

SELLING ORGANIC PRODUCE POSES NEW CHALLENGES

by Jennifer Morgan and Bruce Barbour

Produce retailers and wholesalers, both experienced and inexperienced in selling organic produce, reported in a recent survey that consumer concern about health and environmental risks associated with conventional agriculture practices has spawned a market niche for organic produce in their New Jersey establishments. Although the organic produce market currently represents only a small percentage of the overall produce market, it has exceptional growth potential. Further, this recognition could lead to the establishment of separate organic produce sections in major supermarkets.

Survey results indicate that the total value of organic produce sold in New Jersey during 1988 was \$1 to 3 million, representing 0.6% of the estimated \$500.7 million wholesale produce marketed (i.e., sold to retailers) in the state. Follow-up interviews with organic produce retailers and wholesalers indicated that more than 90% of the organic produce sold wholesale in New Jersey was imported, primarily from California and other western states. Thus, the total dollar value of locally grown

organic produce sold wholesale makes up no more than 10% of the \$1 to 3 million, or \$100,000 to 300,000 of produce sold wholesale in the state.

Couple that with the fact that more than 96% of the experienced organic produce sellers surveyed indicated that they plan to continue selling organic produce, and almost half of the inexperienced sellers indicated that they were "somewhat" or "very interested" in doing so, the growth potential for this market is remarkable. Additionally, numbers show that, should inexperienced sellers enter the market, the numbers of organizations selling organic produce in New Jersey would double.

Reasons to Sell Organic Produce

Among survey respondents selling or interested in selling organic produce, health and environmental concerns were perceived to be significant reasons to do so,



whether retailers themselves are concerned and/or perceive their customers to be concerned. Among experienced respondents, "lower health risks" topped the list of all reasons for selling organic produce. More than 75% cited this reason as one of the three most important. The second leading reason was "better for the environment."

Health and environmental concerns were superceded only in the inexperienced group, and only by the "customers want organic produce" selection. This group also reported "expanded produce selection" and "provides a competitive marketing tool" high on the list of reasons for selling organic produce.

Although both groups reported that their customers will pay a premium for organic produce (a higher than 25% price premium average was reported by both groups; higher at natural food stores than supermarkets), it is generally not perceived to be more profitable than conventionally grown produce.

It's true that sales of organic produce will generally lead to higher net sales (revenue minus cost of goods sold), assuming that the sale of organic produce can maintain the same volume sold per square foot as does conventionally grown produce. That is because organic produce is sold at a higher price. However, increased management costs and waste associated with handling organic produce may erode the higher income otherwise generally attributable to its sale.

Obstacles to Market Expansion

Several obstacles inhibit expansion of the organic produce markets. The most significant obstacles concern supply, price and distribution. Respondents from both the experienced and inexperienced groups agree that the two most significant obstacles to further expansion of the organic produce market are the relatively

high price and lack of supply of such produce.

Unlike the market for conventionally grown produce, the organic-grown produce market is characterized by undersupply, particularly of locally-grown organic produce. New Jersey retailers and wholesalers specifically demand locally-grown organic produce, reinforcing the proposition that there exists a market opportunity for local growers in the organic produce market.

Both experienced sellers, at 67.9%, and inexperienced sellers, at 46.2%, cited "not enough organic produce is grown locally," as an obstacle to expansion. Because the distance from farm to market is shorter, locally-grown organic produce will generally have longer shelf life, appear fresher and have greater nutritional value. New Jersey growers can displace organic produce currently imported into the state and, New Jersey growers can help fill the currently unmet demand. In short, the current lack of supply appears to provide a very favorable market condition for those New Jersey growers who can bring a product to market. Sellers also noted that an organic certification program would certainly help them market organic produce. They cited "lacks legitimacy" as one of three most important problems associated with selling organic produce. It is such a problem in fact that New Jersey organic produce marketers would pay a fee ranging from \$10 to \$2500 (\$145 average) in order to sell organic produce certified as such by the state of New Jersey.

Conclusion

Generally speaking, organic produce offers the same gross profit margin as conventionally grown produce. However, while organic produce may yield the same profit margins (or lower due to increased management costs), it nevertheless may yield higher net income as long as sales volume per square foot of retail space remains on a par with conventionally grown produce. Organic produce represents a more expensive product line.

Growers also need to examine the cost of production for organic produce on a per crop basis. For some crops, the cost of off-farm organic inputs combined with the additional labor requirements may well exceed the approximately 30% premium at which such organic produce can be sold. Analyzing the costs as well as the methods of organic production poses one of the most challenging and significant areas for future research.

Nevertheless, supply and price constraints on retailers and wholesalers pose several marketing opportunities for growers of organic produce. From the growers perspective, the current limited supply of organic produce should be directed toward those market outlets yielding the highest price premiums, that is, natural food stores and selected supermarkets willing to pay high premiums, not “mass market” supermarkets. However, selling

through small-volume, high-end markets again underscores the need for improved local distribution because growers will have difficulty selling small quantities to numerous locations.

As stated above, reasons other than net income—e.g., use as a competitive tool, to expand produce selection, to maintain customer confidence and loyalty—merit the marketing of organic produce. Whatever the impetus for growth, the organic produce market appears to be increasing, thus presenting opportunities for the growers who decide to enter it.

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