



Issue Brief

Mind the (Supply) Gap: Meeting the Growing Demand for Organic Produce

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This is the third and final report in a series aimed at highlighting U.S. organic production and markets.

Introduction

Sales of organic produce (fruits, vegetables and nuts) have increased dramatically in recent years; so much so that nearly 15 percent of all retail produce sales in the U.S. are now organic. In 2016, sales of organic produce accounted for 40 percent of all organic food sales, totaling \$15.6 billion – an increase of 8.4 percent over 2015. In the more than 30 years that organic produce has been sold at the retail level, it has consistently been the top-selling and largest category of organically grown food.

The steadily rising demand for organic produce is creating more opportunities for growers, processors, and food companies. But several of CoBank’s customers and other organic industry experts report that the surge in demand in recent years has strained supplies into wholesale (including ingredient) and retail markets. And while the market’s rapid pace of growth is considered to be a plus, there are some concerns about how this growth may impact the future sustainability of the industry.

The Supply Dilemma

As the market for organic has evolved over time, two separate markets have emerged for organic produce: the small, local fresh Direct-to-Consumer (DTC) markets such as farmers’ markets, and the more traditional marketing channels, namely natural food stores and grocery stores.

DTC markets are typically supplied by small, local farmers who oftentimes don’t have the acreage and product volume to meet wholesale and retail organic demand. Consolidation at the distribution level of the organic supply chain has further limited the number of producers that are deemed large enough to serve retail channels.

Organic offerings at traditional grocery stores have grown in step with consumers’ interest. Today, nearly 20,000 natural food stores and three-quarters of conventional grocery stores sell organic food, together accounting for 93 percent of all organic sales. It is therefore not surprising that one of the biggest challenges facing the organic produce industry is inconsistent and/or short supplies in the traditional grocery channels. Anecdotal evidence suggests that this is not the case in the DTC markets, however. Instead, as demand for scale in the grocery sector precludes more small growers, those growers are, in many regions, providing a surplus supply of organics to DTC markets.