"A Shade-Grown Latte with Hormone-Free Milk, Please"
Marketing to New Consumer Desires for Foods Produced Responsibly.

"Your biggest competitor is your own view of your future." (1)

For decades, the U.S. food industry marketing model has had a single design: differentiate brands by manipulating the "front end" of the product (the one the consumer sees), while ruthlessly procuring commodity components at the lowest possible global price on the "back end". This economic formula is about to change, because more consumers are basing buying decisions on what's inside the product and where it comes from.

These historically different forces are beginning to converge. Consider recent news events that at first appear unrelated, but in fact have a common theme:

- For the first time, multi-billion dollar packaged foods companies acquire natural products mini-brands due to differentiated products and higher growth potential (Power Bar, Worthington Foods, Kashi Cereal and the like) Federal organic standards nearing final approval
- Home Depot stores (and now Lowe's) require elimination of old-growth timber products, endorse Forest Stewardship Council standards for suppliers
- Wall St. Journal investigative report on the benefits of marketing sustainable agriculture products
- Massive protests about genetically modified foods at the Seattle World Trade Organization conference make headlines
- Kraft Foods/Philip Morris recalls taco shells featuring genetically modified corn not approved for human consumption; calls for stronger oversight of biotechnology

The theme? Consumers' interest in the contents of the food they eat is reaching critical mass. This is an opportunity not to be missed by food marketers of all kinds.

Some definitions would be helpful. **Conventional or mainstream** food products are focused on delivering taste, convenience, price and other typical qualities in a safe and profitable manner. These products represent most of what we eat. They rarely make claims about their composition as it relates to the environment or the community. For example, Chips Ahoyä Cookies simply taste good and are available everywhere. Few consumers know where these cookies are made or how they are produced.

Eco-Labeled products are defined as products making environmental claims backed by independent third-party certification of specific standards. Some are narrowly focused ("Salmon Safe" TM) and some are very broad and inclusive ("Food Alliance Approved" TM). The oldest and most famous eco-label in the U.S. is **Certified Organic**.

"'Organic' is a labeling term that denotes products produced under the authority of the Organic Foods Production Act. The principal guidelines for organic production are to use materials and practices that enhance the ecological balance of natural systems and that integrate the parts of the farming system into an ecological whole." (2) Primary organic certifying agencies to date include the State of California and Oregon Tilth. The U.S. government is in the process of approving federal standards to allow expanded organic trade. Organic certification focuses on pesticide use and the health of the soil. Although only 2% of U.S. agriculture output is organic, momentum is building and organic is poised for dramatic acceleration.

The most prominent other ecolabels are ones that support sustainable agriculture in whole or in part. **Sustainable Agriculture** is a system that emphasizes protecting and enhancing natural resources, using alternatives to pesticides, and caring for the health and well being of farm workers and rural communities. It represents a long-term goal to help farming become more economically viable, environmentally sound and socially responsible.

There are four major reasons why food product marketers should re-evaluate their business models to capitalize on this new consumer interest.

- **More than half the U.S. population is aware of food and its impact on their own health and the community at large**. "The 'green' consumer is now mainstream. The green market no longer is a marginal niche inhabited only by the militant. The data is overwhelmingly clear. A majority of American consumers are willing to buy environmentally friendly products, and a significant segment, 23%, are eager to buy green on their own terms." (3) These results came from an independent study by The Hartman Group, who surveyed 2,900 U.S. households in its panel. The conclusions are compelling.

Of the consumers surveyed, 7% appear to be truly committed to purchasing organic products. Conversely, 48% of the consumers surveyed were largely unconcerned with the environment, and did not believe that their individual food purchases could make a difference. The remaining 45% of the consumers surveyed were concerned about the environmental impact of agricultural practices. They believed that their individual actions could make a difference. Most importantly, they stated a willingness to act, as long as acting was made easy. Together with the organic supporters at 7%, these individuals make up an impressive 52% of the population.

- **Consumers will buy environmental labels if given a choice**. Hartman's survey shows a great disparity between environmental beliefs and their translation into purchase behavior. For example, while 55% of respondents felt that growth hormones and antibiotics in meat production was unnecessary, only 17% purchase meat which is free from these additives.

Do consumers forget about their concerns at the time of purchase, or do most food marketers not offer a choice in-store? Keep in mind that the natural products industry is nearly $40 billion and growing, but dwarfed by the $700 billion-plus total food industry. Only a few innovative mainstream retailers are now offering ecological alternatives adjacent to traditional products. Albertson's (Boise, ID) recently began merchandising organic produce alongside conventional products. They report strong sales and stronger margins. Nearly every packaged food brand offers a "lite" or "diet" alternative, why not a "green" alternative too?

Further support comes from the Hartman Study:

- 67% of consumers would support environmental stewardship on farms by purchasing food products that explain the growing practices used
- 63% would pay **more** for products which demonstrate a positive environmental impact
- 61% would like to have food produced by scientifically based practices that protect the environment

Consumers are already conditioned to accept environmental impact standards and labeling claims. Some of the many examples include the Federal Fuel Efficiency Standards posted on every new vehicle sold; recycling codes embossed on consumer plastics containers; post-consumer recycling content claims (notably by Procter and Gamble products); "Dolphin Safe" canned tuna; "Starbucks: Building Relationships with Coffee Growers", and others. A recent study identified more than 20 countries and the European Community that have adopted public ecolabeling programs to encourage development of products with less environmental impact. (4)

- **Growers and suppliers are motivated to change practices if they can realize a return and/or market access that was previously denied**. Stahlbush Island Farms, (Corvallis, OR) a vertically integrated frozen food marketer, recently expanded its offering of sustainably certified products (Food Alliance Approved) to include cranberries. They searched and found one grower who would qualify. This grower secured incremental volume in an otherwise rock bottom cranberry market simply because he fit the new qualifications of an eco-labeling customer. Wegman's Foods, a premier New York grocery retailer, adopted IPM (Integrated Pest Management) principles for their canned sweet corn. Agrilink Foods (New York), a large grower co-op, met these standards and enjoyed incremental marketing and sales volume due to these certified growing practices.

- **It has a positive impact beyond the short-term bottom line**. Incorporating sustainability principles can greatly improve a firm's impact on the environment and the community. Brand equity and financial goodwill will increase over time. The Natural Step, a worldwide business sustainability initiative, has documented significant economic gains made by firms who adopt sustainability practices. In some cases, adopting these standards may help rejuvenate mature product lines and extend product lifecycles.

What can food marketers do to capitalize on this opportunity?

1. **Understand current and potential consumer characteristics**. A carbonated soft drink marketer, who sells primarily to convenience stores, may not have the most favorable demographics to support environmental impact claims. Research should be commissioned to understand consumer motivations and the purchase environment. Are a brand's consumers ready, willing and able to buy, but the environmental alternative is not easily available in their primary shopping venue? What are their sensitivities to premium prices? Are some environmentally aware consumers avoiding brands because of poor positioning?
2. **Determine what internal operations changes would be required to support sustainable product claims**. Most firms' marketing departments are driven to create proprietary and preferred products in the consumer market. Meanwhile, the supporting formulation and purchasing departments are driven to seek commodity ingredients and create price competition among multiple component suppliers. Consumers will reward brands with sustainably grown contents; the producing companies will need to change the "back end" purchasing culture to realize the market benefits. Product specifications may be created that can be satisfied by only a few sustainably certified suppliers. Tighter ingredient tracking and monitoring systems may need to be implemented. Due to supply quantities, new products may only be offered in a limited number of stores. Some companies are re-evaluating their entire procurement and production processes to be able to take advantage of

these market opportunities.

3. **Evaluate ecolabeling organizations most appropriate to brand opportunity and consumer interests**. Larger companies with wide assortments of brands and categories may seek similarly structured ecolabels. Certified Organic will become the newest class of federally-inspected commodities and may be the best ecolabel to fit a company's opportunity. In other cases, organic may not offer enough competitive advantage or brand equity. Other ecolabels may be more appropriate.

The Food Alliance, for example, is one of the most widely recognized ecolabels that successfully crosses large geographies and product classes, including beef, dairy, fruits, vegetables, wine and others. Growers that produce more than 200 product varieties have met "TFA"'s stringent third party sustainability standards, from Washington state to Wisconsin.

In addition, broadly defined labels give the product marketer maximum flexibility in shaping the marketing message to the consumer. (5) Companies should form strategic alliances with the labeling organization to create the best implementation plans. Although their primary role is one of independent third-party certifiers, they are the most knowledgeable about the relationships and issues among consumers, growers, producers and retailers.

1. **Implement quickly**. Typically the pioneer of a new product segment enjoys the largest margins and sustainable market share. Gatorade, Powerbar, Crystal Lite and others invented product subcategories such that they have few competitors. It is more important to get underway and get early learning than it is to lose time that could be spent building market share.

   Mark Ritchie, Institute for Agriculture and Trade Policy

Notes

1. Watts Wacker & Jim Taylor: The Visionary's Handbook
2. Organic Trade Association data, 2000.
3. Hartman Report: Food and the Environment: A Consumer's Perspective. 1996/7.
4. Van Ravenswaay and Blend: "Ecolabeling and Environmental Management in Agriculture", Dept. of Ag. Economics, Michigan State University. 1998.
5. The Food Alliance, Portland, OR. www.thefoodalliance.org.

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