

# Farm to Fork: Organics in Alberta

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Canada

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Alberta

# Farm to Fork: Organics in Alberta

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Rosalie Cunningham  
Consumer and Market Analyst

## Executive Summary

The purpose of this project was to get a better picture of the organic industry in Alberta and Canada - from farm to fork. To accomplish this we looked at three areas: the Alberta producers and processors, the Canadian organic consumer, and a Canadian retail grocery snapshot.

All 240 certified organic producers and 41 processors in Alberta received a written survey. A 65 percent response rate for producers and 78 percent for processors provided interesting insights, including:

- Estimated total 2004 cash receipts for organic producers were \$15.2 million. Estimated growth for 2005 was 14 percent.
- In Alberta, the main products are field crops and livestock. Alberta is home to the largest organic beef herd in Canada at 10,288 head. (<http://www.cog.ca/OrganicStatistics.htm>)
- While only 14 percent of the producers sold value added products, these products contributed 30 percent to the total cash receipts.
- 26 percent of the cash receipts were sold directly to a processor (most likely field crops), 23 percent sold directly to the consumer (most likely meat and vegetables).
- 40 percent of Alberta grown/raised product is sold in Alberta.
- Processing in the province consists mainly of meat processing and seed/grain cleaning.

Our look at the organic consumer consisted of unique Canadian polling. We found a growth rate of 5 percent for both heavy (23 percent) and light (27 percent) buyers of organic food over a five-year period. The presence of children in the household is an important element. Both heavy and light buyers are more likely to have children. Both categories of buyers are more likely to be female, but males 34-54 are also driving some of the growth behind the increase in heavy buyers. The Canadian organic consumer is basically secure, settled, and in the prime of life, probably with children – but really not that different from the mainstream. Health reasons continue to be a major driver and are seen as more important than environmental reasons. When asked where they purchased most of their organic food, the results showed that it was either a big (grocery 47 percent) or small (farmer direct 30 percent) venue with very little in between.

The retail grocery snapshot is the first time quantifying the Canadian organic market using Canadian data. Using ACNielsen data, we learned that the value of organic food going through grocery alone in Canada for 2006 was about \$412 million, which represents a 28 percent growth rate over 2005. Organic represents less than 1 percent of total food at grocery but has very impressive growth rates. Rate of growth for total grocery is usually between 2-4 percent. Alberta alone accounted for \$48 million and had the highest growth rate in the country at 44 percent. The domestic market for organic food through all channels is estimated to be about \$1 billion.

There are two streams reflective of where the consumer does the majority of their organic purchasing – big (grocery) or small (farm direct or regional). While each stream requires different approaches and degrees of coordination, both offer solid and viable avenues for sound Canadian organic businesses (producers and processors) to market their products. In order to meet the volume and consistency of grocery demand, however, a fairly high degree of coordination between many operators will be needed quickly. **The growth potential exists; the challenge is how to capture it.**

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## **Introduction**

The purpose of this report and the underlying research was to get a better picture of the Alberta and Canadian organic industry. Prior to this study, the data that existed was mainly production statistics, dated consumer polling, and market values extrapolated from US sources. More realistic figures were needed by both government and industry decision-makers in order to plan more effectively.

A three-pronged approach was developed in order to establish benchmarks. The research examined producers/processors, consumers, and the market. The first step was to survey Alberta producers and processors in order to determine the dollar value of Alberta organic products as well as a sense of where the product was going. The second part was to update and expand upon previous Canadian consumer polling, identifying not only the percentage of consumers who were purchasing organics, but also where and why they were purchasing. The third step was to collect market data that was truly reflective of what was happening in Canada with respect to Canadian organic food sales.

Data was obtained from a number of sources. The census/survey of organic producers/processors was conducted in-house by the Statistics and Data Development Unit of Alberta Agriculture and Food. The unique consumer polling data was commissioned from McAllister Opinion Research. ACNielsen data was obtained to quantify retail sales and supplemented with research commissioned by the Organic Agriculture Center of Canada. Several other reports were used as secondary sources as well. This report summarizes the findings and looks at the Alberta organic industry from “farm to fork”.

## **Alberta Producers and Processors**

### **Methodology**

The purpose of the producer and processor census was to gain better insight into the Alberta organic industry. Current benchmark statistics capture predominantly acreage and production data. This census, while touching on those items, sought to gather information on gross cash receipts, marketing channels and geographic destinations of the organic products grown and produced in Alberta. The survey was designed and tested with these goals in mind.

In co-operation with the organic certifying bodies (CBs) operating in Alberta, the final survey was initially mailed to 302 producers and processors in November 2005, representing those listed with the various CBs as being certified organic operations. Participation was voluntary. There were 21 producers (Table 1) who indicated that they were no longer certified organic. Follow-up consisted of a second mail out to non-respondents. Finally, phone contact was attempted for the remaining non-respondents where current contact information was available (phone numbers were unavailable for approximately 60). Reconciliation of the surveys mailed out is summarized in Table 1.

	Producer	Processor	
Completed	156	32	
Unusable /Unreturned	65	8	
Declined to Participate	19	1	
Sub Total	240	41	281
Stated no longer organic			21
Total			302

**Table 1: Survey Reconciliation**

“Certified Organic Production in Canada 2005” from Canadian Organic Growers (COG) puts the number of Alberta certified producers in 2005 at 238. Because COG draws their data from lists of CB’s and uses sound methodology, their statistics are used to both check and enhance the survey data. The 240 organic producers and 41 organic processors from this census, therefore, is a fairly accurate representation of the total 2004 population of organically certified operations in Alberta. The percentage of usable surveys for producer and processor were 65 percent and 78 percent respectively.

Comparison to COG’s 2004 numbers indicates that Alberta lost approximately 20 certified producers in the 2004-2005 time period. This is confirmed by the producer survey. Their reasons for no longer being certified included drought, retirement, and in certain cases, hobby farmers determining that they no longer needed certification. The COG numbers indicate that acreage did go up.

### **Limitations**

Several of the respondents indicated that they had no sales for the year in question. Timing could be a factor here. The survey was conducted late 2005 - early 2006. Those in the fall had yet to finalize their sales. Those in the early 2006 had yet to calculate them into their annual receipts. If this survey was to be conducted again, a better time might be April - a time when all sales for the previous year have been both concluded and calculated as part of taxes.

In early testing of the survey, resistance by many of the respondents to reveal a dollar value for gross receipts led to a series of ranges being used to gather this information. Ranges were used for all the processors and for 15 of the producers (for producers the ranges were used as a last resort). There were five refusals to provide a value for the cash receipts. Comparisons to similar producers were used to build numbers for these respondents. Therefore, calculations based upon these figures have a certain degree of variability.

### **Producers’ Results**

The 156 producers who responded to the survey reported a total of 124,114 certified acres, 5,548 transitional acres and 67,453 acres of crown land/native pasture. Using these figures to extrapolate, it is estimated that the 240 certified producers have 190,945 certified acres, 8,535

transitional acres and 10,3774 acres of crown land/native pasture in the organic system within Alberta. The length of time that producers were certified ranged from several months to 20 years. The average number of years that producers were certified was 6-7. The average number of acres of certified land held by a producer is 796 acres. Although, as seen in Chart 1, a little over half of the producers have less than 640 acres (one section of land).

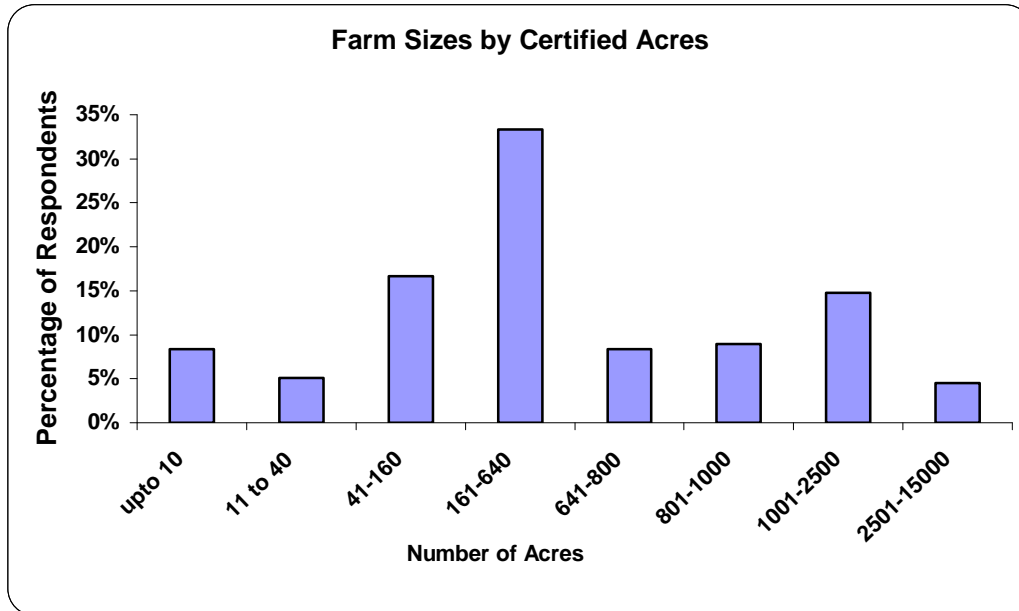


Chart 1: Size of Operations

As indicated in Chart 2, hay and feed had the highest percentage of producers. This is not surprising given that they are often used in an organic crop rotation, and feed represents the fallback market for crops that don't meet other standards. Oats are the next highest percentage, followed by beef cattle, wheat and then grains. This is in keeping with COG's numbers as well. Field crops and livestock with vegetables and fruits as a distant third make up the main organic products grown and raised in Alberta.

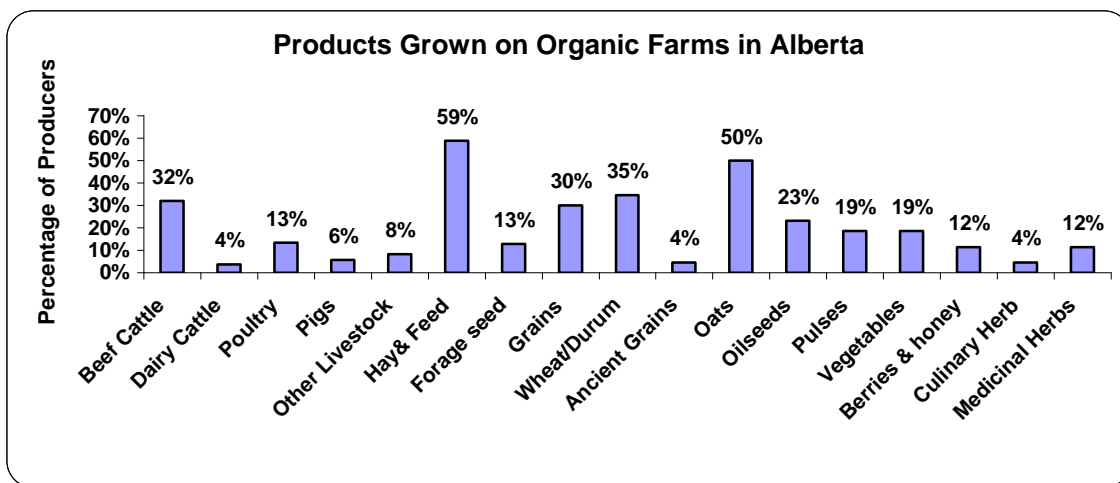


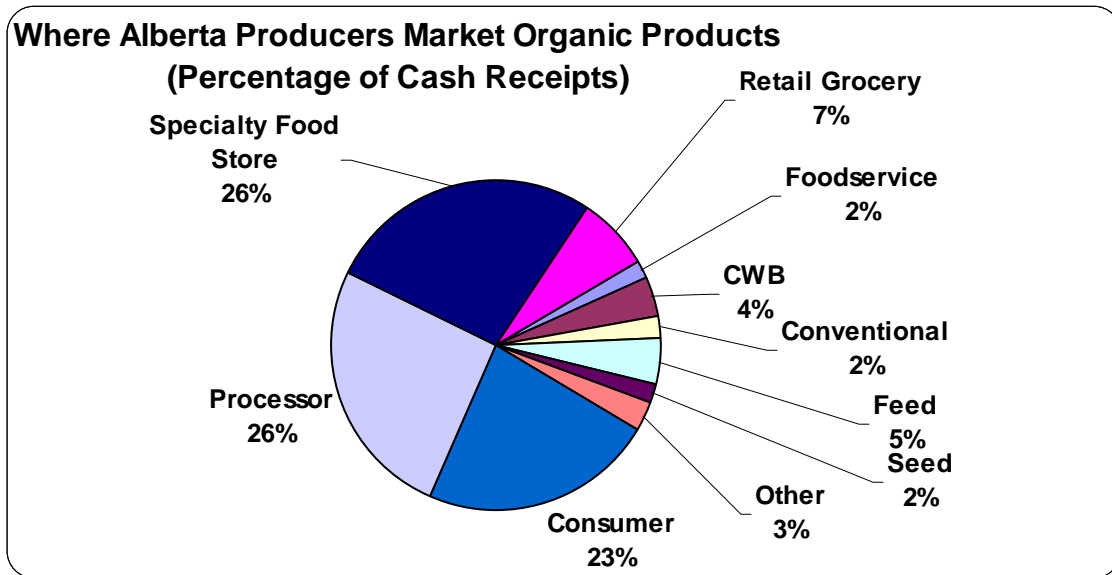
Chart 2: Alberta Organic Products



Only 14 percent of producers sell value added product. While there are a variety of value added products (grain, dairy, fruit), “Meat” and “Meat Products” are the most prevalent with 8 percent and 5 percent of all organic producers respectively. All other value added categories have only 1-2 percent of the total organic producers and in some cases only one producer in the province. Eight percent (8 percent) of the producers contract the services of a certified organic processor. The percentage of producers who are also processors is estimated to be between 3-5 percent.

The 156 producers reported cash receipts of \$9.9 million in 2004 with a little over one third (\$3.6 million) coming from value added products only. In other words, only 14 percent of the producers are responsible for contributing one third of the cash receipts in the province. The value of cash receipts in 2004 for all the Alberta organic producers is estimated to be \$15.2 million. Preliminary estimates for 2005 cash receipts indicate growth of about 14 percent over the 2004 figures.

The majority of the organic product coming from Alberta producers is sold into one of three marketing channels: direct to the consumer (23 percent), direct to the processor (26 percent), or to a specialty food store (26 percent). (See Chart 3). While the survey cannot definitely state what products are appearing in what market, visual examination of the data combined with knowledge of the agricultural industry can indicate likely paths. The main products sold directly to a processor appear to be grains, pulses and oilseeds. Meats and vegetables appear to be more likely to be sold directly to the consumer. Interestingly, the items that seem to be showing up on the conventional market appear to be predominantly hay and feed, oats, some of the other grains, and beef.

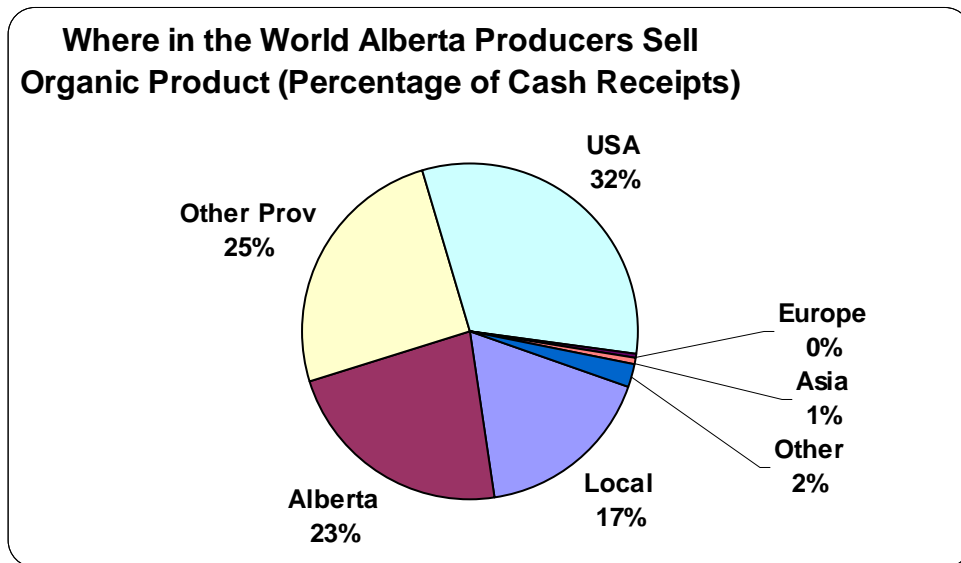


**Chart 3: Where Alberta Producers Market Organic Products**

Forty percent of the organic crops and livestock products grown in Alberta are sold in Alberta (see Chart 4). Local markets, defined as within 100 kilometers of the farm, accounted for 17 percent of sales. Another 25 percent is sold to other provinces, 32 percent is sold to the US and 3 percent is classified as "Other". The “Other” category included Asia and Europe. Items that are

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going into the US, the largest export market, appear to be mainly the field crops – oats, grains, oilseeds, pulses, etc.



**Chart 4: Where in the World Alberta Producers Sell Organic Product**

As part of the survey, a section was made available for respondents' comments. The need for marketing help came up quite frequently and several of the participants indicated that they had difficulty connecting to the market. Infrastructure (processing facilities, research, etc.) was also mentioned as an area that needed to be looked at. Comments were also made on government's role in this industry.

### **Census of Agriculture (2006)**

The 2006 Census of Agriculture (Statistics Canada, 2006) indicates there are 230 farms reporting certified organic product in the province of Alberta, up from 197 in 2001. This number, while lower than both COG and the Alberta survey results, does not necessarily indicate a loss of organic producers. The 2001 census numbers were also lower than those used by the industry at the time.

New to the 2006 census are categories for transitional and non-certified organic farms. For Alberta, 26 farms were found to be in transition and 2,405 farms self-identified themselves as offering uncertified organic product. Organic farms can have land in transition, so there does exist the possibility that one farm operation is counted in both categories. Of interest is the significantly high number of farms self-identifying themselves as offering non-certified organic products. Further research is needed to determine exactly what is meant by "non-certified organic" in this context (could that be natural?). Of interest as well is the reason these farms choose to be outside the certified organic system.

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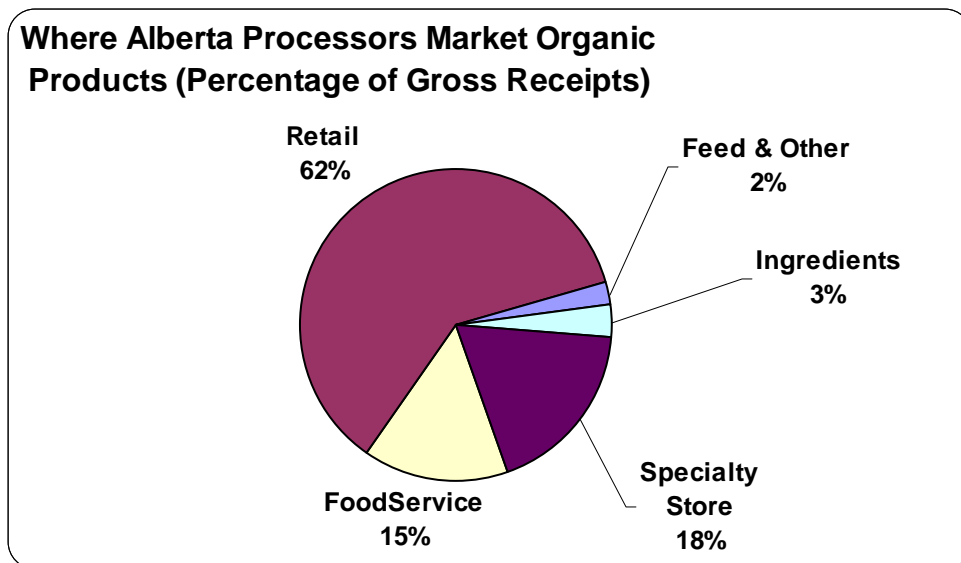
## Processor Results

Of the estimated 41 organic processors in the province, 32 replied with usable data. Given this small number, the results were not extrapolated out to the full 41 processors. The average number of years that these processors have been certified is 5-6 years with the range being 1 to 21 years. The majority of them (18/32) are provincially inspected only. Ten of the 32 are federally inspected and four are both. Of the 32 processors, 25 (78 percent) offer custom processing services with meat processing and seed/grain cleaning being most reported.

Only 29 percent of the processors indicated that organic product represented between 75-100 percent of their total product line. The vast majority offered less than 50 percent organic product. The types of products are similar to those of the value added producers in Alberta. Processors offer a small range of products, however, only “Oil & Oilseed” and “Value Added Grain” products have more than 1-2 processors. Further analysis is not possible due to issues of confidentiality.

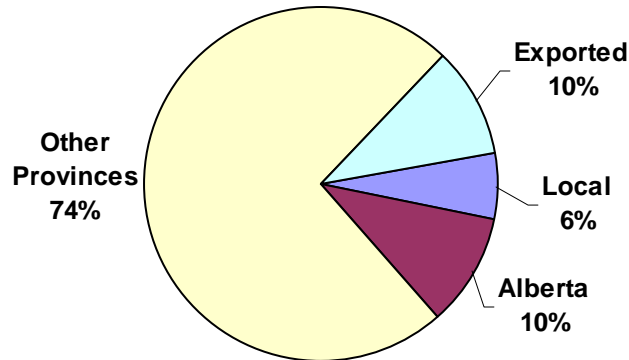
The survey was structured such that gross annual receipts from tangible product sales (as opposed to custom services) were gathered. Most processors offer custom services but only 13 processors reported sales of organic product. Due to confidentiality concerns, calculations were handled differently for processors than producers. As ranges had to be used for cash receipts, there was a certain degree of variability in any calculation based upon those ranges. It was very difficult to try to find a balance between workable ranges and ranges that processors would respond to. A better balance will have to be found for the next survey in order to get a meaningful dollar value. The results of this survey indicate the value is between \$5-15 million.

For the charts below, the mid range was used. There was only a  $\pm 5$  percent variation when either the high or low figure was used. Looking at Chart 5 and Chart 6, most of the Alberta organic processed product is going into Canadian retail.



**Chart 5: Where Alberta Processors Market Organic Products**

**Where in the World Alberta Processors Sell Organic Products (Percentage of Gross Receipts)**

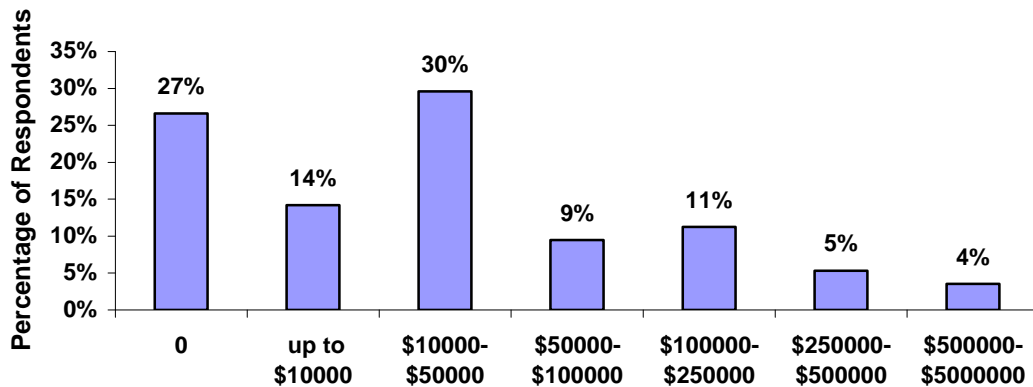


**Chart 6: Where in the World Alberta Producers Sell Organic Product**

**Combined Results**

In order to preserve confidentiality, cash receipts of both the producers (156) and processors (13) were combined in order to generate Chart 7. There were 27 percent of organic operators who reported no sales. As explained earlier, some of the producers responded that they had not yet sold their product due to the timing issue. Drought was another reason indicated. For processors, no organic sales may have been the result of lack of available supply. Almost half (44 percent) of the operators had cash receipts under \$50,000, and almost one third of the operations had receipts over \$50,000.

**Gross Receipts 2004 (156 Producers & 13 Processors)**



**Chart 7: Gross Cash Receipts (Producers & Processors)**

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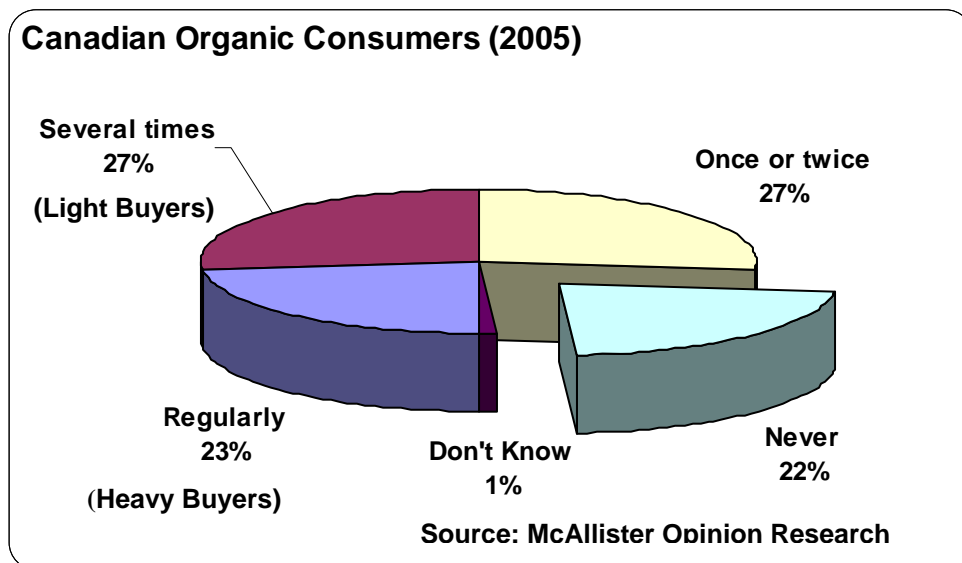
## The Organic Consumer

### Methodology

In 2001 research conducted by Alberta Agriculture and Food, Environics consumer polling data that addressed purchase frequency was used. This data is used as the benchmark for the organic consumer in Canada. In December of 2005-January 2006, McAllister Opinion Research was engaged to conduct unique consumer polling in both the Canada and the US. In addition to asking about purchase frequency (as in 2001), questions about purchase location and motivations were also asked.

### Canadian Organic Consumer

In 2001, Environics asked Canadian consumers “How often have you purchased organic grown food over that past year; that is, food certified as having been produced with absolutely no chemical pesticides or antibiotics?” At that time, 18 percent of Canadian consumers purchased organic foods regularly (heavy buyers) and 22 percent purchased it several times (light buyers). In 2005, heavy buyers rose to 23 percent of the population and light buyers to 27 percent - a 5 percent growth for each category (Chart 8). Those top two categories represent about 50 percent of Canadian households. This does not include the 27 percent who buy only once or twice a year – the dabblers.



**Chart 8: Canadian Organic Consumers**

The organic consumer in general is still not that different than the average Canadian consumer. However, there are some likely characteristics for each group. The heavy buyer is more likely to be university educated and have a household income over \$80,000. This group is also more apt to consist of women, especially those under 55 years of age and men in the 34-54 year range. They are also more likely to have teenage and school age children. In essence, the heavy buyer is most likely to be “secure, settled and in the prime of life with children” (McAllister, February 2006, pg 6). The light buyer is more likely to be female, have a slightly lower income than the

heavy buyer (\$60,000-\$80,000), and have children under the age of six. This group appears to be mothers of pre-school children who are testing the organic waters and product availability.

Children have long been identified by the Hartman Group (a leading organic focused market research firm) as one of the main triggers for organic purchasing in the US. The polling indicates that the presence of children in the household is a very important element in the organic market in Canada as well. Both heavy and light buyers are more likely to have children. Hartman also indicates that parents feel a lack of control over what their children eat. The meal at home is their chance to provide a healthy well-balanced meal (McAllister, February 2006, pg 10).

### By Region

Chart 9 illustrates that British Columbia (BC) has the highest percentage of heavy and light organic buyers in the country. This is consistent with the previous study carried out by Alberta Agriculture and Food in 2001. The three Prairie Provinces, while not far from the national average, have the lowest percentage of these buyers. This may be a factor of product availability. BC and Ontario have more specialty food stores and chains such as Whole Foods, Capers and Choices that do offer a fair amount of organic product but are not seen in the prairies.

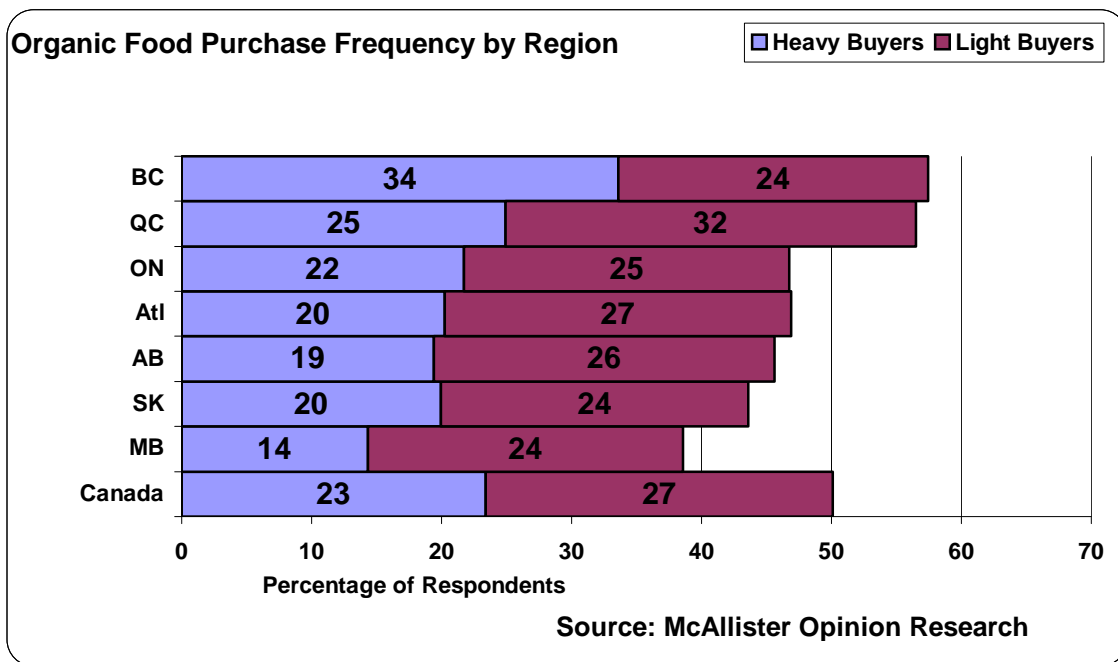


Chart 9: Heavy and Light Organic Buyers by Region

### Where They Shop

In this survey, consumers were also asked where they purchased the majority of their organic food. Chart 10 illustrates that the majority of organic product was either bought at a grocery store (47 percent) or a farmer's market/direct (30 percent). Independent health food stores accounted for 10 percent, chain health food stores such as Whole Food or Capers accounted for

another 7 percent, and discount stores (i.e., Costco) were only 3 percent. In essence, in Canada, the options for purchasing organic food are either big (mainstream grocery stores) or small (farmers market/direct). There is very little choice in between. In fact, the mainstream distribution channels account for almost 50 percent of the sourcing of organic food and this probably impacts the nature of the organic consumer in Canada. Heavy buyers are more likely to buy at health food stores (16 percent) than the average. The light buyers and dabblers are more likely to source their food from the grocery store.

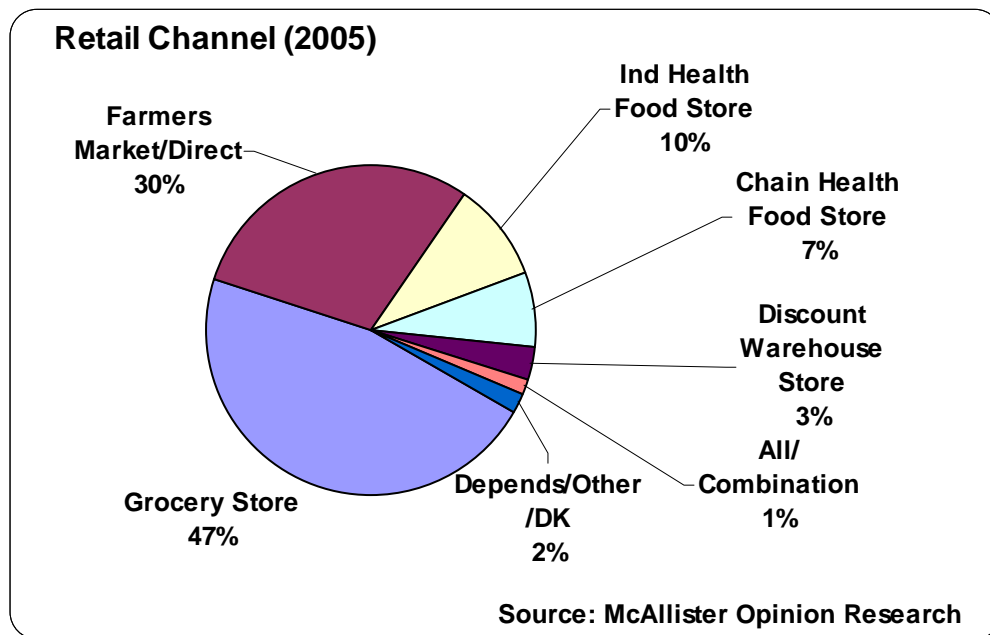


Chart 10: Where Organic Consumers Buy

### Willingness To Pay

The survey also explored the general willingness to pay for organic food. It was found that the average premium that buyers were willing to pay was about 25 percent. Heavy buyers were willing to pay a slightly higher premium of about 30 percent. A 20 percent premium is fairly consistent with other willingness to pay studies. However, this premium should be taken as a general guide and used with caution. Willingness to pay is a measure of purchase intent but not necessarily purchase behavior. As well, the actual willingness to pay will vary by specific product.

### Drivers

Health concerns are a key driver and are more important to organic consumers than environmental reasons. When asked for their top reasons for buying organic food (respondents were allowed up to 2 responses), the most important reason at 69 percent was that organic food was free from chemicals, antibiotics, and hormones. Only 39 percent chose environmental reasons as their primary reason. While the absence of pesticides might seem like an environmental reason, it is really a health reason. To consumers it is more an issue of what is

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going into their bodies as opposed to what is going into the environment. In fact, many studies identify the absence of pesticides, hormones and antibiotics as the top reason for purchasing organic food. Other reasons identified in our survey included safer (30 percent) and more nutritious (25 percent).

Additionally, heavy and light buyers of organic not only think more about the health effects of food but they are also more concerned about the health of themselves and their families. When asked how often they think about the health effects of food, 88 percent of heavy and 75 percent of light buyers thought about it always and often. Percentages for the dabblers (50 percent) and those who never purchased organic food (43 percent) were significantly lower. When asked how often they thought about their own and their family's health, 67 percent of heavy and 62 percent of light buyers thought about it always and often compared to the dabblers at 59 percent and the non-purchasers at 58 percent.

It is important to note that the organic consumer is not monolithic. Different consumers buy for different reasons – perceived healthfulness, taste, and social welfare. Health is important but so are mainstream drivers. As the organic market becomes more mainstream, mainstream drivers such as taste convenience and “fresh” impact on the organic market.

### **Comparing Canada and the US Consumer**

In order to allow for comparisons, the same questions were asked of both US and Canadian consumers. In 2005, regular purchasers of organic food accounted for 15 percent of the US population and those who purchased it several times a year accounted for 19 percent. These percentages are virtually unchanged from the 2001 results. One possible explanation put forth for this is that the National Organic Program (NOP) came in during that time. Previous to the NOP introduction there may have been over reporting of organic purchases, as the term “organic” was not as clearly defined.

The Natural Marketing Institute (NMI) “The Organic Consumer Trends Reports 2005” found that about 91 percent of all organic dollars were spent by 26 percent of the population. “There exists high consumer awareness of organic products, as well as relatively high consumer belief that organics are beneficial; however the stated need for these products among consumers remains low.” (NMI, 2005, pg 1) In essence, the growth of the market was coming from increased purchases from existing organic consumers rather than from new consumers. Despite being aware and believing in the product, they were not committing to organic purchases.

In the US, it was found that females were driving this market along with young men in the 18-34 year old range. Again, children are most likely present in an organic purchasing household. In a household that purchases regularly, there are more likely to be children in the 12-17 year range. In a household that purchases several times, there are more likely to “have children under 12 but also likely to have teenage children” (McAllister, February 2006, pg. 18). This is similar to what was found in Canada. However, the US organic consumer tends to skew towards a little higher income and lower age. This indicates more of an elitist market and may be a function of distribution.



In the US, grocery stores (30 percent) and farmers markets (25 percent) are also the top two purchasing venues (Table 2). However, 19 percent of organic buyers purchase most of their organic food from a specialty chain focused on healthy or organic foods as compared to 7 percent in Canada. In the US, stores such as Whole Foods, Trader Joes and Wild Oats make up this channel. These chains are up-scale specialty food stores that sell the food experience – hence they draw a more elitist consumer. The US organic consumer also buys a higher percentage of their organic food from discount stores, 13 percent as opposed to 3 percent in Canada. This is probably Wal-Mart and other big box grocery stores.

Thinking of WHERE you buy most of your organic foods, would it be best described as:	Canada (n=1318 unwt)	US (n=561 unwt)
A REGULAR chain store such as Safeway, IGA or Loblaws	46	30
A farmers' market or direct from farmer	30	25
An INDEPENDENT speciality store that focuses on healthy or organic food	10	10
A speciality CHAIN store that focuses on healthy or organic food	7	19
A big-box discount warehouse store such as Wal-Mart or Costco	3	13
All/ Combination	1	
Depends	1	1
OTHER	*	1
DK/NA	1	2

**Table 2: Comparing Canada and US: Where consumers buy**

**Source: McAllister Opinion Research**

## Other Studies

The Hartman Group has been studying the organic consumer in the US for over 10 years. Their research strives to determine motivation and goes beyond consumer polling. They interview their subjects in depth and also put a great deal of care into ensuring that there is a common understanding of the language used in their research. For example, “fresh” to those in the food industry refers mainly to raw, primary product. To the consumer, “fresh” can include newly made processed food in addition to raw.

Despite the fact Hartman research is US-centric, there are many valuable observations with respect to motivations and underlying trends that can be applied to the Canadian consumer as well. Even though there are some differences between the two countries mostly in the area of distribution, and to a lesser degree the characteristics of the consumer, many of the underlying drivers and motivations are similar.

In Hartman’s Organic 2006 Report, the top three triggers for entering the organic market place are identified as health conditions, presence of children, and social influences. Social influence refers to word of mouth from friends, family or some other part of your social network. This particular trigger is “more about impression management than it is about replicating the positive outcomes” (Hartman, 2006, pg 40).

The top drivers identified by Hartman were the avoidance of pesticides and chemicals, avoidance of hormones and antibiotics, support for the environment and health reasons other than allergies.

In their research, they found that price is often quoted as a main barrier to purchasing organic products but “when consumers internalize the value of organic, price does not prevent them from purchase.” (Hartman, 2006, pg 43). In other words, if consumers see or feel they are getting something of value from purchasing organics, price alone is not the deciding factor. Other barriers identified include availability, brand loyalty, freshness and the inability to tell if the product is really organic.

Hartman also found that as consumers adopt a more organic lifestyle, there are identifiable products that they begin to repeatedly and habitually buy at each stage. Entry products included such items as produce, dairy and baby food. These less processed food items are ones that consumers can easily link to organic, specifically the avoidance of pesticides and hormones. “In many consumers’ minds organic means fresh” (Hartman, 2006, pg 72). As consumers increase their level of adoption, more processed items begin to appear. Those who were living a more organic lifestyle were more likely to purchase organic health and beauty products as well as bulk goods.

First Area of Adoption:	<ul style="list-style-type: none"> <li>▪ produce</li> <li>▪ dairy</li> </ul>	<ul style="list-style-type: none"> <li>▪ meat/poultry</li> <li>▪ baby food</li> </ul>
Second Area of Adoption:	<ul style="list-style-type: none"> <li>▪ eggs</li> <li>▪ cold cereal</li> <li>▪ soymilk</li> </ul>	<ul style="list-style-type: none"> <li>▪ bread</li> <li>▪ tomato-based products</li> </ul>
Third Area of Adoption:	<ul style="list-style-type: none"> <li>▪ snacks</li> <li>▪ frozen foods</li> <li>▪ juice</li> </ul>	<ul style="list-style-type: none"> <li>▪ prepared foods</li> <li>▪ soymilk</li> </ul>
Fourth Area of Adoption:	<ul style="list-style-type: none"> <li>▪ desserts</li> <li>▪ coffee</li> <li>▪ tea</li> </ul>	<ul style="list-style-type: none"> <li>▪ bulk goods</li> <li>▪ fibers</li> <li>▪ health &amp; beauty</li> </ul>

**Table 3: Hartman Stages of Product Adoption**

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## **Retail Snapshot of Alberta and Canada**

### **Methodology**

Even though organic food has become part of the mainstream, organic market data has not been well tracked in Canada. Previous estimates put the organic domestic market somewhere between \$1.4 to \$3.1 billion. These figures are either extrapolated from American data or built on a variety of assumptions and estimates. The ability to realistically quantify and track the organic market will enable better planning, and from that, the ability to better target areas for growth.

To this end, a partnership was formed between the Organic Agriculture Centre of Canada (OACC), Agriculture and Agri-Food Canada, as well as the agricultural ministries of Alberta, British Columbia, Ontario and Manitoba. ACNielsen was commissioned to audit grocery stores nationally in order to identify organic certified product on the grocery shelves. Once this list was developed, the certified organic products were then segregated out of their sales databases for supermarkets.

To determine the total market value, ACNielsen used their Homescan data to extrapolate. OACC also conducted interviews with wholesalers of organic products in order to fill any potential gaps. This will result in the most complete and accurate picture of Canadian organic retail to date.

### **Limitations**

Items that are packaged in random weight or are seasonal such as raw meat, bulk foods, and fresh produce are not as easily tracked as prepackaged food. As a result, there is a degree of variability in those particular figures in this analysis.

### **Canadian Grocery**

The estimated value of organic food going through Canadian supermarket shelves was \$412 million (for the 52 weeks ending August 5, 2006.) Organic still only represents less than 1 percent of total food at grocery but has very impressive growth rates. Rate of growth for total grocery is usually between 2-4 percent. Growth rate for all organic products tracked was 28 percent. Fresh organic products, which represent about one quarter of those products, had a growth rate of 22 percent. Prepackaged items were growing at 31 percent.

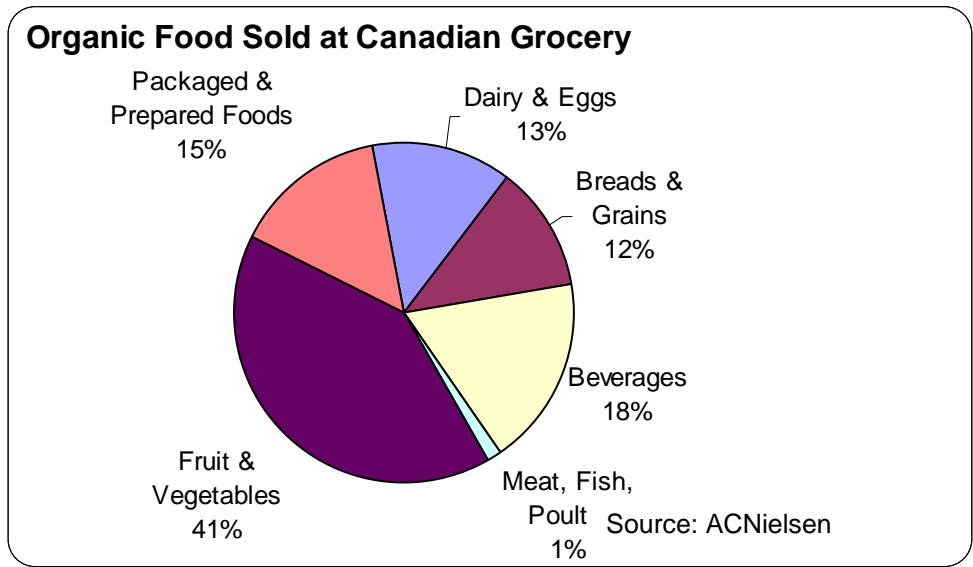
From the ACNielsen study, it was found that there were 2,676 certified organic food items on Canadian supermarket shelves. This represented 2,057 prepackaged items over 149 unique categories. In the prepackaged items, five categories contained the majority of the organic food: tea, dry pasta, spices, roast and ground coffee, and ready-to-eat cereal.

While the study found that 47 percent of organic products were grown, packaged or processed in Canada, this number must be used with a degree of caution. Products such as coffee that cannot be grown only processed or packaged in Canada, are included in this figure. Traditionally, the percentage of imports on Canadian shelves has been estimated in the 85-90 percent range. The

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real percentage of imports is most likely somewhere between 53 percent and 85 percent, depending on the how one classifies those items that are only packaged in Canada.

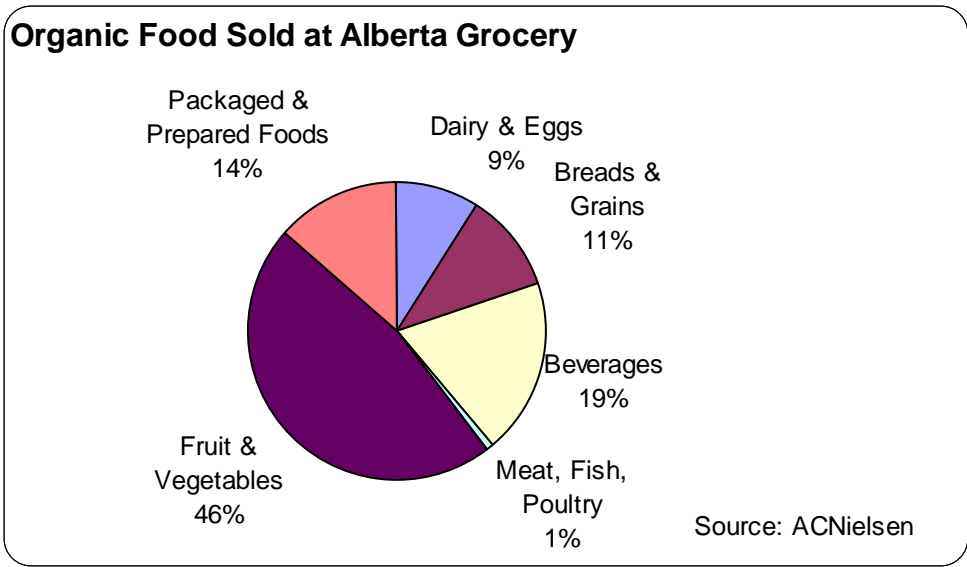
A category breakdown of the grocery retail market indicates that “Fruits & Vegetables” (including canned and frozen) represent the largest portion of the market (Chart 11). This is very consistent with previous breakdowns of the US market prepared by the Nutrition Business Journal. That meat at 1 percent represents the smallest share of the organic market is a remnant of organic foods’ vegetarian roots. In the previous study done by Alberta Agriculture and Food (Cunningham 2002), it was found that the major differences between the organic market and the mainstream food market were in produce and meat categories. In all other categories, organic was a reflection of the mainstream. This situation still holds.



**Chart 11: Breakdown of Organic Food sold at Canadian Grocery**

### **Alberta Grocery**

The value of sales of organic food products through Alberta grocery was \$48 million in the 52 weeks ending August 5, 2006. Alberta also enjoys the highest growth rate in the country at 44 percent (prepackaged and fresh items tracked by ACNielsen), although it has the least number of certified food items (1,491).



**Chart 12: Breakdown of Organic Food sold at Alberta Grocery**

The major differences between the Alberta and national organic markets center around two categories: “Fruit & Vegetables” and “Dairy & Eggs” (Chart 12). A higher portion of “Fruits & Vegetables” and a lower portion of “Dairy & Eggs” are found in the Alberta market. The availability of organic dairy and eggs in the region may account for some of this. Both items are supply managed and usually sourced relatively locally. As confirmed by the producer survey, the local supply is still relatively small.

A possible explanation for the higher proportion of produce in the Alberta market may also relate to supply. The Alberta climate limits variety and growth of most fruits and vegetables. Consumers must purchase them from the grocery store in order to get the variety and yearlong supply. Another explanation may relate to the maturity of the market. The majority of the consumers may still be mainly purchasing entry-level products, produce being one of those. Alberta did have a slightly lower percentage of heavy and light buyers than the national numbers.

Alberta has a higher growth rate than the national rate in every organic category with the exception of beverages (Table 4). The meats category shows the largest growth in both markets, followed by “Fruits & Vegetables”.

2005-2006 Category Growth		
	Alberta	National
Dairy & Eggs	50 percent	29 percent
Breads & Grains	29 percent	15 percent
Beverages	15 percent	24 percent
Meat, Fish, Poultry	189 percent	61 percent
Fruit & Vegetables	64 percent	33 percent
Packaged & Prepared Foods	42 percent	30 percent
Total	44 percent	28 percent

**Table 4: Comparison of Category Growth Rates - Alberta vs. Canada**

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## Other Channels

In order to get a complete picture of the domestic market for organic food, OACC commissioned a study to conduct further research and interviews. That study found that total value of the organic market was \$1 billion. The breakdown of the market captured in Table 5 is taken directly from “Retail Sales of Certified Organic Food Products in Canada in 2006” (Macey, 2007, pg11).

Distribution channel	Sales (\$ millions)	Percentage of total
Mainstream grocery stores (AC Neilson data)	411.6	41.1 percent
Other conventional retail (AC Neilson)	174.7	17.5 percent
Natural Food Stores (large and small)	329.8	32.9 percent
Box Delivery schemes	20	2 percent
Farmers Markets/Direct from farmers	50	5 percent
Food Service/Institutional	10	1 percent
Coops/buying clubs	5	0.5 percent
<b>Total</b>	<b>1001.1</b>	

**Table 5: Total Sales of certified organic product through all channels 2006 (OACC)**

## Observations

Consumer signals continue to be strong with respect to organic food. The percentage of organic consumers continues to grow in Alberta and Canada. Health is a major driver in both society and the food market. To many consumers, organics represents a more healthful option. This established niche market is not going to go away.

The value of products demanded exceeds the value of product supplied in Alberta:

- In 2004, gross cash receipts for Alberta producers amounted to \$15.2 million. Most of this was primary or fresh product. This is estimated to grow by 14 percent for 2005.
- The value of Alberta processors’ organic products is between \$5-15 million. Less than 20 percent is sold in Alberta.
- The dollar value of organic product going through the grocery retail channel in Alberta in 2005-2006 was \$48 million with the majority of this being packaged foods. This does not include farm direct and other channels not covered by the grocery data.

A rough estimate indicates that Alberta demand (\$48M) exceeds Alberta supply (\$15M) by about 3 to 1. Factoring in the nature of the products being supplied (primary/fresh) compared to what is purchased at grocery (packaged or products unable to grow in Alberta) as well as looking at where Alberta products are sold, this is probably a very conservative estimate even when Alberta processed products are included. Perhaps a better way of summarizing this is that Alberta imports \$2 of organic products for every \$1 that is grown locally. While Alberta organic operators will never be able to grow or produce certain organic products that are in demand (i.e., coffee, bananas), there could be opportunities to meet the demand for further value added on Alberta grown organic products. Meeting this demand will have some challenges.

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The processor survey revealed that there are infrastructure gaps that may need to be filled if further value adding is to be done in this province. The very small numbers of processors in the province now are mostly related to primary processing. On the bright side, the transition period for a processor is not as long. It is also possible for a processor to handle both organic and non-organic product. With modification of some practices, ingredients, and increased record keeping, it is possible for an existing processing plant to become certified in a shorter time period than the three years required by an organic farmer.

Canadian grocery stores are high volume and lower margin. These stores need consistent supply and consistent quality of products. National chains will also require a large volume, as they like to have the product available in all their stores. As seen in the research, the growth in organic food is quite strong. It is highly unlikely that one producer will be able to supply such a market. It is also possible that one province will not be able to supply the market alone. In order to meet this demand, producers are going to have to work together and coordinate their efforts quickly. Time is a factor. Grocery stores will source product elsewhere. In fact they already are. Local producers probably will not have the luxury of time while they build value chains.

As organic products continue to progress more into the mainstream, other labels that encompass organic plus some social welfare attributes (authentic, local, fair trade, environment, animal welfare, etc.) will and are arising to meet consumer demands. It is in this area that regionally focused producers can capitalize upon their uniqueness and find other opportunities. Product certification assists in capturing value for such credence attributes.

Regional health food stores are always looking for local product, especially if it is unique. Like the grocery stores, they too require a consistent supply and a consistent quality, but in quantities that are achievable by one or two producers. In interviews with these retailers, there were a couple of issues that came up. The stores found that they often were not the main focus of the producer. They felt they were not always given the service needed or were dropped when the producer developed their direct market. These stores also found that sometimes producers of similar products would self-select which stores they would go into based upon whether their competition was there. Opportunity exists for those producers that are willing to develop the relationship and meet the product and business needs of the natural health food store.

Although not heavily explored in this study, foodservice may offer some producers a viable market for their product. Presently, the volumes are smaller, so it is possible for one producer to build a relationship with a chef (or chefs) and meet the needs of that restaurant(s).

There are two streams of organic that are reflective of where the consumer does the majority of their organic purchasing – big (grocery) or small (farm direct or regional). While they require different approaches and degrees of coordination, both offer solid and viable avenues for Canadian organic businesses (producers and processors) to market their products. Although the regional and farm direct is more difficult to quantify, those who can not only manage their operations well, but also connect directly to their consumer and customers, have good growth potential.

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