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The U.S. Organic Handling Sector in 2004

Baseline Findings of the Nationwide Survey of Organic Manufacturers, Processors, and Distributors

Carolyn Dimitri and Lydia Oberholtzer



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A Report from the Economic Research Service

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The U.S. Organic Handling Sector in 2004

Baseline Findings of the Nationwide Survey of Organic Manufacturers, Processors, and Distributors

Carolyn Dimitri and Lydia Oberholtzer

Abstract

The organic sector has expanded rapidly over the last decade, as retail sales of organic food increased to \$15.7 billion in 2006. As sales have grown, so have the number and types of outlets selling organic products. USDA's Economic Research Service surveyed certified organic intermediaries in the United States to collect information on basic characteristics of the sector in 2004, as well as its marketing and procurement practices. This report uses the survey findings to present a baseline view of the organic handling sector. A large share of organic handlers are mixed operations that handle both organic and conventional products, and most began as conventional firms that converted to handling organic products. Most organic products are sold domestically, with nearly three-quarters sold nationally or regionally. More than three-quarters of the firms are independent, and most are small. Handlers seek suppliers with a reputation for providing high-quality products. Most transactions between handlers and suppliers occur under contract, reportedly so that handlers can procure ingredients essential for their businesses.

Keywords: Organic agriculture, handlers, intermediaries, marketing organic products, procurement of organic products, agricultural contracts, distribution of organic products, National Organic Program, organic label, food labels

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Summary

The organic sector has grown rapidly since 1995, and, as a result, organic foods are now sold in nearly all food retail stores. The effect of this rapid growth on organic handlers (packers and shippers, manufacturers and processors, and food brokers, distributors, and wholesalers) and on the flow of products from the farm to retail stores has been largely overlooked in the research literature. To gain insight into the characteristics of the handling sector and its marketing and procurement practices, USDA's Economic Research Service (ERS) surveyed certified organic handlers in the United States to study 2004 practices. The primary focus of the survey was on the handler's procurement of organic products, including the use of contracts and requirements that organic handlers levy on their suppliers. This report presents a summary of the survey findings.

What Is the Issue?

As the organic market has grown, anecdotal evidence points to significant changes in how organic foods are marketed and distributed and to widespread mergers between organic and conventional companies. Reliable information, describing marketing channels and procurement practices for organic products, however, has previously been unavailable. The ERS 2004 nationwide survey of organic handlers is the first substantive examination of the organic handling sector. The findings will be useful to organic businesses and policymakers. For businesses, the information could influence marketing and production decisions, allowing firms along the supply chain (including farmers) to remain profitable in a competitive environment. Policymakers can potentially benefit from understanding changes in the sector, particularly those involving market infrastructure and regulation of the sector.

What Did the Study Find?

In 2004, the organic handling sector was geographically concentrated in a few regions, with most States having few organic handlers. Most organic handlers were small firms, handling both conventional and organic products. Most of these firms began as conventional facilities, either adding an organic line or fully converting to organic. Over half of the facilities were performing multiple functions, such as processing, packing, and shipping, and almost two-thirds reported functioning as a manufacturer or processor. Fruits and vegetables were the top products being handled by the sector.

Organic handlers marketed most of their products domestically in 2004, and most of the products they sold were distributed nationally and regionally. Most sales went to other handlers, with over half going through wholesalers, brokers, distributors and repackers, or manufacturers/processors. On the retail end, almost twice as many sales went through natural-product retailers than through conventional groceries. Small firms were more likely to sell to independent natural-product stores and chains, while large handlers were more likely to market to natural-product chains and conventional supermarkets.

Most responding facilities used certified organic suppliers to procure ingredients or products in 2004, with growers the most often used type of supplier. Over three-quarters of organic ingredients were procured domestically,

and most were secured under written or verbal contract, with the remainder purchased on spot markets. Respondents reported placing a wide range of requirements on their suppliers (for example, organic certification and minimum quality standards). The most important supplier attributes sought included reputation for quality, knowledge of organic products, price, and flexibility in meeting the needs of the handler.

How Was the Study Conducted?

In 2005, ERS surveyed all certified organic handlers in the United States about their 2004 practices. The survey was funded by a competitive grant through USDA's Risk Management Agency and was developed in conjunction with a group of stakeholders. The survey consisted of questions that addressed operational and business practices, basic characteristics of the facilities, relationships with customers and marketing practices, and relationships with suppliers, including purchase arrangements. This survey, the first to include all organic handlers nationally, provides baseline information on the basic characteristics of organic handlers, as well as information about their procurement and marketing practices.

Introduction

First-Ever Look at the Organic Handling Sector

This first-ever baseline look at the organic handling sector presents summary statistics of the new data from a survey of U.S. organic handlers.

Market growth in the organic sector averaged 17 percent a year between 1995 and 2006, dramatically increasing the number of organic food products flowing along the supply chain. Increased profit potential in the organic sector provides incentives for firms to enter the market; while some entrants are new to the food sector, many are longtime conventional firms trying to capture a share of the organic market.

These two related forces—rapid market growth and a growing presence of conventional firms in the organic industry—have affected all organic firms, from farmer to retailer.¹ At the intermediary level, mergers between organic and conventional firms have changed the basic structure of the market (Dimitri and Richman, 2000). At the retail level, both conventional and natural product supermarkets have responded to increased demand for organic food products: Conventional stores now sell a wide variety of organic products, while natural product stores carry organic versions of longtime conventional brands (e.g., organic Heinz ketchup). Ultimately, supply chains that once served distinct market channels provide organic food to both the natural product and conventional channels. The combination of rapid market growth and mergers of the two market channels have created distribution networks that are experiencing growing pains.

For both conventional and organic firms in the food industry, knowledge of marketing channels, particularly distribution networks and procurement practices, is scarce. Yet even basic information, such as the number and location of facilities, as well as principal business practices, would be useful to businesses and policymakers, albeit in different ways. For businesses, the information could influence marketing and production decisions, allowing firms along the supply chain (including farmers) to remain profitable in a competitive environment. Such information is especially crucial in the organic industry, which has a 3-year lag in supply response at the farm level due to the length of time it takes to gain organic certification of farmland. Policymakers would benefit from understanding changes in the sector, particularly regarding issues involving market infrastructure and regulation of the sector.

¹The focus of this report is on the organic sector at the market level and not at the farm level. Information about the growth in the number of organic farms and acreage is available at www.ers.usda.gov/Briefing/Organic (USDA, ERS, 2007b).

While the growth of the organic sector is well documented (see [www.ers.usda.gov/ Briefing/Organic/](http://www.ers.usda.gov/Briefing/Organic/) for this information), effects of the rapid growth, such as the blending of the conventional and organic supply chain, are not as well studied. To gain insight into the organic supply chain, USDA's Economic Research Service (ERS) surveyed the population of U.S. certified organic intermediaries (called "organic handlers" in the National Organic Standards) to examine 2004 marketing and procurement practices.² The survey was developed with input from stakeholders in the organic sector, including certifiers, farmers, processors, academics, and representatives from nonprofit organic organizations. These stakeholders identified three issues key to the sector:

1. Is organic agriculture following the path of conventional agriculture?
2. How do organic handlers source and procure their products?
3. What characteristics are handlers looking for in their suppliers?

All questions on the survey relate to the three main issues identified by the industry stakeholders.

²The survey was funded by USDA's Risk Management Agency (RMA) and was authorized by Office of Management and Budget control number 0563-0078.

About Organic Handlers

Organic Handlers Move Products Along the Supply Chain

Organic handlers are certified to handle organic products in accordance with the National Organic Standards.

The functions performed by organic handlers are similar to those of their conventional counterparts, with the added requirement that organic integrity of all products must be maintained as the products move along the supply chain, as specified by the National Organic Standards (see box, “Regulations Applying to Organic Handlers”). Organic handlers, as the diagram (fig. 1) shows, are key to moving organic products through the supply chain. In fact, organic products (especially manufactured or processed products) often pass through the hands of several handlers between the farm and consumer.

Packing and shipping is the least complicated handling function, at least in terms of the number of tasks involved. Many organic packers and shippers specialize in fresh produce, while others handle a wide variety of products, including coffee and feed grains. In the fresh-produce sector, packers package fresh produce (either from their own farm or another company), while shippers market and distribute the products. Shippers may be forward-integrated growers or importers who often work with packers. The key challenge for packers and shippers is maintaining the quality of highly perishable product as it moves along the supply chain (Dimitri and Richman, 2000).

Organic manufacturers and processors convert raw agricultural products into prepared and processed foods, such as canned and frozen vegetables, pasta, ice cream, and cookies. Some serve as private labelers, processing products for name-brand marketers, or as ingredient suppliers for other manufacturers. Important issues for this group of handlers include receiving products at the peak of ripeness and securing a uniform (in size and quality) product in a steady stream so as to make the best use of their processing facilities (Dimitri and Richman, 2000).

Distributors and wholesalers warehouse food supplied by manufacturers or other intermediaries and deliver these products to retailers. Brokers are wholesale operators that facilitate sales between buyers and sellers of organic products and may serve as representatives of manufacturers or processors. Typically, brokers do not physically handle or take title of the products and thus are not required to be certified. However, many brokers do choose to become certified: All organic products are accompanied by an inspection certificate; thus, when brokers, wholesalers, and distributors become certified organic handlers, they can use their own certificate. Otherwise, the organic products are accompanied by their suppliers' certificates. By holding their own certificate, these intermediaries are able to keep their suppliers confidential (Riddle, 2007).

Regulations Applying to Organic Handlers

Implemented by USDA in October 2002, the National Organic Standards require that organic growers and handlers be certified by a State or private agency accredited under the uniform standards developed by USDA. The standards address the methods, practices, and substances used in producing and handling crops, livestock, and processed agricultural products. Although specific practices and materials used by organic firms may vary, the standards require every aspect of organic production and handling to comply with the provisions of the Organic Foods Production Act (OFPA).

As specified by the standards, handling of organic products includes the following activities: mechanical or biological methods, including but not limited to cooking, baking, curing, heating, drying, mixing, grinding, churning, separating, distilling, extracting, slaughtering, cutting, fermenting, eviscerating, preserving, dehydrating, freezing, chilling, or otherwise manufacturing, and the packaging, canning, jarring, or otherwise enclosing food in a container that may be used to process an organically produced agricultural product for the purpose of retarding spoilage or otherwise preparing the agricultural product for market.

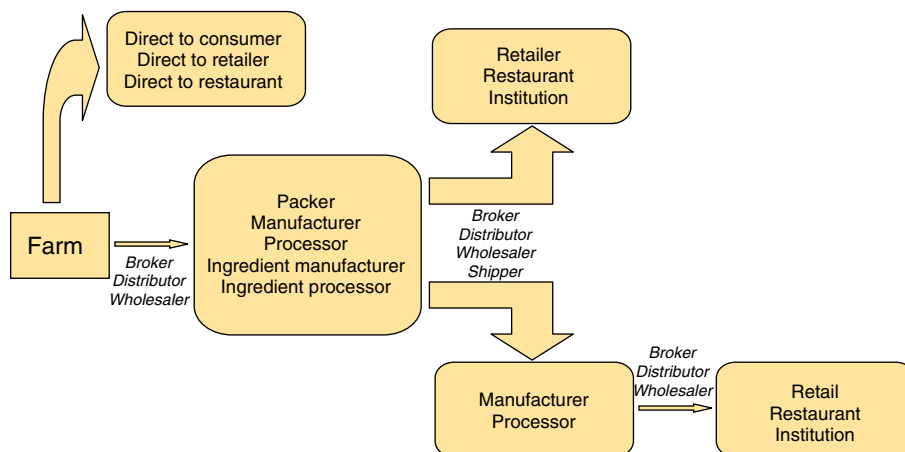
Entities that handle organic products are exempt from organic certification if they have gross organic sales under \$5,000. Final retailers of agricultural products that do not process agricultural products and entities that never take possession of the organic products (e.g., traders) are also exempt from certification. For example, a retailer does not have to be certified to sell organic products, but must meet all of the certified organic handler requirements to maintain the organic integrity of the organic products they sell: Essentially, exempt retailers can maintain organic integrity by verifying the organic status of products when they are received, ensuring that the organic products are not mingled with conventional products, and preventing organic products from coming in contact with prohibited substances.

For further information, visit USDA's Agricultural Marketing Service/National Organic Program (NOP) website at www.ams.usda.gov/nop/.

Figure 1

Typical movement of products through the organic supply chain

Organic handlers are key to moving organic products through the supply chain.



Source: Economic Research Service, USDA.

Survey Methodology and Population

A Nationwide Survey of the Organic Handling Sector

ERS surveyed all facilities that were certified as organic in 2004, with 63 percent of facilities filling out the survey.

ERS developed the survey instrument in consultation with Washington State University's Social and Economic Science's Research Center (SESRC). All facilities holding certificates to handle organic products were pre-notified by postcard of the survey. This package was followed by a letter from the then-administrators of USDA's ERS (Dr. Susan Offutt) and Risk Management Agency (Mr. Ross Davidson), and support letters from the Organic Trade Association and the Organic Farming Research Foundation. The survey was sent by first-class mail, with a \$5 incentive, and was followed by multiple carefully timed contacts, including phone contacts.

The population of 2,790 certified organic handling facilities was identified by contacting 56 domestic accredited certified agents. Because most handlers are certified at the facility level, we surveyed each of the facilities separately, whether it belonged to a larger company or was independent.³ All certified facilities, regardless of whether the regulation required them to be certified, were surveyed. Of the total population, 1,393 organic handlers returned a completed 16-page mail survey, representing a 63-percent return rate of eligible facilities.⁴

³Respondents were asked to report whether their facility was part of a larger company. In the case of multiple facilities, respondents were asked to answer the survey questions for their single location only.

⁴After the bulk of the surveys were returned, SESRC contacted the nonrespondents via telephone. Many of these facilities provided basic information, but did not answer the entire survey. Thus, the response rate has been adjusted to exclude these facilities, and the information they provided was not used in this report. The response rate calculation includes completed written responses and excludes 613 completed phone contacts and other respondents who were ineligible, refused to respond, and had other eligibility issues.

The survey instrument consisted of 59 questions, covering the following topics:

1. Basic characteristics of the businesses (e.g., facility function, products produced, labels used, gross sales, facility size, and years certified as organic).
2. Marketing characteristics (e.g., marketing outlets used and distance to markets).
3. Procurement methods (e.g., relationships with suppliers, including types of suppliers and purchase arrangements, and desirable attributes in suppliers).
4. Contract information (e.g., contract versus spot market and reasons for using contracts).⁵

⁵Extensive information on contracting was collected; not all of these questions are summarized in this report. See www.ers.usda.gov/data/organichandlers for summary statistics of the contracting questions.

Organic Handler Characteristics

Handlers Are Concentrated in the Pacific Region

Organic handling facilities are heavily concentrated in the Pacific States, with California, Washington, and Oregon accounting for 41 percent of the total.

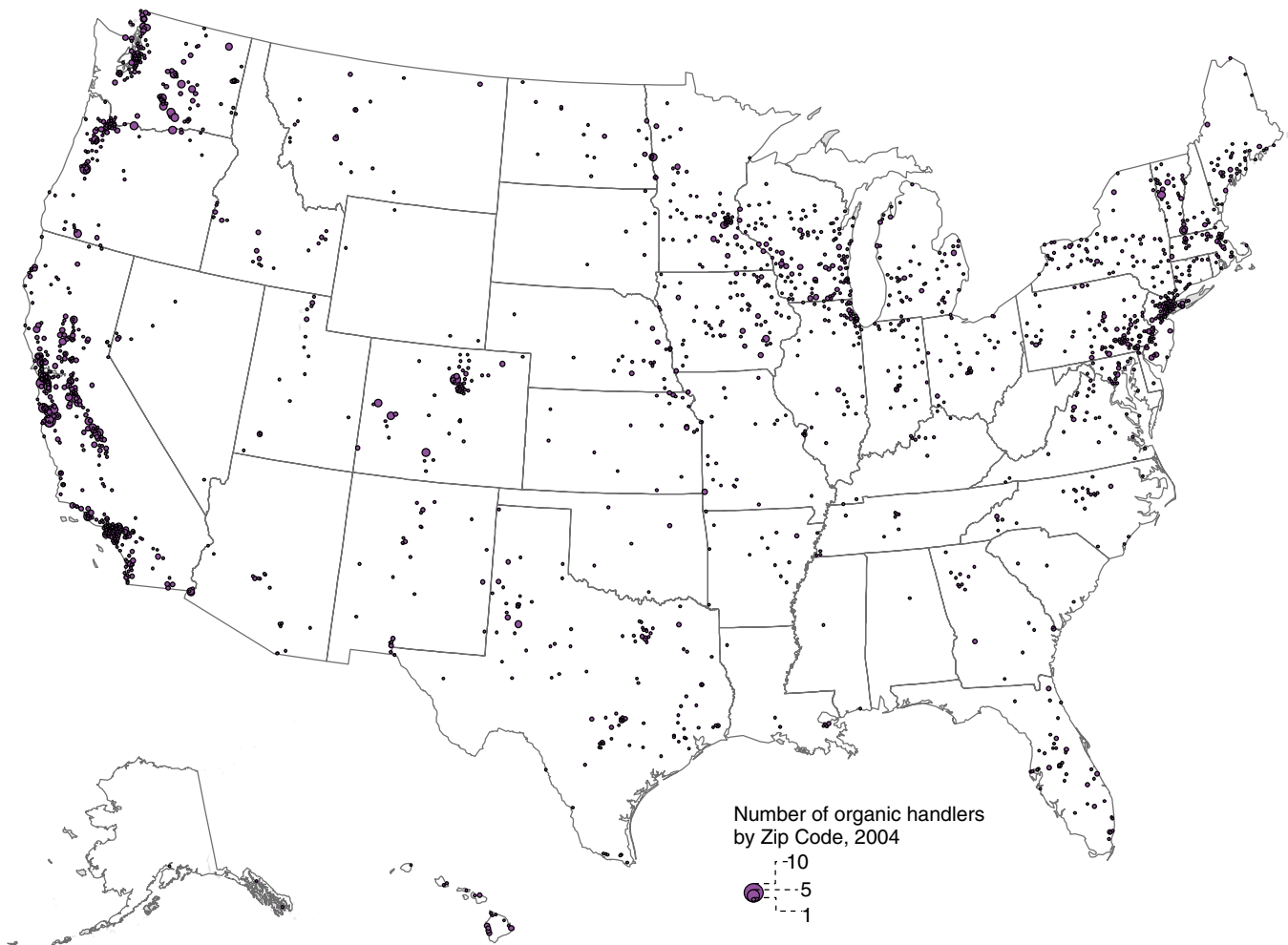
In 2004, approximately 2,790 facilities were certified as organic handlers (fig. 2). The number of facilities was small in most States, with only 7 States having more than 100 facilities. In contrast, 33 States, mainly in the Southeast, the Midwest, and the Mountain States, had 30 or fewer facilities.

Like the overall organic handler population, facilities responding to the survey were concentrated in the Pacific region (fig. 3), followed by the Northeast and Lake States regions.

Figure 2

Number of certified organic handling facilities in the United States, 2004

About 2,790 facilities were certified as organic handlers.

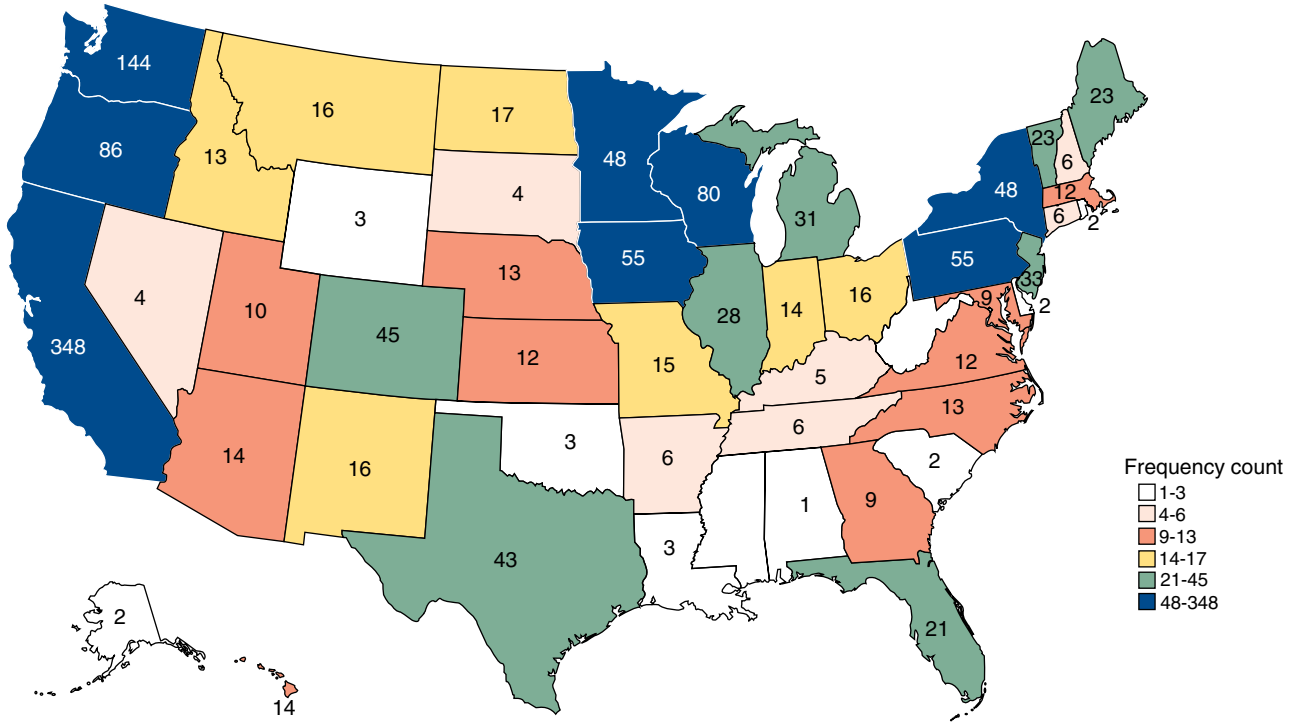


Source: Economic Research Service, USDA.

Figure 3

Number of certified organic handling facilities responding to the survey by State, 2004

Facilities responding to the survey were concentrated in the Pacific region.



Source: Economic Research Service, USDA.

Organic Handler Characteristics

Most Organic Handlers Are Small Firms and Independent Businesses

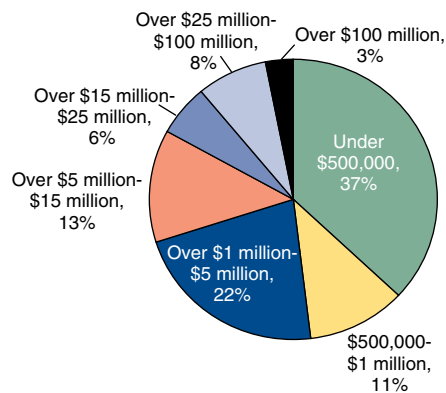
In general, most organic handlers are small in terms of gross sales.

Many handlers (48 percent) reported up to \$1 million in total gross sales (both organic and conventional products) (fig. 4). A fifth of responding facilities reported sales between \$1 million and \$5 million, while a little over a quarter reported over \$5 million to \$100 million in sales. Just 3 percent of handlers reported over \$100 million in sales.

The recent wave of mergers in the organic sector affected just 23 percent of the firms responding to the survey (fig. 5). Almost all (96 percent) firms reported they were independent, with 19 percent of independent firms having multiple facilities and 77 percent just one facility. In terms of sales by the responding firms, independent companies with just one facility accounted for 46 percent of sales, while those with multiple facilities accounted for 47 percent of sales. Only 4 percent of firms have merged with another company; these firms accounted for 8 percent of sales.

Figure 4
Organic handling facilities gross sales (organic and conventional), 2004

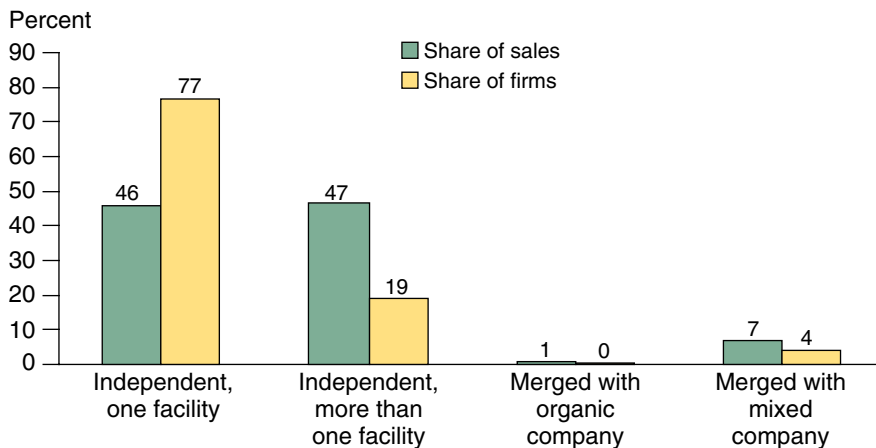
Almost half of all handlers reported up to \$1 million in gross sales.



Source: Economic Research Service, USDA.

Figure 5
Independent and merged organic facilities: Share of firms and share of sales, 2004

Almost all firms were independent. Those with multiple firms and those with just one firm were split about evenly in sales.



Source: Economic Research Service, USDA.

Organic Handler Characteristics

Organic Handlers Perform Diverse Functions

The majority of handling facilities are mixed operations—firms that handle both organic and conventional products. Half of organic handlers perform multiple functions—some mix of processing/manufacturing, packing/shipping, brokering/distributing/wholesaling, or other functions, with most functioning as processors or manufacturers.

A little over two-thirds of respondents reported partly converting or expanding to organic from conventional products, while 5 percent had fully converted to organic from conventional. The remaining firms (approximately 30 percent) began as an organic or mixed operation. Organic sales have accounted for an increasing percentage of facility gross sales since 2000, from an average of 25 percent in 2000 to 34 percent in 2004. Survey respondents expect the share of organic sales to increase to an average of 42 percent by 2009.

Approximately half of certified organic handlers specialize in one function, with the remaining half performing multiple functions. Of all handlers, 65 percent reported at least some sales as manufacturers and processors; 20 percent as brokers, distributors, and wholesalers; and 15 percent as packers and shippers; and 11 percent reported “other” as one of their functions, including sales in retailing and restaurants (table 1).

Of the handlers specializing in one function, the distribution of handlers across functions is similar to all handlers. Nearly 65 percent manufacture or process organic products, 14 percent distribute, wholesale, or broker organic products, and 10 percent are packers and shippers. The remaining 10 percent reported the “other” function.

Table 1

Functions of certified organic handling firms, 2004

Sixty-five percent of all handlers reported at least some sales as manufacturers and processors.

Facilities	Number of facilities	Share of facilities
	<i>Number</i>	<i>Percent</i>
All facilities (n=1,393): ¹		
Packers and shippers	203	15
Manufacturers and processors	899	65
Broker, distributors, and wholesalers	281	20
Other	155	11
Facilities specializing in one function (n=707): ²		
Packers and shippers	71	10
Manufacturers and processors	463	65
Broker, distributors, and wholesalers	99	14
Other	74	10

¹Refers to the number of facilities reporting some sales in the corresponding function. Many facilities reported more than one function; thus, the number of firms in the top section sums to more than 1,393, and the percent column will sum to more than 100 percent.

²Refers to facilities that perform just one function.

Source: Economic Research Service, USDA.

Organic Handler Characteristics

Organic Handlers Market a Wide Range of Organic Products

Fruits and vegetables were the top product category handled.

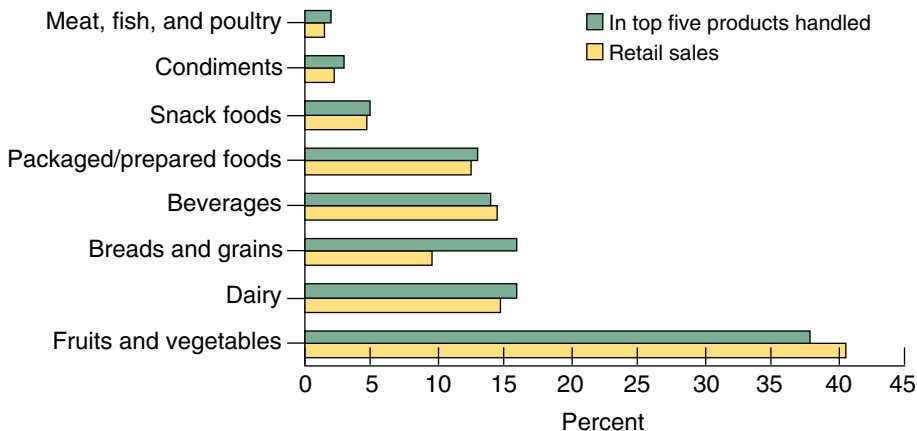
Fruits and vegetables were the top product category sold by organic handlers in 2004, with 38 percent of handlers reporting a fruit or vegetable as one of their top five products, 16 percent reporting dairy products, and 16 percent reporting breads, grains, or seeds (fig. 6). The other top products included beverages (14 percent) and packaged or prepared foods (13 percent). Fewer reported selling snack foods (5 percent), condiments (3 percent), and meats, fish, or poultry (2 percent).

These numbers are roughly comparable to the distribution of organic retail sales of the identical product categories. As reported by the *Nutrition Business Journal*, fruits and vegetables accounted for 41 percent of retail sales in 2004. Dairy products (15 percent), beverages (14 percent), packaged and prepared foods (12 percent), and breads and grains (10 percent) also had significant organic retail sales. Snack foods made up 5 percent of organic food retail sales; condiments, 2 percent; and meat, fish, and poultry, 1 percent.

Figure 6

Share of retail sales of organic foods and top products handled, 2004

Fruits and vegetables were the top product category sold by organic handlers.



Note: The category, "In top five products handled," represents the percentage that each product category was reported as a top-five product sold by handlers, not share of sales. The "retail sales" bar reflects the percentage of total retail sales each category comprises.

Source: *Nutrition Business Journal*, 2007; Economic Research Service, USDA.

Organic Handler Characteristics

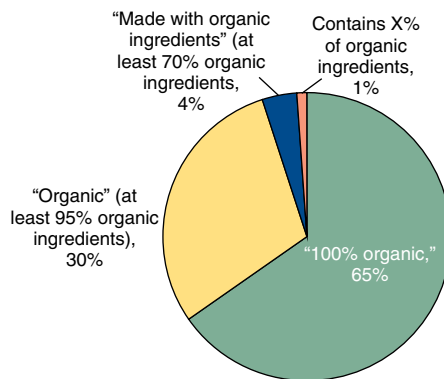
Nearly All Organic Products Contain at Least 95 Percent Organic Ingredients

The National Organic Program sets out standards for four tiers of the label “organic.” The USDA logo was used just 50 percent of the time.

The National Organic Standards are exact in the requirements for the use of the label “organic,” as specified by the National Organic Program in its consumer brochure (available at www.ams.usda.gov/nop/Consumers/brochure.html). The majority of organic products handled by survey respondents meet one of the two strictest levels: “100 percent organic” and “Organic”—at least 95 percent organic ingredients (fig. 7).

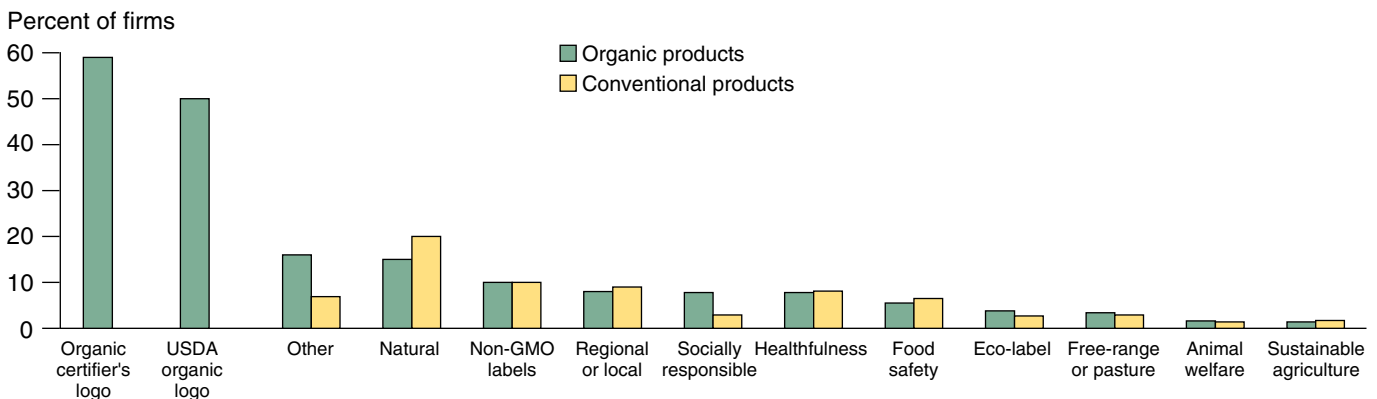
Nearly all handlers (83 percent) used a label to indicate that their products were organic. More used the organic certifiers’ label than the USDA organic logo (fig. 8). Many handlers marketed their products with a label other than an organic label. The labels include the “natural” claim, which was used more often on conventional products than organic products. Other claims used on organic and conventional products were labels indicating that the product was not genetically modified, regional or local labels (“buy local” or State labels), socially responsible claims, and healthfulness claims.

Figure 7
Share of organic products meeting organic labeling criteria, 2004
Most organic products met one of the two strictest levels, “100% organic” and “Organic.”



Source: Economic Research Service, USDA.

Figure 8
Labels used by organic handlers on organic and conventional products, 2004
Nearly all handlers used a label to indicate that their products were organic.



GMO = Genetically modified organisms.

Note: USDA organic logos and the organic certifier's logo cannot be used on conventional products.

Source: Economic Research Service, USDA.

Market Use by Organic Handlers

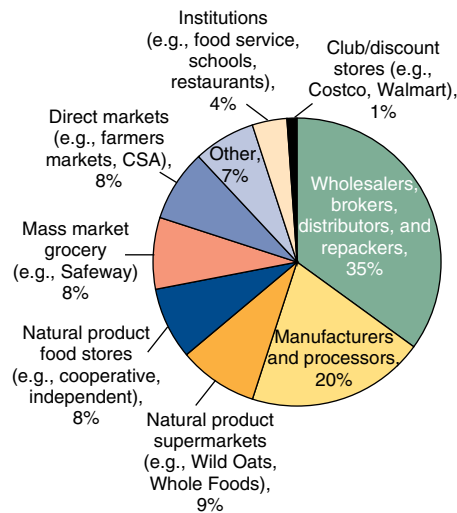
Organic Handlers Use a Wide Range of Marketing Outlets

Wholesalers, brokers, distributors, and repackers are the top marketing outlets used by organic handlers.

As products move along the supply chain, many pass through the hands of several organic handlers. A hypothetical example illustrates the complexity of the supply chain. A product—basil, for example—leaves the farm to be delivered to an ingredient processor, with the sale arranged by an ingredient broker. The processor dehydrates the basil. A manufacturer of jarred pasta sauce then purchases the dehydrated basil to use as an input. Finally, the jars of pasta sauce are delivered to the retailer via a distributor. Fresh apples, in contrast, might follow a simpler path that consists of packing, shipping, and selling by a wholesaler to a retailer.

The survey data demonstrate this varying nature of the middle portion of the supply chain, revealing that organic handlers have three main types of marketing outlets: distributors (wholesalers, brokers, distributors, and repackers), manufacturers (manufacturers and processors), and traditional retailers (natural product stores and conventional stores). Of the organic products sold to retailers (fig. 9), nearly twice as many went to natural product retailers (both independent and supermarkets) as to conventional retailers (conventional supermarkets and club stores). Direct markets, institutions, and other outlets received the smallest share of organic sales.

Figure 9
Share of organic product sales made in different outlets, 2004
Organic handlers market to three main types of outlets: distributors, manufacturers, and traditional retailers.



CSA = Community-supported agriculture.
Source: Economic Research Service, USDA.

Market Use by Organic Handlers

Different Sized Firms Concentrate on Specific Retail Markets

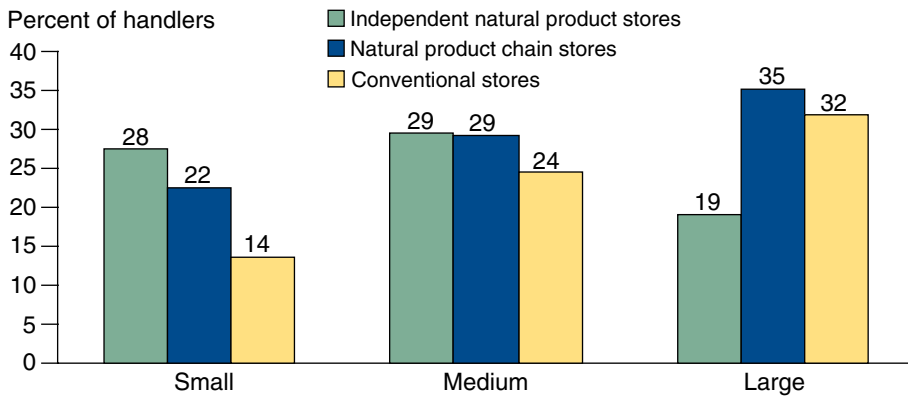
Small and large handlers market their organic products to different outlets.

Small intermediaries are more likely to market to independent natural product stores and natural product chains than to conventional supermarkets (fig. 10). About the same share of medium firms marketed to the three outlets. In contrast, large intermediaries were more likely to market to natural product chains and conventional supermarkets, with a small share marketing to independent natural product stores.

Figure 10

Marketing organic products by type of retail outlet and handler size, 2004

Small handlers are more likely to market to independent natural product stores and natural product chains than to conventional supermarkets.



Note: The survey asked handlers to self-identify as small, medium, or large relative to their competitors.

Source: Economic Research Service, USDA.

Where Organic Handlers Market Their Products and Buy Inputs

Marketing of Products Varies by Distance, While Procurement of Inputs Does Not

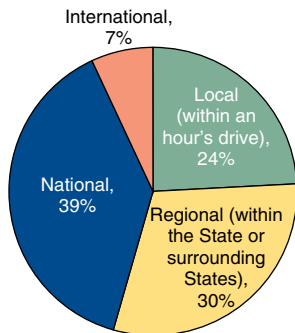
Handlers market most of their products regionally and nationally, but are equally likely to buy inputs nationally, internationally, locally, and regionally.

Only a small share (7 percent) of organic product sales was exported in 2004 (fig. 11). Most domestic sales were national (39 percent) or regional (30 percent). About 24 percent of organic sales were local, (that is, within an hour’s drive of the handlers’ facilities).

Unlike the sales side, organic products are bought more evenly from local, regional, national, and international markets, with the share purchased from each location ranging from 20 to 33 percent (fig. 12).

Figure 11
Share of organic sales by distance from organic handlers, 2004

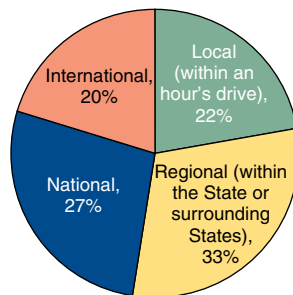
About 24 percent of organic sales were within an hour’s drive of the handlers’ facilities.



Source: Economic Research Service, USDA.

Figure 12
Share of organic inputs bought by distance from organic handlers, 2004

Organic products are bought evenly from local, regional, national, and international markets.



Source: Economic Research Service, USDA.

Organic Handlers Procurement Practices for Ingredients and Raw Product

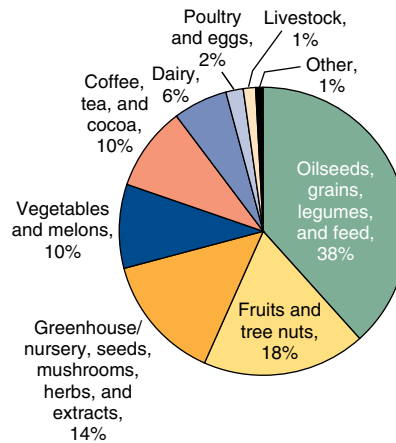
Products Bought by Organic Handlers

The top products bought by organic handlers are oilseeds, grains, legumes and feed, followed by fruits and tree nuts.

Handlers reported their top three organic products bought (by volume). Aggregating the responses indicates that products in the oilseeds, grains, legumes, and feed category are most often purchased (38 percent of all top purchases reported are products in this category) (fig. 13). The category reported next most often is fruits and tree nuts (18 percent), followed by greenhouse/nursery, seeds, mushrooms, herbs and extracts (14 percent), and coffee, tea, and cocoa (10 percent).

Figure 13
Main organic product categories procured (by volume) by U.S. organic handlers, 2004

Products in the oilseeds, grain, legumes, and feed category are most often purchased.



Note: Although facilities were asked to report the top products based on volume procured, the size of the volume was not taken into account. Thus, these percentages represent the number of times the product was listed in the top products by individual firms.

Source: Economic Research Service, USDA.

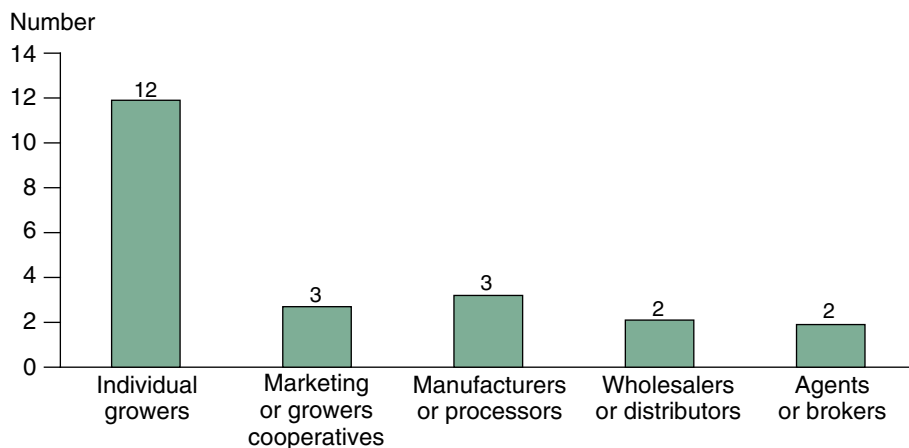
Organic Handlers Procurement Practices for Ingredients and Raw Product

Handlers Rely on Many Different Types of Suppliers

Growers are the most often used supplier.

On average, organic handlers purchased from 12 individual growers (fig. 14). To a lesser extent, handlers used marketing or growers' cooperatives, manufacturers and processors, and wholesalers, distributors, or brokers. An average of 39 percent of the total volume procured by handlers was organic.

Figure 14
Average number of suppliers of U.S. organic handlers, 2004
Organic handlers purchased from 12 individual growers.



Source: Economic Research Service, USDA.

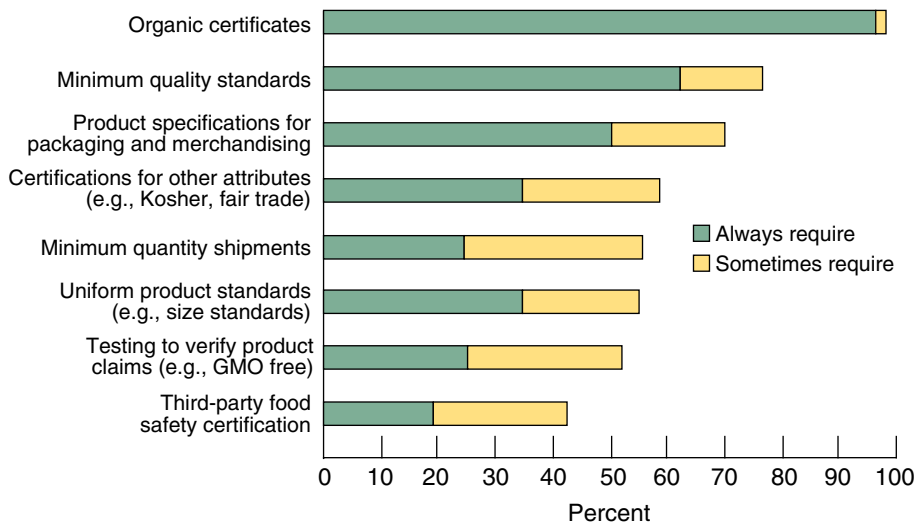
**Organic Handlers Procurement Practices
for Ingredients and Raw Product**

**Organic Handlers Impose a Wide Range
of Requirements on Their Suppliers**

Organic handlers universally require organic certificates, with most setting additional requirements on their suppliers.

Beyond the organic certification requirement, approximately three-quarters of handlers establish minimum quality standards they expect their suppliers to meet (fig. 15). Over two-thirds of handlers also impose packaging and merchandising specifications on their suppliers. Over half also require third-party certification for special attributes, such as fair trade, Kosher, or Halal, minimum quantity shipments, uniform product standards, and testing to verify product claims. Other requirements listed by multiple handlers include the Food and Drug Administration’s Hazard Analysis and Critical Control Point (HAACP), composition/ingredients/nutritional context documents, allergen certificates, clean truck affidavits, and European Union certificates.

Figure 15
U.S. organic handlers’ requirements of certified organic suppliers, 2004
About three-quarters of handlers establish minimum quality standards that they expect their suppliers to meet.



GMO = Genetically modified organisms.
Sources: Economic Research Service, USDA.

Organic Handlers Procurement Practices for Ingredients and Raw Product

Organic Handlers Seek Specific Characteristics in Suppliers

Organic handlers place priority on a number of supplier attributes, with a reputation for high quality leading the list, while less than half undertake activities with suppliers to increase supply.

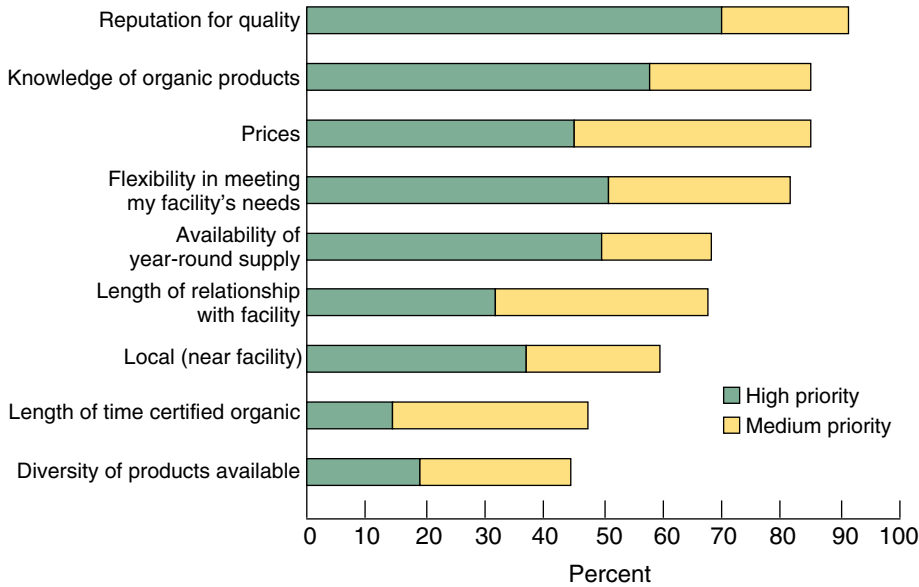
Most handlers seek organic suppliers with a reputation for high-quality products (fig. 16). Other important attributes that handlers look for in their suppliers include knowledge of organic products, price, and flexibility in meeting the needs of the facility. Handlers gave lower priority to availability of year-round supply, length of relationship with their facility, and being local, although these attributes were still considered as important by more than half of the handlers.

The activity that handlers use most often to increase their supply of organic products is recruiting existing suppliers, which was undertaken by 41 percent of handlers. More than a third of handlers made arrangements for smaller deliveries (that is, less-than-load arrangements) or encouraged producers to transition into organic production (table 2).

Figure 16

Key supplier attributes as prioritized by U.S. organic handlers, 2004

Most handlers seek organic suppliers with a reputation for high-quality products.



Source: Economic Research Service, USDA.

Table 2

Activities undertaken to enhance organic supply by U.S. organic handlers, 2004

Handlers most often increase their supply of organic products by recruiting existing suppliers.

Activity	Share reporting participation in activity
	Percent
Recruiting existing organic suppliers (those already in business)	41
Making less-than-load arrangements	36
Encouraging producers to transition into organic production	34
Working with new organic suppliers (< 1 year in business)	32
Working with suppliers to increase production	32
Providing technical advice on organic standards or production	31

Source: Economic Research Service, USDA.

Contract Use by Organic Handlers

Contracts Are an Important Procurement Tool for Organic Handlers

Formal and informal contracts make up the lion's share of purchase arrangements in the organic sector, and they are used mainly to ensure consistent quality and to lock up supplies of scarce products.

Nearly half of the volume of organic products bought by organic handlers was obtained using written, negotiated purchase arrangements. Another 24 percent was procured through informal contracts or handshake agreements, while the remaining 27 percent was acquired through spot markets. Survey respondents reported that the average number of suppliers under contract per organic handler has increased since 2000, from 8 to 12 suppliers, while the share of total procurement under contract arrangement has remained unchanged (table 3). However, organic handlers expect both the share of product and number of suppliers under contract to increase by 2009.

Nearly all organic handlers use contracts to secure organic products essential to their facility and to ensure consistent quality of ingredients (fig. 17). Over three-quarters of handlers also use contracts to stabilize input prices, lower procurement costs, stabilize prices for suppliers, and meet the company's mission (for instance, needing fair trade products). Handlers also use contracts because using them is the industry standard and they want to encourage farmers to transition from conventional to organic production.

Table 3

Number of suppliers and share of organic procurement under contract arrangements, 2000-2009

The average number of suppliers under contract per organic handler has increased from 8 to 12 since 2000, while the share of total procurement under contract arrangement has remained unchanged.

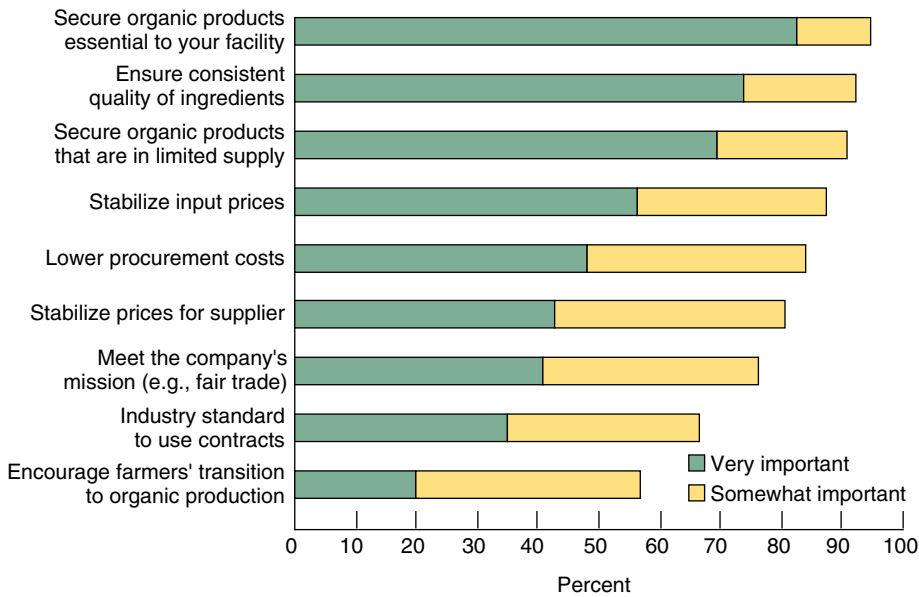
Year	Suppliers under contract	Organic procurement under formal or informal contract
	Number	Percent
2000	8	70
2004	12	70
2009 (expected)	22	77

Source: Economic Research Service, USDA.

Figure 17

Reasons organic handlers used procurement contracts, 2004

Nearly all organic handlers use contracts to secure organic products essential to their facility and to ensure consistent quality of ingredients.



Source: Economic Research Service, USDA.

Conclusion

Data Provides Baseline of Expanding Sector

As the organic industry grows in response to rising consumer demand, organic handlers are required to move larger quantities of organic food along the supply chain. This report presents a snapshot of how handlers market and procure organic products, as well as a summary of their basic characteristics.

The survey results indicate that the typical organic handler responding to the nationwide survey is small, handles fresh produce and both organic and conventional products, and functions as a manufacturer or processor. Most market their products domestically, with more than half of sales going through wholesalers, brokers, distributors and repackers, or manufacturers/processors.

Most handlers buy organic products from growers or growers' cooperatives. Verbal and written contracts are used often, and most ingredients are bought domestically. Most handlers place a wide range of requirements on their suppliers, about a third assisted suppliers with transitioning to organic production, and about a third worked with suppliers to increase the supply of organic products.

The information summarized in this report reflects the state of the organic handling sector in 2004 and establishes a baseline for future analysis. In doing so, the report provides the first look at the structure of the organic handling sector, as well as a sense of how handlers buy organic products and where they are marketing. Future studies will allow an investigation of how the organic handling sector adapts to industrywide growth.

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