Canolfan Organig Cymru
Organic Centre Wales

Gwell Cysylltiadau Busnes Organig
BOBL
Better Organic Business Links

The Organic Retail Market in Wales

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PRIFYSGOL ABERYSTWYTH UNIVERSITY

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Better Organic Business Links – Gwell Cysylltiadau Busnes Organig

Organic Centre Wales secured £2 million for The Better Organic Business Links (BOBL) project, to deliver sustainable growth to the Welsh organic sector over six years: 2009-2015.

Opportunity to promote sustainability

The BOBL project gives the organic sector in Wales a unique opportunity to:

- Develop new, emerging and existing markets for organic produce.
- Innovate in farming, processing and product development.
- Promote sustainable practices on farms, in abattoirs, in cutting rooms and kitchens and along the food chain.
- Raise market awareness among producers and increase sales across the range of outlets.

Tackling all parts of the supply chain

The BOBL project is working in partnership with a range of specialist providers to deliver these opportunities by focusing on:

1. Driving innovation through trials and research.
2. Supporting market development opportunities such as agri-tourism and supply chain efficiency programmes.
3. Disseminating up to date market intelligence, by commissioning detailed, focused consumer attitude surveys.
4. Addressing key structural problems within the sector, such as imbalances in organic horticulture supply and demand, and the availability of organic pullets.
5. Cross cutting issues: Sustainable Food Communities and Secure Alternative Markets.
6. Running an integrated communications campaign to help the sector deliver clear messages about the benefits of organic food and farming.

By strengthening the sector at all points along the supply chain, the project aims to leave a legacy of a more robust, responsive and sustainable organic industry in Wales.

The project is funded under the Rural Development Plan for Wales 2007-2013, which in turn is funded by the Welsh Assembly Government and the European Agricultural Fund for Rural Development.

For further information on the project please see:
http://www.organiccentrewales.org.uk/business-bobl.php?menuopt=4.2

Or contact The BOBL Project, c/o Organic Centre Wales. Phone 01970 622248

The authors of the report would like to thank the industry experts who commented on trends and provided sector specific information.

Foreword

This report on retail data is a significant step forward in the intelligence available on the market for Welsh organic products. Data within the report provides a benchmark to compare and monitor the development of the organic market in Wales over time. In total the report provides us with a measure of the value of the organic market in Wales and its borders. The estimated value of over £100m shows the importance of this sector to the Welsh economy both directly and as a multiplier of the Welsh Government's investment in organic farming under the Rural Development Plan (RDP) agri-environment schemes.

The majority of food and drink sales are via major retailers and this is measured in the Nielsen Scantrack data 52w/e 3rd January 2015 for Wales/West and compared with the UK. The reach of the report was extended by surveying organic businesses directly to assess the value of sales via independent retailers and direct sales. This adds value in more than one way. The value of the sales improves the measure of the size of the market, but they also indicate the extent to which organic production enables businesses to engage with their customers directly. This enables suppliers to gain a larger share of the retail margin for their products and by adding value to the products, adds to the resilience of a business.

The organic market for the UK as a whole has been through a roller coaster in recent years, recovering to £1.86 billion in 2014, similar to 2006 levels. A BOBL report on consumer attitudes conducted in 2010 by Beaufort Research and reprised in 2013 indicated very little change in the attitudes of consumers to organic food and drink over that period. What changed was the general economy and the disposable income of consumers. As the economy in the UK returns to growth there is reason to be positive that domestic organic supply chain businesses will prosper. Markets for organic food in other parts of the EU and the Far East have not stopped growing.

Assessing the value and prospects of the organic market in Wales has given us a valuable tool to demonstrate the potential of organic businesses to contribute to Welsh Government RDP 2020 and other strategies. The outputs of the organic supply chain fit well with the six objectives of the proposed RDP 2020, with the current BOBL project activities delivering on the majority of them. Organic farming also fits well with other strategies, both for facilitating engagement with target groups and delivery of outputs. The Welsh Government Action Plan for the Food and Drink industry identifies the strengths of the food sector which can be exploited. Examples of these strengths are provenance (par 3.4), high quality raw materials (par 5.2) and resource efficiency (par 6.15) amongst others. These are all integral to Organic production. The Beaufort Research reports that over three quarters of shoppers purchase organic food in over a third of the 14 categories identified in the survey. This wide reach in a growing market provides a platform for engaging with consumers and businesses and communicating the attributes of food and drink sourced in Wales. The contribution of Wales in general and West Wales in particular to the historic development of the UK organic sector has the potential to strengthen the marketing of a high quality, distinctive, local and sustainable food experience, the very definition of Food Tourism (par 5.34).

Organic primary production is already adding to the resilience of businesses by supporting engagement with customers as the foundation of direct selling. Organic production has strengthened the dairy supply chain by helping primary producers weather the downward pressure on prices experienced over the last 12 months, during which conventional UK farm gate dairy prices have fallen from 34ppl to 27ppl[1]. The Organic red meat sector is currently in a state of flux. Key people in the organic supply chain report that matching supply and demand

[1] Source DairyCo.

of organic lamb is challenging but that a small premium has been payable for long periods during 2014. Organic beef has consistently attracted a premium, particularly during the horsemeat scandal, but at the time of writing is in oversupply.

These comments must be considered in the context of the production base demonstrated by Glastir Organic 2015 contracts. The number of primary producers in Wales has fallen from a peak of over a 1,000 to around 500. My conclusion is that the red meat supply chain has some way to go to gain the premium it deserves for the commitment of producers and consumers to organic principles. You can interpret this as there being no market for your time and investment, or as an untapped market with huge potential.

In their draft Strategic Action Plan for the Welsh Red Meat industry HCC recognises the potential of differentiation to increase market share and of import substitution to create opportunities to supply domestic markets including the public sector. This should open up levy support to allow organic production to capitalise on its existing engagement with customers, independent certification and status as a scheme backed by EU legislation. This is what differentiates organic production from niche schemes and puts it on a par with PGI status Welsh Lamb and Welsh Beef. In a growing export market the well understood status of organic certification should strengthen the promotion of Welsh PGI red meat. This has the potential to make a significant contribution to the 34% increase in sales revenue in Welsh red meat, 5% increase of Welsh Agricultural Output and 14% increase in turnover set out in the Strategic Action Plan currently out for consultation.

For many consumers their introduction to the purchase of organic food is fruit and vegetables. Direct sales of such produce are increasing and producers are positive about the future. For existing horticulture producers the growth in the market is good news. For organic farmers not yet involved in horticulture it is an opportunity to supplement their income by growing field-scale vegetables. Bringing potential partners together so that the specialist expertise of dedicated growers can be allied to field-scale production on organic farms must have real potential to supply this growing market, through direct sales or the existing networks of organic wholesale outlets in Wales. This growth is facilitated by the growing popularity of box schemes and farmers markets which are more conducive to supply-led sales. The adaptability of consumers who purchase through these markets gives more flexibility to producers who are restricted by weather or the resources available to them in what and when they can produce.

There is much to be positive about in the organic market for producers in Wales. The settled production base, growth in the organic market and potential for increases in direct sales are opening the door to innovative businesses to improve their profitability and resilience by engaging directly with a customer base that is receptive to the principles and systems they rely on to produce food. A final word of thanks to all the businesses that have given their time and thought to help us gather data. Reports are only as good as the information they glean and after reading this one I hope you will see your support as an investment rather than a cost.

Dafydd Owen

Cyfarwyddwr Prosiect, Gwell Cysylltiadau Busnes Organig
Project Director, Better Organic Business Links.

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Table of Contents

The Organic Retail Market in Wales 1
Acknowledgements 2
Foreword 3
Table of Contents 5
List of Tables 6
List of Figures 6
1. Executive Summary 0
  1.1. The Organic Market in Wales/West 1
  1.2. Organic food and drink sales through supermarkets in Wales/West 2
  1.3. Sales outside supermarkets in Wales 2
  1.4. Sales by product category 3
  1.5. Organic Production 4
2. Introduction 5
3. Sales through supermarkets (based on Nielsen Scantrack data for Wales/West) 7
4. Welsh business survey 8
5. Selected results from the Welsh organic producer survey 12
  5.1. Direct sales 12
  5.2. Organic Production in Wales 15
6. Discussion and Conclusions 17
  6.1. The Welsh Organic Market as a whole 17
  6.2. Organic food and drink sales through supermarkets in Wales/West 18
  6.3. Sales outside supermarkets in Wales 19
  6.4. Sales by product category 19
    Dairy products 19
    Vegetables, fruit and salads 20
    Meat, fish and poultry 20
  6.5. Outlook into future 21
    Policy 21
    Supermarkets 22
    Sales outside supermarkets 22
    Production 23
    Marketing and promotion 23
  6.6. Key conclusions 24
Appendix A: Methods 26

List of Tables

Table 1 Wales/West food and drink sales data through supermarkets for the 52 weeks to 3rd January 2015. 7
Table 2 UK food and drink sales data through supermarkets for the 52 weeks to 3rd January 2015. 7
Table 3 Welsh organic brands listed by the respondents 11
Table 4 Reported livestock sales 2014 16

List of Figures

Figure 1 Marketing channels represented by survey respondents. 8
Figure 2 Sale of organic businesses represented by survey respondents 9
Figure 3 Main reasons suggested for increase in organic sales. 10
Figure 4 Reputation of Welsh organic products. 10
Figure 5 Approaches which would help sell more Welsh organic products. 11
Figure 6 Content of direct sales 12
Figure 7 Proportion of overall sales that are made as direct sales 13
Figure 8 Expectation as to whether the amount of direct sales will change 13
Figure 9 Plan to continue to make direct sales. 14
Figure 10 Marketing challenges experienced. 15
Figure 11 Organic licenced processors in Wales compared to the rest of the UK 18

1. Executive Summary

Providing market intelligence for the organic sector in Wales has been a major focus of the BOBL project. Four reports on the organic market in Wales were commissioned and published between 2009 and 2011 for dairy, red meat, horticulture and pigs and poultry; and consumer research was carried out in 2010 and 2013. However, data on retail sales have not been covered in similar detail and this report attempts to fill that gap in market intelligence.

The report combines data from three sources: Nielsen Scantrack which covers sales through major food and drink retailers (supermarkets) in Wales/West, surveys of Welsh organic businesses (independent retailers, processors, box schemes, farm shops and others) carried out by the Soil Association and data from the Welsh producer survey carried out by Organic Centre Wales. In addition, comments were invited from a number of industry experts.

Some of the key conclusions from this report can be summarised as:

- Organic products represent a real business opportunity. The value of the organic market in Wales/West is estimated to be in the range £100m-140m through all channels.
- Organic producers and processors in Wales are trading with supply chain partners in Wales, in the rest of the UK and beyond. Investment in processing capacities suitable for this specialist market could add further value and improve the growth potential of the sector.
- Wales/West is slightly underperforming in organic relative to its overall sales of food and drink through supermarkets. This represents an opportunity of £8.3m sales, if Wales/West was performing at a fair share.
- A high percentage of Welsh organic businesses have reported positive news in 2014 with 53% reporting increased sales in this period. The majority of businesses also expect their sales to rise in the year ahead – this gives a positive outlook for the trends in 2015.
- Welsh producers generally seemed to be reasonably positive about direct sales with 34% expecting sales to increase and 55% anticipating no change. 70% of the producers surveyed said that they would definitely or probably continue in direct sales.
- **Dairy** is a key sector within Wales/West, both in production and in retail sales. In supermarkets, growth is slightly behind the rest of the UK at 6.2% despite it being 34% of total organic sales in Wales. There is potential for dairy products to be given even more profile to drive further growth within the region.
- Produce (**vegetables, fruit and salad)** is important in organic production and in sales inside and outside supermarkets. Sales in supermarkets declined in Wales/West in the last year. The share of organic produce sold by Welsh producers through direct marketing is high and there appears to be potential to grow these sales.
- Many **beef and lamb** producers lack confidence in the security of demand throughout the year. There appears to be need for greater focus on marketing and promoting for organic red meat products produced in Wales.

- It is recommended to make use of the opportunities arising through the new Rural Development Plan to develop processing and retailing of organic food in Wales in the near future.
- Businesses suggest that growth will be supported by increased marketing, a prompt to the industry to be more specific about communications on organic within the region.
- A generic Welsh Organic promotion campaign making use of the EU promotion fund (e.g. in collaboration with UK organic naturally different campaign of the Organic Trade Board) could significantly raise the profile of Welsh Organic products both in supermarkets and in the various other outlets of the Welsh Organic Market.

1.1. The Organic Market in Wales/West

Total organic food sales in Wales/West have been estimated to be in the range of £100 million to £140 million or approximately 5 to 7% of total organic retail sales in the UK[2]. This is markedly lower than the proportion of UK organic land (in-conversion and fully converted) in Wales which is 17% based on the Defra organic statistics[3] for 2013.

Estimating the sales value for organic products in Wales/West is important for a better understanding of the whole Welsh organic sector and for the potential to develop local food sales, but growth trends for the UK organic market also represent an important business opportunity for many Welsh Organic Businesses.

The UK organic market grew by 4% during 2014 reaching £1.86b[4]. Nielsen's figures suggest that Wales/West underperforms in terms of organic share of food and drink sales in supermarkets by value. The Wales/West region contributes 8.3% of total food and drink sales in supermarkets within the UK, but this decreases to just 7.6% of the UK figure for organic food and drink sales in supermarkets. According to Nielsen, this gap in sales suggests an £8.3m retail opportunity.

The organic sector in Wales is structurally different from the UK as a whole. Wales is an important agricultural and rural region with only a few urban centres in the South and North. Organic producers from Wales are trading with supply chain partners in Wales, in the rest of the UK and beyond. Lower growth through the supermarkets sales channel in Wales/West compared with the UK as a whole (1.4% growth in Wales/West for organic food and drink compared with 2.2% in the UK as a whole) may be a result of differences in the structure of food sales in Wales with reduced concentration of supermarkets in the rural areas and some supermarkets that have a strong organic profile in the UK as a whole (e.g. Waitrose and Sainsbury's) being less well represented in Wales.

40% of respondents to the Soil Association's survey of organic businesses in Wales are very focussed on selling in Wales and make more than 90% of their organic sales in Wales. Larger organic businesses, however, are more likely to trade beyond the borders of Wales and indeed the larger businesses (with more than £500,000 annual turnover)

[2] The estimate is subject to some uncertainty. Figures for organic sales through multiple retailers (supermarkets) were only available for the Wales/West region which includes Bristol. Also, as the total number of the various businesses selling organic food in Wales (including all farm shops, whole food and independent shops etc.) is not known, so it is impossible to establish how representative the surveys were.
[3] Defra Organic Statistics, published June 2014. https://www.gov.uk/government/statistics/organic-farming-statistics-2013
[4] Soil Association Organic Market Report 2015. https://securepayment.soilassociation.org/page/contribute/organicmarketreport2015

responding to the survey tended to make more of their sales outside Wales than did the smaller businesses.

1.2. Organic food and drink sales through supermarkets in Wales/West

Organic food and drink sales in Wales/West through supermarkets make up an estimated 1.2% of total food sales (Table A1). Sales have grown by about 1.4% by value in the year to 3rd January 2015. This compared favourably to non-organic food sales that showed a decrease of 1.6% in the same period.

Table A 1 Wales/West food and drink sales data through supermarkets for the 52 weeks to 3rd January 2015.

	% Sales Growth	% Share of Products
Food & Drink	**-1.6%**	**100.0%**
Total Organic Food & Drink	**1.4%**	**1.2%**
Total Non-Organic Food & Drink	**-1.6%**	**98.8%**

Source: Nielsen Scantrack Wales/West for the 52 weeks to 3rd January 2015

Important categories for organic sales in supermarkets in Wales/West are dairy (34% of organic sales by value), produce (fruit, vegetables and salad; 22%), canned and packaged (14%) and baby food and drink (11%).

1.3. Sales outside supermarkets in Wales

Sales outside supermarkets in Wales cover a number of different marketing channels, including independent retail, box schemes, online and mail order, farm shops and farmers markets as well as catering and food services. Many businesses use several routes to market and some are also processing as well as retailing.

38 organic businesses responded to surveys carried out by the Soil Association in early 2015 about the organic market in Wales in 2014, with turnovers ranging from £5k to over £5 million in the last year. Vegetables, meat and dairy products were named as the most important sales categories.

Asked about sales trends in the last 12 months, the majority of businesses reported some growth, with growth rates of 3% to more than 30% and averaging 14.6%, but some also reported declines. Looking into the future, many businesses were optimistic about the growth potential and reputation of Welsh organic products.

There also appears to be a growing interest in direct sales, judged by the higher number of responses received in this category in the producer survey carried out by Organic Centre Wales. For some of the producers, direct sales appeared to be the most important marketing channel. Over half of those responding indicated that direct sales comprised between 80 to 100% of their sales, but for 26% direct sales made up a much smaller proportion of up to 20% of their sales.

The most common product sold directly was meat (48%) and the least common was dairy (2%). Producers generally seemed to be reasonably positive about direct sales with the majority (55%) anticipating no change in direct sales in the near future, 25% expecting sales to increase by up to 10% and 9% expecting sales to increase by more than 10%.

Similarly there was a cautiously positive response to the question about whether the producers would continue with direct sales. 29% of the producers surveyed said that they would definitely continue and 41% that they would probably continue. In contrast 10% said that they would definitely not continue with direct sales. When asked specifically about marketing problems 29% of those who answered the question cited a lack of market as an issue and 24% cited logistical problems.

1.4. Sales by product category

Important product categories for the Welsh organic sector from a producers' point of view are red meat, dairy and horticulture (Table A2) with arable sales being less important.

Table A 2 Wales/West key product categories and sales growth for sales through supermarkets for the 52 weeks to 3rd January 2015.

	% organic sales	% Sales Growth
Organic Dairy	**34%**	**6.2%**
Organic Produce (Fruit, Vegetables, and Salad)	**22%**	**-1.2%**
Organic Meat, Fish and Poultry	**9%**	**-6.0%**

Source: Nielsen Scantrack Wales/West for the 52 weeks to 3rd January 2015

Dairy products are a strong category in the Organic Market in Wales, with some growth potential. According to the producer survey carried out by Organic Centre Wales in total about 40 million litres of organic milk is produced in Wales and sold into organic outlets.

In the market place, organic dairy products by value accounted for 34% of organic food sales through supermarkets in Wales/West, and annual growth of 6.2%. There is a higher proportion of sales of milk and yoghurt than for non-organic, but a lower proportion of sales of cheese. A number of strong organic dairy brands originate in Wales, e.g. Calon Wen, Rachel's, Daioni, Caws Cenarth and Hafod Cheese. There could be potential for growth of sales in Wales, indicated by a slightly lower growth rate for dairy products in supermarkets in Wales/West, compared with the UK as a whole (6.2% for Wales/West compared with 7.7% for the UK).

Vegetables, salads and fruit (produce) is another important organic product category for Wales. In 2013, 18.6% of all horticultural land in Wales was managed organically.

Organic produce represents 22% of organic sales in supermarkets in Wales/West (23% for UK), but showed a decline in sales by value of 1.2% (compared with very slight growth in the UK as a whole of 0.8%).

Outside supermarkets, results from the producer survey showed that direct marketing accounts for about 50% of the sales for horticulture producers with a higher share (81%) for mixed market gardens (81%) and for field vegetables (77%). Vegetables therefore represent one of the most important product categories for Welsh organic businesses, and they are an important product category for local sales within Wales. Comments indicate that this sector has growth potential, but that lack of Welsh organic produce in sufficiently good quality is one of the factors that could be holding back the growth of sales outside the supermarkets.

Organic meat, fish and poultry accounts for 9% of organic sales in supermarkets in the Wales/West region (11% in the UK as a whole). The category showed a decline in sales by value in the year to the 3rd of January 2015 of 6% in Wales/West (whereas non-organic meat, fish and poultry saw a decrease in sales of 2.2%). There was a lower decline in organic sales in the UK as a whole: a reduction in sales by value of 2.4%. In Wales/West sales of organic lamb by value have dropped by 15.6% compared with 9.2% for the UK as a whole, sales of organic beef have dropped by 8.5% compared with 3.6%, and organic pork by 19.2% compared with 6.8%.

1.5. Organic Production

According to the producer survey of Organic Centre Wales, the organic land area in Wales was estimated to be approximately 77,000 ha, a reduction compared with the figure published by Defra for the end of 2013, due to a number of organic holdings that de-certified during 2014. Compared with the total land area in Wales, the organic share of land accounted for 6.5% of total land and was above average for forage (temporary and permanent grassland) and for horticulture and below average for arable and for other land at the end of 2013. The share of organic land in Wales is above the UK average of 3.3% (Defra, 2014).

2. Introduction

Providing market intelligence for the organic sector in Wales has been a major focus of the BOBL project. During the project, four sector reports on the Organic Market in Wales were commissioned and published between 2009 and 2011 for dairy, red meat, horticulture and pigs and poultry. The BOBL project has also commissioned two reports on consumer attitudes towards organic food from Beaufort Research in 2010 and 2013[5].

The consumer research showed that the reduced use of synthetic chemicals and more specifically pesticides and fertilisers was a key aspect of consumers' understanding of organic, underpinning a positive association of organic as a natural, unforced product. However, a precise understanding of organic was uncommon and there was some ambiguity and uncertainty about the term's meaning, with some overlap in consumers' minds between organic, free-range, and locally produced. Around two-thirds of shoppers also believed that organic produce is healthier for you, whilst around half thought that it is better quality and tastes better. Attitudes towards organic food remained largely unchanged between 2010 and 2013 and alone cannot explain declining sales experienced between 2010 and 2013. However, in the 2013 surveys only just over a quarter of respondents believed that organic produce represents good value for money. This indicates that price perception remains an important barrier to growing sales.

This report attempts to fill the gap in market intelligence for the Welsh organic sector in relation to retail sales. This is important for a better understanding of the whole Welsh Organic sector and to help identify the potential for developing local food sales whilst also recognising that trends for the UK organic market also represent an important business opportunity for many Welsh organic businesses.

The report presents and combines data from three main sources:

1. Nielsen Scantrack data which cover sales through all major food and drink retailers (with the exception of the discount sector e.g. Aldi and Lidl) in Wales/West for the year to 3rd January 2015. This data was compared with national data from the 2015 Organic Market Report published by the Soil Association.
2. Surveys of Welsh organic businesses (independent retailers, processors, box schemes and others) carried out by the Soil Association in early 2015 relating to the market in 2014.
3. Additional data on direct sales from the Welsh producer survey carried out during November 2014 by Aberystwyth University on behalf of Organic Centre Wales.

It should be noted that there may be some overlap between these separate surveys e.g. farmers making direct sales may have answered both the Welsh producer survey and the survey of Welsh organic businesses, and processors/wholesalers who have answered the survey of organic businesses may supply products which are then sold in supermarkets and so are picked up in Nielsen's Scantrack data. There is also a likelihood of missing data as it is unlikely that 100% of Welsh organic businesses and Welsh organic producers answered the Soil Association's and Organic Centre Wales' surveys However, the combination of these data sources provides the fullest picture of the state of the Welsh organic market for analysis.

[5] All reports can be downloaded http://www.organiccentrewales.org.uk/publications.php?type=Report

With regards to the graphs based on the results of the surveys of organic businesses and organic producers, where respondents could only select one option in answer to a question the graph shows the percentage of respondents selecting that option, where more than one option could be selected the graph shows the number of respondents choosing that option.

Welsh organic sector experts (producers and others working in the sector) were invited to comment on the near final draft of this report and open field comments were also invited in the Welsh business and producer surveys. These comments were used to inform the conclusions and recommendations section of the report.

The next sections of the report give data and information from each of the three sources in turn. Apart from looking at sales within and outside the supermarkets, where the data allow, the report has also focussed on three sectors that are important to organic production in Wales: dairy, vegetables and fruit and red meat. The final section pulls together the results to draw some conclusions about the Welsh organic market and recommendations. An Appendix setting out the data analysis methods in more detail is added at the end of the report.

3. Sales through supermarkets (based on Nielsen Scantrack data for Wales/West)

Nielsen data cover sales through major food and drink retailers, essentially the supermarkets (also known as multiple retailers or multiples) with the exception of Lidl and Aldi. The data covers the geographic region of Wales/West (essentially the old ITV television region known as HTV) and so covers some sales from the west of England including Bristol. It should be noted that the data are for sales by value, thus movements may be due to changes in sales volumes but could also be due to movements in sales prices.

Organic food and drink sales in Wales/West for the year to 3rd January 2015 (Table 1) made up 1.2% of total food and drink sales by value. Organic products showed growth in sales by value in the year at a rate of 1.4%, whereas non-organic sales showed a decrease of 1.6%. In the final 4 weeks of that period non-organic sales showed a decrease of 0.2% compared with the same period in the previous year suggesting that they are steadying while organic sales showed an increase of 3.7% suggesting that the organic market is also improving and is already showing increasing growth. However, the organic share of the total Wales/West food and drink market remained almost steady at 1.1% in the final four weeks.

Table 1 Wales/West food and drink sales data through supermarkets for the 52 weeks to 3rd January 2015.

	% Sales Growth	% Share of Products
Food & Drink	**-1.6%**	**100.0%**
Total Organic Food & Drink	**1.4%**	**1.2%**
Total Non-Organic Food & Drink	**-1.6%**	**98.8%**

Source: Nielsen Scantrack Wales/West for the 52 weeks to 3rd January 2015

Table 2 UK food and drink sales data through supermarkets for the 52 weeks to 3rd January 2015.

	% Sales Growth	% Share of Products
Food & Drink	**-1.1%**	**100.0%**
Total Organic Food & Drink	**2.2%**	**1.3%**
Total Non-organic Food & Drink	**-1.1%**	**98.7%**

Source: Nielsen Scantrack UK, for the 52 weeks to 3rd January 2015

In comparison, organic sales through supermarkets for the UK as a whole make up 1.3% of sales of food and drink by value (Table 2). In the UK as a whole the growth rate for organic sales by value for the year to 3rd January 2015 was 2.2% compared with a 1.1% decrease for total sales of food and drink.

Nielsen's figures suggest that Wales/West underperforms in terms of organic share of food and drink sales by value. The Wales/West region contributes 8.3% of total food and drink sales within the UK, but this decreases to just 7.6% of the UK figure for organic food and drink sales. According to Nielsen, this gap in sales suggests an £8.3m retail opportunity, if the Wales/West region could raise their share of organic food and drink sales within the UK total to match their total food & drink share within the UK.

4. Welsh business survey

38 organic businesses responded to the Soil Association's Welsh organic business survey. The survey gives a snapshot of the views and input/feedback from a range of businesses that produce or retail organic products in Wales. For a number of these businesses, a greater percentage of their output is sold outside Wales, but their answers provide valuable feedback and help assess the overall confidence and future expectations of these businesses. The majority of the larger companies with organic brands in Wales responded to the survey.

The respondents represented a number of different marketing channels (with many businesses using multiple routes to market) as shown in Figure 1. Here "high street retail" indicates independent retailers. Those selecting "other" included wholesale, craft shows, private sales, manufacturing and a haulage contractor.

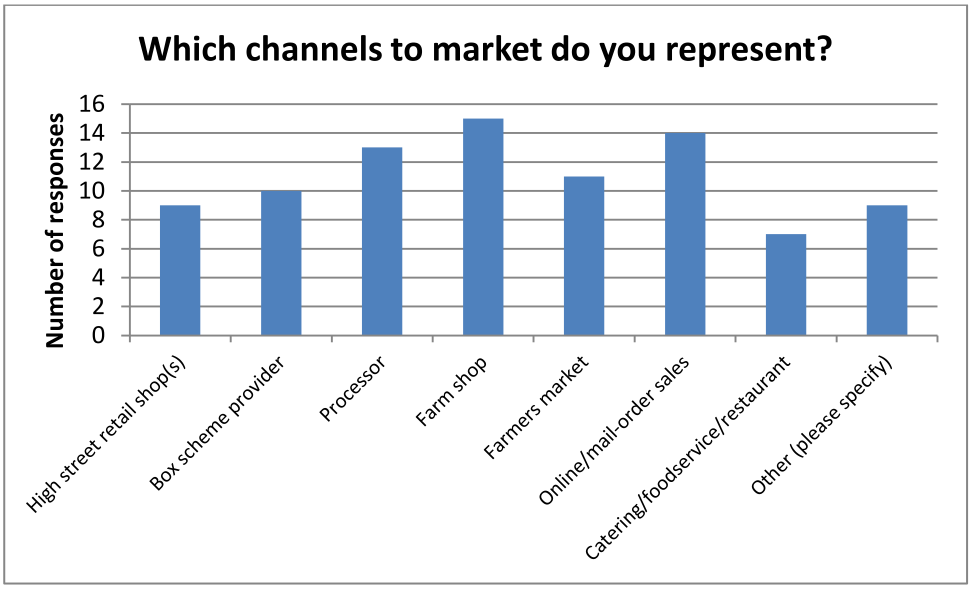

Figure 1 Marketing channels represented by survey respondents. Source: Soil Association's survey of Welsh organic businesses.

Respondents were asked the range in which their total turnover is situated (Figure 2). The respondents represented a wide range of organic businesses with turnovers ranging from between £5k and £10k to turnovers of over £5 million.

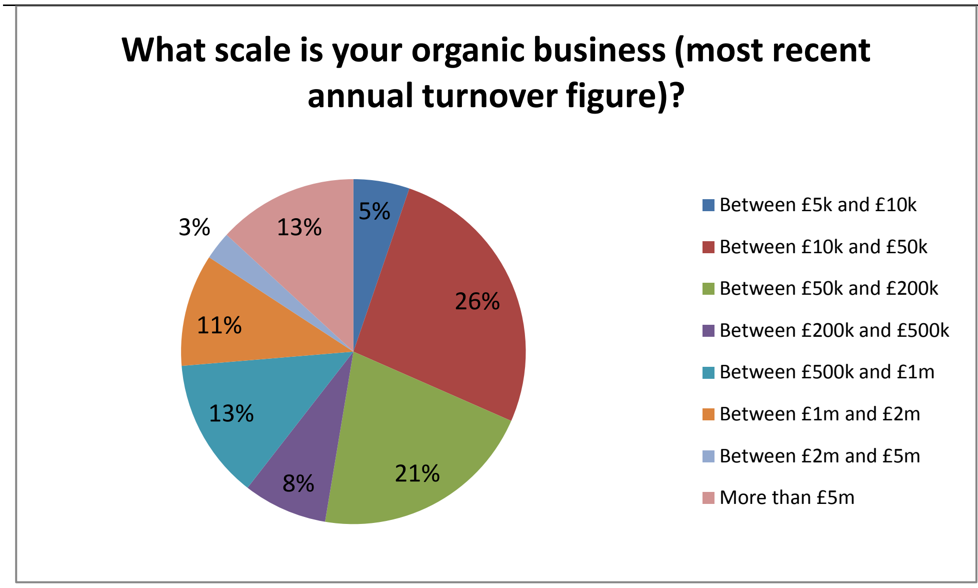

Figure 2 Sale of organic businesses represented by survey respondents
(None of the respondents had a turnover less than £5k).
Source: Soil Association's survey of Welsh organic businesses.

Respondents were asked what percentage of their total sales were organic and what percentage of their organic sales were made in Wales. Over 60% of respondents indicated that organic sales made up more than 90% of their total sales and only 11% indicated that organic made up less than 10% of their sales. A smaller proportion indicated that the majority of their organic sales by value took place in Wales: 40% made more than 90% of their organic sales in Wales and 16% of business made fewer than 10% of their sales in Wales. An estimate of sales by value indicates that approximately 27% of the turnover of all respondents was due to sales in Wales. Larger organic businesses are more likely to trade beyond the borders of Wales and indeed the larger businesses (with more than £500,000 annual turnover) responding to the survey tended to make more of their sales outside Wales than did the smaller businesses.

The businesses surveyed were asked to rank various product categories according to their size of organic sales within their business. Vegetables and meat, fish and poultry were most commonly ranked first, dairy tended to be ranked second, and fruit tended to be ranked third. This order is similar to but not the same as that of organic sales in supermarkets in Wales/West (where the order was dairy, produce, canned and packaged) and indicates that vegetables and meat are important in the independent sector, followed by dairy products.

The businesses were then asked about their sales value performance in the last 12 months. Twenty respondents (53%) had seen sales increase, 14 (37%) had noticed no change and 4 (10%) had seen decreased sales. Those who had seen increases or decreases in sales were asked about the percentage movement. The average increase in sales for those who chose to answer this question (17) was 14.6%, ranging from a 3% increase to a 49% increase. The main reasons suggested for the increased sales by value (respondents could select more than one reason) were new customers and rise in consumer demand (Figure 3). Other reasons that were suggested included exports, increased scale of operation, more efficient distribution, and natural inflation. The main reason suggested for decreased sales by value was low pricing and promotions on non-organic products.

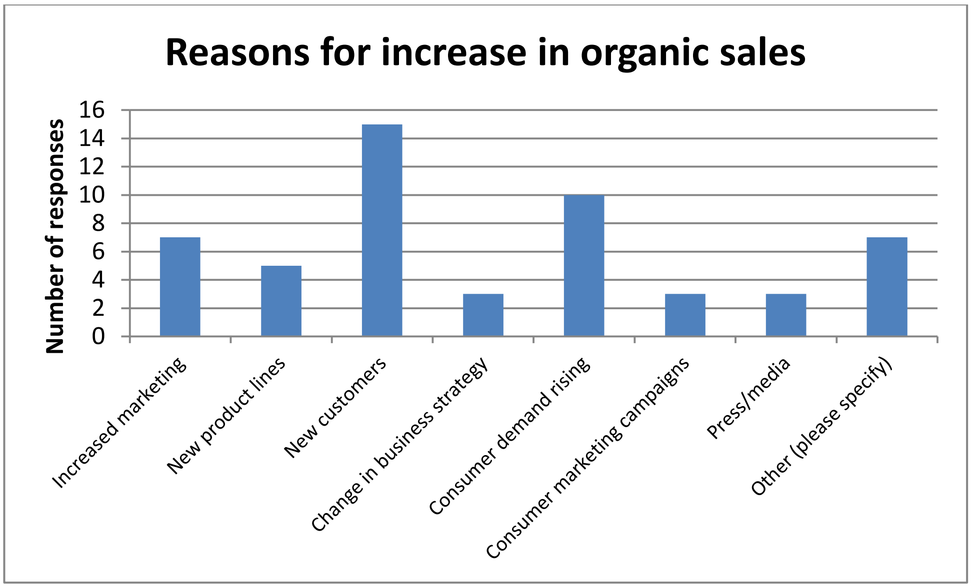

Figure 3 Main reasons suggested for increase in organic sales.
Source: Soil Association's survey of Welsh organic businesses.

When asked about expectations for the year ahead the respondents were mostly positive with 21 (55%) expecting their organic sales to increase and 16 (42%) expecting them to remain the same (one didn't respond). Those who quantified their expectation of an increase in sales predicted on average that it would be in the region of 13%, with predictions ranging from 5% to 40%.

The respondents, as well as being asked about the performance of their own business, were asked about the Welsh organic market in general. Their responses suggest that they believe that Welsh organic products generally have a good or excellent reputation (71% of respondents, Figure 4).

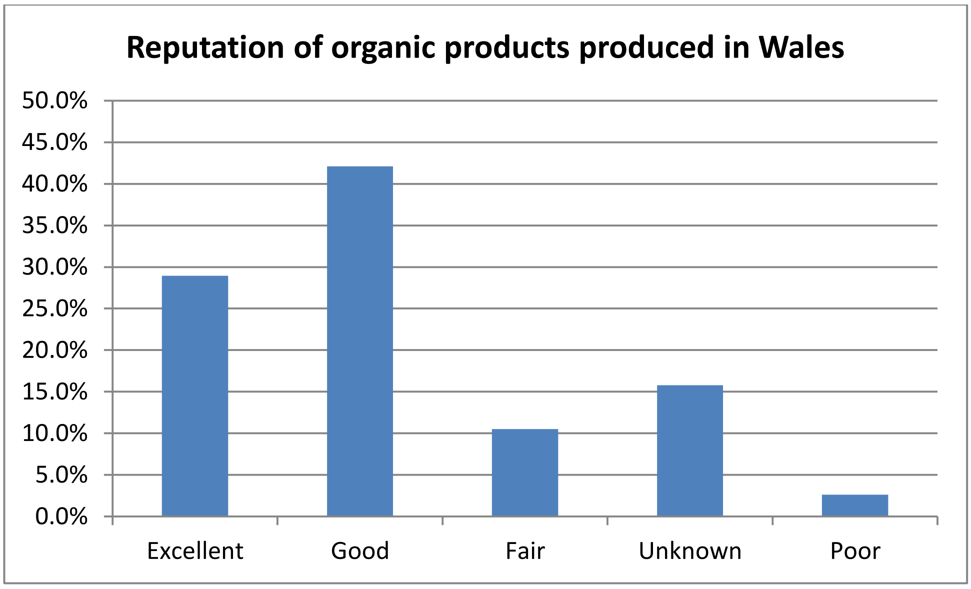

Figure 4 Reputation of Welsh organic products.
Source: Soil Association's survey of Welsh organic businesses.

They were also asked to list their top 5 (or more) Welsh organic brands. Those that were listed by more than one respondent are shown in Table 3 below.

Table 3 Welsh organic brands listed by the respondents

Welsh organic brand	Number of respondents
Calon Wen	10
Rachel's	9
Daioni	7
Caws Cenarth	6
Capestone Chicken	5
Graig Farm	4
Rhug Organic Meat	3
Halen Mon Seasalt	2
Tortoise Bakery	2
Organic Fresh Food Company	2
Hazlewell Beef	2
Hafod Cheese	2

Source: Soil Association's survey of Welsh organic businesses.

Finally, the respondents were asked what approaches they thought would help to sell more Welsh organic products, more than one answer was allowed (Figure 5). Increased marketing/advertising was the most popular suggestion, followed by word of mouth and more listings in retail outlets. Other suggestions that were made included telling the tourist trade about green wales; educating consumers on why it's worth paying a little more for local Welsh organic products; lower premiums; remembering that Wales produces more organic products than just food (suggested by a producer that sells organic wool related products) and more Welsh organic produce being available.

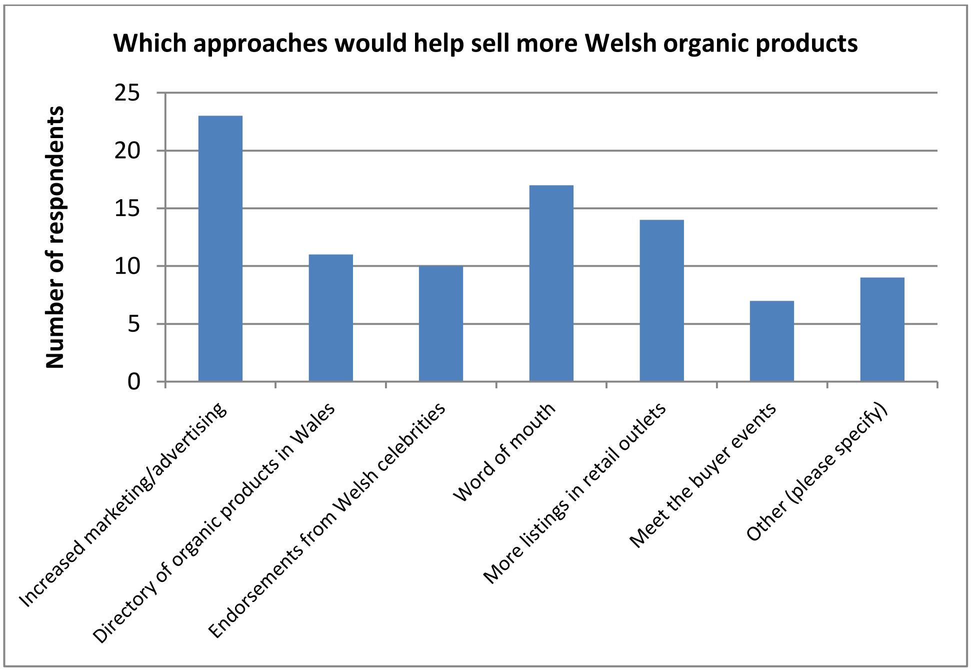

Figure 5 Approaches which would help sell more Welsh organic products.
Source: Soil Association's survey of Welsh organic businesses.

5. Selected results from the Welsh organic producer survey

Since 2007, an annual survey of organic producers has been carried out by Organic Centre Wales in November of each year (undertaken by Farm Business Survey staff at Aberystwyth University). The results provide information about production, numbers of animals and crops sold and future intentions of producers regarding remaining in organic production and includes a section on direct sales that was extended in 2014.
The full report can be obtained from www.organiccentrewales.org.uk.

5.1. Direct sales

Of the 438 producers responding to the main survey, 56 Welsh producers answered questions related to direct sales from their farm. The number of respondents indicating direct to public sales was higher in 2014 compared to 2013 (when only 38 producers responded positively to this question, however this may mean that different farms have answered the producer survey this year rather than that direct sales have increased.

The most common product sold directly was meat (48%) and the least common was dairy (2%) (Figure 6).

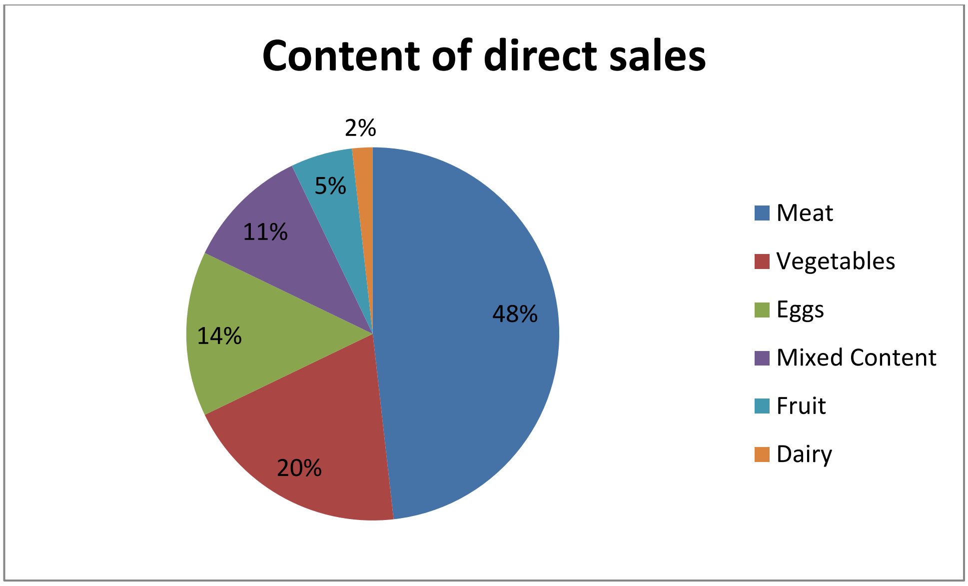

Figure 6 Content of direct sales
(Percentage of 56 respondents).
Source: Organic Centre Wales/Aberystwyth University.

In the marketing routes of Welsh organic producers direct sales accounted for: 8% of finished cattle, 7% of finished lamb, and more than 50% of sales for horticulture (with 81 % for mixed market gardens, 77% of field vegetables, 67% of fruit, 63% of potatoes and 53% of other horticultural crops). Also a high proportion of oats (69%) produced in Wales was sold directly to other farmers.

Producers who made direct sales were asked about the importance of direct sales as part of their total turnover. Over half (53%) of those responding indicated that their direct sales comprised between 80-100% of total sales, (Figure 7), however for 26% of those answering this section, direct sales made up a much smaller proportion of overall sales (0-20%).

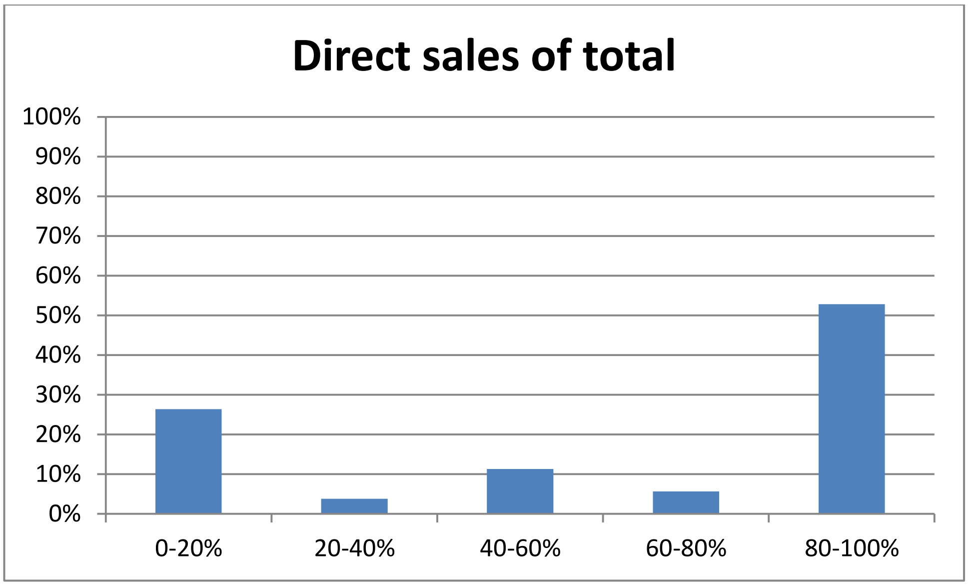

Figure 7 Proportion of overall sales that are made as direct sales
(Percentage of 53 respondents).
Source: Organic Centre Wales/Aberystwyth University.

Producers generally seemed to be reasonably positive about direct sales (Figure 8, 53 respondents answered the question) with 9% expecting sales to increase by more than 10%, 25% expecting sales to increase by 1-10% and 55% anticipating no change in direct sales in the near future. Comparing the responses by the product sold directly it can be seen that sellers of mixed content boxes were most likely to expect sales to increase and sellers of eggs were most likely to expect no change. In all cases fewer than 20% of producers expected a drop in direct sales.

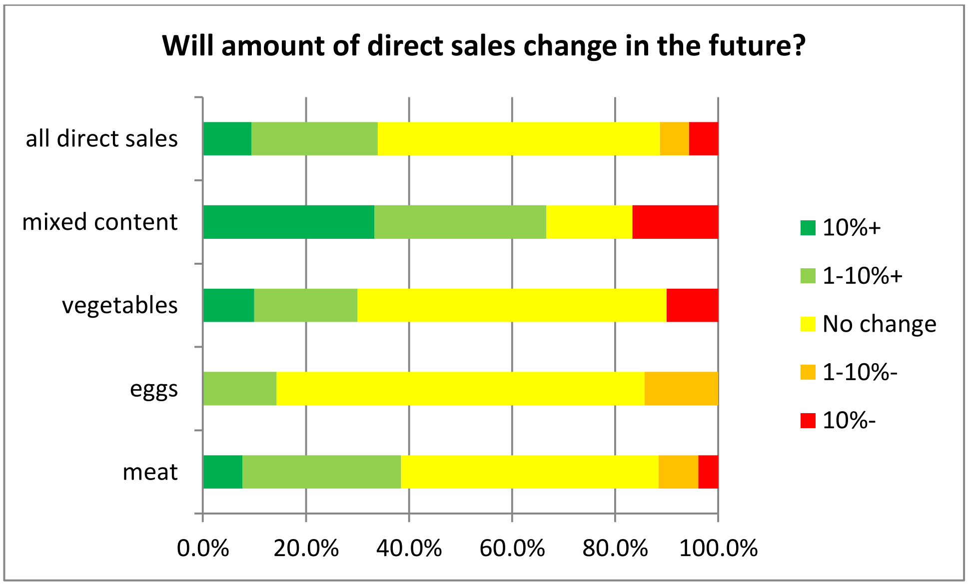

Figure 8 Expectation as to whether the amount of direct sales will change
Dairy and fruit are excluded from the graph as fewer than five respondents sold these directly.
Source: Organic Centre Wales/Aberystwyth University.

Similarly there was a cautiously positive response to the question about whether the producers would continue with direct sales (Figure 9, 53 respondents). 29% of the producers surveyed said that they would definitely continue and 41% that they would probably continue. In contrast only 10% said that they would definitely not continue with direct sales. Splitting the responses by the product sold directly it can be seen that producers who sold mixed content boxes were most positive about continuing with direct sales and vegetable sellers were the least confident.

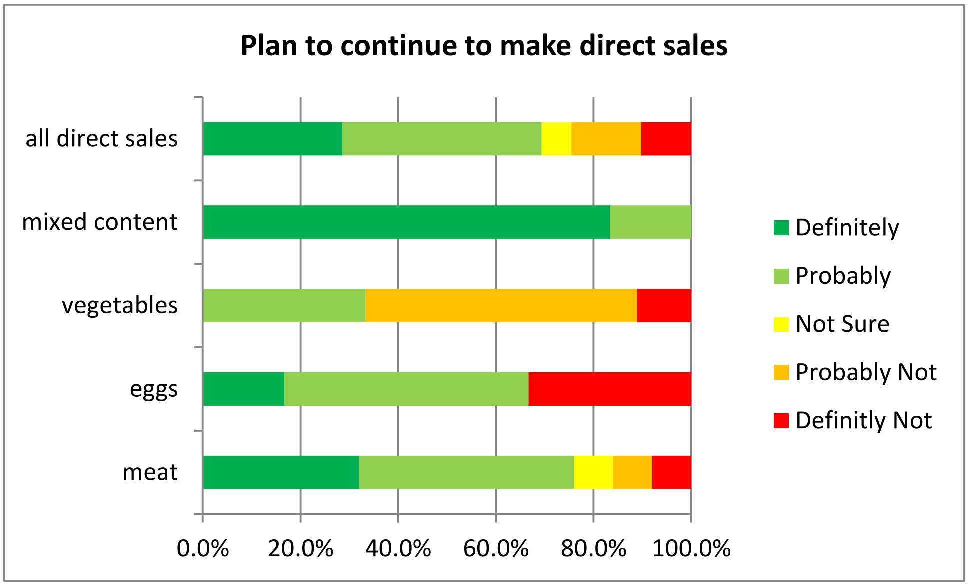

Figure 9 Plan to continue to make direct sales.
Dairy and fruit are excluded from the graph as fewer than five respondents sold these directly.
Source: Organic Centre Wales/Aberystwyth University.

When asked specifically about marketing challenges 29% of those who answered the question cited a lack of market as an issue and 24% cited logistical problems (Figure 10). Other marketing issues that were mentioned included the fact that there is a premium for local and good quality produce but not for organic, distance to the abattoir, cost of organic slaughter, lack of time, lack of access to broadband, high business rates and decaying town centres.

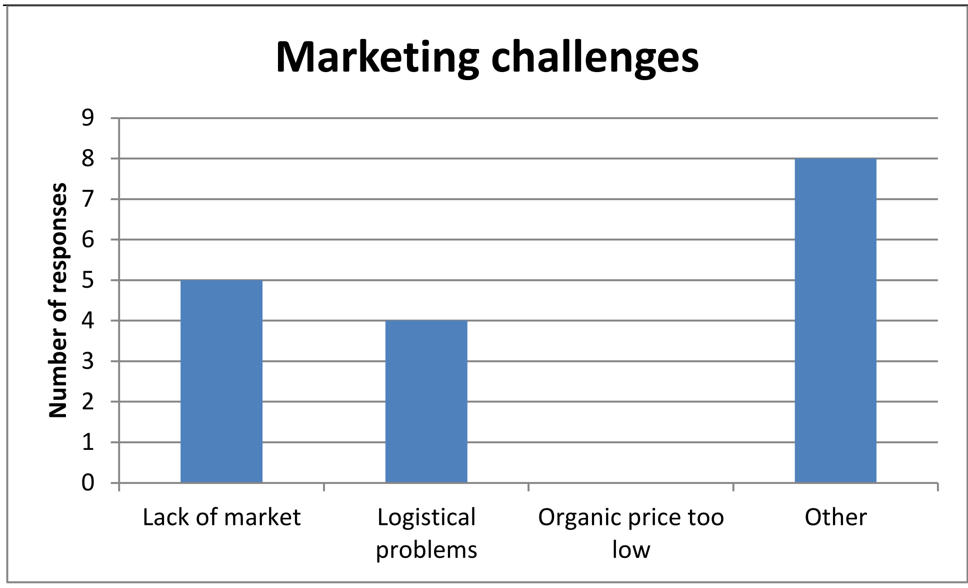

Figure 10 Marketing challenges experienced.
Source: Organic Centre Wales/Aberystwyth University.

The producers were also asked for other general comments about direct sales. Again the topic of local or good quality products being more important to customers than organic was brought up. There were also comments about the lack of a larger market and importance of having a market to sell into, and the additional cost of rearing traditional, slower growing breeds and whether that can be covered by the premium.

5.2. Organic Production in Wales

The 2014 producer survey was carried out via telephone during mid-November 2014. 715 producers were contacted and a response rate of 73% was achieved (519 producers, of whom 12 declined to participate and 69 had de-certified leaving 438, i.e. 61%, completed surveys). Based on the response, the total organic land area in November 2014 was estimated to be approximately 77,000 ha[6]. This is a reduction compared with the figure of 100,754[7] ha for the sector at the end of 2013 from the Organic Centre Wales analysis of certification data from Defra, probably due to a number of organic holdings that de-certified during 2014.

In 2013, the estimated organic share of total agriculture land in Wales was 6.8%. The share was higher for horticulture (18.6% in 2013) and for grass (7.7% for temporary grass; 8.3% for permanent grass), but below average for tillage area (4.5%) and for cereals (4%).

The majority of organic beef, milk and cropping outputs were sold into certified organic markets (see Table 4 for livestock products) although the sheep sector and store beef sales continue to suffer high losses to the conventional sector at point of sale. When asked about reasons for selling non-organically, the beef producers mentioned a lack of organic market, whilst some lamb producers chose to sell non-organically because of difficulties meeting the specification or because the organic premium was felt to be low.

[6] The full report can be obtained from www.organiccentrewales.org.uk.
[7] Welsh producer survey, obtainable from the link above.

Table 4 Reported livestock sales 2014

	Organic		**Non-organic sales**		**Total**	**No of responses**
	#	%	In-conversion	Other reason		*n*
Milk (thousand litres)	40742	100%	0	0	40742	*55*
Eggs (thousand dozen)	461	100%	0	0	461	*19*
Finished cattle	5549	95%	15	299	5863	*117*
Store cattle	2585	72%	20	968	3573	*152*
Finished lambs	48420	58%	1343	33670	83433	*238*
Store lambs	5171	26%	0	14375	19546	*91*
Pigs (all classes)	75	39%	64	55	194	*8*

Source: Organic Centre Wales/Aberystwyth University.

As part of the survey, organic producers were also asked about their satisfaction with current prices. Lamb producers were least satisfied with current prices, reflected by the high numbers of organic lambs sold conventionally. The beef sector was also less optimistic in 2014 than in 2013 due to reduced prices and a lower organic premium for some part of 2014, but there were some signs of slight recovery in prices and premium during late 2014. The other sectors were generally more satisfied than in 2013, although this situation may have altered for milk producers since November 2014 when the survey was conducted.

6. Discussion and Conclusions

6.1. The Welsh Organic Market as a whole

The data from the three sources, Nielsen Scantrack data, the Soil Association's survey of Welsh organic businesses and the Organic Centre Wales' survey of Welsh organic producers, can be combined to give an estimate of the overall value of the organic market in Wales/West. **Combining these data gives an estimate for the organic market in Wales/West of £100 million - £140 million.**

A number of different approaches to estimating the market were used (see Appendix A: Methods) and all suggested that the range given above is a reasonable estimate for the organic market in Wales/West in the calendar year 2014.

However, combining three different sources has some complications. The Nielsen data are for Wales/West and it is difficult to remove the impact of the west of England from these data. The region includes Bristol which, due to the Soil Association's strong presence in the city, is often very involved in events to promote organic food. Turnover data provided in the Soil Associations' survey are given as a selection of ranges of turnovers and, as is also the case for Organic Centre Wales' producer survey data, are self-reported. In addition there is a possibility of overlap between the three surveys (see Appendix A: Methods). There is also likely to be missing data, because the Welsh organic business survey and Welsh producer survey are unlikely to have reached all Welsh organic businesses and producers. Extrapolation of the data is not possible due to a lack of knowledge of the total number of outlets selling organic food, including all types of shops, box and home delivery schemes as well as farmers markets, farm-shops and catering outlets.

The estimate of £100 million to £140 million for the value of organic food sales in Wales/West represents approximately 5 to 7% of total organic retail sales in the UK. This is a lower share than the proportion of UK organic land (in-conversion and fully converted) in Wales which is 17%, based on the Defra organic statistics[8] for 2013.

The organic sector in Wales is structurally different from the UK as a whole. Wales is an important agricultural and rural region with only a few urban centres in the South and North. Lower growth through the supermarket sales channel in Wales/West compared with the UK as a whole (1.4% growth in Wales/West for organic food and drink compared with 2.2% in the UK as a whole) may be a result of differences in the structure of food sales in Wales with reduced concentration of supermarkets in the rural areas and some supermarkets that have a strong organic profile in the UK as a whole (e.g. Waitrose and Sainsbury's) being less well represented in Wales.

Organic producers and processors in Wales are trading with supply chain partners in Wales, in the rest of the UK and beyond. Larger businesses are more likely to trade beyond the borders of Wales than smaller ones. Comments from some industry experts suggest that logistics are one of the drawbacks for Wales as a whole, but in particular for smaller business based there. Similarly, lack of access to broadband is also seen as a disadvantage and a possible barrier to sales for Welsh organic businesses.

[8] Defra Organic Statistics, published June 2014. https://www.gov.uk/government/statistics/organic-farming-statistics-2013

The number of organic processors based in Wales is relatively low compared with England and Scotland (Figure 11). In Wales only 13% (122) of all operators are registered as processors and only 2% (20) as producer/processors, a much lower share compared to the whole UK, where 35% of all certified operators are processors. Although numbers of operators do not say anything about the turnover of these companies, this suggests a reduced capability to add value to products in Wales.

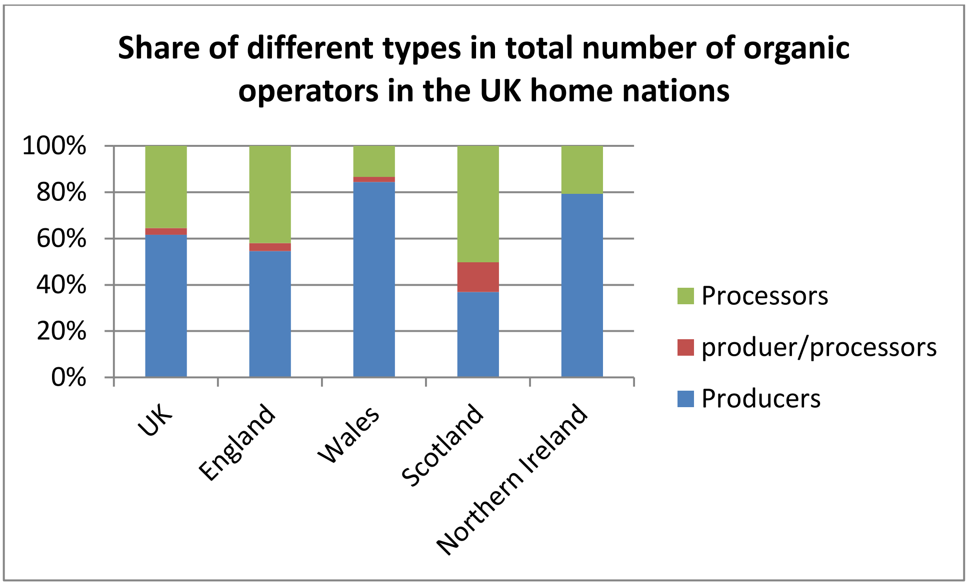

Figure 11 Organic licenced processors in Wales compared to the rest of the UK Source Defra (2014) Organic Statistics 2013 United Kingdom[9]

6.2. Organic food and drink sales through supermarkets in Wales/West

Organic sales in Wales/West through supermarkets make up an estimated 1.2% of total food sales in the region. Sales have grown by about 1.4% by value in the year to 3rd January 2015. This compared favourably to non-organic food sales that showed a decrease of 1.6% in the same period, but growth for organic food and drink through the supermarket sales channel in Wales/West is lower than for the UK as a whole (1.4% growth in Wales/West compared with 2.2% in the UK as a whole).

Important categories for organic sales in supermarkets in Wales/West are dairy (34% of organic sales by value) produce (fruit, vegetables and salad; 22%), canned and packaged (14%) and baby food and drink (11%).

Nielsen's figures for sales in supermarkets also suggest that Wales/West underperforms in terms of organic share of food and drink sales by value. The Wales/West region contributes 8.3% of total food and drink sales in supermarkets within the UK, but this share decreases to just 7.6% of the UK figure for organic food and drink sales in supermarkets. **According to Nielsen, this gap in sales suggests an £8.3m retail opportunity for organic food and drink sector in Wales/West.**

Comments from industry experts point out that this may be a result of reduced concentration of supermarkets in the rural areas and the fact that Waitrose and

[9] *Published by National Statistics and Defra, London.*

Sainsbury's, both supermarkets that overtrade in organic products nationally, are less well represented in Wales.

Nevertheless, an £8.3 million retail opportunity deserves attention and could be even higher if the potential for growing sales in discounters (e.g. Aldi and Lidl) is also considered as these may become major players in the future. Danish experience suggests that discount stores can also be a major driver for sales of organic food, as reported by speakers from the company NETTO at a recent trade briefing of the Organic Trade Board.[10]

6.3. Sales outside supermarkets in Wales

Sales outside supermarkets in Wales cover a number of different marketing channels, including independent retail, box schemes, online and mail order, farm shops and farmers' markets as well as catering and food services. The survey of Welsh organic businesses carried out by the Soil Association (see Chapter 4) shows that many businesses access more than one route to market and some are also processing as well as retailing. Turnover of such business ranged from £5k to over £5 million in the last year, and vegetables, meat and dairy products were named as the most important sales categories. Asked about sales trends in the last 12 months, over half reported experiencing some growth. Looking into the future, many businesses were optimistic about the growth potential and reputation of Welsh organic products.

There also appears to be a growing interest in direct sales, judged by the higher number of responses received in this category in the producer survey carried out by Organic Centre Wales (see Chapter 5.1). Direct sales appear to be the most important marketing channel for more than half of those responding to questions on this sector, comprising between 80 to 100% of their sales, but for a quarter of respondents direct sales made up a much smaller proportion, accounting for only up to 20% of their sales. The most common product sold directly was meat (48%), followed by vegetables and the least common was dairy (2%). In the marketing routes of Welsh organic producers, direct sales accounted for more than 50% of sales for horticulture, and 8% or 7% respectively for finished cattle and finished lamb.

Some respondents stated that they will not continue with direct sales and referred to a lack of market and logistical problems in their comments. However, the majority of direct marketing producers seemed to be reasonably positive about continuing with direct sales and expecting either no change or increases in sales in the future.

6.4. Sales by product category

Dairy products

Dairy is a strong category in the organic market in Wales, with some growth potential. According to the producer survey carried out by Organic Centre Wales, in total about 40 million litres of organic milk is produced in Wales which can also be sold into organic outlets as well as via supermarkets.

[10] See https://www.organictradeboard.co.uk/

In the market place, organic dairy products accounted for 34% of organic food sales by value through supermarkets in Wales/West, an above average market share of 3.4% and annual growth of 6.2%. There is a higher proportion of sales of milk and yoghurt than for non-organic dairy, but a lower proportion of sales of cheese. A number of strong organic dairy brands originate in Wales, e.g. Calon Wen, Rachel's, Daioni, Caws Cenarth and Hafod Cheese.

Nielsen's data suggest potential for growth of dairy sales in Wales, indicated by a slightly lower growth rate for dairy products in supermarkets in Wales/West, compared with the UK as a whole (6.2% for Wales/West compared with 7.7% for the UK).

Industry experts commented that supply and demand for organic milk in Wales are quite well balanced at present, but some opportunities for new entrants are expected to arise in the next few years. At present, some organic liquid milk and cheese sold in Wales is processed outside Wales adding extra transport costs. Developing processing capacity in Wales would be welcomed in this context, whereby the organic dairy market would be best served by medium size facilities that can handle more specialist products, such as organic. The sector could be strengthened further through focussed promotion of Welsh organic dairy products.

Vegetables, fruit and salads

In 2013, 18.6 % of all horticultural land in Wales was managed organically.

Organic produce (vegetables, salads and fruit) represents 22% of organic sales in supermarkets in Wales/West (23% for UK), but showed a decline in sales by value of 1.2% (compared with very slight growth in the UK of 0.8%). Outside supermarkets, vegetables represent one of the most important product categories for Welsh organic businesses and the second most important category (after meat) for producers reporting on direct sales. The share of produce sold through direct marketing is higher than 50%. This indicates that vegetables are an important product category for local sales within Wales.

Comments from industry experts suggest that the sector has potential for growing sales, for example in relation to selling mixed content vegetable boxes. Some operators mention that a lack of Welsh organic produce of sufficiently good quality is one of the factors that are holding back the growth of sales outside the supermarkets.

Meat, fish and poultry

In the organic meat category, beef, lamb, pork and poultry are reported together. In particular red meat is a very important sector for organic production in Wales. About 5,500 organic beef cattle and 48,000 lambs were finished on organic holdings in 2014. The majority of this organic beef was sold into certified organic markets (see Table 4 in Chapter 5.2 for details), but the sheep sector and store beef sales continue to suffer high losses to the conventional sector at point of sale. Beef producers responding to the producer survey carried out by Organic Centre Wales appeared less optimistic in 2014 than the year before, and organic lamb producers were least satisfied with their prices.

In the market place, organic meat, fish and poultry accounts for 9% of organic sales in supermarkets in the Wales/West region with a market share of 1.1%. The whole category showed a decline in sales by value in the year to the 3rd of January 2015 of 6% in Wales/West, whereas non-organic sales decreased by 2.2% and organic sales in the whole of the UK suffered only a 2.4% decline in value. Looking at specific products, two categories that are produced in Wales were particularly badly affected: organic lamb sales by value showed a large decrease (-15.6% in Wales/West and -9.2% for the UK) and organic beef sales also dropped more in Wales/West (-8.5%) than in the UK as a whole (–3.6%). These decreases in sales have occurred despite consumer research from BOBL which indicates that around a third or more of households buy organic beef (40%) and lamb (32%) with taste being among the reasons consumers give for buying it.

According to industry experts, a substantial proportion of red meat produced in Wales is sold outside Wales, so the confidence of producers is affected by sales trends in the UK as whole and not only by sales in Wales. The BOBL red meat report estimated that approximately 63% of Welsh produced sheep meat and 89% of Welsh produced beef is consumed elsewhere in Britain[11]. On the other hand, organic meat is the most important product category for farmers selling directly e.g. from the farm gate, through farmers' markets and by internet/mail order (see Chapter 5.1).

Comments from industry experts suggest that there are successful examples of producer groups supplying organic red meat to supermarkets using integrated supply chains, for example supplying Waitrose with organic Welsh lamb. On the other hand, many organic beef and some lamb producers lack long-term confidence to stay within the industry at present. A number of factors contribute to this, such as lower requirements from supermarket buyers for organic animals because of competition from other high value meat brands (e.g. Aberdeen Angus beef), seasonal fluctuations in demand not fully matched to supply which lead to feed supply and cash flow problems, low premiums over conventional and price fluctuations.

Overall comments seem to suggest that reduced sales in this sector in the Wales/West region could be turned around with a more targeted effort in marketing and coordination. A number of specific suggestions were made:

- Collation of numbers of slaughtered animals per month from the abattoirs could improve the forecasting of volumes required and could provide producers with more guidance regarding finishing times.
- Formation of a network of producers linking store lamb and beef producers to organic finishing holdings could allow the premium to be retained in Wales.
- Gaining a better understanding of consumer attitudes to organic red meat compared with competing products could lead to greater clarity of advertising messages and targeted promotion for organic red meat products from Wales.

6.5. Outlook into future

Policy

For the first time since 2008, the UK organic market is back to growth, and this report demonstrates that there are further opportunities for growth for Welsh organic products in the future. Organic food and farming has a great deal to offer for Wales in addressing the challenges of sustainable food production, such as climate change mitigation, food security, animal health and welfare, building resilience into agriculture and food systems,

[11] BOBL (2010): Market Review of the Organic Red Meat Sector in Wales, 2009: Summary and conclusions.

protecting and enhancing biodiversity, protection and sustainable use of natural resources/ resource efficiency, community development and many others frequently referred to in strategic documents. The contribution that organic farming makes to all these key areas is well documented and widely accepted[12]. This forms the basis on which governments across Europe have invested significant resources into supporting organic systems.

The overall strategic aims of the new Rural Development Plan for Wales are consistent with those of organic food and farming, and the scope covers production, processing and retailing. This offers opportunities to develop not only production but also the processing and retailing of organic food in Wales in the near future. The organic sector could also make a contribution to delivering some of the action points of the Food and Drink Action Plan, such as increase sales of Welsh produce to supermarkets (Action 43), collaborate with sector partners on joint market development and promotional activities (Action 33), sustainable jobs & "green growth" (Action 44), reduced ecological footprint (Action 46), national food and nutrition strategy (Action 39), and to the Levy hub with the aim of using levy money to the Welsh food industry's best advantage (Action 15).

The 'European Innovation Partnerships' and 'Horizon 2020' offer direction and funding for research and development and present new opportunities for organic and agro-ecological projects. Further opportunities may emerge in terms of public procurement, catering, internet sales and community based food systems to name a few potential areas.

Supermarkets

The Nielsen Scantrack data for Wales/West show that this region is slightly underperforming in organic relative to its overall share of the food and drink sales through supermarkets. This gives an opportunity of £8.3m additional sales, if Wales/West was performing at fair share. In particular, there a number of product areas where organic sales in Wales/West underperform (i.e. they make up a much lower proportion of organic sales than they do of non-organic sales), such as frozen foods; beers, wines and spirits; and confectionery and soft drinks, that all provide opportunity for new products and innovation.

One of the reasons for organic sales underperforming in Wales compared to the non-organic food market could be the lower presence of some supermarkets that nationally overtrade in organic compared to their market position, in particular Waitrose and Sainsbury's. Future trends for organic sales through supermarkets in the UK may also be impacted by the growth of general sales through discounters such as Aldi and Lidl, as experience in Denmark has shown.

Sales outside supermarkets

The results of the surveys of organic producers and of organic businesses provide ground for some optimism. Producers who market directly generally seemed to be reasonably

[12] Lampkin, N.H., Pearce, B.D., Leake, A.R., Creissen, H., Gerrard, C.L., Girling, R., Lloyd, S., Padel, S., Smith, J., Smith, L.G., Vieweger, A., Wolfe, M.S., 2015 submitted. The Role of Agroecology in Sustainable Intensification. Report to SNH as a member of the Land Use Policy Group. Inverness: Scottish Natural Heritage.

Padel, S., Vieweger, A., Nocentini, L., Devot, A., Schmid, O., Stolze, M., 2013. Adequacy of the production rules In: Sanders, J. (Ed.), Evaluation of the EU legislation on organic farming-Study Report Braunschweig: Thünen Institute of Farm Economics pp. 73-130. http://ec.europa.eu/agriculture/evaluation/market-and-income-reports/2013/organic-farming/chap7_en.pdf positive about the future, with more than 30% expecting direct sales to increase, and just over half anticipating that they would maintain their current level of direct sales in the near future. More than 70% of those involved with direct sales were expecting to definitely or probably continue to do so in future.

The respondents to the organic business survey were equally positive. Those who quantified their expectation predicted sales to grow by an average of 13% with predictions ranging from 5% to 40%. When asked about the Welsh organic market in general, they believed that Welsh organic products have a good or excellent reputation.

Production

Opportunities arise with the new Rural Development plan for Wales 2014-2020, with a budget of nearly £1 billion. As part of this a new **Glastir organic scheme** was launched in the autumn of 2014 with improved payment rates compared with previous schemes and 467 signed contracts have been returned to the Welsh government with a few additional applications still pending a final decision.

With the new programme in place the organic supply chain in Wales can be confident of the potential production in Wales between now and 2020 giving greater certainty to those in the market place as to what supplies are likely to be available in the future. This was confirmed by the 2014 Welsh organic producer survey, a majority indicated their commitment to organic farming for 5 years or more with some variation between the different sectors.

Industry experts suggest that there is a need to stimulate Welsh Organic arable land through Glastir to encourage farmers to produce their own cereals and root crops. This would allow producers to reduce their carbon footprint and maximise the use of high sugar grasses in red and white clover leys, making beef and lamb production more efficient.

Marketing and promotion

In both the survey of organic businesses and the producer survey, the topics of promotion and marketing of Welsh organic products are raised with respondents suggesting that further marketing and promotion is needed to increase sales.

Industry experts suggest that in-store promotions may be useful; carefully aimed promotions can drive increases in sales volumes for the promoted products but also allow buying organic products to become the norm. The effect can then extend to other organic products which were not part of the original promotion.

The Organic Trade Board suggests that in those areas where organic products are underperforming in Wales in particular (such as red meat) there may be an opportunity for retailers to introduce more organic lines. Their research suggests that consumers are often held back from buying organic products by lack of availability. They also suggest that products that combine being Welsh and being organic should be clearly signposted in store so that consumers can purchase food that is both organic and local.[13]

[13] Presentation of Wendy Dunn Research at Organic Trade Board briefing on 4 March 2015

Wider, more general marketing is also suggested as a means of increasing sales. Industry experts suggest that the strong Welsh tourist industry could be used to promote Welsh organic food. The rise of agri-tourism is suggested to offer a valuable opportunity to offer a food to fork experience with a hands-on approach encouraging the tourists to get closely involved with the family farm. It is suggested that such an approach could then be extended, taking the same message and promoting champions of the industry, going into schools and supermarkets, promoting seasonal freshness and eating experiences. It is suggested that in this way the barriers to purchase, such as the perception that organic food is too expensive, could be broken down.

Additionally, more formal and highly orchestrated marketing campaigns for Welsh organic products may be possible. The Organic Trade Board has run a six year generic promotion campaign for organic food, match funded by the EU and worth €3.6m[14]. The campaign has led to excellent results in changing attitudes to organic products and growing organic sales. Wales could take advantage of the reform of the fund which means that match funding will be available at 20%:80% in 2017 rather than 50%:50%. This would give greater opportunities to promote organic products in Wales and beyond using a Wales-specific campaign backed by industry. The Organic Trade Board is willing to work with partners in Wales to make a bid a reality. If they are successful then such a promotion campaign should raise the profile of Welsh organic products in the future.

6.6. Key conclusions

- Organic products represent a real business opportunity. The value of the organic market in Wales/West through all channels is estimated to be in the range £100m-140m.
- Organic producers and processors in Wales are trading with supply chain partners in the rest of the UK and beyond. A substantial proportion of Welsh organic production (in particular for red meat and dairy) is sold or processed outside Wales. Industry comments suggest investment in processing capacities suitable for this specialist market could further improve the growth potential of the sector.
- Wales/West is slightly underperforming in organic relative to its overall sales of food and drink sold through supermarkets. This represents an opportunity of £8.3m for retailers, if Wales/West was performing at fair share.
- A high percentage of Welsh organic businesses surveyed have reported positive news in 2014 with 53% reporting increased sales in this period: they have credited this to both new customers and a rise in demand for organic. The majority of businesses also expect their sales to rise in the year ahead (55%) or stay the same (42%). This gives a positive outlook for the trends in 2015 and concurs with the overall picture for the UK.
- A high share of primary production in organic horticulture is sold directly (more than 50%) and meat is also an important product category among producers adding value by selling directly, through a farm shop, mail-order or farmers' markets. In addition to organic certification, provenance is a very important sales argument in direct selling. Welsh organic businesses also engage in independent retail, box schemes, online and mail order and catering and food services.
- **Dairy** is a key sector for organic within Wales/West, similarly to the rest of the UK. With supply and demand broadly in balance, organic production appears to contribute to resilience of primary production. Well-known Welsh organic dairy brands are Calon Wen, Rachel's, Daioni, Caws Cenarth and Hafod Cheese. There

[14] https://www.organictradeboard.co.uk/Our%20Work/

is potential for organic dairy products to be given even more profile in Wales and to drive further growth within the region. Comments from industry suggest that investment in processing of an appropriate scale for this specialist sector could support this.

- Produce (**vegetables, fruit and salad)** is important in organic production, with 18% of all Welsh horticulture managed organically. Produce is also an important category of sales in supermarkets and the first point of contact for many consumers, but sales declined in Wales/West in the last year. For Welsh organic horticulture sales outside the supermarkets are very important. The share of organic produce sold by Welsh producers through direct marketing is higher than 50% with even higher shares for certain products and for market gardens. There appear to be opportunities to increase sales even further, which could benefit existing organic producers if they diversify into field-scale vegetable production or team up with experienced growers to bring more land into organic vegetable production.
- Organic **meat, fish and poultry** sales account for 9% of organic sales in supermarkets in the Wales/West region, but sales declined more in Wales than in the rest of the UK. Red meat produced in Wales also goes into supply chains outside of Wales, but many beef and lamb producers lack confidence in the security of demand throughout the year. Comments from industry experts suggest that this could be turned around with a more targeted effort in coordination between store producers and finishers, better insight into trade volumes throughout the season and targeted promotion of organic red meat from Wales with the support of the levy boards.
- The overall strategic aims of the new Rural Development Plan for Wales are consistent with those of organic food and farming and the scope covers production, processing and retailing. It is therefore recommended to make use of the opportunities to develop not only production (through the new Glastir Organic scheme) but also processing and retailing of organic food in Wales in future.
- Comments from industry experts and organic businesses suggest that growth will be supported by increased marketing and promotion, a prompt to the industry to be more specific about communications on organic within the region.
- Targeted promotion and marketing combining arguments about provenance from Wales and organic quality and certification would help promote the excellence of Welsh organic products. A generic Welsh Organic promotion campaign making use of the EU promotion fund in collaboration with the UK organic naturally different campaign of the Organic Trade Board could be explored. This could raise the profile of Welsh organic products in the diverse outlets of the Welsh organic market.

Appendix A: Methods

The report combines data from three main sources:

1. Nielsen Scantrack data which covers sales through all major food and drink retailers (with the exception of the discount sector e.g. Aldi and Lidl). For the purpose of this report the data covers Wales/West and is for the year to 3rd January 2015.
2. Surveys of Welsh organic businesses (independent retailers, processors, box schemes and others) carried out by the Soil Association in early 2015 relating to the market in the calendar year 2014.
3. Additional data from the Welsh producer survey carried out during November 2014 by Aberystwyth University on behalf of Organic Centre Wales.

It should be noted that it is not possible to just total up the three sources as there might be some overlap between these surveys. For examples, farmers making direct sales may have answered both the Welsh producer survey and the survey of Welsh organic businesses, and processors/wholesalers who have answered the survey of organic businesses may supply products which are then sold in supermarkets and so are picked up in Nielsen's Scantrack data. There is also the possibility of missing data as the surveys of organic businesses and organic produces are unlikely to have received responses from 100% of the organic businesses and organic producers in Wales (see below). However, the combination of these data sources provides the fullest picture of the state of the Welsh organic market for analysis available at present.

The **Nielsen Scantrack data** covers the geographical area that was covered by the former ITV television region HTV. As such it includes some retailers in the west of England including retailers based in Bristol. However it is probable that both consumers and products for retail regularly cross the border between Wales and the west of England. No attempt has been made to "correct" the figures to give solely Welsh retail sales as this would require an estimate based on e.g. population sizes and would not necessarily give a greater level of accuracy. In particular it is possible that organic sales in Bristol may exceed the value that would be expected from population size alone due to the Soil Association's presence in the city and so its greater involvement in activities to promote organic food. Therefore the data for sales through supermarkets (multiple retailers) quoted in this report are for Wales/West. However, the data do provide a good insight into the likely trends of organic sales in Wales/West for the last 12 months.

The Nielsen Scantrack data included organic and non-organic sales by value in Wales/West, broken down into a number of categories (e.g. dairy, produce, frozen) with some more detailed information by product/sub-category (e.g. milk, cheese, fruit). The analysis also included comparative data provided by Nielsen Scantrack data for the same period (52 weeks to 3rd January 2015) for the whole of the UK. The figures shown in Section 3 are based on these data. It should be noted that as these are sales by value, movements in sales may be due to changes in sales volumes or changes in sales prices.

The Soil Association carried out a **Survey of Welsh Organic Businesses** using the online survey provider SurveyMonkey. The survey was sent to approximately 85 processors, 200 producers and 60 independent retailers. Responses were received from a total of 38 organic businesses. The respondents were asked about the proportion of their sales that were organic and that occurred in Wales, the sales channels that they represent, their product sectors, movements in sales in the last year and predictions for the year ahead, their opinion of the reputation of Welsh organic products and suggestions for approaches to help sell more organic products in Wales (including a free–text box for additional suggestions). Section 4 summarises the results from these responses.

Organic Centre Wales carries out annually the **Welsh Organic Producer Survey** (see Section 5). The 2014 Welsh organic producer survey was undertaken via telephone during mid-November. Contact details for a total of 715 Welsh organic producers were identified, and 519 producers were contacted (73%). This resulted in 438 completed surveys as 69 producers had decertified from organic farming or retired, with only 12 producers declining to participate. Of the 438 producers responding to the main survey, 56 Welsh producers answered questions related to direct sales from their farm. The results provide information about production, numbers of animals and crops sold, and future intentions of producers regarding remaining in organic production. The survey also included a specific section for producers engaging in direct sales, with questions about turnover, content of sales, the proportion of sales that are made directly, predictions for increases or decreases in direct sales in the near future, plans to remain in direct sales, and marketing issues. There was also a free-text box for any additional comments on direct sales. Section 5 summarises the results from these responses.

With regards to the **graphs** based on the results of the surveys of organic businesses and organic producers, where respondents could only select one option in answer to a question the graph shows the percentage of respondents selecting that option; where more than one option could be selected the graph shows the number of respondents choosing that option.

An early draft of the report was sent to **Welsh organic sector experts** (producers and others working in the sector) and commentaries were requested on some of the movements reported e.g. declines in supermarket sales in the red meat sector. These comments were used to inform the conclusions and recommendations section of the report.

The value of **Total Organic Market** is estimated by combining the results from these three data sources (Nielsen Scantrack data and the surveys carried out by the Soil Association and Organic Centre Wales). Several different approaches to estimating the total market were used. These included: totalling the values of the reported turnovers in the organic business and organic producer surveys and adding them to the figure for sales through supermarkets; and extrapolating up from the figure for sales through supermarkets to estimate the total market based on an assumed 70%[15] of organic sales occurring through supermarkets. The figure obtained was double-checked using the Soil Association's estimate of the entire UK market in 2013, the proportion of sales occurring in Wales/West and the growth rate in sales in Wales/West from 2013 to 2014. The different calculations all gave figures in the range £100 million to £140 million.

[15] Calculated for the UK as a whole in the Soil Association Organic Market Report 2015, https://securepayment.soilassociation.org/page/contribute/organicmarketreport2015