



By Shon Ferguson, Simon Weseen and Gary Storey

**How Retailers Source Organic Products – Opportunities for Saskatchewan**

*This document is based on the results of producer, marketer and processor surveys administered as part of the marketing study being conducted by the Project on Organic Agriculture in the Department of Agricultural Economics. The objective of the study is to examine the issues, opportunities and challenges in organic grain marketing and to provide insight to the organic grain industry on what can be done to improve the organic marketing system for the benefit of all participants. These papers are designed to provide industry participants with a brief summary of this information. This document is one of a series that will constitute the complete marketing study.*

**1. Introduction**

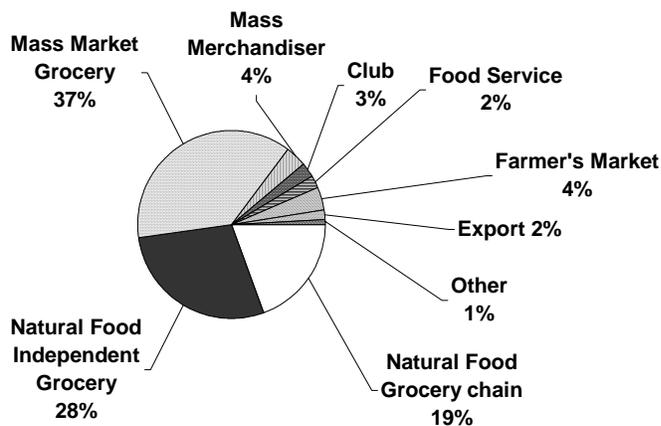
The distribution of organic food products is an integral part of the organic supply chain. Consumers' tastes dictate what goes on retailers' shelves and what does not. It is thus very important that producers and other suppliers understand the requirements of retailers and distributors. It is also important for producers of organic products to understand how the distribution system functions.

This purpose of this paper is to describe how retailers source organic food products. The functions of the supply chain after processing, including distribution and retail, are first described. The needs of retailers and distributors are also discussed, with a focus on

companies to meet the demands of distributors and/or retailers.

**2. Retailing and Distribution**

After an organic food product has been processed into a form ready for the shelf, it must be distributed to the consumer. People source organic foods in a variety of ways; grocery stores, health food stores and restaurants are the largest outlets for organic foods. The distribution channels of organic food in the U.S. are given in Figure 1. Recent Canadian retail data are not available, but the U.S. and Canadian organic markets are recognized to be very similar (Cunningham 2002).



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**Figure 1: Organic Food Channel Distribution, U.S., 2003**

Source: Nutrition Business Journal 2004

This paper concentrates on the retail market, which includes grocery stores, mass merchandisers and club outlets<sup>1</sup>. These distribution channels comprised about 91% of the organic consumer market in the U.S. in 2003. Physically, there are several ways that organic products can be moved from processor to retailer, but they can be sorted into two categories. First, products can be shipped directly from the processor or manufacturer to the retail location. Second, products can be shipped from the processor or manufacturer to a distributing company, which in turn ships to the retail location. There can be more than one distributing company in the chain, depending on the product.

### The Retailer

Retailers have very close contact with organic consumers and are the last step in the chain of companies between the producer and the consumer. The main function of the retailer is to sell products to the consumer. Retailers come in many forms, including mass market grocery stores, natural/organic food grocery stores, health food stores, convenience stores, club stores and bakeries. Loblaws, Sobeys (IGA) and Safeway are some of the largest mass market grocery store chains that sell organic food across Canada. There are also a large number of health and nutrition stores across Canada that market a number of organic products. Some examples of Saskatchewan health and nutrition stores include Dad's Nutrition Centre, Herbs 'n Health, Eat Healthy Foods, Nature's Best Foods, and Old Fashion Foods. In addition, the health sections of many pharmacies carry organic products, with a focus on health. Whole Foods, Capers and Blue Moon Organics are examples of devoted organic/natural retailers that have stores in larger Canadian cities.

Retailers of organic products always consider the needs of consumers and their own needs as retailers when choosing what products they place on their

shelves. Generally, food retailers want to maximize the net return on their shelf space. Retailers will only carry organic foods that are able to satisfy this objective. In the past, organic foods have had difficulty finding a niche in food stores that primarily sell conventional foods. More recently, however, increased demand for organic products has alleviated this problem to some extent. Retailers also want to carry a sufficient variety of organic goods to enable consumers to do all or most of their organic shopping at one store. Some organic products may sell better than others, so retailers are willing to carry products that don't move as well as others in order to have a sufficient variety of goods available.

Retailers try to attract customers to their stores through advertising, which can involve television, radio, newspapers, and mass-distribution flyers. Retailers also use promotional techniques such as free samples to increase the demand for some of their products. Generally, retailers request that suppliers contribute 5% of the value of their sales towards advertising and promotion at the retail level. However, some retailers prefer to receive a discount from suppliers instead of requesting a contribution for advertising and promotion.

Store managers in large chain stores usually do not decide what organic products to put on their own store's shelves. These decisions are usually the responsibility of a designated organic buyer at the store's head office. The organic buyer(s) will make decisions on the advice of their organic distributor. In these cases, manufacturers will have little success in marketing their products directly to store managers, although organic buyers located at the head office may agree to meet with manufacturers.

In the case of smaller and/or independent stores, the store manager often has complete control over the products that enter the store. In these cases,

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<sup>1</sup> A club outlet is a retailer that requires membership, and usually sells in bulk.

manufacturers can approach the individual store manager in an effort to sell their product.

There are several specifications that retailers require, although these can vary depending on the type and location of the retailer. At a minimum, retailers want attractive packaging, consistent quality and an appropriate price. While all retailers want to sell organic products that were produced using organic principles, some retailers may not care if products were re-packaged by a distributor that is not certified to handle organic products. Larger retailers usually have more rigorous specifications, and government regulations can lead to stricter requirements for suppliers when shipping across provincial and national boundaries.

Several retailers may require more sophisticated agreements that specify the minimum shipment, minimum lead times (days of advance notice given to supplier in order to meet retailer requirements) and advertising agreements. Complete organic certification may also be required. In addition, retailers that use scanner technology will require a bar code on the product. Grocery products that are traded inter provincially in Canada must also be registered with the Electronic Commerce Council of Canada (ECCC) via the ECCnet product registry, and product labeling must meet Canadian Food Inspection Agency (CFIA) and organic certification standards. Suppliers may also have to provide the retailer with information on the costs of the product and the suggested retail price. Some retailers may require Hazard Analysis and Critical Control Points (HACCP) certification as part of a quality assurance program.

Most retailers do not sell organic foods under a private (store) label. An exception is Loblaw's Inc., which has a wide selection of organic products under the *President's Choice Organics* brand.

### The Distributor

Many retailers procure organic products through distributors. A small number of distributors are devoted to organic and health food, while some mainstream distributors handle a selection of organic products. Devoted organic/natural distributors operating in Canada include Tree of Life, United Natural Foods Inc., Pro Organics, Puresource, Horizon Distributors and Greenline.

The main function of the distributor is to consolidate and coordinate shipments from suppliers to retailers. A distributor usually brings products to a warehouse location, then ships out to customers. A distributor also consolidates various products into a shipment destined for a particular customer. In some cases, a distributor may re-pack items into smaller package sizes.

Distributors often perform much of the product research necessary to determine the products that end up on retail store shelves. Distributors scout out new organic products at grocery conventions and give an audience to salespeople from organic manufacturers. Retailers often receive advice from distributors on the particular products they should put on their shelves. Distributors also suggest new products to retailers. Distributors are thus important gatekeepers of the organic retail market, as they have a great deal of influence on whether or not a particular product is put on a retail shelf.

Distributors facilitate the flow of information between retailers and processors/suppliers. The distributor assists retailers in better merchandising their products. The distributor may suggest methods of minimizing shrinkage, or methods of advertising and promotion. Distributors may also suggest appropriate pricing of products. The distributor can also provide signals to the suppliers by suggesting improvements regarding product packaging.

The requirements of distributors mirror the demands of retailers and consumers described earlier.

Distributors, like retailers, demand that their suppliers meet several specifications. These specifications can vary depending on the distributor. Some distributors may not require ECCnet registration and bar codes, but may still require organic certification. Larger distributors require more rigorous specifications in order to meet the needs of their most demanding retail customers. Proper packaging, labeling, ECCnet registration and bar codes are a must with the larger, more sophisticated distributors. Suppliers may be required to share the costs of advertising and promotional campaigns undertaken by the distributor.

Overall, distributors and retailers want to provide organic food products that their customers will want. Distributors and retailers also want smoothly-functioning, manageable relationships with their suppliers. It is thus important that suppliers understand their own business and the business of their customers. Distributors and retailers appreciate professional, service-minded suppliers that are accessible and prompt in returning phone calls and providing necessary paperwork. Canadian distributors and retailers are also very interested in providing Canadian brands to their customers.

### 3. Opportunities

There are plenty of opportunities for Saskatchewan farms and manufacturers to succeed in finding organic distributors and retail customers. Consumption continues to grow for all types of organic foods, including the products using prairie grains. The size and growth of major organic food categories for the U.S. is given in Table 1. Although recent statistics are not available for Canada, the Canadian and American organic markets are very similar (Cunningham 2002). Prairie grains are used in many organic products, including the *Breads and Grains*, *Snack Foods*, *Packaged/Prepared Foods*, *Condiments* and *Meat, Fish, and Poultry* categories. The market for these foods is expected to grow in the future.

Distributors are always looking for new, innovative products that consumers would be willing to purchase. Canadian distributors are interested in carrying Canadian products, although it is not always possible for them to find Canadian suppliers that can provide them with the products they need at a good price.

One example of an opportunity for the prairie organic grain sector is in the bulk grain market, which includes bagged whole and milled grains. Some companies outside of the prairie region have advantages in size that allow them to purchase several types of grain from the prairies and other places, re-package the items, consolidate (put several different items together in a shipment) and transport them more efficiently and effectively than shipping directly from the place of production (e.g. Saskatchewan). There may be opportunities for more prairie-produced and prairie-packaged bulk grains to be shipped directly from the grain growing regions to the major markets. Given that consumers are interested in buying Canadian products, a Canadian brand may be able to successfully compete against U.S. competitors.

**Table 1: Size and Growth of Major Organic Food Categories, U.S., 2003 (sales in US\$, millions)**

Major Categories	2003 Sales	2003 Growth
Total Organic Food	10,381	20.4%
Dairy	1,385	20.3%
Breads and Grains	966	22.9%
Beverages	1,581	19.3%
Snack Foods	484	29.6%
Packaged/Prepared Foods	1,326	16.0%
Condiments	229	23.5%
Fruit and Vegetables	4,336	19.9%
Meat, Fish, Poultry	75	77.8%

Source: Organic Business Journal 2004

## References

**Cunningham, R. 2002.** Canadian Natural and Organic Retail Markets. Alberta Agriculture, Food and Rural Development (AAFRD), Strategic Information Services Unit.

**Nutrition Business Journal. 2004.** NBJ's 2004 Web Seminar on the U.S. Organic Industry

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The authors can be contacted at:

Department of Agricultural Economics  
University of Saskatchewan  
51 Campus Drive  
Saskatoon SK S7N 5A8  
Ph: (306) 966-4008; Fax: (306) 966-8413

Electronic versions of these papers are available at <http://organic.usask.ca>.

**The Authors:** Simon Weseen is the Organic Trade and Market Analyst in the Department of Agricultural Economics at the University of Saskatchewan. Shon Ferguson is a Research Associate in the Department of Agricultural Economics at the University of Saskatchewan. Professor Gary Storey is a Professor Emeritus in the Department of Agricultural Economics at the University of Saskatchewan.

The marketing study consists of the following papers:

*Number 1: Introduction*

*Number 2: Organic Producer Perceptions of their Marketers*

*Number 3: Organic Producer Perceptions of Organic Regulation in Canada*

*Number 4: Organic Producer Perceptions of Market Information Availability*

*Number 5: Organic Producer Perceptions of the Role of Certification Bodies*

*Number 6: Analysis of Organic Wheat Buyers in Saskatchewan: A Vertical Coordination Approach*

*Number 7: Contracting in Organic Grains*

*Number 8: Priorities and Problems in the Organic Grain Supply Chain*

*Number 9: Organic Regulation in Canada: Opinions and Knowledge of Producers, Marketers and Processors*

*Number 10: Information in the Organic Grain Market*

*Number 11: The Performance and Role of Certification Bodies*

*Number 12: Costs in the Organic Grain Supply Chain*

*Number 13: Organic Grains and the Canadian Wheat Board*

*Number 14: How Retailers Procure Organic Products – Opportunities for Saskatchewan*

*Number 15: Organic Wheat Supply Chain Profile*

*Number 16: Organic Oats Supply Chain Profile*

*Number 17: Organic Flax Supply Chain Profile*

*Number 18: Organic Lentils Supply Chain Profile*

*Number 19: Summary*

*Number 20: SWOT Analysis, Conclusions and Recommendations*