U.S. Organic Industry Overview

The U.S. organic industry grew 17% overall to reach $14.6 billion in consumer sales in 2005. Organic foods, still by far the largest and most clearly defined part of the organic industry, grew 16.2% in 2005 and accounted for $13.8 billion in consumer sales. Other organic products or 'non-foods'—including personal care products, nutritional supplements, fiber, household cleaners, flowers, and pet food—grew 32.5% from a much smaller base of sales and totaled $744 million in U.S. consumer sales in 2005.

Organic Food Market

The $13.8 billion in consumer sales of organic foods in 2005 represented 2.5% of total U.S. food sales, a 'penetration rate' that has grown from 0.8% in 1997. Organic foods have shown fairly consistent annual growth rates of 15% to 21% since 1997, when fairly comprehensive data was first available. Anecdotal data based on historical surveys and interviews with long-time participants in the organic foods business place growth estimates in a similar range of nearly 20% annually since 1990.

Total Foods and Organic Foods Consumer Sales and Penetration, 1997-2005

	Organic Food ($Mil)	Organic Food Growth	Total Food Sales ($Mil)	Organic Penetration
1997	$3,594	na	$443,790	0.81%
1998	$4,286	19.2%	$454,140	0.94%
1999	$5,039	17.6%	$474,790	1.06%
2000	$6,100	21.0%	$498,380	1.22%
2001	$7,360	20.7%	$521,830	1.41%
2002	$8,635	17.3%	$530,612	1.63%
2003	$10,381	20.2%	$535,406	1.94%
2004	$11,902	14.6%	$544,141	2.19%
2005	$13,831	16.2%	$556,791	2.48%

Source: *Nutrition Business Journal* estimates based on OTA's 2006 Manufacturer Survey, annual *Nutrition Business Journal* surveys of manufacturers, SPINS, and other sources.

Organic Food Channel Distribution

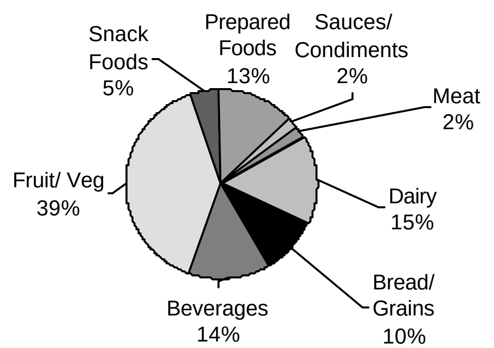
As organic foods become part of the American mainstream, they are increasingly found in more mainstream retail establishments. Although the independent natural grocery or health foods store laid the tracks for the organic foods manufacturer and supplier, sales have since penetrated many other channels to the point that independent natural food stores represented less than 25% organic food sales for the first time in 2005. The largest natural food chains (led by Whole Foods Market and Wild Oats grocery retailers) represent an estimated $3.2 billion of total organic food dollar sales, so together the natural channel represented 47% of U.S. organic food sales in 2005. Roughly 46% of total organic food dollar volume was sold through the mass-market channel, which includes supermarkets/grocery stores, mass merchandisers, and club stores. The remaining 7% was made up of farmer's markets, food service and other non-retail-store sales.

Organic Food Categories

Fruit and vegetables accounts for by far the largest portion of sales at 39% of the $13.8 billion total. Understandably the more established categories like beverages (includes soymilk) and fruit & vegetables grew less quickly in 2005 than less established categories. Smaller, less established categories like condiments and meat & poultry grew at noticeably higher rates in 2005 than more established categories. Data was collected and analyzed in 71 individual food sub-categories that comprise the eight major food categories.

Organic Food Category Share, 2005

Organic Food Categories	Sales ($Mil)	% Growth 2005
Dairy	2,140	23.6%
Bread & Grains	1,360	19.2%
Beverages (incl. non-dairy)	1,940	13.2%
Fruit & Vegetables	5,369	10.9%
Snack Foods	667	18.3%
Packaged/Prepared Foods	1,758	19.4%
Sauces/Condiments	341	24.2%
Meat/Fish/Poultry	256	55.4%
Total Org Consumer Food Sales	**13,831**	**16.2%**



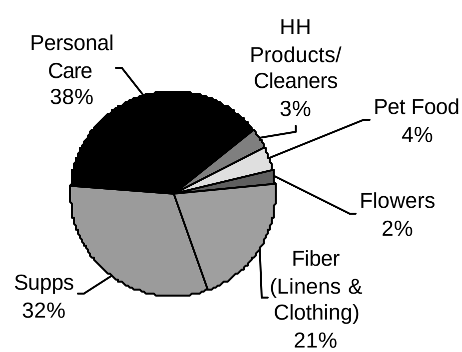
Source: OTA's 2006 Manufacturer Survey. Category and growth estimates derived from survey responses, *Nutrition Business Journal*'s organic industry model, SPINS retail data, and other sources.

Organic Non-Food Categories

Other organic products, or non-foods, had consumer sales of $744 million in 2005 and growth of 32.5%. Roughly 38% of organic non-food sales, or $282 million, were personal care products. Compared to organic foods, which had a penetration rate of 2.5% in 2005, organic non-foods are still emerging as a category and accounted for only 0.22% of total sales in their sectors in 2005.

Organic Non-Foods Category Share, 2005

Organic Categories	05 Sales ($Mil)	% Growth 2005
Organic Supplements	$238	29%
Organic Personal Care	$282	28%
Organic Household Products/Cleaners	$19	29%
Organic Pet Food	$30	46%
Organic Flowers	$16	50%
Organic Fiber (Linens & Clothing)	$160	44%
Total Organic Consumer Non-Foods Sales	**$744**	**32.5%**



Source: OTA's 2006 Manufacturer Survey. Category and growth estimates derived from survey responses, *Nutrition Business Journal*'s organic industry model, SPINS retail data, and other sources.

Organic Labeling, Certification, & Materials Supply

- When asked whether they display the USDA Organic seal on 'any' of their products, 61% of survey respondents answered in the affirmative.
- Of the 39% of survey respondents that do not currently display the USDA Organic seal, 53% reported that they intend to display the USDA Organic seal on their products in the future.
- 17% of survey respondents reported that USDA labeling requirements and certification programs had "dramatically increased their ability to generate sales of organic products." Thirty-eight percent reported that labeling increased organic sales somewhat, 43% reported that labeling and certification had not affected sales, and 1% reported that it had decreased sales.
- 52% of survey respondents reported that a lack of dependable supply of organic raw materials has restricted their company from generating more sales of organic products.
- Nearly half (49%) of survey respondents' organic sales were classified as 95+% organic, while 32% of sales were reported as 100% organic and 19% as 70+% organic.

Methodology & Acknowledgements

The Organic Trade Association 2006 Manufacturer Survey was conducted and produced on behalf of the Organic Trade Association by *Nutrition Business Journal*. The survey was conducted in February and March of 2006. More that 200 companies responded to the survey, of which 160 firms submitted complete surveys, including revenues reported in narrow ranges, growth, and product and sales channel breakdowns. NBJ research provided revenue estimates and product and sales channel analysis for an additional 155 companies.

The complete 63-page survey, including a 2007-2010 forecast by major categories, is available for $495 (OTA member rate is $195). To order, go to http://www.ota.com/bookstore.html.