The National Organic Market

Growth, Trends & Opportunities, 2013

November 2013

by Shauna MacKinnon

Research supported by:

The National Organic Market

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Agriculture and Agri-Food Canada   Agriculture et Agroalimentaire Canada

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EXECUTIVE SUMMARY

by Matthew Holmes

There are approximately 5,000 certified organic farms, handlers and manufacturers in Canada. Census of Agriculture data shows that between 2001 and 2011, while total farms in Canada declined by 17%, the number of certified organic farms grew by 66.5%. Organic and transitional farms now represent roughly 2% of agriculture in the country.

The organic market in Canada has also grown exponentially over a very short period, to the point that it is now the fourth largest in the world. Transcending the aisles of mainstream or natural health retailers, organic products are now an option just about anywhere—from grab-and-go convenience stores to the coffee urns on Parliament Hill. What hasn't been known until now is exactly how much growth, what kind of market share, or who exactly the consumer is.

Two previous studies were conducted before the introduction of Canada's Organic Products Regulations in 2009, and were based primarily on mainstream grocery sales tracked and aggregated by the Nielsen Company. They described a mushrooming organic marketplace—but one that existed before the global recession, and before the introduction of strict national standards, import restrictions and mandatory regulatory requirements on organic claims that tightened what made it to market. This study is the first to provide a comprehensive look at the new, regulated organic market in Canada and the consumers who are driving its growth.

Key Findings

FOOD AND BEVERAGE MARKET TRIPLES

The value of the Canadian organic food market, at $3 billion per year, has tripled since 2006, far outpacing the growth rate of other agri-food sectors.

Food and beverages (including alcohol) account for about 96% of the domestic market, with the remainder in smaller, high-growth categories such as fibre and textiles, personal care, supplements, pet foods, and other products. Canada is also a major source of organic products to the world: with exports worth approximately $458 million per year. The total Canadian organic market is now valued at over $3.5 billion per year in sales.

In mainstream retail, organic whole foods tend to outperform packaged, prepared and snack food categories. Fruit and vegetables are the clear leaders in organic sales, capturing over 40% of total sales. The beverage category narrowly beats out dairy and eggs in terms of sales due to strong sales of organic coffee. Bread and ready-to-eat cereals lead sales in the bread and grains category.

CANADIAN PRODUCTS CAPTURING MORE VALUE, STRONG MARKET SHARE

Canadian consumers show a strong bias toward the new Canada Organic logo (compared to "USDA Organic" and other claims) and are consistently seeking out local or made-in-Canada options.

Table 1

ESTIMATED VALUE OF TOTAL CANADIAN ORGANIC SALES IN 2012

	Sales Value ($ Millions)	Market Share
Total Organic Food & Beverage Sales (excluding alcohol)	2,823.08	1.70%
Organic Alcohol	135.0	0.67%
Organic Supplements	34.4	1.25%
Organic Fibre (linen & clothing)	24.2	0.15%
Organic Personal Care	41.1	0.45%
Organic Pet Food	4.1	0.25%
Organic Household Products	8.2	0.20%
Organic Flowers	3.0	0.10%
Organic Exports from Canada	458.0	

Total Canada Organic Market: $3,531.08 M

Of over 3,000 organic grocery items captured in the market research scan, 44% by volume identified themselves as being grown, processed or packaged in Canada. However, these Canadian products are capturing more value in the market than imported products, with 48% of market share by value.

By comparison, thirty percent of organic products were identified as US imports (the largest by far of any importing country).

Dairy products, roasted-in-Canada coffee, soya drinks, eggs and bread are the strongest Canadian performers. The entry of Canadian products into the RTE cereals, baby food, and juice/drink categories demonstrate the ability of Canadian-based manufacturing and companies sourcing Canadian ingredients to compete in the prepared organic foods categories.

An analysis of all distribution channels, from mainstream retail to farmers' market (and weighted by category), finds that total products produced, processed or packaged in Canada are worth $1.45 billion a year—capturing 51% of total food and beverage sales (excluding alcohol).

Table 2

CANADIAN ORGANIC FOOD, ALCOHOL & BEVERAGE SALES IN 2012

	Sales Value ($ Millions)	Share of Total Organic Sales
Mainstream Retail	1,350.3	46%
Natural Health & Online Retail	751.06	25%
Direct to Consumer	316.7	11%
Foodservice/ Institutional	390.0	13%
Buying Clubs/ Cooperatives	15.0	0.5%
Organic Alcohol	135.0	4.5%

Total Organic Food, Alcohol & Beverage Sales: $2,958.08 M

DIVERSE CONSUMER BASE DRIVING GROWTH

The Canada Organic Regime, launched in 2009, is playing a large role in boosting consumer confidence and interest in organic products. The new "Canada Organic" logo and claim is among the top-four most influential claims that increase consumers' likelihood to purchase a food product.

A majority of Canadians, at 58%, report the purchase of some organic products every week. And that rate is even higher among ethnic Canadians, people living in Canada's largest cities, households with young families and consumers with university educations.

Over half of Canadians feel that organic farming is better for a healthy environment, and nearly half of Canadians:

- consider organic foods a healthier, more nutritious choice;
- believe ecological sustainability is an important consideration when choosing food products;
- want to choose products that are not genetically engineered (GMO).

As organic foods become more widely available, economies of scale and competition are making them more accessible as well. On average, Canadians who buy organic report they spend only $17.50 more per week than those who do not purchase organic, and the research shows that households in all socio-economic categories choose organic, discrediting the common misconception that organic products are "too expensive" for many Canadians or exclusively for higher-earning households.

Further, 98% of organic shoppers expect to increase or maintain their spending on organic fruit and vegetables over the next year. Spending increases are most frequently expected in the organic fruit and vegetable, meat and poultry, dairy and bread and grains categories.

Conclusions & Key Considerations

It is clear that the organic market in Canada is here to stay, with great potential for continued growth. While some organic market segments are still only beginning to establish market share and value chain, others have become dominant players in their categories. Canadian consumers continue to be drawn to the attributes that organic products offer, and the next step will be to better understand organic consumers and to better communicate the benefits of organic to them.

The report concludes with recommendations for future research and by identifying the following opportunities and needs:

- There is a need to broaden and deepen the consumer market;

- The sector must develop local, organic food through direct marketing, and through meeting the demand for "Made in Canada" organics;
- There is a need for support in scaling up, and building stronger relationships with trendsetters and incubators;
- Establishing the next foodservice niche (following coffee and salad greens) will have a major market impact;
- A viable organic meat and poultry sector is still under-realized;
- National and local organic efforts must be bridged through complementary and effective provincial regulation.

As the first market research study to be conducted since the Canada Organic Regime was introduced in 2009, and the most comprehensive organic market research effort to date, this study also provides an important benchmark for future research. The scope and depth of the analysis highlights a number of areas where data collection can be improved to facilitate better tracking of the organic market and consumers in the future:

- More in-depth consumer research to better understand the barriers and strongest motivators for buying organic as well as greater segmentation of organic buying groups;
- The development of a standardized industry survey to be completed annually by companies involved in the organic value chain to collect sales, growth and distribution channel information;
- Tracking of organic sales in the natural health retail sector by a market research firm;
- Maintenance and expansion of organic questions (e.g. marketing channel) in the Census of Agriculture conducted by Statistics Canada;
- An annual, nationally coordinated collection of production data and producer sales;
- Support for longitudinal research efforts to measure market growth, sector development and consumer trends at two- to three-year intervals to provide critical trend line information;
- More rigorous collection of data on the organic non-food sector, which in many instances is growing at a faster pace; and
- The expansion of Harmonized System (HS) codes to better quantify the range of organic products imported into Canada, and the introduction of HS codes for exported products.

Methodology & Limitations of the Data

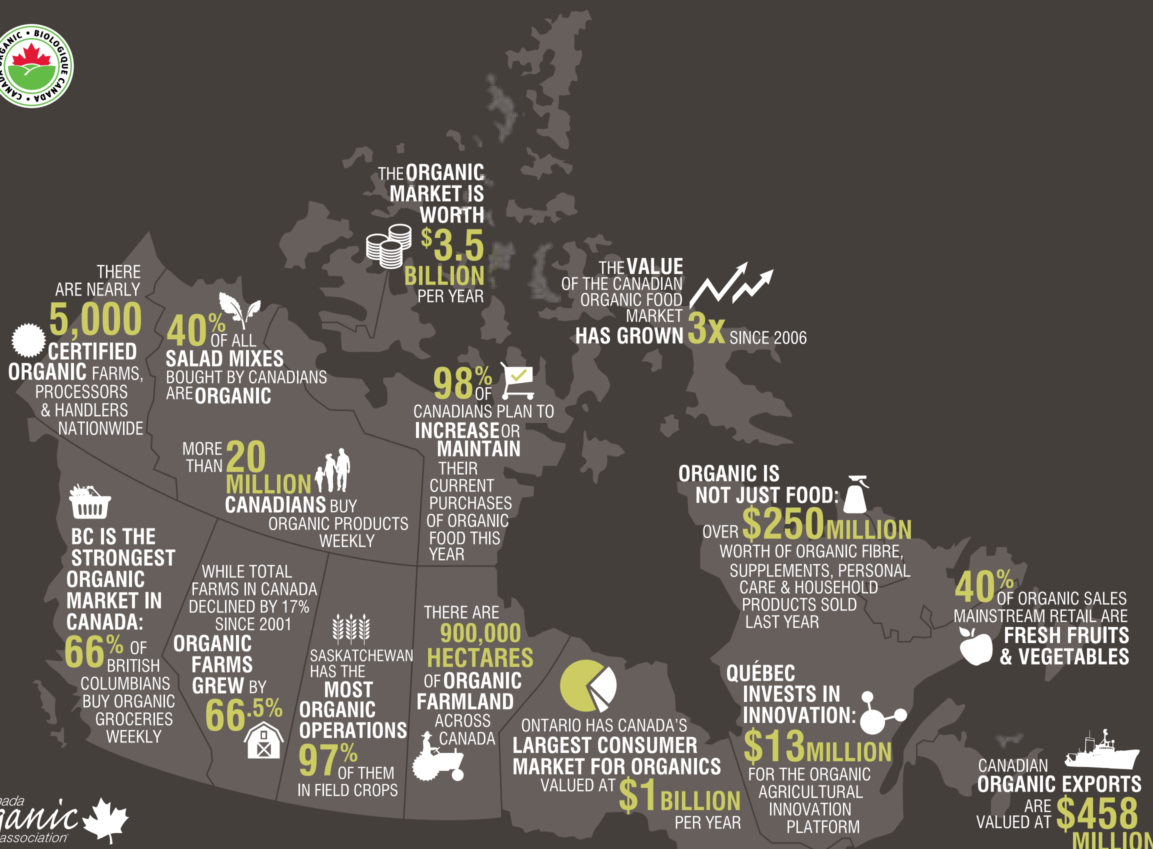
This research brings together new Canadian consumer research on organic purchasing behaviour as well as sales data collected from a variety of sources to provide the most accurate picture possible of the value of the organic market across distribution channels.

Vision Critical conducted the consumer research in August 2012 with over 1,500 Canadians, aged 25 and over, balanced by region, age and gender. As new parents and the millennial generation are clearly an important demographic for the organic sector, future studies should include data on households in the 18-24 year-old bracket as well.

The Nielsen Company provided detailed data on the mainstream retail market. Sales and volume data for organic fresh and pre-packaged grocery products, including organic label and country of origin information, was collected for the 52-week period ending October 20, 2012, covering grocery banners, drug stores and mass merchandisers across Canada.

The sales value and market share of organic food and beverage products in some distribution channels remain poorly tracked, particularly in the natural health retail, foodservice and direct marketing segments. To fill this data gap, information was gathered from market research, university studies, farmer surveys and private company sales information. Estimates of market share and total sales by segment were informed by insights from leaders in the sector.

Although significantly smaller, the Canadian organic market shares many similarities with the US organic market. For the purposes of this study, US market share values in organic non-food categories were used as a guide for informing Canadian market share values. In general, organic non-food products in Canada were estimated to have about half of the market share as is seen in the US, and based on the comparative values seen in the food and non-alcoholic beverage market. These values were then adjusted against information from private companies, associations and other sources involved directly in the non-food categories assessed.



Canada Organic trade association

The Canada Organic Trade Association (COTA) represents Canadian farmers, handlers, processors, distributors and retailers across the organic supply chain. COTA works to promote and protect organic in Canada. For more information, visit ota-canada.ca