

CURRENT MARKET FOR NATURAL & ORGANIC MEATS

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OVERVIEW

- “Natural” and “Organic”
- Sales Trends
- Market Channels
- Consumer Characteristics
- Factors Motivating Demand



“NATURAL”, “ORGANIC”

- **“Natural”**--products that have undergone minimal processing and contain no artificial flavors or added colors, no chemical preservatives, or any other synthetic ingredients (USDA, AMS)
- **“Organic”**—Included in USDA’s 2002 National Organic Program—animals must be raised without antibiotics or growth hormones, fed with 100 percent organic feed, but may be provided certain vitamin and mineral supplements, have access to “organic” pasture.



“GRASS FED”

- USDA proposed voluntary marketing claim standards for grass fed livestock in 2002:
 - grass, green or range pasture, or forage shall be 80% or more of primary energy source throughout the animal's life cycle
- In May, 2006, USDA issued revised standard proposal: Grass Fed-- Grass (annual and perennial), forbs (legumes, brassicas), browse, forage, or stockpiled forages, and post-harvest crop residue without separated grain shall be at least 99 percent of the energy source for the lifetime of the ruminant specie, with the exception of milk consumed prior to weaning. Routine mineral and vitamin supplementation may also be included in the feeding regimen.
- Received over 19,000 comments for proposed standards with most comments related to:
 - 1) confinement
 - 2) access to pasture
 - 3) grain supplementation
 - 4) use of antibiotics and hormones

“NATURALLY RAISED”

- Growing consumer interest in meat and poultry raised without use of antibiotics and hormones
- USDA developing a voluntary standard to address production practices associated with the term “naturally raised” for livestock.
- Held three listening sessions on this topic during December, 2006 and January, 2007 to obtain input prior to developing proposed regulations



MARKET CHANNELS

- Natural and/or organic meats are marketed through three major channels---
 - Food service
 - Retail, and
 - Direct to the consumer
- Due to slaughter and processing regulations, most producers sell their livestock before slaughter
- Some producers collaborate to facilitate marketing
 - Country Natural Beef



FOOD SERVICE CHANNEL

- Many upscale local restaurants are featuring natural/organic meats
 - Berkeley's Chez Panisse
 - Chicago's Harry Caray's
- Several chains are differentiating themselves by featuring natural meats
 - Denver-based Chipotle Mexican Grill, with 500 restaurants nationally, is the largest restaurant seller of naturally raised meats in the USA.



GET ANTIBIOTICS FROM YOUR DOCTOR, NOT YOUR BEEF.

We're serving naturally raised beef that doesn't require a prescription.

In fact, both the beef and pork we serve in Sacramento are free of antibiotics and added growth hormones, fed a vegetarian diet and raised humanely. We think meat raised this way, naturally, tastes better.

Serving naturally raised beef is another step in our ongoing *Food With Integrity* journey – bringing you the best ingredients from the best sources.

Chipotle



MEXICAN GRILL

— SERVING NATURALLY RAISED BEEF IN SACRAMENTO —

FOODSERVICE CHANNELS

- Burgerville, based in the Northwest
 - 39 quick-serve restaurants
 - committed to serving locally produced foods
 - Its beef is sourced solely from Country Natural Beef
- Bon Appetit Management, contract food service operator for numerous corporations and colleges, describes itself as the model for sustainable foodservice and has an Eat Local program
- Small number of colleges are offering some grass-fed beef and free-range poultry



RETAIL CHANNEL

- Various retailers are featuring natural/organic meats & poultry
 - Whole Foods identifies itself as leader in natural meats industry
 - humane animal treatment
 - champion innovative production systems
 - Focus of safety of meat sold
 - Raley's carries natural beef & organic chicken
 - Trader Joe's
 - Consumer Co-ops
 - Regional grocers—Nugget Markets, Andronico's, Bristol Farms



DIRECT MARKETING

- Farmers' Markets
- Meat/poultry CSA programs
- Mail order/Internet
- Whole carcass sales-State inspected



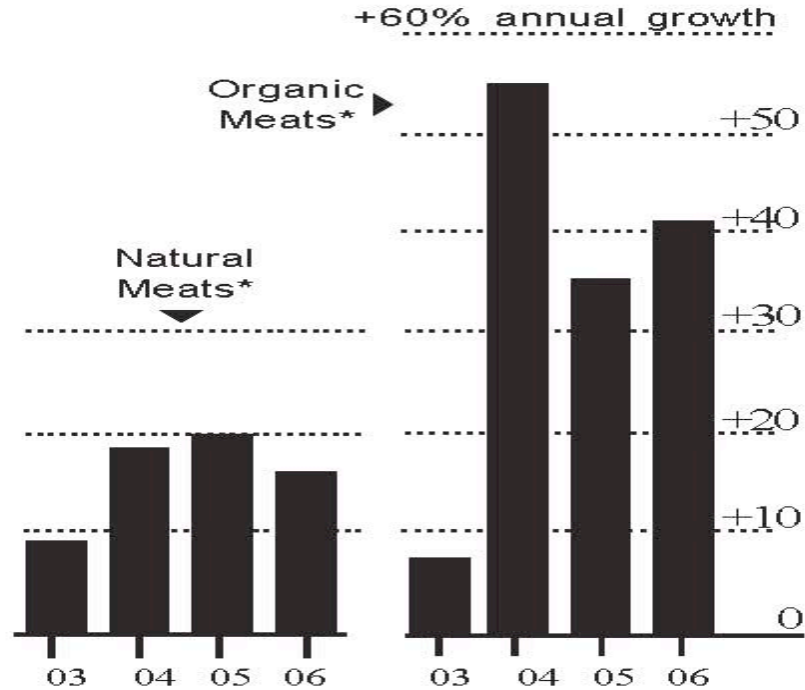
SALES TRENDS

- Growth rate in sales for natural meats ranged between 9% and 20% between 2003 and 2006.
- Sales increases of organic meats fluctuated between 8% in 2003 to 55% in 2004.
- But Organic Trade Association estimates that organic meat accounts for only .22% of overall meat sales



Fattening Up Nicely

Sales of organic and natural meats have grown rapidly in recent years. Annual changes are for the 52 weeks that ended in April each year.



* Figures are for prepackaged foods with organic or natural labels and sold at major food, drug or mass merchandisers (excluding Wal-Mart). Excludes freshly cut meat.

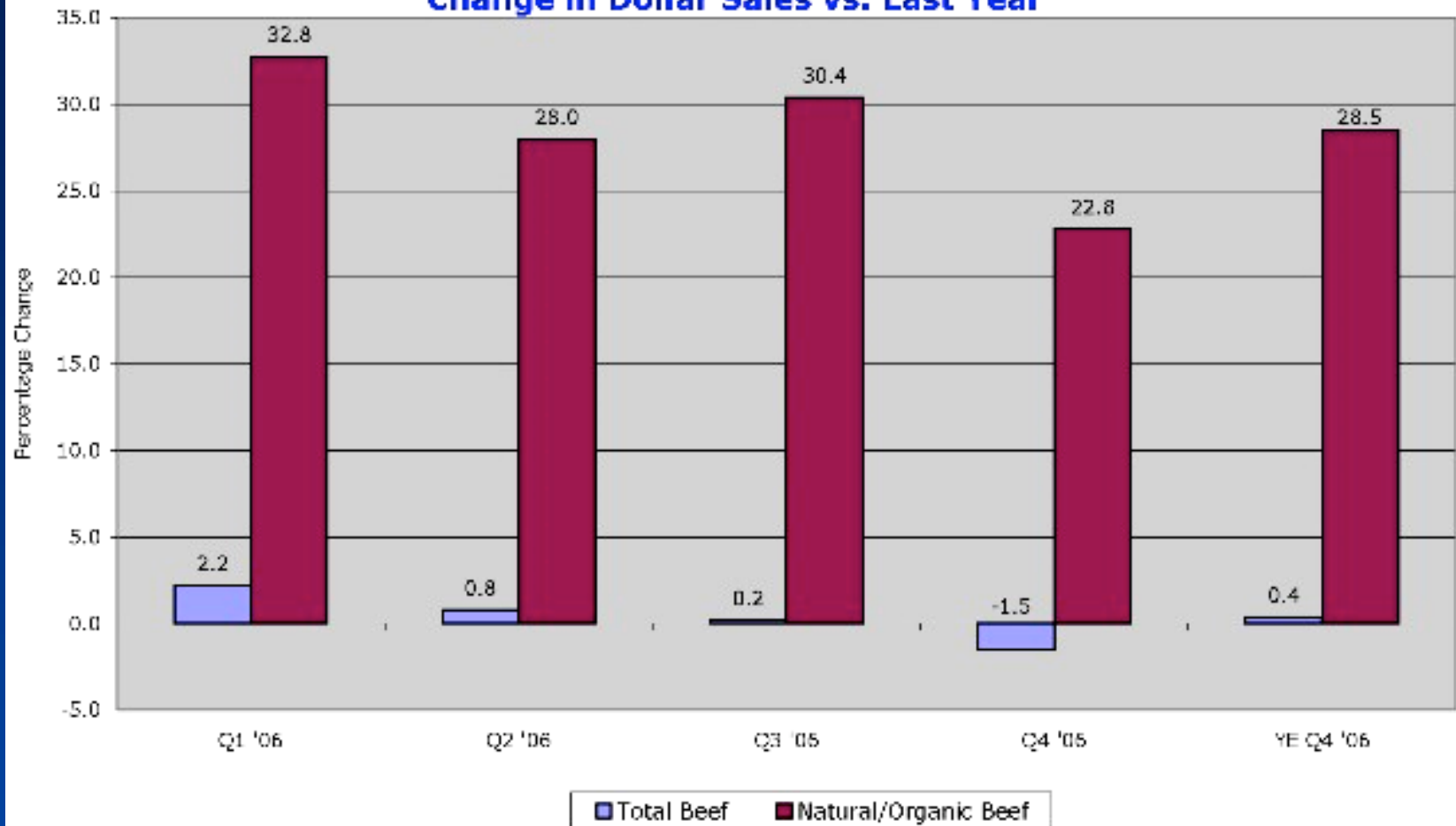
Source: ACNielsen LabelTrends

The New York Times

SALES TRENDS

- US sales of natural prepackaged beef increased 51% in 2005 to \$69.8 million
- In Q4 2006, natural and organic beef volume comprised 1.4 percent of all fresh beef pounds in retail supermarkets, up from 1.1 percent in Q4 2005.
- Retail sales in Q4 2006 were \$72 million for 14 million lbs (up from \$59 million in Q4 2005) compared to \$3.6 billion and 1 billion lbs for total beef (Freshlook)
- Natural and organic beef sales represent only 1.6% of total beef sales and only 1.1% of total beef volume (as of 2006)
- Prices for natural or organic beef averaged a 45% premium over commodity beef prices (Q4 2006)
 - \$5.17/lb. for natural or organic vs. \$3.57/lb. for commodity beef

Change in Dollar Sales vs. Last Year



SALES TRENDS

- Chicken is the most popular natural and organic meat-
 - purchased by 73.2% of such shoppers
 - compared to a 50.7% purchase rate for beef
 - 31.0% for ground meat
- Datamonitor projects market for natural and organic meats to increase from \$2.3 billion in 2004 to \$5.5 in 2009
 - 19% compounded annual growth rate far exceeds 3.2% annual growth rate for commodity meat



CONSUMER CHARACTERISTICS

- National Cattlemen's Beef Association (NCBA), says natural or organic meats consumers are:
 - light consumer of beef
 - little older
 - above average household income
- Consumers between 25 to 39 years old are most likely to purchase natural or organic meats
- 21% of consumers reported that they had purchased natural and/or organic meats during past 3 months
- One-fifth of these buyers stated that they eat only natural and/or organic meats



TARGET CONSUMERS

“...baby boomers who want to eat better than in the past; young mothers who want more nutritious food for their kids; and younger, highly educated couples whose beliefs are generated by their knowledge.”

--Chairman for a leading natural meats firm



CONSUMER MOTIVATIONS

- Consumer research by NCBA indicates that the primary motivations for purchasing natural and organic meats are:
 - Better health and treatment of the animal (44.0%)
 - Better nutritional value (43.0%)
 - Better taste (42.0%)
 - Positive long-term health (41.9%)
 - Freshness (41.9%)



CONSUMER MOTIVATIONS

- Whole Foods' nationwide survey conducted in April, 2006 indicates consumers are looking primarily for personal benefits from consuming natural or organic beef, rather than environmental or social effects



MOTIVATIONS— WHOLE FOODS SURVEY

- 65% of Americans want guarantee that all meat & poultry products are free of added growth hormones & antibiotics, & animals are humanely raised;
- 61% say it's important to read labels stating meat & poultry products comply with these standards; and
- 59% say they'd buy more natural beef if guaranteed it's from trusted source & is raised naturally without growth hormones or antibiotics.
- But, 51% said they were "not sure" if they ever had such meat



IN SUMMARY

- Labeling regulations still in development
- Rapidly growing demand in multiple channels
- Fostered by consumers' personal health and environmental concerns
- Many opportunities, but also many hurdles

