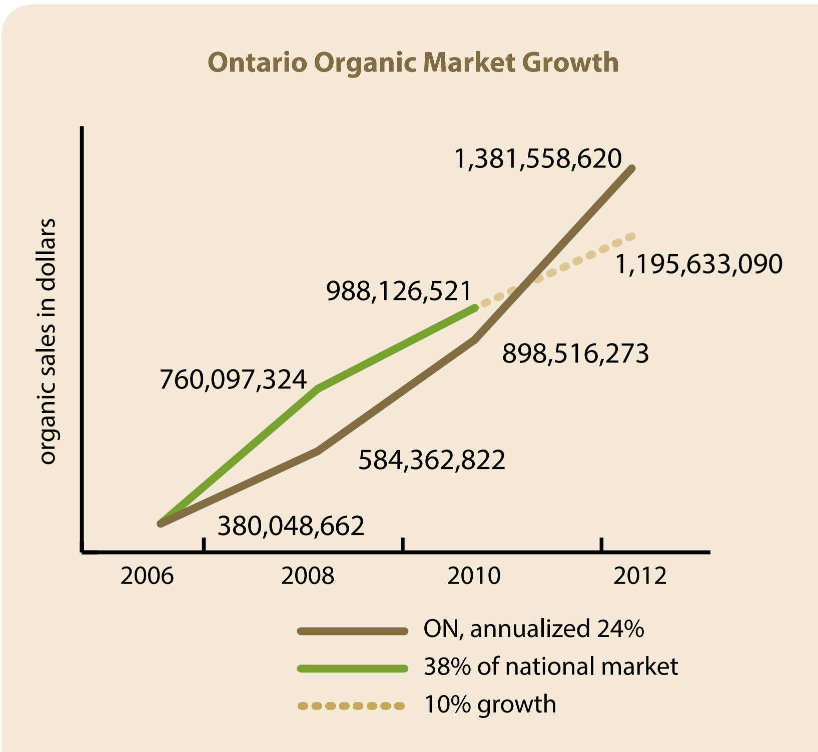
Being Successful
in Ontario's Organic Sector

In 2012 Ontario's organic market is worth at least $1 billion per year. That was the size of the entire Canadian organic market in 2006! Indeed at 38% of the national market, more organic food is sold in Ontario stores than any other province.

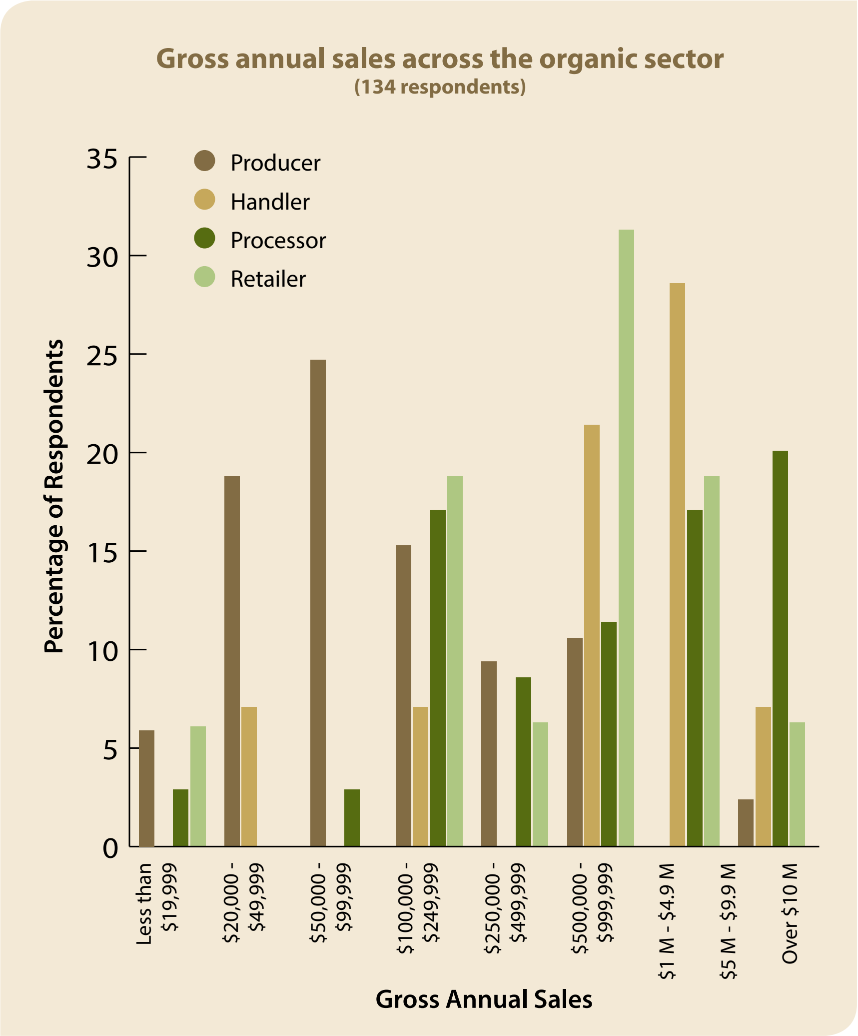


This report focuses on the opportunities and challenges identified by the diverse stakeholders across Ontario's organic value chains. We draw on information from a third party survey conducted for OCO by *Informa Market Research* in 2012. Participants in this study were recruited through email invitations sent to a provincial list of 500 Ontario organic food system stakeholders compiled by OCO. These findings are based on responses from 134 stakeholders who either completed an on-line survey or telephone interview. Respondents include small and large scaled producers, processors/packers, traders/handlers/brokers/marketers, distributors/shippers and retailers.[iii]

*We don't have complete data to quantify the current Ontario organic market, however we have strong indications of its worth in relation to the national market. The (optimistic) dark brown line on the graph to the left assumes that the province has maintained its **growth rate** of 24% since 2006[i]. The (more moderate) green line estimates growth by assuming Ontario has maintained its **relative share** of the national market (38% of national organic sales) and then applies that share against national market estimates[ii] to 2009. The dashed brown line assumes a modest 10% growth rate since that time.*

Perceptions of Ontario's Organic Sector: The Best is yet to Come

- Most organic stakeholders in Ontario expect continued growth in the organic market and only 9% feel the demand for organic food has peaked.
- A majority (58%) of all stakeholders feel that growth will continue at 10%. However, organic pioneers (businesses certified for over 10 years), and those most deeply committed to organic (those growing/processing/handling exclusively organic products) tend to feel that growth will be even higher.
- 78% of respondents feel that shoppers will increasingly pay fair prices for foods that are both local and organic. However, this confidence in ethical eaters varies depending on organic engagement and business size.
  - Businesses that handle only organic products are more likely to be optimistic than those producing or handling both conventional and organic goods (86% versus 63%).
  - Larger firms are more cautious with only 66% of respondents believing consumers will pay fair prices versus 87% of businesses with lower sales. [iv]
- 72% feel that organic markets are diversifying - particularly through alternative local (Ontario) distribution channels such as food hubs[v] and buying clubs.
- Most organic stakeholders believe the growth in organic markets will result from two factors:
  - Scientific studies will emerge to prove the superiority of organic food (69%) and
  - the price of imported food will increase with rising energy costs (66%).



Opportunities for Growth

A generally positive perception of Ontario's organic sector means that market growth opportunities abound. We asked stakeholders to tell us about the specific opportunities they see for their business.

Producers

- Organic producers see different possibilities depending on their size but both the largest and smallest agree that diversifying products as well as marketing channels are key prospects.
- Producers with lower sales continue to see opportunities in local organic markets (such as farmers markets, buying clubs, CSAs, and direct to restaurant sales).
- Producers with higher sales continue to see opportunities in wholesale channels (institutional, foodservice and out of province sales).
- The boundary between wholesale and direct to consumer markets is blurring - 82% of large producers see selling to alternative local channels as a key opportunity, while 55% of small producers see selling to supermarkets and natural food stores as an emerging opportunity.

Opportunities - Small Producers (Under $100,000 in sales per year)

1. Diversify products (67%)
2. Farmers markets (64%)
3. Alternative (local) channels (64%)
4. Local restaurants (62%)
5. Value-added products (57%)
6. Supermarkets and natural food stores (55%)
7. Institutions (29%)
8. Foodservice (14%)
9. Exports to other provinces (17%)
10. Out of country exports (10%)

Opportunities - Mid-Sized Producers ($100,000 - $999,999 in sales per year)

1. Diversify products (67%)
2. Farmers markets (67%)
3. Alternative (local) channels (57%)
4. Local restaurants (52%)
5. Foodservice (40%)
6. Institutions (40%)
7. Value-added products (37%)
8. Supermarkets and natural food stores (33%)
9. Exports to other provinces (20%)
10. Out of country exports (10%)

Opportunities – Large Producers (Over 1 million in sales per year)

1. Alternative (local) channels (82%)
2. Value-added products (82%)
3. Diversify products (73%)
4. Foodservice (73%)
5. Exports to other provinces (73%)
6. Out of country exports (64%)
7. Supermarkets and natural food stores (64%)
8. Local restaurants (64%)
9. Institutions (64%)
10. Farmers markets (27%)

Handlers[vi] & Processors

- 80% see opportunities in mainstream retail and 75% see opportunities in out of country exports.
- Sourcing more local (Ontario) organic inputs and products is a key opportunity.
- 71% of mid sized firms see promise in alternative local markets (eg. home delivery and buying clubs). This suggests potential for some strong new value chains to emerge.

Opportunities for midsized Handlers & Processors ($100,000 - $999,999 in sales per year)

1. Sourcing more local organic (77%)
2. Packaging/Processing for direct to consumer (71%)
3. Alternative local retail channels (71%)
4. Packaging for institutional sales (65%)
5. Farmers markets (53%)
6. Cooperative business structures (53%)
7. Mainstream retail channels (59%)
8. Exports to other provinces (59%)
9. Out of country exports (18%)

Opportunities for large Handlers & Processors (over $1 M in sales per year)

1. Sourcing more local organic (85%)
2. Mainstream retail channels (80%)
3. Out of country exports (75%)
4. Exports to other provinces (68%)
5. Packaging for Institutional sales (50)
6. Cooperative Business structures (35%)
7. Process/Package for direct to consumer (30%)
8. Alternative local retail channels (25%)
9. Farmers markets (10%)

Retailers[vii]

- 69% identify opportunities to source more Ontario products
- 75% see opportunity in building partnerships directly with local producers to bring new products into their stores and shorten value chains.

Opportunities for Retailers:

1. Build more direct partnerships with local producers (75%)
2. Source more Ontario organic products (69%)
3. Do more in store processing (56%)
4. Work in a co-operative business structure (38%)
5. Become a CSA drop off location (19%)
6. Start a buying club (13%)

Coming Up! The Next Three Years

It seems that Ontario's organic stakeholders see opportunities everywhere. But which of these opportunities are they planning to take advantage of? We asked stakeholders in each business type to tell us what's in their business plans for the next three years.

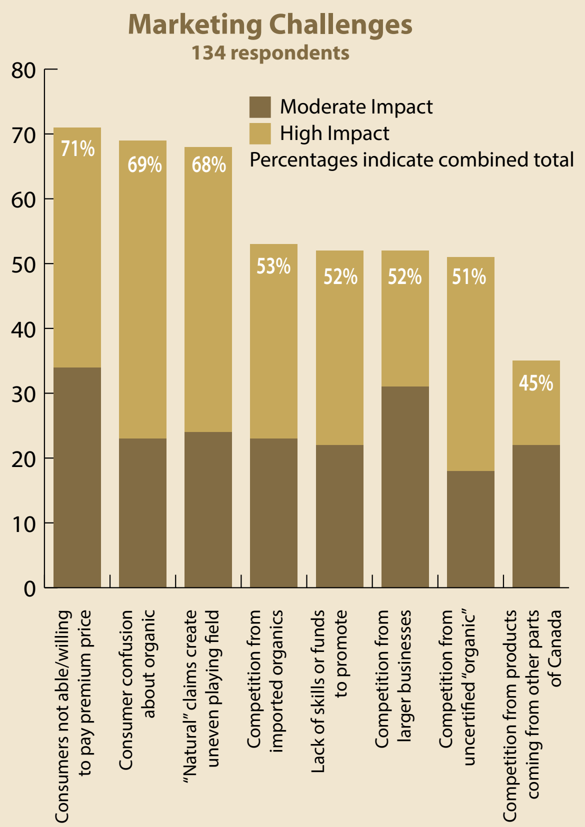
Producers	Handlers	Processors and Packers	Retailers
Increase production (57%) Diversify market channels (47%) Increase certified acres (19% on average – but 26% among small sized producers) Downsize (9% on average – but 17% of small sized producers)	Expand markets (57%) Large sized handlers plan to expand into: • Ontario markets (75%) • Other Canadian provinces (63%) • Outside Canada (50%) Increase capital investment (50%) Increase organic products in total sales (43%) No respondents plan to downsize	Expand (63%) into: • Ontario markets (43%) • Other provinces in Canada (37%) • Outside Canada (47%) Expand processing volume (57%) Expand production capacity (57%) Expand capital investment (51%) Increase Ontario supply/ingredients (33%) Expand co-packing (33%) Increase certified organic products (33%) Increase 'natural' products (33%) No respondents plan to downsize	Expand product lines (50%) Expand local sales (38%) Expand 'natural' product sales (31%) No respondents plan to downsize

Obstacles to Overcome:

While organic stakeholders in Ontario have both dreams and concrete plans for the future, there are still challenges and uncertainties to be addressed. In this section of our research, we asked organic stakeholders which challenges have the greatest impact on their business.

The Marketing Challenge: Consumer Confusion

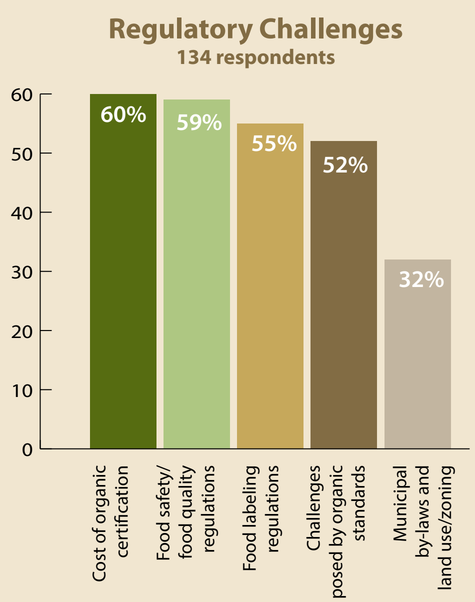
- 71% of stakeholders identify consumers' inability or unwillingness to pay a premium price for organic as having at least a moderate impact on their business
- Stakeholders consistently identify consumer confusion about organic (69%) and "natural" claims (68%) as challenges that need to be addressed.
- The top marketing challenges:
    - Small operators - consumer willingness/ability to pay
    - Mid-sized operators - consumer confusion about organic
    - Large operators - competition from non-certified "organic"



Percentage of all respondents considering these challenges to have a moderate or high impact on their business

Regulatory Challenges

- Half of respondents indicate that cost of organic certification, food safety and food quality regulations, food labeling regulations and challenges posed by organic certification present at least moderate business challenges. Once again, the impact of these challenges varies with size of business.
- The top regulatory challenges:
    - Small operators - cost of certification
    - Mid-sized operators - food safety regulations
    - Large operators - food labelling regulations



Percentage of all respondents considering these challenges to have a moderate or high impact on their business

Human Resources: Finding the Right Workers

- 52% of respondents say that recruiting trained and ready-to-work employees is a challenge.
- Mid-sized businesses are most prone to experiencing HR hurdles

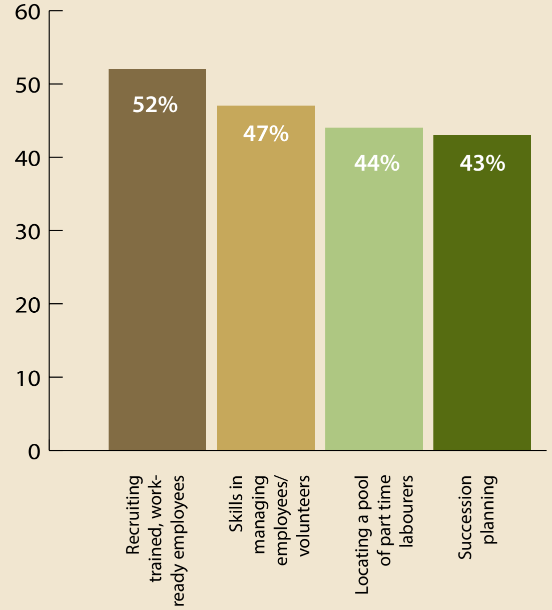
Financial challenges

- 42% of respondents are having trouble accessing expansion capital and at least one in three businesses have trouble accessing startup capital or dealing with cash flows.
- 35% of respondents feel that labour costs pose a significant challenge. That escalates to 45% for mid-sized firms.
- Developing the right pricing and access to risk management programs are seen as the least troublesome financial matters.

Business Management Challenges

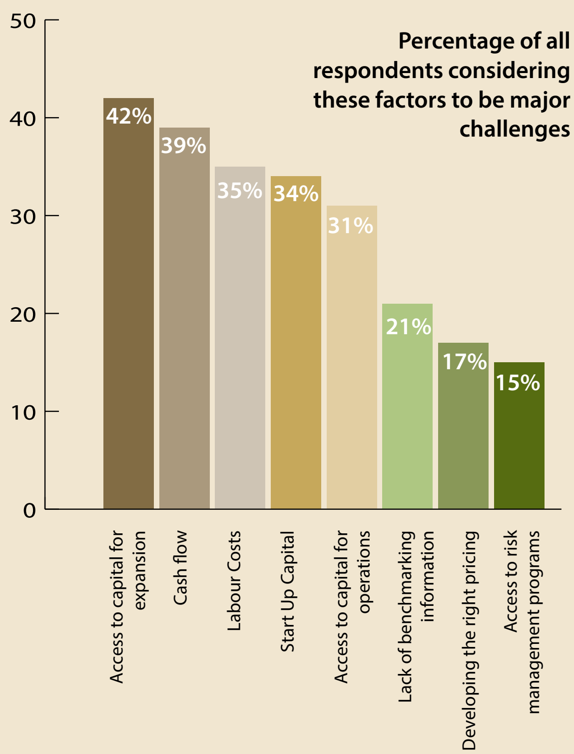
- 45% of respondents identify lack of personal time as a top business challenge.
- Across the board, smaller firms are more likely to be feeling business management challenges.

Human Resource Challenges
134 respondents



Percentage of all respondents considering these challenges to have a moderate or high impact on their business

Financial Challenges
134 respondents



Business Management Challenges
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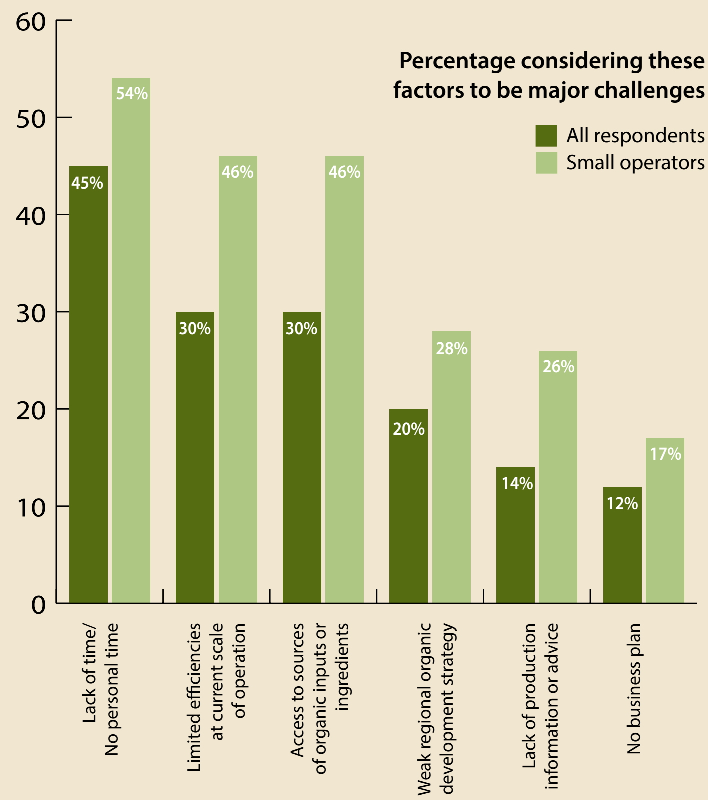

Putting it Together

- Ontario's organic food system continues to be poised for growth as all stakeholder groups express interest in expanding and diversifying products and marketing channels.
- The largest challenge ahead for the organic food system is consumer confusion about organic and 'natural' claims. Ontario's organic food system needs to face and respond to new market entrants who are making green and ethical claims.
- Size matters. Differently scaled operators along Ontario's organic value chains have different hurdles to overcome if the growth is to materialize.
    - Smaller firms are the most enthusiastic about growth, but the cost of organic certification, business management challenges and lack of personal time curb this enthusiasm.
    - Mid-sized firms are impacted by labour costs and by human resource management challenges.
    - The largest organic firms are the most cautious about growth and feel significantly impacted by legislation, such as food labeling rules.
- One size does not fit all. Supports in the sector need to be tailored differently to differently scaled operators.
- There is enthusiasm in the organic sector for re-connecting where (local) and how (organic) food is produced. Stakeholders are interested in sourcing local and diversifying into more local distribution channels.
- The historic separation between 'artisanal' or 'direct to consumer' channels and 'mainstream' or 'wholesale' markets seems to be blurring. Our largest producers see opportunity in local channels while our smallest are pursuing sales to supermarkets and natural food stores, suggesting a vibrant sector that continues to evolve.

i. Macey, A. Retail Sales of Certified Organic Food Products in Canada in 2006, Organic Agriculture Centre of Canada, 2007

ii. Agriculture and Agrifood Canada (AAFC) with data provided by Nielsen, 2009

iii. For a more detailed information you can download the full "Organic Sector Survey" report from OCO's website at http://www.organiccouncil.ca/research/sector-reports

iv. "Small" firms/farms are those with less than $100,000 in annual gross sales, "large" as those with over $1 M in annual gross sales, and "mid-sized" firms/farms are those in between.

v. A food hub is a business or organization that aggregates, distributes and markets source-identified products primarily from local and regional producers and processors.

vi. We use the term handler to refer to firms that add value to products as they move through the value chain such as: traders, brokers, marketers and distributors. Processors and packers are separated if noted.

vii. These findings are only based on responses from only 16 retailers - so they need to be interpreted cautiously.

OCO
Organic Council of Ontario

About OCO

The Organic Council of Ontario (OCO) is a non-profit association representing all members throughout the value chain including producers, processors, marketers, distributors, suppliers, certifiers, retailers, restaurants **and now co-farmers** to provide leadership and support the continued growth of Ontario's organic sector.

Join today and Count Yourself In!

www.organiccouncil.ca

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Theresa Schumilas
Lead Researcher
Ontario's Diverse Organic Food System
c/o tschumilas@organiccouncil.ca