ALL THINGS **ORGANIC** CONFERENCE

Organic Market & Consumer Trends

12:15 - 1:30 p.m.

PANELISTS

Angela Jagiello | Associate Director, Conference & Product Development Organic Trade Association

Diane Ray | Vice President, The Natural Marketing Institute

David Winter | Director of Business Development, SPINS

Carlotta Mast | Executive Director of Content and Insights, New Hope Natural Media

All Things Organic Conference

Organic Market and Consumer Trends

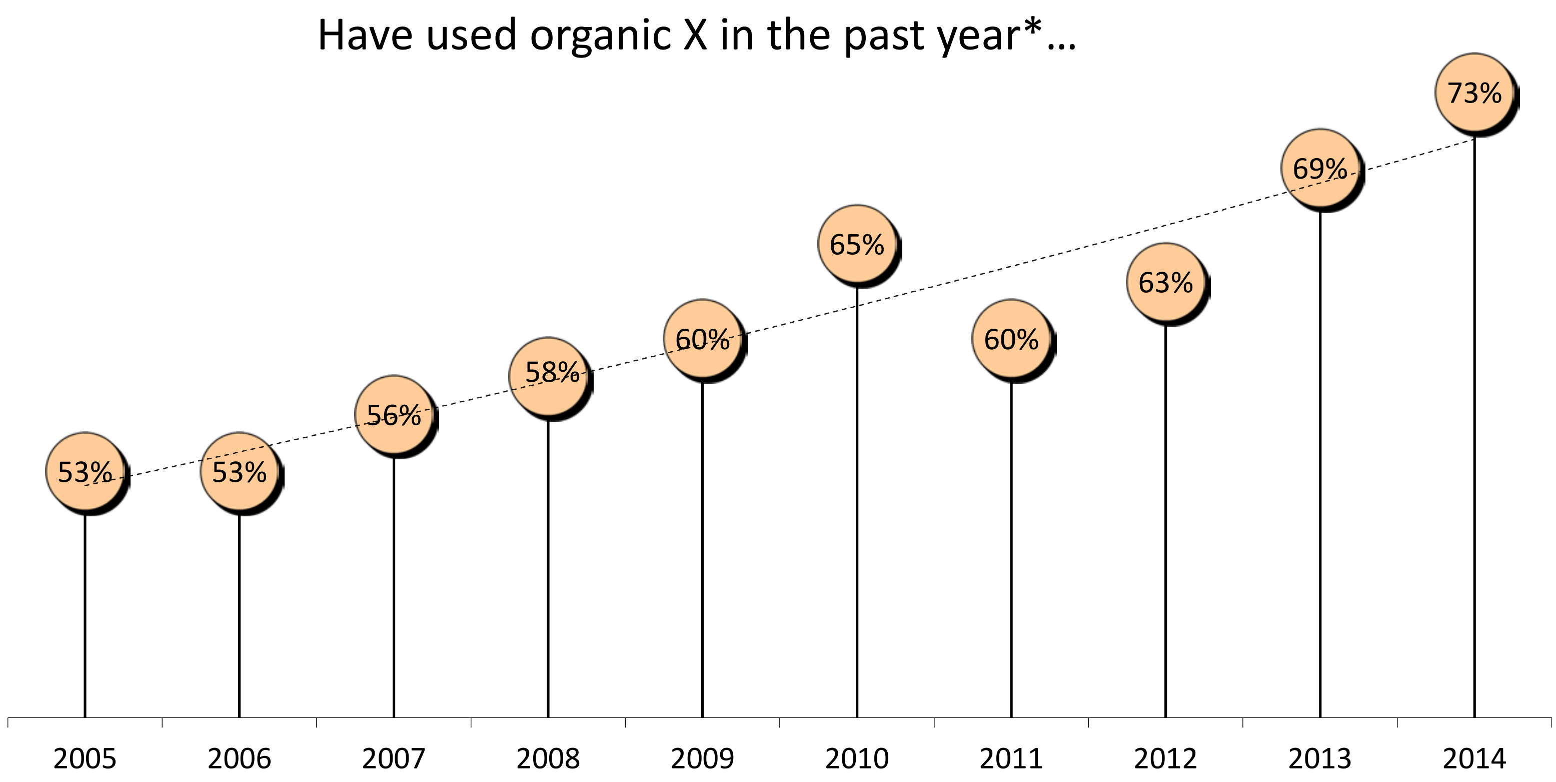
September 18, 2015

nmi

NMI Provides Unparalleled Global Expertise in Health & Sustainability

- NMI is an international strategic consumer insights firm, specializing in consumer trends and innovation since 1990.
- Our mission is to focus on the interconnectedness of personal health, sustainability, and healthy aging.
- Our goal is to help clients grow their business through the identification and validation of new ideas and solutions.

Organic Penetration of the U.S. Adult Population Has Been Trending Upward Over the Past Ten Years

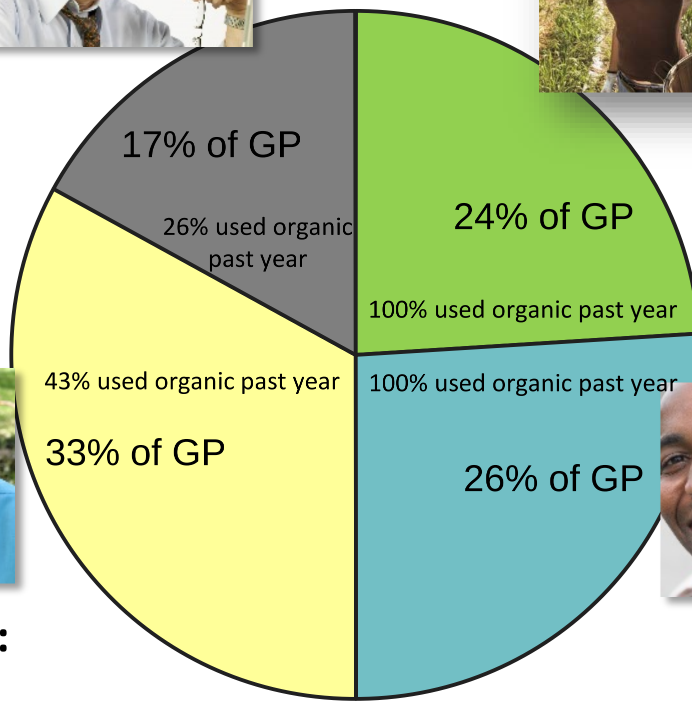


*includes organic produce, organic packaged foods, organic beverages, organic milk, organic store brands, organic personal care, organic clothing/linens

NMI's Organic Segmentation - A Snapshot Overview of the General Population's Organic Integration

RELUCTANTS:

- **Uninterested**
- Don't trust labeling
- Don't feel it's worth the money
- Believe conventional foods taste better



DEVOTEDS:

- **Committed**
- High usage and willingness to pay a premium
- Integrated/Create and Organic lifestyle

DABBLERS:

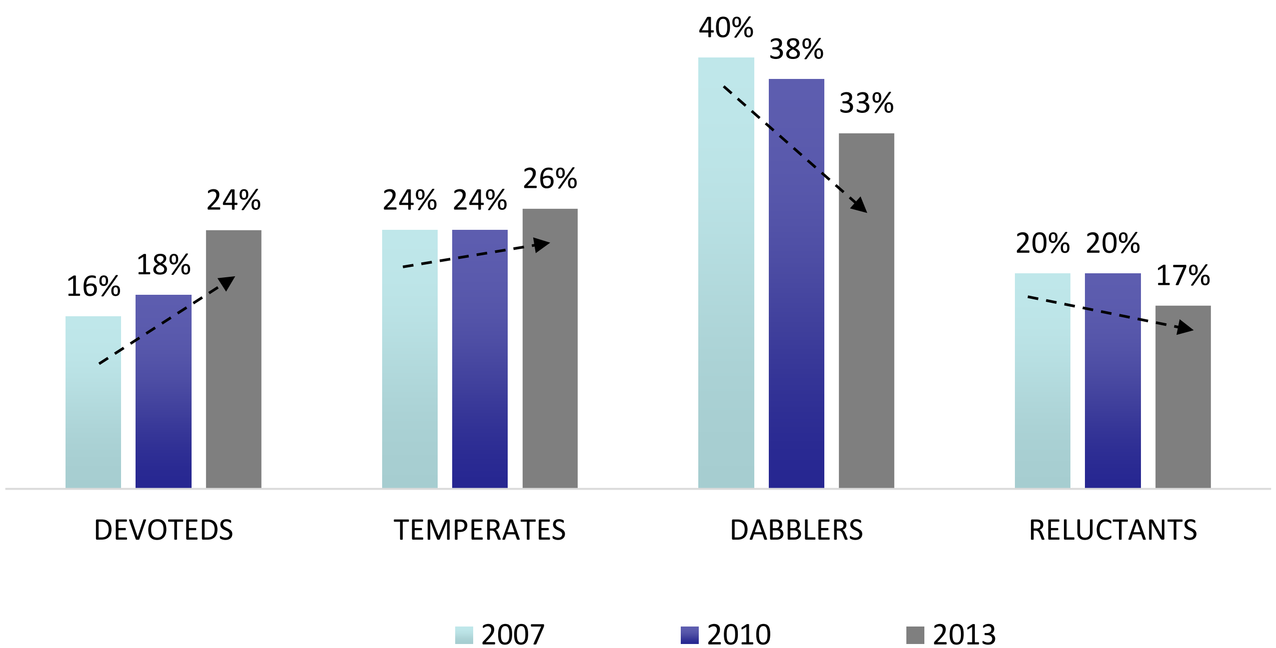
- **Non-committal**
- Price sensitive

TEMPERATES:

- **Pragmatists**
- Moderate organic attitudes
- Fit organic into existing lifestyle

The Migration of Segment Membership Over the Past 8 Years Shows Movement Toward More Organic-Committed Segments

% segment membership among the general population
We expect to see movement into the TEMPERATE segment



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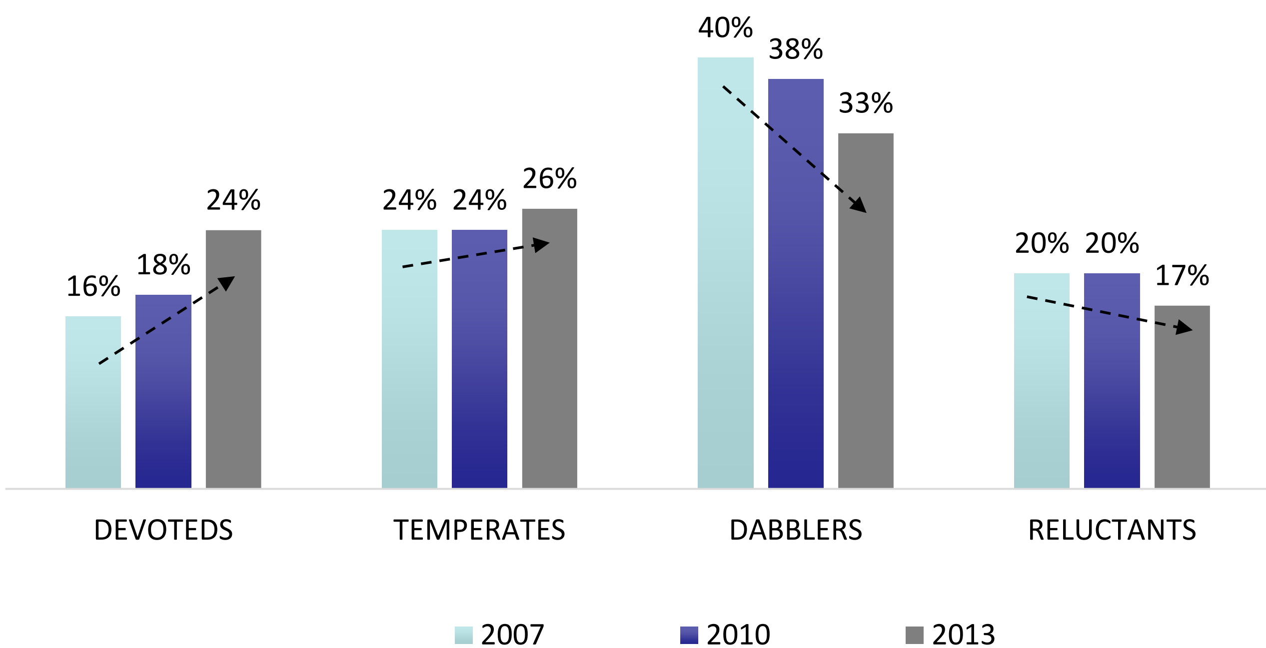
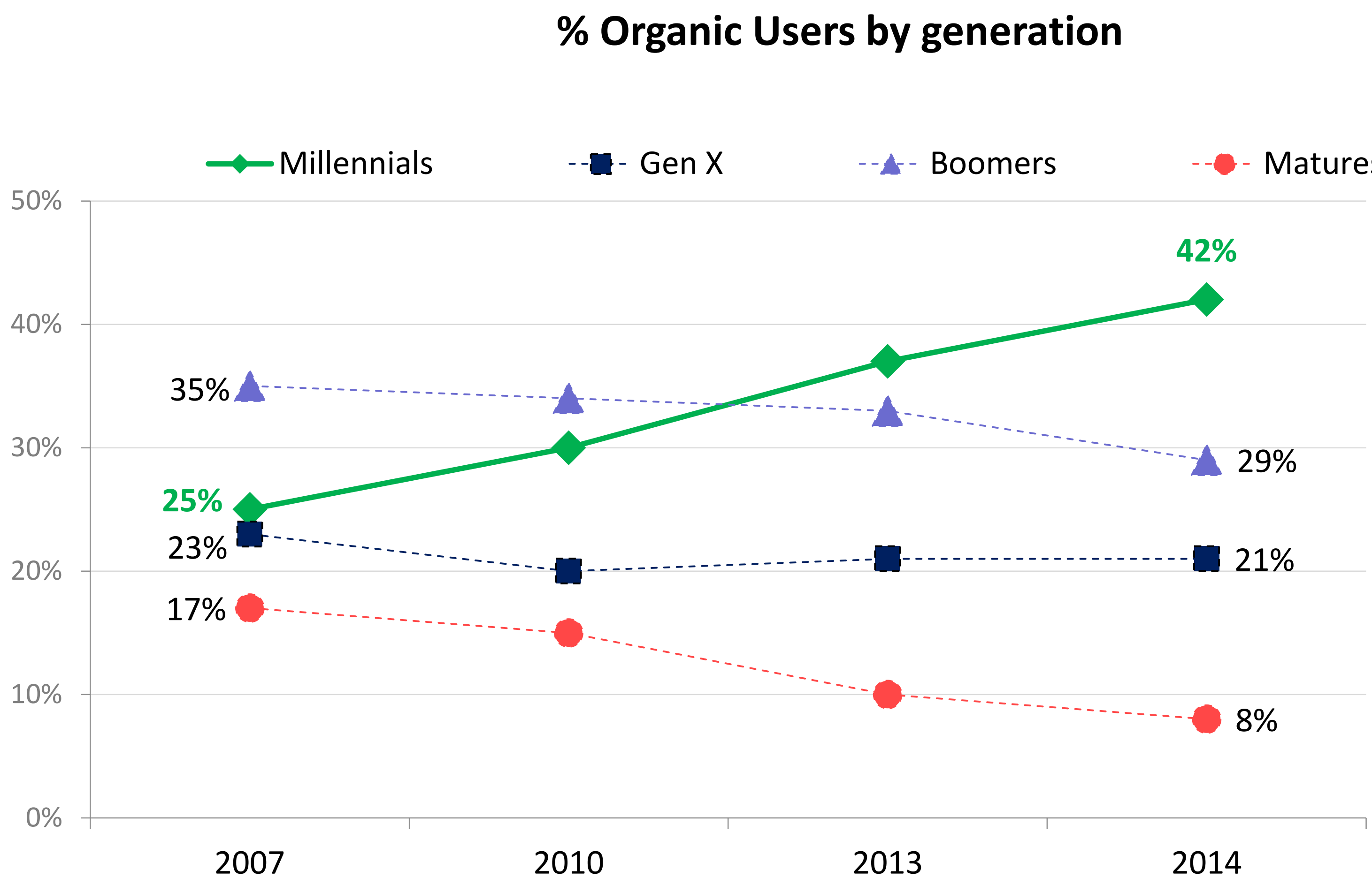


Growth Among Millennial Organic Users Has Resulted in this Generation Representing the Largest Cohort Among All Organic Users

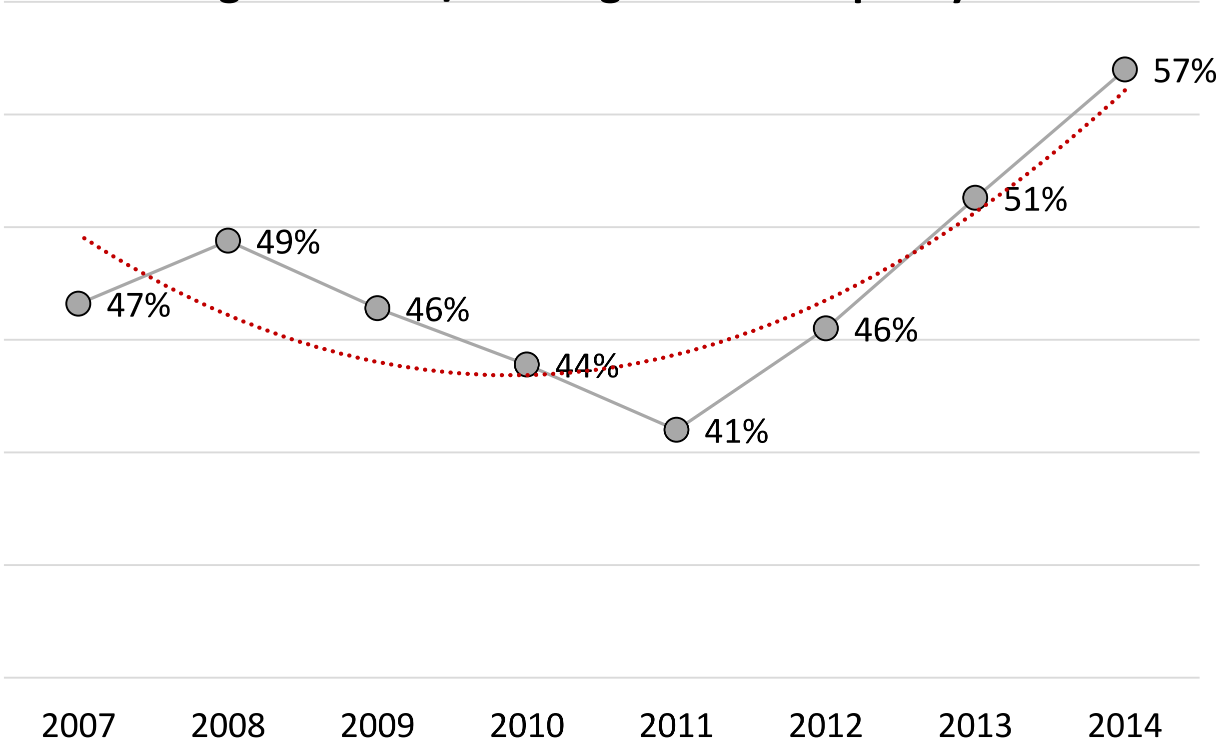


Organic Users see more growth among Millennials than any other generation, offering opportunities for expansion and longevity to the category.

Hottest Trend?

Store Brands Help Remove Some of the Barriers to Organic with Lower Prices and High Brand Loyalty

% consumers indicating they have used store brand organic foods/beverages over the past year



Target's 'Simply Balanced'

Kroger's "Simple Truth"

Whole Foods Market's '365 Organics"

TEMPERATES are involved in the organic space, but confusion and lack of full understanding of organics suppresses deeper commitment.

(Q.32/Q.84 - % general population who used Non-GMO foods in past year/% general population who completely/somewhat agree with the following statements; Source: NMI's Health & Wellness Trends Database)

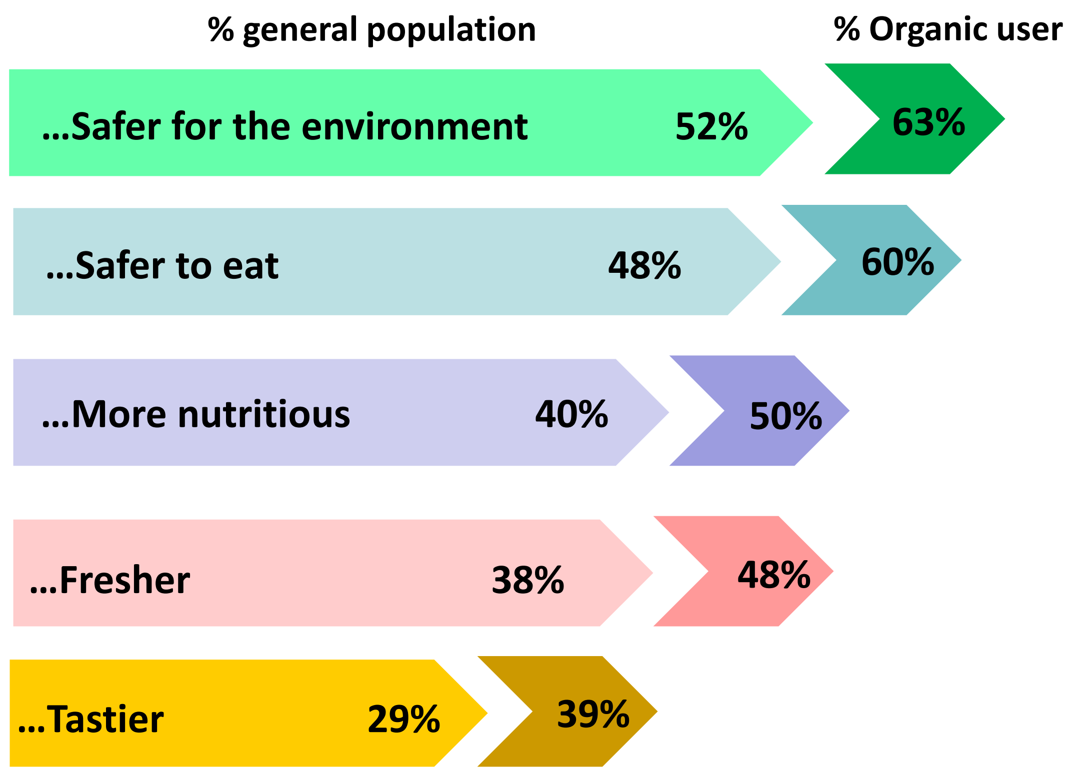
		Index vs. GP	
TEMPERATES show confusion….	GP	DEVOTEDS	TEMPERATES
All locally-grown produce is organic	11%	62	216
I believe all dairy products I buy at the local dairy farm are organic	14%	90	187
Products labeled 'natural' are basically the same as 'organic'	20%	46	148
It's more important to buy local than to buy organic	41%	71	117
But they also show strong integration in the organic space…			
Feel it's important for their store to carry organically grown foods	54%	179	120
Feel organic foods and beverages are worth paying an extra 20%	24%	207	131
Used Non-GMO foods in past year	53%	159	134

All indexes are high (≥ 120), indexes over 150 are very high

Consumers Also Show High Buy-In to Organic Foods and Beverages As Safer for the Environment, Even More So Than Other Quality Attributes

Organic benefits go beyond personal health and extend to environmental health creating an even stronger position for organic as a 'protector' of the people and the planet.

% consumers who indicate organic foods/beverages are…



Balancing Brand Communication with Category and Industry Communication Is Necessary

- Individual brand communications have historically been targeted to consumers "in the know" and those who are 'seeking.' It's time for organic brands to reach out to consumers where they are everyday.

- With the onslaught of organic newcomers, and the breaking down of organic benefits/features into individual components, such as Non-GMO, *Categories* need to establish WHY organic is relevant in *their* processed foods and the industry, as a whole, needs to communicate the "big picture."

- Organic consumers want to know what you are doing to maintain or even strengthen organic standards and new consumers want to know what the standards are and why that is important.

Needed to Reinforce Organic Relevancy

USDA ORGANIC

Historically

nmi

Organic Market Performance

David Winter

Part 1: Organic Market Sizing & Trends

SPINS tracks retail sales performance across three major channels – Conventional, Natural, and Specialty Gourmet

SPINSscan Conventional

- Comprised of ~101,000 retail locations spanning Grocery, Drug, Walmart, Mass, Dollar, Military and some Club.
- Includes reporting in the nation's leading retailers such as Target, Safeway, Kroger, Wegman's and Walmart.
- $38B natural/organic market, with overall health and wellness double that size.

SPINSscan Natural

- Full-format stores with $2 million+ in annual sales and at least 50%+ of sales from natural/organic products.
- Includes co-ops, associations, independents, large regional chains (excludes Whole Foods).
- Breeds innovation and sustains the level of authenticity and high product standards that define the industry.
- ~1,100 retail locations, $12.4B channel with 28% store increase and 60% volume increase over past 5 years.

SPINSscan Specialty Gourmet

- Full-format stores with $2 million+ in annual sales with at least 25% of sales from SPINS-defined specialty items.
- High-end stores with a focus on specialty, imported, natural, organic and prepared items.
- ~950 retail locations, representing more than $14.2B, and poised for continued success.

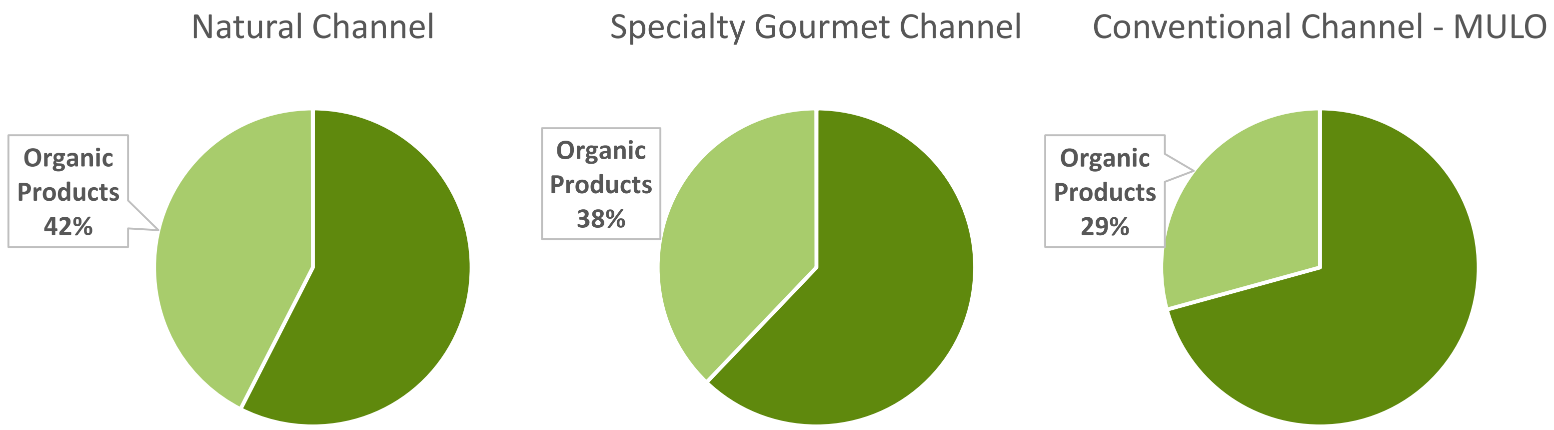
Across All Retailer Types, Organics Outpace Total Store

SPINS Channel	Total Channel		Natural Products		70%+ Organics	
	12 week	52 week	12 week	52 week	12 week	52 week
NATURAL SUPERMARKETS	7.8%	8.8%	7.5%	8.3%	8.7%	9.7%
SPECIALTY GOURMET SUPERMARKETS	4.2%	6.7%	7.5%	9.7%	8.4%	11.1%
CONVENTIONAL SUPERMARKETS (FOOD)	1.7%	1.5%	11.8%	10.9%	13.5%	13.7%
CONVENTIONAL MULTI OUTLET	1.7%	1.5%	12.1%	11.0%	13.8%	14.1%

Source: SPINSscan Natural and Specialty Gourmet (proprietary), SPINSscan Conventional (powered by IRI) 52 weeks ending 8/9/15.
UPC coded items only. Growth based on dollar volume for the current period versus year ago and is based on currently coded items.

Organic: Centerpiece of Any Natural Retailing Strategy

Organic (70%+) Share of Natural $ Sales



- Organic represents a significant of Natural sales across all retailer types but continues to be most core to Natural Channel strategies where these items capture 42% of all Natural Product dollars.
- Because these products are growing faster than overall natural sales, we can expect Organic share to increase, especially in Conventional outlets.

Source: SPINSscan Natural and Specialty Gourmet (proprietary), SPINSscan Conventional (powered by IRI) 52 weeks ending 8/9/15.
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Top Organic Categories By Channel

Ranked on Absolute $ Sales

Natural Channel		Spec Gourmet Channel		Conventional (MULO)	
Packaged Fresh Produce	$219M	Packaged Fresh Produce	$226M	Packaged Fresh Produce	$2,487M
Ref Juices & Functional Bev	$131M	Milk	$78M	Milk	$1,417M
Milk	$128M	Ref Juices & Functional Bev	$40M	Eggs	$469M
Bread & Baked Goods	$104M	Yogurt & Kefir	$25M	Energy Bars & Gels	$443M
Oils & Vinegars	$90M	Bread & Baked Goods	$24M	Baby Food	$406M
Yogurt & Kefir	$88M	Soup	$22M	Yogurt & Kefir	$371M
Candy & Individual Snacks	$68M	Chips Pretzels & Snacks	$22M	Fz Lunch & Dinner Entrees	$328M
Soup	$67M	Eggs	$21M	Bread & Baked Goods	$288M
Chips Pretzels & Snacks	$66M	Fz Lunch & Dinner Entrees	$19M	Soup	$280M
Shelf Stable Fruits & Veg	$65M	Energy Bars & Gels	$17M	Ref Juices & Functional Bev	$265M

- The top categories across channels are primarily consistent with expectations.
- Perimeter items dominate, driven by Produce & Dairy.
- Natural Channel shoppers drive three unique center store categories into the top 10 that warrant keeping a close eye on as future indicators of likely widespread adoption by mainstream retailers.

Source: SPINSscan Natural and Specialty Gourmet (proprietary), SPINSscan Conventional (powered by IRI) 52 weeks ending 8/9/15.
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Top Organic Categories By Channel

Ranked on % Growth (min $20k annual sales)

Natural Channel		Spec Gourmet Channel		Conventional (MULO)	
Cosmetics & Beauty Aids	**64.9%**	Digestive Aids & Enzymes	54.0%	**Deodorants & Antiperspirants**	**296.2%**
Household Cleaners & Supplies	63.2%	Refrigerated Salsas & Dips	44.8%	**Personal Care & First Aid**	**160.5%**
Vitamins & Minerals	46.7%	**Aromatherapy & Body Oils**	**44.2%**	**Bodycare Kits & Sets & Travel Packs**	**159.6%**
Oral Care	**46.4%**	Meal Replacements & Supp Powders	40.7%	Meal Replacements & Supp Powders	103.7%
Aromatherapy & Body Oils	**44.4%**	Vitamins & Minerals	40.3%	**Oral Care**	**85.9%**
Refrigerated Condiments	37.9%	Household Cleaners & Supplies	33.4%	Shelf Stable Functional Beverages	72.8%
Deodorants & Antiperspirants	**34.0%**	**Bodycare Kits & Sets & Travel Packs**	**32.9%**	**Aromatherapy & Body Oils**	**72.1%**
Herbal Formulas	28.8%	Refrigerated Pasta	31.5%	Refrigerated Juices & Functional Bev	69.2%
Digestive Aids & Enzymes	26.7%	**Cosmetics & Beauty Aids**	**27.1%**	Vitamins & Minerals	60.8%
Homeopathic Medicines	25.3%	Frozen Meat Alternatives	26.9%	Frozen Meat Alternatives	53.4%

- Non-Food Categories dominate the Growth % rankings, including categories from Body Care, Supplements & General Merchandise segments.
- On a % growth basis, **Body Care is the fastest growing Department in terms of Organic 70%+ Content items the Natural Channel.**

Source: SPINSscan Natural and Specialty Gourmet (proprietary), SPINSscan Conventional (powered by IRI) 52 weeks ending 8/9/15.
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Big trend: Food Tribes

Why Food Tribes are important

Food Tribes’ values are driving the revolution

Food Tribes’ are a source of innovation and inspiration

Empathy with tribe values will facilitate connection to larger mainstream opportunity with shared values

Source: 2015 Food Tribes study by New Hope’s NEXT data & insights group

Big trend: Food Tribes

Food tribes are key to understanding the food revolution & the changing food landscape

A Food Tribe is a social group **linked by set of common values** and beliefs which shape one's **food and lifestyle choices**.

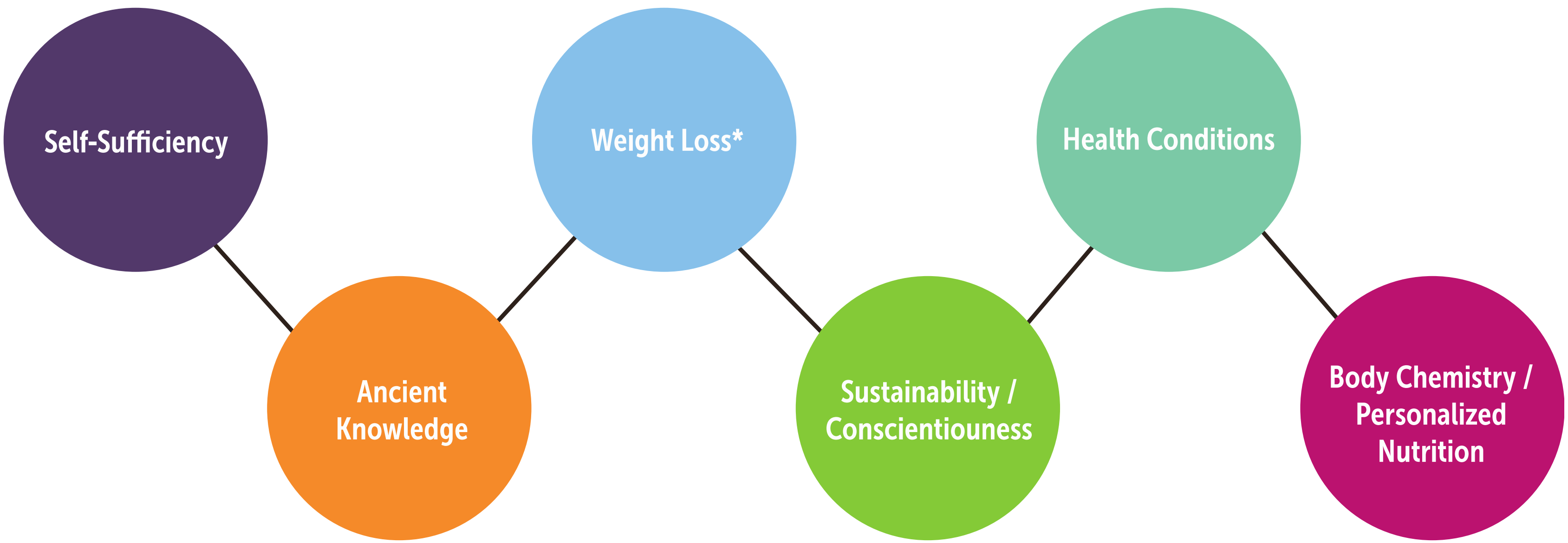
Tribe values and beliefs are deeply held and often a **defining characteristic** of one's personal identity.

Source: 2015 Food Tribes study by New Hope's NEXT data & insights group

next

Big trend: Food Tribes

Food tribes cluster around these 6 primary motivations



Source: 2015 Food Tribes study by New Hope's NEXT data & insights group

What in the Data is most exciting?

The POTENTIAL!

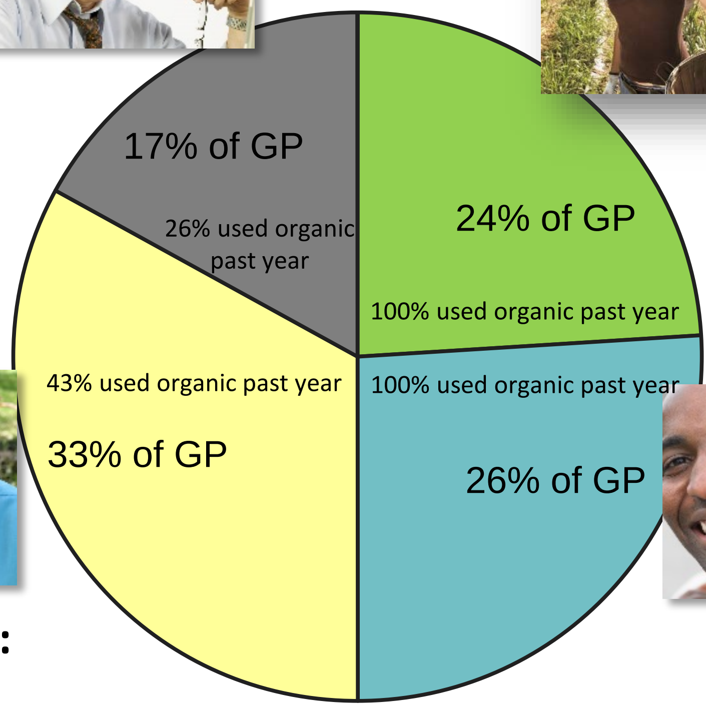
NMI's Organic Segmentation - A Snapshot Overview of the General Population's Organic Integration

RELUCTANTS:

- **Uninterested**

DEVOTEDS:

- **Committed**



TEMPERATES:

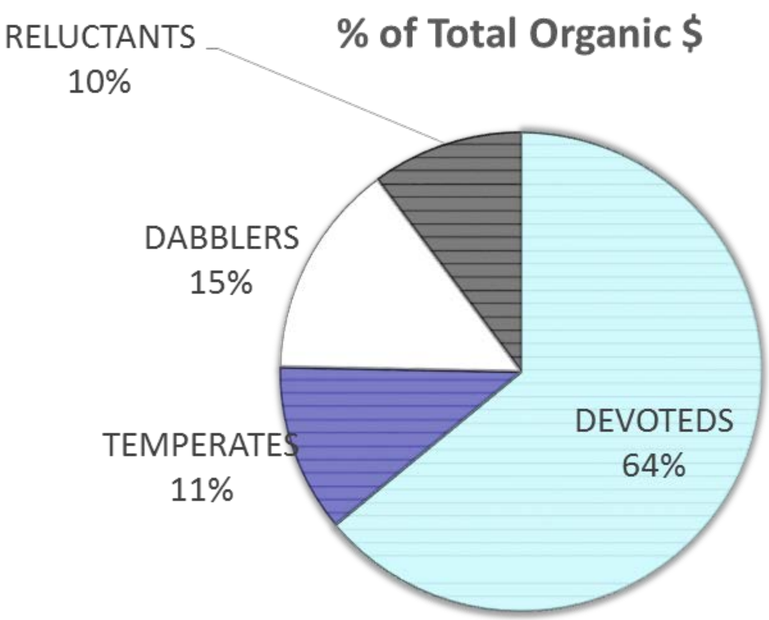
- **Pragmatists**

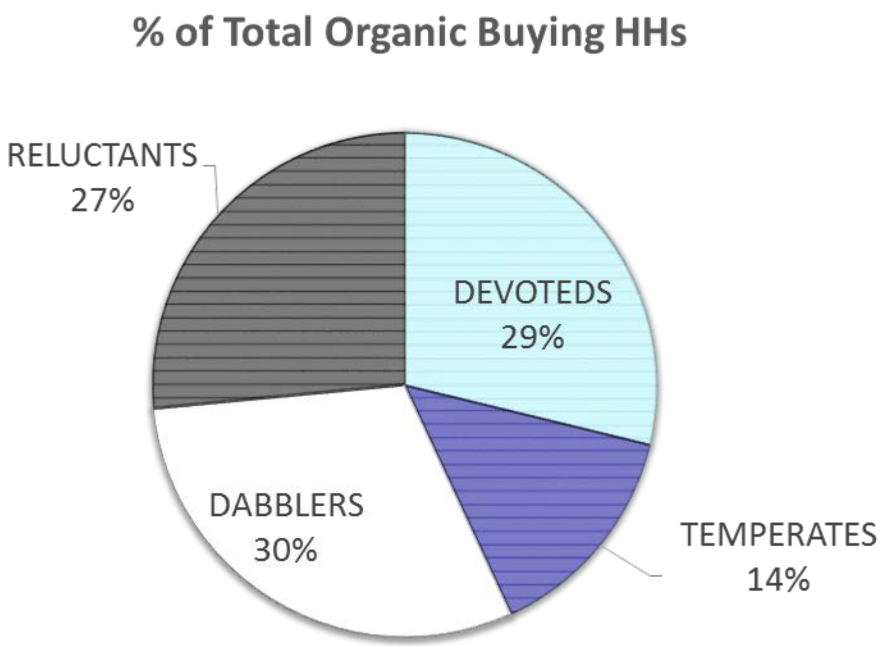
DABBLERS:

- **Non-committal**

DEVOTEDS account for 64% of total HH spending but only 29% of total buying HHs

DABBLERS AND RELUCTANTS have about the same penetration as DEVOTEDS, but less than ¼ of the $ volume





DABBLERS account for 15% of total organic dollars, but 30% of buying households – they tend to try but not regularly repeat their organic purchases; Frequency indices support 3 times greater repeat by DEVOTEDS

	DEVOTEDS	TEMPERATES	DABBLERS	RELUCTANTS
Frequency Index	190	93	61	51

Source: Nielsen Homescan, 52 weeks ending 4/19/2014

Organic Penetration and Index by Segment 2014

	% Organic Penetration of Total HHs	Penetration Index 2014			
		DEVOTEDS	TEMPERATES	DABBLERS	RELUCTANTS
Fresh Produce	43%	150	116	83	72
Dressings, Salads, Deli Prepared Foods	20%	187	120	71	53
Cereal	13%	211	93	65	54
Soup	12%	227	100	57	46
Condiments, Gravies & Sauce	12%	212	92	68	49
Canned vegetables	12%	204	101	63	57
Snacks	12%	193	99	69	61
Canned Soup	11%	231	98	56	45
Juice Drinks-Canned/Bottled	11%	221	101	62	46

Twice as many HHs buy organic Fresh Produce as Dressings, Salads and Prepared Foods; DEVOTEDS buy 50% more than their fair share of Fresh Produce and 87% more for Dressings, Salads and Prepared Foods.

TEMPERATES also buy at a higher rate than total organic buyers for these two categories (16% and 20% higher respectively).

Source: Nielsen Homescan, 52 weeks ending 4/19/2014

Organic Penetration and Index by Segment 2014

	% Organic Penetration of Ttl HHs	Penetration Index 2014			
		DEVOTEDS	TEMPERATES	DABBLERS	RELUCTANTS
Dairy Milk	9%	259	129	38	29
Yogurt	9%	224	110	53	48
Tea	8%	210	100	62	55
Oil, Shortening	7%	228	94	58	46
Deli Packaged Meat	7%	121	85	89	102
Frozen Vegetables	6%	244	101	48	42
Sugar Sweeteners	6%	240	91	57	39
Health, Energy Bars	6%	245	71	57	44
Spices, seasonings, extracts	6%	193	108	64	62
Frozen Prepared Foods	6%	180	96	72	69
Eggs	5%	301	85	32	20
Jams, Jellies, Spreads	5%	264	93	41	37
Bread & Baked Goods	5%	250	88	47	44
Dried Fruit	5%	231	109	49	47
Pasta	5%	226	85	57	53
Coffee	5%	177	102	73	68
Baby Food	4%	198	111	65	55

Organic Dairy Milk is purchased by 9% of all HHs, and both DEVOTEDS and TEMPERATES index higher than all organic buyers here, DEVOTEDS 159% higher and TEMPERATES 29% HIGHER.

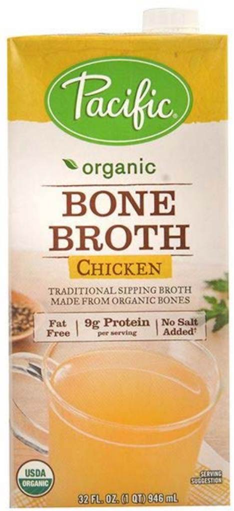
Source: Nielsen Homescan, 52 weeks ending 4/19/2014

Part 2: Exciting Trends

Organic is Here. Organic is the Future.

If we use our Natural Channel as a lens into the future of Natural Foods, we see something astounding:

8 of the top 10 new items launched in the past 52 weeks are Certified Organic.



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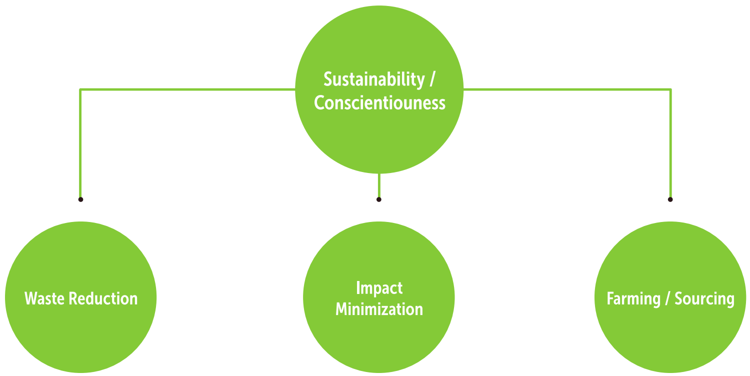
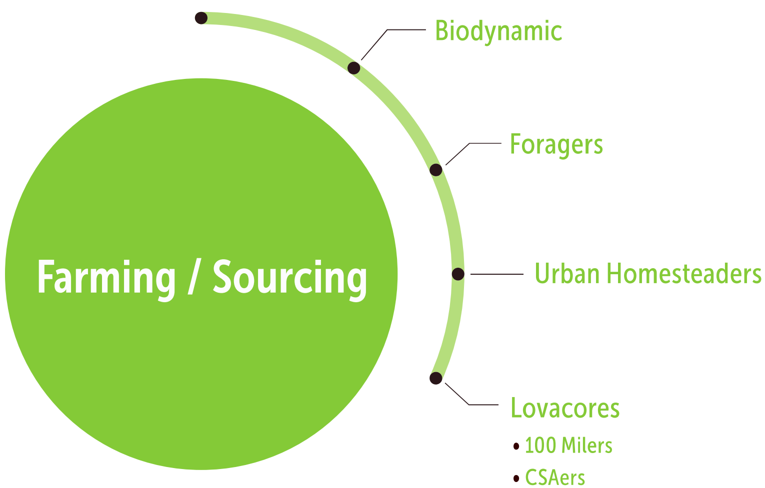
What excites me in data

Motivation: Sustainability, Farming

Food Tribe: Biodynamic





DEFINITION

Comprehensive & holistic approach to managing a farm's ecosystem in an environmentally-beneficial and unobtrusive way. Principles include:

- Plant diversity – mixing crops so plants support one another
- Crop rotation – moving crops & raising varied animals to encourage healthy soil
- Animal life – raising animals to partake in ecosystem
- Composting – recycling manure & organic waste
- Homeopathic preparations – fermented solutions to treat compost, soil & plants
- Life force – belief that earthly influences and cosmic forces play vital roles in life of a farm

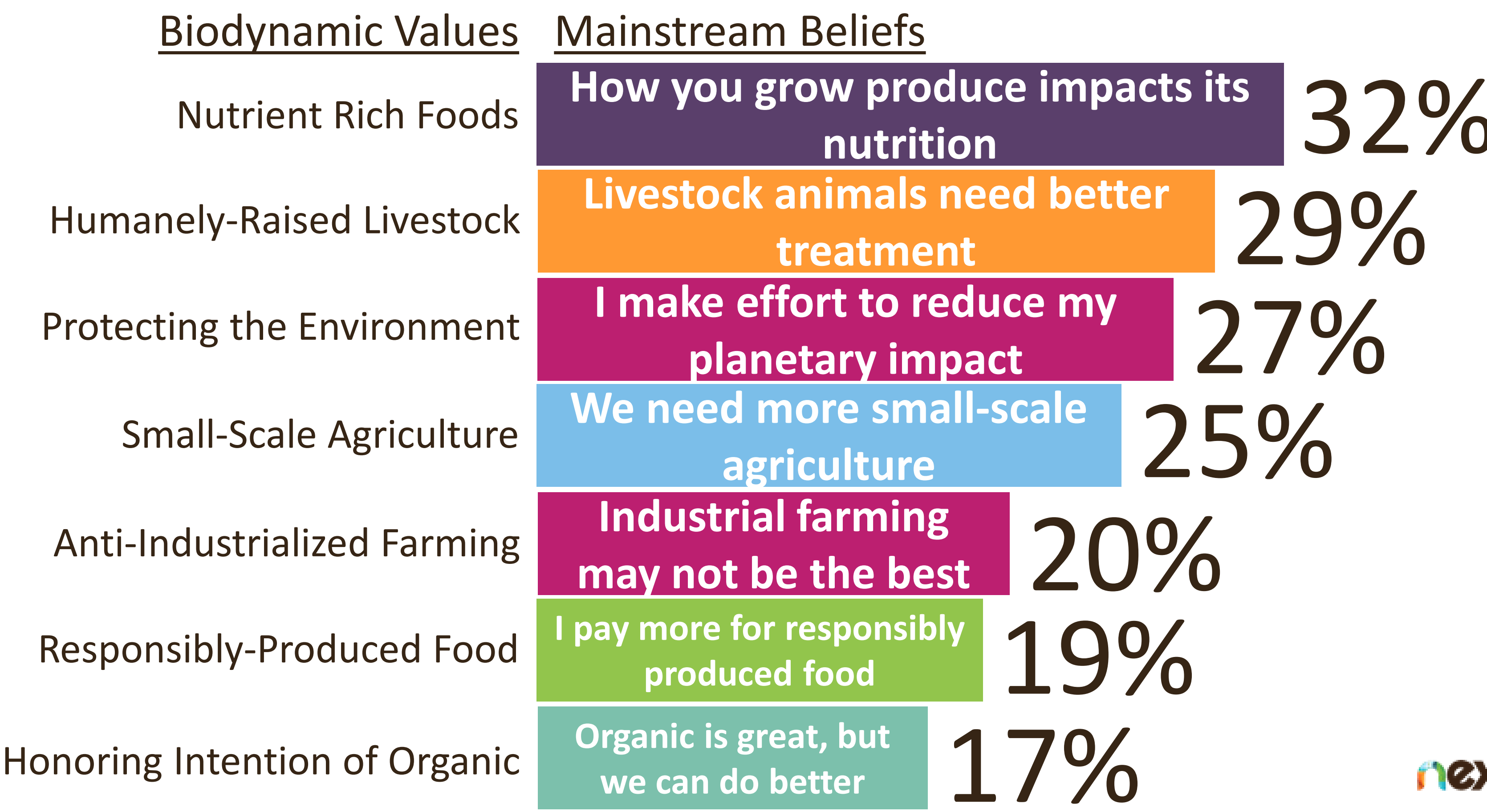
Source: 2015 Food Tribes study by New Hope's NEXT data & insights group

What excites me in data

Est. Size of Tribe

<1%

As consumers become food-educated some will seek ‘deep organic’ options



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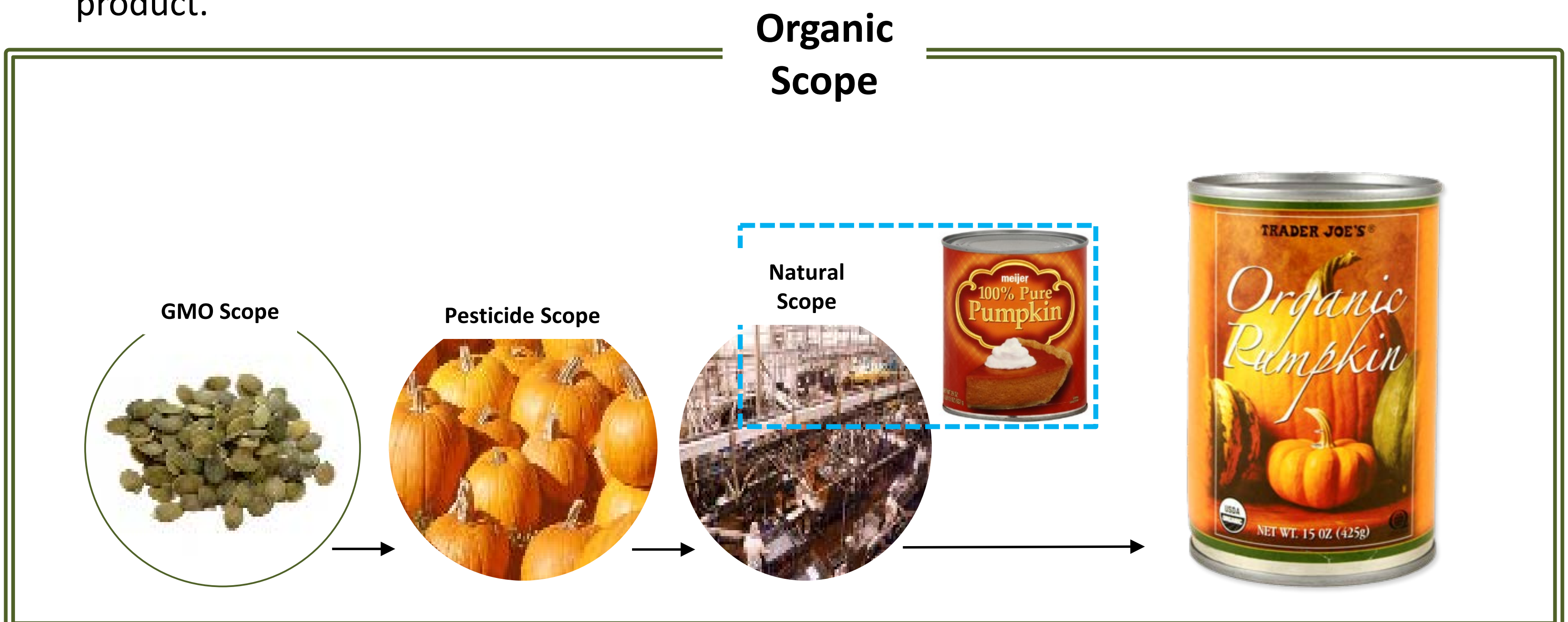
What in the Data is most scary?

Organic is Sliding Towards Becoming a Generic Term with Less Meaning

- ‘Organic needs to own ‘non-GMO seeds,' ‘no pesticides applied, ‘no hormones,' ‘nothing artificial added,' as well as processing steps that, today, are virtually unknown to consumers.
- The broad, all encompassing organic scope, is getting broken into smaller parts and devalued. As ***elements*** of organic are raised in visibility the ***total picture*** gets lost.
- Organic = no pesticides but needs to stand for the big picture from seed/ground to finished product.



Multi-Ingredient Products are at Risk of Losing Relevancy

- Unless a product contains a significant amount of fruits and veggies, and those are minimally processed, consumers see little/no organic relevancy.
- Organic is currently identified with only a few of the possible connections along the food chain.
- Right now, organic DEVOTEDS see multi-ingredient organic products as having a 'healthier' halo because it's 'clean' food though they can't articulate why it's healthier beyond pesticides, nor can they connect specific, individual ingredients to an organic benefit in most cases.

Vegetable Lasagna Example: Where Consumers See Organic Relevance – Lots of White Space Organic can OWN!

Seeds		X (maybe)			
Soil/ Water/ Air					
Pesticides		X	X (maybe)		
Animal Welfare				X (maybe)	
Harvest/ Transport/ Storage					
Manuf.					
Packaging					
Transport/ Sale					
X= Consumer Relevancy within Opportunity Space TODAY	Flavor, Color Natural Preservatives Process Aid	Spinach Tomato Squash Onion	Wheat Flour	Cheese Egg	Basil Oregano Cilantro Salt/Pepper

Many Consumers are Confused About Organic; Industry Needs to Clarify Attributes and Benefits Lest 'Organic' Becomes a Generic Term

- Don't understand what organic means, or the benefits
- Confuse the definitions of organic and natural
- Healthy halo from 'locally-grown' also adds to the confusion
- Organic cannot be undermined by inflating natural or non-GMO; the industry must own 'no pesticides' and 'no GMOs'
- Clear perception that the closer to the original state a product is, the healthier it is … suggests challenges for organic packaged foods as consumers inherently view packaged and processed foods as less healthy, organic or not

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Organic Messaging is Dynamic and Demands Aggressive Offensive (not Defensive) Action!

- The organic industry is an a state of flux.
  - Consumer mistrust of the food chain is growing and organic needs to **step into the void** and provide trusted reassurance of food safety and purity.

Some questions to consider…

- What if we started/reinforced Organic Fundamentals?
- How can we create an organic tagline that goes viral?
- How can we communicate Organic = Non-GMO & MORE?
- How to address Organic, Certified Organic, 70% organic, Made with Organic labeling?
- What if we communicated, visually, the difference between organic and natural?

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Part 3: What's Got Me Scared

Does Organic's Message Translate?

Organic is growing faster than the all Channels, but do shoppers understand what it means?

	Natural Channel	Specialty Gourmet Channel	Conventional (MULO)
Total Channel	8.8%	6.7%	1.5%
Organics (70%+)	9.7%	11.1%	14.1%
Non-GMO Verified	9.8%	14.1%	14.4%
Organic + Non-GMO Verified	11.2%	14.6%	15.6%

Source: SPINSscan Natural 52 weeks ending 8/9/15.
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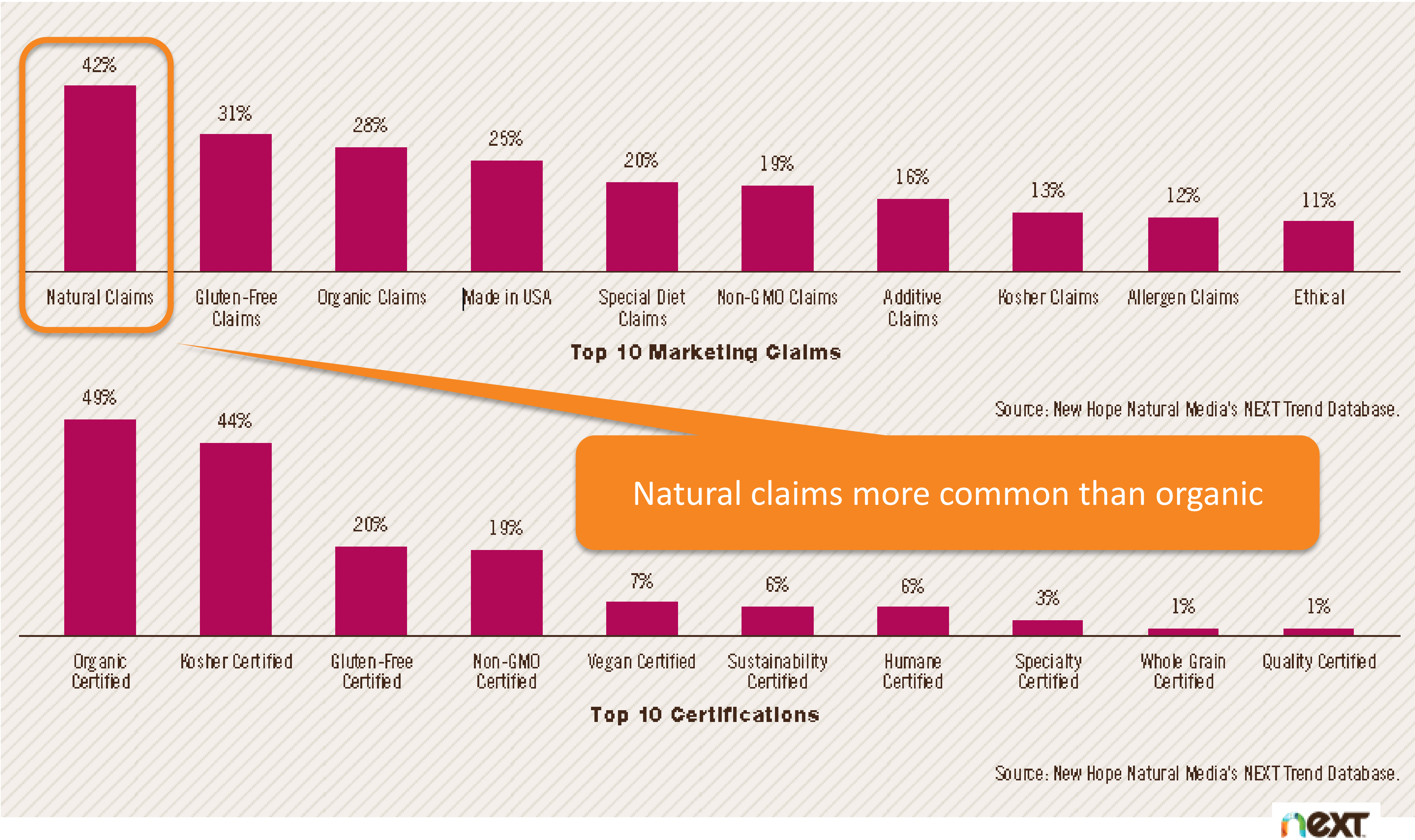
What scares me in data

Product claims and certifications in NEXT Trend database June 2015



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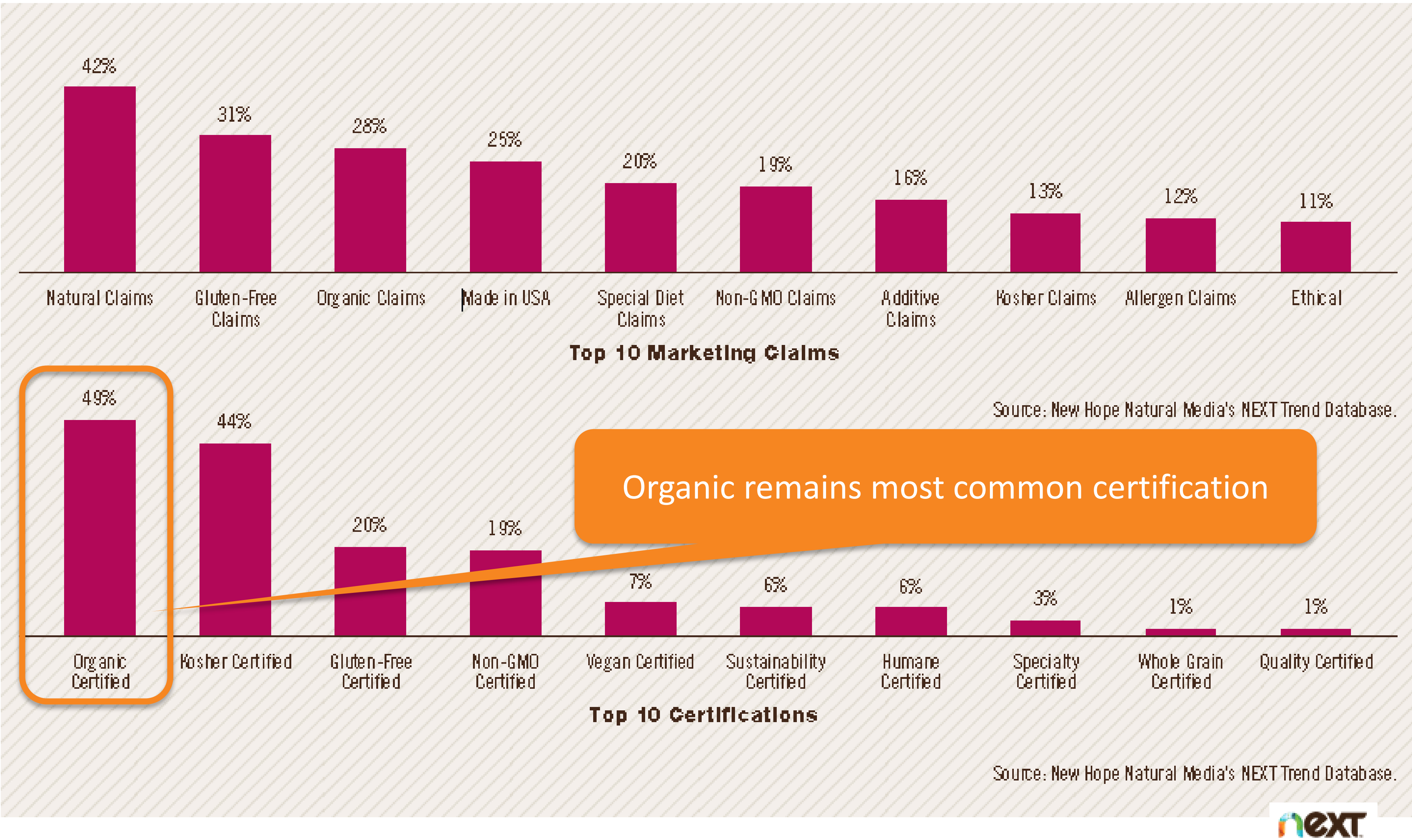
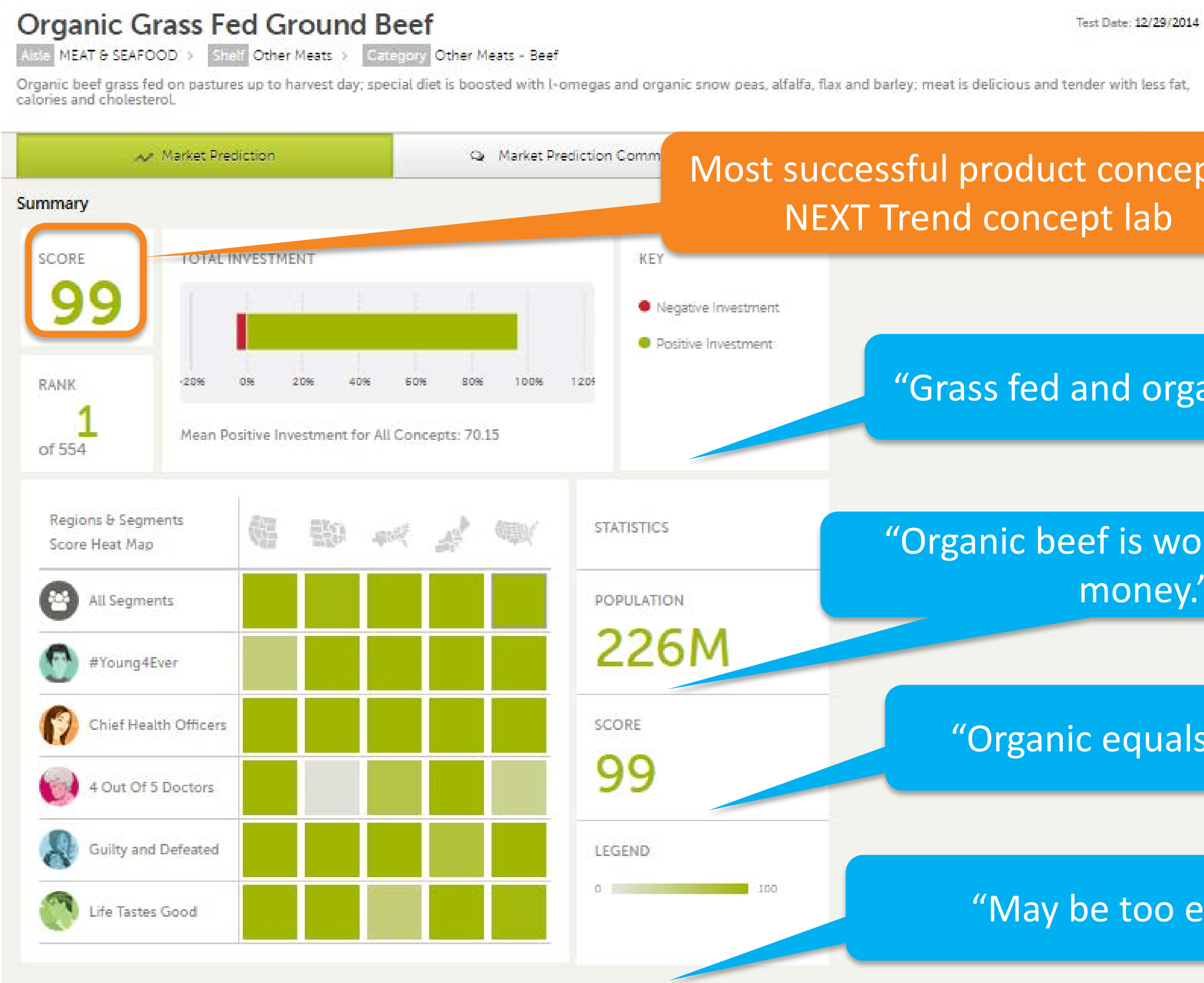


Topic to watch: New organic launches



Most successful product concept in NEXT Trend concept lab

"Grass fed and organic is way to go."

"Organic beef is worth the extra money."

"Organic equals healthier beef."

"May be too expensive."

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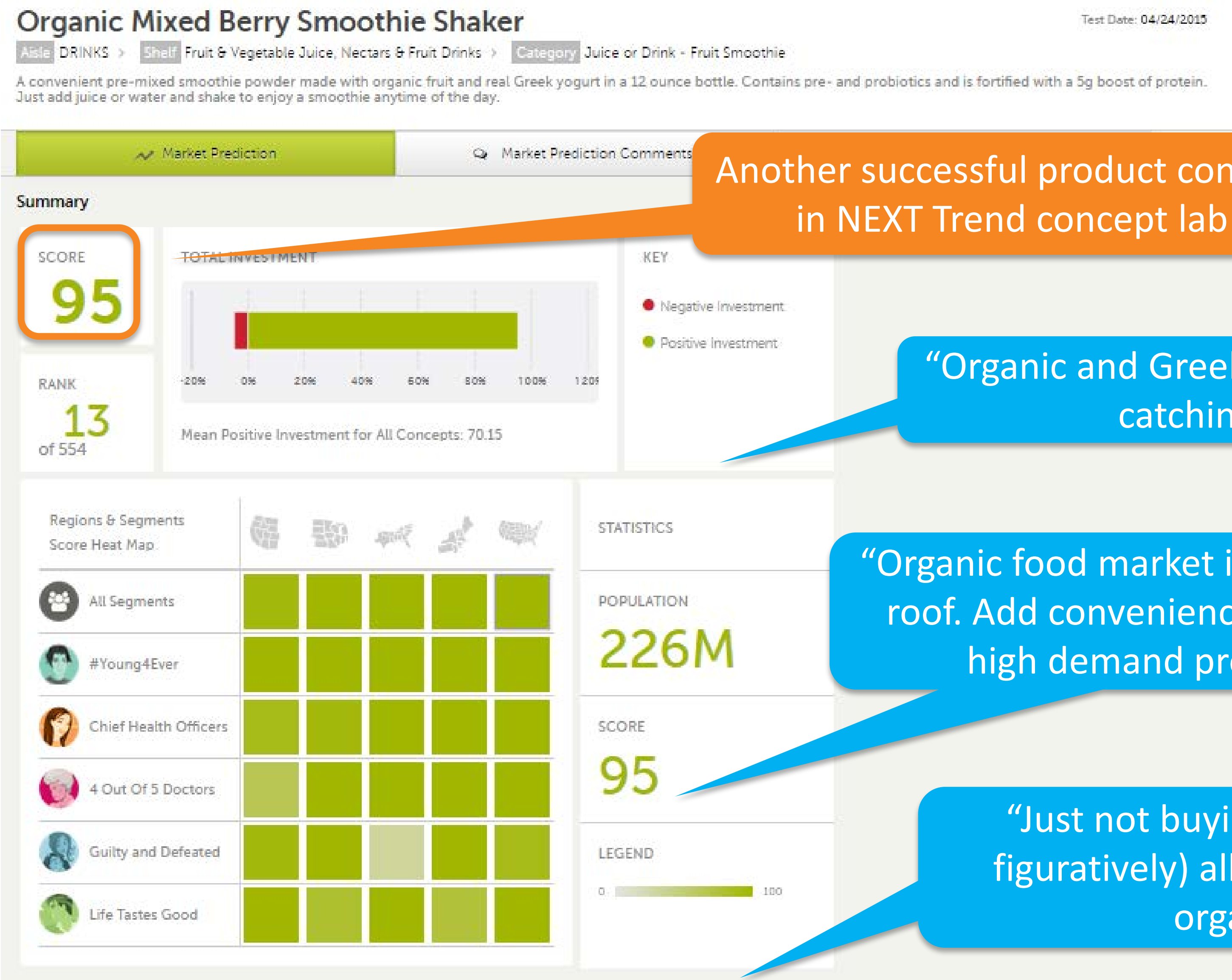
Topic to watch: New organic launches



Another successful product concept in NEXT Trend concept lab

"Organic and Greek yogurt are really catching on."

"Organic food market is through the roof. Add convenience to that? A high demand product."

"Just not buying (literally and figuratively) all the hype about organic."

Organic Market & Consumer Trends

12:15 - 1:30 p.m.

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