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Wal-Mart Eyes Organic Foods

By [MELANIE WARNER](#)

Starting this summer, there will be a lot more organic food on supermarket shelves, and it should cost a lot less.

Most of the nation's major food producers are hard at work developing organic versions of their best-selling products, like [Kellogg's Rice Krispies](#) and Kraft's macaroni and cheese.

Why the sudden activity? In large part because [Wal-Mart](#) wants to sell more organic food — and because of its size and power, Wal-Mart usually gets what it wants.

As the nation's largest grocery retailer, Wal-Mart has decided that offering more organic food will help modernize its image and broaden its appeal to urban and other upscale consumers. It has asked its large suppliers to help.

Wal-Mart's interest is expected to change organic food production in substantial ways.

Some organic food advocates applaud the development, saying Wal-Mart's efforts will help expand the amount of land that is farmed organically and the quantities of organic food available to the public.

But others say the initiative will ultimately hurt organic farmers, will lower standards for the production of organic food and will undercut the environmental benefits of organic farming. And some nutritionists question the health benefits of the new organic products. "It's better for the planet, but not from a nutritional standpoint," said Marion Nestle, a professor of [nutrition](#), food studies and public health at [New York University](#). "It's a ploy to be able to charge more for junk food."

Shoppers who have been buying organic food in steadily greater quantities consider it healthier and better for the environment. Organic food — whether produce, meat or grain — must be grown without pesticides, chemical fertilizers and [antibiotics](#). Then, before it is sold, the food cannot be treated with artificial preservatives, flavors or colors, among other things.

When Wal-Mart sells organic food on a much broader scale, it will have to meet the same Agriculture Department requirements. But nutritionists say the health benefits of many of these new offerings are negligible.

Wal-Mart says it wants to democratize organic food, making products affordable for those who are reluctant to pay premiums of 20 percent to 30 percent. At a recent conference, its chief marketing officer, John Fleming, said the company intended to sell organic

products for just 10 percent more than their conventional equivalents.

Food industry analysts say that with its 2,000 supercenters and lower prices, Wal-Mart could soon be the nation's largest seller of organic products, surpassing Whole Foods. Already, it is the biggest seller of organic milk.

While organic food is still just 2.4 percent of the overall food industry, it has been growing at least 15 percent a year for the last 10 years. Currently valued at \$14 billion, the organic food business is expected to increase to \$23 billion over the next three years, though that figure could rise further with Wal-Mart's push.

Harvey Hartman, president of the Hartman Group, a consulting firm in Seattle that is working with Wal-Mart on its organic food initiatives, asserted: "What Wal-Mart has done is legitimized the market. All these companies who thought organics was a niche product now realize that it has an opportunity to become a big business."

Kellogg and Kraft say they began working on organic Rice Krispies and organic macaroni and cheese before having conversations with Wal-Mart. But David Mackay, chief operating officer at Kellogg, says it was helpful knowing that a big customer like Wal-Mart was enthusiastic about the product.

In July, Kellogg is planning to introduce organic Raisin Bran and organic Frosted Mini Wheats, with packages featuring the word 'organic' at the top in giant letters.

Other food companies say they are working on products at Wal-Mart's direction. [General Mills](#) and Pepsi say they plan to introduce new organic versions of some of their well-known brands late in 2006. These products are expected to appear in Wal-Mart first and then at other major retailers.

Officials at General Mills, the producer of Cheerios, Yoplait yogurt and Green Giant vegetables, among other things, and at [PepsiCo](#), which owns the Tropicana and Quaker brands, declined to identify those products.

DeDe Priest, senior vice president for dry groceries at Wal-Mart, said the company had been urging food suppliers for the last year to embrace organic foods. At a recent conference in Rogers, Ark., near the company's headquarters in Bentonville, she said, "Once we let the companies know we were serious about this and that they needed to take it seriously, they moved pretty fast."

Bruce Peterson, head of perishable food at Wal-Mart, said that it aimed to change the way people think about the retailer.

"Consumers that gravitate to organic products don't always think of Wal-Mart as a top-of-mind destination to pick up those products," Mr. Peterson said. "We want to let customers know, 'Hey, we're in that business.' "

The strategy of working with food makers to tie in organic products with well-known brands represents a departure from the approach many of Wal-Mart's competitors are taking. [Safeway](#), Kroger and SuperValu, which is set to acquire Albertsons, have private label organic lines with names like Nature's Best and O that they sell at prices below those of brand organic products.

Mr. Peterson said he thought that Wal-Mart's method would be more effective in appealing to customers because it relies on powerful brand names that have million of dollars in advertising backing them up.

But Wal-Mart's new push worries Ronnie Cummins, national director of the Organic Consumers Association, an advocacy group that lobbies for strict standards and the preservation of small organic farms. He said Wal-Mart did not care about the principles behind organic agriculture and would ultimately drive down prices and squeeze organic farmers.

"This model of one size fits all and lowest prices possible doesn't work in organic," Mr. Cummins said. "Their business model is going to wreck organic the way it's wrecking retail stores, driving out all competitors."

Part of the problem, Mr. Cummins said, is that Wal-Mart is making a push into organics at a time there is already heavy demand and not enough supply.

"They're going to end up outsourcing from overseas and places like China," he said, " where you've got very dubious organic standards and labor conditions that are contrary to what any organic consumer would consider equitable."

Currently, some 10 percent of the organic food consumed in the United States is imported, according to the Agriculture Department. Kelly Strzelecki, an agricultural economist there, said she expected that share to increase.

Mr. Peterson, the Wal-Mart executive, says Wal-Mart is not now getting any of its organic products from overseas, but cannot predict if that will change. And he says Wal-Mart does not pay organic farmers less than others do, in part because the demand is so high. He said the lower prices offered to consumers were made possible by Wal-Mart's enormous volume and by having efficient distribution and inventory systems.

Some organic food advocates also fear that large-scale organic farming will not use the crop-rotation practices of the small farms, hurting the fields and reducing the health benefits of organic food.

Mr. Peterson's view of organic agriculture is markedly different from many of those involved in the field.

"Organic agriculture is just another method of agriculture — not better, not worse," he said. "This is like any other merchandising scheme we have, which is providing customers what they want. For those customers looking for an organic alternative in things like Rice Krispies, we now have an alternative for them."

Organic agriculture arose in the 1970's as a reaction to large-scale farms that confined animals and the increased use of pesticides and chemical fertilizers on crops. Many advocates of organic produce consider conventional agriculture to be harmful to the environment and to human health.

But Wal-Mart and some large food manufacturers are careful not to position their organic versions as superior to the original. "We have no intent to send a message that the standard Rice Krispies are somehow not great brands," Mr. Mackay of Kellogg said.

Organic Rice Krispies are made with cane juice instead of high-fructose corn syrup and without the artificial preservative BHT.

Mr. Hartman, the Seattle consultant, said organic now means different things to different people. "It's a multifaceted symbol representing everything from quality to health to ideology, and everything in between," he said. "It's something that lets people feel even better about their choices."

With processed products like organic Rice Krispies and organic macaroni and cheese soon to appear on store shelves, the organic movement seems to be fitting itself more into the wide variety of food available to Americans.

"People want you to offer them organic and natural," said David Driscoll, a food analyst at [Citigroup](#). "But sometimes, they just want to eat a Pop-Tart."

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