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# Changes in Retail Organic Price Premiums from 2004 to 2010

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## What Is the Issue?

The organic food sector has been one of the fastest growing parts of the food industry since the U.S. Department of Agriculture (USDA) began regulating organic labels on food in 2002. It even grew during the Great Recession (December 2007-June 2009), as organic products became available in more retail outlets. Bringing organic products to retail incurs costs at every level—from farmers and ranchers who must follow the USDA organic regulations (including avoiding synthetic fertilizers, sewage sludge, irradiation, or genetic engineering), to food processors and retailers who must ensure that organic and nonorganic products are not comingled by their transporters or within their facilities. In order to earn a return on these costs, all participants in the organic food supply chain must receive a higher price (ordinary price plus a premium) for the product. While the wholesale price premium can be determined by comparing the prices of organic and nonorganic agricultural products, the products available at the retail level are more diverse, and therefore the price premium cannot be determined by a simple price comparison.

## What Did the Study Find?

Retail-level organic price premiums were more than 20 percent of the nonorganic price for all but 1 (spinach) of the 17 products analyzed in this study. Between 2004 and 2010, most premiums fluctuated—i.e., they did not steadily increase or decrease. Only three products demonstrated a steady decrease in their premiums (spinach, canned beans, and coffee), and only the yogurt premium steadily increased throughout the entire study period.

Eggs and dairy had the highest premiums in 2010, ranging from 52 percent of the nonorganic price for yogurt to 82 percent for eggs. Fresh fruits and vegetables, generally recognized as the largest part of the organic market, had the widest spread of premiums (ranging from 7 percent for spinach to 60 percent for salad mix). Processed food premiums ranged from 22 percent for granola to 54 percent for canned beans.

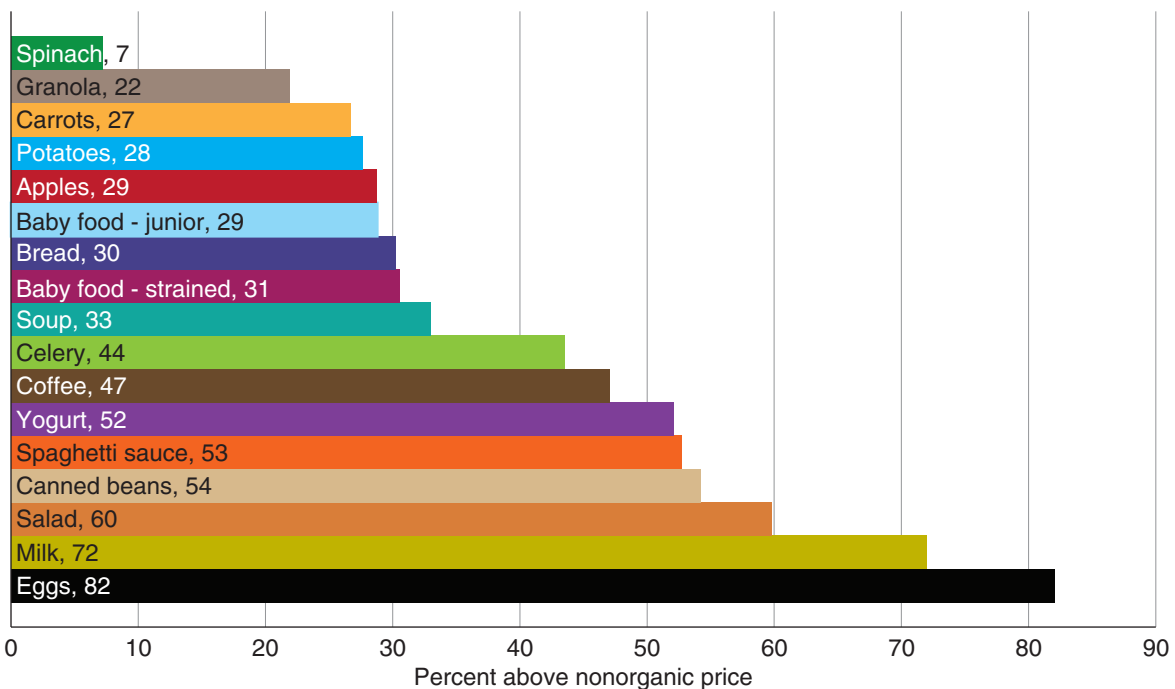
The share of organic product sold (of the total market) increased steadily for all products studied. Sales in 2010 were generally higher for the organic products with lower premiums (e.g., spinach, granola, and carrots); sales were also higher for foods frequently fed to children (such as baby food).

ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

## How Was the Study Conducted?

The analysis was based on data from Nielsen's Homescan data for 2004-10. The participating Homescan households used a barcode scanner to record all food purchases from stores, including grocery stores, supercenters, club stores, drug stores, convenience, and health food stores. The authors used a hedonic price-estimation model to isolate the organic price premium from the other attributes of the various products, such as package size, level of convenience, type of package, or the variety of the product (e.g., salad mix with spring greens versus a cabbage mix). Other factors that affected price were the type of store, month of the year, region of the country, and whether or not the product was sold under a brand name or a private label (store brand).

### Organic price premiums, 2010



Notes: Bars depict the size of the relative price premium for each product in 2010.  
Source: USDA, Economic Research Service estimates from Nielsen Homescan data (2010).