February Newsletter

Let’s Talk Organics

Now that the hysteria surrounding the end of 2020 is behind us, it seems like this is as good a time as any to relook at Organics. I think we are beyond the question of whether it is a passing fad. A better question after all these years is whether or not Organics are still gaining momentum? I for one have argued that the growth in Organics has been fueled by changing demographics more so than a change in purchase habits in the broader consumer market. Now that the millennial generation is practically completely in the market, further momentum would need to be fueled by the next generation of new consumers.

To attempt to answer that question, we will take an extensive look at Organics in our market. We start with our exclusive feature **Produce Moneyball**, this month we will predict the future costs of key organic items. Next, in **That's what she (and he)** said we asked our consumer panel if the pandemic has changed their feelings towards organics. This month we are going to look a little closer at the 18-24 year old demographic to see what these younger consumers are thinking. Lastly in **Store Tours** we get back into the stores and look for great Organics merchandising.

Another can't miss Execulytics monthly newsletter. In case you haven't heard, last week we released the updated Produce Almanac - 2021 Edition. In addition to being the most comprehensive, objective review of the produce markets available, it also features a predicted cost for every commodity for every week of the year. No joke, if this is the type of thing that gets your motor running, it might just be a page turner you won't be able to put down. If you're interested, check it out HERE.

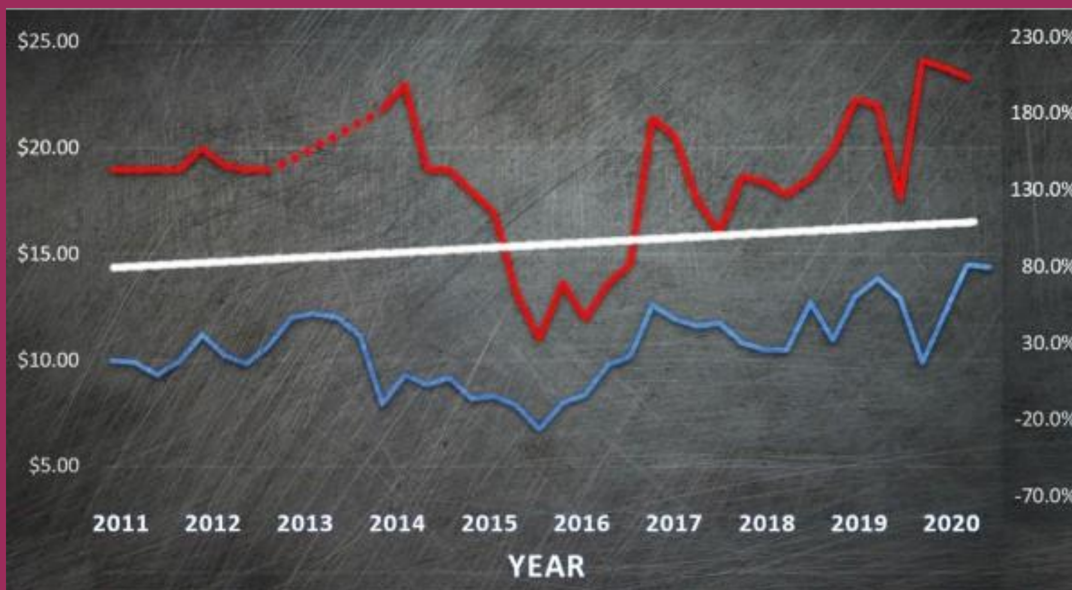
Produce Moneyball

As promised, in this month's edition of **Produce Moneyball** we are predicting the costs of several Organic produce items. Now normally we take a product, complete a ten year regression analysis and overlay seasonal variability to predict the cost. For an organic product, we do a slight variation. First we predict the conventional product, then we estimate the organic premium. Multiply them together and voilà, we have our predicted cost. If you're thinking this sounds really complicated, well, I cannot lie, it is. Nevertheless, study these predictions carefully, it never hurts to get a leg up on your competition.

This month, using historical costs from the last seven to ten years we will predict the all-Organic weekly FOB costs of 1 lb. Strawberries, 1 lb. Mini Peeled Carrots and 12x1 Pint Grape Tomatoes for March of this year. I picked these products for a reason. If you happen to have an organic assortment, I'd bet dollars to donuts you have these three items in it. If after reading the predictions you see something that makes you go 'hmm', drop me a line, I'd love to discuss it with you. Just remember to use **Produce Moneyball** in conjunction with all other sources of intelligence you have at your disposal.

8 x 1 lb. Organic Strawberries

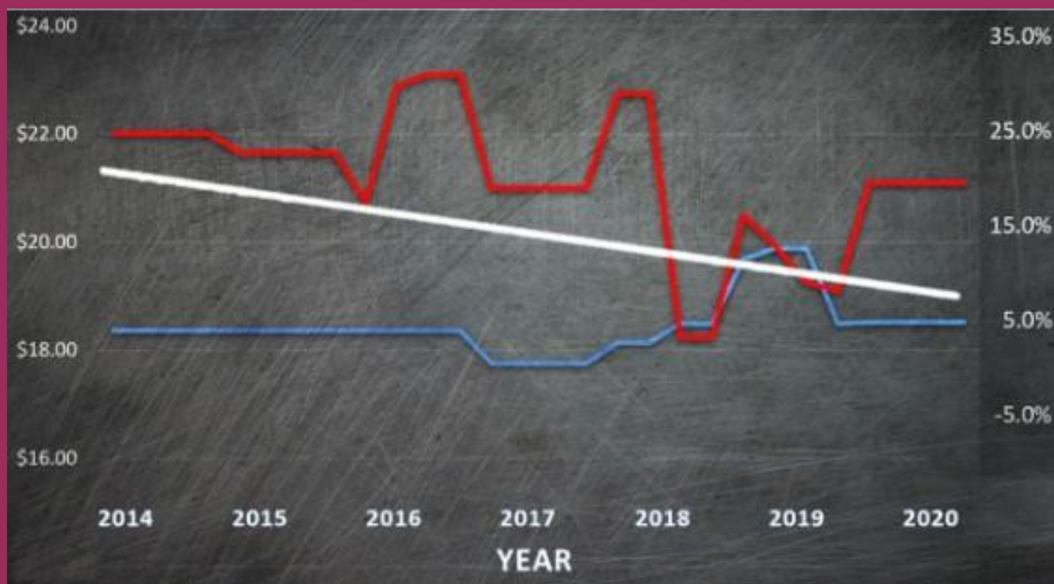
I am sure many will agree that organic strawberries are an extremely important part of an organic assortment. So why don't we start right here with our organic prediction journey. There is a lot to unpack in the graph below. The blue line represents the conventional cost history, with the red line representing organic. The dotted portion on the red line simply refers to costs that were unavailable. The white line represents the organic premium's trend line over the last 10 years and is measured on the left axis.



Phew, now that we got that out of the way, we see an organic cost that mirrors the conventional cost with a premium that is moving upward over time, beginning at something under 80% to something over 100%. Once we determined where conventional strawberries would trade, then overlaid our projected organic premium, we land at cost in the low $20's and increasing as the month progresses. Now, that wasn't so hard, was it?

24 x 1 lb. Organic Mini Peeled Carrots

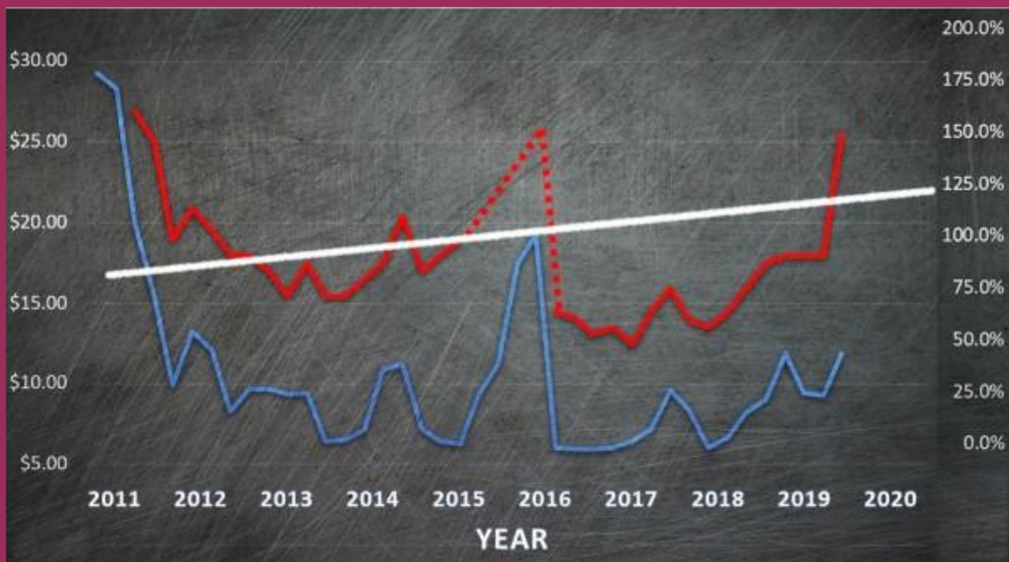
With some of the basics out of the way, let's look at something a little less volatile, but for still an organics program, no less important. Organic mini peeled carrots are a great anchor product to the program. Who doesn't like mini peeled carrots? And the cost is generally pretty reasonable. But don't let the low premiums fool you, remember organic 1 lb. mini peeled carrots are case packed 24, whereas conventional are packed 30 per case.



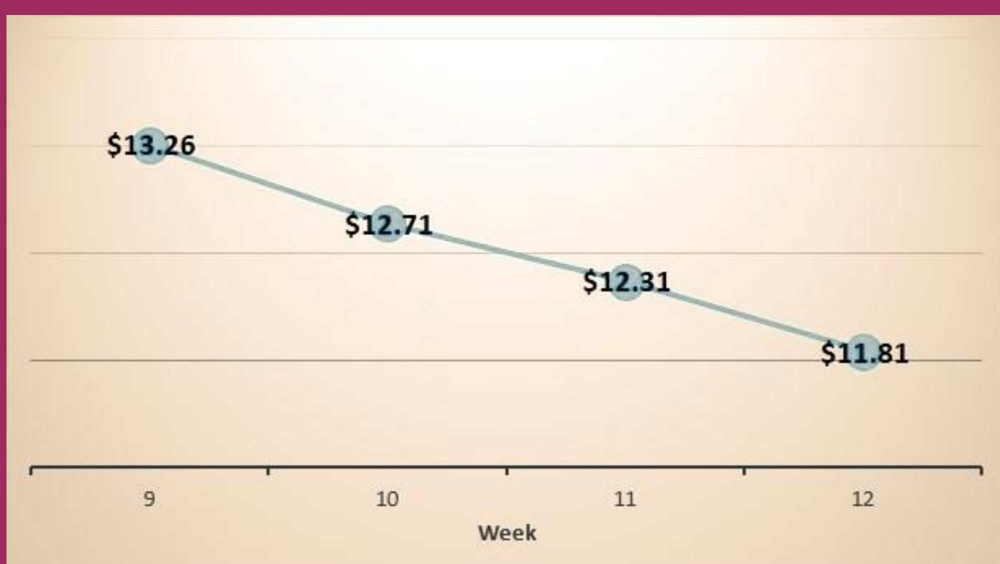
As mentioned, mini peeled carrots are much less volatile, both organic and conventional trade within a very narrow range. We also see the premium moving from the low 20% range to something just below 10%, but do remember the case pack difference. Again, by taking the predicted conventional cost and taking into account the trended premium, we can estimate our organic price. In this case, we see it hovering around $20 all February.

12 x 1 Pint Organic Grape Tomatoes

Once we got the strawberries and mini peeled carrots figured out, the next logical product to round out a great organic assortment is grape tomatoes. Like mini carrots and strawberries, grape tomatoes are easy and consumable out of hand. Two big reasons why the idea of organic resonates more with these items than with some others.



This graph looks a lot like the strawberry graph. The organic line is a near mirror image of the conventional line with an upward sloping premium trend that moves from below 100% to over 100% over the course of the last ten years. While this may suggest organic is getting less affordable over time, we also see a general downward trend on costs. All this taken together gives us predicted costs in the low teens and declining all month.



The 2021 Produce Almanac is now available. If you are a fan of Produce Moneyball and want to see more data, visualizations, predictions and a whole lot about what makes this industry tick, click the button and read what others have said. Also learn more about the features and see a preview of the new edition.

Produce Almanac

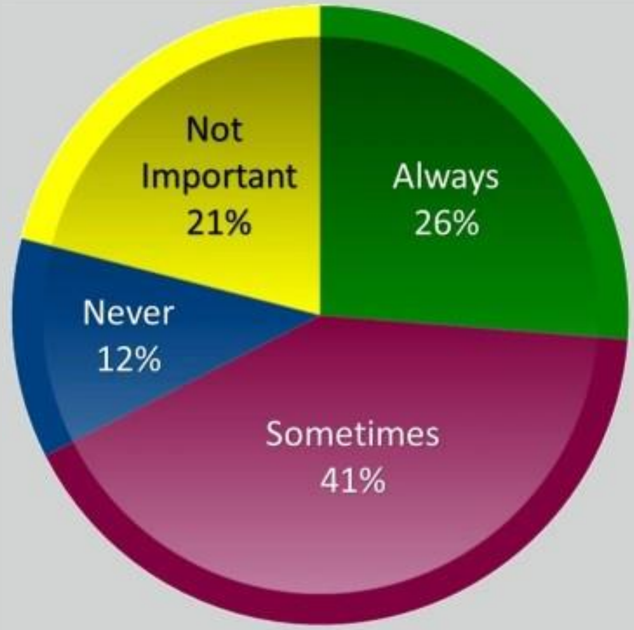
That's what she (and he) said

Organics have come a long way. Who would have thought back in the '80's that the small, scarred, expensive fruit and vegetables that were being marketed as 'Organic Produce' would become such a juggernaut competing for its share of space while capturing double digit market share and household penetrations north of 80%?

Still, there are two questions of immediate importance that beg answers. **Has the pandemic impacted consumer perceptions of organics?** and **How does Gen Z view organics?** Luckily we have our consumer panel at our disposal. Read on to learn the shocking results. Okay, maybe not so much shocking as they are interesting.

Do Consumers choose Organics?

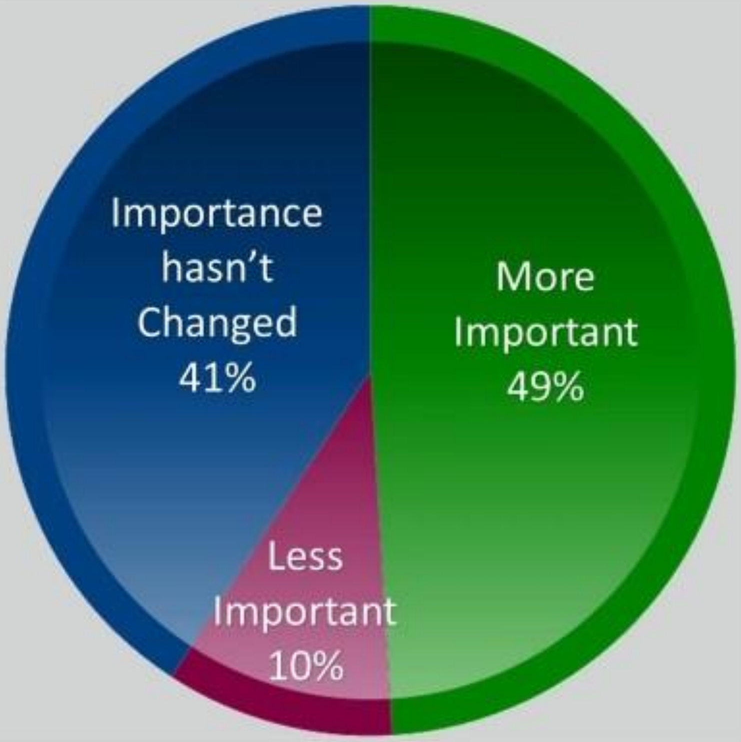
The first thing we wanted to learn; are organics top of mind for consumers? So we asked them when shopping for fruits and vegetables do they look for organics first? The results are displayed on the right. Over one quarter of the panel said always, while two-thirds said they look for organics first at least some of the time. On the other end of the spectrum, 12% said they never make organics their first choice, while still 21% simply said organics is not a product attribute they concern themselves with.



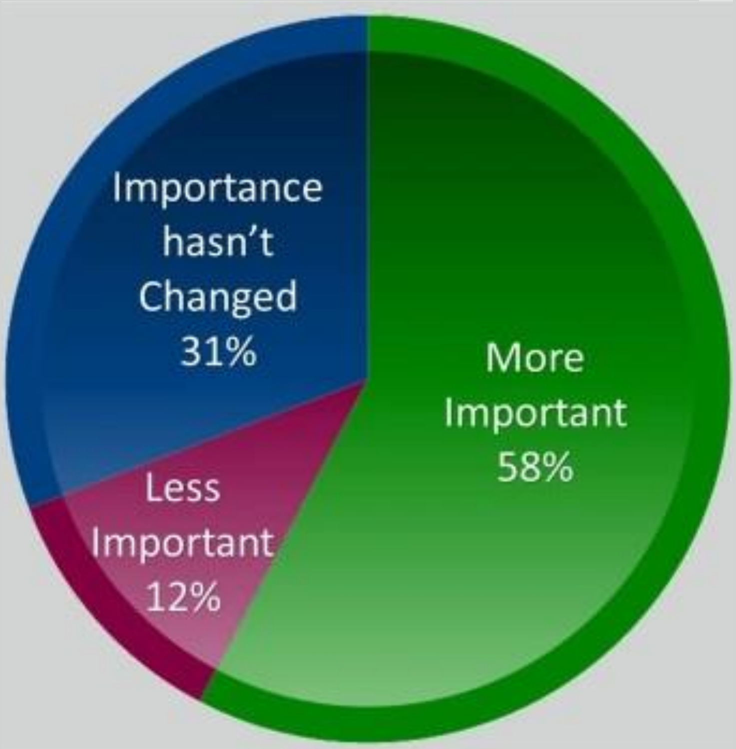
That is definitely something to work with. But really, the goal of this consumer research is to understand if we can expect the organic category to continue to grow in the foreseeable future. We know millennials, bought into organics in a big way and have replaced older generations in the marketplace. But, will we continue to see the consumer landscape shift in favor of organics? The visualization on the right shows the same chart, but isolates the 18-24 year old crowd. These are the people whose market influence will increase tremendously for the next decade or so.

You can see from the green and red slices of the pie chart, this younger cohort, otherwise known as Generation 'Z' are more inclined to always or sometimes make organics their top choice. Combining the top two boxes, 78% of Gen 'Z' fall into these categories versus 67% for the population at large. It is no surprise that as you move up the age scale the percent of consumers falling in the top two boxes decline. From that, we can conclude that barring any major attitudinal shifts, we can anticipate a more organics friendly consumer landscape as the Gen Z'ers become a larger part of the grocery shopping public.

COVID's Impact



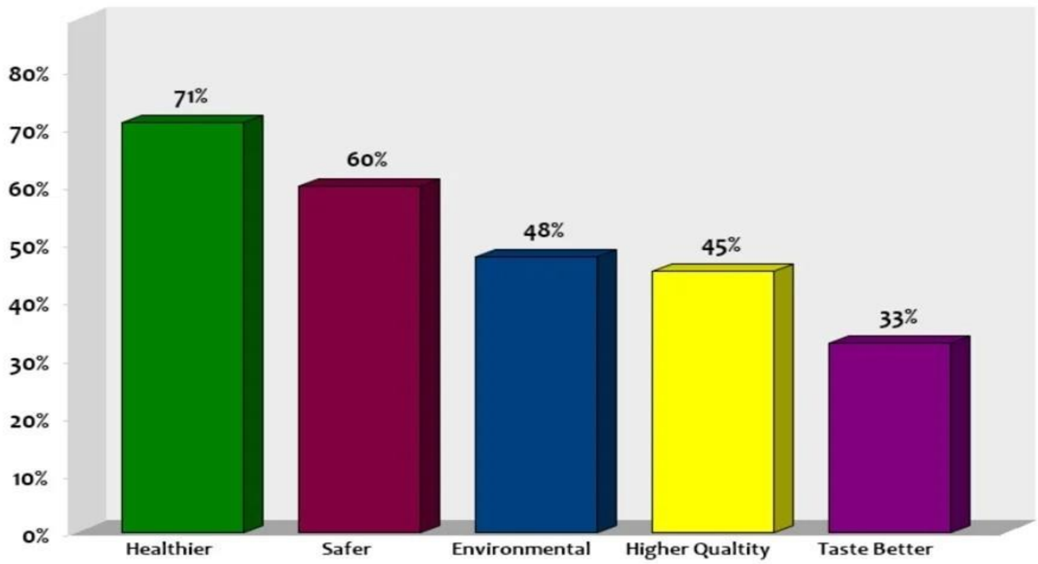
Another key hypothesis made last year was that the pandemic would drive people into more comfortable, safer products. Many product attributes have been considered as ones to satisfy this need in the age of COVID. Organics being one of those attributes. Naturally, it is important to understand if consumers view organics differently in the wake of the pandemic. You can see from the graphic on the left that nearly half of all consumers consider organics to be more important now than they did before the pandemic.



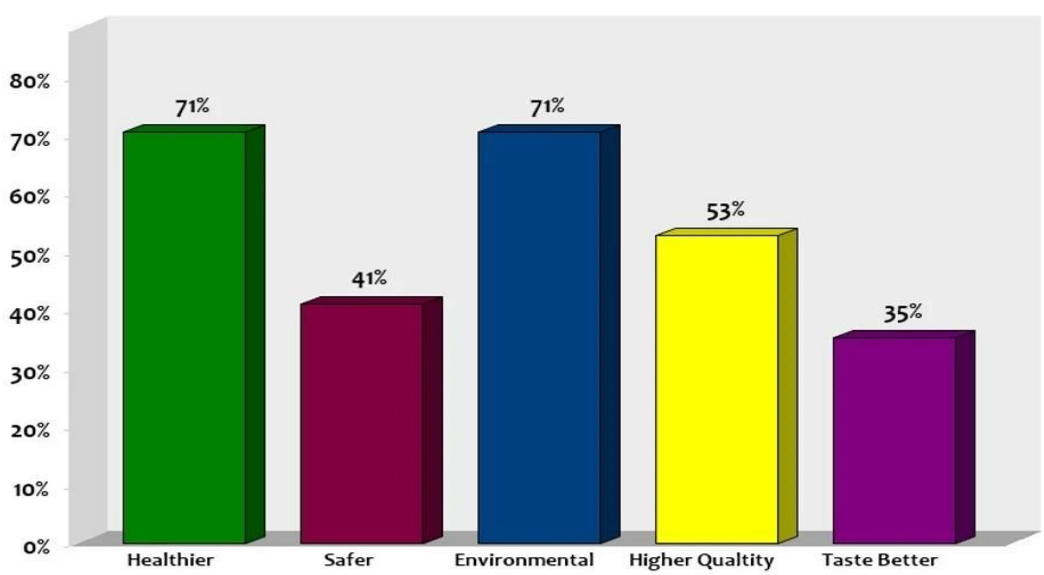
Interestingly the folks in the 18-24 year old group move with the general population on this question, with one important difference. While 49% believe organics are more important since the pandemic, 24% believe the importance of organics have actually declined. Perhaps other product attributes have caught this group's attention. You will need to read future editions to find out. Instead, this time it is the millennials who consider organics to have increased in importance more so than other generations since the start of COVID, with 58% saying as such.

So far we have learned that organics are important for a big chunk of the population. This is more true for the Gen 'Z' group than it is for other generations. We also learned that the importance placed on organics has increased since before the pandemic, but this time the net change in importance is lower for Gen 'Z'. Could it be that while the pandemic has put organics further onto the front burner, it is also responsible for broadening the appeal to a more diverse group of consumers?

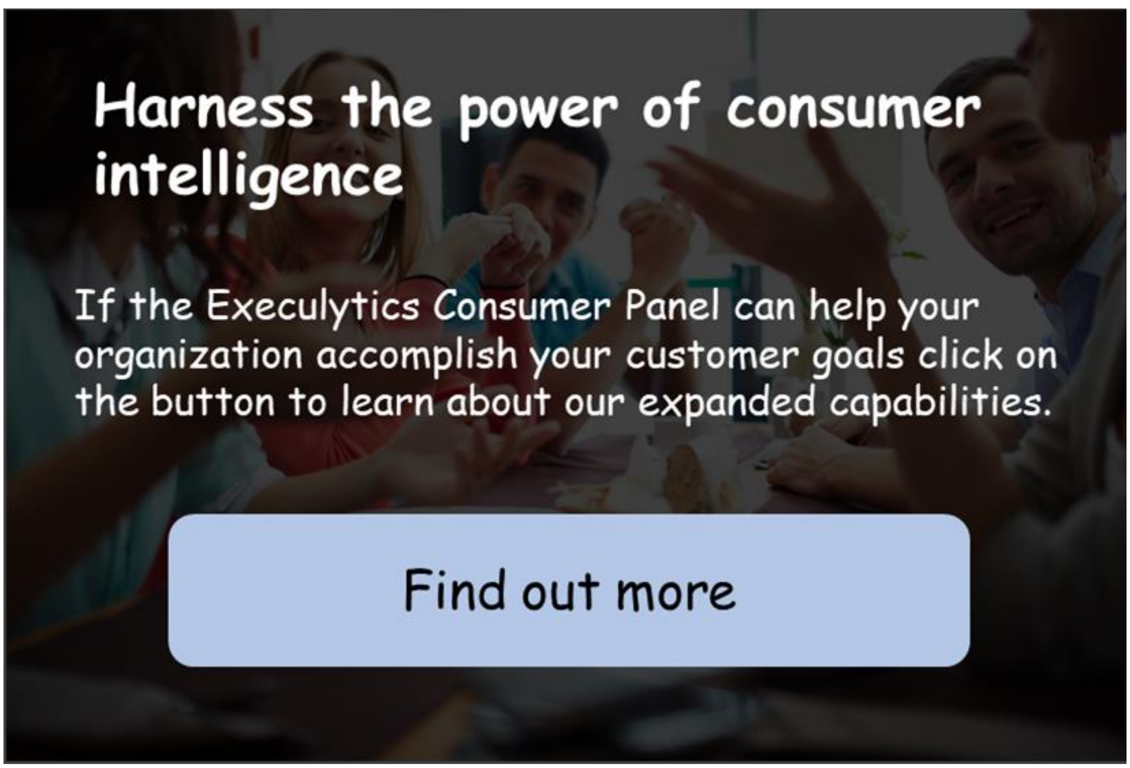
Perhaps going another layer deeper will provide more insight. We asked the 49% of our panelists who said organics have increased in importance since the pandemic, why is organic produce more important?



You can see in the chart above that the reasons for the growth in importance are diverse. Ranging from 71% who say organics are healthier, to 33% who say they taste better. For the most part there were few differences between the Gen 'Z', millennials and Gen 'X' age groups, these generations are mostly represented by ages 18-54 in our panel. But the group of panelists over the age of 54 are nearly 50% more likely to say it is because of the environment that organics are considered more important in their eyes as can be seen in the bar chart below. Meanwhile, it is one-third less likely that safety considerations are driving their views of heightened importance.



The bottom line: The youngest grocery shoppers in the market have a higher overall opinion of organic fruits and vegetables than people in older generations. While the COVID-19 pandemic has driven consumer attitudes on organics to a more favorable position, it has also moved older consumers closer to their Generation 'Z' counterparts. A significant reason for this is that older grocery shoppers, aged 55 and older, are increasingly of the opinion that organics are good for the environment.



Store Tours

Organics are most definitely here to stay. Our consumer panel told us that loud and clear. So the next logical step is to see if our local grocery stores are answering the call. This month we went looking for great organic merchandising. Read on to see if we found any.

Ontario

Integrated or Separated, that is the Question

In Ontario the debate rages on regarding the best way to display organic fruit and vegetables. Either integrated with the rest of produce or separated into its own spot. Underpinning the question of where to display organic produce is consumer preferences on where they want to shop for organics. As late as 2019, the Execulytics consumer panel told us they too were undecided.

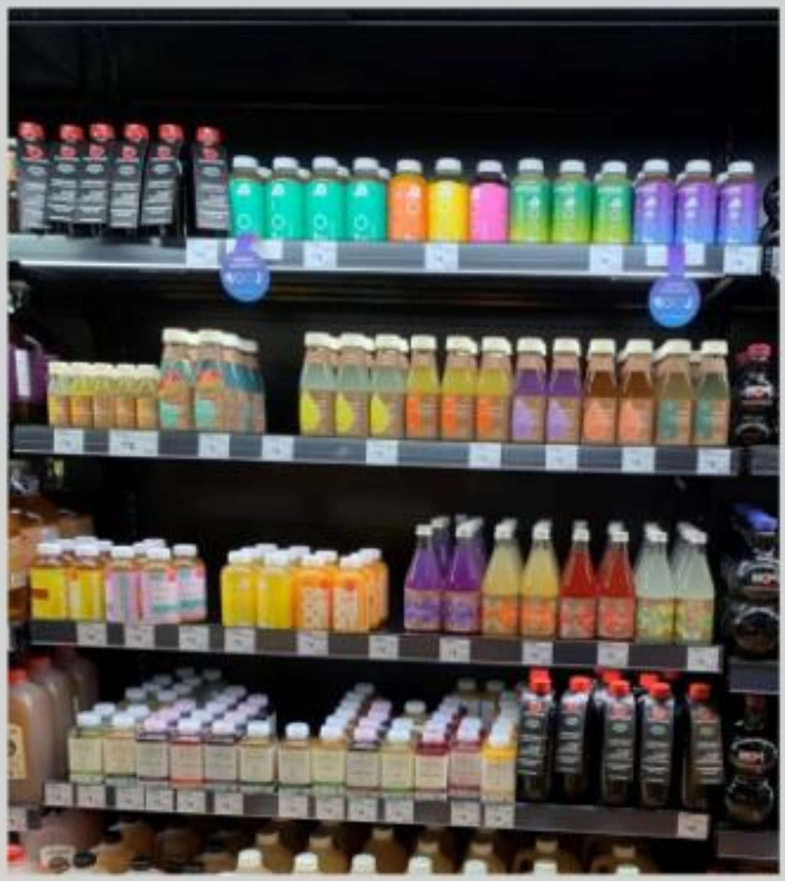
Above and to the left are the organic displays from an Ontario Metro store. Quite clearly this is separate from each organic product's category, albeit in two locations. This type of location strategy appeals to the shopper who told us in **That's What She (and he) said**, that organic fruit and vegetables are always their first choice. Regardless of your preference, it is nice to see most major categories represented. Pictured above are products that would ordinarily be merchandised inline on tables, which incidentally, is where the conventional versions are displayed. Meanwhile, to the left are the products you would expect to find in a wet case.

Meanwhile, across town

This time at a Sobeys store, pictured below, we see organic product intermingled throughout the department. In **That's what She (and he) said**, we also learned about a customer segment that **sometimes** choose organics first. It would stand to reason that this crowd would prefer an integrated display, But if you look closely at the Sobeys displays you will see the organic products are not directly beside their conventional counterparts, rather full categories of organic produce is merchandised alongside full categories of conventional produce. An organic placement strategy I refer to as partially integrated.

Its not all about fruit and vegetables

I guess that depends on your perspective. Do juices made from freshly squeezed fruit and vegetables classify as fruit and vegetables? Not sure I want to open that can of worms. One thing for sure, they do belong in the produce department. And they are making quite a splash (pun intended) on the organics side of the business. Just look at the variety found in both Metro (left) and Sobeys (right).



If there are elements of this newsletter that you think could become a custom service for your organization, drop me a line, I am available to discuss your business needs. Feel free to forward this email to your colleagues and encourage them to subscribe by sending their name and email address to info@execulytics.ca or by signing up at our website execulytics.ca

Sincerely,

Managing Partner

Mike Mauti

Execulytics Consulting
Toronto, Ontario, Canada

info@execulytics.ca