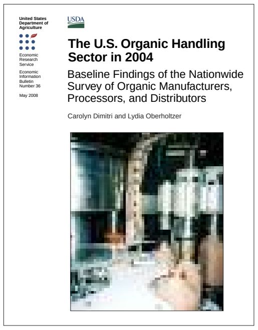
ERS Report Summary

Economic Research Service May 2008 U.S. Department of Agriculture



This is a summary of an ERS report.

Find the full report at ***www.ers.usda.gov/publications/eib36***

U.S. Organic Handling Sector in 2004

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

Carolyn Dimitri and Lydia Oberholtzer

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.