



Organic opportunity

While category continues to offer budding option for private brands, retailers need to do

By Lawrence Aylward

When asked if adding an organic tier to their private brands would be worth retailers' time, effort and money, Daymon's Carl Jorgensen didn't have to think long before replying — answering the question faster than you can say Peter Piper picked a peck of pesticide-free peppers.

"You would be investing in the fastest-growing part of private brands," says Jorgensen, Daymon's director of global thought leadership/wellness. "Sure there is a cost in starting a new store brand, but look at the opportunity."

According to "The Power of Private Brands," a recent report from the Food Marketing Institute, Daymon and IRI, organic private brands represent a small but growing segment among supermarket chains and regional grocers. While organic represents only 6 percent of share of sales across private brand food and beverage, it gained a half share point in 2016 and growth is expected to continue.

According to the report, private brands represent about 20 percent of overall food and beverage sales

but 30 percent among all organic items. "There are retailers that have outperformed with their brands in organic, and they're getting credit for it because the consumer is saying they trust these retailers to source the right products," the report states.

Store Brands' recent 2017 State of the Industry Survey reveals that 72 percent of retailers/wholesalers surveyed are offering organic/natural products as an emerging product line. Forty-six percent of retailers/wholesalers surveyed said they have increased their focus on the category.

Several retailers have seized the store brand organic opportunity with success. Among large supermarket chains, Cincinnati-based The Kroger Co. has one of the top private brand organic programs in retailing. Kroger debuted its Simple Truth Organic line in 2012, and it has grown to be one of the largest-selling organic brands in the country. During a recent conference call to discuss 2016 earnings, Kroger CEO Rodney McMullen noted that Simple Truth "grew at an impressive rate again," reaching total sales of \$1.7 billion.

"We still see more growth ahead," he noted.



What Kroger has done with organic is not food science, or rocket science, for that matter. Kroger listened to its customers, who told the Cincinnati-based retailer that organic labels can be confusing and that they equated organic as being more expensive. So Kroger made labels on organic products easier to read and is selling the products at an affordable price.

Lakeland, Fla.-based Publix Super Markets debuted its organic store brand, Publix Green Wise, in 2003. Publix is growing the line carefully and strategically. In 2016, Publix introduced about 50 new products to the line, and about 100 new products will be added this year. Karen Hall, Publix's director of emerging business and private brands, says there is a "concerted effort" to expand the line.

"I don't know if it will always be 100 percent growth [annually]," Hall says. "We shouldn't have products in every subsection; that's not the strategy. I also don't know when we will get to the point of saturation."

In December, ShopRite, which operates more than 270 stores in the eastern U.S., launched Wholesome Pantry, a new own brand of organic and free-from products that will include a mountainous 300 products in nearly every aisle by the time the roll out concludes in a few months.

"We're committed to the brand and committed to growing it over time with as many items as needed based on what consumers are looking for," says Loren Weinstein, ShopRite's director of private label. "We think this is what our consumers want, and we think we can deliver to them what they want."

Jorgensen says organic growth hasn't come close to hitting its growth ceiling, his reason being it only has a 5 percent penetration rate among all retailers, including national and own brands. "That gives you an idea of how much white space there is," he adds.

But Jorgensen believes the organic category has become mainstream. "Anybody who still thinks of

organizing their merchandising around it being a niche category is way behind the times," he adds. "Three out of four consumers are purchasers of organic foods. That's not niche, that's mainstream."

Organic private brands have benefitted from a lack of dominating national organic brands. But Jorgensen says most large consumer packaged goods continue to study the organic segment and some, like Campbell's, are investing in it.

In 2013, Campbell's acquired Plum Organics, and in 2015 Campbell's introduced an organic soup line. Jorgensen says it's more efficient and makes more financial sense for larger CPG companies like Campbell's to enter the category by acquisition rather than through research and development.

'Halo of goodness'

Here's the funny thing about "organic": Plenty of consumers don't understand fully what the term means.

"Organic has this halo of goodness, but it's amazing to the degree to which it is still misunderstood, even by some industry professionals," Jorgensen says.

Colin Stewart, senior vice president for Acosta, says a recent consumer survey by the Jacksonville, Fla.-based consumer packaged goods marketing agency revealed confusion among consumers as to exactly what "organic" means.

"There's the population that knows exactly what organic is, but it's a smaller segment," he says.

The good thing, Jorgensen and Stewart agree, is that even though consumers might not know exactly what "organic" means, they do view organic food and beverages as being healthier for them.

"The word organic resonates with many consumers who associate it with higher quality, more purity and generally a better-for-you proposition," Jorgensen adds.

However, more consumer education is needed,



Growing organically

Organic private brands represent a small but growing segment of the industry, according to the Food Marketing Institute. Among categories, organic private brands grew 0.5 percent in 2016 — more than value and mainstream — and now represent 6 percent of dollar share in store brands.

A Burgeoning Category

Walmart has made certified organic an integral part of its offerings.

which will only benefit consumers and most likely spur more organic product sales. There is plenty of opportunity for retailers to educate consumers on what “certified organic” means, whether it’s through quick hits on labels, store signage or through social media and websites. The simple message to convey

can be summed up in short phrases, such as:

- Produced without the use of synthetic fertilizers, genetic engineering or irradiation.
- Free from artificial preservatives.
- National organic standards require that organic growers and handlers be certified by third-party organizations accredited by the USDA.

“I think there is a lot of unused and untapped opportunity to educate,” Jorgensen adds.

Kroger has dedicated an entire website to its Simple Truth line (www.simpletruth.com), which explains the meaning of “organic” in detail and lists the products that Kroger offers under its organic tier.

While many consumers aren’t exactly sure what “organic” means, Jorgensen says some consumers are also skeptical of organics, much like they are of big government and big business. Some consumers believe that retailers use “organic” as simply a way to charge more for products without understanding the systematic regulatory system that underpins the category, says Jorgensen, who spent more than eight years running a USDA-accredited organic certification agency and is well aware of the regulatory framework behind organic certification.



A Burgeoning Category

While private brand organic products may cost more, the key is to promote them as a solution, which then magnetizes their value, Jorgensen stresses. With organics, the solution is simple: It's providing consumers who want them with better-for-you products, Jorgensen says.

Consumers are also looking for value, which is distinctly related to providing solutions, Jorgensen adds.

"Value is more than price," he stresses. "If you combine the solutions that the product offers — the story behind the product, the quality of the product and its price — you come up with value."

The organic consumer has also changed since 10 years ago when buyers were largely driven by a small part of the population who purchased products mainly for environmental reasons, Stewart says.

"They were shopping at a Whole Foods Market or an independent natural foods outlet," he adds.

Today, millennials, who are interested in product transparency and eating healthier, are driving organic sales. But it's not just millennials who are driving the growth; it's also baby boomers and others who perceive organic products as healthier, Stewart notes.

Jorgensen says there have been "massive attitudinal changes across generations" toward

organics in the past 10 years. "When you talk about consumer engagement with organics, there isn't that much difference across generations," he adds.

Slow and strategic

Despite the buzz surrounding organics in private label, Kurt Jetta, a consumer researcher who studies data about multinational corporations through his firm Shelton, Conn.-based TABS Analytics, advises retailers not to rush into the category and introduce an army of products. He advises them to do their homework and to consider what organic products in what categories might work in their regions.

Jetta has seen retailers fail with organics. He believes more national brands don't offer organics because the demand isn't there. He also says that Austin, Texas-based organic retailer Whole Foods Market, which has suffered six consecutive quarters of declining comparable store sales, is taking it on the chin because organic demand is not what it is cracked up to be. Jetta says if the organic segment was "truly strong, vibrant and robust," there would be growth in all channels.

Whole Foods cited an increasingly competitive marketplace for its string of bad quarters. When Whole Foods debuted in 1980, organic products were not widely available. Today, of course, they are sold at the nation's largest supermarket chains and retailers. Whole Foods, which has nearly 450 stores, has also been chided for its high prices — "whole paycheck" — on organic items.

Jorgensen says analysts should think twice before counting out Whole Foods. Consumer trust for Whole Foods' own brands is very high, he notes. Whole Foods is also in the midst of opening new lower-price-point supermarkets called 365 by Whole Foods.

"Consumers look at more than price when they consider value, which is where Whole Foods' strength lies," Jorgensen says.

Despite what he believes is a burgeoning category, Stewart also stresses that retailers take a cautious approach with organics, whether they are adding it as a new tier or adding products to an already-existing tier. "Think about optimum assortment and SKU rationalization," he advises.

But Stewart's organic outlook remains bullish.

"Retailers are looking for profitable growth, and organic is a growing part of the business," he says. "Organics can also build trust and loyalty among shoppers. What better way is there for [retailers] to do that than by offering them products to help them live healthier lives?" **SB**

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The most popular organic items are ...

The most-favored fare among private label organic products in order are fresh produce, milk and eggs. No surprise there. But No. 4 on the list, according to research from Daymon, is a bit of an eye-opener — it's canned organic vegetables.

Carl Jorgensen, Daymon's director of global thought leadership/wellness, says canned organic beans are especially popular.

"The perception among wellness consumers is that canned beans are more convenient than soaking and cooking dry beans," Jorgensen says.

Organic snacks, cereal, coffee and frozen vegetables/fruits are also growing in volume, Jorgensen says. And anything to do with infants, from organic baby food to organic baby lotion, is also driving the segment's growth.

Organic pet food and pet care products are also surging.