

Organic Supplement Sales Soar, Boost Overall Sagging Sector

Consumer interest, USDA labeling ruling fuel growth; raw material shortages could hamper expansion

As sales within the U.S. supplements market were beginning to slow several years ago, a growing number of new products touting certified organic ingredients hit store shelves and began breathing new life into what was becoming a sagging sector of the natural products industry.

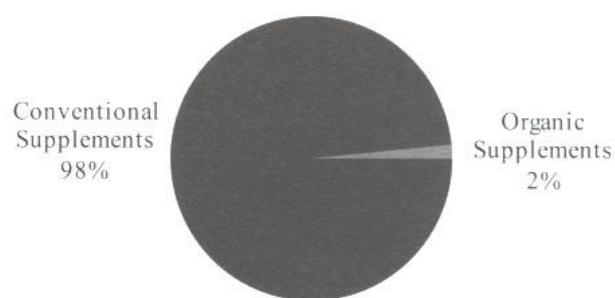
Today, sales of organic supplements continue to surge, and the 2005 decision by the **U.S. Department of Agriculture** to green light organic supplement labeling seems to be adding even more fuel to this category's growth. Of course, new challenges—including a rapidly disintegrating U.S. economy, shortages in raw material supply and continued confusion regarding organic labeling—could cool this hot market.

Nutrition Business Journal research shows that sales of organic supplements grew 25% in 2007 to \$375 million. Organic supplements make up 2% of the overall supplements market, which grew 6 percent to \$23.8 billion last year.

Numerous factors are fueling the expansion of organic supplements, including the growing consumer belief that products created without the use of pesticides or other harmful chemicals are simply better for humans and the environment than conventionally produced products. Research conducted by Bellevue, Washington-based **The Hartman Group** shows that consumers buy organic because they perceive the products to be associated with better health benefits.

Some consumers also may be gravitating to organic supplements because they are, by definition, natural and do not contain synthetic ingredients, which have been shown in some research to be harmful. New data from Harleysville, Pennsylvania-based **Natural**

2007 U.S. Organic Supplement Sales vs. U.S. Conventional Supplement Sales



Source: Nutrition Business Journal estimates (consumer sales)

Marketing Institute's 2007 Health & Wellness Trends Database shows that 53% of Integrated Organic Product Users—defined as people who use organic products at least once a day—prefer to buy vitamins, minerals and herbal supplements that are derived from natural sources. About 28% of all primary grocery shoppers prefer natural over synthetic supplements, NMI reports.

"If a person is walking into a health food store and is looking to buy organic milk, organic produce and organic grains, doesn't it make sense for that consumer to also want to nourish and provide their family with the healthy support from organic dietary supplements?" asked Tom Newmark, president and co-CEO of **New Chapter**, during a recent *Nutrition Business Journal* interview. "It's just logical for health food consumers already looking for organic nourishment to look to organic dietary supplements to address their full health needs."

Brattleboro, Vermont-based New Chapter is one of only a handful of companies producing organic supplements today. The products are sold primarily in natural foods stores. Organic herbal supplements are most popular with consumers because the herbs can be certified organic.

Door Opens to Organic

New Chapter began manufacturing organic supplements when it first went into business in 1982, making it one the first producers of

organic supplements in the United States. The company's first line to carry a certified "made with organic" ingredients label was its multivitamin probiotic supplements. The products launched in mid-2005 and were some of the first certified organic supplements to hit the market.

New Chapter's Vermont operations as well as its herb farm in La Tigra, Costa Rica, are now both certified organic by **International Certification Services** under the **National Organic Program** (NOP). To attain this certification, the company had to take on all the challenges and expenses that organic food companies must to become certified. But, as Newmark explains, certification hurdles can be even more difficult for supplement companies to surmount.

"You have to be able to document with absolutely perfect paperwork every step of your process," Newmark told *Natural Foods Merchandiser*, a sister publication to *NBJ*, in 2006. "It's not enough to say, 'We're using certified organic non-GM archival soybeans as part of the fermentation medium for our vitamins and minerals.' That's all well and good, but it's not enough that the soybeans themselves are certified organic. How about the fermentation laboratory where the soybeans are fermented? How about the yeast that is used to ferment the soy? Where do you find organic yeast?"

Prior to 2005, the USDA's NOP standards did not specifically address organic non-foods,

leaving the door open to lots of questions and confusion about the production and labeling of organic supplements.

But after being prodded by the **American Herbal Products Association** and other industry groups, the USDA clarified the situation in August 2005. At that time, the NOP issued a memorandum to all accredited certifying agents stating that regardless of its end use, a product could carry an organic label and the USDA organic seal as long as it meets all the necessary NOP regulations that were established for food. This means a non-food product can be labeled "100% organic" if it contains 100% organic ingredients; "organic" if it contains 95% or more organic ingredients; and "made with organic" if it contains 70% organic ingredients.

Although the USDA's actions paved the way for the labeling and marketing of organic supplements, such as those carried by New Chapter, roadblocks still abound. For one, no specific organic supplement standard has yet to be created in the United States. "Regulations continue to be in a state of flux and are not uniform across product categories, so we see a lot of confusion with our customers, which means consumers are likely confused as well," said Barb Apps, director of business development for **AloeCorp**. The Austin, Texas-based company grows certified organic aloe, but is able to only label the product as "made with organic aloe" because of the necessary processing it must undergo.

Also, few organic preservative systems exist for supplements, thus limiting the number of products that can be labeled as "100 percent organic" or "organic."

Is Organic Better for Supplements?

As Arthur Winegrad, director of research and development for **Arizona Nutritional Supplements** (ANS), notes, labeling is important because consumers "who believe in the quality of organic products" are willing to shell out more money for supplement products that are certified USDA organic. "This stems from the belief that certified organic products are more natural with fewer chemicals and less processing," Winegrad said.

Perceived purity is another pull for organic supplement consumers. "It's all about pure plant medicine," said Ric Scalzo, president and founder of **Gaia Herbs**. The Brevard, North Carolina-based company has been a certified-organic grower and processor since 1997, although it reports it has been growing and producing under organic conditions for 20 years.

Roadblocks still abound for organic supplements including the lack of a specific USDA organic standard for supplements.

Scalzo said avoiding impurities is a must for Gaia, which extracts and concentrates its herbs. "Also, we have found that growing organically routinely produces higher levels of bioactivity in the plant," Scalzo said. Higher bioactivity means less invasive processing is required to meet standardization levels. Organic growing and processing also helps Mother Nature and creates a healthier work environment for all of Gaia's employees, from the farm laborers picking the herbs to lab technicians extracting and analyzing them, Scalzo said.

George Pontiakos, president of raw material supplier **BI Nutraceuticals**, agreed that "consumer perception of organic being healthier and more beneficial is accurate on many levels." However, he added, "just because it's organic doesn't mean the product is clean." In fact, Pontiakos cautioned that ash, E.coli and chagella—all of the naturally occurring pathogens that were the impetus for creating caustic sterilization methods and for using pesticides in farming—still exist in organic products including supplements. For this reason, "it is vitally important that manufacturers purchase their organic ingredients from a supplier who has a sterilization process that reduces the microbial load down to acceptable, competitive levels with caustic processes," Pontiakos said.

On the safety front, BI Nutraceuticals offers its supplement manufacturers the guarantee of its PROTEXX High Heat Steam Sterilization on all of its ingredients including its organic spirulina, fennel and psyllium husk raw materials.

The company—which maintains certified organic, kosher and Halal facilities in Long Beach, California; Islandia, New York; and Suzhou, China—uses this sterilization system as a competitive advantage, Pontiakos said. "We are able to organically steam over 700 unique SKUs, of which a significant number are organic. [This process] retains the volatile oils and the efficacy of the plant."

Chandler, Arizona-based ANS is another company that recently completed its organic-certification procedures in response to what Winegrad described as "the constant demand for higher-quality premium products and the ever-increasing demand for less-processed, more natural supplements." ANS, a contract manufacturer, is launching a new line of USDA-certified-organic supplements, which will be at least 95%-100% organic and will be comprised of bulk powders and tablets, Winegrad said.

Raw Material Shortage

The growing demand for organic supplements has created a shortage of organic raw materials for at least some supplement manufacturers.

Lack of organic farmers is one factor fueling supply shortages. "Organic production is not easy and takes several years to set up," said Autumn Blum, founder and CEO of **Organix South**, a Bowling Green, Florida-based manufacturer of the *TheraNeem* and *Theraveda* lines of "made with organic ingredients" supplements. "An organic farm is very limited by what materials [it] can use on [its] crops to prevent infestation and to encourage strong, healthy growth."

During the first few years of transition from chemical farming to organic farming, farmers produce considerably lower yields and they are not able to attain the higher organic prices for their crops, Blum added. "So it is often

quite difficult to convince farmers to invest in the transition."

Attaining organic certified status is also expensive. "That cost can be prohibitive to many rural farmers," said Blum. "On a management standpoint, there are many details and processes that must be followed to receive and maintain organic status. It takes a serious commitment."

To maintain consistent supply, manufacturers and suppliers say they are increasing their efforts to contract with organic farmers, including those outside the United States.

For instance, last year Organix South partnered with the owners of an organic supercritical fluid extraction plant in India called **Nisarga Biotech**. It also secured a joint venture in an organic farm outside Mumbai, India.

BI Nutraceuticals has arrangements with coops all over America, Pontiakos said, but the company also sources "from a number of different countries where we know the land is organic and [where we are] confident of the product we're getting."

Despite New Chapter's growing organic supplements business—which has grown about 35%-40% annually over the last eight years—Newmark said the company hasn't experienced a raw materials shortage, and he doesn't expect to anytime in the near future. "Our supply chain is extremely well managed, and I am confident that the world agricultural community is rising to provide organic food, [which] for us [is] organic herbs, that will support our healing mission."

For now, industry members and trade groups are satisfied with the USDA's clarifying document for non-food organic products. They believe this clarification, as well as consumers' burgeoning interest in organic products, will provide the fuel for expanding the organic supplement and raw-ingredient market. "The market is growing exponentially," Pontiakos said. "As demand grows, we will supply our customers to meet their demand."

Organic Fiber Goes High End; Sales Jump More Than 50%

Small boutiques and large retailers add organic cotton and other eco-friendly fibers to product lines

Organic cotton is the newest star on the fashion runway, and growing consumer demand for this and other eco-friendly fibers is creating big business for manufacturers and retailers. "Organic cotton grew by leaps and bounds over the last three years," said Heather Smith, owner of **Cocoshoppe.com**, an eco-boutique in Boulder, Colorado. "The fabrics and fashions out there are gorgeous, and the designers using it are of even higher caliber."

Fast-growing boutiques such as Cocoshoppe.com are featuring high-end clothing made from organic cotton, as well as from other sustainable fibers including Tencel, a fabric brand made from wood pulp, and silks spun from soy and bamboo. Sales of all organic fibers, including organic cotton, grew 55% to \$360 million in last year, *Nutrition Business Journal* research found. In comparison, the overall fiber market grew 4% to \$224 billion.

But organic cotton is the big celebrity these days, with sales of this ultra-soft fiber growing at 20%-25% per year, according to **Cotton Incorporated**, which represents the cotton industry and seeks to increase demand and profitability of cotton through research and promotion.

Despite its spike in popularity, organic cotton still accounts for only two-tenths of 1% of the 19 million total bales of cotton produced in the United States annually, said Gary Raines, manager of fiber economics at Cotton Incorporated. "It's growing fast, but starting from such a low point there is nowhere to go but up."

Supplying Increased Demand

In the United States, cotton—both organic and conventional—remains popular with

consumers and manufacturers. Last year, overall cotton demand—which includes cotton used for apparel, home textiles and industrial applications—was estimated at more than 38 pounds per capita, Raines said. "We are happy to see growth in the cotton market period, whether organic or conventional."

Apparel accounts for 85% of total market demand for organic cotton, followed by home textiles (10%) and personal care (5%). Major companies such as **Nike**, **H&M** and **Wal-Mart** now have organic clothing lines, fueling growth in the United States.

Organic cotton costs 50%-70% more than conventional cotton, and, unlike conventional cotton prices, organic cotton prices can fluctuate widely. "With conventional cotton there is a future's exchange, a clearing mechanism, so you know precisely the cost of cotton today," Raines said. "But with organic, there is no parallel clearing mechanism. Virtually the entire organic crop is sold on a one-to-one, contracted-out basis, so costs vary from one seller to the next."

Today, only about 266,000 bales of organic cotton are grown each year around the globe, representing a small fraction of the total annual worldwide cotton crop of 119 million bales. But global production is increasing, Raines said. "We're seeing organic cotton production growing rapidly, faster than total cotton production is growing." Raines added that organic cotton farmers have seen increased competition from other organic farmers as well as from conventional producers.

Turkey and China are the biggest producers of organic cotton, while the United States and European Union are the largest markets for organic cotton products. In the United States, Texas leads in organic cotton production, with limited acreage also planted in California, New Mexico and Missouri.

Organic cotton production remains a small business in the United States because of the **U.S. Department of Agriculture**'s strict organic certification standards, Raines said. The USDA's certification requirements are "arguably the highest hurdle seen around the world," he added. Obtaining certification