MarketLine Case Study

The UK organic market

Recovery and expansion

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OVERVIEW

Catalyst

Sales of organic products in the UK witnessed a return to growth in 2013, following four years of contraction. The market is now worth £1.7bn (approximately $2.6bn). This case study looks at how the organic market is defined, and the requirements products must meet in order to be labeled as 'organic'. It also looks at the organic produce, organic health and beauty, and organic textiles industries, as well as the leading retailers distributing organic food.

Summary

- Organic principles apply to the way that soils, water, plants and animals are tended in order to produce and distribute food and other goods, such as health and beauty products, and textiles. These principles are the principle of health, the principle of ecology, the principle of fairness, and the principle of care.
- Products labeled as organic must meet certain standards. For example, members of the European Union (EU) are subject to organic standards laid down by EU law. These standards cover all aspects of food production, and ensure that products labeled as organic are genuine. Standards also relate to animal welfare, wildlife conservation, food processing, and packaging.
- According to a survey by YouGov and the Soil Association in February 2014, the top reasons for buying organic were: fewer pesticides/chemicals (37% of respondents stated this as a motivating factor); natural/unprocessed (34%); and healthier for the respondent and their family (33%).
- In the UK, organic produce is far and away the largest segment of the organic market. It accounts for nearly 97% of organic sales in the UK, while the health and beauty market has a share of just over 2%, and the textiles market has a share of 1%.
- The Organic Research Centre's 2013 survey of English producers found that 3% of respondents intended to leave organic farming within a year, and 9% of dairy producers said they expected to reduce milk production in the next two years. 29% and 25% of pig and egg producers, respectively, intended to reduce production. Many of these farmers question whether or not their businesses can remain viable based on farmgate prices. This raises significant questions about a balance between demand and supply.
- Organic sales through multiple retailers (supermarkets) hit £1.3bn (approximately $2bn) in 2013, having grown by 1.2%. This pushed multiple retailers to a distribution share of 71.3% of the UK organic market in 2013. The UK's biggest organic retailer is Sainsbury's, representing 29% of total multiple retailers' sales in 2013.
- Home delivery schemes have been doing particularly well: sales grew by 11% in 2013 to reach £193.6m (approximately $302.6m). Abel & Cole and Riverford, the two biggest box schemes, witnessed sales growth of 22% and 9.6% respectively. 10% growth is predicted by both companies for 2014.
- According to the Soil Association, four out of five UK households buy organic products, and growth is driven by young consumers. Those aged 28-34 are most likely to spend more on organic food, while those aged 65 and over are much less likely.
- One product that is finding organic versions increasingly favored is baby food. Over half of spending (54.8%) on baby food goes on organic products. Sales of non-organic baby food fell by 7.9% in 2013. Baby food represented 10.4% of the UK organic market in 2013, up 1.2% from 2012.

TABLE OF CONTENTS

LIST OF TABLES

TABLE OF FIGURES

ORGANIC FOLLOWS THE PRINCIPLES OF HEALTH, ECOLOGY, FAIRNESS, AND CARE

As well as following these principles, organic products must meet certain standards in order to label themselves as 'organic'. Most people buy organic foods for health reasons, and young consumers under 34 are the key to accelerating future growth.

Internationally recognized principles define organic

The practices of organic farmers are based on a set of internationally recognized principles. In the broadest sense, organic principles apply to the way that soils, water, plants and animals are tended in order to produce and distribute food and other goods, such as health and beauty products, and textiles.

These principles are the principle of health, the principle of ecology, the principle of fairness, and the principle of care.

The principle of health

The principle of health is defined by the Soil Association as such: "Organic Agriculture should sustain and enhance the health of soil, plant, animal, human and planet as one and indivisible."

The principle emphasizes the link between a healthy ecosystem and healthy individuals and communities. Healthy soils produce healthy crops and these, in turn, contribute to the health of animals and people. Organic agriculture sustains and enhances the health of ecosystems and organisms, and essentially aims to produce food that is high quality and nutritious. Following these principles, therefore, means that organic agriculture should avoid the use of fertilizers, pesticides, animal drugs and food additives.

The principle of ecology

The principle of ecology is defined as such: "Organic Agriculture should be based on living ecological systems and cycles, work with them, emulate them and help sustain them."

Essentially, this principle is founded on the view that nature's ecological balances should not be disrupted by organic farming. Additionally, under the principle, those who produce, distribute and consume organic products should protect and act in the interest of the environment, including the climate, habitats, biodiversity, landscapes, air, and water. In order to protect ecological systems, organic farming should take into consideration, and adapt its practices to, local conditions, ecology, and culture, as well as scale. The principle also highlights the importance of inputs, stating that inputs should be reused and recycled in order to conserve materials, energy, and resources.

The principle of fairness

The principle of fairness is defined by the Soil Association as such: "Organic Agriculture should build on relationships that ensure fairness with regard to the common environment and life opportunities".

This principle emphasizes the importance of equity, respect, and justice, with regards to human relationships, animals, and the environment. Organic agriculture should work in a manner that ensures fairness at all production, distribution and consumption levels. Farmers, workers, processors, distributors, traders, and consumers should be provided with a good quality of life and should contribute to food sovereignty and a reduction of poverty. Animals' physiology, natural behavior and well-being should be catered for, with an emphasis placed on their conditions and opportunities of life. Environmental and social costs should be considered, and socially and ecologically just systems of production, distribution, and trade should be used.

The principle of care

The principle of care is defined as such: "Organic Agriculture should be managed in a precautionary and responsible manner to protect the health and well-being of current and future generations and the environment."

Organic agriculture should take care to avoid risks to all those that might be affected. Organic agriculture should use scientific knowledge and practical experience, as well as traditional and indigenous knowledge, to espouse appropriate technologies. This knowledge should also lead to them rejecting unpredictable technologies, such as genetic engineering.

Any product labeling itself as 'organic' must meet certain standards

Rules and regulations are set that define the processes behind making an organic product. Members of the European Union (EU) are subject to organic standards laid down by EU law. These standards cover all aspects of food production, and ensure that products labeled as organic are genuine. Standards also relate to animal welfare, wildlife conservation, food processing, and packaging.

In the UK, a number of different certification bodies exist that carry out inspections to ensure that standards are met. The Soil Association, is an example of a body which has set standards higher than the EU minimum, in areas such as genetically modified (GM) crops and animal welfare. Additionally, the Soil Association has developed standards in fish farming, textiles, and health and beauty care products, areas that the EU has not covered.

Figure 1: An example of Soil Association's organic label

SOURCE: SOIL ASSOCIATION

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Consumers mainly buy organic food for health reasons

There are various reasons why people buy organic produce, including concerns over pesticide use, personal health, the environment, animal welfare, or issues of ethics. However, consumer research suggests that the most important factors are related to health.

According to a survey by YouGov and the Soil Association in February 2014, the top reasons for buying organic were: fewer pesticides/chemicals (37% of respondents stated this as a motivating factor); natural/unprocessed (34%); and healthier for the respondent and their family (33%). In short, health is the overriding factor when it comes to the consumer choosing to buy organic produce. Other motivations include taste, animal welfare, exclusion of GM ingredients, safety, and ethics.

Table 1: Top reasons stated for buying organic (% of respondents)

Produce	2013
Fewer pesticides/chemicals	37%
Natural/unprocessed	34%
Healthier	33%
Better for nature/environment	29%
Tastes better	24%
Better animal welfare	21%
No GM ingredients	21%
Safer to eat	20%
More ethical	19%
Other	20%

SOURCE: SOIL ASSOCIATION ORGANIC MARKET REPORT 2014

MARKETLINE

Younger consumers are more likely to spend more on organic food

According to the Soil Association, four out of five households buy organic products, and growth is driven by young consumers. Those aged 28-34 are most likely to spend more on organic food, while those aged 65 and over are much less likely.

As young people under the age of 34 are the key to accelerating future growth in the organic products market, brands may find it an advantage to find out why this is, and what kinds of products young people are buying. An important factor may be a higher level of disposable income: per capita, families with no children spend more than large families.

One product that is finding organic versions increasingly favored is baby food. Over half of spending (54.8%) on baby food goes on organic products. Sales of non-organic baby food fell by 7.9% in 2013. Baby food represented 10.4% of the UK organic market in 2013, up 1.2% from 2012.

This all signifies a change in priorities for some shoppers. As the trend for organic products is on an upward trajectory, brands and retailers offering organic products will be catering to an increasingly important market.

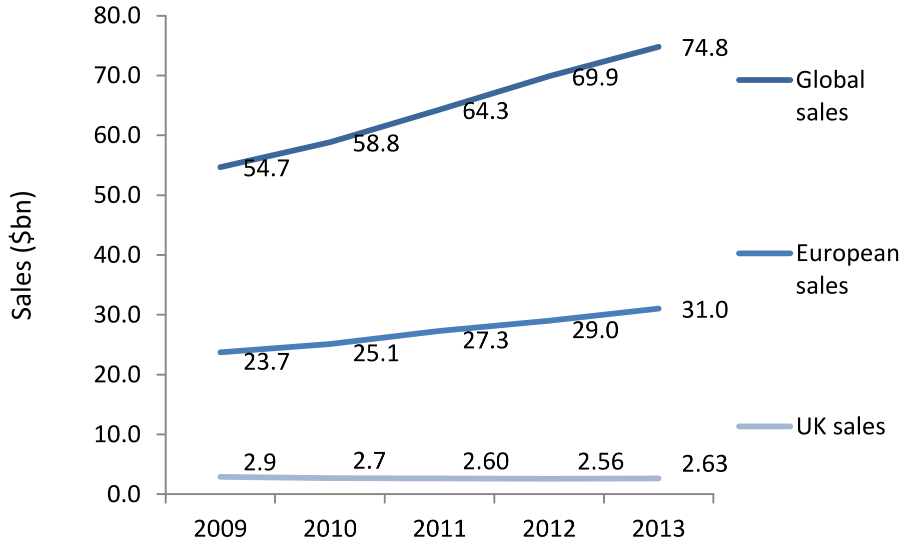
ORGANIC PRODUCTS INCLUDE FOOD, TEXTILES, AND HEALTH AND BEAUTY

In the UK, sales of organic products are accelerating following a difficult period during the recession. In particular, sales of organic health and beauty products and textiles are witnessing strong growth. The organic food market has been largely propelled by the horsemeat scandal. The textiles market has grown strongly in recent years, particularly with regards to cotton. The health and beauty market has developed several organic certification standards, and a number of multinational companies have acquired smaller organic health and beauty companies.

The UK organic products market was worth £1.7bn at the end of 2013

The UK organic market has recovered: the market was worth £1.7bn (approximately $2.6bn) in 2013, representing growth of 2.8%. The Soil Association report describes this as "a decisive return to growth after four years of contraction", and growth rates have been over the rate of annual inflation and wage rises. Despite the four years of contraction in the UK, the European and global organic markets have seen consistently increasing sales, which points to an increasing preference for organic products in some countries.

Figure 2: Value and growth of the UK, European, and global organic markets, 2009-2013



SOURCE: MARKETLINE

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In the UK, organic produce is far and away the largest segment of the organic market. It accounts for nearly 97% of organic sales in the UK, while health and beauty products have a share of just over 2%, and textiles have a share of 1%.

The market is predicted to continue to experience increased sales in 2014: 80% of leading organic businesses anticipate a growth in sales, as well as 84% of independent retailers.

The organic sales revival has not been felt by some farmers

Organically managed land in the UK has been in decline since 2009. According to data from Defra (Department for Environment Food & Rural Affairs), there were 551,000 hectares of organic land (plus 24,000 hectares of in-conversion land) at the end of 2013, compared to 573,000 hectares (plus 32,000 hectares of in-conversion land) in 2012.

However, the organic market grew in 2013, and future outlooks remain optimistic. 84% of independent retailers expect increased sales in 2013, and, in a YouGov poll in February 2014, 73% of organic shoppers surveyed said that they expected to buy more organic products in the year coming than the last, particularly fruit and vegetables, eggs, and chicken. Despite this, a number of organic farms plan on leaving the organic produce market.

Organic Research Centre's 2013 survey of English producers found that 3% of respondents intended to leave organic farming within a year, and 9% of dairy producers said they expected to reduce milk production in the next two years. 29% and 25% of pig and egg producers, respectively, intended to reduce production. Many of these farmers question whether or not their businesses can remain viable based on farmgate prices. This raises significant questions about a balance between demand and supply.

If UK producers cannot satisfy demand, it may have to be supported by imported products. This would represent the loss of a change to improve biodiversity in the UK, as well as employment in agriculture. It would also be less environmentally friendly. This may put off consumers. However, looking at the bigger picture provides evidence that the organic market outlook is a positive one. As well as consumer demand and organic sales rising, the Soil Association found that organic farm businesses are more profitable than their non-organic counterparts. Moreover, the volatility experienced by their non-organic counterparts during the 2006-2012 period was not experienced to such an extent by organic farmers. Additionally, the lower-input nature of organic farming will strengthen further as input prices continue to rise.

Organic food sales have increased, although vary depending on the product

Organic foods with at least 95% organically produced ingredients witnessed growth in 2013. Particularly strong growth was experienced by dairy and organic vegetables. The horsemeat scandal was thought to have had a significant effect, and sales have continued to increase in 2014.

Organic foods must contain at least 95% organic ingredients

Foods labelled as organic must comply with EU regulations 834/2007 and 889/2008, and 95% of ingredients must come from organically produced plants and animals.

To allow for the fact that some ingredients are not available organically, a list of approved non-organic food ingredients are allowed for up to 5% of ingredients of a product. Some additives and processing aids and non-food ingredients, such as salt and water, are also allowed. Organic foods must not contain artificial colorings and sweeteners.

Dairy and organic vegetables witnessed particularly strong growth

Table 2: Multiple retail product shares of the UK organic produce market, 2013, % change

Produce	2013	% change
Dairy	30.2%	4.4%
Fruit and vegetables	23.7%	-0.5%
Canned/packaged	13.9%	0.8%
Meat/fish/poultry	11%	2.2%
Baby food	10.4%	1.2%
Confectionery/soft drinks	3.90%	-2.70%
Beer/wine/spirits	2.10%	-7.60%
Bakery/cakes	1.80%	-12.10%

SOURCE: SOIL ASSOCIATION ORGANIC MARKET REPORT 2014 MARKETLINE

UK sales of organic food increased by 2.8% in 2013, to push the overall market value to £1,789.3m (approximately $2,797.0m) compared to £1,741.1m (approximately $2,722.0m) in 2012. The largest segment, dairy, was also the one that witnessed the strongest growth through multiple retailers: 4.40%. This segment, with a 30.2% share of multiple retail sales in 2013, was largely pushed by milk sales and yoghurt sales, which were up by 5% and 7%, respectively. Organic vegetables also grew strongly, experiencing a growth in sales of 3.4%. Despite this, the fruits and vegetables segment, with a share of 23.7% of multiple retailer organic sales, contracted by 0.5% in 2013.

Sales of organic baby food remained constant in 2013, while sales of non-organic baby food fell by 7.9%. Retail sales of organic baby food in supermarkets now account for 54.8% of baby food supermarket sales. The reason for this is linked to the type of consumer buying organic products. The organic market's growth is driven by young consumers, and these are the same consumers most likely to be buying baby products. This is discussed in more detail later on in the report.

The horsemeat controversy and increased marketing have pushed organic food sales

In a survey of independent retailers by the Soil Association, 37% of respondents said that growth was propelled by new product development, and 34% of independent retailers said one of the biggest factors in growing organic sales was increased marketing. However, 10% said that 'Horsegate' was a major factor. The horsemeat scandal emerged in January 2013, when traces of horsemeat were found in some beefburgers stocked by UK supermarkets, such as Tesco, Iceland, and Lidl. In the following months, further stores and suppliers were affected, as tests revealed that multiple products contained varying quantities of horsemeat.

Following the scandal, consumer concerns over their food's origin grew, and the spring surge in sales of organic beef prompted renewed interest in the wider organic food market. A survey published in January 2014 by Ipsos MORI and The Grocer magazine found that over 30% of adults have changed the way they choose and buy food since the scandal, and 10% of adults eat less processed meat as a result.

In the wake of the scandal, Waitrose saw sales of its Duchy Originals organic beef jump by 52% in 2013, and the company's organic meat growth beat the market by 17 percentage points. Waitrose's agriculture director, Heather Jenkins, offers insight into these trends: "what we ate in 2013 was shaped by a clear focus on provenance. As the spotlight shone on the relationship between supplier and retailer, the public wanted to know more about where their food comes from."

Sales have continued to increase in 2014

Sales between July 2013 and July 2014 were a very positive sign for the organic produce market, particularly as some organic products have suffered throughout the recession. Between July 2013 and July 2014, the sale of organic produce grew by more than 5%, even though this figure takes into account the last half of 2013, when overall growth was 2.3%. The growth was mostly driven by strong dairy sales. Organic yoghurt saw sales increase by 13.7% and organic milk by 9.2%, with top brands such as Rachel's and Yeo Valley becoming mainstream brands.

This growth has highlighted challenges the market may face in the future. Roger Kerr, Chief Executive Officer of Organic Farmers & Growers, said, "things are looking much brighter for the organic sector, but there are challenges. Integrity of feed is a major issue in ensuring producers are able to take advantage of the increasing demand. If we are going to help meet retailers' targets for organic meat and dairy produce we need to see supplies of organic feed increase dramatically."

Organic textiles have experienced strong, double digit growth

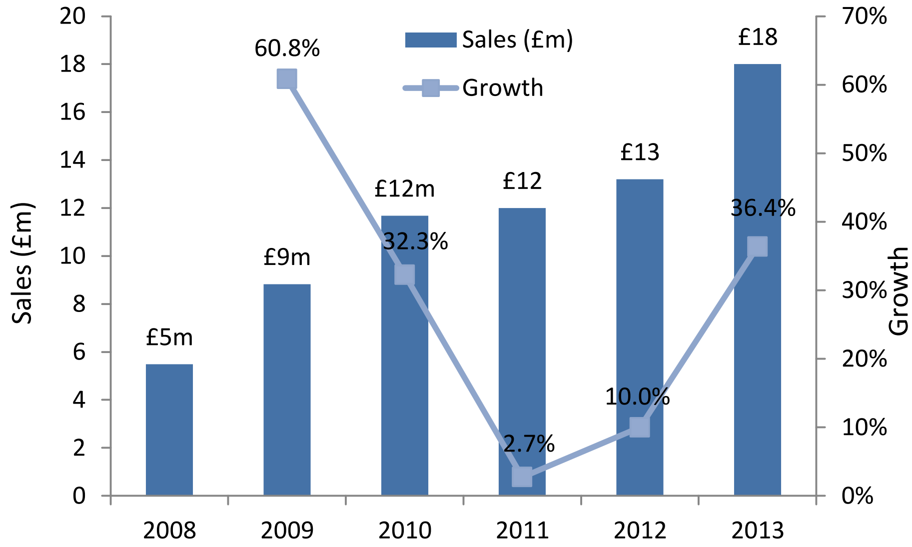
In order for textiles to be certified as organic, the farm production of the fiber and the fiber processing must meet social and environmental responsibility standards at every stage of the processing supply chain. The international standard for organic textiles is the Global Organic Textile Standards (GOTS). The use of harmful pesticides, genetically modified organisms, and harmful manufacturing chemicals are not used in GOTS-certified organic textile production, nor do organic textiles contain allergenic, carcinogenic or toxic chemicals. The Soil Association is the UK's leading certifier of organic textiles to GOTS. It has 73 textile symbol holders, who saw their collective turnover increase by 36% in 2013. The number of GOTS-certified textile facilities rose by 11% in 2013, to 3,016. However, the organic wool sector experienced a decline of a third in terms of volume in 2013, which translated to a decline of 52% in value terms, as wool prices fell by 28% during the year.

In terms of turnover, Soil Association Certification's leading organic textile symbol holder is Continental Clothing, which designs, manufactures and sells wholesale clothing to the imprintables industry, catering for such markets as music merchandise, corporate promotions, and athletics. The company recognizes that it is a leader and is setting an example to the wider industry: "we understand that we have been given a unique and very special opportunity to lead by example and show an entire industry, (the promotional garment industry) an industry currently in denial, how to protect the planet while growing their businesses in a sustainable manner and still making a profit. It's a remarkable position to be in."

The company's organic sales grew by 19% in 2013, and Continental expects these sales to continue growing at a strong rate of 10% in 2014. Moreover, the company has seen its exports increase as a proportion of turnover, from 20% in 2012 to 25% by the end of 2013. This reflects the growing interest in organic textiles outside of the UK, as well as in it.

Sales of organic textiles have jumped in recent years, from £5.5m (approximately $8.5m) in 2008 to £18m (approximately $28.1m) in 2013, representing a surge of 228%. Bar a deceleration in 2011, when growth was 2.7%, each year has experienced strong double digit growth.

Figure 3: Sales of Soil Association-certified organic textiles in the UK, 2008-2013, £m



SOURCE: SOIL ASSOCIATION ORGANIC MARKET REPORT 2014 MARKETLINE

Organic cotton is increasingly popular among multinational companies as well as smaller independents

Cotton is a natural fiber that is grown by 100 million farmers in 80 countries around the world, and accounts for half the world's fiber consumption. The cotton industry is also a source of extensive environmental pollution, with around 16% of the world's insecticides and 10% of pesticides being used on cotton. Additionally, cotton growers often experience poor social conditions. Organic cotton farming, on the other hand, bans the use of hazardous pesticides and uses less energy and water.

With consumer concerns regarding the negative environmental impact of non-organic farming growing, companies would benefit from adopting some organic principles. The Soil Association launched its Cottoned On campaign in 2012, which challenges major players to up their usage of organic cotton. The campaign's main aims are to give control to farmers, not GM companies, eliminate hazardous pesticides, save water, and combat climate change. Fair trade online retailer, People Tree, has worked closely with the Cottoned On campaign, and has seen its organic sales increase. In 2012, the company's organic sales in Europe were £2m (approximately $3.1m), up 16%. More recent figures are not available for this private company.

Organic cotton is increasingly popular among large-scale multinational companies too. Textile Exchange reported that the top five buyers of organic cotton in 2012 were C&A, H&M, Nike, Puma and Coop Swiss. C&A produced 80 million organic clothing items that year, and 7.8% of the cotton used by H&M was certified organic.

Organic health and beauty credentials are under increasing scrutiny, while the market grows quickly

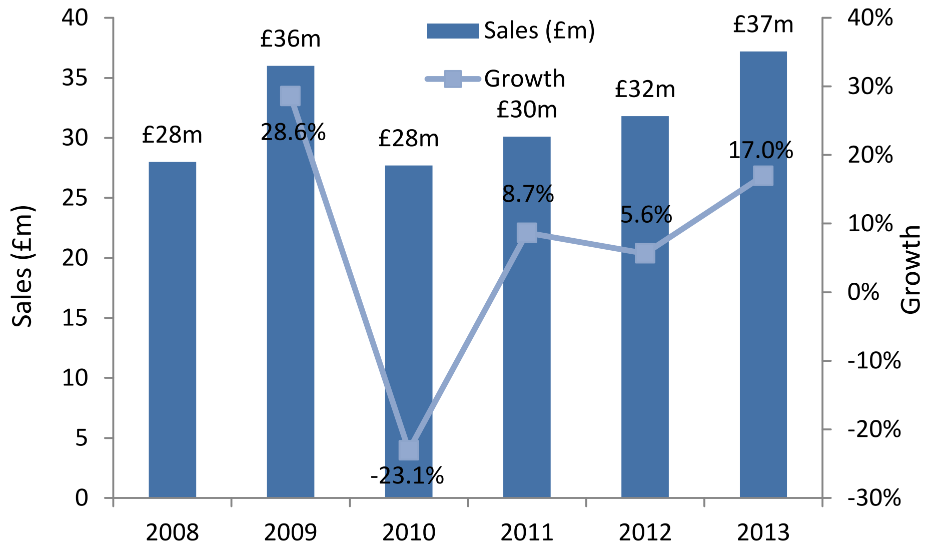
The Soil Association's Cosmetic Organic Standard, or COSMOS-standard, was developed in response to some companies labelling products with as little as 1% organic ingredients as 'organic', because there are no legal standards for organic beauty products.

In order for a product to meet the COSMOS-standard, 20% of the entire product must be organic and 95% of the product's agro-ingredients must be organic. Strict criteria ensure that the remaining ingredients are not damaging to consumer health or the environment.

In cases where a product's organic ingredients are between 70% and 95% of total ingredients, the product can state 'xx% organic ingredients'. Any product with less than 70% organic ingredients cannot display COSMOS-standard certification.

Other organic certifications include the Non Food Certification Company's and Ecocert's Natural and Organic cosmetics standards.

Figure 4: Sales of Soil Association-certified organic health and beauty products in the UK, 2008-2013, £m



SOURCE: SOIL ASSOCIATION ORGANIC MARKET REPORT 2014 MARKETLINE

Sales of certified organic health and beauty products reached £37.2m (approximately $58.2m) in 2013, having grown by 17% since 2012. The number of Soil Association symbol holders increased by a slightly smaller amount; 12.5%, to reach a total of 135.

Leading companies include Neal's Yard Remedies and Yes Yes Company

Neal's Yard Remedies, which specializes in organic skincare products, has experienced strong growth in recent years, making it the market leader in organic health and beauty in the UK, and internationally, as well as the largest Soil Association-certified health and beauty company. The company runs over 40 stores and 450 outlets in the UK, as well as stores and outlets in more than 20 countries in five continents. Neal's Yard Remedies' growth shows no signs of slowing down, with the company launching 48 new organic lines in 2013.

Yes Yes Company is the second-largest Soil Association-certified consumer brand, and it is also experiencing very strong growth. The company now operates in over 70 countries and its organic turnover increased by 23% in 2013.

Pai Skincare, one of the leading companies supporting the Soil Association's Organic Beauty Weekend festival, first run in September 2013, has seen organic sales increase by 38% in 2013. The company has also seen a boom in exports: organic exports accounted for 50% of organic sales in 2013, compared to 30% in 2012.

Multinational corporations have acquired small, organic companies

Companies are increasingly boasting their organic or ethical credentials. The Union for Ethical BioTrade's Biodiversity Barometer 2014 found that, of the biggest 100 beauty companies globally, 60 reported on sustainable development in 2014 (up 16% over 2013) and 31 reported on biodiversity (up 18% over 2013). Furthermore, a higher percentage of the top 20 beauty companies reported on these issues (19 out of 20 reported on sustainable development and 16 out of 20 reported on biodiversity). This suggests that consumers are drawn to companies that partake in sustainable behavior. In this environment, where sustainability, ethical, organic and biodiversity issues are increasingly important to consumers, companies should try their hardest to reflect this. Additionally, most consumers expect to be informed of these credentials: 88% expect to be informed through websites, advertisements, or labels on products.

Examples of much larger companies acquiring smaller organic businesses include the acquisition of The Body Shop by L'Oréal in 2006 and the acquisition of Tom's of Maine by Colgate-Palmolive. These are not the only large companies who market organic, natural, or green products. Jessica Rubino, beauty editor for NewHope360.com said to the Huffington Post, "at this point most mass personal care manufacturers have at least one line that tries to snag a piece of the 'green' market as demand for natural personal care products grows."

The Body Shop was bought by L'Oréal SA for £652m ($1,046m). The deal was seen as controversial by both industry experts and animal rights campaigners, as some of L'Oréal's practices were seen to be in direct conflict with The Body Shop's core values, particularly regarding the issue of animal testing. L'Oréal claims not to have tested finished products on animals since 1989, unless country legislation specifically requires it. However, ethical campaigners have accused the company of testing new ingredients at development stages on animals. It should be noted, however, that these claims are both complex and disputed. Recognizing the difficulty of changing the face of a whole brand, L'Oréal bought The Body Shop and allowed it to remain as a standalone company. Rather than try and market itself as a natural, ethical company, which may cause distrust, the acquisition of The Body Shop indicates the changing values of L'Oréal, and helps to point toward the route L'Oréal plans to take going forward. In 2010, the company launched the Solidarity Sourcing program, inspired by The Body Shop's Community Fair Trade program, with a mission to "help economically vulnerable people find long-term access to work and an income."

MOST CONSUMERS BUY ORGANIC PRODUCE FROM SUPERMARKETS, HOME DELIVERY, FARM SHOPS AND FARMERS' MARKETS

Many distribution channels are increasing their organic product ranges. This expansion means that multiple retailers and restaurants are increasingly competing successfully against more traditional organic retailers such as independent retailers and farmers markets.

Multiple retailers

Organic sales through multiple retailers (supermarkets) hit £1.28bn (approximately $2bn) in 2013, having grown by 1.2%. This pushed multiple retailers to a distribution share of 71.3% of the UK organic market in 2013. The UK's biggest organic retailer is Sainsbury's, representing 29% of total multiple retailers' sales in 2013.

Sainsbury's has pushed sales through establishing its own organic range, which has sales of around £7m (approximately $11m) a week, and grew by 7% in 2013. Sainsbury's SO Organic range represented 69% of Sainsbury's overall organic sales, more than Tesco's (60%), Waitrose (61%), and Ocado (45%). Morrisons' own-label organic share exceeded Sainsbury's, representing 73.7% of sales.

Sainsbury's is not the only multiple retailer pushing organic products and, in particular, own-label organic products. Ocado is the country's fourth largest organic retailer, with organic sales increasing by 10.4% in 2013. Additionally, Ocado's growth looks set to expand at a quick rate, as the company has dramatically increased its organic offerings by 79%, of which 55% are own-label.

Another multiple retailer expanding its organic range is Waitrose, with organic sales rising by 6.5% in 2013, and 2014 sales expected to increase by 7%. The Soil Association attributed some of Waitrose's growth to "[gaining] customers from Sainsbury's and Tesco during the horsemeat controversy." The horsemeat scandal broke at the beginning of 2013, when undeclared horse DNA was found in frozen beefburgers on sale in Tesco, Aldi, Lidl and Iceland. As the scandal went on, more products were found to contain horsemeat.

The horsemeat scandal affected consumers' buying habits, with the Guardian reporting in February 2013 that frozen beef burger sales had decreased by 43% since the scandal broke the previous month. Other retailers witnessed growth: Riverford Organic Farms said sales over a period of four weeks following the scandal (also reported in February 2013) were up 41% compared to the same period in 2012.

The Soil Association concluded that what these retailers (Sainsbury's, Ocado, and Waitrose) have in common is a strong online presence and extensive organic product ranges, as well as a strong commitment to new product development and marketing.

Furthermore, organic shoppers tend to spend more on shopping than the average consumer, with this particularly apparent when comparing spending on premium products. These retailers' rivals need to respond to the growing demand for organic food and, if they fail to do so, they risk losing market share to both other supermarkets and other types of retailers.

A poll by Ipsos Mori, 12 months on from the horsemeat scandal, found that 31% of respondents had changed the way they choose or buy food in that time, with 10% purchasing less processed meat and 8% purchasing fewer ready-meals. Moreover, 7% bought more meat from high-street butchers. Although consumers still buy conventional meat, the horsemeat scandal has worked as a catalyst to increase the skepticism of the consumer, with consumers more likely to question where their food has originated (45% of respondents cited a 'betrayal of trust' as a main issue brought up by the horsemeat scandal.)

Catherine Fookes, campaign manager at the Organic Trade Board, remarked that "people's confidence has been shaken and it has probably made some new people want to try organic products."

Independent retailers

Sales through independent outlets rose by 6.9% in 2013 to a value of £513m (approximately $801m). Independent outlets include box schemes; farm, health and wholefood shops; farmers' markets; and online purchases. Most independent retailers have seen strong growth: a Soil Association survey found that 75% grew, with three quarters of these retailers reporting sales growth of more than 10%. Only 6% experienced a decline in sales.

Home delivery schemes have been doing particularly well: sales grew by 11% in 2013 to reach £193.6m (approximately $302.6m). Abel & Cole and Riverford, the two biggest box schemes, grew by 22% and 9.6% respectively. 10% growth is predicted by both companies for 2014.

Box schemes have gained popularity for a variety of reasons.

Simon Wright, a sustainable food consultant, said, "Organic enthusiasts are looking for a wider range of organic products than can be found in their local Tesco. This has led to the rise in organic sales at Waitrose, specialist retailers such as Planet Organic and box schemes.

Moreover, box schemes can be convenient and easy to use, and consumers can be assured of their quality. Business development director at the Soil Association, Jim Twine, explains: "With many of them you can have the farmer pick the produce in the morning, put it in the box and [it will] be with you the same day. And it's all underpinned with the assurance that the produce is certified organic."

Restaurants

While still a relatively small contributor to the overall organic produce market, worth £17.5m (approximately $27.4m) in 2013, sales of organic food and drink through the foodservice sector grew by 10%. Public sector catering demand has grown, as well as high street restaurants, cafes and takeaway food outlets. The Soil Association's foodservice best practice scheme, Food for Life Catering Mark, accredited over 160 million meals served in 2013, an increase of 14% from 2012. Meals served at the Silver and Gold accreditation levels rose by 60% in the same time period, and the scheme was recognized by the government as an "effective way to raise food standards", with both the Department of Education and NHS England using it to demonstrate the standards caterers should be aiming to achieve. In fact, 6,000 schools, including one third of primary schools in Scotland, eat Catering Mark meals every day.

Organic products are also on the up at restaurant chains. McDonald's, for example, increased its organic milk volume by 4% 2013, and Pret A Manger has used organic milk for its tea, coffee and milk products for over two years. This appears to be a popular switch, as the company's UK coffee sales increased by 9% in 2013.

CONCLUSIONS

The UK organic market performed well in 2013, with strong future growth predicted.

The UK organic market is thought to be out of the woods

The UK organic market's growth in 2013 outpaced that of annual inflation and wage rises, reaching 2.8%, the first year of growth following a four-year period of contraction throughout the recession.

Despite the UK's faltering growth during this period, Figure 2 shows that European and global organic sales have consistently seen growth, showing the increasing preference of consumers towards organic products.

Many retailers feel that the organic market is out of the problem period, with many predicting increasing sales in 2014. For example, 73% of shoppers expect to buy more organic produce in 2014, and 80% of leading organic businesses anticipate a growth in sales.

Additionally, despite some farmers stating that their businesses based on farmgate prices are not viable, the fact that sales are rising, and organic farm businesses are more profitable and less prone to volatility than non-organic farm businesses, means that consumers should be faced with an increasing number of organic products to consume.

Health and beauty products and textiles are growing quickly

Produce is traditionally thought of as products that could have organic counterparts. This is highlighted by organic produce's share of the UK's total organic market: organic produce is representative of 96% of organic sales in the UK.

However, organic health and beauty products and textiles have been growing quickly, outpacing many organic food products. The organic UK textiles market, for example, grew by 36% in 2013, to reach £18m (approximately $28m), and the organic UK health and beauty market grew by 17% to reach a value of £37m (approximately $57.8m) in 2013.

These strongly growing markets should see an increasing number of companies attempting to gain some market share. This may be from companies who have an organic-focus, such as Neal's Yard Remedies and People Tree, or it could be from much larger consumer companies, such as Colgate-Palmolive and L'Oréal, both of whom have already made significant acquisitions in the field.

These companies are responding to a shift in public perception and values. This is reflected in BioTrade's Biodiversity Barometer report, where a higher percentage of the most successful health and beauty companies reported on issues of sustainable development and biodiversity in 2014, compared to the less successful health and beauty companies.

Consumers can purchase organic products from a wide range of places

The distribution channels from which organic products can be purchased is varied. The channel with the largest distribution share is multiple retailers; supermarkets like Sainsbury's and Tesco.

This is due, in part, to the branded products these retailers sell. However, many of the bigger retailers have pushed their own-label organic products. For example, Morrisons' own-label organic products represent 73.7% of total organic sales. Sainsbury's, which has organic sales of around £7m (approximately $11m) in the UK each week, reports that it's SO Organic (own-label) range represents nearly 70% of its total organic sales.

These supermarkets have responded well to growing consumer preferences for knowing more about where their food is sourced from. The horsemeat scandal, in particular, strongly affected consumers' buying habits, with the Guardian reporting that between January and February 2013, frozen beef burger sales dropped by 43%. In comparison, Waitrose saw sales of its Duchy Originals organic beef jump by 52% in 2013.

Sainsbury's, Waitrose and Ocado, in particular, have managed to boost their organic sales. The Soil Association reports that all three companies have a strong online presence, extensive organic product ranges, and a strong commitment to new product development and marketing. As such, these supermarkets are well-placed to cater to the growing number of consumers interested in organic produce.

Other channels experiencing strong growth have been home delivery schemes, classed as independent retailers. The two biggest box schemes in the UK, Abel & Cole and Riverford, grew by 22% and 9.6% respectively, and both expect further double digit growth for 2014. These companies have gained an advantage through providing organic products in a convenient way.

Restaurants are a small contributor to the organic product market. However, with giants such as McDonalds upping their use of organic products (McDonalds increased its organic milk volume by 4% in 2013), perhaps a precedent will be set.

Young people spend more on organic products

Research by the Soil Association found that young people under the age of 34 are the key to accelerating future growth in the organic products market. Because of this, producers of organic products, and those thinking of producing organic products, would be savvy to aim their marketing campaigns at this market. They might also want to invest in bringing organic products to market that are more often bought by younger consumers. An example of a product that is mostly driven by young consumers is baby food. Baby products are most often bought by younger consumers raising a young family, and are a good indicator of the changing preferences of younger consumers. In 2013, nearly 55% of spending on baby food was on organic products, while sales of non-organic baby food fell by 7.9%. Additionally, baby food represented 10.4% of the UK organic market in 2013, having shot up from 1.2% in 2012. This is obviously a market in which organic credentials are increasingly important, and food producers who do not cater for organic produce demand risk shutting themselves out of an increasingly powerful market.

APPENDIX

Definitions

Organic – Products in which production is environmentally and animal friendly, without the use of harmful or artificial chemicals, with minimum use of synthetic ingredients

Biodiversity – The variety of micro-organisms, plants and animals and their ecosystems

Farmgate prices – The price directly from the producer

Box schemes – A package of fresh fruit and vegetables delivered directly to the consumer, often as part of a weekly or fortnightly subscription

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