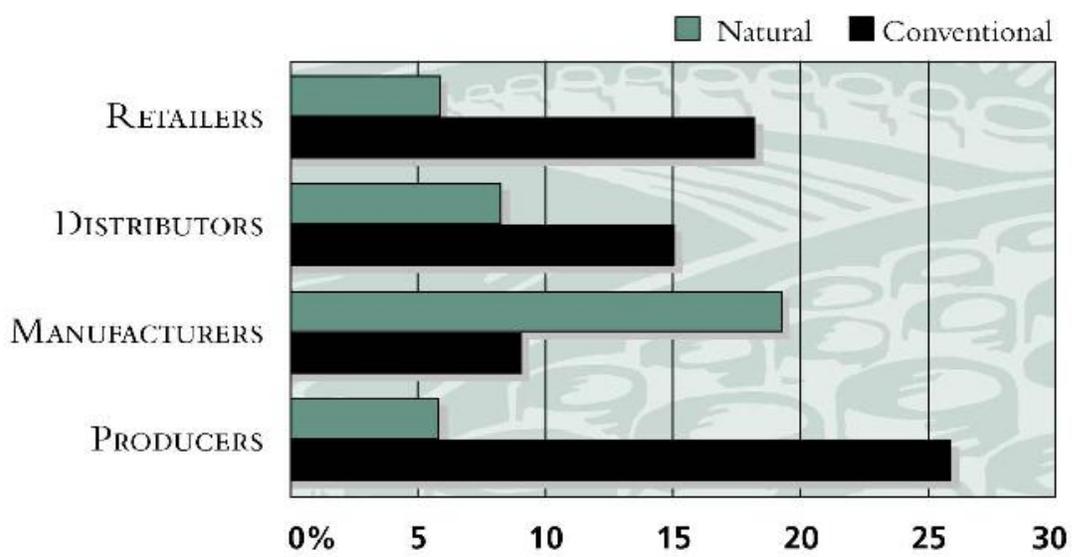
To varying degrees, all new markets experience growing pains. In part, this is because start-up companies are unfamiliar to consumers and with established businesses that could prove helpful. In addition, they often have little idea how to build the relationships and institutions that can help them succeed. Many are likely to approach their operations in ways that are very different from businesses that provide similar products, but are already well established.

Sometimes new and different approaches carve out a special niche and businesses flourish without strong connections to traditional institutions. But it is likely that growth in the natural foods market will eventually require greater integration with established food-related businesses and institutions.

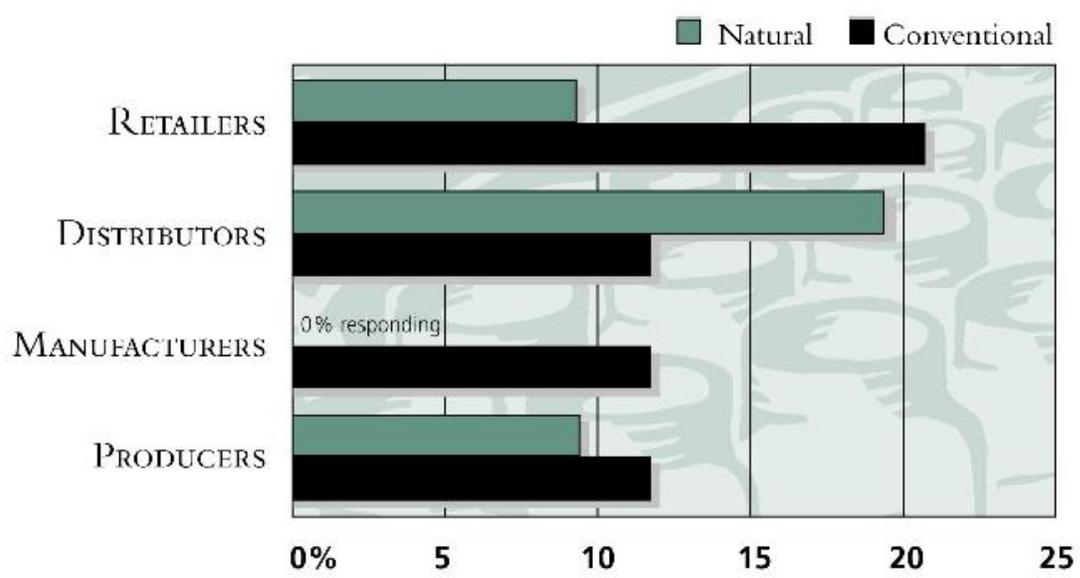
This presents an obstacle. Our survey showed wide differences in the opinions of natural foods and mass market foods businesses about the natural foods market, and also differences in how these two segments operate. Mass market foods producers, distributors, and retailers, for example, rated "Insufficient market *demand*" as a major barrier (Fig. 2). Their natural foods counterparts did not. Rather, natural foods distributors cited "Insufficient market *supply*" as one of the most significant of all 20 potential barriers listed on the survey (Fig. 2).

Figure 2: Response to "Insufficient market demand" and "Insufficient market supply" (percentages indicate perceptions as a barrier or major barrier).

Insufficient Market Demand for Natural Foods



Insufficient Market Supply for Natural Foods



These responses indicate that natural foods businesses are finding each other, but they have yet to make strong connections with those in the mass market foods industry who may well be key to continued growth. And, the mass market foods industry has yet to discover the ways in which it can best integrate natural foods into existing operations.

Our experts postulated that this arises from major differences in standard operating procedures between the mass and natural foods industries. For the most part, the two markets do not have the day-to-day mechanisms in place that will allow them to find each other and establish profitable relationships. Mike Dunn, Undersecretary for Marketing and Regulatory Programs at the U.S. Department of Agriculture, pointed to obstacles that are built into the very center of the \$80 billion infrastructure that supports food distribution in this country. As an example, the industry standard calls for 108-car trains to carry grain, but for organic grain products the need is for far fewer cars. The infrastructure is simply not built to accommodate this need.

Our survey and expert opinions strongly suggest that generic market channels and rules and regulations for their operation are as necessary for natural foods as they are for mass market foods. In the end, both markets may use the same trains, trucks, boats, market report Web pages, and newsletters. But there are currently no standard operating procedures in place to facilitate the movement of natural foods into the mainstream, despite the increasing demand for natural foods products.

The Marketing and Pricing Dilemma

Marketing is a complex task, and businesses that are not good at it risk their success, no matter how excellent their products might be. The experts say that a marketing plan requires formulation of a comprehensive strategy, which includes an assessment of the market climate, product development, marketplace positioning, pricing, advertising, and methods of measuring success.

Added to this formidable task is the fact that marketing natural foods is very different from marketing conventional foods. Few in the emerging natural foods market can afford to compete with Campbell Soup Company or ADM on the nation's air waves, or for desirable, affordable slots on a large food chain's shelves. So how do natural foods businesses reach consumers?

Pioneer natural foods marketers developed a fairly sophisticated understanding of what their small group of consumers wanted. That understanding came over time, from decades of informal interaction with their buyers at farmers' markets, food cooperatives, and other forms of community-supported agriculture. Now the consumer base is broadening. Mainstream consumers say they want natural foods, but determining specifically what they want and at what price is a struggle for both natural foods and mass market foods businesses.

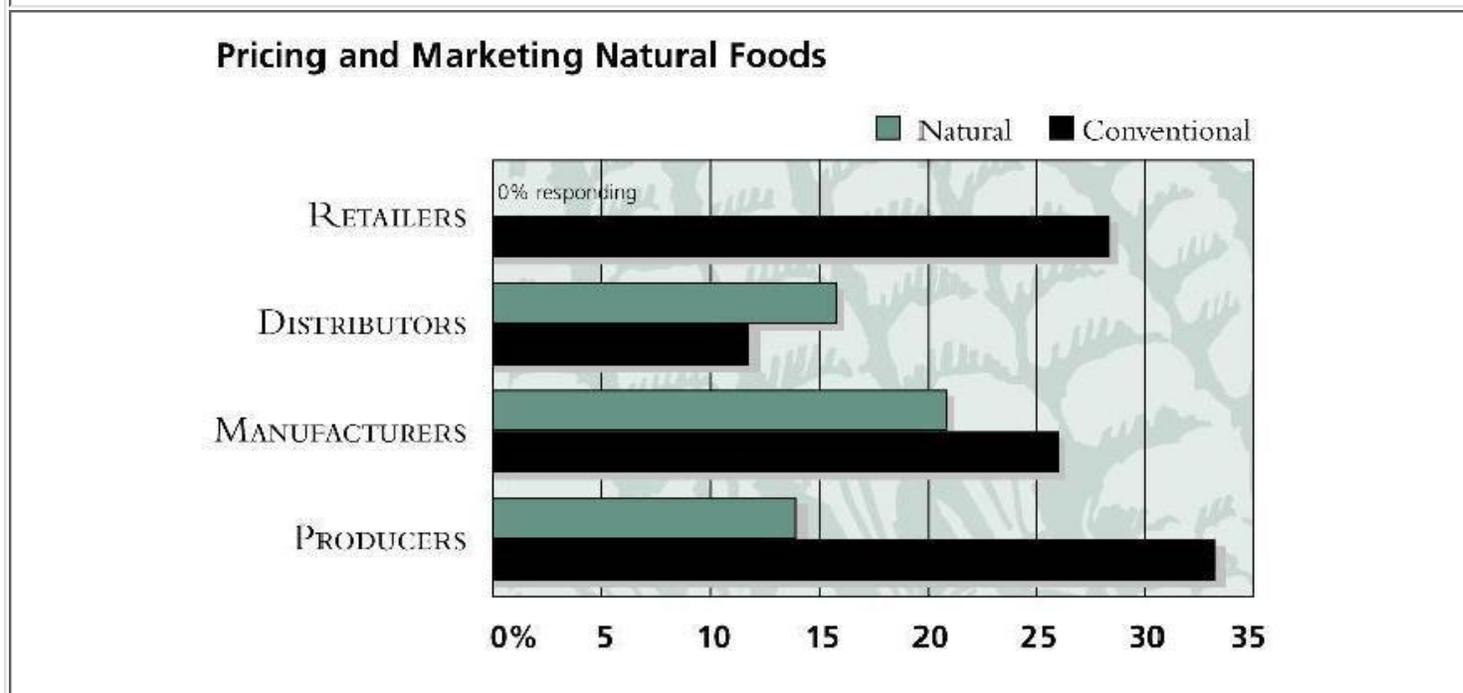
An important interpretation of our findings is that many industry members lack the information, expertise, or capital to price and market natural foods products.

Our survey respondents perceived "Pricing and marketing natural foods" as one of the most serious problems facing the natural foods industry. Across all groups, one-fifth of the respondents rated this as a major barrier (Fig. 3), and the percentage was even higher for mass market foods producers and retailers.

Ann Woods, Executive Director of the Organic Alliance in Minnesota, summed up her feelings in stating that conventional foods producers interested in growing food for the organic market do indeed face a major barrier. Whether selling raw inputs or value-added items, they know little about gathering the information they need to understand where, how, and at what price to sell their products. In many cases, that information is not even available.

The survey and interviews indicate that the marketing of natural foods, including pricing, is still a mystery to the food industry. Some, and possibly many, natural foods businesses lack the information, expertise, or capital — perhaps all three — to market their products to maximum advantage.

Figure 3: Response to "Pricing and marketing natural foods" (percentages indicate perceptions as a barrier or major barrier).



It also appears that mass market foods businesses often fail to understand the critical differences between marketing natural foods and conventional foods, or are choosing not to invest the time and capital necessary to do this job properly. Such decisions may suffer from lack of the information that, if available, might lead these businesses to invest in natural foods products.

Business Strategies: Finding Success, Avoiding Failure

Our survey and interviews included questions related to business strategies and whether or not they are working. We found that some strategies employed by natural and mass market foods companies are leading to success in the natural foods market, while other decisions have produced less than desirable results.

In relation to successful endeavors, our survey indicated the following:

- **Few natural foods retailers and mass market foods manufacturers and distributors have "developed a natural foods label," but many of those who have, have succeeded.**
- **While few mass market foods retailers "hired special staff for natural foods," most of those who did found that this strategy worked.**
- **Few mass market foods producers "increased the scale of their natural foods operations," but those who did were mostly pleased with the results.**

Decisions that were less successful include:

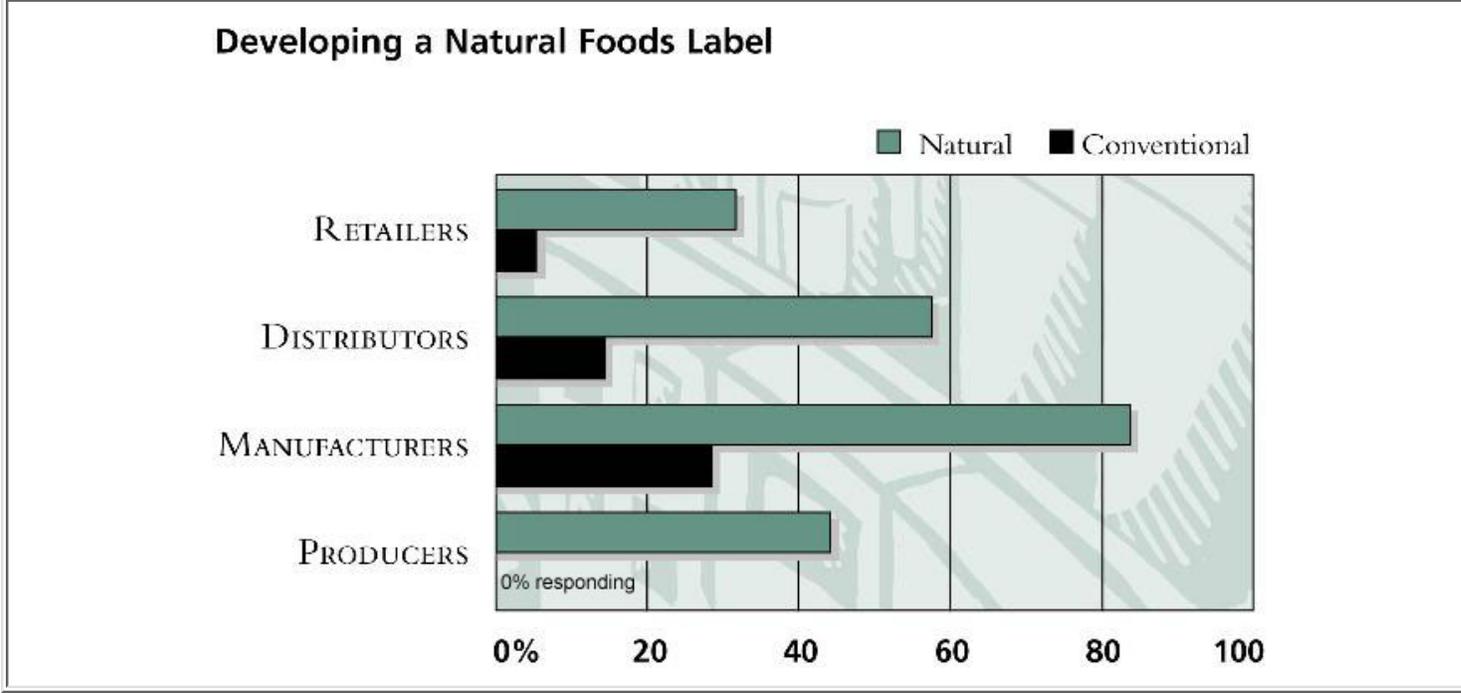
- **While quite a few natural foods producers and manufacturers use "newspaper/direct advertising" to promote their products, many feel this strategy is not productive.**
- **Almost half of mass market foods retailers surveyed have diversified and increased the scale of their natural foods products, but less than one-fifth of them feel they have been successful.**

We emphasize that a "successful" strategy will not always work, and that an "unsuccessful" strategy is not one that should never be used. The following discussion points out pitfalls to be avoided so that the strategies may prove more successful.

Creating Natural Foods Labels

We turn first to labels (e.g., third-party certified ecolabels and certified organic labels) that are essential to the credibility of natural foods products. They are most popular with natural foods manufacturers and to a lesser degree with natural foods distributors (Fig. 4). Note, too, that although only 29% of the conventional foods manufacturers who responded to our survey have tried labels, 70% of those who did rated it a successful or very successful business strategy.

Figure 4: Percent of respondents who "developed a natural foods label."



Our experts believe that this is a critical aspect of marketing natural foods, and all agree that there must be safeguards to ensure the accuracy of natural foods labels. Steven Daugherty, Director of Government Affairs for Pioneer Hi-Bred International, sums it up in stating that well-recognized brand names, marketing research, and strong new product launching efforts are of primary importance, along with clearly defined labeling standards. He noted ConAgra, with its "Healthy Choice" brand, as an example of a company that entered the mass market health foods field early and put the necessary resources behind its product line. It is essential to have good quality as well, he points out, because products with fewer potential customers absolutely need to gain the support of repeat customers.

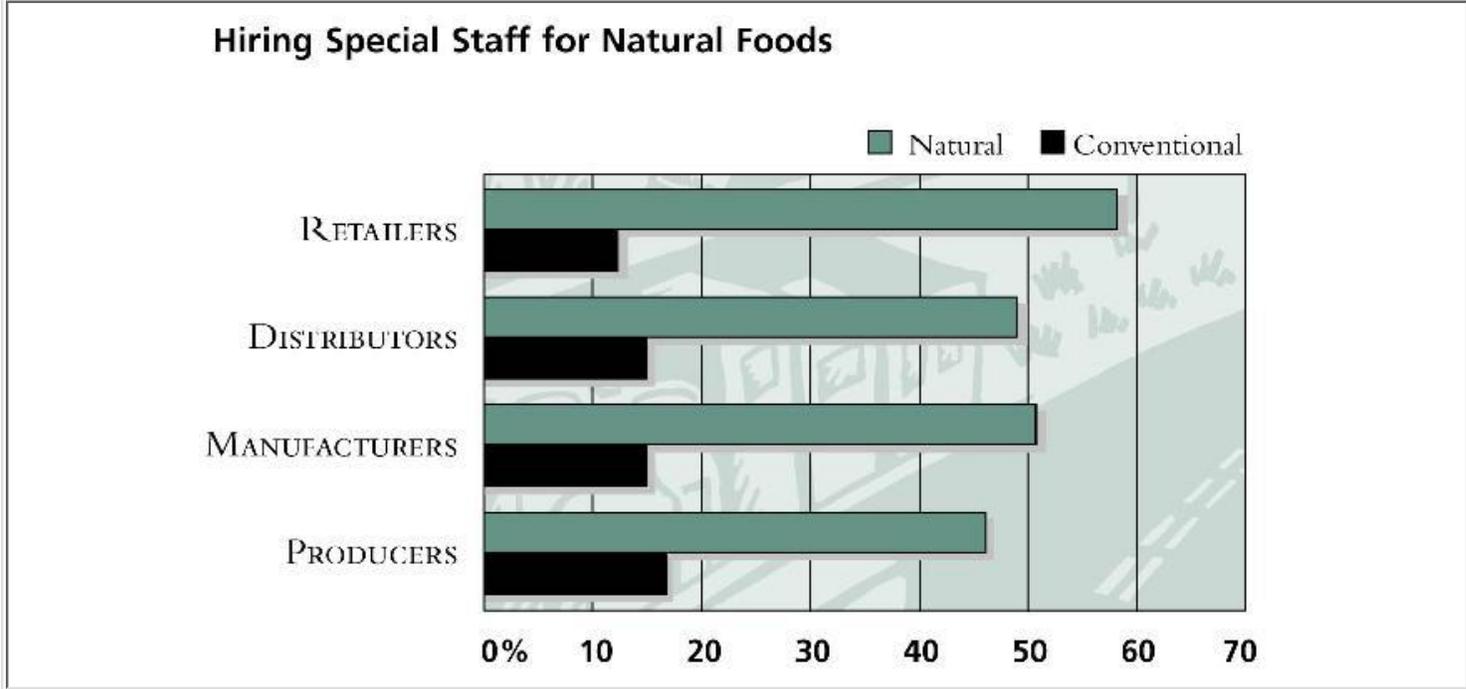
Although only 29% of mass market food manufacturers surveyed tried developing a natural foods label, 70% who did were successful.

In relation to organic foods, Dunn states that consumer understanding of the organic certification process and the national organic label will advance the organic foods market. He focused on USDA's recent experience with the public concerning the Proposed Rule for the National Organic Program. More than 280,000 responses were received, far more than the number of responses to any other USDA public comment period concerning agriculture. That, he said, shows organic foods are very significant in the public mind.

Hiring Special Staff for Natural Foods

Our survey showed that many natural foods industry members hire special staff for their products, while few in the mass market foods industry have done so (Fig. 5). However, of the mass foods market retailers who tried this strategy (13% of all who responded in this group), 60% said they had success.

Figure 5: Percent of respondents who "hired special staff for natural foods."



Why don't more conventional foods retailers employ this strategy? Why do those who have done so feel it is successful? Our experts believe the answers may lie in a combination of attitude, commitment, and simple economics. Bruce Bechtel, Chief Financial Officer of Stahlbush Island Farms, views this issue from the standpoint of an agricultural economist as well as an organic agricultural producer. While understanding the economic issues involved in the supermarket decision-making process, he emphasized that many conventional foods retailers have little experience in selling organic and other natural foods. These foods, he says, have to be sold differently from other foods because some of the attributes that add to their worth for consumers require additional education. Limited backing from corporate headquarters, he guesses, may have something to do with store-level hesitance in making a substantial commitment to natural foods. He concludes that if conventional retailers do not follow up with consumer education, their initial commitments to natural foods may well fail despite great potential for consumer interest.

Just 13% of mass market retailers surveyed hired special staff for natural foods, but 60% of them felt it was a good business decision.

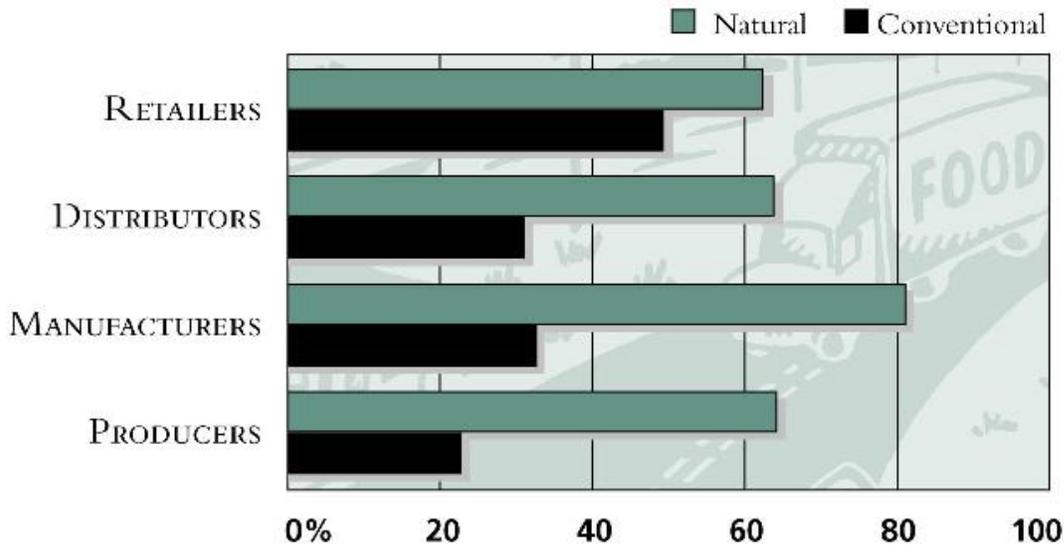
Gene Kahn, Corporate Executive Officer of Small Planet Foods, agrees in that he believes cost is the main barrier to the natural foods market, and it is crucial to communicate accurately what makes natural foods cost more. In addition, he argues that safety and health issues are very important to consumers, and facts about these issues must also be communicated to consumers if the natural foods market is to succeed.

Increasing and Diversifying Natural Foods Operations

We found that all four segments of the natural foods industry responding to our survey have increased the scale of their natural foods operations: 81% of manufacturers, 66% of producers, 65% of distributors, and 64% of retailers (Fig. 6). Only 23% of conventional foods producers followed suit, but 60% of those who did were satisfied with the results.

Figure 6: Percent of respondents who "increased scale of natural foods operations."

Increasing Scale of Natural Foods Operations



In addition, almost half of the mass market foods retailers participating in our survey diversified (49%) and increased (49%) their natural foods offerings, but fewer than 20% claimed success. To compare, the vast majority of natural foods retailers noted that their attempts to diversify and increase their natural foods offerings were successful (60% and 76%, respectively).

As Chief Financial Officer for a sustainable organic producer, Bechtel brought a first-hand perspective to this finding. He initially argued that it is very difficult to change producers' minds about anything. He pointed out that the average age of farmers today is over 50 years. They have worked the land for a long time, using the same methods, and are very comfortable in sticking with their standard operating procedures. They are also a risk-averse population — change does not come easily to them.

Upon second thought, Bechtel drew on his personal experience, noting that he has done a fair share of trying to convince older farmers that they should grow food using organic or sustainable production methods. In working with conventional foods producers to create more sustainable and organic production capacity, he says it is important to offer the right amount of money and the right amount of security. Conventional foods producers are generally interested in changing their production methods only if they can be guaranteed significantly higher prices and a long-term commitment in the form of a multi-year contract.

Using Newspaper and Direct Advertising

Distributing a newspaper advertisement or conducting direct advertising was attempted by one-half or more of natural foods producers (51%), manufacturers (51%), and retailers (73%) who responded to our survey. Fifty percent of these retailers reported that they experienced success or total success, but few of these producers (33%) and manufacturers (14%) fared that well. It appears that for natural foods producers and manufacturers, this popular business strategy is currently a major trouble spot.

23% of conventional agricultural producers increased the scale of their operations — and 60% of those who tried believe the strategy was a success.

Our experts had several explanations for these findings. Bechtel believes that there is a lack of understanding about how to sell natural foods products and that businesses have to put more effort into understanding natural foods products and the consumers who buy them.

Daugherty postulates that the consuming public is confused by natural foods because there are simply too many products touting too many attributes. The public is not "linked into" the benefits of natural foods enough to care about buying these foods.

Woods believes that many mass market foods industry members simply are not putting the necessary resources into making newspaper and direct advertising succeed.

Dunn emphasizes that consumers do not know enough about natural foods. For organic foods, he believes, a national standard with a well-recognized shield and a public education campaign will be key to successful marketing.

Kahn contends that consumers must come to an understanding of the cost difference between natural and mass market foods. He states that many natural foods businesses do not know how to simplify their messages enough and that these businesses must capitalize more on the relative benefits of organic and natural foods, through consumer communication. For example, natural foods businesses need to "stop being the nice kids on the block" and come out strongly against pesticides. He emphasized that research is crucial to make this message known and understood.

Conclusions

Natural foods are still a very small part of the U.S. retail foods market, but sales are increasing rapidly. All indications are that this trend will continue, making this segment of the overall market an increasingly prominent part of the food system. Natural foods fit well with major market trends toward food safety, health, convenience, and increased interest in the environmental impacts of agriculture practices.

Based on the findings of our survey, expert interviews, and extensive research, the Wallace Institute concludes that as this market grows, it will also continue to expand out of traditional settings, such as small health food stores, and into mass market settings, such as chain supermarkets. In doing so, the natural foods market will spur some of the needed modifications to existing market information sources and institutions, carving a space for natural foods within these institutions. Other modifications will require public policy intervention. These latter modifications are crucial in creating a natural foods market that meets rising consumer demand.

Industry analysts predict that the natural foods market will continue to chart a path of strong growth.

We believe that there are no unconquerable obstacles affecting the natural foods market, but the means needed to help the natural foods market are not all in place. The appropriate government agencies and non-governmental organizations, in concert with members of the food industry and food trade associations, have the important task of assuring that the natural foods market reaches its full potential.

Credibility is Key

Credibility is key to long-term success in the natural foods market. Many of the attributes that are bundled into natural foods are not apparent in the end products that consumers pick up at the store. Thus, consumers must be made aware of these attributes — through standards, labels, advertising, etc. — if their confidence is to be gained.

To help build consumer trust and loyalty, health and safety standards for natural foods operations should meet or exceed those for conventional mass market foods operations. Ecolabeling and organic labeling must be held to a

very high standard for certification. There is much work to be done to ensure the credibility of the natural foods market in consumers' minds.

Surveys tell us that consumers want safe, healthful, convenient food. They also care about the environment and the fate of U.S. farmers. To many, this translates into a desire to buy natural foods in supermarkets. While some people enjoy going to alternative retail outlets such as farmers' markets, many more want to buy natural foods without changing where they normally shop. Thus the success of natural foods in conventional supermarkets is critical.

Natural foods businesses and entities interested in the success of the natural foods market need to plan strategically. Today's natural foods market promises profits to those who act quickly and decisively, but their actions must be backed by careful research and planning prior to product introduction.

The survey and interviews conducted for this report illuminated several public policy themes that are important to success in the natural foods market. Among them are the following:

- The natural foods market must be afforded the same type of assistance that the mass foods market enjoys, in relation to implementation of standards and minimally necessary regulations aimed at serving consumers and the public good.
- Mass market channels need to be cleared of obstacles that limit access for natural foods businesses.
- There is a need to address the current lack of systematic processes for tracking the natural foods market — especially for conducting basic research on the production, manufacture, distribution, retailing, marketing, and pricing of natural foods — and to initiate the proper means of disseminating the resulting information to a wide range of users, including food industry businesses and the general public.
- Mechanisms must be put in place to assist in the organizing aspects of the natural foods market, in forming partnerships, coalitions, and working groups, and in building trade associations and other institutions that are dedicated to overcoming the difficulties and meeting the challenges posed by the growing natural foods market.

The following recommendations build upon these themes.

Recommendations

The Wallace Institute has developed the following recommendations for major sectors involved in the U.S. food system, with the goal of helping the natural foods market reach its full potential.

Government Agencies

1. National Agriculture Statistics Service: Include new questions directly related to the organic and sustainable agriculture market on existing surveys. Investigate the potential for a new organic and sustainable producer sample frame and marketing survey. Work with the USDA Economic Research Service, Organic Farming Research Foundation, Sustainable Agriculture Working Group network, USDA Sustainable Agriculture Research and Education Program, and others to develop these efforts.
2. Agricultural Marketing Service: Formulate a set of guidelines for companies developing natural foods labels. Work with food trade organizations including the Food Marketing Institute, Organic Trade Association, and National Natural Foods Association to complete this task. Educate food industry members about these guidelines and assist them in ensuring that their natural foods labels are credible and, consequently, have a greater chance at long-term success.

3. Agricultural Marketing Service and Extension: Work with the Organic Alliance, the Sustainable Agriculture Working Group network, and others, to create educational materials and teach extension professionals how to help producers learn about markets for organic and sustainable agricultural products.

Trade Organizations

1. Investigate and analyze the impacts that current trends, such as interest in functional foods and whole health marketing, have on the natural foods market and how these impacts may affect your members. Many of your members may not have the resources or experience to do this.
2. Develop standards and a system for self-regulating your members' natural foods products and explore developing third-party certification mechanisms to make sure consumer expectations for natural foods are met. The goal is to help your members build consumer satisfaction and ensure long-term success in the natural foods market.
3. Create recommended standard operating procedures for your members to make their interactions with members of the mass market as easy and successful as possible. Because business relationships are becoming more complex and technologically sophisticated, it is important that your members be "on the same page" with their new partners.

Research and Educational Institutions

1. Examine the attributes of natural foods that have led to greater consumer demand for these products. What product characteristics are most attractive to consumers (for example, environmental, food safety, nutrition)? Which types of labels have the most impact?
2. Investigate industry responses to the natural foods market. How are natural foods businesses adapting to changing times? Why and how do mass market foods businesses enter the natural foods market? How have lack of government standards, third-party certification, and industry norms helped or hindered the development of the natural foods market?
3. Analyze the impacts that the growing natural foods market is having on rural communities, the environment, and food safety. Are they discernible impacts? What are the benefits to rural communities, the environment, and food safety of a fully developed natural foods market?

Industry Members

1. Inform the USDA that you are interested in learning more about natural foods. Ask them to develop guidelines for companies that want to enter the natural foods market and to collect more comprehensive market and price information on the natural foods market.
2. Tell your trade organization(s) that you want them to supply you with information about how the natural foods market works. Ask them to develop standards for developing third-party certification mechanisms, and for self-regulating production to ensure that they meet consumer expectations for natural foods. Ask them to create guidelines for interacting with other businesses involved in the natural foods market. Ask them to conduct more research and analysis on the issues in the natural foods market that are most pertinent to your success in the natural foods market.

3. Whether you are already involved in the natural foods market or are deciding to enter the natural foods market for the first time, develop a well-researched aggressive marketing plan for your product(s). This may include working with outside natural foods marketing professionals or developing your own in-house capacity related to natural foods marketing. Take advantage of all relevant expert public and private resources to maximize your chances of success.

Looking Forward

It is the hope of the Wallace Institute that this report will be useful to all those involved in the food industry in this country. We believe that it offers valuable information about what members of the food industry perceive in relation to the growing natural foods market, and excellent observations and advice from experts in the food industry. It also presents data about the natural foods market and recommendations that we trust will prove useful to businesses engaged in natural and mass market foods production, manufacturing, distribution, and retailing.

We see tremendous opportunities for the natural foods market. We intend to continue to work for policies and actions that will contribute to the future success of this market for the eventual benefit of the consumer and the broader public good.

* * *

All materials contained in this report may be cited, provided credit is given. This publication may not be reproduced in any way without the express written permission of the Henry A. Wallace Institute for Alternative Agriculture.