

Marketing Organic Produce

INTRODUCTION

The rise in the consumption of organic food has been one of the major trends in the U.S. food industry during the last two decades. Sales of organic food rose from \$3.6 billion in 1997 to \$21.1 billion in 2007.¹

Produce is the largest category of organic food sales in the U.S. with nearly \$8 billion dollars in retail sales in 2008. The amount of land certified for organic fruit and vegetable production increased nationally from 97,641 acres in 1997 to 195,802 acres in 2007.¹ The most recent data (2008) estimates the amount of organic produce acreage in the U.S. at 216,629 acres. Kentucky's organic produce acreage numbered just 132 acres in 2008 (TABLE).

Although the amount of organic produce grown in the U.S. has increased dramatically during the 2000s, the U.S. organic produce industry is still often characterized by volume shortages of organic produce. Furthermore, the structure of the organic produce supply chain has changed during the past decade.² Shippers and wholesalers for conventional food retailers are using larger suppliers to provide a greater proportion of their produce. In other wholesale channels, such as direct selling by organic farmers to restaurants and food co-ops, a broad array of formal and informal organic wholesale distribution networks are in various stages of development. This fact sheet will summarize

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key concerns for Kentucky produce growers that are interested in beginning or expanding the marketing of organic produce. It is intended only as a starting point; further information will be found through various university and government resources and by consulting with experienced growers of organic produce.

ORGANIC: THE WORD AND ITS LABELS

In order to use the labels “100 percent organic,” “organic,” or “made with organic ingredients,” a producer must be certified through organic standards established by the U.S. Department of Agriculture (USDA). These standards are available through the Agricultural Marketing Service National Organic Program. Certification is conducted through an approved third-party certifying agency. Producers are responsible for fees incurred for certification.

Producers who sell less than \$5,000 per year in organic agricultural products are exempt from organic certification. These producers must still abide by the national standards for organic products. While

2008 HARVESTED ORGANIC PRODUCTION FROM CERTIFIED AND EXEMPT ORGANIC FARMS

PRODUCE	US ACRES	US FARMS	KY ACRES	KY FARMS
Vegetables, Potatoes & Melons	132,776	3,948	113	55
Tree Fruits & Nuts	78,358	3,255	11	12
Berries	5,495	1,596	8	16

Source: USDA-NASS

exempt producers are permitted to market their products as organic, they may not use the USDA organic seal when selling their products.

The use of the word “organic” has created much discussion within the agricultural and food community. Some producers have foregone the organic certification process in favor of marketing “locally grown” food directly through local channels. This movement is sometimes called “beyond organic.” Other growers have utilized terms such as “sustainable,” “whole,” and “natural” to describe their products.

Producers need to be careful to adhere to all necessary guidelines for labeling their products as “organic.” Producers also need to be careful when advertising any health benefits from organic or other produce since health claims surrounding food products are closely monitored by government agencies including the USDA and Food and Drug Administration (FDA).

EVALUATING ORGANIC PROFITABILITY

There are generally two reasons that produce growers begin marketing organic produce. The first reason has traditionally been a commitment to organic agriculture. Many early organic growers began production because of philosophical or ideological commitments to producing food similar to the following:

“Organic agriculture is an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on

minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.”³

A second reason for the interest in organic production is the perception that since organic produce often receives higher retail prices, the profitability to the farmer can be greater. According to the annual Kentucky produce planting intentions survey, a large percentage of Kentucky produce growers not producing organically are interested in organic production. One of the most commonly cited reasons for this interest is profitability.

When evaluating the financial reality of whether marketing organic produce is right for you, be sure to count the true costs of producing under organic production systems. For example, many organic systems substitute manual or mechanical means of weed control. Although you may already have a hoe or a tractor, this does not mean that you are saving the money you might have previously spent on herbicide control. There are costs associated with your time and the necessary equipment involved.

Other costs commonly associated with organic production include costs of inputs appropriate for organic production, increased management time, and greater marketing costs. In many cases, a higher price received from the sale of organic produce offsets these increased costs; however, this is not always the case. The producer should carefully budget and plan according to the actual

costs of any new production system to determine if the price they will receive for the product will be as profitable as other production alternatives.

MARKETING CHANNELS

Not long ago, “buying organic” was something that you could only do at natural food stores, food co-ops, and possibly the local farmers market. This is no longer the case. Many consumers now have different options when it comes to sourcing organic produce. Organic produce is available at specialty food retailers (like Whole Foods), big box retailers (like Wal-Mart), and traditional groceries (like Kroger). While “locally grown” organic produce may be available at such retailers, it is more likely to be sourced at natural food stores or food co-ops; farmers markets; or direct from the farmer through an on-farm retail site or community supported agriculture (CSA). Furthermore, consumers may be able to eat organically grown food at different restaurants — from organic dairy products in children’s meals at chains (like Panera Bread Company) to locally grown organic greens at the local café.

What organic markets should you pursue if you are a producer interested in selling organic produce? You can answer this question by recognizing the different characteristics of each market. To keep things simple, we will divide the markets in terms of volume requirements. “Wholesale” markets include food retail chains, local groceries, restaurants, and other markets paying less than retail price. “Direct” markets include farmers markets, CSAs, and on-farm retail.

Wholesale Markets

Wholesale markets for organic produce may be characterized by:

- Larger volume requirements
- Contracts or similar advance pricing arrangements

It is becoming more common for producers entering wholesale organic produce markets to negotiate directly with the retailer. Many retailers are unwilling to entertain advances from growers

that cannot guarantee specific volumes at certain prices throughout the season. In addition, many food retailers have utilized contractual buying agreements with growers of organic produce.

Smaller-scale wholesale markets for organic produce include local or specialty grocers (such as natural food stores or co-ops) and restaurants. Although specialty grocers and restaurants may provide lower volume requirements than larger chains, quality and volume requirements are still critical to success.



Direct Markets

Direct markets offer several advantages for producers. Direct markets still require consistent quantities of crops but usually require smaller total volumes. It is not uncommon for one producer to supply several different kinds of organic crops to a certain market. Direct markets also provide the producer with insight into their consumers. This helps growers introduce new products and offer additional products that may increase profits, as well as help increase farm production levels. Finally, selling directly to the consumer is a way of capturing a retail price for farm products.

Farmers markets have long been a source of locally grown and organic produce. Many farmers market vendors have found that offering additional delivery to their customers through CSA subscriptions has increased the amount of

fresh produce sold locally. Finally, on-farm stands and other similar direct marketing mechanisms also provide ways for growers to get organic produce into the hands of local consumers.



OTHER MARKETING CONCERNS FOR ORGANIC PRODUCE

Commingling is a particular concern of growers with split operations (both organic and conventional production on the same farm). Commingling refers to what occurs when organic products come into contact with non-organic crops. Growers with split operations must take additional steps to prevent the commingling of their two systems during all stages of production, harvest, storage, and transportation. For example, shared production and harvest equipment, along with joint storage facilities, must be decontaminated before use with organic crops.

Pricing and quality are also concerns for marketing organic produce. Novice organic produce growers previously experienced with conventional production will need to understand that pest and disease controls may have quite different cost structures. Growers must be prepared to address pest and disease issues under organic guidelines.

Finally, oversupply of organic produce can create a steep decline in prices customers are willing to pay. This is especially true in wholesale markets. Using production contracts, or having other market channels available in case of potential

oversupply, will help new organic growers guard against price risk.

¹ Dimitri, Carolyn and Linda Oberholtzer. 2009. *Marketing U.S. Organic Foods: Recent Trends from Farms to Consumers*. USDA-ERS, Bulletin Number 58.

<http://www.ers.usda.gov/Publications/EIB58/EIB58.pdf>

² Tondel, Fabian and Timothy Woods. 2006. *Supply Chain Management and the Changing Structure of US Produce Markets*.

<http://www.uky.edu/Ag/NewCrops/organic.pdf>

³ USDA National Organic Standards Board. 1995. *What is Organic Production: Definitions and Regulations*.

<http://www.nal.usda.gov/afsic/pubs/ofp/ofp.shtml>

Selected Resources

- Is Organic Crop Production for You? (University of Kentucky, 2010)
<http://www.uky.edu/Ag/cdbrec/introsheets/organicisitforyou.pdf>
- Kentucky MarketMaker
<http://www.marketmakerky.com>
- Kentucky Organic Program (Kentucky Department of Agriculture Division of Value-added Plant Production,)
<http://www.kyagr.com/marketing/plantmktg/organic/index.htm>
- Supply Chain Management and the Changing Structure of U.S. Produce Markets (University of Kentucky, 2006)
<http://www.uky.edu/Ag/cdbrec/organic.pdf>
- Crop Conversion Calculator (Rodale Institute)
http://www.rodaleinstitute.org/Crop_conversion
- Guide to Marketing Organic Produce (Michigan State University, 2009)
<http://www.new-ag.msu.edu/LinkClick.aspx?fileticket=L2B2QUK%2Fsp4%3D&tabid=64>
- Marketing U.S. Organic Foods: Recent Trends from Farms to Consumers (USDA Economic Research Service, 2009)
<http://www.ers.usda.gov/Publications/EIB58/EIB58.pdf>
- National Organic Program (USDA Agricultural Marketing Service)
<http://www.ams.usda.gov/nop>

- Organic Agricultural Products: Marketing and Trade Resources (USDA National Agriculture Library, 2008)
<http://www.nal.usda.gov/afsic/pubs/OAP/OAP.shtml>
- Organic Agricultural: Organic Market Overview (USDA Economic Research Service)
<http://www.ers.usda.gov/Briefing/Organic/Demand.htm>
- Organic Certification, Farm Planning, Management, and Marketing (Small Farm Center, University of California-Davis, 2006)
<http://anrcatalog.ucdavis.edu/pdf/7247.pdf>
- Organic Marketing Resources (ATTRA, 2004)
<https://attra.ncat.org/attra-pub/summaries/summary.php?pub=185>
- Organic Price Report (Rodale Institute)
<http://www.rodaleinstitute.org/Organic-Price-Report>
- Searchable Database of Certified Organic Operations (USDA)
<http://apps.ams.usda.gov/nop/>
- Price Premiums Hold on as U.S. Organic Produce Market Expands (USDA Economics Research Service, 2005)
<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>
- Small Organic Farms and Local Markets (Kerr Center for Sustainable Agriculture, 2007)
<http://www.kerrcenter.com/publications/Organic-certification-report/Organic-report07.pdf>

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<http://www.ca.uky.edu/agecon/index.php> (Issued 2010)*

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