

## **Budgets Squeezed, Some Families Bypass Organics**

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By ANDREW MARTIN

Once upon a time, sales of organic and natural products were growing in double digits most years. Enthusiastic grocers and venture capitalists prowled the halls of trade shows looking for the next big thing. Grass-fed beef? Organic baby food? Gluten-free energy bars?

But now, shaky consumer spending is dampening the mood. It turns out that when times are tough, consumers may be less interested in what type of feed a cow ate before it got chopped up for dinner, or whether carrots were grown without chemical fertilizers — particularly if those products cost twice as much as the conventional stuff.

Whole Foods Market, a showcase for the natural and organic industries, is struggling through the toughest stretch in its history. And the organic industry is starting to show signs that a decade-long sales boom may be coming to an end.

The sales volume of organic products, which had been growing at 20 percent a year in recent years, slowed to a much lower growth rate in the last few months, according to the Nielsen Company, a market research firm. For the four-week period that ended Oct. 4, the volume of organic products sold rose just 4 percent compared with the same period a year earlier.

“Organics continue to grow and outpace many categories,” the Nielsen Company concluded in an October report. “However, recent weeks are showing slower growths, possibly a start of an organics growth plateau.”

If the slowdown continues, it could have broad implications beyond the organic industry, whose success spawned a growing number of products with values-based marketing claims, from fair trade coffee to hormone-free beef to humanely raised chickens. Nearly all of them command a premium price.

While a group of core customers considers organic or locally produced products a top priority, the growth of recent years was driven by a far larger group of less committed customers. The weak economy is prompting many of them to choose which marketing claim, if any, is really important to them.

Among organic products, those marketed to children will probably continue to thrive because they appeal to parents' concerns about health, said Laurie Demeritt, the president and chief operating officer of the Hartman Group, a market research firm for the health and wellness industry. But products that do not have as much perceived benefit, like processed foods for adults, may struggle.

The economy has “crystallized the tradeoffs that consumers are willing to make,” she said. “Fair trade is nice, but fair trade may fall off the shopping list where organic milk may not.”

Thomas J. Blischok, president of consulting and innovation for Information Resources, a market-research firm, said shoppers were not moving entirely away from categories like organic products in the grocery store. But they are becoming more selective, buying four or five products instead of seven or eight, he said.

Mr. Blischok conducted a survey of 1,000 consumers in the first half of the year and found that nearly two-thirds said they were cutting back on nonessential groceries and nearly half said they were buying fewer organic products because they were too expensive. Such consumer attitudes have compounded problems for Whole Foods Market, the Austin, Tex., chain that served as a launching pad for many organic and natural brands. The company’s stock has dropped by more than 70 percent since the first of the year, and analysts expect more grim news when fourth-quarter earnings are announced next week.

Recently in Boston, on the sprawling convention floor of the Natural Products Expo East, some vendors said they had been hurt by the economic malaise and others said they had not yet felt the impact.

Several of them noted that Whole Foods Market faces a broad array of problems, including increased competition from traditional grocers, and should not be viewed as a proxy for the whole industry. But many also worried that if the economy continues to flounder, consumers — particularly those who only occasionally shop for their products — may decide they can no longer afford to let their conscience dictate their shopping list.

Theresa Marquez, the chief marketing executive for Organic Valley, which sells primarily dairy products, said she was not worried about core customers because they were so committed to buying organic.

“I’m not sure the periphery — those that purchase perhaps only four or so times a month — will break the industry,” she said in an e-mail conversation after the convention. “But I am concerned that those periphery customers are important to the growth of the industry and without them, organic growth is sure to go flat.”

Organic Valley’s sales have slowed in the last four months, in part because of price increases, company officials said.

Robert Atallah, the owner of Cedarlane Foods, which makes organic and natural frozen meals, said his business had slowed in the last 18 months, a problem he attributed to increased competition and the economy. He said that he believed a newly developed line of products could help sales but cannot convince buyers for grocery chains to commit.

“The morale of buyers is so low, they don’t want to buy anything,” he said. “It’s a sick feeling all the way around. People don’t know if their job is going to be there.”

But others said they had not yet noticed a slowdown and were optimistic that sales would remain steady — or possibly improve — as consumers ate fewer meals in restaurants and devoted more time to cooking. Some store-brand manufacturers said they were thriving as consumers looked for cheaper alternatives to branded products.

“People aren’t going on vacation, they aren’t going to buy a car, so maybe they’ll buy a luxury item that is affordable,” said Dary Goodrich, chocolate products manager for Equal Exchange, a worker-owned fair trade organization offering tea, coffee and chocolate from small-scale farmers. “Right now, we aren’t seeing a slowdown, but it’s a concern.”

In interviews with consumers around the country, some said they were spending as much or more at the grocery store, including on organic products, in part because they have curbed restaurant meals. Karen Jenson, 35, said she was buying as much organic food but shopping at four different stores to find deals.

“The apples right now are really cheap here because they are in season,” she said, standing outside the Linden Hills Co-op in Minneapolis.

But some others said they were cutting back on organic food to save money.

Joni Heard, a 29-year-old mother of two who lives in central Florida, said that in the past she would buy organic milk, cheese and produce but had cut back because it was too expensive.

“I’m a stay-at-home mom and my husband — you never know if he’s going to be laid off,” she said in an interview, explaining that her husband works in construction. “I can’t justify spending \$2 or \$3 more for a single item.”