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NEWS: ANALYSIS & COMMENTARY

# Alfalfa Sprouts, Aisle 78

By Pallavi Gogoi

## Wal-Mart's move into organic foods has small farmers and the health-conscious bristling

Organic is hot. You might think this would make small organic farmers happy. Well, they're not. Giants such as Kraft Foods Inc. ([KFT](#)) and Dean Foods Co. ([DF](#)) have grabbed a large chunk of the market, and now retail juggernaut Wal-Mart Stores Inc. ([WMT](#)) plans to double its selection of organic offerings. "Wal-Mart has the reputation of beating up on its suppliers," says Richard DeWilde, an organic farmer who grows Swiss chard, parsnips, turnips, and kale on 100 acres in Wisconsin. "I certainly don't see 'selling at a lower price' as an opportunity."

Price pressure isn't the only thing that worries DeWilde. He and other farmers fear that the corporate giants could try to water down the standards for what is classified as organic food, which would facilitate more imports. "Wal-Mart already sources a majority of its products from China. Why not foods?" asks Ronnie Cummins, director of the Organic Consumers Assn. (OCA), a nonprofit group that promotes natural and organic food.

Wal-Mart didn't return phone calls seeking comment. But CEO Lee Scott has been clear about his company's goals. "We don't think you should have to have a lot of money to feed your family organic foods," he said at the company's annual meeting last year.

It's easy to see why the big boys are salivating over the organic market. It has grown 20% annually for five years, compared with 3% to 4% for the industry as a whole. And it's highly profitable. According to an OCA study, consumers are willing to pay 50% more for foods that have not been genetically modified.

Import worries are not unfounded. Cummins estimates that 10% of organic foods like meat and citrus come from abroad. Dallas-based Dean Foods, the biggest U.S. milk producer, buys organic soybeans from China and Brazil to make its best-selling Silk-brand soy milk.

Anxiety about standards is also legit. Large companies have already flexed their muscles in Washington. Last fall, the Organic Trade Assn., which represents companies like Kraft and Dean, lobbied to allow certain synthetic food substances in the preparation, processing, and packaging of organic foods. That outraged organic activists. Nevertheless, the bill was approved, and the new standards will go into effect later this year.

# Wal-Mart's Organic Offensive

**Not everyone is pleased by the giant retailer's push into natural foods, starting with some very anxious U.S. farmers.**

Richard DeWilde has a long history with organic farming. His grandfather, Nick Hoogshagen, adopted the organic approach five decades ago on his farm in South Dakota, well before it became popular with consumers and fueled the popularity of retailers like Whole Foods Market ([WFMI](#)).

Now, DeWilde, 57, is a working farmer himself, carrying on the family tradition of avoiding pesticides and other chemicals that can contaminate food in favor of a more natural approach. He's co-owner of Harmony Valley Farm, which grows Swiss chard, parsnips, turnips, and kale on 100 acres in the southwestern corner of Wisconsin.

So you might think that DeWilde would be overjoyed at the news that Wal-Mart ([WMT](#)) has finally come around to his grandfather's philosophy. The juggernaut retailer said recently that it plans to double its offerings of organic products, including produce, dairy, and dry goods.

But DeWilde isn't thrilled. Instead, he's dismayed at the prospect of Wal-Mart becoming a player in the organic market. He fears that the company will use its market strength to drive down prices and hurt U.S. farmers. "Wal-Mart has the reputation of beating up on its suppliers," says DeWilde. "I certainly don't see 'selling at a lower price' as an opportunity."

**CHINESE FOOD.** He's hardly the only one. Many farmers who have benefited from the strong demand and healthy margins for organic goods are fretting that the market's newfound success also brings with it newfound risks. As large companies enter the market, from Kraft ([KFT](#)) and Dean Foods ([DF](#)) to Wal-Mart, farmers worry that the corporatization of organic foods could have negative consequences.

Large corporations have taken sizeable steps into the organic market, even if it isn't always obvious from the brands on store shelves. Silk, the best-selling branded soy milk, is a product from Dean Foods, the \$10 billion behemoth that sells the most milk in the country. Cascadian Farms, which makes organic cereal, frozen fruits, and other products, is a brand of cereal giant General Mills ([GIS](#)). And Kraft owns Boca Burgers.

The farmers' concerns go beyond simply pushing down prices. DeWilde and others fear that companies like Wal-Mart could try to lower the standards for what is classified as organic food and begin to import more supplies from China and other overseas markets. "Wal-Mart already sources a majority of its products from China, because it's so cheap to produce anything there. Why not foods?" asks Ronnie Cummins, director of the Organic Consumers Assn., a nonprofit organization that promotes natural and organic food.

**SHIFTING STANDARDS.** The worries that the corporatization of organics could lead to more imports aren't unfounded. Cummins estimates that already 10% of organic foods like meat and citrus are imported into the U.S. Silk soy milk, for instance, is made from organic soybeans that are bought in China and Brazil, where prices tend to be substantially lower than in the U. S. Cascadian Farms buys its organic fruits and vegetables from China and Mexico, among other countries (see BW Online, 3/27/06, ["Imports From China Aren't Pricier -- Yet"](#)).

And large companies have tried to use their muscle in Washington to their advantage. Last fall, the Organic Trade Assn., which represents corporations like Kraft, Dole, and Dean Foods, lobbied to attach a rider to the 2006 Agricultural Appropriations Bill that would weaken the nation's organic food standards by allowing certain synthetic food substances in the preparation, processing, and packaging of organic foods. That sparked outrage from organic activists. Nevertheless, the bill passed into law in November, and the new standards will go into effect later this year.

Organic farmers are straining to meet rising demand, one of the reasons that legislators have been willing to drop certain requirements for organic foods. In the past year, the demand for organic milk outstripped the supply by 10% and created acute shortages. That even prompted organic dairy company Stonyfield Farms to stop producing its fat-free 32-ounce cups of yogurt. Now Stonyfield has resumed its production, but organic milk consumption nationwide is growing 30% annually.

Wal-Mart is making its aggressive move into organics at the same time it's trying to improve its environmental image. Last year, it embarked on a new green policy and has several initiatives to demonstrate how serious it is. The company recently said that it will require that all its wild-caught fresh and frozen fish meet the Marine Stewardship Council's standard for sustainable and well-managed fisheries. Fish accounts for a third of all the chain's seafood sales.

**AFFORDABLE ORGANICS.** While Wal-Mart didn't return phone calls seeking comment, CEO Lee Scott has been clear about his company's goals. "We know that customers at all ends of the income spectrum want organic and natural foods," he said at the company's last annual general meeting.

"But, frankly, most of them just can't afford the high prices the specialty stores charge. Well, we don't think you should have to have a lot of money to feed your family organic foods" (see BW Online, 11/29/05, ["Selling Luxury to the Masses"](#)).

CEO Scott recently bragged about stocking organic cotton yoga outfits at its Sam's Club division. "We sold out in just 10 weeks...by using organic cotton instead of regular cotton, we saved the equivalent of two jumbo jets of pesticides," says Scott.

Scott is also determined to get affluent customers to spend more when they come in to buy basics like detergent at Wal-Mart. And what better way to lure them than with a range of organic produce. After all, organic foods purveyor Whole Foods typically

attracts shoppers who have incomes over \$50,000, while Wal-Mart's customers typically earn around \$35,000 (see BW, 10/24/05, ["Eating Too Fast at Whole Foods"](#)).

**"CREATING MARKETS."** While some farmers are concerned that Wal-Mart may try to squeeze them financially, there could be a more benign impact. Farmers who now use pesticides and other chemicals could turn to organic farming, as they see increased demand. Consider what's happening in California.

Last year, the state showed an increase of 40,000 acres, or 27%, in organic livestock production. The number of acres dedicated to organic vegetable production increased by 5,000 acres, or 12%, according to the California Certified Organic Farmers, an organics trade association. "Strong demand is creating markets here," says Jake Lewin, director of marketing at the organization.

Meanwhile, back in Wisconsin, DeWilde is preparing for warmer weather and the spring planting season. He is worried about how the increasing attention from Wal-Mart and other large companies may change the business of organic foods. Yet he's more convinced than ever of the benefits of the approach his grandfather helped champion. "It's the future of farming," he says.