

An Organic Path to Value

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Agenda

- Organic market overview
- Kalsec[®]'s path
 - **Research**
 - Identify gaps
 - Market approach

What I won't be talking about:

- Challenges
 - Raw material availability
 - Seasonality
 - Small volumes
 - Limited varieties
 - Microbiological reduction issues
 - Lack of global standards
 - Differences between certifying bodies
 - Certification issues with supply chain
 - And the list goes on...

Organic market overview:

- Organic Food and Beverage Sales
 - Global market size
 - \$38.6 billion (2006)
 - 16% growth rate
 - Demand is concentrated in US & Europe
 - US market size
 - \$17 billion (2006)
 - Approximately 21% growth rate

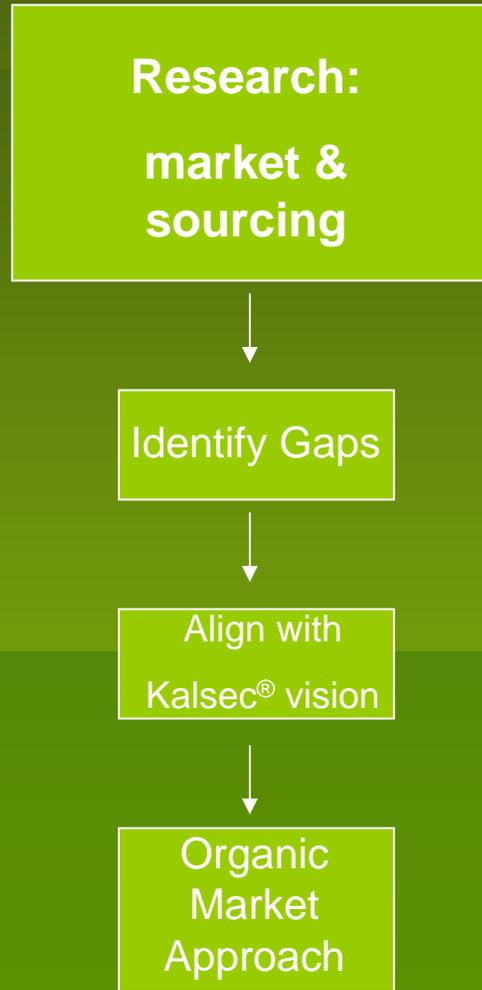
Approximately 3%
of the total food
and beverage
market

Organic market and spices:

Spice and Herb Market Size



Kalsec[®]'s path:



The research:

The different meanings of organic in the industry

The staying power of organic

Other “trends”, ie carbon footprint, buying local

Pricing & Availability

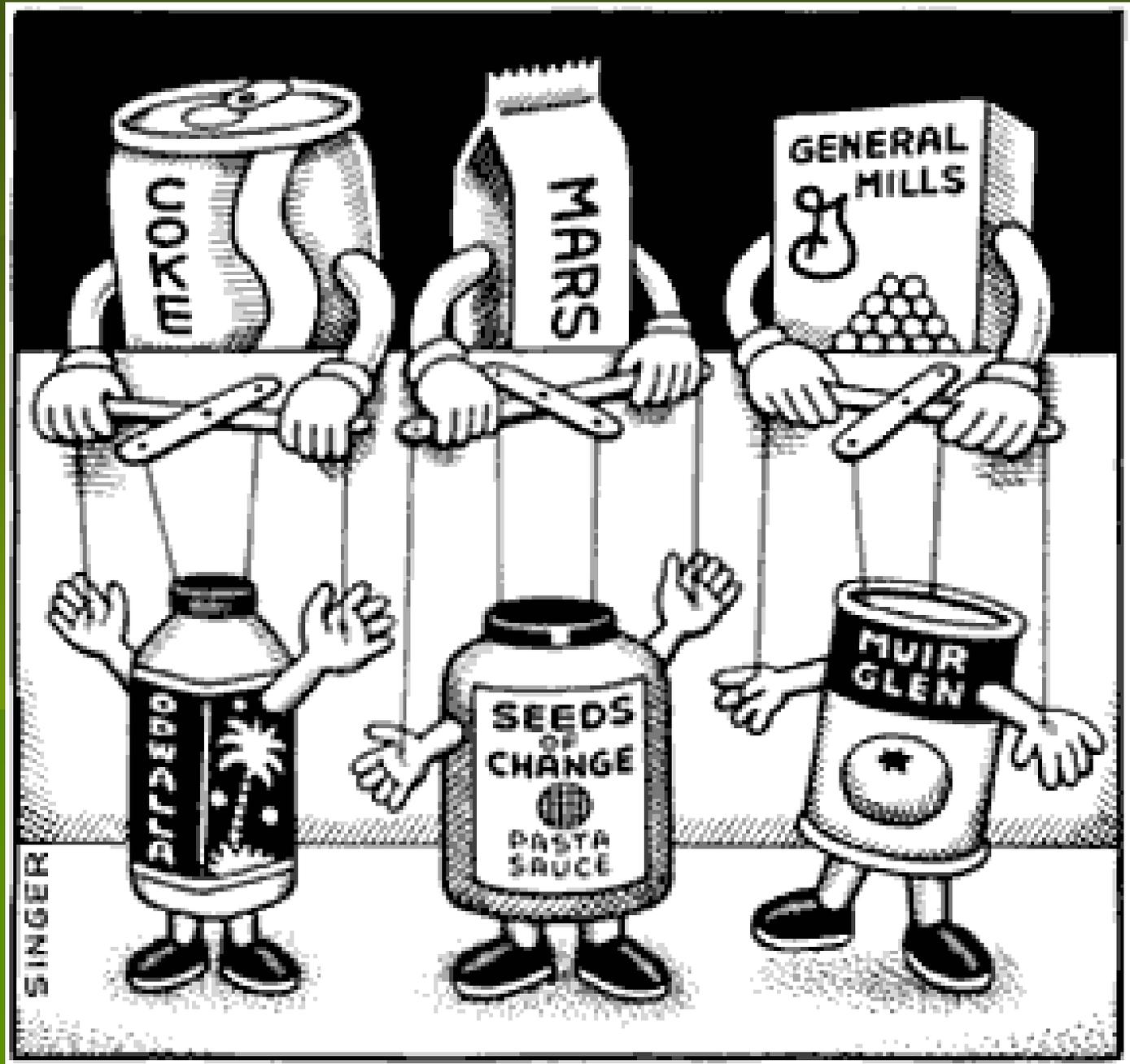
Doing the research

Kalsec[®]'s Organic Approach

The meaning of organic:

- Historically
 - Originated from consumer interest in more healthful, nutritious products.
 - Unadulterated by potentially harmful additives
 - Nutrient content has not been degraded
 - Organic is an agricultural process
 - Philosophy vs. science

“Everything eventually morphs into the way the world is.”
George Kahn, Cascadian Farms Founder



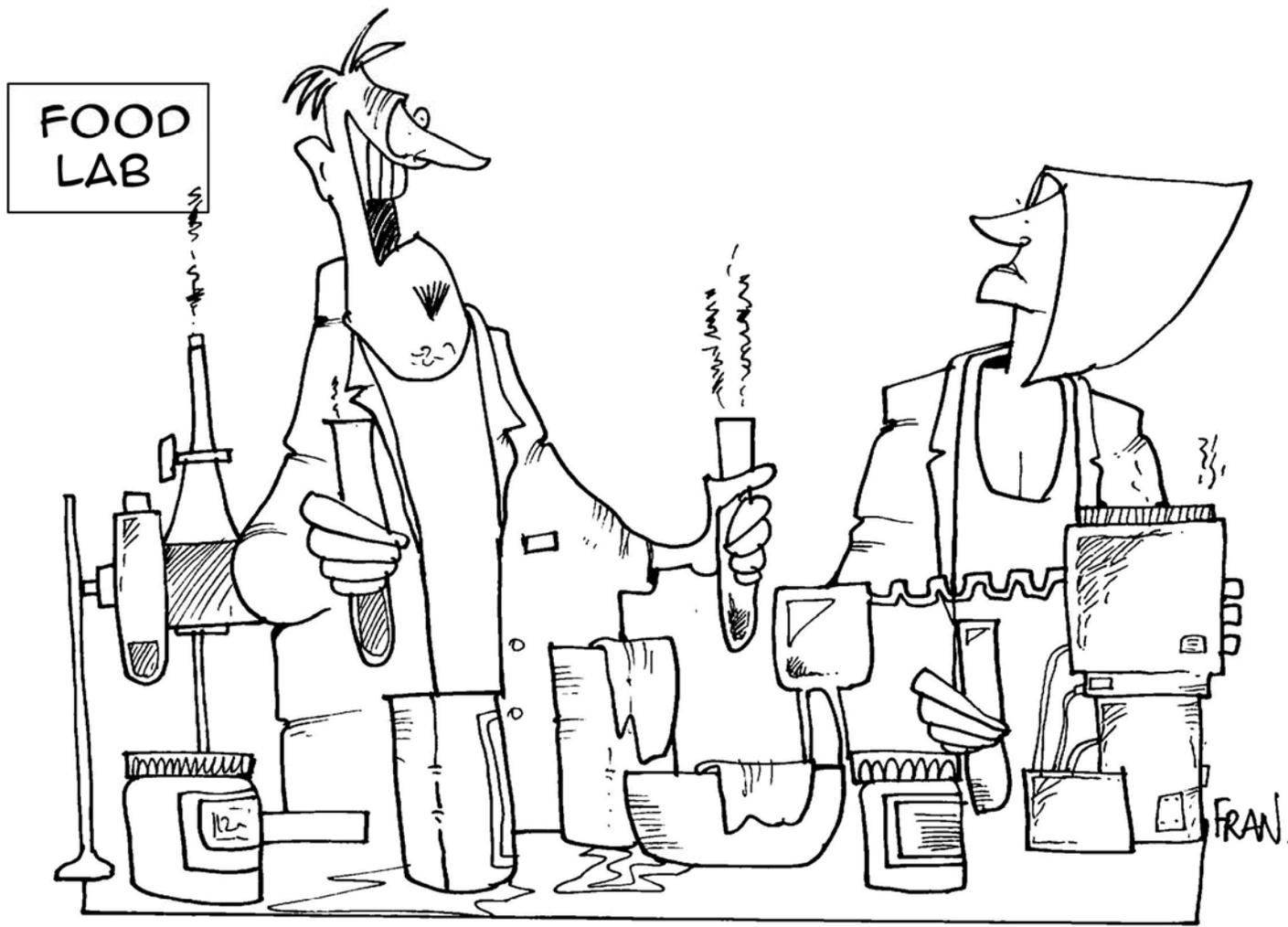
SINGER

The meaning of organic:

- Today
 - “Industrial organic”
 - Two International standards
 - IFOAM Basic Standards
 - Codex Alimentarius Guidelines
 - Sixty-four regulations and growing
 - US, EU, Japan
 - Consumers
 - Healthy and more nutritious

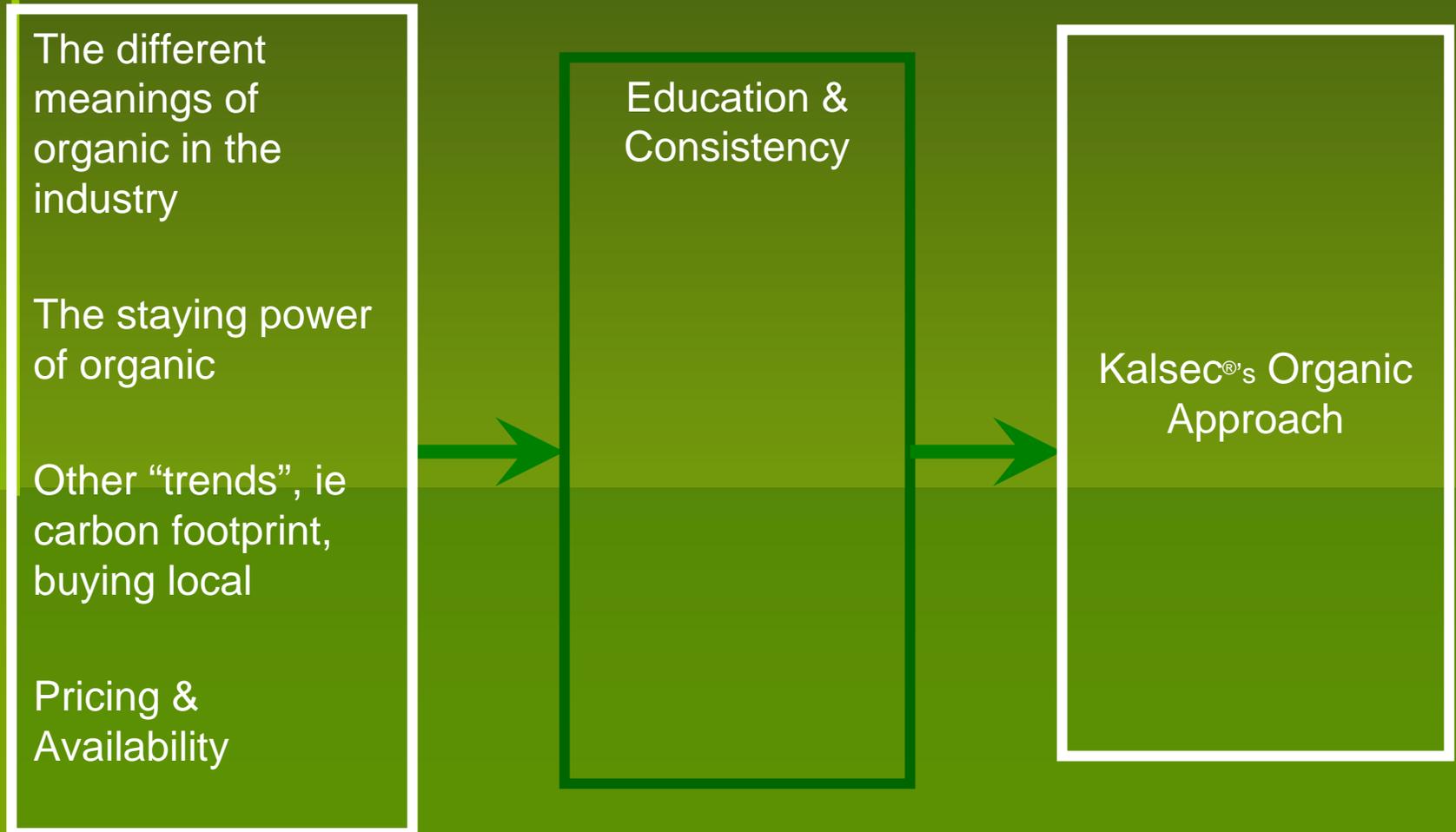
The consumer on organic:

- Mintel Report
 - Two thirds of respondents who purchase organic products, define organic as:
 - Made without artificial flavors or ingredients
 - Products that are environmentally friendly
 - Pesticide free
 - GMO free



EUREKA...IT'S THE 'NATURAL' FLAVOUR WE'VE BEEN LOOKING FOR

The issues:



The staying power of organic

- Fad

- A **fad** is something that is very popular with a small group of people for a short period of time.

- Trend

- A **trend** is something that becomes popular within mainstream society over a long period of time. It is the direction of a sequence of events that has some momentum and durability.

Consumer activity:

- The Natural Marketing Institute (NMI) most recent *Health & Wellness Trends Database* survey shows:
 - Total organic household penetration across six product categories is up from 57% in 2006 to 59% = consumer integration of organic into their lifestyles is growing
 - The number of core users has grown.

	2006	2007
Devoteds	16%	18%
Temperates	22%	22%
Dabblers	44%	41%
Reluctants	18%	19%

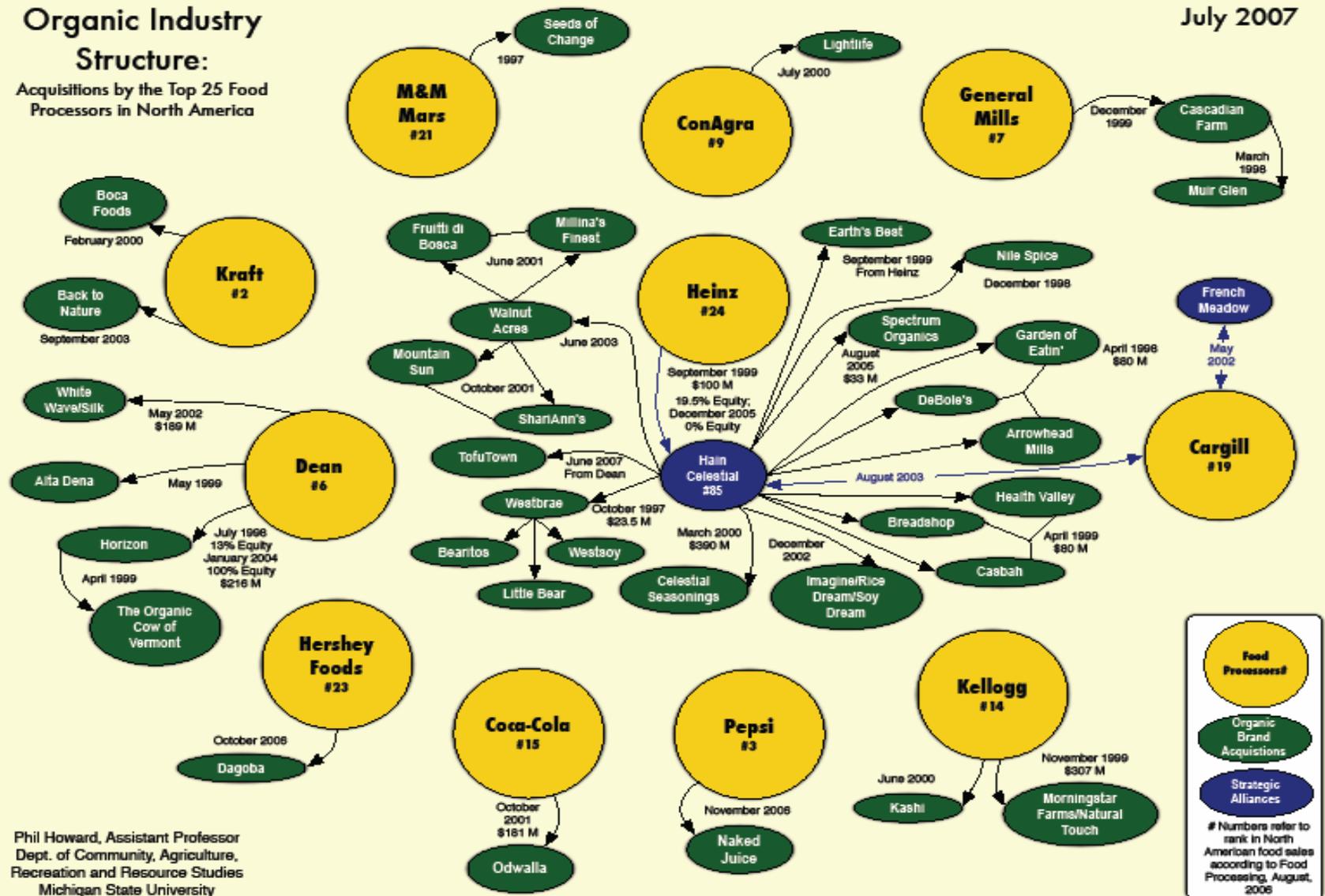


“You may not feel any healthier right away, but you’ll definitely feel more smug.”

Industry activity:

Organic Industry Structure:

Acquisitions by the Top 25 Food Processors in North America



Retail activity:

- Whole Foods - Wild Oats
 - Consolidation
 - Industry standards
- The Kroger Co.
 - Expanding its Private Selection organic food line by 60 products
- Wal-Mart
 - Organic
 - Green

Trend or fad?

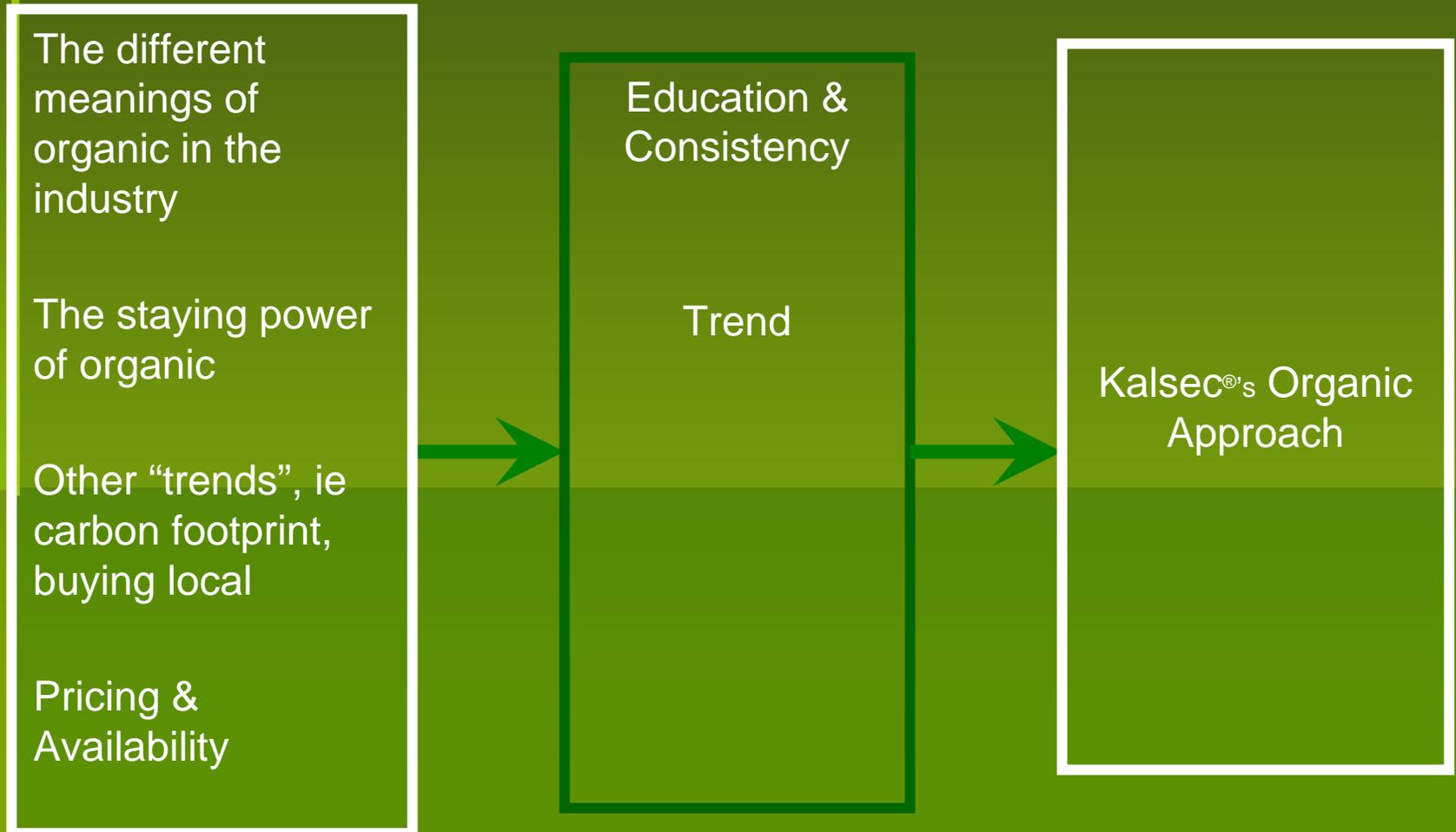


Consumer

Industry

Retail

The issues:



Other trends to consider:

- Carbon footprint
 - The measure of the impact human activities have on the environment in terms of the amount of green house gases produced, measured in units of carbon dioxide
- Buying local
 - Support for the small to mid-scale family farms

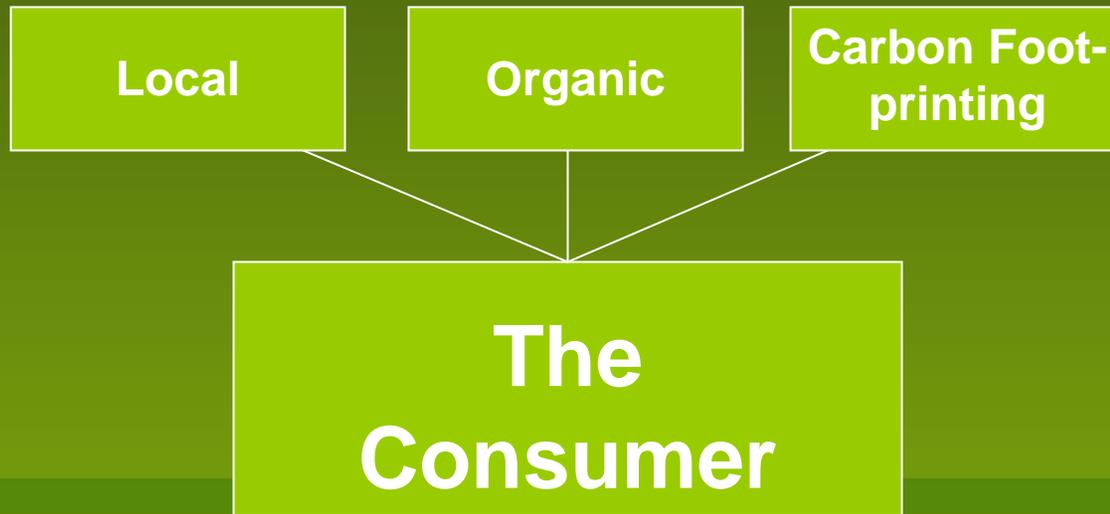
What is the impact?

COUNTERTHINK



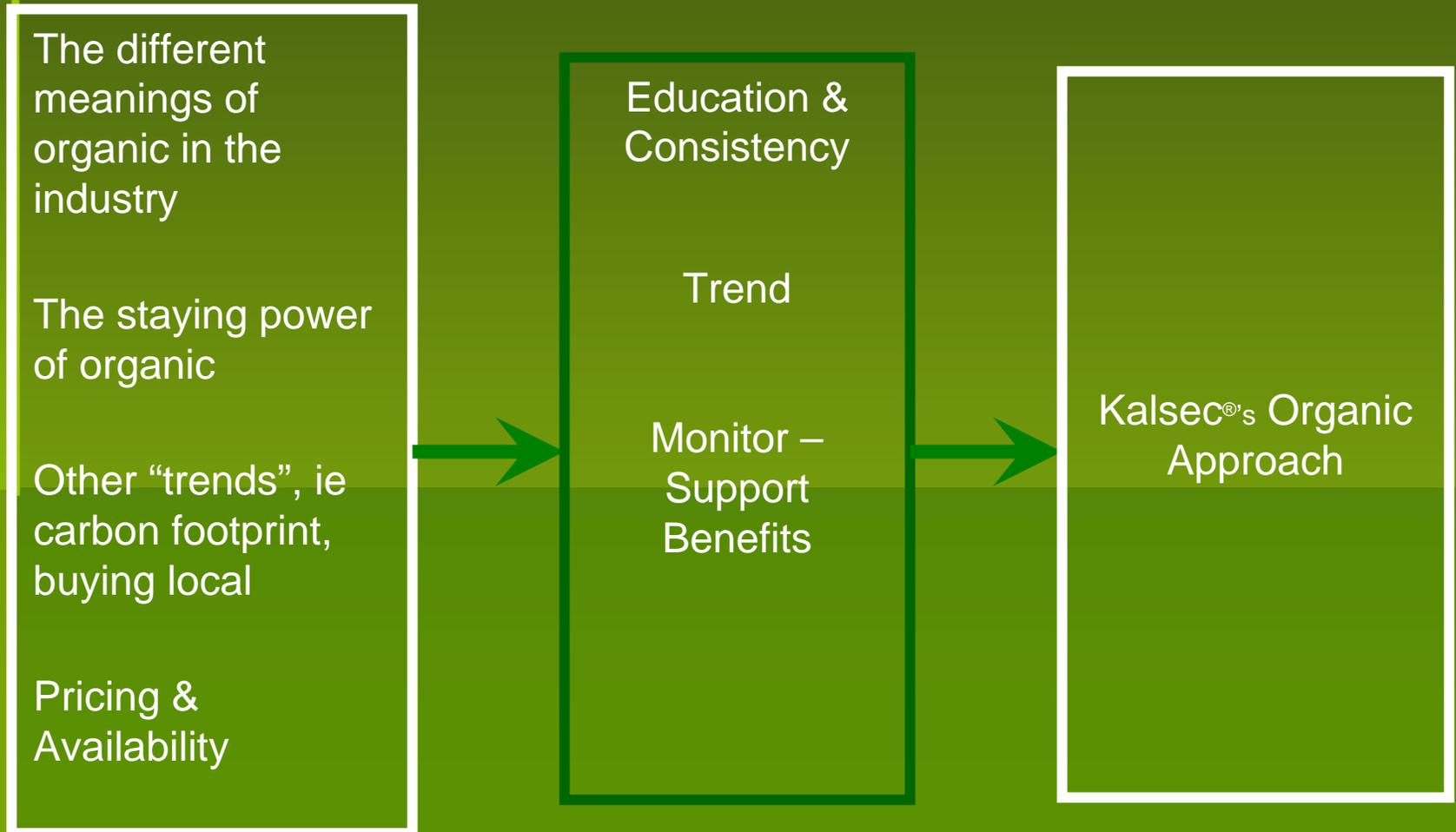
REMEMBER: YOU VOTE WITH YOUR DOLLARS. WHAT YOU BUY IS WHAT YOU ENCOURAGE.

What is the impact?



- Promote a variety of goals to the full extent possible.

The issues:



Pricing & Availability

- Price premium
 - Reflect same costs as conventional
 - Growing
 - Harvesting
 - Transportation
 - Storage

} More labor and management intensive
 - No accounting of indirect costs
 - Clean up of polluted water
 - Replacement of eroded soil
 - Consumers
 - Need to shift the dabblers and reluctants
 - Shrinking of the price gap between conventional and organic

BALDWIN

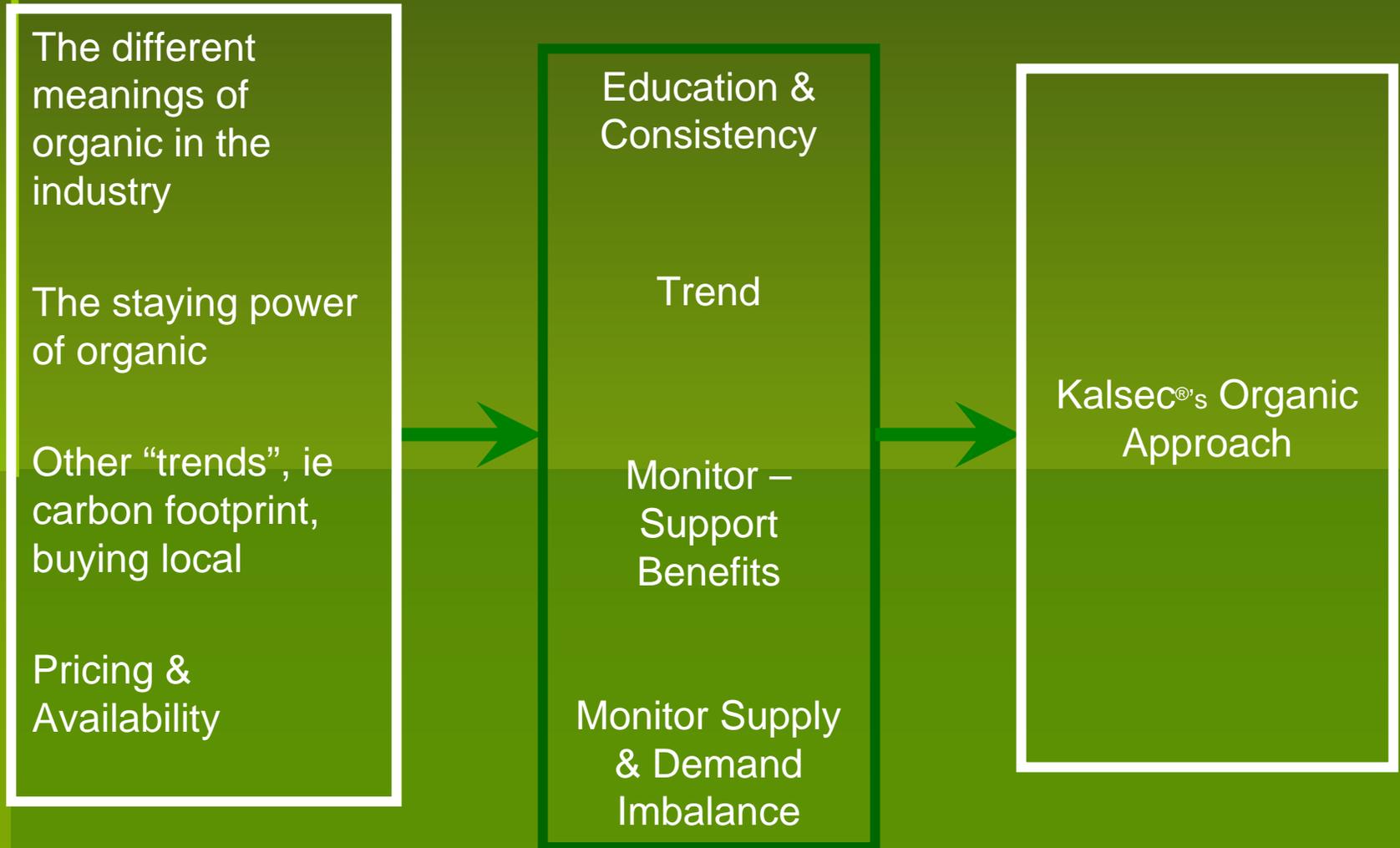


“Sure it costs more. We have to squash bugs by hand.”

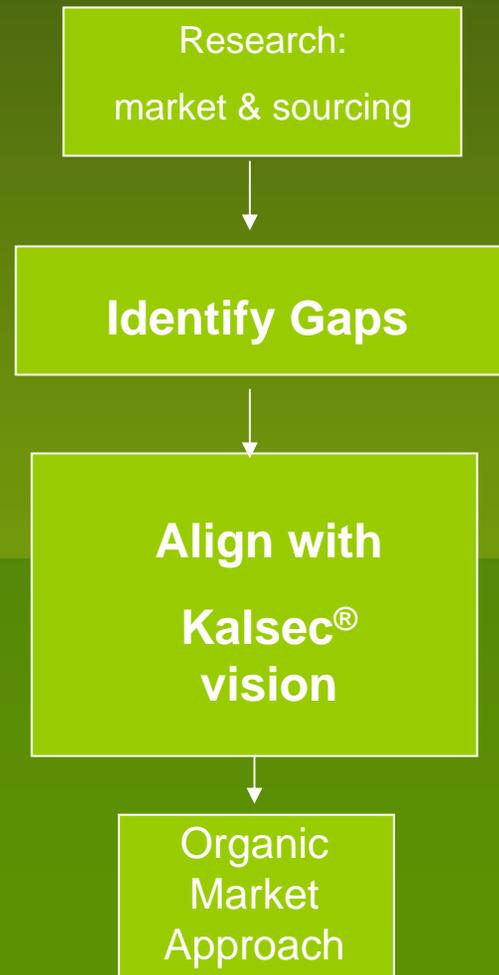
Pricing & Availability:

- Availability - Yield gap
 - Organic farming yields just 1/3 or 1/2 of conventional farming
 - Conversion to organic production often results in lower yields in the first few years
 - Recent studies suggest a tighter yield gap
 - Corn – organic yields were 94% of conventional
 - Wheat – organic yields were 97% of conventional
 - Soybeans – organic yields were 94% of conventional
 - Tomatoes – no yield difference
 - Spice and herb crops
 - Use modest amounts of plant nutrients
 - Yield differentials should be small

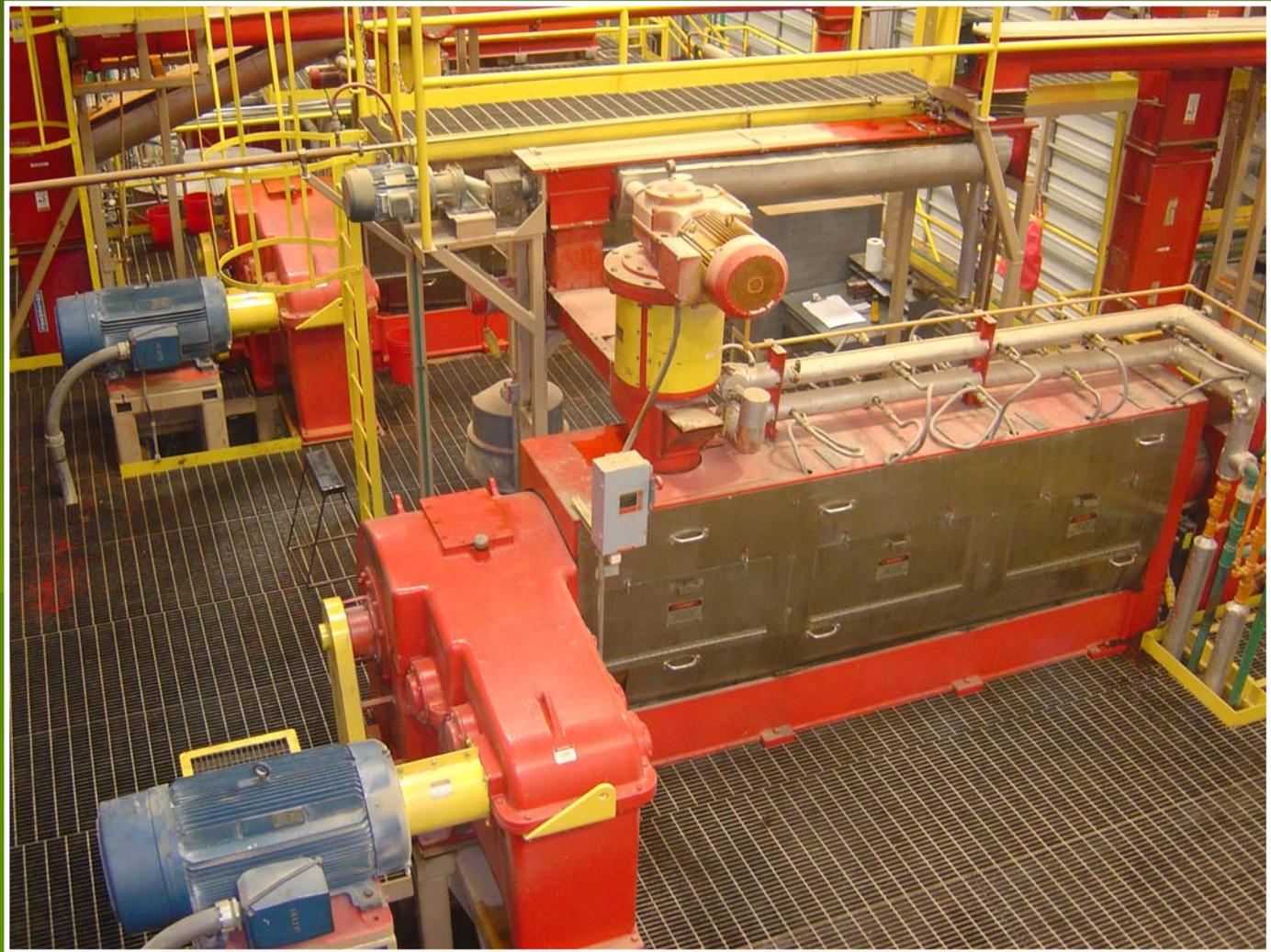
The issues:



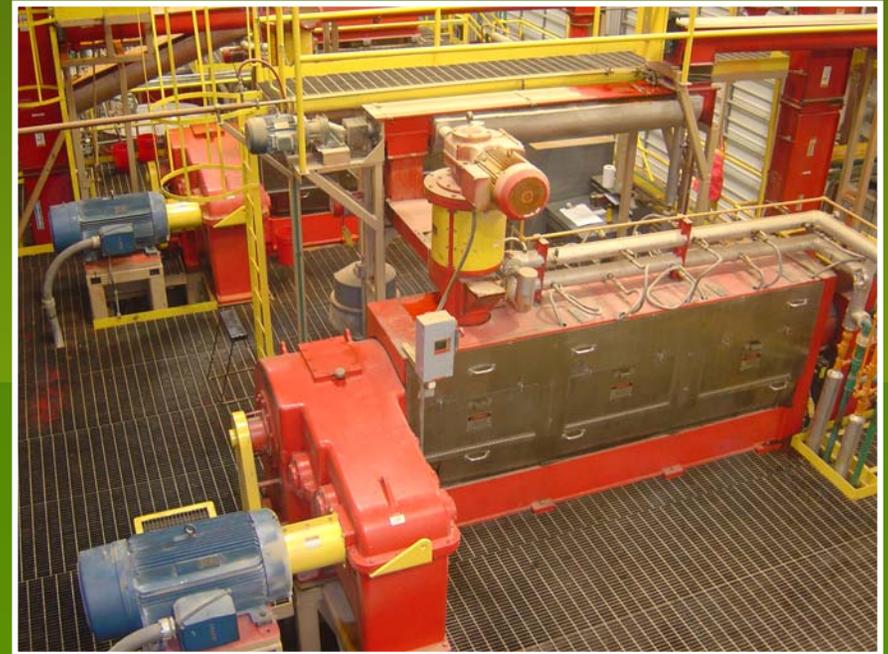
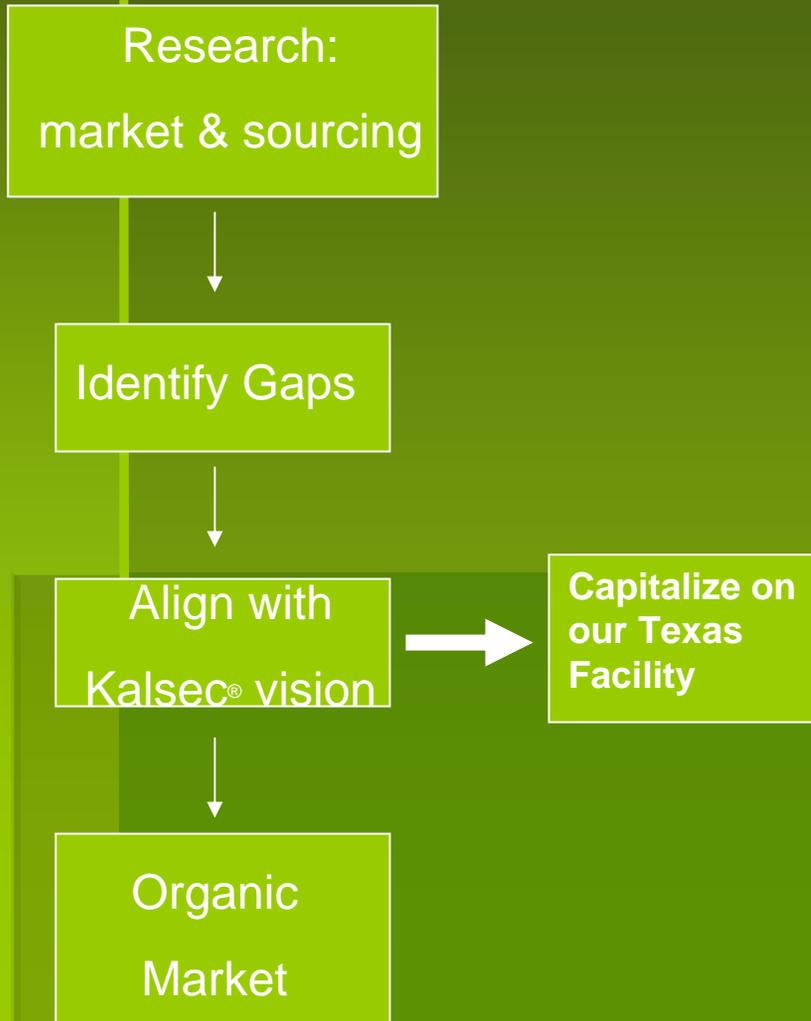
Kalsec[®]'s path:



Kalsec[®] Southwest:



Kalsec[®]'s path:



QUESTIONS