Organic food is pricier, but shoppers crave it

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(Photo: RAYMOND ROIG, AFP/Getty Images)

Organic food sales are setting records as more mainstream Americans fill their shopping carts with everything from eggs to gummy fruit snacks.

Having shed its hippy-dippy image, organic food is among the faster-growing categories in supermarkets even though it adds to food bills and studies vary when it comes to perceived health benefits.

Organic food producers, which now includes giants such as General Mills, are capturing more consumers such as business coach Patty Lennon of Brookfield, Conn.

"It's produced in a healthier way, without pesticides, without any bad things that contaminate the growth of the food and the growth of my kids," the 45-year-old mother of two said. "As my kids grow up, I want to know I've done everything I could to put the right things in their bodies."

Sure, organic costs more. Lennon estimates the $450 she spends on groceries weekly would drop to $275 or $300 if she bought the usual non-organic products. "I have the luxury of being able to afford it," she said..

In 2016, sales of organic food was at an all-time high of $43 billion, according to the Organic Trade Association. *(Photo: Eileen Blass, USAT)*

There are millions of other shoppers like her.

Sales of organic food hit a record $43 billion last year, up 8.4% from the previous year, according to the Organic Trade Association, based in Washington, D.C.. Compare that to the 0.6% growth rate in the overall food category. But they still have a long way to go: Overall, organic food now represents 5.3% of total retail food sales in the U.S.

Interest in organic products is booming not only due to a more conscientious consumer, but also thanks to rising incomes in a strong economy and improved farming practices that make organic yields more robust. The demand for organic extends from supermarket aisles to the multitude of farmers markets that have sprung up.

Organic's rising importance was underscored by Amazon's offer last month to buy Whole Foods Market, the upscale grocery chain known for its expansive produce selection, for $13.7 billion.

"There's an increasing awareness of organic products," said Rupesh Parikh, investment bank Oppenheimer's senior analyst for food, grocery and consumer products, who predicts continued double-digit annual growth. "Consumers are really looking more into what they're eating."

The most popular organic items are fruits and vegetables, which account for close to 40% of all organic food sales, the Organic Trade Association found. Organic produce sales grew at more than twice the rate of total fruit and vegetable sales. Almost 15% of veggies and fruit consumed in the U.S. is now organic.

With consumers' desire for more nutritious, less chemically-laden food comes a willingness to pay more. Some 44% of shoppers would pay an additional 20% or more for organic fresh vegetables, and 37% are willing to hand over that much more cash for organic poultry, found a study by the Hartman Group, a food and beverage research firm in Bellevue, Wash.

No wonder large food companies are diversifying their portfolios to include organic products.

"Finally, the conventional food and beverage industry has woken up and said, 'Why, this isn’t niche anymore . It’s eating into my share,' " Hartman Group senior vice president Shelley Balanko said.

Campbell Soup has the Plum Organics baby food line and Bolthouse Farms salad dressings and juices. Coca-Cola has organic Honest Tea. Hormel's lineup includes organic meats label Applegate Farms.

General Mills' organic-only portfolio has grown more than 350% over the past five years. Natural and organic sales were $1 billion this year, growing at a double-digit clip since 2000 when the Minneapolis-based cereal maker first ventured into organic with the purchase of Small Planet Foods, which produces a variety of organic foods, from ketchup to granola bars. In 2014, General Mills acquired Annie's, which features fruit snacks, cereal, cookies and more.

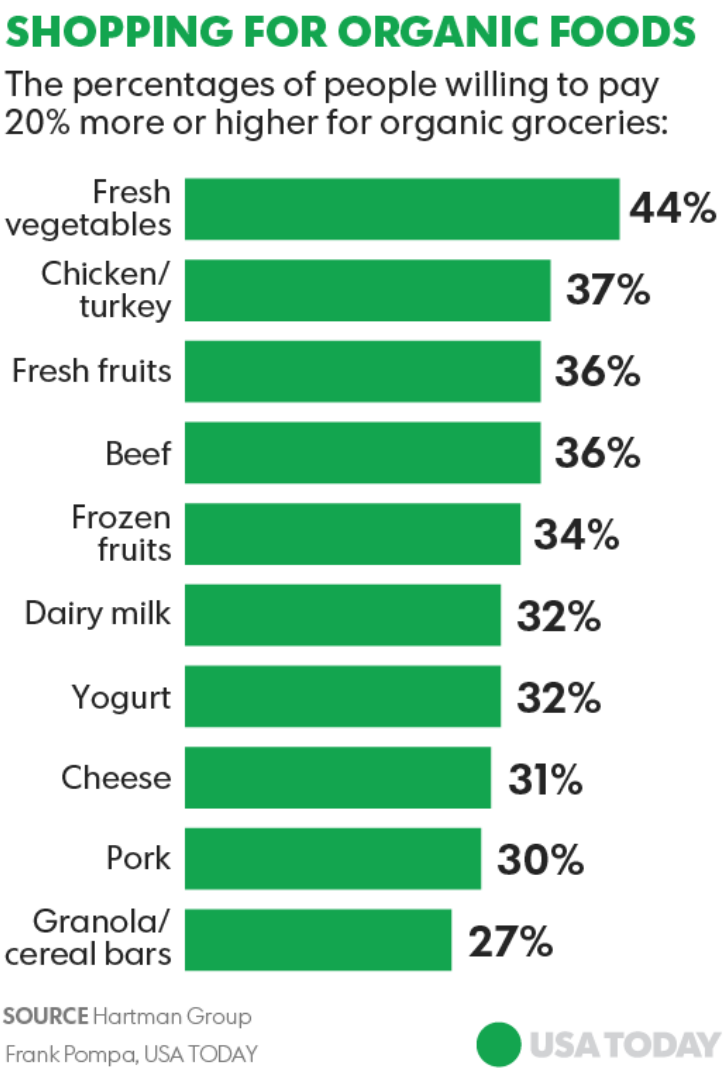
"As the food values consumers are looking for have shifted, we always try to be responsive," said Carla Vernon, General Mills' vice president of the natural and organics portfolio.

The growing popularity of organic food has opened the door to price cutters.

The Sprouts Farmers Market chain, for instance, has become an organic alternative to Whole Foods. And mainstream supermarket giants, such as Cincinnati-based Kroger, which operates a variety of chains around the nation, are dedicating more floor and shelf space to organic products.

With that customer migration from traditional groceries to organic goods will come lower prices for shoppers. Organic's profit margins are generally higher than on conventional groceries.

"When a product is available at more retailers, it puts pressure on gross margins and profitability," Parikh said. "There’s more available, so supply chain has an impact as well."



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