

**Strategic Marketing Institute
Working Paper**

Business Opportunities in Specialty Food Products

Prepared at the request of

The MSU Product Center for Agriculture & Natural Resources

by

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Funding: USDA Rural Development Cooperative Services.

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DESCRIPTION OF THE SPECIALTY FOODS MARKET

The specialty foods market is made up of products from five different consumer-driven categories: **Wellness**, **Indulgence**, **Ethnicity**, **Value** and **Convenience**. All of the specialty foods defined in this report fall into one (or more) of these categories.

Category	Definition
Wellness	<p>Foods that have a perceived impact on the consumer's health and wellbeing</p> <ul style="list-style-type: none"> ■ Products that avoid explicit harm, such as foods without trans fatty acids ■ Foods that are <i>perceived</i> to be healthier (such as natural foods) ■ Foods that avoid consumption of food borne pathogens and pesticide residues such as organic foods ■ Products that actually enhance the consumer's health, e.g., vitamins of fresh vegetables, functional foods, medical foods and foods with anti-oxidants
Indulgence	<p>Products designed to meet the consumer's deeply felt desires, as opposed to their needs.</p> <ul style="list-style-type: none"> ■ Luxury — Godiva chocolates, expensive wine, gourmet coffees, specialty cheeses ■ Hobby — cooking as a favorite pastime ■ Social connectedness — food as a basis for socializing ■ Values — such as social consciousness, environmental concerns, animal welfare, labor treatment, heritage varieties ■ Comfort foods from childhood — Toll House cookies, mashed potatoes ■ Eating as an experience — restaurants that create an ambiance ■ Foods that excite — those that appeal to x gamers, sushi, wild mushrooms ■ Variety — variety for variety sake
Ethnicity	<p>Products that arise from the food traits of specific ethnic groups.</p> <ul style="list-style-type: none"> ■ Foods with authentic appeal to the ethnic group itself ■ Foods marketed to the wider US population that have been influenced by ethnic tastes and ingredients
Value	<p>Food products that meet consumers' needs at the lowest price such as McDonald's hamburgers, fluid milk in gallon containers and private label food products.</p>
Convenience	<p>Food products that make life easier for the customer such as hand-held foods, "on-the-go" foods, partially prepared foods, component assembly products or bundling of products such as Lunchables.</p>

Wellness

Natural and organic products were considered "niche" products just a few years ago, but are now becoming much more mainstream. Today, natural and organic foods retailing has become the fastest-growing segment in the US grocery business.¹ Demand for organic products is currently larger than the supply, and organic food manufacturers such as Organic Valley Cooperative (CROPPS) are seeking new farmer members to help meet the demand. Newer food products that are growing in popularity include allergen-free and functional foods. Medical foods are also included in this category. Definitions of these products are:

Organic Foods - Organic refers to the way agricultural products — food and fiber — are grown and processed. Organic meat, poultry, eggs, and dairy products come from animals that are given no antibiotics or growth hormones. Organic food is produced without using most conventional pesticides, fertilizers made with synthetic ingredients or sewage sludge; bioengineering; or ionizing radiation.² Products must be third-party certified under the USDA National Organic Program (NOP). The NOP insures standardization "from field to finished product" with a rigid certification process and uniform rules for product labeling.³

Organic practices include:

- **Rotating crops** by alternating the types of crops grown in each field, which in turn prevents the depletion of the soil. Pests are also managed through crop rotation by eliminating *breeding grounds built year after year with a continuous crop*.
- **Planting cover crops** such as clover adds nutrients to the soil, prevents weeds, and increases organic matter in the soil. Soil with high organic matter resists erosion and holds water better, requiring less irrigation. Studies have shown that organic crops fare better than non-organic crops in times of drought and stress.
- **Releasing beneficial insects** to prey on pests helps to eliminate the need for chemical insecticides that can remain in the soil for years or leach into our water supply.
- **Adding composted manure and plant wastes** helps the soil retain moisture and nutrients. Just as falling leaves return nutrients to forest soil, composting replenishes the soil.

¹ Hoovers, <http://premium.hoovers.com/subscribe/co/overview.xhtml?ID=10952>

² *Organic Food Standards and Labels: The Facts*, April 2002, www.ams.usda.gov/nop/Consumers/brochure.html

³ The Natural and Organic Foodservice Marketplace Report, November 2003, Spins, and The Hale Group

- **Preventing illness and maintaining strong animals** through good nutrition and minimal stress is key to successful organic livestock farming.⁴

2002 National Organic Standards required that all products labeled as organic meet stringent standards established by the US Department of Agriculture (USDA) noted above. The USDA allows for three categories of labeling organic products:

- **100% Organic** - Products must be made with 100% organic ingredients
- **Organic** - Products must be made with at least 95% organic ingredients, with strict restrictions on the remaining 5%, including no GMOs.
- **Made with Organic Ingredients** - Products must be made with a minimum of 70% organic ingredients with strict restrictions on the remaining 30% including no GMOs. Products with less than 70% organic ingredients may list specific organically produced ingredients on the side panel of the package, but may not make any organic claims on the front of the package.⁵

Organic sales in 2004 were \$12 billion with an average annual growth rate of between 16-21 percent from 1997 to 2004. From 2006 to 2010, a 10 to 15% growth rate is expected and growth of 5-10% is expected from 2011 to 2025. This will result in organic foods sales of \$50 billion in 2025 or still just fewer than 6% of the total US food sales.⁶

Organic acreage doubled for many crops between 1997 and 2003, according to a new report from the U.S. Department of Agriculture's Economic Research Service. Overall, organic acreage grew 71 percent for crops and 50 percent for livestock during that six-year period. In 2003, 2.2 million acres were dedicated to organic crops and livestock production. All but one of the 50 states — Mississippi — had some organic farming. California, North Dakota and Minnesota led the pack in organic cropland, but Alaska and Texas joined California as leaders for organic livestock production. Organic acreage for spelt grew at the fastest clip — 470% — since 1997, but other crops with strong showings included culinary and medicinal herbs (284%); dry peas and lentils (212%); rye (166%); corn (147%); and carrots (139%). Despite the gains, organic acreage represents only 0.4 percent of all U.S. farmland and about 0.1 percent of pasture.⁷

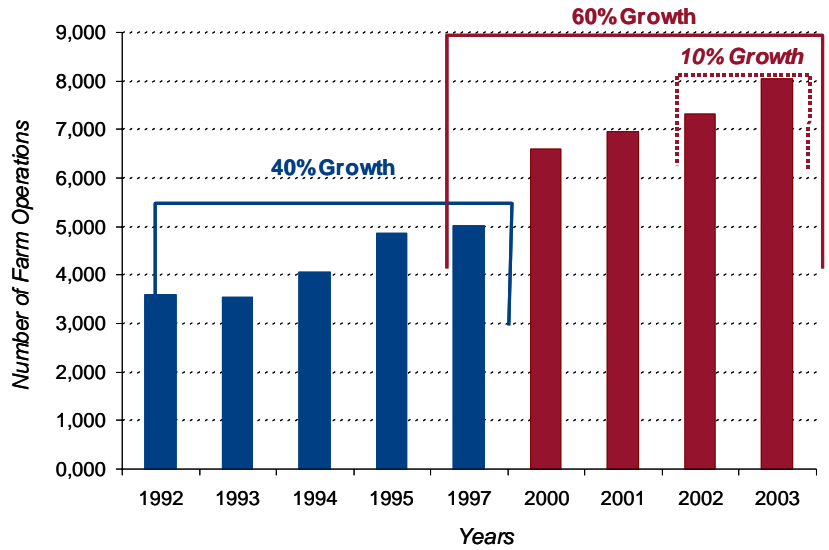
⁴ Stonyfield Farms, www.stonyfield.com

⁵ The Natural and Organic Foodservice Marketplace Report, Spins / The Hale Group, Nov 2003

⁶ Nutrition Business Journal Estimates from the Organic Trade Association study, The Past, Present and Future of the Organic Industry: A retrospective of the First 20 Years, a look at the Current State of Organic and Forecasting the Next 20 Years. www.ota.com

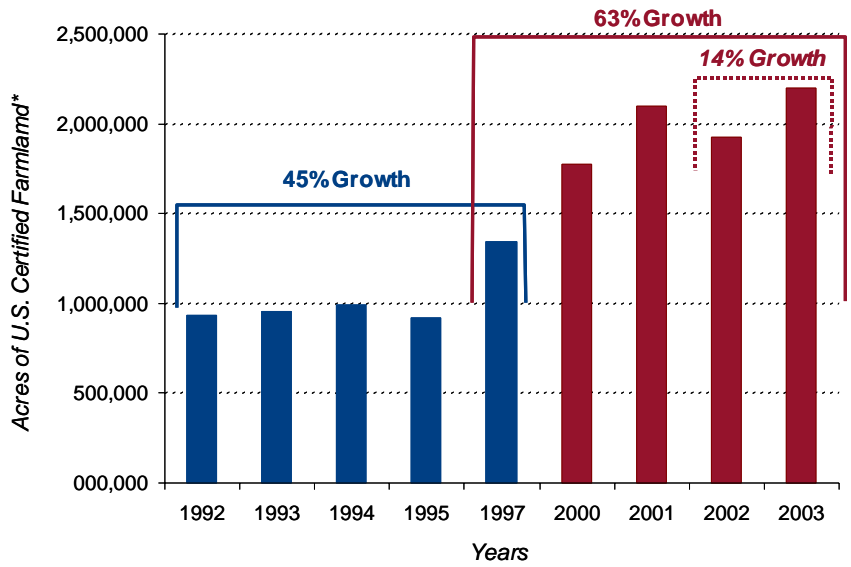
⁷ *Organic Farming and Ranching Continues Growth Spurt*, NFM Staff, December 20, 2005, Natural Food Merchandiser 12/20/2005 (Penton Media Inc.). www.naturalfoodsmchandiser.com

US Certified Organic Farmland*



*= Number includes livestock and poultry farms, but does not include sub-contracted organic farm operations
 Source: Economic Research Service, USDA
www.ers.usda.gov/data/organic/data/farmland9203.xls

US Certified Organic Farm Operations*



*= Includes pasture / rangeland, cropland
 Source: Economic Research Service, USDA
www.ers.usda.gov/data/organic/data/farmland9203.xls

- Organic Valley Family of Farms is America's largest cooperative of organic farmers and is one of the nation's leading organic brands. Organized in 1988, it represents 723 farmers in 22 states and realized a record \$245 million in 2005 sales. Focused on its founding mission of keeping small and mid-sized farmers farming, Organic Valley produces 200 organic foods, including organic milk, soy, cheese, butter, spreads, creams, eggs, produce, juice and meats which are sold in supermarkets, natural foods stores and food cooperatives nationwide.⁸
 - "Generation Organic," is a campaign to save the family farmer from extinction by bringing new farmers into organic agriculture developed by Organic Valley Family of Farms. "Generation Organic is the 'Endangered Species Protection Act' for the American family farmer."⁹
- Whole Foods Supermarket, the world's #1 natural foods chain, operates 175 stores in 30 US states, Canada and the UK. The publicly-traded company was started in 1978 with just one store, had sales in 1995 of \$4.7 billion that were 22% over the previous year. Whole Foods offers more than 1,500 items in four lines of private-label products including a line of organic products for children called Whole Kids and a line of value-priced items called "365 Organic".¹⁰
- Gary Hirshberg, the founder of Stonyfield Farms, the nation's leading organic yogurt producer, launched O'Naturals, a chain of organic fast casual restaurants in Maine and Massachusetts. The concept utilizes organic and locally grown ingredients whenever possible.
- McDonald's now sells Newman's Blend Coffee in its stores. The specialty coffee is organic and Fair Trade Certified.
- Yale University, University of Wisconsin – Madison, and Bates College in Maine use organic and locally grown foods in their cafeterias.

Natural Foods - As defined by the USDA Food Standards and Labeling Policy Book (August 2005), natural foods are those that do not contain any artificial flavors, colors or chemical preservatives or any artificial or synthetic ingredients. All products claiming to be natural should include a brief statement explaining what is meant by the term, "natural" (such as "contains no artificial ingredients" or "minimally processed").¹¹

- Schools are testing natural / organic products in vending machines. Stonyfield Farms has helped roll out "healthy vending machines" featuring nutritional organic and natural products into various schools throughout the nation.¹²

⁸ Organic Valley Family of Farms, www.organicvalley.coop

⁹ Organic Valley Family of Farms, www.organicvalley.coop

¹⁰ Hoovers, <http://premium.hoovers.com/subscribe/co/factsheet.xhtml?ID=10952>

¹¹ USDA, www.fsis.usda.gov/OPPDE/larc/Policies/Labeling_Policy_Book_082005_3.pdf

¹² Organic Food Facts, Organic Trade Association. www.ota.com

Functional Foods - Functional foods (also called nutraceuticals or fortified foods) are foods, modified foods or food ingredients that provide structural, functional or health benefits, thus promoting optimal health, longevity and quality of life.¹³ Functional foods include conventional, natural or organic food products. Examples include sports drinks, teas, vitamin-laced snack food, energy bars, etc. The market for functional foods was approximately \$25.3 billion in 2003.¹⁴

With health problems like diabetes, high blood pressure, arthritis and digestive disorders all on the rise, a growing number of food marketers is selling functional foods which promise a host of health benefits, from cholesterol reduction to immunity improvements to easing of intestinal problems. A study by Gerard Anderson, a professor of health policy and management at the Johns Hopkins University Bloomberg School of Public Health, found that 48% of all Americans in 2002 suffered from at least one chronic health condition, from hypertension to asthma to heart disease, up from 44.7% in 1996. According to a Brain Reserve survey in 2004, 65% of people said they were using diet to treat an illness, whether through a low-fat regimen, a diet of organic foods or a higher intake of certain kinds of foods.¹⁵

Note that the FDA regulations require a rigorous approval process for health claims. Functional food marketers are skirting this process by talking about the body's normal, healthy structures and functions as opposed to references to specific disease.¹⁶

- The Dannon Company is marketing a new fortified yogurt called Activia to speed up intestinal transit time. It will spend \$60 million in 2006 targeting the 70 million Americans who suffer from digestive problems.¹⁷
- PepsiCo will start selling a new version of its Tropicana orange juice containing three grams of fiber. It will join several other Tropicana juices that are enhanced with various vitamins and minerals that profess to benefit the heart, the immune system and make children's bones strong.¹⁸
- **Whole Grains** - Driven by the USDA 2005 Dietary Guidelines calling for at least half the grains Americans consume to be whole grains (three one-ounce servings per day), lesser known grains are becoming popular like quinoa, bulgur, and brown rice.¹⁹

¹³ USDA ARS Functional Foods: An Overview, by Pamela Keagy and Talwinder Kahlon, Jan 8 2003

¹⁴ USDA ARS Functional Foods: An Overview, by Pamela Keagy and Talwinder Kahlon, Jan 8 2003

¹⁵ Eating Your Way to Health; Companies are Marketing Fortified Foods the Drug-Wary" by Melanie Warner, New York Times 12/28/2005

¹⁶ Eating Your Way to Health; Companies are Marketing Fortified Foods the Drug-Wary" by Melanie Warner, New York Times 12/28/2005

¹⁷ Eating Your Way to Health; Companies are Marketing Fortified Foods the Drug-Wary" by Melanie Warner, New York Times 12/28/2005

¹⁸ Eating Your Way to Health; Companies are Marketing Fortified Foods the Drug-Wary" by Melanie Warner, New York Times 12/28/2005

¹⁹ Express Grain – Fast ways to eat well when you want to cook healthy, The Boston Globe, 1/4/06

Allergen-free Foods - Allergen-free foods are those produced to be free of one or more of the commonly known food allergens. Although an individual could be allergic to any food, such as fruits, vegetables, and meats, they are not as common as the following eight foods which account for 90% of all food-allergic reactions: milk, eggs, peanuts, tree nuts (walnuts, cashews, etc.), fish, shellfish, soy and wheat.²⁰ Allergen-free foods are also produced for people with a condition called celiac sprue or celiac disease. Those with this condition cannot eat any wheat, rye, barely or oats because of a permanent adverse reaction to gluten, the protein found in these grains.

Scientists estimate that approximately 11 million Americans suffer from true food allergies.²¹ In addition, it is estimated that 1 in 133 or over 2 million people in the United States have celiac disease.²² At the present time, there is no cure for a food allergy or for celiac disease. Avoidance is the only way to prevent an allergic reaction or symptoms of celiac disease.²³

A new food labeling law now requires food manufacturers to disclose in plain language whether products contain any of the top eight food allergens. The *Food Allergen Labeling and Consumer Protection Act (FALCPA)*, which took effect January 1, 2006, mandates that foods containing milk, eggs, fish, crustacean shellfish, peanuts, tree nuts, wheat, and soy must declare the food in plain language on the ingredient list.²⁴

- Heartland Ingredients, LLC in Ubyly, Minnesota produces gluten-free pasta and cereal made from bean flours especially for the gluten-free market. The beans are grown and processed by Mid-Western Dry Bean Producers, a farmer-owned organization.²⁵
- Vermont Nut Free Chocolates in Grand Isle, Vermont makes peanut-free and tree nut-free chocolate candy exclusively. The entire product line is safe for those with a peanut or tree nut allergy.²⁶

Medical Foods - A medical food is one that is prescribed by a physician when a patient has special nutrient needs in order to manage a disease or health condition, and the patient is under the physician's ongoing care. The label must clearly state that the product is intended to be used to manage a specific medical disorder or condition. An example of a medical food is a food for use by persons with phenylketonuria, i.e., foods formulated to be free of the amino acid phenylalanine. Medical foods are not meant to

²⁰ The Food Allergy & Anaphylaxis Network, www.foodallergy.org

²¹ The Food Allergy & Anaphylaxis Network, www.foodallergy.org

²² Celiac Sprue Association, www.csaceliacs.org

²³ The Food Allergy & Anaphylaxis Network, www.foodallergy.org

²⁴ The Food Allergy & Anaphylaxis Network, www.foodallergy.org

²⁵ Heartlands Finest, www.heartlandingredients.com

²⁶ Vermont Nut Free Chocolates, www.vermontnutfree.com

be used by the general public and may not be available in stores or supermarkets. Medical foods are not those foods included within a healthy diet intended to decrease the risk of disease such as reduced-fat foods or low-sodium foods, nor are they weight loss products.²⁷

Indulgence

Several products in this category are produced in a way that supports the local, small to medium-sized farmers, promotes eco-friendly farming processes and or supports world causes including locally grown crops including those grown on Community Supported Agricultural Farms, Heritage and Heirloom crops and Sustainable foods. Organic foods and Artisan foods also fall into this area, but are addressed in other category discussions because of their healthy attributes. Also included in the indulgence category are those products that appeal to the consumer's desire for the new and unique, or the food experience such as artisan foods, the slow food movement, gourmet, specialty, ethnic and extreme cuisine.

Locally Grown Foods – Locally grown foods support the local farmers and keep local food dollars circulating in the community. In addition to getting fresher products, many local farmers can offer varieties bred for taste instead of their ability to withstand shipping and withstand a long shelf life. In contrast, most US grown produce is picked four to seven days before being placed on domestic supermarket shelves, and is shipped for an average of 1,500 miles before being sold. Those distances are substantially longer when we take into consideration produce imported from Mexico, Asia, Canada, South America, and other places.²⁸

- **Farmers Markets** – Direct marketing of farm products through farmers markets continues to be an important sales outlet for agricultural producers nationwide looking to sell their products locally. Farmers markets, now an integral part in the urban / farm linkage, have continued to rise in popularity, mostly due to the growing consumer interest in obtaining fresh products directly from the farm. The number of farmers markets in the United States has grown dramatically, increasing 111% from 1994 to 2004. According to the 2004 National Farmers Market Directory, there are over 3,700 farmers markets operating in the United States.²⁹

Community Supported Agricultural Products - Community supported agriculture (CSA) has been gaining momentum since its introduction to the United States from Europe in the mid-1980s. The CSA concept originated in the 1960s in Switzerland and

²⁷ Food and Drug Administration, Center for Food Safety and Applied Nutrition, www.cfsan.fda.gov/~dms/ds-medfd.html

²⁸ LocalHarvest, www.localharvest.org

²⁹ LocalHarvest, www.localharvest.org

Japan, where consumers interested in safe food and farmers seeking stable markets for their crops joined together in economic partnerships. In basic terms, CSA consists of a community of individuals who pledge support to a farm operation so that the farmland becomes, either legally or spiritually, the community's farm, with the growers and consumers providing mutual support and sharing the risks and benefits of food production. Typically, members or "share-holders" of the farm or garden pledge in advance to cover the anticipated costs of the farm operation and farmer's salary. In return, they receive shares in the farm's bounty throughout the growing season, as well as satisfaction gained from reconnecting to the land and participating directly in food production. Members also share in the risks of farming, including poor harvests due to unfavorable weather or pests. By direct sales to community members, who have provided the farmer with working capital in advance, growers receive better prices for their crops, gain some financial security, and are relieved of much of the burden of marketing.³⁰

Most CSAs offer a diversity of vegetables, fruits, and herbs in season; some provide a full array of farm produce including shares in eggs, meat, milk, baked goods, and even firewood. Some farms offer a single commodity, or team up with others so that members receive goods on a more nearly year-round basis. Some are dedicated to serving particular community needs, such as helping to enfranchise homeless persons. Each CSA is structured to meet the needs of the participants, so many variations exist, including the level of financial commitment and active participation by the shareholders, financing, land ownership and legal form of the farm operation, and details of payment plans and food distribution systems.³¹

According to the USDA's Sustainable Agriculture Research and Education Program (SARE) database, there are approximately 1,153 CSA farms in the US. New York has the largest number of CSA farms (106) followed by California (81), Pennsylvania (70), Wisconsin (70) and Washington (64).³²

For community members, participating in a CSA allows them to enjoy "fresh from the farm" produce throughout most of the year. In addition, they gain satisfaction from reconnecting to the land and by participating directly in food production. But, members also share the risk of farming, including poor harvests due to unfavorable weather or pests. The benefits for the farmers are that they receive working capital in advance from the shares sold, they gain some financial security, receive better prices for their crops and they need to do less marketing of their products.³³

³⁰ *Community Supported Agriculture (CSA): An Annotated Bibliography and Resource Guide*, Suzanne DeMuth, September 1993, <http://www.nal.usda.gov/afsic/csa/csadef.htm>

³¹ *Community Supported Agriculture (CSA): An Annotated Bibliography and Resource Guide*, Suzanne DeMuth, September 1993, <http://www.nal.usda.gov/afsic/csa/csadef.htm>

³² USDA., <http://wsare.usu.edu/pub/index.cfm?sub=csa>

³³ *Community Supported Agriculture (CSA): An Annotated Bibliography and Resource Guide*, Suzanne DeMuth, September 1993, <http://www.nal.usda.gov/afsic/csa/csadef.htm>

According to the survey, *CSA Across the Nation: Findings from the 1999 CSA Survey*, the median gross CSA enterprise annual income is \$15,000.³⁴ Therefore, THG's estimation of the total size of CSA farms in the US is \$17.3 million (\$15,000 avg. income * 1153 farms).

- Brookfield Farm, located in Amherst, MA is a CSA farm. In exchange for one share (which costs \$400), the consumer receives an average of 14 lbs. of produce each week from June through November (sufficient produce for 2 adults). In addition, the purchase of the shares includes a variety of pick-your-own vegetables, herbs, berries and flowers; the opportunity to purchase bulk produce at wholesale prices for canning and freezing; the opportunity to purchase Brookfield Farm raised beef and pork; a weekly newsletter during harvest season with recipes, farm news, etc.; access to Brookfield Farm's 50 acres of land for recreational use; and the opportunity to participate in educational programs and seasonal festivals.³⁵

Heirloom Crops - Heirloom vegetables are vintage varieties which have been preserved by passing seed down from generation to generation. These varieties are generally fifty to one hundred years old, although many are much older. According to *Seeds of Diversity*, 75% of the 100,000 vegetable and fruit varieties in North America today are endangered.³⁶ All heirlooms are open-pollinated (i.e., they pollinate naturally) and usually breed true-to-type. Unlike hybrids, which have been bred largely for uniformity in size, shape, and ripening, as well as for durability in shipping, heirlooms have often been selected for flavor and tenderness. The demand for heirloom vegetables is increasing, especially among consumers looking for unique flavors and freshness.³⁷

- At Poverty Lane Orchards in Lebanon, NH, several heirloom varieties are grown including the Golden Russet (1700s), the Wickson (1800s), Hudson's Golden Gem (1930s) and the Esopus Spitzenberg (1700s).³⁸

Sustainable Foods - Sustainability rests on the principle that the needs of the present must be met without compromising the ability of future generations to meet their own needs. Sustainable agriculture integrates three main goals: environmental health, economic profitability, and social and economic equity. Therefore, *stewardship of both natural and human resources* is of prime importance. Stewardship of human resources

³⁴ *CSA Across the Nation: Findings from the 1999 CSA Survey*, October, 2003 by the Center for Integrated Agricultural Systems(CIAS), College of Agricultural and Life Sciences, University of Wisconsin-Madison, www.cias.wisc.edu/pdf/csaacross.pdf

³⁵ Brookfield Farm, www.brookfieldfarm.org

³⁶ Heritage, www.evergreen.ca

³⁷ *Heirloom Vegetables*, University of Kentucky College of Agriculture, Cooperative Extension Service, Issued 2005, <http://www.uky.edu/Ag/NewCrops/introsheets/heirloom.pdf>

³⁸ Poverty Lane Orchards, www.povertylaneorchards.com

includes consideration of social responsibilities such as working and living conditions of laborers, the needs of rural communities, and consumer health and safety, both in the present and the future. Stewardship of land and natural resources involves maintaining or enhancing this vital resource base for the long term.³⁹

- The Chefs Collaborative is a national network of more than 1,000 members of the food community who promote sustainable cuisine by celebrating the joys of local, seasonal, and artisan cooking. The Collaborative is a culinary organization that provides its members with tools for running economically healthy, sustainable food service businesses and making environmentally sound purchasing decisions. In addition to promoting exceptional taste and culinary technique, the Collaborative is dedicated to supporting local growers, artisan producers, all who work toward sustainable agriculture and aquaculture, humane animal husbandry, well-managed fisheries, and conservation practices that lessen our impact on the environment.⁴⁰
- Chef Peter Davis bases his restaurant, Henrietta's Table, at The Charles Hotel in Cambridge, Massachusetts, on "fresh from the farm and honest-to-goodness New England cooking." Davis is an avid conservationist, with close ties to New England's fishing and farming communities. He uses products grown using sustainable agriculture methods and native ingredients. He staunchly refuses to use ingredients that have been genetically modified or engineered, and he even creates collectible trading cards featuring his local suppliers of fresh produce, fish, and game to be given to diners at the end of their meal.⁴¹
- Whole Foods Market recently announced a landmark purchase of renewable energy credits. More than 458,000 megawatt-hours of energy credits from wind farms nationwide will offset 100% of the electricity used in all of the company's stores, facilities, bake houses, distribution centers, regional offices and national headquarters in the United States and Canada. This is the largest wind energy credit purchase in the history of the US and Canada and makes Whole Foods Market the only Fortune 500 Company purchasing wind energy credits to offset 100% of its electricity use. Energy credits were purchased through Renewable Choice Energy (Boulder, CO.)⁴²

³⁹ University of California Sustainable Agriculture Research and Education Program, www.sarep.ucdavis.edu

⁴⁰ Chefs Collaborative, www.chefscollaborative.org

⁴¹ Henrietta's Table, www.henriettastable.com

⁴² NBJ (Nutrition Business Journal) News Update - January 12, 2006

Slow Food - Slow Food is an international movement started in Paris in 1989 whose aim is to protect the pleasure of the table from the homogenization of modern fast food and life. Through a variety of initiatives, it promotes gastronomic culture, develops taste education, conserves agricultural biodiversity and protects traditional foods at risk of extinction. The organization has 80,000 members in more than 100 countries.⁴³

Slow Food USA is a non-profit educational organization dedicated to supporting and celebrating the food traditions of North America. From the spice of Cajun cooking to the purity of the organic movement, from animal breeds and heirloom varieties of fruits and vegetables to handcrafted wine and beer, farmhouse cheeses and other artisan products, these foods are a part of the American cultural identity. They reflect generations of commitment to the land and devotion to the processes that yield the greatest achievements in taste. These foods and the communities that produce and depend on them are constantly at risk of succumbing to the effects of the fast life, which manifests itself through the industrialization and standardization of our food supply and degradation of our farmland. By reviving the pleasures of the table, and using our taste buds as our guides, Slow Food USA believes that our food heritage can be saved.⁴⁴

- Inspired by Noah's Ark and its protection of animal species, Slow Food USA seeks to protect animal species through its Ark USA program. The program promotes and protects foods in danger of extinction, such as the Delaware Bay Oyster, the Bourbon Red turkey first bred in Tennessee, Aged Dry Jack Cheese, and naturally grown, hand parched wild rice from the lake regions of Minnesota and Wisconsin. Products such as these are economically and ecologically fragile, yet, at the same time, an important part of their local economies and culture. By increasing awareness of and demand for these high quality foods, Slow Food hopes to help make them remain viable products that will bring pleasure for generations to come.⁴⁵

Gourmet Foods / Specialty Foods - Gourmet or specialty foods are generally considered to be high quality foods that are perfectly prepared and artfully presented. They usually include exotic, rare or unique ingredients. Specialty products range from smoked salmon, caviar, herb-infused olive oils and imported cheeses to dessert sauces, unique desserts and candies. The top selling specialty foods include beverages, dairy products (excluding cheese), cheese, condiments, and nuts / seeds / trail mix.⁴⁶

⁴³ Slow Food, www.slowfood.com

⁴⁴ Slow Food USA, www.slowfoodusa.org

⁴⁵ Slow Food USA, www.slowfoodusa.org

⁴⁶ National Association of the Specialty Food Trade 2005 State of the Food Industry Report as quoted by Diane Haltaway, Rutgers University.

Top Specialty Food Categories	Growth Rate 2002 to 2004	Growth Drivers
Beverages (excluding alcohol and dairy)	39%	Nutritional water and juice, iced tea and coffee drinks
Dairy products (excluding cheese)	37%	Yogurts and yogurt drinks, flavored milk products
Cheese	29%	Artisan cheese
Condiments	27%	Hot sauces, fruit sauces, salsa, cooking sauces
Nut/Seed/Trail Mix	25%	“Grab and Go” product, ethnic influences

- Family-owned Kozlowski Farms in Sonoma County, CA manufactures a unique line of specialty foods including pure old-fashioned jam, preserves and jelly, 100% fruit sweetened spread, 100% fruit sweetened chutney, fruit butter, marmalade, mustard, salsa, berry vinegar, salad dressings, California style barbecue (BBQ) or steak sauce, chocolate fudge sauce, roasted chipotle grilling / dipping sauce / marinade and basil & garlic Bruschetta. Products can be purchased on-line, through the mail order catalog, at the farm retail shop or at other various retail outlets.⁴⁷

Artisan Foods - Artisan foods are high quality, hand crafted food products usually made in small batches. The artisans’ focus is on their craft and commitment to quality. They are dedicated to their work and to the care of their animals and the land. Examples include cheeses, breads, jams, sauces, natural and organic meat, heirloom vegetables and handmade chocolate.⁴⁸

- L.A. Burdick Chocolates are handmade and made entirely without the use of molds by artisan, Larry Burdick. All ingredients are natural and unlike many commercially produced chocolates, no preservatives are used. The result is chocolate that has a texture like satin that melts in your mouth and reveals complex flavors of rich dark cocoa with a fragrant vanilla finish. L.A. Burdick uses only natural fruits and herbs (no extracts or concentrates) to create unique and unusual flavors in each carefully crafted piece. No two batches are exactly alike.⁴⁹

⁴⁷ Kozlowki Farms, <https://secure.kozlowskifarms.com>

⁴⁸ Artisan-Made Northeast, www.artisanmade-ne.com

⁴⁹ Artisan-Made Northeast, www.artisanmade-ne.com

- Valley View Farm in Topsfield, MA produces 6,000 pounds of handmade goat cheese annually from the milk from its 20 goats. The cheese is featured in several upscale restaurants in Boston. Valley View Farm is one of 350 goat farms nationwide.⁵⁰
- At Pastoral specialty store in Chicago, all of the products sold are artisan. The store stocks over one hundred different types of cheese and fifty wines. A chalkboard within the 45 square foot store advertises the different classes of cheese and wine.⁵¹

Specialty Meat – Kangaroo, elk, buffalo, alligator, wagyu, and organic free-range beef are growing in popularity around the states.

- The Golden Gate Meat Company, located in San Francisco’s Ferry Building Marketplace, sells artisanal cheese, organic vegetables, specialty meat and more. They offer more than 1,000 products to choose from including natural and organic beef, pork and natural pork, lamb, veal, smoked meats, wild game, poultry, sausages and luncheon meats.⁵²
- Niman Ranch encompasses a collaborative network of more than five hundred family farms and ranches. The company offerings include fresh beef, pork, lamb, and a variety of specialty meats. Niman Ranch products can be found at hundreds of restaurants and retail locations nationwide.⁵³
- Kobe beef, from an ancient stock of cattle called “kuroge Wagyu” is considered to be the most exclusive in the world. Today, they are raised on only 262 small farms. Following the belief that relaxed, happy cows make for delicious tender meat, each animal is kept on a very strict diet, brushed with sake (some producers believe that softness of the skin is related to meat quality), and given massages.⁵⁴

Extreme Cuisine – Believed to be pioneered by Ferran Adria, a Spanish chef whose restaurant El Bull has become a destination for foodies all over the world, Extreme Cuisine is a multi-sensory dining experience where taste, texture and technique are pushed to their limits. The art of dining is taken to a whole new level.⁵⁵

⁵⁰ *Got Goat?*, The Eagle Tribune, January 4, 2006

⁵¹ *Artisanal Cheese*, featured topic in Eat This with Dave Lieberman on The Food Network website— Episode 10. www.foodnetwork.com/food/show_et

⁵² Specialty Meat, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 13. www.foodnetwork.com/food/show_et

⁵³ Specialty Meat, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 13. www.foodnetwork.com/food/show_et

⁵⁴ Specialty Meat, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 13. www.foodnetwork.com/food/show_et

⁵⁵ *Extreme Cuisine*, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 2. www.foodnetwork.com/food/show_et

- A meal at El Bulli in Girona, Spain consists of 25 to 30 small “courses,” many of which involve just a single bite and have included foam of smoke, carrot air and charcoal oil.⁵⁶
- At Moto in Chicago, guests enjoy a multi-sensory experience by selecting a 5, 10 or 18-course menu from a parmesan flavored edible paper menu laid on top of a mixture of crème fraiche and yogurt. Once they’ve finished with the menu, they stir it, puffed rice, freeze dried shallots, and micro greens into the yogurt-crème fraiche mixture to create a creamy yet crunch risotto.⁵⁷

Ethnicity

Ethnic food sales are rising 5% a year in the US driven by the growing ethnic population in the US and the mainstream consumer’s demand for bolder tastes and desire to experiment with new cuisines.⁵⁸

Ethnic options are becoming more regionalized and now sub-segments exist. Nuevo Latino cuisine, for example, encompasses foods from Latin America, the Caribbean and Mexico. For Asian options, consumers now dine at Chinese, Vietnamese, Korean, Japanese or Thai restaurants.

Have Sampled This Cuisine in Last 12 Months in Foodservice (% Of Total U.S. Population)	
Chinese, Italian, Mexican	75%
Japanese, Cajun/Creole, Tex-Mex, Greek, Thai	28%
Latin, Caribbean, Indian, Vietnamese, Korean	12%

Source: Reed Research Group – Tastes of America, 2004

- Kettle Foods, Inc. recently launched Spicy Thai flavored potato chips.
- Emilios Topas restaurants at various locations in the Chicago area serve authentic European Spanish Tapas.⁵⁹

⁵⁶ *Extreme Cuisine*, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 2. www.foodnetwork.com/food/show_et

⁵⁷ *Extreme Cuisine*, featured topic in Eat This with Dave Lieberman on The Food Network website – Episode 2. www.foodnetwork.com/food/show_et

⁵⁸ *Insights Into Tomorrow's Ethnic Food & Drink Consumers Report* by DataMonitor, Aug 2005

⁵⁹ Emilios Topas, www.emiliostapas.com

- Carnivale Restaurant in Chicago serves “Latin soul food,” a mix of Caribbean and Central-American cuisine. The menu features Guatemalan chicken, Fluke ceviche, and mango upside-down cake.⁶⁰

Value

Value foods are generally not considered trend leaders. Rather, after a new trend becomes mainstream, value products are produced. One example is the introduction of private label products after the successful launch of a brand name equivalent. The ability to achieve value pricing at the consumer level is driven by processors’ or manufacturers’ economies of scale.

- In 2005, Stop and Shop Supermarkets, a 360 store conventional chain in New England, began selling their own private label line of organic and natural products called “Nature’s Promise”. The products are value priced.⁶¹

Convenience

Americans’ busy lifestyles are driving the demand for convenience foods. Convenience foods include prepared foods to eat “on the run” or eat at home, hand-held foods that enable the buyer to do something else while eating, partially or fully-prepared foods that reduce / eliminate preparation time (sixty-second rice or fresh-cut salads), foods in packaging that makes consumption easier (Dannon’s Gogurt yogurt), and bundled products to make food preparation easier (Lunchables and Hamburger Helper).

- Dole Food Company sells a wide variety of pre-washed and pre-cut fruit and vegetables for a ready-to-eat snack or for quick meal preparation.⁶²
- Ready Pac® Produce sells complete salads, featuring premium salads with salad dressing and condiments in one package.⁶³
- Wolfgang Puck’s self-heating gourmet lattes are now available at retail stores. When the 10-ounce cans are opened, calcium oxide (quicklime) and water mix together inside the can to heat the coffee to 145 degrees in six minutes. The latte stays hot for 30 minutes.⁶⁴

⁶⁰ Recently Review Restaurants by Phil Vettel, Chicago Tribune restaurant critic. www.chicagotribune.com/entertaining/dining

⁶¹ www.stopandshop.com

⁶² Dole Food Company, www.dole.com

⁶³ Ready Pac Produce, Inc., www.readypac.com

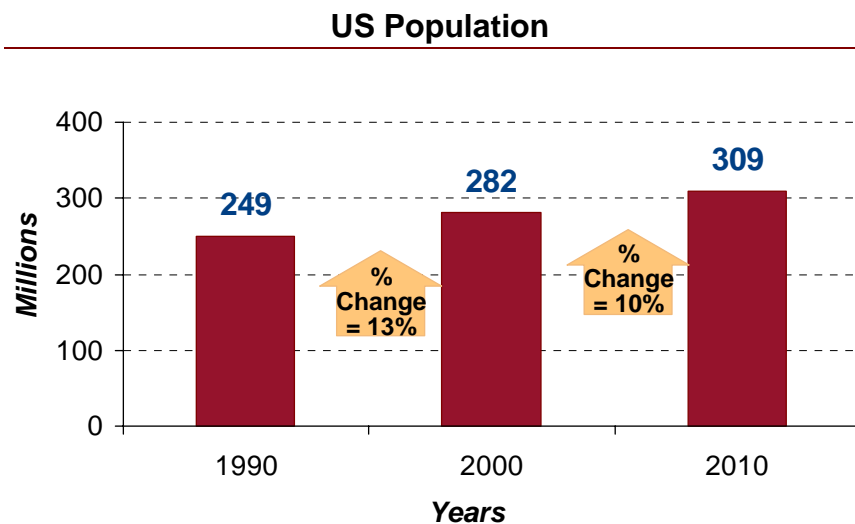
⁶⁴ *Single-serving coffee can heats itself*, USA Today, 1/19/04, www.usatoday.com

DRIVING FORCES

Changes in consumer food spending and eating patterns are driven by:

- Population shifts
- Changes in income and spending
- Ethnicity
- Consumer behavior

Population – From 1990 to 2000, the population grew by 33 million people, an increase of 13% (the largest increase in the consumer market since the Baby Boom, which occurred between 1950 and 1960). The population is expected to grow by another 27 million people (10%) by 2010, and 90% of that growth will be generated within the 45+ age group (the baby boomers and older adults).⁶⁵

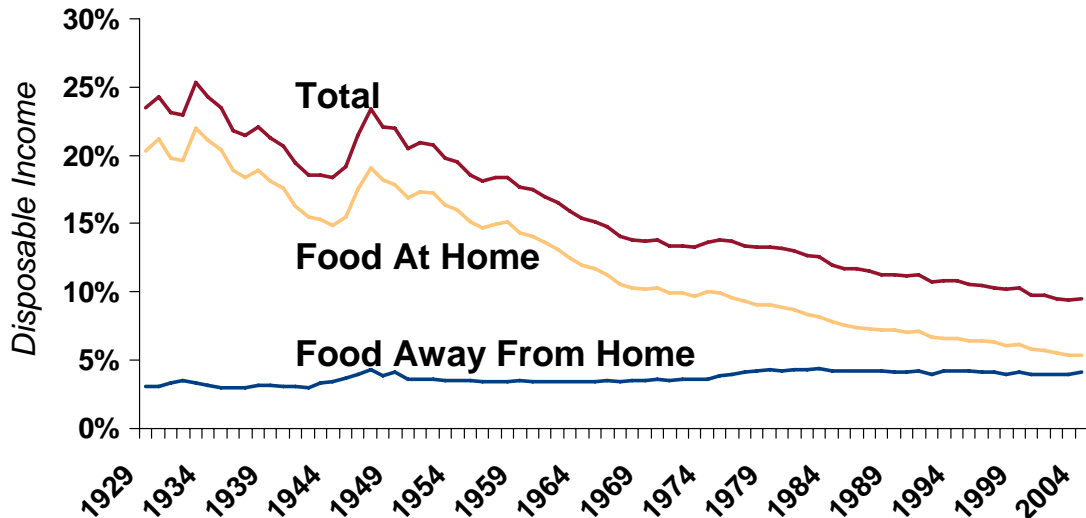


- The growing population of aging but affluent baby boomers will shift eating habits driven by entering retirement and empty nests.
 - Increased demand for healthy foods
 - Shift in the away-from-home food preferences from Quick Service restaurants (QSR) to Full Service restaurants (FSR)
 - Rediscover kitchen for meal assembly

⁶⁵ US Census Bureau, American Demographics

Income and Spending – US Food costs as a percentage of disposable income have declined steadily to 9.5% in 2004 from a high of 25% in the 1930s.⁶⁶

Food Expenditures as a Percent of Disposable Income



Consumers with higher incomes spend more of their incomes on food. Consumers with an annual income of \$20,000 spend about 6% of their income for food, while consumers with an income of \$70,000 spend about 8%. Also, the most affluent consumers spend about 50% of food expenditures in restaurants *versus* only 34% for consumers with \$20,000 annual incomes.⁶⁷

Ethnicity – Whites dominate the US profile, but growth is coming from minority groups. Over 13% of the population identify themselves as Hispanic (can be of any race) rivaling the black population for the status of largest minority group. This trend in US demographics will continue to drive ethnic food trends through 2010.

Consumer Behavior – Busy lifestyles, working women, smaller and more diverse households will continue to drive food behaviors. Food preferences typically reflect the lifestyles of different age groups.

⁶⁶ USDA Economic Research Service, www.ers.usda.gov/briefings/cpi/foodandexpenditures/data/table7.htm

⁶⁷ US Department of Labor, Bureau of Labor Statistics, 2003

Consumer Age / Lifestyles and Food Behaviors

		<i>Age Group</i>					
		10 - 20	20 - 30	30 - 40	40 - 50	50 - 60	60 - Up
Decision Drivers	• Low Price	• Value	• Value	• Quality	• Quality	• Value	
	• Value	• Variety	• Variety	• Variety	• Variety	• Low Price	
	• Brands	• Conven.	• Family	• Ambience	• No Kids	• Convenience	
	• Trends	• Social	• Conven.	• Conven.	• Ambience	• Family	
	• Snacks	• Health	• Safety	• Decadence	• Social	• Nutrition	
	• “Fuel”	• Ethnic	• Health	• Image	• Image	• Ambience	
	• Fun		• Quality				

Regardless of age, demographics or ethnicity, consumers are moving toward a new standard of quality in flavor, health and convenience without sacrificing great taste.

CAPITALIZING ON THE OPPORTUNITIES

So what does all this mean? Are there opportunities for producers in Michigan, Wisconsin, and Ohio in the specialty food niche markets?

The answer is a resounding “YES” – with the understanding that there are risks and unique skills required to pursue many of these opportunities.

The first questions that producers need to ask themselves is:

- Am I primarily a farmer who loves to grow crops and livestock, or am I an entrepreneur with marketing skills?
- If you do not have skills, training, or an interest in marketing, does anyone else in your farming operation have those skills?

If no one in your operation has a marketing and entrepreneurial skill set, then the best way to capitalize on these opportunities is to join a farmer cooperative that has hired personnel with skills. The Appendix to this report provides the names of cooperatives in your area that you might wish to consider joining.

If, on the other hand, you or someone in your farming operation have those skills, you might want to consider capitalizing on the opportunities as an individual business.

What types of opportunities provide the greatest potential?

The biggest opportunities exist for farmers that produce products focused on:

- Wellness
- Indulgence
- Ethnicity

Each of the five consumer drivers is described below in terms of the existence of opportunities.

- **Wellness** – Within the wellness segment, strong consumer demand exists for natural and organic products. To explore opportunities in this category, we suggest utilizing existing farmer cooperatives that have already developed the supply chain (processing, distribution, sales and marketing). Resources are available through trade associations, the USDA and state government to assist farmers interested in growing organic or natural products and livestock. Organic marketers such as Organic Valley Cooperative (CROPP) are seeking additional producers to meet demand.
- **Indulgence** – Variety and freshness are in high demand with consumers, and restaurant chefs and local supermarkets are seeking produce with these attributes to meet the demand. Therefore, indulgence products including locally grown and heirloom produce as well as artisan products are examples of strong opportunities for farmers.
- **Ethnicity** – The increasing ethnicity of the US population has increased the demand for foods and flavors from around the world. An opportunity exists for farmers to produce fruits, vegetables, herbs and spices that are currently being imported from other parts of the world. In addition, some ethnic groups are inadequately served with their native foods here in the US. Producing crops new to US farmers for the growing ethnic groups also holds potential.
- **Convenience** – Explore possible ways to make your products more convenient for on-the-go eating or quicker to prepare such as pre-washed produce or pre-cut fruit. This segment may require a cooperative arrangement with other farmers, since an investment in processing equipment will be necessary. Fewer opportunities exist for local farmers in the convenience segment because packaging and / or processing innovations (taking place further down the supply chain) generally drive successful product introductions.

- **Value** – The opportunities in this consumer driver are limited for most producers. Large firms with huge processing and manufacturing plants that achieve economies of scale dominate this segment. Extreme caution should be used before entering this segment of the food industry.

The following table summarizes the major opportunities, or lack thereof, in each of the five consumer driver categories along with the rationale for that assessment.

Consumer Driver	Best Opportunities	Best Way to Market	Rationale
Wellness	Organic, natural	Cooperatives	Marketing channels already exist
Indulgence	Locally grown, CSA products (in urban/suburban areas), Heirloom crops, artisan foods	Individual farmer	Niche opportunities unique to local market
Ethnicity	Ethnic fruit and vegetables, spices, herbs, ethnic ways of processing, ethnic recipes	Individual farmer	Niche opportunities unique to local market. Provide a “domestic source” for products currently imported
Value	Very few opportunities		Driven by economies of scale of big processors and manufacturers Use extreme caution
Convenience	Pre-cut, pre-cut produce, individually packaged produce	Cooperatives	Entry requires investment in processing Usually requires innovative packaging

For those producers with entrepreneurial skills wishing to pursue opportunities on their own without joining a cooperative, we provide the following guidelines for success.

Key Success Factors:

- **Follow the Money** - Identify the communities in your area that have the highest per capita incomes. These affluent communities are more likely to be interested in indulgent products.
 - Visit the unique restaurants and specialty food stores in those communities
 - Identify gaps in their offerings
 - Talk with the owner or manager about opportunities
- **Watch the Food Trends** - Track national food trends by subscribing to food newsletters and by reading restaurant reviews and food trend articles noted on major newspaper websites across the country. Identify the biggest food trends in restaurants, supermarkets and specialty food stores.

- Within your area, ask the store personnel what products are in demand and what they would like to sell, but can't source.
 - Conduct your own small-scale survey of local consumers in those specialty food stores and / or restaurants (with the owner's permission, of course) about what they would like to buy, but have difficulty finding.
 - Bring new product ideas to the owners of eating establishments and food stores. Bring ideas to them that will help them make more money.
- **Track the Ethnic Groups** - Conduct research on the growing ethnic groups in the local areas. Identify whether there are products that could be sourced locally that are not currently available.
 - Learn which ethnic groups are the biggest within a 200-mile radius of your farm
 - Talk to people in the food industry who serve those groups
 - Identify unmet needs
 - **Manage Your Risk** - Many new business ideas fail; a few become highly successful. Start small. Don't put all your "eggs in one basket." Don't bet the family farm on one new idea.
 - **Accumulate Enough Capital Before Starting** - One of the most common causes of failure for new businesses is undercapitalization. Be sure you have enough capital to withstand a slow start. Get business advice on how much capital you need, if you are unsure how much is needed.
 - **Make Use of All Resources Available** - Tap into the expertise of the Land Grant Universities in your state, USDA programs, industry associations, and consultants.
 - **Become a Specialist** - Figure out what you can do better than anyone else in the marketplace in which you choose to participate. Be the best. Dominate that niche. Aim to get to the place where anyone interested in your niche "must" come to you.
 - **Fly with the Eagles** - Develop relationships with the "movers and shakers." In the final analysis, companies don't buy from companies; people buy from people. Develop a positive personal relationship with the owners and managers of the leading restaurants and specialty food stores in your marketing region.

Again, if you do not have the interest or the skills to follow the above success factors, and if no one else in your operation has those skills, then you probably should not pursue the specialty food market on an individual basis. Then, check out the appropriate cooperatives and consider joining one of them.

APPENDIX A – RESOURCES

Appropriate Technology Transfer for Rural Areas (ATTRA)

National sustainable farming information center operated by the private nonprofit National Center for Appropriate Technology (NCAT).

P.O. Box 3657

Fayetteville, AK 72702

800-346-9140

www.attra.org

The Midwest Organic and Sustainable Education Service (MOSES)

PO Box 339

Spring Valley, WI 54767

715-772-3153

www.mosesorganic.org

National Association Specialty Food Trade

212 482 6440

www.nasft.org

National Center for Appropriate Technology

3040 Continental Dr.

Butte, MT 59701

(406) 494-4572

www.ncat.org

Organic Trade Association

P.O. Box 547

Greenfield, MA 01302

413-774-7511

www.ota.com

Organic Valley Family of Farms

(Cooperative Regions of Organic Producers Pool – CROPP)

1 Organic Way
LaFarge, WI 54639
608 625 2602

www.organicvalley.coop

Contact: Mr. Joe Pedretti, Member Services

Produce Marketing Association

1500 Casho Mill Road
Newark DE 19711
302 738 7100
www.pma.com

United States Department of Agriculture - USDA

www.usda.gov

- **Economic Research Service**
www.ers.usda.gov
- **National Agricultural Statistics Service**
www.nass.usda.gov
- **Rural Development**
www.rurdev.usda.gov
- **Directory of Farmer Cooperatives**
Farmer cooperatives listed by state
RBS Service Report 22
www.rurdev.usda.gov/rbs/pub/sr22.pdf

■ **Natural Resources Conservation Services**

www.nrcs.usda.gov

• **Environmental Quality Incentive Program (EQIP)**

USDA Natural Resource Conservation Service

<http://www.nrcs.usda.gov/PROGRAMS/EQIP/>