



# Marketing Organic Produce

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## Introduction

Organic food sales continue to increase in the U.S., reaching \$45.2 billion in 2017.<sup>1</sup> Organic vegetables and fruits are a large sector in organic food sales, accounting for nearly 40 percent of total organic food sales, according to the U.S. Department of Agriculture (USDA).<sup>2</sup> The value of fresh organic produce sold at retail stores again increased in 2017.<sup>3</sup>

Organic food sales maintained double-digit percentage increases in value during the first two decades of the 2000s. Purchasing habits of younger consumers (millennials) were important to this growth. Millennials view organic food as part of practicing healthy lifestyles, and they are more likely to include organic food in their regular food purchases.<sup>2</sup>

Fresh produce is the largest category of organic food sold in the U.S., valued at about \$12 billion in retail sales in 2012, with annual sales projected at \$15 to \$20 billion from 2015 to 2020.<sup>2</sup> The amount of land certified for organic fruit and vegetable production increased nationally from 97,641 acres in 1997 to 195,802 acres in 2005.<sup>4</sup> The number of certified organic vegetable, fruit and tree nut acres remained slightly over 300,000 acres from 2011 to 2016.<sup>5</sup>

In 2016, Kentucky had 100 certified organic farms and 10,255 acres that were certified organic. Sales of certified organic products in 2016 in Kentucky totaled \$12,181,000.<sup>6</sup>

As certified organic produce area increased, the structure of the organic produce supply chain changed.<sup>7</sup> Conventional food retailers are using larger sup-



pliers to provide a greater proportion of their produce. In other wholesale channels, such as direct selling by organic farmers to restaurants and food co-ops, an array of formal and informal organic wholesale distribution networks are in various stages of development.

This fact sheet summarizes concerns for Kentucky produce growers that are interested in beginning or expanding the marketing of organic produce. It is intended only as a starting point; further information will be found through various university and government resources and by consulting with experienced growers of organic produce.

## ORGANIC: THE WORD AND ITS LABELS

To use the labels “100 percent organic,” “organic” or “made with organic ingredients” a producer must be certified through organic standards established by the USDA. These standards are available through the Agricultural Marketing Service National Organic Program. Certification is conducted through an approved third-party



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certifying agency. Producers are responsible for fees incurred for certification. Organic certification information is available from the Kentucky Department of Agriculture at <http://www.kyagr.com/marketing/organic-marketing.html>.

Producers who sell less than \$5,000 per year in organic agricultural products are exempt from organic certification. These producers must still abide by the national standards for organic products. While exempt producers are permitted to market their products as organic, they may not use the USDA organic seal when selling their products.

The use of the word “organic” has created much discussion within the agricultural and food community. Some producers have foregone the organic certification process in favor of marketing “locally grown” food directly through local channels. Other growers have utilized terms such as “beyond organic,” “sustainable,” “whole” and “natural” to describe their products, although these commonly used words have no legal definition.

Producers should adhere to all necessary guidelines for labeling their products as “organic.” Producers also need to be careful when advertising any health benefits from organic or other produce since health claims surrounding food products are closely monitored by government agencies, including the USDA and the Food and Drug Administration (FDA).

## EVALUATING ORGANIC PROFITABILITY

Two reasons often prompt produce growers to start marketing organic produce. A primary reason is often a commitment to the principles of organic agriculture. Many early organic growers began production because of philosophical or ideological commitments to producing food, such as that expressed in the following:

“Organic agriculture is an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.”<sup>8</sup> (USDA National Organic Standards Board definition)

A second common reason for interest in organic pro-



duction is potential profitability. According to past Kentucky produce planting intentions surveys, a large percentage of Kentucky produce growers are interested in organic production because of potential profitability.

When evaluating the financial reality of whether marketing organic produce is right for you, be sure to count the true costs of producing under organic production systems. For example, many organic systems substitute manual or mechanical means of weed control. Although you may already have a hoe or a tractor, there are still costs associated with your time and the equipment required for weed control in organic systems.

Other costs commonly associated with organic operations include inputs appropriate for organic production, increased management time and greater marketing costs. In many cases, a higher price received from the sale of organic produce offsets these increased costs; however, this may not always be the case. Producers should carefully budget and plan according to the actual costs of any new production system to determine if the price they will receive for the product will be as profitable as other production alternatives.

## MARKETING CHANNELS

Not long ago, “buying organic” was only possible at natural food stores, food co-ops and possibly the local farmers market. This is no longer the case. Many consumers now have different options when it comes to sourcing organic produce. Organic produce is available at specialty food retailers (like Whole Foods), big box retailers (like Walmart), and traditional groceries (like Kroger). “Locally grown” organic produce may now be available at chain retailers. Locally grown organic produce has also increased at its traditional retail outlets (natural food stores, food co-ops and

farmers markets) and more farms are selling direct to the consumer through an on-farm retail site, food hub or community supported agriculture (CSA). Furthermore, consumers may be able to eat organically grown food at different restaurants — from organic milk in children’s meals at fast casual chains to locally grown organic greens at the local café.

Which markets should a producer interested in selling organic produce pursue? You can answer this question by recognizing the different characteristics of each market. To keep things simple, we will divide the markets in terms of volume requirements. “Wholesale” markets include food retail chains, local groceries, restaurants and other markets paying less than retail price. “Direct” markets include farmers markets, CSAs and on-farm retail.

### ***Wholesale Markets***

Wholesale markets for organic produce may be characterized by:

- Larger volume requirements
- Higher quality standards
- Specific variety or other product characteristics
- Formal (contract) or informal advance pricing arrangements
- More rigorous food safety requirements

It is now common for wholesale organic produce farms to negotiate directly with the retailer. Many retailers are unwilling to entertain inquiries from growers that cannot guarantee specific volumes at certain prices throughout the season. In addition, many food retailers utilize contractual buying agreements with growers of organic produce.

Smaller-scale wholesale markets for organic produce include local or specialty grocers (such as natural food stores or co-ops) and restaurants. Although specialty grocers and restaurants may provide lower volume requirements than larger chains, quality and volume requirements are still critical to success.

The MarketReady Producer Training Program helps farmers learn to meet the requirements of buyers from restaurants, grocery stores, schools and wholesale businesses so they can be successful in today’s markets. For more information about MarketReady, including upcoming trainings, go to <http://www.uky.edu/marketready/>.



Growers need to be aware of the requirements of the Food Safety Modernization Act (FSMA) and how it applies to them regardless of market channel. Some buyers may require a Third-Party Good Agricultural Practices (GAP) audit. For information about FSMA, Produce Best Practices Training (basic food safety training offered in Kentucky), and the GAP audits required by some buyers, visit <http://www.uky.edu/ccd/foodsafety>.

### ***Direct Markets***

Direct markets for organic produce may be characterized by:

- No minimum volume requirements
- More flexible quality standards
- Expectation of broad diversity of crops/variety
- Growers setting prices
- Basic food safety requirements

Direct markets offer several advantages for producers. Direct markets still require consistent quantities of crops but usually require smaller total volumes. It is not uncommon for one producer to supply several different kinds of organic crops for one direct market. Direct markets also provide the producer with insight into their consumers. This helps growers introduce new products and offer additional products that may increase profits, as well as help increase farm production levels. Finally, selling directly to the consumer is a way of capturing a retail price for farm products.

Farmers markets have long been a source of locally grown and organic produce. Many farmers market vendors have found that offering additional delivery to their customers through CSA subscriptions has increased the amount of fresh produce sold locally. Fi-

nally, on-farm stands and other similar direct marketing mechanisms also provide ways for growers to get organic produce into the hands of local consumers.

Direct marketers are not exempt from maintaining food safety in their production and marketing. FSMA (see above) will still affect direct marketers, and in Kentucky many direct marketers are required to complete Produce Best Practices Training (PBPT) before offering samples or participating in certain markets.

## OTHER MARKETING CONCERNS FOR ORGANIC PRODUCE

Commingling is a particular concern of growers with split operations (both organic and conventional production on the same farm). Commingling occurs when organic products come into contact with non-organic crops. Growers with split operations must take additional steps to prevent the commingling of their two systems during all stages of production, harvest, storage and transportation. For example, shared production and harvest equipment, along with joint storage facilities, must be thoroughly cleaned (and the cleaning recorded in writing) before use with organic crops.

Pricing and quality are also concerns for marketing organic produce. Novice organic produce growers previously experienced with conventional production will need to understand that pest and disease controls may have quite different cost structures. Growers must be prepared to address pest and disease issues under organic guidelines.

Oversupply of organic produce can create a steep decline in prices customers are willing to pay. This is especially true in wholesale markets. Using production contracts, or having other market channels available in case of potential oversupply, will help new organic growers guard against price risk. Regardless of market channel it is essential to evaluate whether buyers and customers value the Certified Organic label, and are willing to pay the premium you plan to ask before investing in certification.

<sup>1</sup>Organic Trade Association. "U.S. Organic Industry Survey 2018." <https://ota.com/resources/organic-industry-survey>

<sup>2</sup>"Growing Organic Demand Provides High-Value Opportunities for Many Types of Producers." (USDA/ERS, 2017) <https://www.ers.usda.gov/amber-waves/2017/januaryfebruary/growing-organic-demand-provides-high-value-opportunities-for-many-types-of-producers/>

<sup>3</sup>Nigh, Veronica. "Organic Produce Sales, Movin' On Up." American Farm Bureau Federation. <https://www.fb.org/market-intel/organic-produce-sales-movin-on-up>

<sup>4</sup>Dimitri, Carolyn and Linda Oberholtzer. 2009. *Marketing U.S. Organic Foods: Recent Trends from Farms to Consumers*. USDA-ERS, Bulletin Number 58. [https://www.ers.usda.gov/webdocs/publications/44430/11009\\_eib58\\_1\\_.pdf?v=0](https://www.ers.usda.gov/webdocs/publications/44430/11009_eib58_1_.pdf?v=0)

<sup>5</sup>Certified Organic Survey 2016 Summary (NASS) [http://usda.mannlib.cornell.edu/usda/current/OrganicProduction/OrganicProduction-09-20-2017\\_correction.pdf](http://usda.mannlib.cornell.edu/usda/current/OrganicProduction/OrganicProduction-09-20-2017_correction.pdf)

<sup>6</sup>2016 Certified Organic Survey – Kentucky (NASS) [https://www.nass.usda.gov/Surveys/Guide\\_to\\_NASS\\_Surveys/Organic\\_Production/2016\\_State\\_Publications/KY.pdf](https://www.nass.usda.gov/Surveys/Guide_to_NASS_Surveys/Organic_Production/2016_State_Publications/KY.pdf)

<sup>7</sup>Tondel, Fabian and Timothy Woods. 2006. *Supply Chain Management and the Changing Structure of US Produce Markets*. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.526.3115&rep=rep1&type=pdf>

<sup>8</sup>Organic Production/Organic Food: Information Access Tools. 2007, reviewed 2016. National Agricultural Library, U.S. Department of Agriculture, Alternative Farming Systems Information Center. <http://www.nal.usda.gov/afsic/pubs/ofp/ofp.shtml>

## Selected Resources

- Organic Marketing (Kentucky Department of Agriculture) <http://www.kyagr.com/marketing/organic-marketing.html>
- MarketReady Producer Training <http://www.uky.edu/marketready/>
- Kentucky MarketMaker <https://ky.foodmarketmaker.com>
- Direct Marketing Channels & Strategy for Organic Products (eXtension) <http://articles.extension.org/pages/18381/direct-marketing-channels-strategy-for-organic-products>
- Crop Conversion Calculator (Rodale Institute) <http://rodaleinstitute.org/farm/online-tools/crop-conversion-calculator/>
- Guide to Marketing Organic Produce (Texas A&M University Extension) <https://aggie-horticulture.tamu.edu/vegetable/guides/guide-to-marketing-organic-produce/>
- National Organic Program (USDA) <http://www.ams.usda.gov/nop>
- Organic Agriculture: Organic Market Overview (USDA) <http://www.ers.usda.gov/topics/natural-resources-environment/organic-agriculture/organic-market-overview.aspx>
- Organic Trade Association (Industry trade group)

with market information)

<http://www.ota.com/index.html>

- Organic Marketing Resources (ATTRA, 2004)

<https://attra.ncat.org/attra-pub/summaries/summary.php?pub=185>

- Searchable Database of Certified Organic Operations (USDA)

<https://organic.ams.usda.gov/Integrity/>

- USDA Agricultural Marketing Service Organic Reports

<https://www.ams.usda.gov/market-news/organic>

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