

TOP NEWS April 12, 2007, 12:01AM EST

Organics: A Poor Harvest for Wal-Mart

After the retailing giant laid out ambitious plans to offer organic food last year, farmers say it's backing off

by [Pallavi Gogoi](#)

Last fall, Peter Ricker got an order from Wal-Mart Stores ([WMT](#)) for organic apples that was the biggest he'd ever seen. "I'm talking trailer truckloads," says the 34-year-old, eighth-generation apple farmer in Maine. Ricker had heard of the giant retailer's push into organics, and he thought the order could be the beginning of a surge in demand. But that wasn't the case. While most retailers place orders with Ricker Hill Orchards once a week, Wal-Mart never came back.

He's hardly alone. A number of organic farmers across the country say that Wal-Mart has backed off of aggressive plans to offer more organic foods. After placing large orders for organic apples and juices last year, the retailer is cutting back or stopping orders altogether. Wade Groetsch, president at the Florida juice producer Blue Lake Citrus Products, says he stopped shipping his organic orange-tangerine blend to Wal-Mart after a few months. "The sales there just weren't enough to justify our costs of packing and shipping," he says.

SCALED-BACK AMBITIONS

A year ago last March Wal-Mart grabbed headlines by announcing its organic push. Stephen Quinn, a top marketing executive, told investors at a Bear Stearns ([BSC](#)) conference that the company would double the number of organic food items in its stores to 400 and offer them "at the Wal-Mart price" (see BusinessWeek.com, 3/29/06, "[Wal-Mart's Organic Offensive](#)"). But now Karen Burk, a spokeswoman for the company, says that the majority of Wal-Mart stores are offering between 100 and 200 organic food items. She says the company does not have a target, at least not a public one, of stocking 400 organic items in the average store.

Burk denies that this means the company has fallen short of its goals. She said Quinn had been misinterpreted and hadn't meant to suggest that Wal-Mart stores would actually carry 400 organic items. He meant that the company would make as many as 400 organic items available to store managers; if they choose to stock only 25% to 50% of those items, it is simply a reflection of local demand. "It has always been our goal for our locations to be 'stores of the community,'" she wrote in an e-mail.

Burk said that in some cases, stores have doubled the number of organic products that they offer. She said that there are Wal-Mart stores that do stock roughly 400 organic items, including locations in Rogers, Ark., Rockwall, Tex., and Plano, Tex. "We are continuing to see a demand by many of our customers for organic alternatives and will tailor each store's assortment to meet the demand," she wrote.

HIGH-END STRATEGY FLOPS

Wal-Mart has been struggling to move upscale in a number of product categories. Last year, Wal-Mart found through internal research that it had high-income customers, with incomes of more than \$75,000, in its stores shopping for staples like milk and detergent, and it set out to sell them more high-end merchandise. Besides its organic push, the company introduced a new apparel line called Metro 7 and started stocking higher-end bedding. But Chief Executive Lee Scott concedes that the company has struggled to persuade customers that Wal-Mart can mean high-quality, rather than simply low price. "I think we went too far too fast," he said (see BusinessWeek.com, 3/30/07, "[Wal-Mart: 'On the Side of the Angels'](#)").

In the case of organic foods, there also may be a disconnect between Wal-Mart's brand and the products it hopes to sell. The retailer's existing customers tend to be very price-conscious and may not be willing to pay a premium for organic foods. On the other hand, consumers who go to stores like Whole Foods Market ([WFMI](#)) or Wild Oats Markets ([OATS](#)) are less price-sensitive and may not be lured to Wal-Mart with low prices. "The Whole Foods customer is walking in there to buy organic and is more concerned about how the fruit was farmed," says apple farmer Ricker, "but the Wal-Mart customer is used to shopping with a calculator."

Others in the organic movement are skeptical that Wal-Mart will be able to gain much traction in the business. "When Wal-Mart found that people are buying organics, they decided to get into that too and sell it for just 10% over the regular foods," says Marty Mesh, executive director of the Florida Certified Organic Growers & Consumers, a nonprofit organization in Gainesville, Fla., which provides an Organic Certification program. "Problem is, the same people didn't all of a sudden say, 'I can get it cheaper at Wal-Mart,' and drive across town to get it."

INCOMPATIBLE BUSINESS MODELS

There may be problems with supply as well as demand. Wal-Mart is known for its hardball tactics with suppliers, driving costs as low as possible and regularly switching suppliers to get the best price. That kind of attitude can alienate farmers, especially organic ones, who tend to plan their crops years ahead of time. They need to keep land pesticide-free for four years to win organic certification. "Is organic really compatible with the Wal-Mart approach? We're finding out that it's not," says Jim Riddle, organic outreach coordinator and guest lecturer at the University of Minnesota.

Consider the case of Organic Valley Family of Farms in La Farge, Wis., one of the country's largest cooperatives of organic farmers. When demand for organic milk soared two years ago, rival Horizon Organic Dairy offered to sell to Wal-Mart for 15% below Organic Valley's price. Wal-Mart expected a similar reduction from Organic Valley, but instead the cooperative pulled out. "Looking for ever-lower costs comes at a real cost to sustainability," says George Siemon, Organic Valley's chief executive. "To have consistent supply, you have to change the paradigm of thinking and think about long-term partnerships."

Farmers like Ricker are now dealing with the fallout from Wal-Mart's faltering demand. He has decided to pare back his organic apple farm, from 150 acres to 120 acres. He says organics are just tough to grow. Without pesticides, insects and disease attack his McIntosh, Gala, and Honeycrisp apples. Production per acre dropped about 30% when he switched from regular farming methods 10 years ago. Now he plans to switch back. "The grocery stores want the perfect, blemish-free apple," he says, "and that's difficult to produce."

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