ORGANICS IN THE UNITED KINGDOM: MARKET OVERVIEW

November, 2000

CORIOLIS RESEARCH

ORGANICS IN THE UNITED KINGDOM

Organic food will become mainstream in the United Kingdom in the near future

- **I. Consumers are demanding organics**
- **II. The major supermarket chains are pushing organics**
- **III. Future growth will be limited by the availability of adequate supply**

I. Consumers are demanding organics

- **Ia. British consumers are receiving powerful but mixed signals about the safety of their food and the virtues of organics**
- **Ib. There are strong forces at work behind the growth of organic food**
- **Ic. The only thing holding back the growth of organic foods is price**

Ia. British consumers are receiving powerful but mixed signals about the safety of their food and the virtues of organics

- There has been an ongoing barrage of food related scare-stories in the tabloids
  - Mad cow disease is still a daily on-going drama in the UK
  - E-coli has emerged as a new and deadly threat
  - The uproar about genetically modified food shows no sign of ending
  - Pesticides continue to be an ongoing low-level threat
- Organic food is presented as more healthy to eat and organic farming is seen as more environmentally friendly
- However, dissenting voices claim that organic food is actually worse for you and are opposed to the idea

Mad cow disease is still a daily on-going drama in the UK

- **"BSE is a shameful outrage that has already killed 70 people and humiliated an entire industry."**

  Guardian, August 2000

- **"Death from Mad Cow disease."**

  The Mirror headline, June 1996

- **"Scientists suspect a link between BSE, "mad cow disease", and the new form of CJD, the human equivalent."**

  BBC News, March 1996

- **"BSE, or mad cow disease, is back in the headlines. The latest scare involving the disease comes from research that suggests that it could enter the human food chain by infecting pigs, sheep and poultry."**

  Guardian, July 2000

E-coli has emerged as a new and deadly threat

- **"So far, twenty-five people, many of them children, have been infected in the e-coli outbreak, which is linked to pasteurised milk from one particular farm."**

  BBC News, March 1999

- **"A serious outbreak of E Coli 0157 affecting at least 27 people so far in North Cumbria...the last major outbreak was in 1996 when 21 people were killed in Scotland."**

  USDA Gain Report , August 1999

The uproar about genetically modified food shows no sign of ending

– “Genetic engineering takes mankind in realms that belong to God and God alone.”

Prince Charles, July 1998

– “Mutant crops could kill you.”

Daily Express Headline, February 1999

– “In the month of February articles talked about Frankenstein foods,” “terminator genes,” “verminators,” and “mutant foods”. One reason why the issue of GM food took off was that several newspapers were already running campaigns against genetically modified foods. The Daily Mail (“genetic food watch”), Express (“safe food”), and Independent on Sunday (“stop GM foods”) were consequently quick to add fuel to the fire.”

British Medical Journal, February 1999

– “Fears about genetic modification of food have been growing throughout the country... shoppers are worried about the Frankenstein Foods.”

Panorama, BBC, May 1999

Pesticides continue to be an ongoing low-level threat

- **"Organochlorines and PCBs are capable of mimicking oestrogen and thus have been associated with breast cancer, lower sperm counts in men and a range of reproductive abnormalities in wild fish and animals."**

  Living Earth 2000

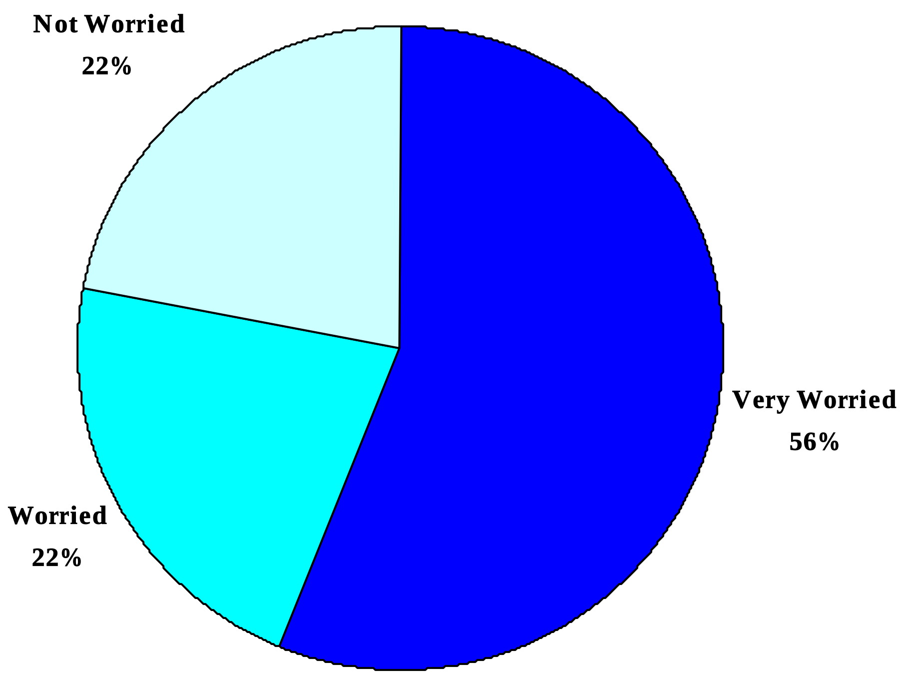
- **"A MAFF survey of non-organic baby food bought in the UK showed 49% contained pesticide residue at or above the EC standard of 0.01mg kg."**

  MAFF, 1997

- **78% of consumers are now worried or very worried about pesticides**

78% of consumers are now worried or very worried about pesticides

CONSUMERS WORRIED ABOUT THE EFFECTS OF PESTICIDES AND HERBICIDES
(% of those surveyed; 1998)



Source: NOP

Organic food is presented as more healthy to eat...

- **"Organic crops also have a measurably higher level of vitamins, and this can benefit people who eat them. By contrast, intensive farming is devitalising our food."**

  Patrick Holden, Soil Association (UK), January 2000

- **"Researchers say there is now firm evidence that organically-grown produce is healthier to eat than conventional crops."**

  BBC News, January 2000

- **"Fears over the use of toxic pesticides in conventional intensive agriculture, over the feeling of hormones and antibiotics given to livestock, over the degrading of the environment and disappearing wildlife - along with a desire to be reacquainted with the concept of taste in store-bought food have combined to provide organics with a market."**

  BBC News, February 1999

... and organic farming is seen as more environmentally friendly

– **"On a global scale, a move to organic food has to be the way to stop us poisoning the earth."**

Deborah Clarke-Topper, BBC Talking Points, January 2000

– **"Conventional intensive production depletes the soil and sprays fields with chemical pesticides that indiscriminately poison a wide range of species. The run-off contaminates rivers and groundwater."**

Dr Simon Dresner, Guardian, June 1999

– **"A lengthy series of studies has found that chemical-free farming systems support substantially higher levels of wildlife than equivalent conventionally managed farms."**

BBC News, May 2000

However, dissenting voices claim that organic food is actually worse for you...

- **"Organic food could be positively dangerous, especially when it was fertilised with sewage containing potentially harmful organisms."**

- **"Some Scientists maintained that many of the natural pesticides produced by plants were potentially more of a risk than the synthetic ones used in conventional agriculture."**

BBC Radio 4's Costing the Earth, January 2000

- **"People who eat organic food are eight times as likely as the rest of the population to be attacked by a deadly new strain of E Coli bacteria (0157:H7)."**

Alex Avery, Hudson Institute, March 2000

...and are opposed to the idea

- **"There was no evidence that organic food was more nutritious or safer than conventional varieties."**

  British Food Standards Agency, August 2000

- **"Organic crops tend to have lower yields, so that more land must be used in their production for the same output and they are more expensive. Organic food is also more likely to perish during transportation."**

  Alex Avery, Hudson Institute, March 2000

- **"This bizarre affinity to organic methods is borne from imagined risks and a quasi-religious regard for the planet that is not based upon rational ethical principles, but a dogmatic aversion to human innovation."**

  BBC Talking Points, June 2000

- **"With organic food costing appreciably more than ordinary products, one US cancer specialist said organic farming was a dangerous delusion."**

  BBC Radio 4's Costing the Earth, January 2000

Ib. There are strong forces at work behind the growth of organic food

- **The changing structure of UK society is driving the growth of organic food**
- **Organic food is seen as a functional solution to distinct problems**
  - **Organic consumers believe their food is safer, especially parents**
  - **Many consumers believe organic foods taste better**
- **Organic food is also part of an interrelated set of moral and ethical concerns about how modern food is produced**
  - **Buying organic food is seen as morally right**
  - **Survey results show that larger issues play a part in the decision to purchase organics**
  - **The organic movement must be seen in the context of the larger environmental movement**
- **However some people will never convert to organics**

The changing structure of UK society is driving the growth of organic food

CHANGING SOCIETY: IMPLICATIONS FOR ORGANIC FOOD

Changing Features in Society	Organic Food Implications
Smaller households; more singles	Desire for smaller portions; more eating out
Children at an older age	Mature purchase decision making
	Purchasing higher quality food
More women in the workforce	Less time available - guilt, convenience foods
Rich getting richer	Non-price sensitive food purchasing
Healthy living	Increased concern for diet (salt, fat, additives, etc.)
	Strong demand for more healthy foods
Vegetarianism	Much greater awareness of food and food ingredients
Multiculturalism	Increased variation in diet, new food types
Globalisation	Expectation of consistent year-round supply
	Loss of seasonal food consumption

Organic consumers believe their food is safer...

- **"I try to buy organic food whenever I can. It may be more expensive, but ultimately I like the thought of eating something that might only give me a tummy bug in about 12 hours, rather than cancer decades later."**

- **"The cocktail of fertilisers, pesticides and herbicides, not to mention additives and 'flavourings' added to food nowadays makes you wonder what it is that you are really putting into your mouth."**

- **"If two pounds of supermarket-bought carrots per week can cause my horse to have an epileptic fit every 10 days, what do you think that is doing to children?"**

BBC Talking Points, Do you Buy Organic Food? June 1999

… especially parents

- **“It was mothers who reacted to the food scares of the early 90s by demanding organic health foods and it was mostly women farmers and entrepreneurs who pioneered the businesses designed to meet that demand.”**

  Guardian, January 2000

- **“I believe that I should do everything to protect my daughter from danger or harm. Giving her the most additive-free food seems a sensible way.”**

  Susie Meade (Mother), Guardian, May 1999

- **“Increasingly many new parents are buying only Organic baby food. This is dramatically changing family eating habits.”**

  Tim Mason, Tesco Markeing Director, September 2000

Many consumers believe organic foods taste better

- **“Why can't mass-produced fruit, meat and vegetables be Genetically Modified to taste more ‘organic’?”**

- **“Quite apart from social and scientific/moral concerns, it just plain tastes better.”**

BBC Talking Points, Do you Buy Organic Food? June 1999

Buying organic food is morally right

- **"People realise that organic food offers them something more than their own health and wellbeing."**

  Simon Brenman, Soil Association (UK), 1999

- **"Many consumers feel it is morally correct to eat organic food as the farming system is more ecological and has animal welfare at its forefront."**

  Datamonitor, 1999

- **"Another virtue of organic food which makes it attractive to those who buy with a conscience is that it is often produced by small suppliers. Organic food means that ethics can enter your shopping basket along with pure food."**

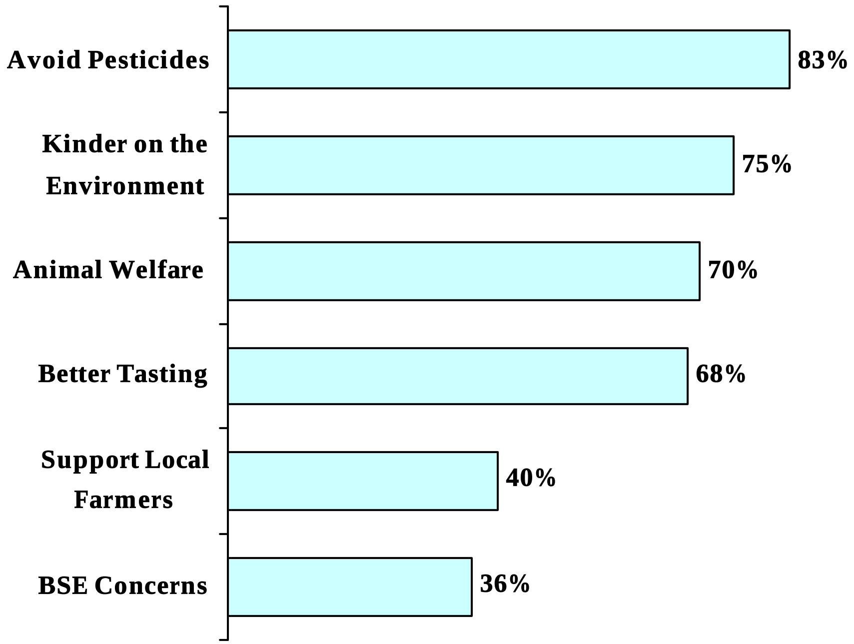
  Guardian, June 2000

- **"Organic farming methods promote a more sustainable use of land and do less damage to the environment."**

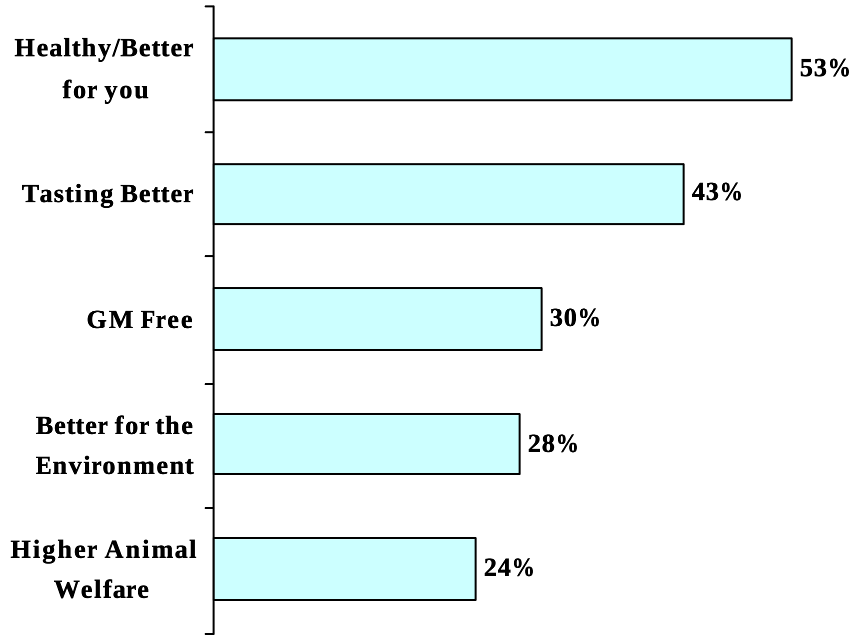
  BBC Talking Points, Do you Buy Organic Food? June 1999

Survey results show that larger issues play a part in the decision to purchase organics

WHY ORGANIC CONSUMERS BUY ORGANIC FOOD
(% of those surveyed; multiple responses)



SURVEY 1
Consumers Association, 1997

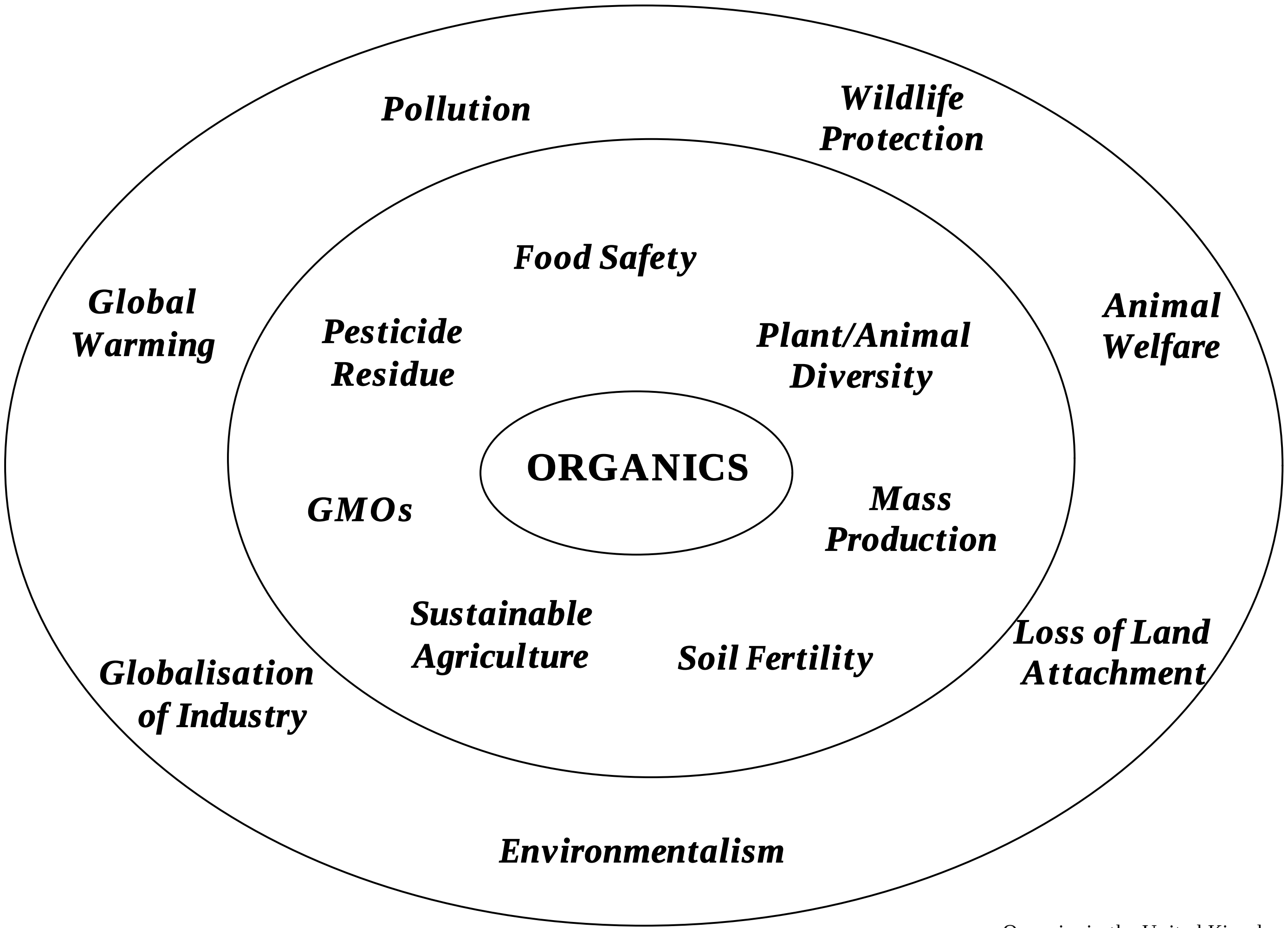


SURVEY 2
MORI Survey, 1999

Source: Consumers Association; MORI Survey; Soil Association

The organic movement must be seen in the context of the larger environmental movement

ORGANIC FOOD IN CONTEXT



However some people will never convert to organics

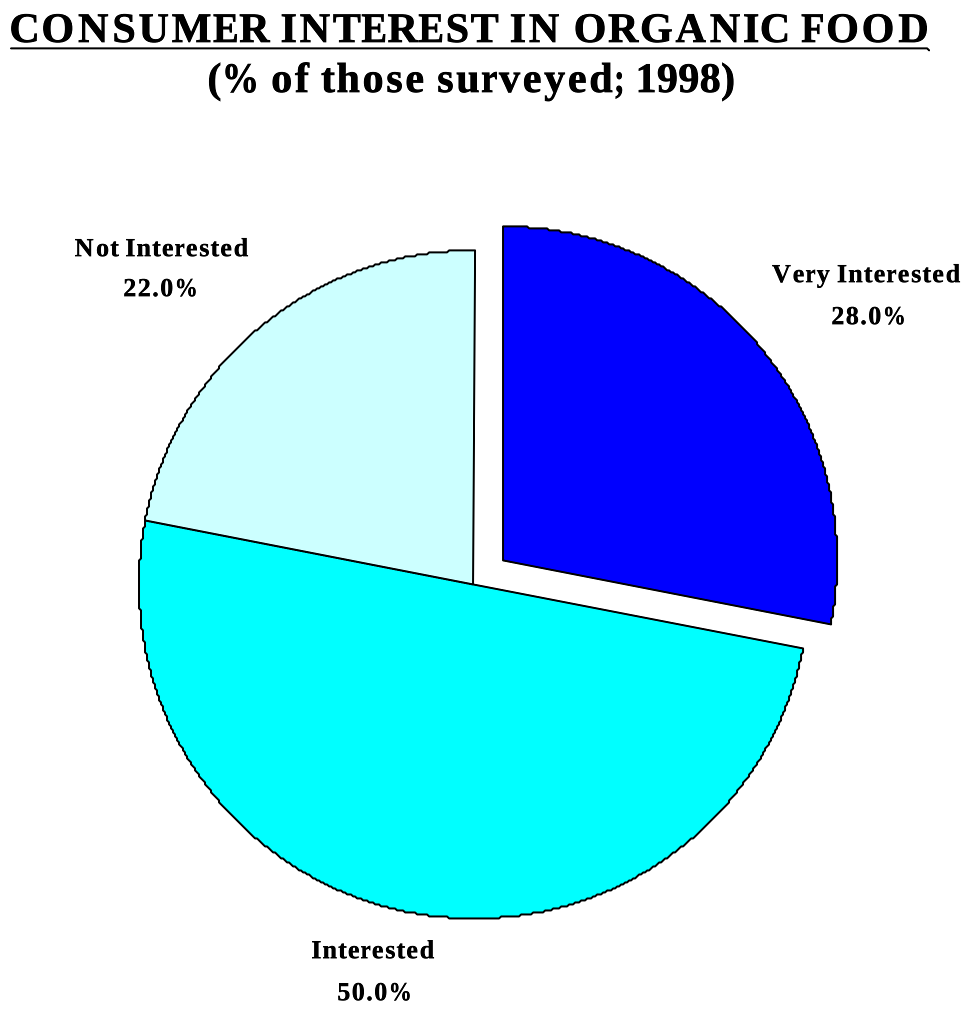
- **“Organics it’s all a con!”**
- **“As far as I'm concerned I'll stick with safe food and worry about REAL killers like smoking, alcohol, pollution, traffic etc.”**
- **”I think that there is little difference between organic food and everyday food. I think that this whole craze is the supermarkets trying to cash in on a scare about processed foods.”**
- **“As a consumer, and an agricultural scientist, I do not, and will not buy organic food. I refuse to pay a premium for a product which has consistently been shown to be no better in terms of taste or nutrition to conventionally grown produce.”**
- **“I have never found the option of organic food in the least bit attractive. In fact the few occasions when I have tasted it I found it unpalatable.”**

BBC News Talking Point, Do you Buy Organic Food? June 1999

Ic. The only thing holding back the growth of organic foods is price

- **Strong consumer interest in organic foods is translating into sales**
- **However, the reach of organic food is still limited mainly to more well off consumers by its higher price**
- **If the price difference can be addressed, organic food will have wider acceptance**
  - **Consumers perceive organic food as too expensive**
  - **The higher cost of organic products limit their acceptance**
  - **75% of consumers surveyed said they would buy more organic products of they were less expensive**

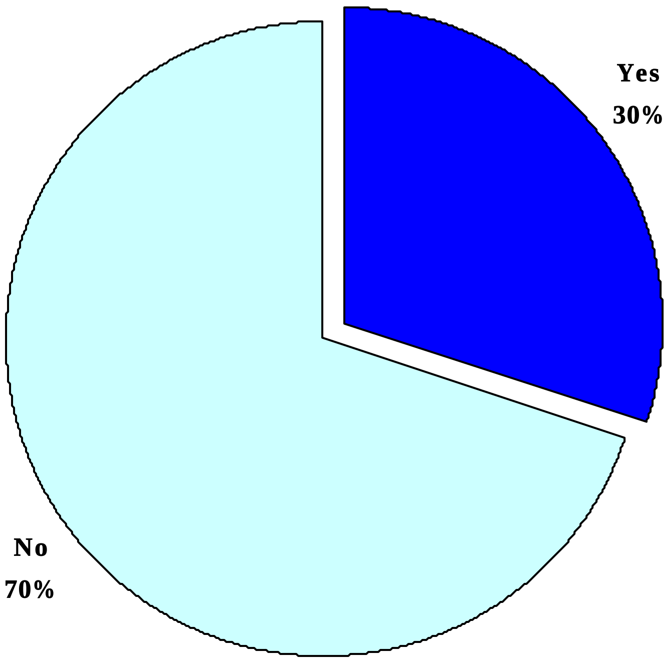
Strong consumer interest in organic foods...



Source: NOP

... is translating into sales

PURCHASED ORGANIC FOOD IN THE LAST 3 MONTHS
(% of those surveyed; 1998)



"The Organic food market is no longer considered the preserve of health freaks or faddy eaters."
Guardian, 1999

Source: NOP

However, the reach of organic food is still limited mainly to more well off consumers by its higher price

- **"A profile of the typical organic food consumer is social grouping AB, age 25-34, and shopping at one of the two most upmarket supermarkets in the UK (Sainsburys or Waitrose)."**

  MORI Report, 1997

- **"Hang around by the checkouts at any supermarket in an affluent area, and one thing is obvious: the moneyed classes just can't get enough of organic produce. Right-on, GM-free goodies sell by the premium-priced trolley load."**

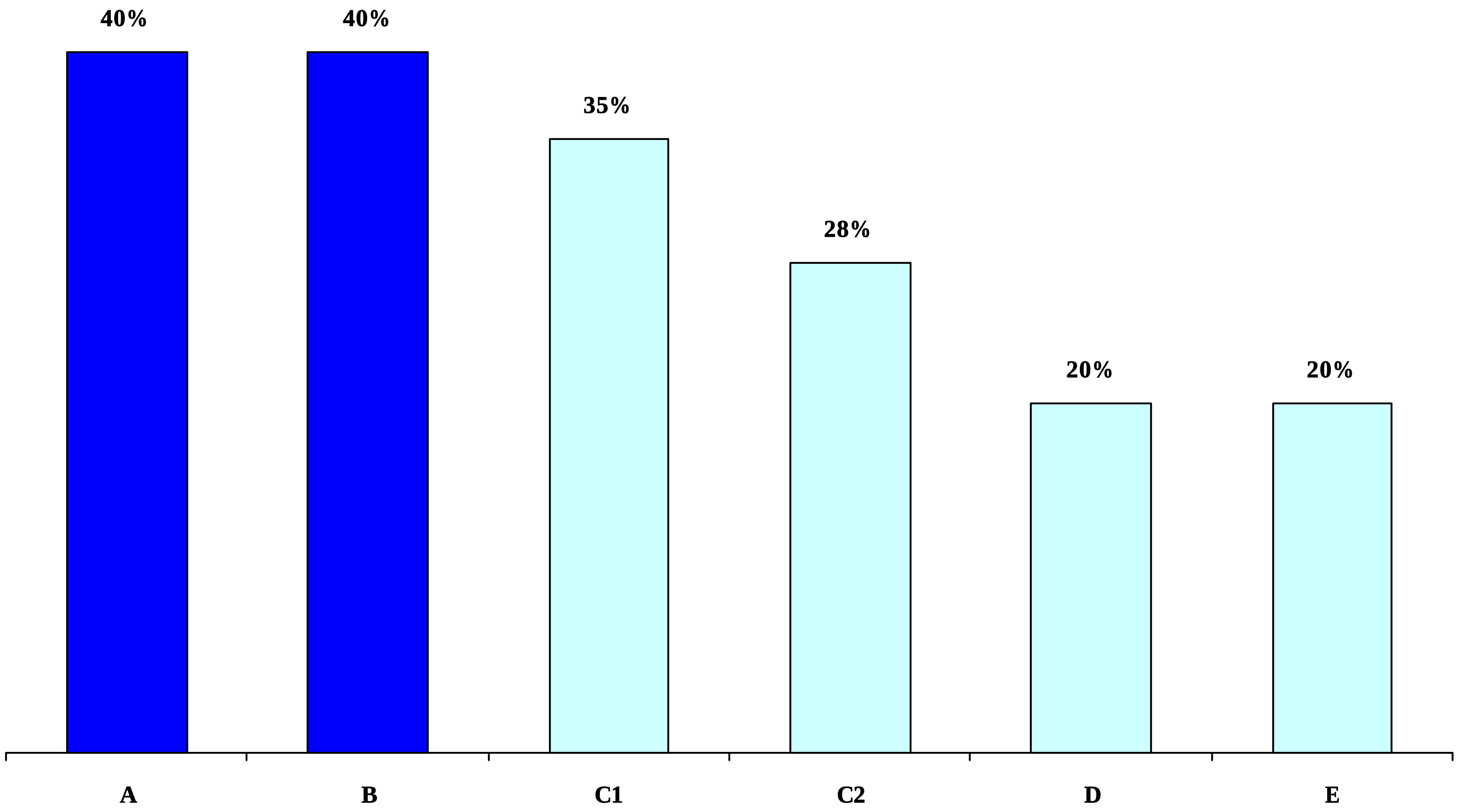
  The Independent, September 1999

- **Those with higher incomes are much more likely to have purchased organic products**

- **Consumers in the richer South are more likely to purchase organic food**

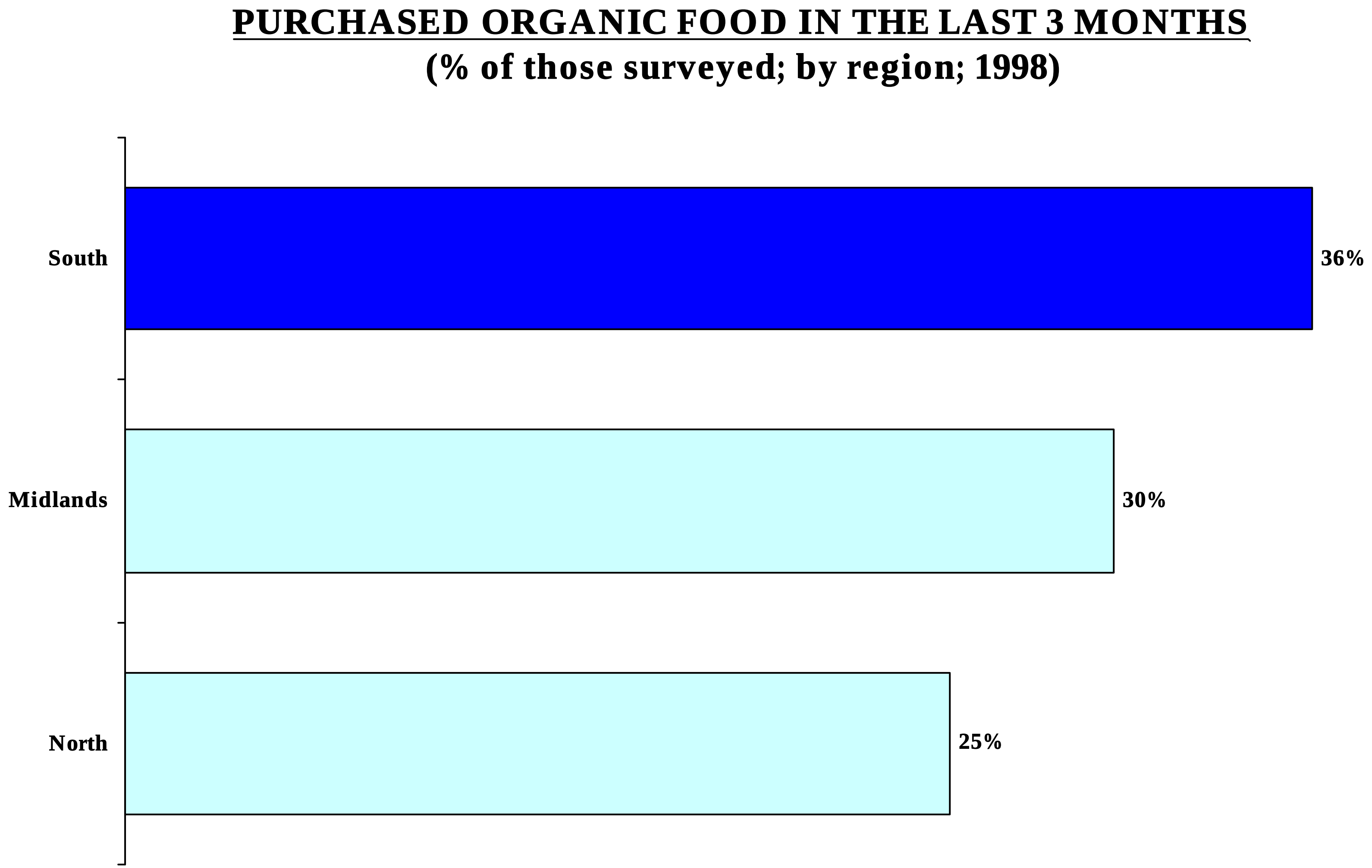
Those with higher incomes are much more likely to have purchased organic products

PURCHASED ORGANIC FOOD IN THE LAST 3 MONTHS
(% of those surveyed; by social class[1]; 1998)



1. Definition: A: Upper Middle Class, B: Middle Class, C1: Lower Middle Class, C2: Skilled (Manual) Working Class, D: Semi and Unskilled Working Class, E: Lowest Level of Subsistence
Source: NOP

Consumers in the South are more likely to purchase organic food



Source: NOP

The higher cost of organic products limit their acceptance

- "Current high prices have deterred some customers from buying organic."

  Iceland Spokesman, Scotsman, June 2000

- "Money is the main reason for not purchasing organic food… and this feeling showed little variation across regions and social classes."

  NOP, 1998

- "Many consumers are put-off by the prices."

  Alan Wilson, Agronomist, Waitrose March 1998

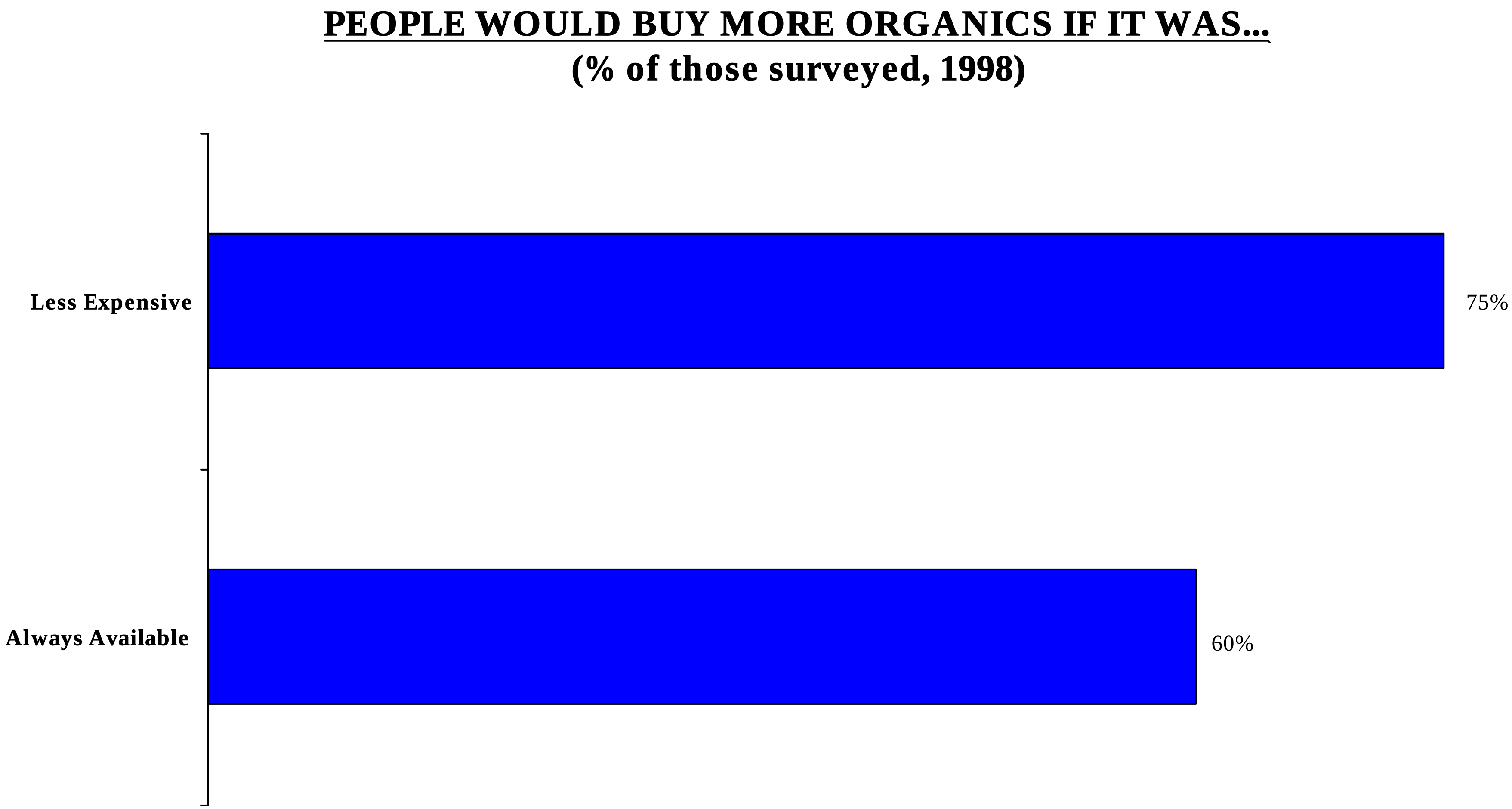
- "A recent consumer survey found that a third of shoppers snubbed organic products because they were judged too expensive."

  Simply Food Web site, 2000

- "Icelands problem has been that most of its customers are unable to pay hefty price premiums-which, its research shows, typically runs at 50-60%. Our customers told us they wanted organic food but they could not afford it."

  Russell Ford, MD Iceland, September 1999

75% of consumers surveyed said they would buy more organic products of they were less expensive



Source: NOP

II. The major supermarket chains are pushing organics

- **IIa. The recent growth of organics has been driven by supermarkets**
- **IIb. Growing demand and intense competition triggered a price war in organics**
- **IIc. Organics will continue to show strong growth and will account for 10% of total food sales in 10 years**

IIa. The recent growth of organics has been driven by supermarkets

- **Organic sales have grown 35% a year for the past five years driven by supermarkets**

- **Alternative channels now account for less than 25% of organic food sales**

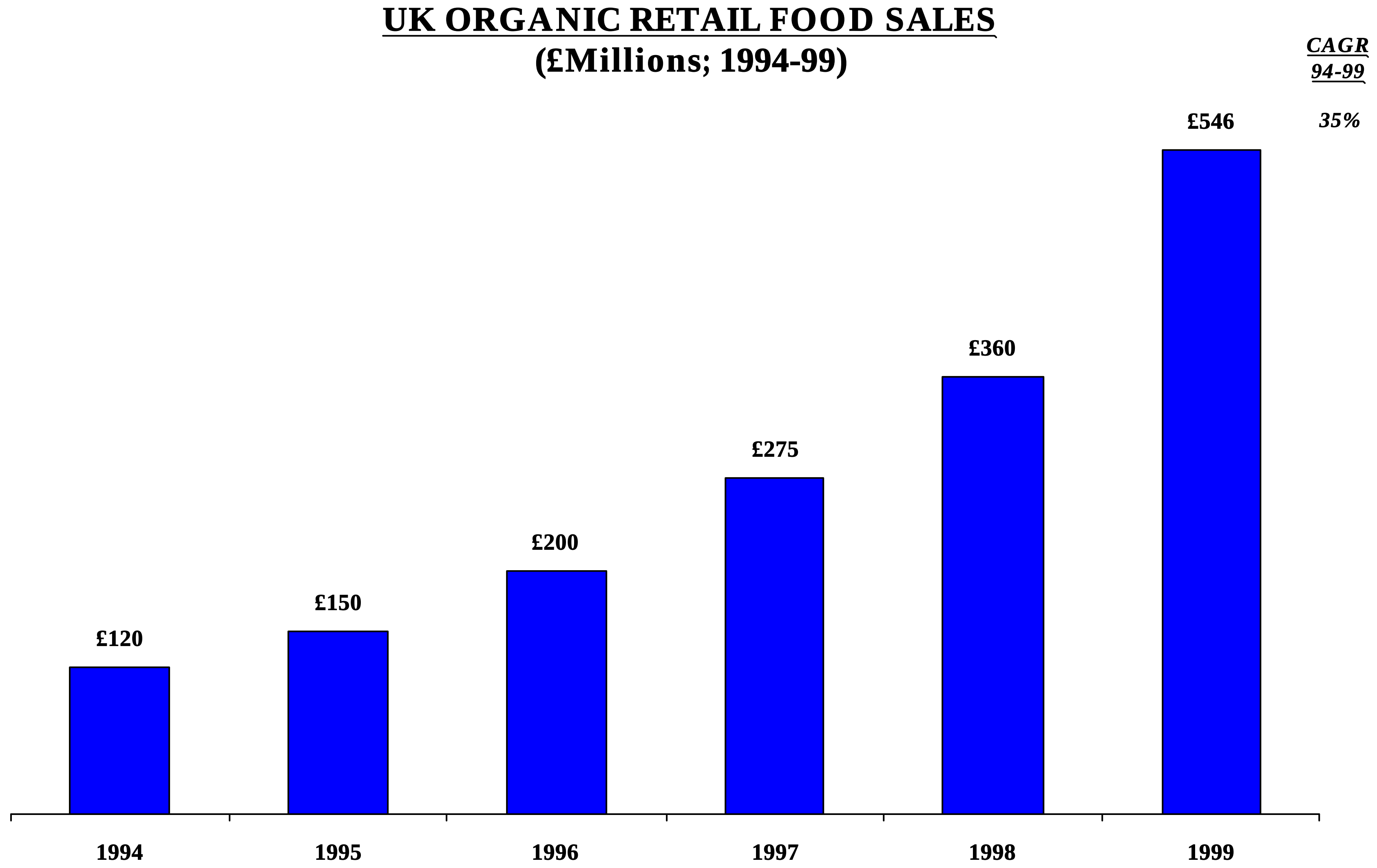
  - **The structure of organic food retailing has changed over time diminishing the relative strength of the two distinct non-supermarket channels**

  - **Box Schemes, farmers markets, farmgate sales and other grower direct channels still account for 10% of organic food sales**

  - **Specialist organic retailers are no longer small, dirty and alternative; the leaders are opening well run and attractive outlets**

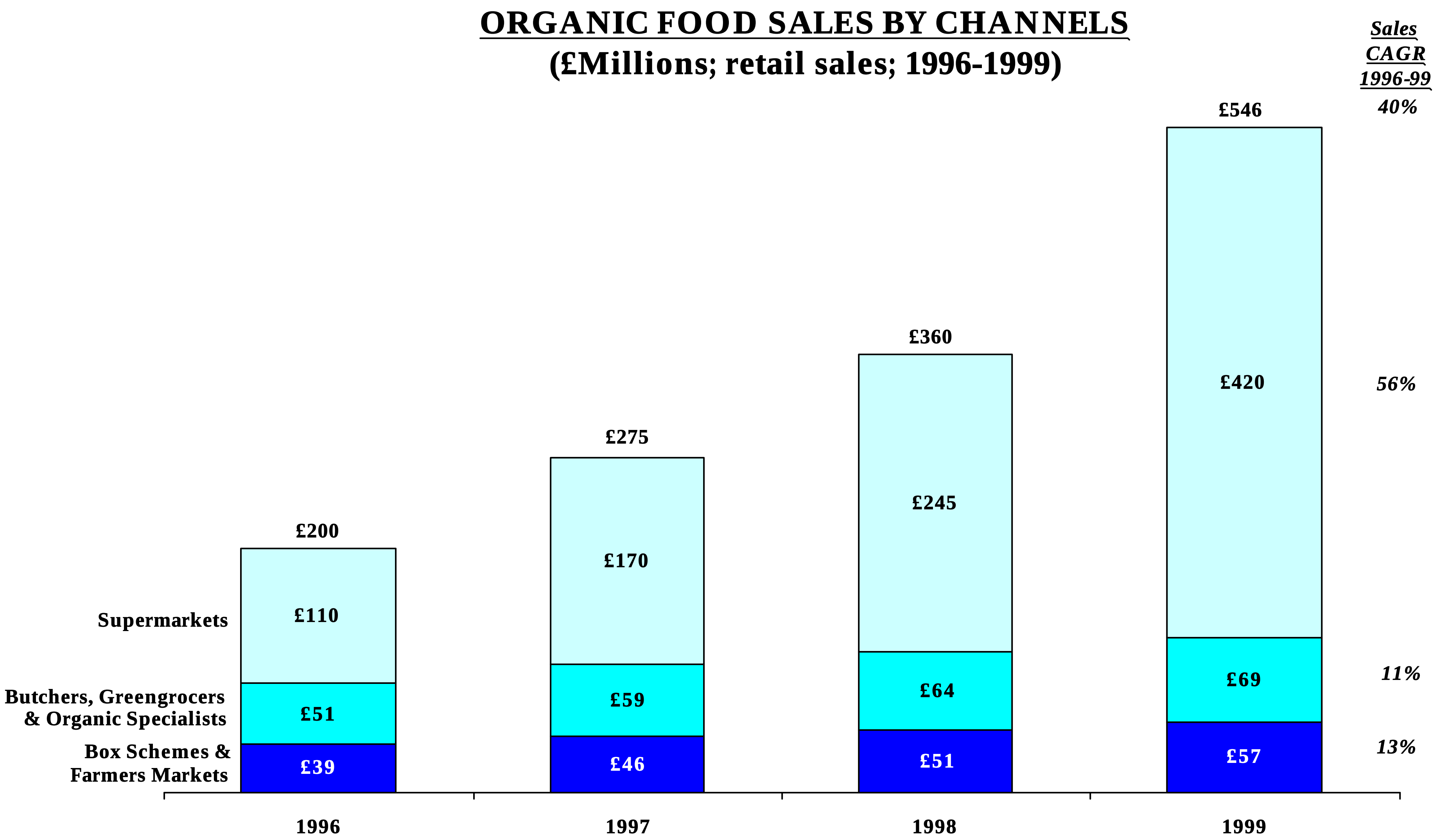
- **Upscale supermarkets have driven organic food based on feedback from their customers**

Organic sales have grown 35% a year for the past five years...



Source: Various

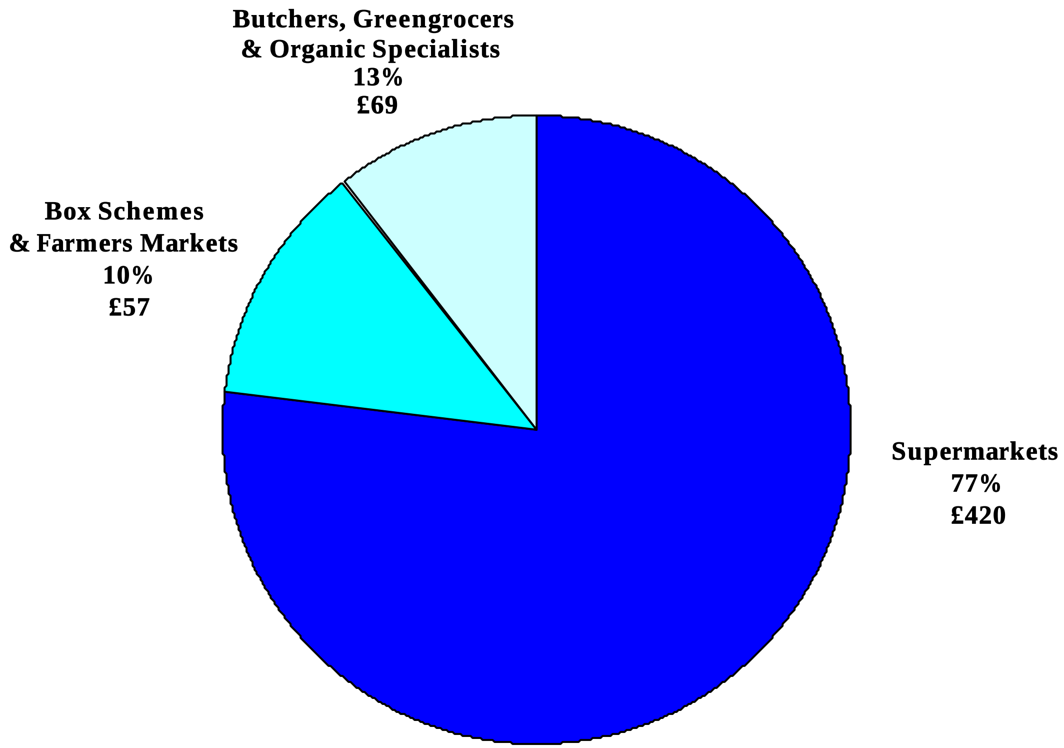
… driven by supermarkets



Source: Various; Coriolis analysis and estimates

Alternative channels now account for less than 25% of organic food sales

RETAIL ORGANIC FOOD SALES
(£Millions; % of Sales; 1999)



TOTAL = £546 Million

Source: Various; Coriolis analysis and estimates

The structure of organic food retailing has changed over time…

THE CHANGING MARKET FOR ORGANICS

	Niche	Upscale	Mainstream
Timeframe	1980's	Early to Mid 90's	Late 90's - 00's
Consumer Concerns	Environmental & Health Issues	Food Scares	GMO's
Consumer Participation	Greens 40+, High education, Women at home	ABs, Professionals Women	ABC1s Young Mothers
Location	Rural, Sparse	South	Nationwide
Availability	Poor	Limited	Strong
Dominant Key Players	Farmgate, Markets, Box Schemes [M&S, Safeway]	Waitrose, Greengrocers, Butchers Organic Specialists	Tesco, Iceland, Sainsbury's

… diminishing the relative strength of the two distinct non-supermarket channels

UK RETAIL ORGANIC FOODS CHANNELS

Variable	Farmers Markets & Box Schemes	Butchers, Greengrocers & Organic Specialists	Supermarkets
Sales (£Millions 1999)	£57	£69	£420
Organic Market Share	10%	13%	77%
Number of outlets	N/A	N/A	7,246
Key Players	Organics Direct Simply Organic Farmers Markets	Planet Organic Independents Greengrocers	Sainsbury Tesco Waitrose

Box Schemes, farmers markets, farmgate sales and other grower direct channels still account for 10% of organic food sales

- **Box Schemes account for 5% of organic sales (or £29 million in 1999)**
  - **Many box schemes are professional and advanced businesses; on-line ordering is now common**
  - **The number of box schemes is growing - in 1999 there were an estimated 195 box schemes delivering to more than 45,000 households**
  - **Box Schemes are moving beyond the traditional boxes of fruit and vegetables and adding a full range of meats and packaged goods (sauces, milk, bread, olive oils, etc.)**
- **Farmers Markets account for 5% of organic food sales (or £27 million in 1999)**
  - **There are approximately 250 regular Farmers Markets in the United Kingdom**
  - **Farmers Markets are more concentrated in the south of England**

Many box schemes are professional and advanced businesses; on-line ordering is now common

vegnet™

organics direct™

ORGANIC FARM FOODS

SimplyOrg@nic

Food Company Ltd

welcome to

the fresh food co

organics on the world wide web

The number of box schemes is growing - in 1999 there were an estimated 195 box schemes delivering to more than 45,000 households

- **"Box schemes have taken off in a spectacular fashion in the last three years they vary enormously in price, flexibility and set-up."**

  Soil Association, 2000

- **"We started with potatoes 11 years ago… and our customers started asking for other produce. Customers have an input and there is a direct link between the household and the farms. We now have over a hundred products for sale."**

  Abel & Cole, 2000

- **"SimplyOrganic is the UKs largest home delivery organic supermarket with 1200 products. A culmination of electronic retailing with the best and widest selection of organic food available."**

  SimplyOrganic web site, 2000

Besides the classic butcher and greengrocer, there is an emerging group of well run and attractive organic specialist stores

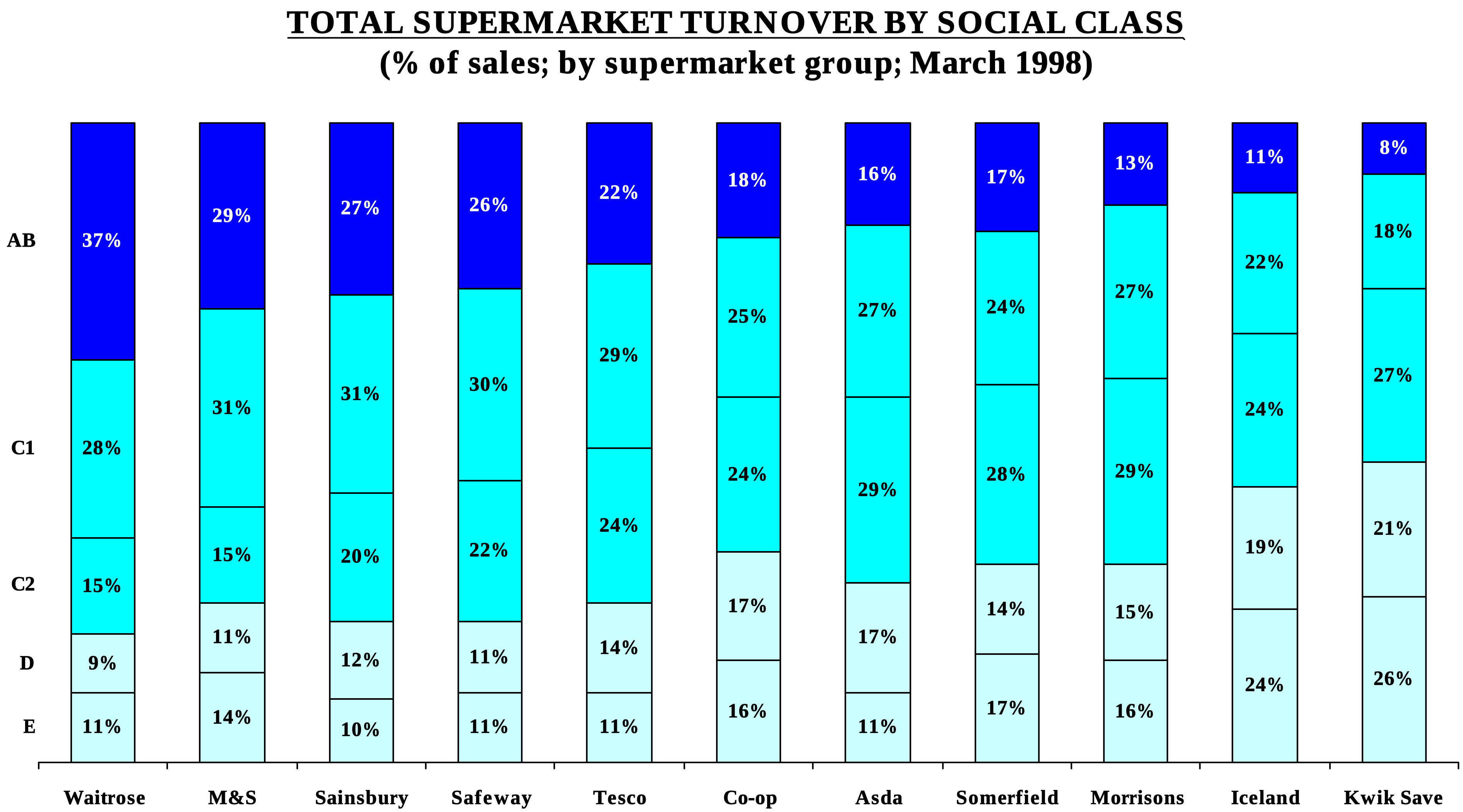
MAJOR SPECIALIST ORGANIC RETAILERS PROFILES

Company	Number of Stores	Sales (£M; 1999)	Notes
Planet Organic	1?	£4	The first organic supermarket in the U.K. Founded by ex-Whole Foods (USA) employee
Fresh & Wild	3	N/A	London (plan to open 20 stores in the next 5 years) Includes a deli and juice bar Co-founder of Wild Oats (USA)

Upscale supermarkets have driven organic food based on feedback from their customers

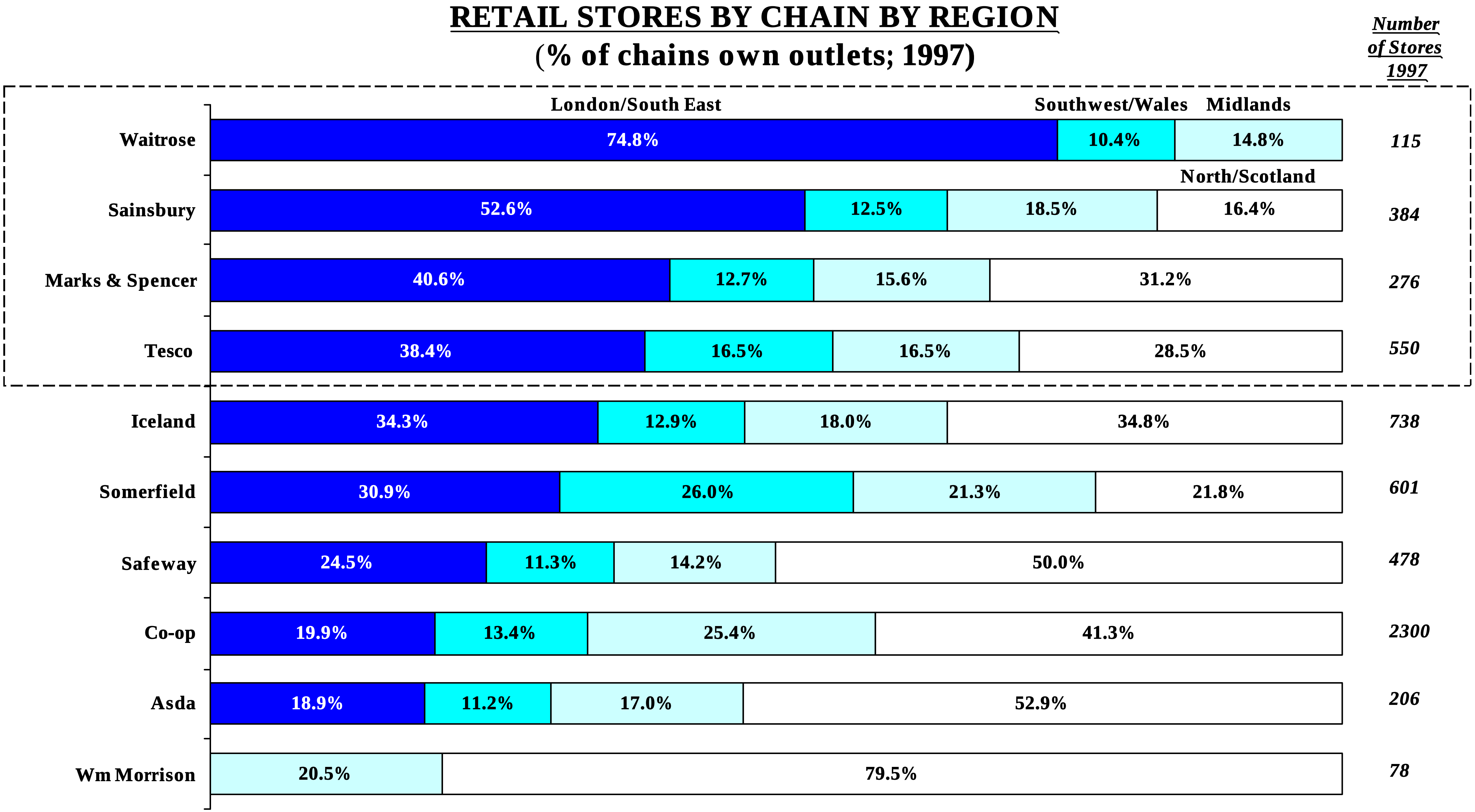
- Upscale supermarkets have been the force behind the growth of organics
  - UK supermarkets appeal to different social classes
  - The AB chains have most of their stores in London and the wealthier South
  - The supermarkets with the most organic items have been those strong in the south targeting the high-end customer
- While Waitrose and Sainsbury gained an early lead in organics, Tesco has quickly matched their performance
  - Waitrose pushed organics and developed a clear position as the market innovator
  - Sainsbury is strongly investing in the future of organics
  - Tesco recently made a major push into organics and has grow quickly
  - Marks & Spencer has returned to organics after a past failure

UK supermarkets appeal to different social classes



Source: Taylor Nelson AGB plc.

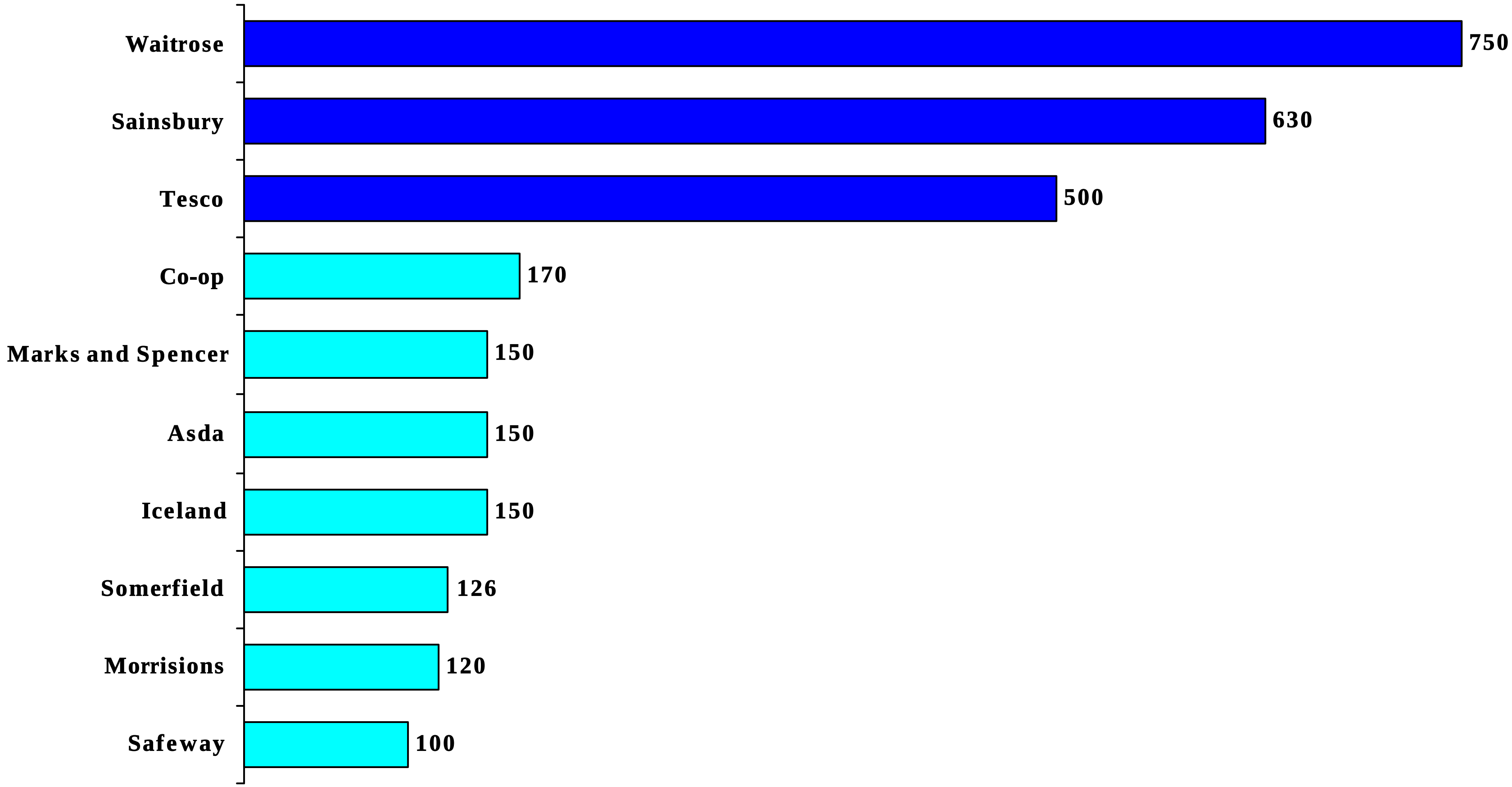
The AB chains have most of their stores in London and the wealthier South



Source: Williams de Broe

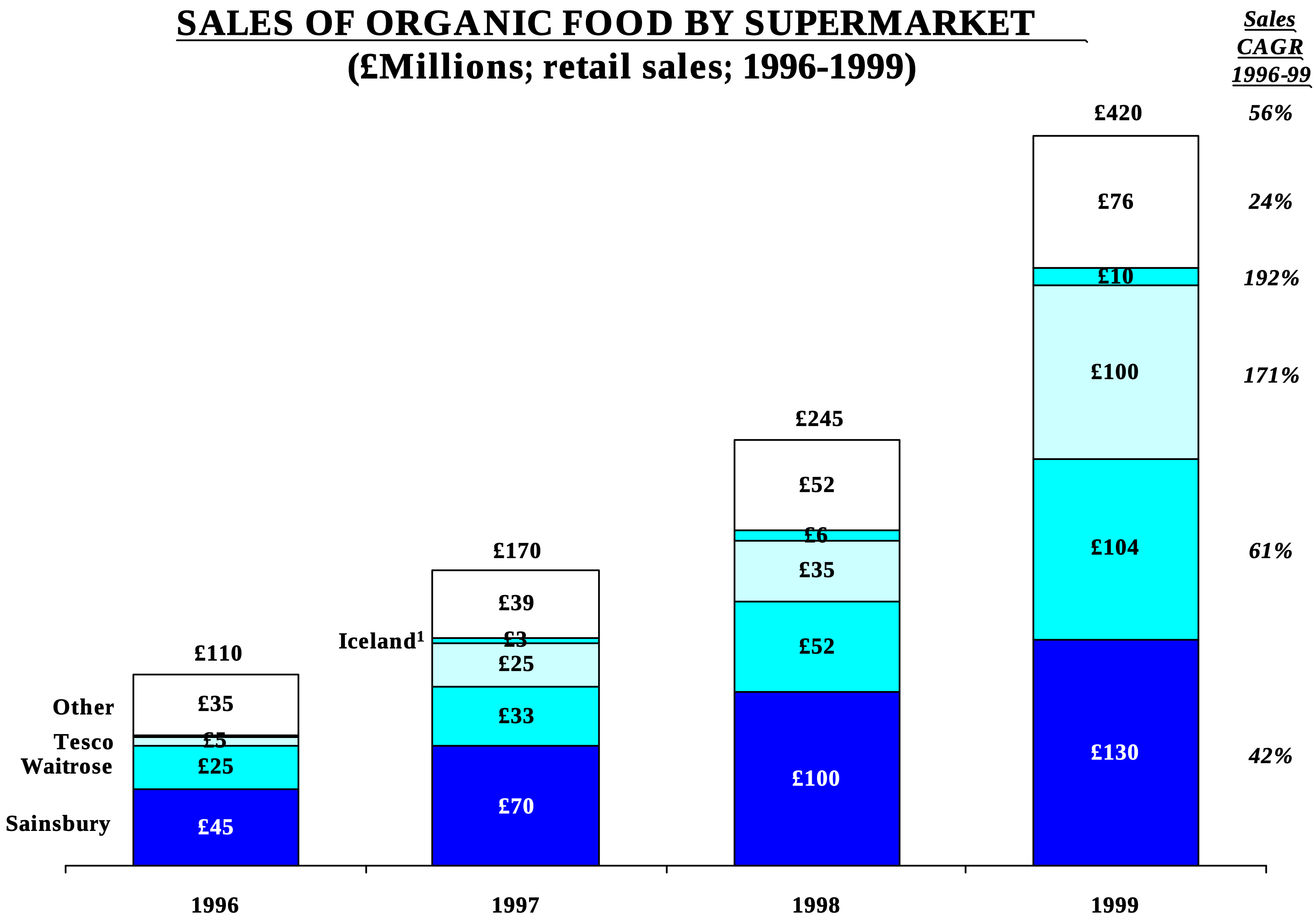
The supermarkets with the most organic items have been those strong in the south targeting the high-end customer

NUMBER OF ORGANIC PRODUCT LINES
(by supermarket group; 1999-2000)



Source: Independent (UK); Annual Reports; Other

While Sainsbury and Waitrose gained an early lead in organics, Tesco has quickly matched their performance



1. Other in 1996 includes Iceland £0.4 million
Source: Various; Coriolis analysis and estimates

Waitrose pushed organics and developed a clear position as the market innovator

- **Waitrose's has had excellent sales growth from organics**
- **Waitrose has been highly innovative in organics**
- **Waitrose expects organics to continue to grow**

Waitrose's has had excellent sales growth from organics

- **Waitrose has grown its organic sales to almost 6% of total turnover**

- **"Demand for organics will only grow as society become more food literate. Our organic grocery sales have tripled in the last year, with baby food now reaching 50%."**

  Alan Wilson, Waitrose Agronomist, September 1999

- **"Currently customer demand for organics is seeing annual rises of 40%."**

  Steven Esom, Director of Buying, Waitrose, March 2000

- **"Demand is growing all the time and this year 12% of our fruit and vegetables sales are organic compared with 7% last year."**

  Spokesman, Waitrose, January 2000

Waitrose has been highly innovative in organics

- **"Waitrose is the first supermarket to launch a UK home delivery service of organic fruit and vegetables available for 24 hour ordering via the internet. Waitrose Organics Direct delivers organic food, wine, beers, flowers, and seasonal gifts direct to your door throughout the UK."**

  Waitrose website, 2000

- **"Waitrose has outperformed other supermarkets in terms of range, quality, display, and helpful informative staff to win the Organic Supermarket of the Year for the second time running."**

  NOP, 1999

- **"Supermarkets like Waitrose have worked hard with their suppliers to make organic food more accessible."**

  Patrick Holden, Director, Soil Association (UK), 1999

Waitrose expects organics to continue to grow

- **"We expect that 20% of all our products will be organic by the end of this year."**

  Spokesperson, Waitrose, June 2000

- **"Since this time last year, we have doubled the number of organic lines stocked to over 500 and our vision, with the help of our suppliers is to take this to over a thousand lines next year."**

  Steve Esom, Director of Buying, Waitrose, 1999

Sainsbury is strongly investing in the future of organics

- **Sainsbury's rapidly expanded its range in response to customer demand**
- **Sainsbury's increased range and shelf space allocated to organics**
- **Sainsbury's has recently launched Wellbeing, an organic store-in-a-store concept**
- **Sainsbury's will convert the Windward Islands to organic production**
- **Sainsbury's believes in the future of organics and has staked its claim on the category**

Sainsbury's rapidly expanded its range in response to customer demand

– **"In a 1997 customer poll, four out of ten requests were for organic foods."**

Nicki Baggott, Organic Food Manager, Sainsbury Organic Manager

– **"Eating organic is becoming an every day and every meal experience for many of our customers."**

Nicki Baggott, Organic Food Manager, Sainsbury Organic Manager

– **"Our research reveals that demand for organic food has reached an all time high and over the past year it has developed into a mainstream customer requirement rather than a niche product."**

Spokeswomen, Sainsbury, October, 1998

Sainsbury's increased range and shelf space allocated to organics

- **Sainsbury has dramatically increased their organic food range**
- **"The organic grocery footage in stores has increased from 12 feet to 20 feet."**

  Pippa Sterry, Organic Product Manager, Sainsbury, August 1998

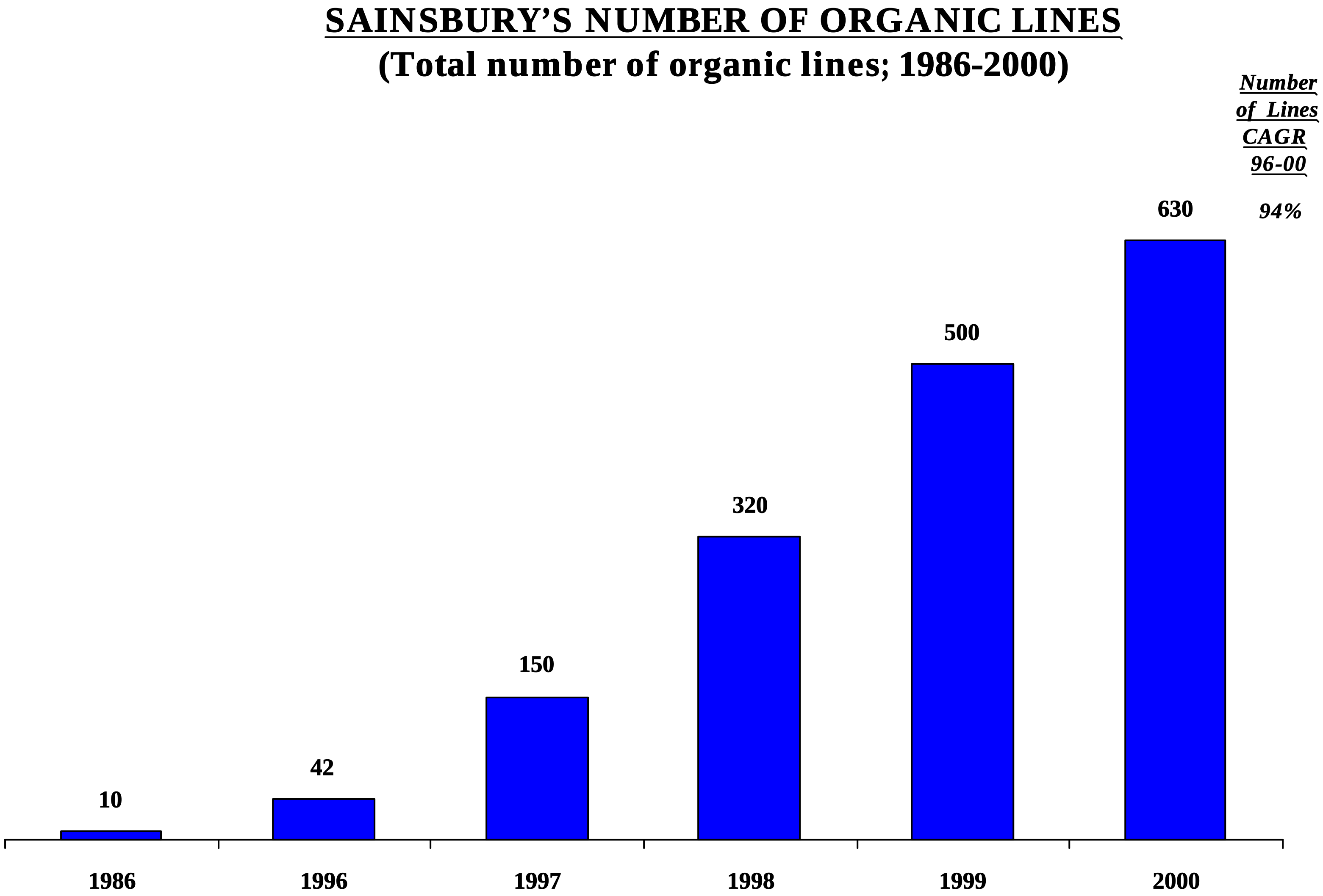
- **"By the end of the month there will be a further 64 new organic foods on our shelves. Top selling lines are semi-skimmed milk, carrots, in-store bakery bread, bananas, potatoes, yogurt and butter."**

  Nicki Baggott, Organic Food Manager, Sainsbury Organic Manager

- **"We are looking for new lines all the time."**

  Kirsty Grieve, Product Development Manager, Sainsbury, 2000

Sainsbury has dramatically increased their organic food range



Source: J Sainsbury

Sainsbury's believes in the future of organics and has staked its claim on the category

- **"The rate of growth in this market is something that has astonished even our most bullish forecasters... with growth of this nature and an expanding range of products on offer we are confident that we will not see another organic false dawn of the type that we experienced in the late '80s where the market was talked up into believing unrealistic expectations."**

  Dino Adriano, CEO, Sainsbury's, January 1999

- **"I think we have all been surprised by the huge rate in growth. Sales of organic products are at their highest level yet and customer demand continues unabated. Sainsburys is clearly the market leader in this sector and we will be aggressively defending our position with a series of groundbreaking initiatives over the coming months."**

  Ian Merton, Trading Director, Sainsbury's, September 1999

Sainsbury’s has recently launched Wellbeing, an organic store-in-a-store concept

- Sainsbury initially trialed a all-organic supermarket in its Savacentre in Merton, south London

- Sainsbury then launched Wellbeing, a branded store-within-a-store

  - “Sainsbury's is trialling a new store-within-a-store concept branded Wellbeing, which brings together organic foods with other green products, including household goods… in response to ‘huge customer demand for a more natural approach to living and eating’.”

    Marketing London March 30, 2000

  - “A Zen-like state of mind and body is now within reach as Sainsbury’s launches its first ever Wellbeing shop in London.”

    Sainsbury news release March 21, 2000

Sainsbury's will convert the Windward Islands to organic production

- **"UK multiple retailer Sainsbury has unveiled plans for a long-term partnership with the Windward Islands in which an entire island will be converted to organic production for the supermarket chain… to grow not only bananas but a range of organic fruit, including mangoes, starfruit and passionfruit."**

Eurofood, June 1999

Tesco recently made a major push into organics and has grown quickly

- **Tesco has discovered that its customers want organic foods**
- **Three types of Organic shoppers have emerged at Tesco**
- **Tesco has strong growth expectations for the organic category**

Tesco has discovered that its customers want organic foods

- **"Our research shows that organic produce is now the first choice for average families all over the country. It is no longer seen as food for weirdo's."**

  Andrew Sellick, Development Manager Organics, Tesco, Dec 1998

- **"The consumer movement to organic foods is not a fad, and it is expected to grow further. Food scares like the recent Mad Cow disease episode are fueling the movement towards organic products despite their higher prices."**

  Tesco Spokesperson, April 2000

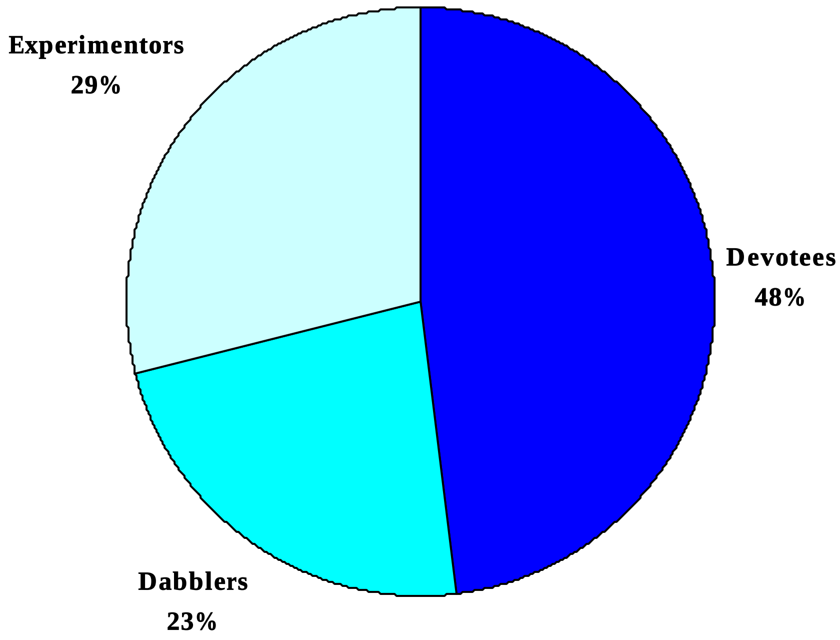
- **"One in four Tesco customers are now buying at least one item of Organic food each month and hundreds more are converting every week. We have to provide for everyone, in all parts of the country."**

  Tim Mason, Tesco Marketing Director, September 2000

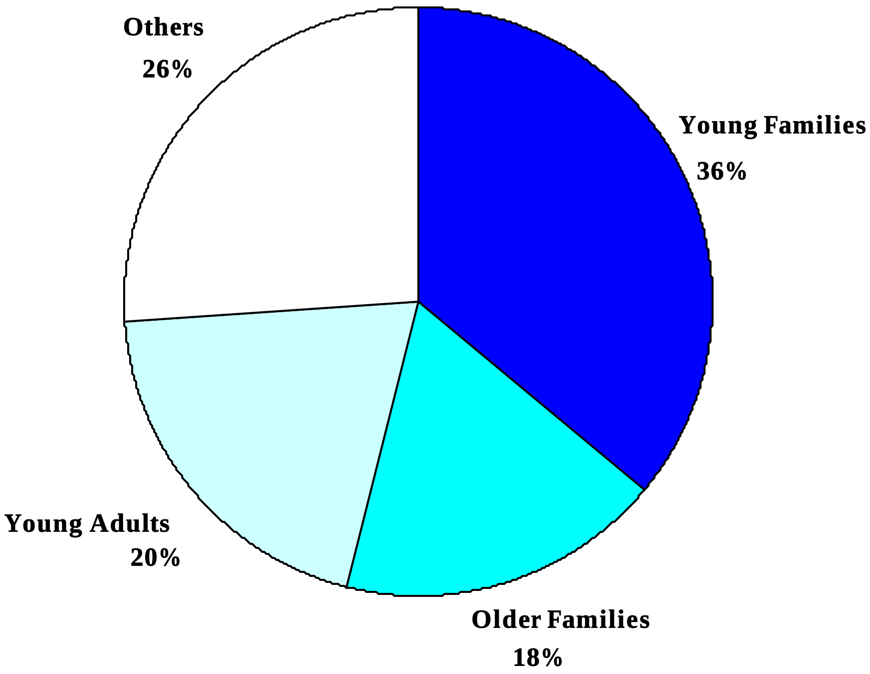
Three types of Organic shoppers have emerged at Tesco

ORGANIC SHOPPERS AT TESCOS[1]

TESCOS ORGANIC SHOPPERS
(% of Sales)



COMPOSITION OF DEVOTEES
(% of Devotees)



1. Data from Tesco Clubcard
Source: Tesco News Centre, September 2000

Tesco has strong growth expectations for the organic category

- **"Three years ago, everyone thought Tesco was crazy for putting so much effort into organic products. Now they are having to admit that we were right. For a substantial proportion of the next generation, choosing organic produce will be a way of life. They will have known nothing else."**

  Andrew Sellick, Development Manager Organics, Tesco, Nov 1998

- **"Organics are the fastest growing area in the stores. Sales are up from $5 million three years ago and expected to rise to $150 next year. New organic lines included ready-made meals, dairy products and organic champagne. This is a clear sign for all British organic farmers looking to secure long term business opportunities."**

  Andrew Sellick, Development Manager Organics, Tesco, Sept 1999

Marks & Spencer has returned to organics after a past failure

- **"One supermarket has been conspicuously absent from the organic revolution. Marks & Spencer has trailed the other supermarkets for more than a decade, having dropped organic lines after a lacklustre trial in 1989. Now, in a jaw-dropping U-turn, M&S is about to spend millions trying to make the chain 'Britain's leading organic grocer'."**

  The Independent, May 1999

- **"Marks and Spencer famously got out of the market in the nineties, but says says the organics market is 'a lot stronger now' and expects it to stay that way. It re-entered the sector after seven years and stated that "organic food had become a major priority for the company… Sandwiches and Ready meals is the focus of M&S organics"."**

  The Independent, September 1999

IIb. Growing demand and intense competition triggered a price war in organics

- **Organics have been more expensive**
  - **Organic products have been more expensive for supermarkets to buy than conventional products**
  - **Supermarkets have been selling organics at an average premium of 18% over conventional food, however, this varies significantly by product range**
- **This premium is coming down due to intense competition for green shoppers**
  - **Growing demand among middle and lower-income consumers has triggered a price war among the supermarkets**
  - **Iceland started the price war in organics as part of an attempt to gain new customers and increase sales**
  - **Asda quickly followed Iceland's lead driven by the growing appeal of organics products to its customers**
- **The high-end chains have chosen not to match these lower prices**

Organic products have been more expensive for supermarkets to buy than conventional products

- **"Some of our organic products carry a premium price. This is due partly to the nature of Organic farming, which is usually more labour-intensive and yields can sometimes be less."**

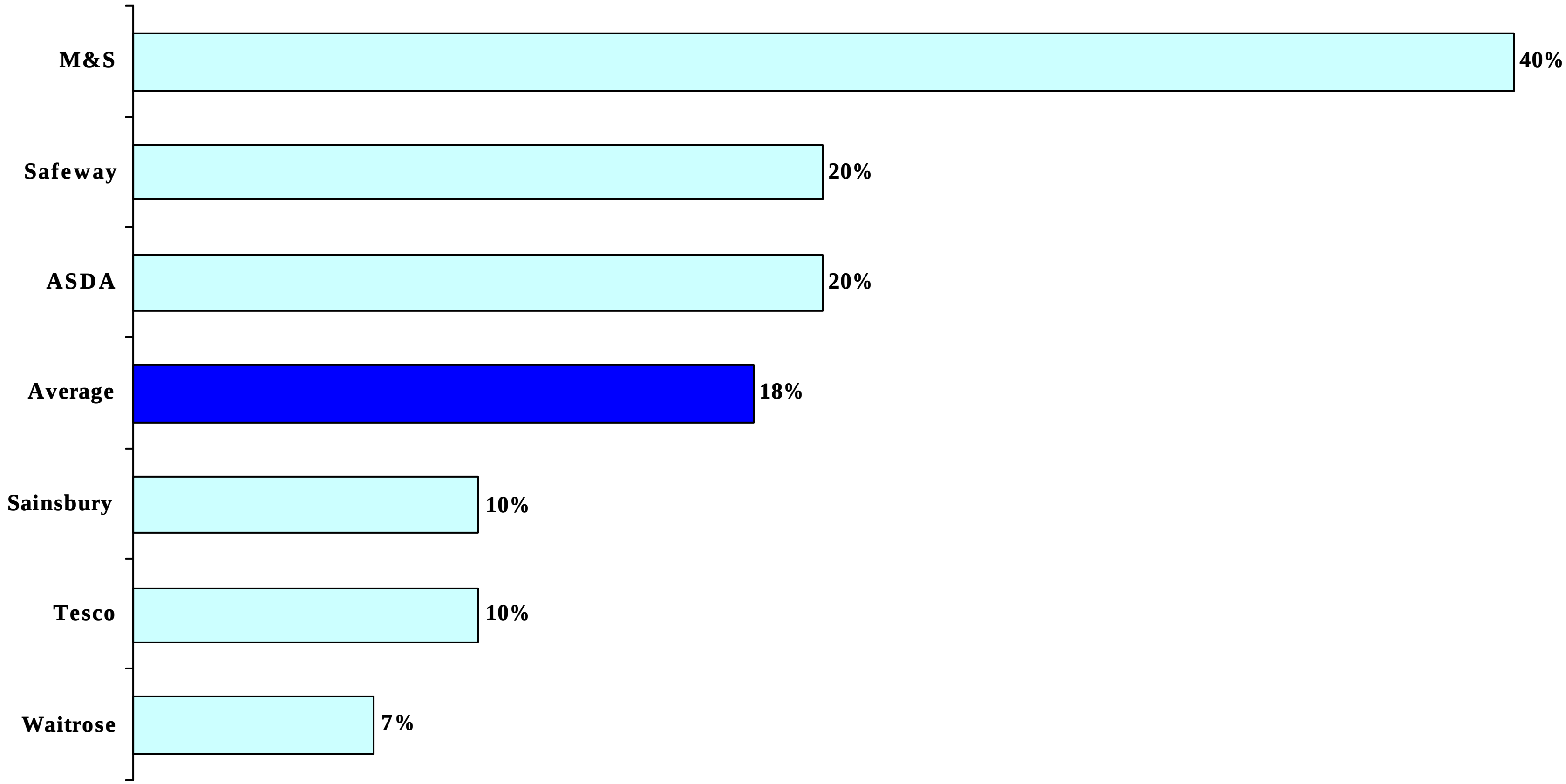
  Sainsburys press release, February 2000

- **"The price of organic food has been governed in large by the huge imbalance between supply and demand."**

  Waitrose Spokesman, March 2000

Supermarkets have been selling organics at an average premium of 18% over conventional food...

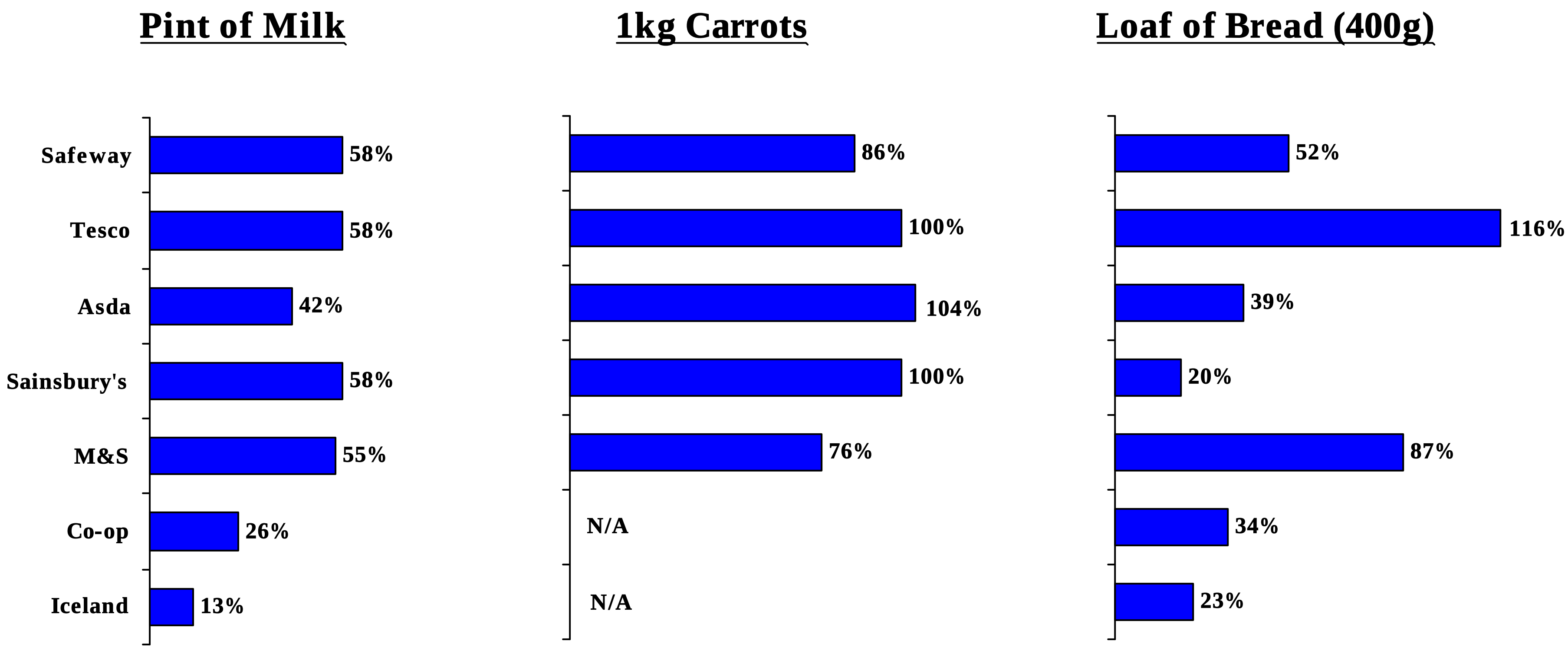
SUPERMARKET ORGANIC PRICE PREMIUMS
(% price premium over conventional foods; 1999)



Source: Guardian

...however, this varies significantly by product range

PRICE PREMIUMS ON SELECTED ORGANIC PRODUCTS[1]
(% premium; observed shelf price; May 2000)



1. Average sale price across the stores
Source: Friends of the Earth Survey

Growing demand among middle and lower-income consumers has triggered a price war among the supermarkets

- **"Soaring demand for organic food among low-income shoppers has triggered a supermarket price war - and a row between retailers and farmers."**

  Guardian, January 2000

- **"Competition is acute and no one can afford to be left behind. As the market for organic food and drink in the UK rises towards the £1 Billion-a-year mark, the supermarkets are rolling out significant organic initiatives that will increase product choice and turnover."**

  Independent, Sept 1999

- **"Increased accessibility has undoubtedly led to organic food prices falling. Ten years ago organic lines carried a price premium of anything from 50 to 100 per cent over standard produce. Now, consumers can expect to pay a third more for organic lines, although on fresh fruit and vegetables it can be as little as 10 per cent and on meat, one of the most untapped areas, prices can be three times higher."**

  Juliet Morrison, Retail News, 1999

Iceland started the price war in organics as part of an attempt to gain new customers and increase sales

- **Iceland has pursued a series of successful initiatives in its "Food You Can Trust" campaign**
- **Iceland bought 40% of the world's supply of organic produce**
- **Iceland started the price war in an attempt to attract 'green' shoppers**
- **The repositioning of Iceland appears to have been highly successful**

food you can trust™

Iceland has pursued a series of successful initiatives in its "Food You Can Trust" campaign

ICELAND "FOOD YOU CAN TRUST" INITIATIVES

Date	Action
1995	CFC's eliminated from every depot, store and vehicle 'so far as technology allows'
1997	All products clearly labeled if they contain GM material
May 1998	All own-label products are GM free
March 1999	Banned artificial flavourings and colourings and some preservatives from own label; removed Aspartame sweetener from all own label
Nov 1999	Removed all artificial dyes from its eggs
	Insist suppliers raise their animals on diets free of meat and bonemeal
	Removed GM ingredients animal feed used by own-brand meat suppliers
May 2000	Limit premium on own-label organics to 10%
June 2000	Bought up 40% of world's organic produce for its own-label products
	Switches complete food ranges to organic at no extra charge to customers
July 2000	All own-label ice cream organic
Sept 2000	Removed GM ingredients animal feed used by all meat suppliers

Iceland bought 40% of the world's supply of organic produce

- **"The supermarket chain Iceland has stolen the thunder of its competitors by announcing it has bought nearly 40 per cent of the world's organic produce and will be selling it at own-brand prices... Current high prices - as much as 50 per cent above the cost of non-organic foods - have deterred some customers from buying organic. Iceland's move could prompt the lowering of prices in organic products across the UK's supermarket chains."**

  The Scotsman, June 2000

- **"Iceland have made a bold move today to make organic produce much more available to thousands of consumers who haven't had it before."**

  Patrick Holden, Director, Soil Association (UK), June 2000

Iceland started the price war in an attempt to attract ‘green’ shoppers

- **“Currently, organic foods at supermarkets tends to be considerably more expensive than 'non-green' foods. We believe that all consumers should have access to high quality, wholesome, natural food, regardless of the size of their wallets.”**

  Iceland Spokesman, May 2000

- **“The group will be launching full ranges of organic foods not charging more than for non-organic produce. It doesn’t seem fair to charge the customer a premium to eat safe food.”**

  Malcolm Walker, CEO Iceland, BBC News, October 1999

- **“Iceland intends to sell organic produce at the same price as average supermarket own-label food, reducing its own profit margins in order to establish market share in an increasingly popular line of products, also announcing that it would sell organic frozen vegetables at the same price as non-organic this autumn.”**

  The Grocer, June 2000

The repositioning of Iceland appears to have been highly successful

- "Iceland took the lead in putting the issue of genetically modified food on the public agenda in the UK, and we are pleased that other retailers are now seeking to follow our lead. While we took our stand as a matter of principle, there is no doubt that it has also been commercially advantageous and has extended Iceland's consumer appeal."

  Malcolm Walker, Chairman & Chief Executive, Iceland, Mar 1999

- "Like-for-like food sales for the year increased 9%, building on the 12% increase achieved in 1998… Both our Food You Can Trust and home shopping initiatives have helped to change the image of Iceland, and created a new appeal to consumers who have not traditionally shopped in our stores."

  Malcolm Walker, Chairman & Chief Executive, Iceland, Mar 2000

Asda quickly followed Iceland's price lead…

– **"Iceland is limiting its premium in its organic range to 10%, and Asda joined in saying… its own-label organics would be 5-10% cheaper than its rivals."**

Herald (UK), May 2000

– **"Asda has pledged that its own label range of organic products will be 5-10 per cent better value than the lowest price competitor. When Iceland introduces their ranges we will make sure we keep our pledge, which may mean lowering our prices."**

Spokesperson, Asda, June 2000

– **"A total of 155 new lines of organics at ASDA will be available from September 2000."**

ASDA, press release, September 2000

… driven by the growing appeal of organics products to its customers

– **"The typical Asda shopper did not fit the organic profile but that is changing quite considerably. Our feedback has shown demand for organic food coming through very strongly."**

Buyer, Asda, January 2000

– **"The growing sales of organics, particularly in the north, prove that the produce is finally shaking off its elitist image. Two or three years ago sales of organic food were very poor in the North. There has been a sea change in its popularity and there is no longer a north-south divide… Whilst Brighton is the organics capital of the UK, Moss-side Manchester, is hot on its heels selling the same proportion of organic food as ASDA Clapham."**

Peter Pritchard, Director of Produce, Asda, September 2000

– **"Customer feedback indicated significant support for increased choice in the organic section… We introduced organic lines in September of last year, but have seen a 100 per cent increase in consumption in Elgin in just five months."**

Bryan Logan, Produce Manager Elgin Asda Store, April 2000

The high-end chains have chosen not to match these lower prices

- “Some organic lines at Waitrose are now at similar prices to those of conventional produce… but we need to encourage more farmers to go organic and we won’t do that if we beat them down on cost.”

  Waitrose Spokesperson, February 2000

- “Sainsbury and Safeway have found that they cannot keep up with aggressive price cutting from Tesco and Asda.”

  Reuters Company News, June 2000

- “Safeway will not be putting down the prices of its organic products. We feel that this will not help the UK farmers in the long term.”

  Spokesman, Safeway (UK), June 2000

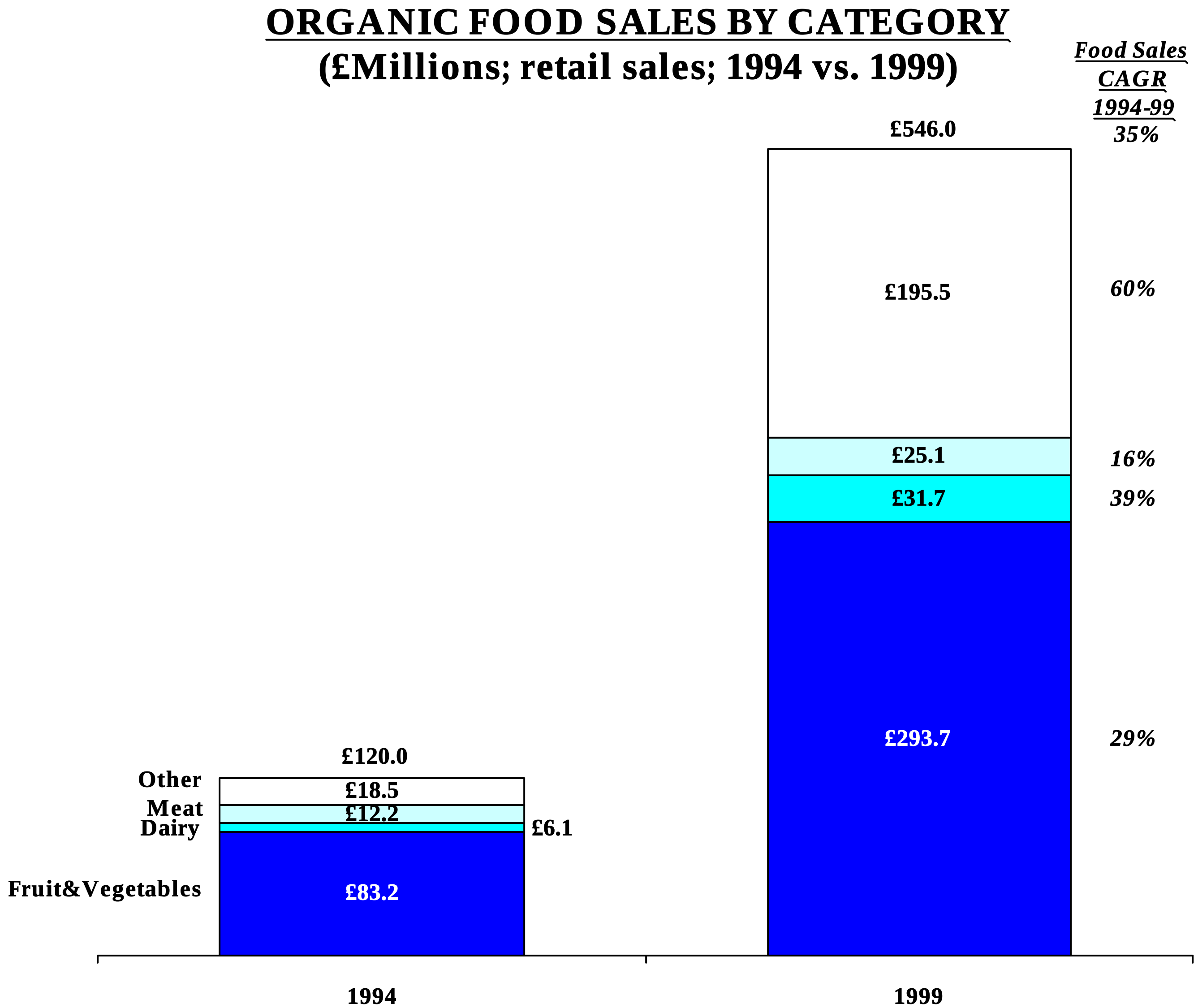
- “Its not about profiteering and it is not about unfair premiums - it is simply about paying the right price for the right product.”

  Sainsbury Spokesperson, September 2000

IIc. Organics will continue to show strong growth and will account for 10% of total food sales in 10 years

- **Organic food sales, while growing rapidly, are still a small part of total food spending**
  - **Organic food sales growth has not been evenly spread throughout the store**
  - **Organic food still accounts for less than 1% of total expenditure on food**
  - **Organic food expenditure is a minimal part of overall household spending**
- **The forces that are driving the growth of organic food will continue to exert an influence**
- **We project that the organic food segment will continue to show strong growth for the foreseeable future**
  - **Estimates of the growth rate and potential of the market vary widely**
  - **Three growth scenarios were developed and tested**
  - **The most likely scenario suggests that by 2010 organic food will account for 9.4% of food spending or £6.4 Billion in retail sales**

Organic food sales growth has not been evenly spread throughout the store

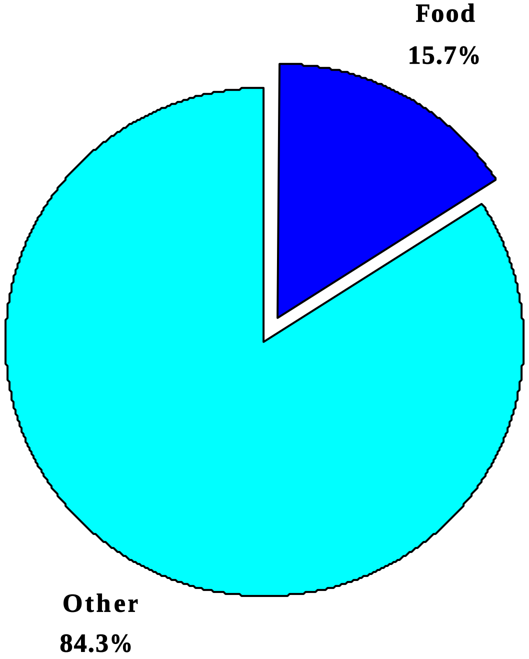


Source: Mintel; Soil Association; ONS; MAFF; Coriolis estimates and analysis

Organic food still accounts for less than 1% of total expenditure on food

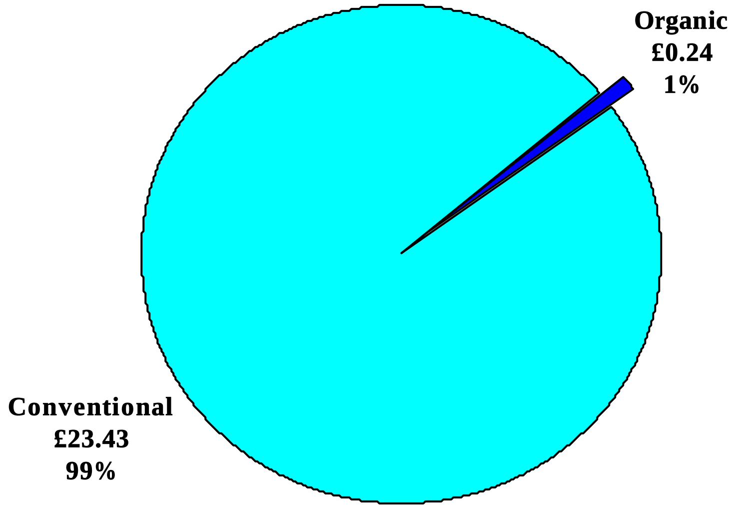
AVERAGE PERSONAL WEEKLY EXPENDITURE
(Pounds; % of total; 1998)

TOTAL



TOTAL = £151 per person per week

FOOD[1]



TOTAL = £23.67 per person per week

1. Includes alcohol; does not include non-foods, HBC, pet food, etc.
Source: ONS; Soil Association; Various

Organic food expenditure is a minimal part of overall household spending

UK RETAIL ORGANIC SALES BY CATEGORY

Category	% of Total Organic Sales	Average Weekly Personal Spending[1]	Annual Sales (£Millions)
Fruit & vegetables	53.8%	£0.13	£293.7
Cereals	13.5%	£0.03	£73.7
Processed foods	5.8%	£0.01	£31.7
Dairy	5.8%	£0.01	£31.7
Beverages	4.6%	£0.01	£25.1
Meat	4.6%	£0.01	£25.1
Baby food	2.7%	£0.01	£14.7
Other	9.2%	£0.02	£50.2
Total	100.0%	£0.24	£546.0

1. Average household spending on category; actual amount
Source: Soil Association; ONS; MAFF; Coriolis estimates and analysis

The forces that are driving the growth of organic food will continue to exert an influence

WHY ORGANICS WILL CONTINUE TO GROW

- **Food scares will continue to be a major feature in the media**
- **There will continue to be concern for healthy foods as part of a healthy lifestyle**
- **Changes in family structure, women's participation in the workforce, and age of childbirth will continue**
- **The price premium for organics is coming down due to competition**

Estimates of the growth rate and potential of the market vary widely

- **"The Soil Association estimates that by the year 2001 organic food sales will have grown from two per cent of the total food market to seven to eight per cent. It is challenging the the government to set a target of 30% organic production by 2010."**

  Guardian, 1999

- **"The annual growth rate in Europe has been 25% for the last 10 years, which extrapolated forward would lead to 10% of Europe being organic in 2005 and 30% by 2010."**

  Soil Association (UK), October 1999

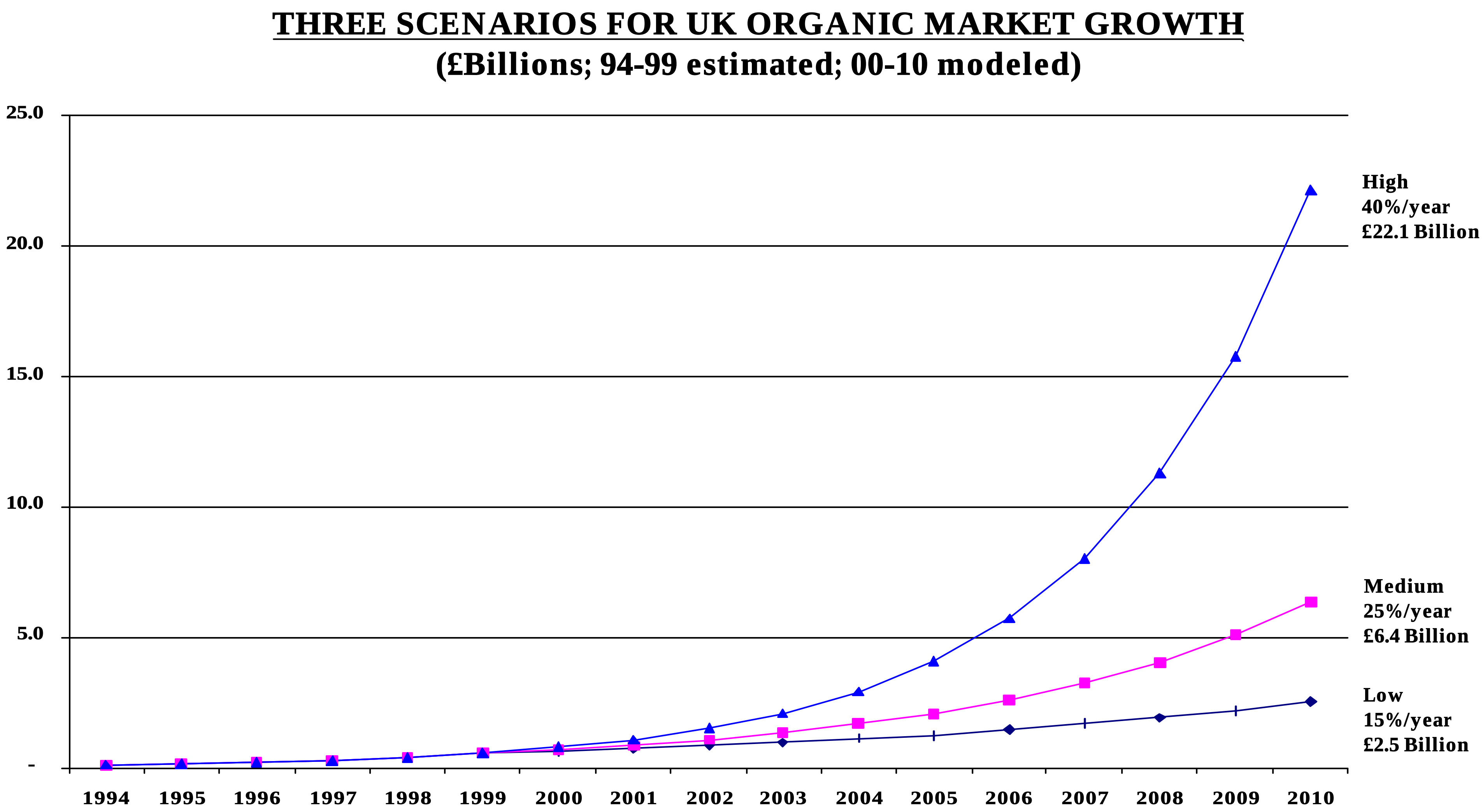
- **"It still represents a tiny percentage of overall sales. When it reaches 5% of sales – which could happen in the next five years - then you could call it mainstream."**

  Andrew Sellick, Development Manager Organics, Tesco, Jan 1999

- **"Heinz said it expects the organic category will grow at a 25 percent annual rate in the next four years in Europe."**

  Financial News, February 2000

Three growth scenarios were developed and tested



The most likely scenario suggests that by 2010 organic food will account for 9.4% of food spending or £6.4 Billion in retail sales

ORGANIC GROWTH SCENARIOS RESULTS

		Low	Medium	High
Growth Rate		15%	25%	40%
Sales (£Billions)	2005	£1.3B	£2.1B	£4.1
	2010	£2.5B	£6.4B	£22.1
£ per person per week	2010	£0.8	£2.1	£7.2
% UK Food Spending	2005	2.1%	3.4%	6.7%
	2010	3.8%	9.4%	32.8%
Popularity		Niche market	Long-term trend	Mainstream
Market growth		Slow & limited	Consistent	Rapid acceptance

III. Future growth will be limited by the availability of adequate supply

- **IIIa. The industry faces an ongoing problem of inadequate supply leading to high prices**

- **IIIb. A number of initiatives have been undertaken to increase domestic supply**

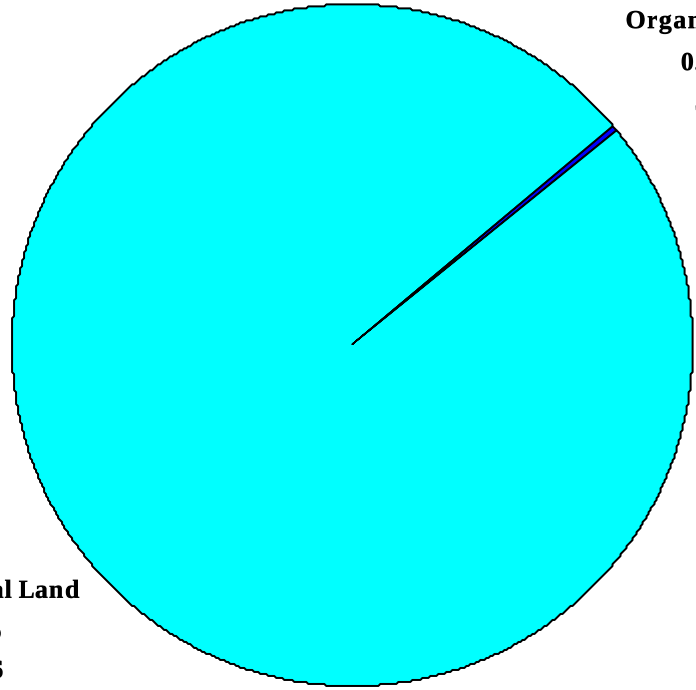
- **IIIc. Imports will continue to be the main source of organic products for the foreseeable future**

IIIa. The industry faces an ongoing problem of inadequate supply leading to high prices

- **The amount of organically certified land in the UK is growing quickly**
  - **Organic land represents less than 0.3% of the UK's total agricultural land**
  - **Organic land has been growing at 18% a year**
  - **In 1997, 86.2% of all organic land in the UK was used for grazing livestock and only 1% for horticulture**
  - **There is four times as much land currently "in-conversion" to full organic status**
- **Farmers still face real difficulties and obstacles in organic conversion**
- **UK-produced supply is falling behind demand**
- **Limited supply is leading to higher prices**

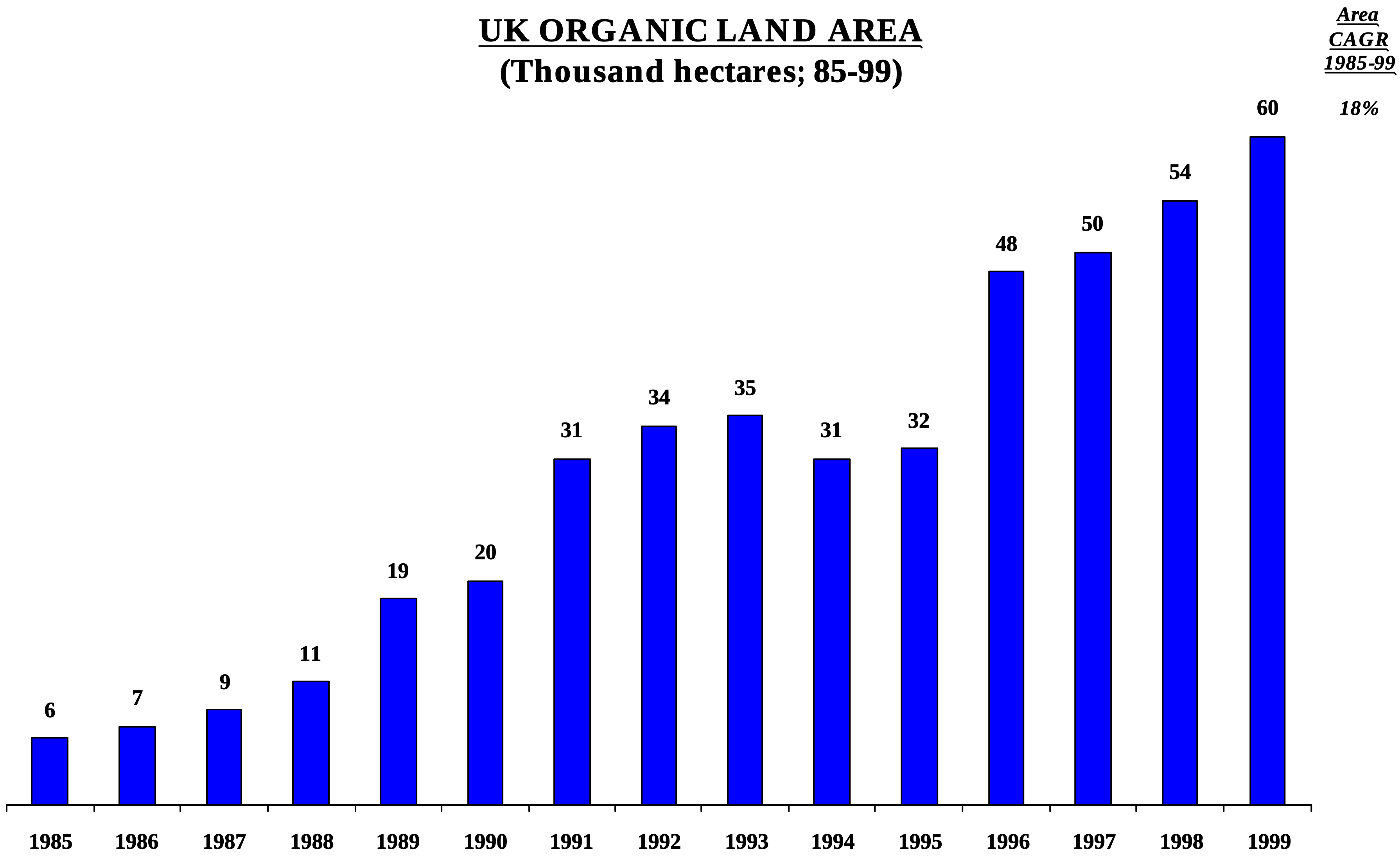
Organic land represents less than 0.3% of the UK's total agricultural land

UK AGRICULTURAL LAND USE
(Thousand hectares; 1998)



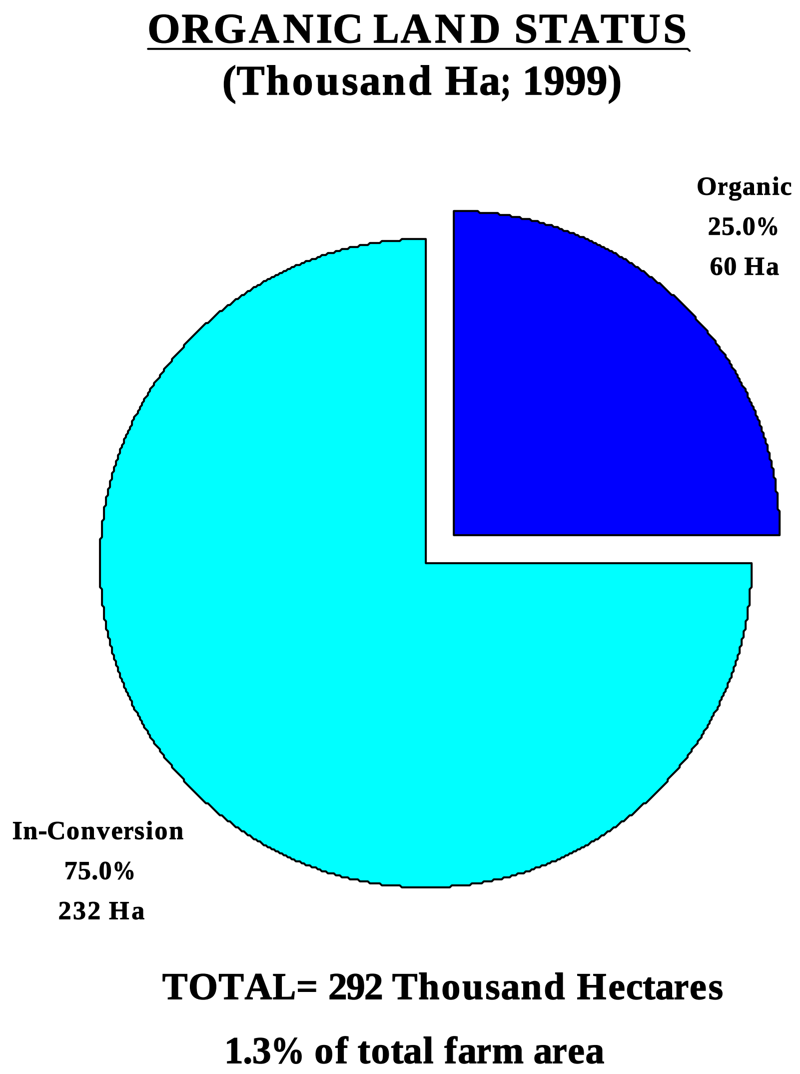
Source: Soil Conservation

Organic land has been growing at 18% a year



Source: MAFF; SÖL; Soil Conservation; Coriolis analysis and estimates

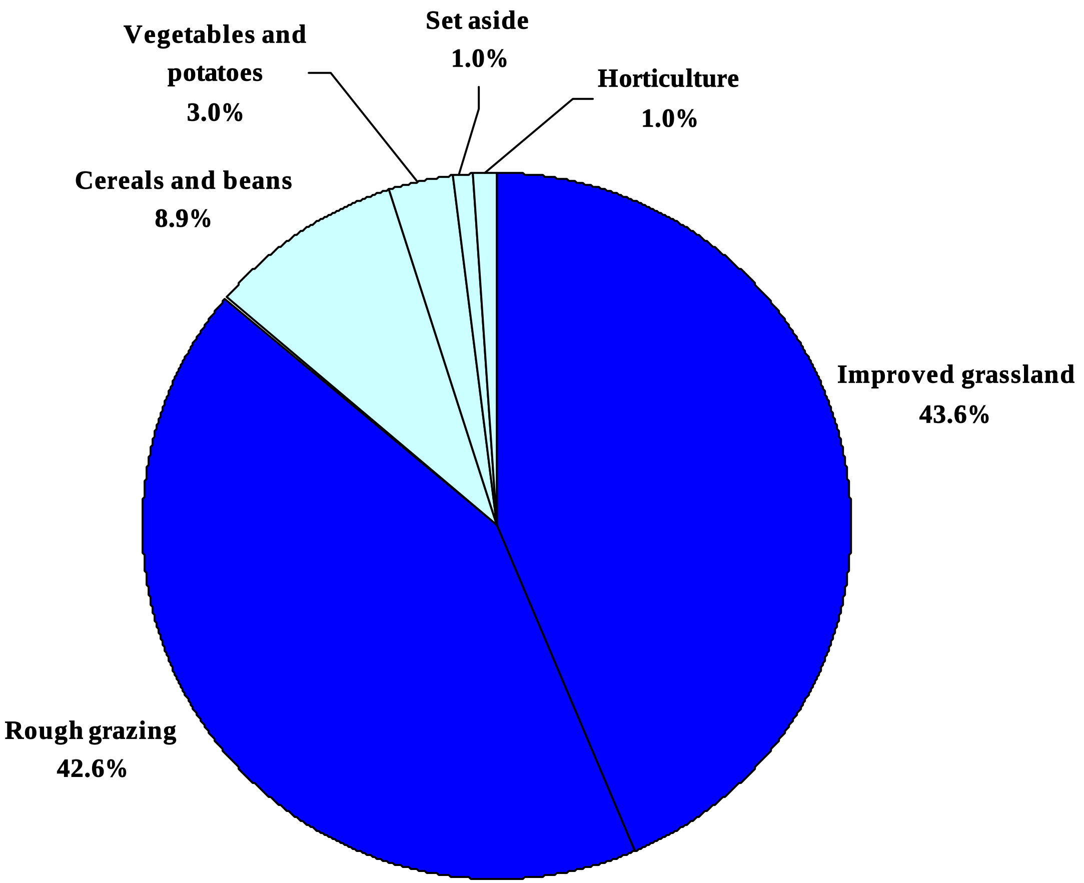
There is four times as much land currently "in-conversion" to full organic status



Source: MAFF; SÖL 1999

In 1997, 86.2% of all organic land in the UK was used for grazing livestock and only 1% for horticultural products

UK ORGANIC LAND BY TYPE
(% of total; 1997)



Source: MAFF

Farmers still face real difficulties and obstacles in organic conversion

CONVERSION ISSUES

- Lower yields for same production, difficult to convert top fruit (pears, apples)
- More land used for same production levels
- "Significantly greater labour input"
- Higher production costs (high cost of supplementary feed, veterinary problems)
- Limited number of registered abattoirs and other processing facilities
- Difficulties obtaining: certain breeds, feed
- Products perish during transport and storage
- Loss of income during conversion (three to five years)
- Limited subsidies available

UK-produced supply is falling behind demand

- “Competition for supply is every bit as acute as that for customers, and most organic food on supermarket shelves has to be imported to meet demand.”

  Independent (UK), Sept 1999

- “Production is only growing at 28% while demand is topping 40% year on year for fresh produce.”

  Yeo Valley Organic Dairy, website, June 2000

- “There is now an unprecedented level of demand which is currently not being met by UK producers. We are importing over 70% of all organic food sold in the UK.”

  Simon Brenman, UK Soil Association, 1999

Limited supply is leading to higher prices

- "Some organically-raised meat can be nearly twice as expensive as conventional products but stores hope the gap will narrow as more farmers enter the market."

  Guardian, September 1999

- "There is a huge shortage of organic milk and other fresh produce and growing customer demand drives prices up."

  Alan Wilson, Agronomist, Waitrose March, 1999

- "Increased accessibility has undoubtedly led to organic food prices falling."

  Retail News, January 1999

IIIb. A number of initiatives have been undertaken to increase domestic supply

- **The UK government has provided subsidies for organic conversion**

- **Retailers are supporting domestic growers in an effort to overcome intermittent and inadequate supply**

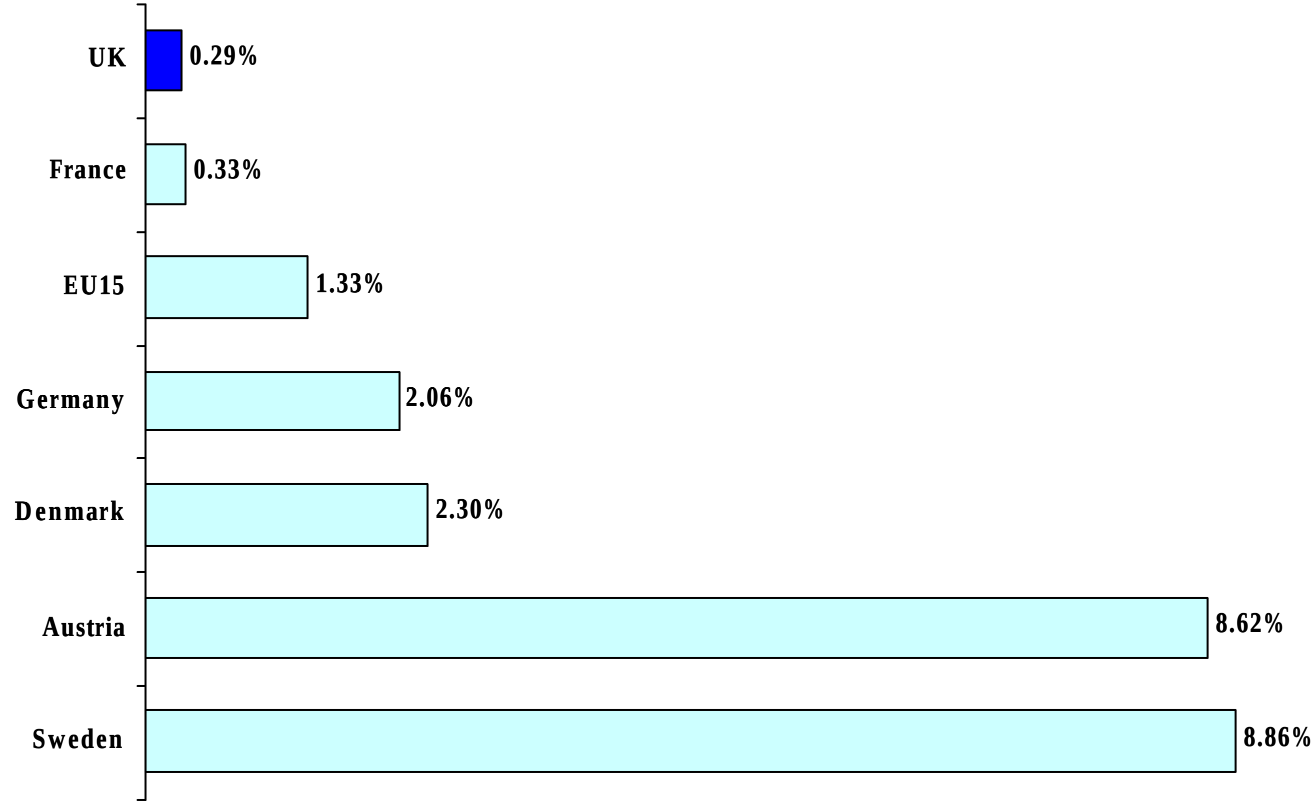
- **The major supermarkets are also funding industry programs and research**

The UK government has provided subsidies for organic conversion

- **By European standards, the UK has a relatively small area in organic production**
- **In Europe, the higher the subsidy, the more land that is converted to organic**
- **To date the UK government has spent £24 million on Aid Schemes**
- **Some feel the government is not doing enough to help farmers, leaving them disadvantaged**

By European standards, the UK has a relatively small area in organic production

EUROPEAN ORGANIC FARM AREA
(% of total agricultural area; Hectares; 1997)

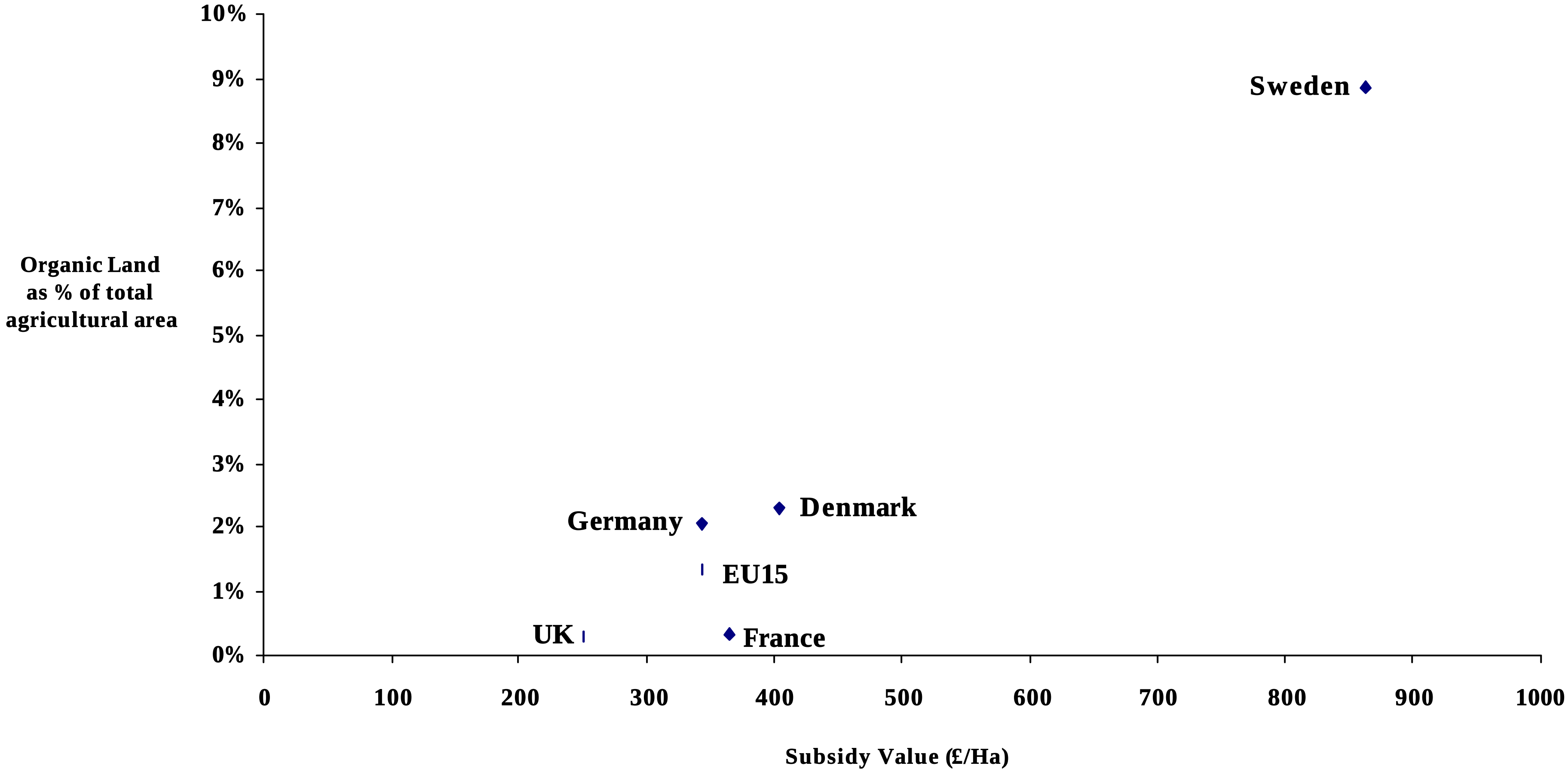


	Organic Land CAGR 85-97	Maximum Subsidy Avail (£/Ha)
UK	*19.2%*	*£250*
France	*6.9%*	*£365*
EU15	*23.2%*	*£343*
Germany	*40.9%*	*£863*
Denmark	*32.0%*	*£404*
Austria	*38.0%*	*N/A*
Sweden	*26.5%*	*N/A*

Source: MAFF; Eurostat, SÖL

In Europe, the higher the subsidy, the more land that is converted to organic

EUROPE: ORGANIC LAND AREA VS. SUBSIDY VALUE
(£/Ha vs. % of organic land; 1997)



Source: MAFF

To date the UK government has spent £24 million on Aid Schemes

- **"The Organic Aid Scheme introduced by MAFF in 1994 initially provided conversion aid at a level of only about one third of the European norm. In 1999 the rates of support over five years will be increased to between £350 and £450/ha – equal to the average EU payment to converting farmers."**

  Soil Association (UK), 1999

- **"I am very pleased to launch the Organic Farming Scheme today…We expect demand for the new Scheme to be strong and we expect the budget for it to be fully committed… I know that some of you would like us to go further and provide continuing financial support for organic farmers."**

  Nick Brown, Agriculture Minister, April 1999

- **"MAFF has reopened the Organic farming Scheme. The scheme exhausted its £16 million funds just after six months, another £10 million was allocated in November 1999."**

  USDA, Attache Report, 2000

Some feel the government is not doing enough to help farmers, leaving them disadvantaged

- **"UK organic farmers are disadvantaged; by the higher levels of support available to their European competitors, lack of advice, training and technical support and the volatile organic market."**

  MAFF, 1997

- **"The government needs to respond to public opinion and recognise that the development of sustainable agriculture cannot be left to market forces alone…I challenge the government to set a target of 30% of organic production by 2010. "**

  Simon Brenman, Soil Association (UK), October 1999

- **"British farmers will have difficulty meeting the demand because the incentives fund to help those wanting to convert ran out of cash eight months ago and would not be making a payment again until next April…Additional funding could encourage farmers to covert and lower the risk of foreign investors stepping in to fill the gap."**

  Joan Ruddock, Labour MP, July 2000

- **"The lack of financial support serves to drive up the cost of organic food to the consumer, limiting its availability and distorting the market in favour of imports."**

  Soil Association (UK), October 1999

Retailers are supporting domestic growers in an effort to overcome intermittent and inadequate supply

- **"Our guarantee of a market for organic milk for at least 5 years gives the farmers the confidence they need to invest in and expand their business."**

  Sainsbury's Annual Report, Dino Adriano Speech 1999

- **"To meet increasing consumer demand, we are now concentrating on developing partnerships with farmers, suppliers and research organisations to boost the amount of organic food available."**

  Ian Merton Trading Director, Sainsbury, September 1999

- **"Asda is to pay livestock farmers to go organic to increase supplies to the fastest growing sector of the food market."**

  Guardian, April 2000

- **"We are working with suppliers to help them scale up production, improve efficiency and add value to the supply chain."**

  Andrew Batty, Commercial Director, Tesco, September 2000

The major supermarkets are also funding industry programs and research

RETAILER ORGANIC CONTRIBUTIONS

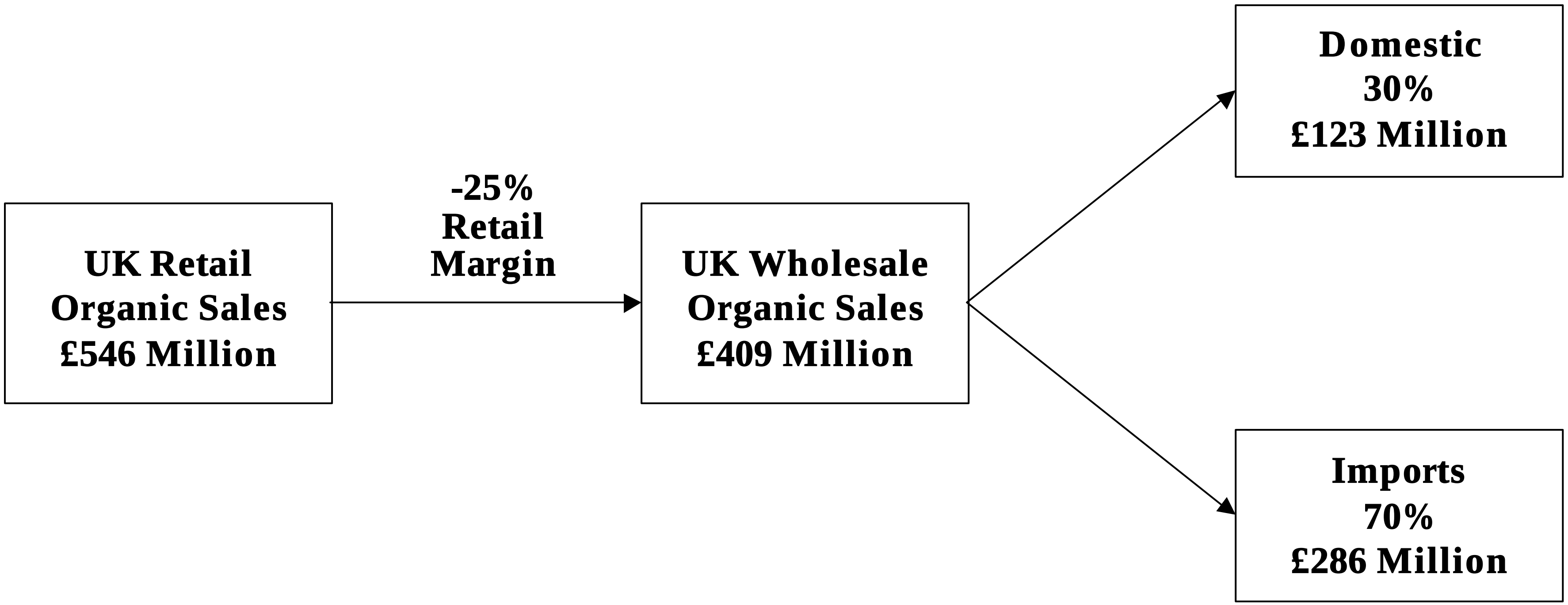
Company	Action
Tesco 1998	Gives £250,000 annually to the Aberdeen University Center for Organic Culture
	Funds a 5 year arable research program at Newcastle University
Sainsbury 1998	Started the Organic Resourcing Club, which guarantees milk prices to farmers for the next 5 years to encourage conversion
Sainsbury 2000	Internet site for organic suppliers so networking possible
Iceland 1999	Gave £1 million to the National Trust, to help convert its farms to organic production
Waitrose 1998	Waitrose Organic Assistance Scheme gives financial help and guarantees a market for suppliers
ASDA 2000	Promised £3 million over three years for livestock farmers to convert

IIIc. Imports will continue to be the main source of organic products for the foreseeable future

- **Imports currently account for 70% of UK organic food sales**
- **Imports are stronger in horticultural products and grains**
- **Imports will continue to makeup the the shortfall of domestic organic production**

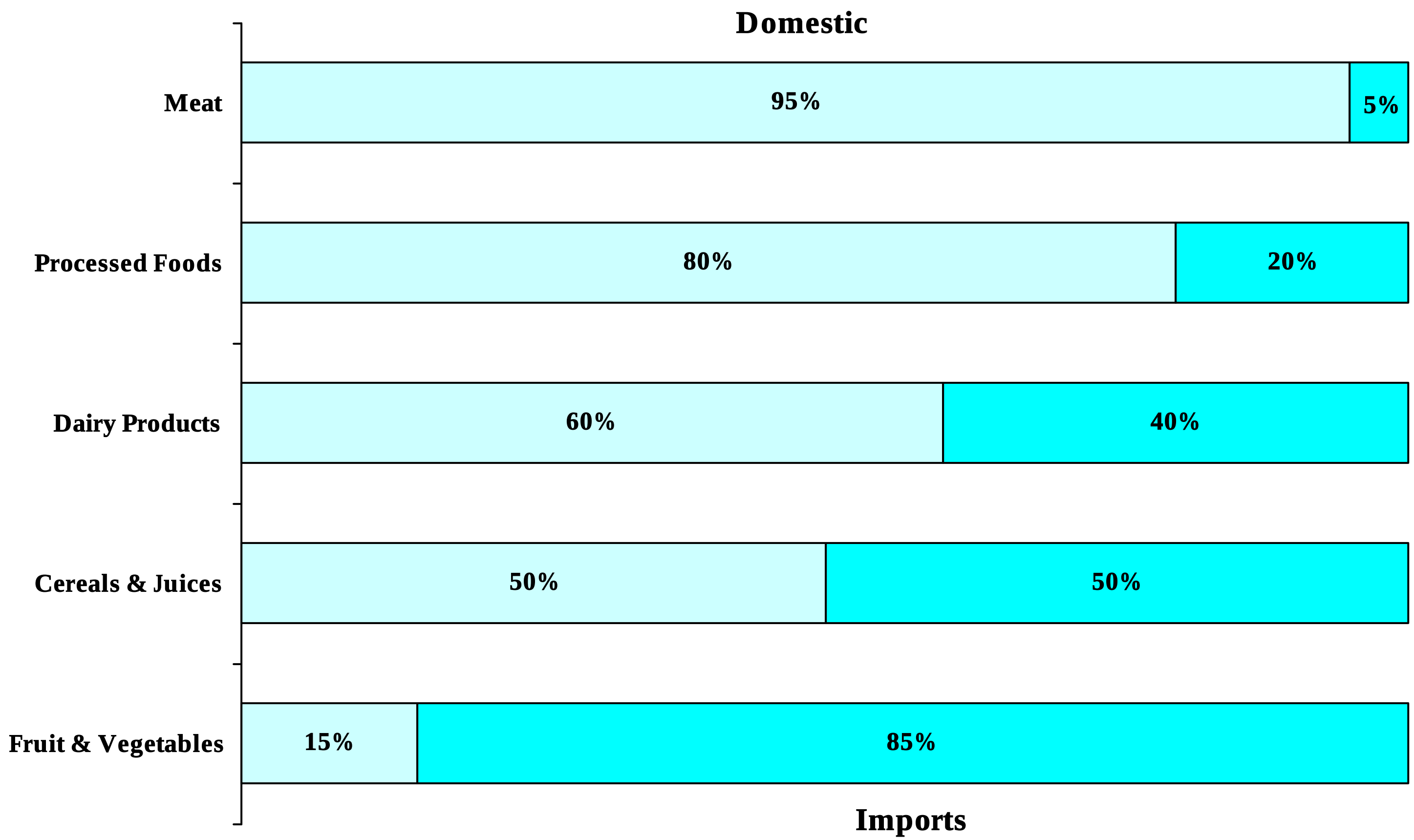
Imports currently account for 70% of UK organic food sales

ORGANIC FOOD SUPPLY CHAIN BY ORIGIN
(£Millions; 1999)



Imports are stronger in horticultural products and grains

ORIGIN OF PRODUCT BY CATEGORY
(% of sales value; 1999)



Source: MAFF, 1999

Imports will continue to makeup the the shortfall of domestic organic production