Marketing Organic Produce

Introduction
Growth in organic food consumption has been a major trend 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.\(^1\) Sales of organic food products were estimated at $28.4 billion in 2012 and approaching $35 billion in 2014.\(^2\)

Produce is the largest category of organic food sales in the U.S. with about $12 billion in retail sales in 2012 and a projected $15 billion in 2014.\(^2\)

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 (2011) estimates the number of organic produce acres in the U.S. at 302,162.

As certified organic produce area increased, the structure of the organic produce supply chain changed\(^3\). 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, an array of formal and informal organic wholesale distribution networks are in various stages of development.

This fact sheet summarizes 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
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. Organic certification information is available from the Kentucky Department of Agriculture at http://www.kyagr.com/marketing/organic-marketing.html.

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 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 should 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**

Two reasons often prompt produce growers to start marketing organic produce. A primary reason is often a commitment to organic agriculture. Many early organic growers began production because of philosophical or ideological commitments to producing food, such as that expressed in 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.”

A second common reason for interest in organic production is potential profitability. According to the annual Kentucky produce planting intentions survey, a large percentage of Kentucky produce growers that are not producing organically but are interested in organic production cite profitability as a motivating factor to consider organics.

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, there are still costs associated with your time and the equipment required for certified organic weed control.

Other costs commonly associated with organic production include 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. Producers 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.

<table>
<thead>
<tr>
<th>Produce</th>
<th>US Acres</th>
<th>US Farms</th>
<th>KY Acres</th>
<th>KY Farms</th>
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<tr>
<td>Vegetables, Potatoes &amp; Melons</td>
<td>132,776</td>
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<td>Tree Fruits &amp; Nuts</td>
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<td>Berries</td>
<td>5,495</td>
<td>1,596</td>
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</table>

*Source: USDA-NASS*
MARKETING CHANNELS
Not long ago, “buying organic” was only possible 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). “Locally grown” organic produce may be available at these retailers, but 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, food hub, 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 a producer interested in selling organic produce pursue? 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 now more common for wholesale organic produce farms to negotiate directly with the retailer. Many retailers are unwilling to entertain inquiries from growers that cannot guarantee specific volumes at certain prices throughout the season. In addition, many food retailers utilize 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

Comingling is a particular concern of growers with split operations (both organic and conventional production on the same farm). Comingling occurs when organic products come into contact with non-organic crops. Growers with split operations must take additional steps to prevent the comingling 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 willing to be paid by customers. 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.

Selected Resources
- Organic Price Reports http://www.uky.edu/Ag/CCD/price.html
- Is Organic Crop Production for You? (University of Kentucky, 2010) http://www.uky.edu/Ag/CCD/introsheets/organicisitforyou.pdf
- Kentucky MarketMaker http://ky.foodmarketmaker.com/
- Organic Marketing (Kentucky Department of Agriculture) http://www.kyagr.com/marketing/playlistmg/organic/index.htm
- Crop Conversion Calculator (Rodale Institute) http://rodaleinstitute.org/farm/online-tools/crop-conversion-calculator/
- National Organic Program (USDA) http://www.ams.usda.gov/nop


• Organic Trade Association (Industry trade group with market information)  http://www.ota.com/index.html
• Searchable Database of Certified Organic Operations (USDA)  http://apps.ams.usda.gov/nop/

Prepared by Matt Ernst & Tim Woods (tawoods@uky.edu)  UK  Department of Agricultural Economics 400 Charles E. Barnhart Building, Lexington, KY, 40546-0276  Phone 859-257-5762  http://www.ca.uky.edu/agecon/index.php  (Issued 2010; Revised 2014)

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