
USDA/National Organic Standards
Board Dairy Pasture Symposium
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Market Expectation and Perceptions Panel

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Whole Foods Market, Inc.

Market Expectation and Perceptions

- *What are consumer perceptions & expectations about organic?*
- *What are consumer perceptions & expectations about organic dairy & pasture?*
- *What are Whole Foods Market's expectations as a retailer regarding pasture and organic dairy?*



2005 Whole Foods Market

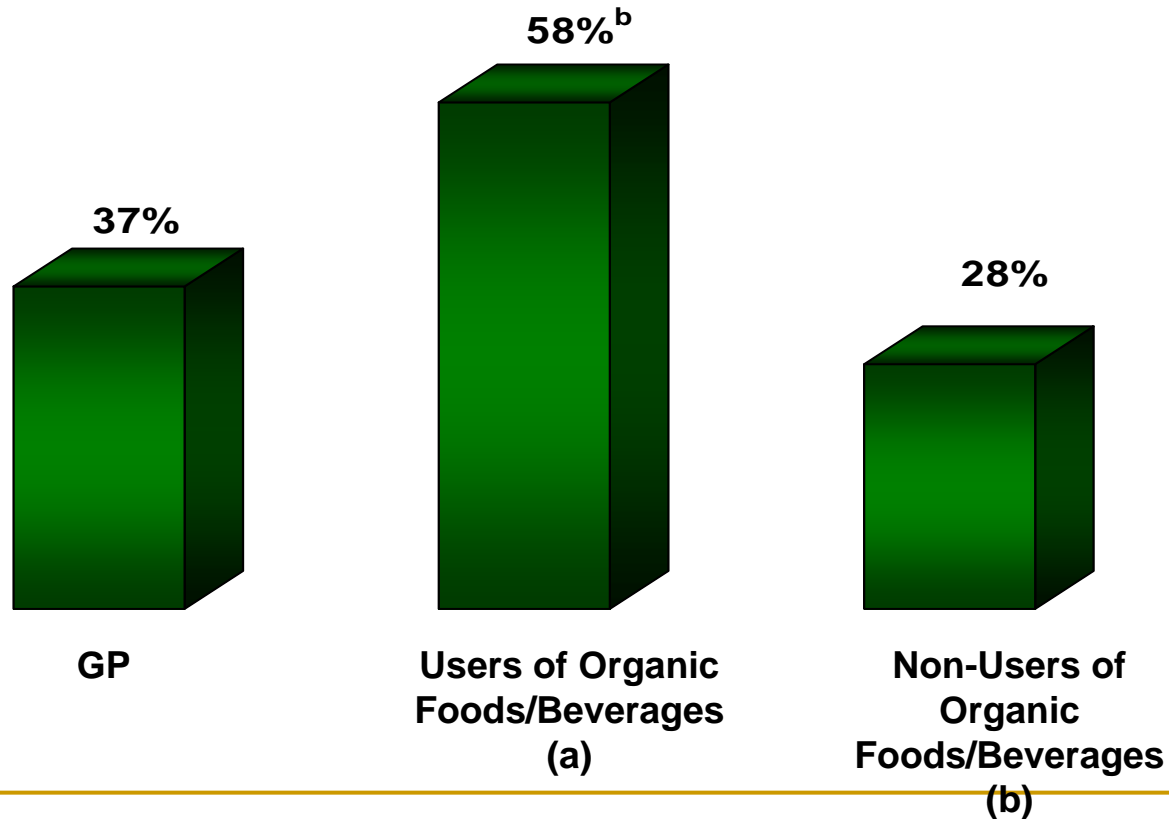
Organic Trend Tracker Results

- Nearly **2/3 of Americans (65%) have tried organic foods and beverages** —jumping from just over half (54%) in both 2003 & 2004
 - 10% consume organic foods several times per week, up from 7% in 2004
 - 27% of respondents said they consume more organic foods & beverages than in 2004
 - * based on survey of 1000 respondents representative of U.S. population
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The Majority of Organic Users Are Aware of The USDA Organic Seal

(% consumer segment who has ever heard of/seen the USDA Organic seal)

Awareness of USDA Organic Seal

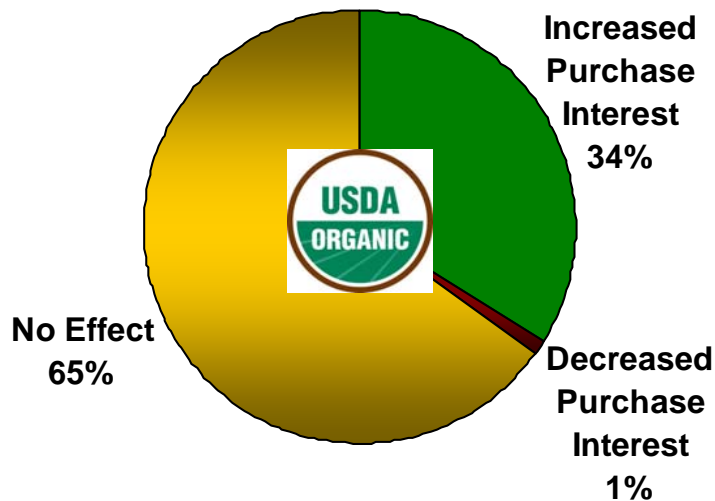


(lower case letters indicate significance at 95% confidence level)

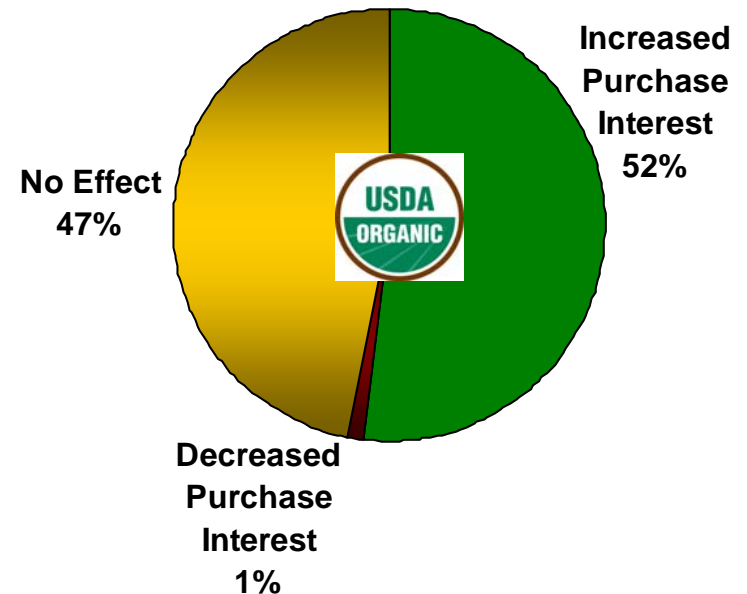
Impact of USDA Organic Seal Has Positive Impact On Organic Users

(% consumer segment indicating effect of USDA Organic seal on use/purchase of organic foods/beverages, among those aware)

Impact Among GP:



Impact Among Organic Users:



Impact Among Non-Users: Has "No Effect" on 80%

Consumer Perceptions of the Term “Organic”

(% consumer segment indicating what the term “organic” means to them)

<i>The term “organic” means to me...</i>	GP	Organic Foods/Beverages Users (a)	Non-Users of Organic Foods/Beverages (b)
No chemical pesticides	73%	85% ^b	69%
No chemicals	71%	83% ^b	67%
Natural ingredients	67%	81% ^b	61%
No additives	65%	73% ^b	61%
No preservatives	61%	71% ^b	57%
No artificial flavors	57%	68% ^b	52%
No artificial colors	54%	65% ^b	50%
Not highly processed	48%	61% ^b	43%
Better for the environment	39%	57% ^b	31%
Better nutrition	35%	60% ^b	25%
Better for family/children	33%	55% ^b	24%
Contains at least one organic ingredient	31%	44% ^b	26%
Better taste	17%	30% ^b	12%

(lower case letters indicate significance at 95% confidence level)

The Organic Consumer:

the organic progression

- Stage 1: produce, **DAIRY**, non-dairy beverage (soy), baby food
 - Stage 2: juice, cold cereal, snacks (chips, pretzels), meat/poultry
 - Stage 3: frozen foods, pasta sauce, salsa, canned tomatoes, breads (artisan)
 - Stage 4: other bulk or canned items, apparel, wood/fiber, personal & beauty care, household cleaning
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Organic dairy demand growing— more outlets & more channels available to consumer but supply is short

- Organic milk 25-30%
 - current growth of demand per year
 - Organic milk supply 15-20%
 - projected growth in the new supply of OG milk
 - Projected shortfall in supply 10-15%
 - Equals 100,000 cows per year—not even considering demand for organic dairy ingredients: cheese, milk powder
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Organic price premium is real

Product	Organic	Conventional	Premium
½ gallon Whole milk	\$3.29	\$2.19	50%
1 gallon Whole milk	\$5.99	\$3.99	50%

*Price check: February 2006—San Rafael, CA

What are consumer perceptions and expectations about organic dairy and whether dairy cows are raised are pasture?

Major consumer concerns & expectations continue to grow

- Food safety: pesticides, antibiotics, hormones
 - Animal welfare: density & pasture
 - Transparency to source: local/ cooperatives of local farms, family farms, farm consolidation
 - Land management & environmental standards: stewardship & sustainability
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The media reports on organic dairy:

New York Times, November 9, 2005

An Organic Cash Cow by Kim Severson

- “The ethos of organic milk—one that its cartons reinforce—conjures lush pastures dotted with grazing animals, their milk production driven by nothing more than nature’s hand and a helpful family farmer.
 - But choosing organic milk doesn’t guarantee much beyond this: It comes from a cow whose milk production was not prompted by an artificial growth hormone, whose feed was not grown with pesticides and which had “access to pasture”, a term so vague it could mean that a cow might spend most of its milk-producing life confined to a feed lot eating grain and not grass.”
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Whole Foods Market Fl@vors email
newsletter survey sent April 12, 2006

When choosing organic milk, cheese and other dairy products, what is important to you about the conditions in which the organic dairy cattle are raised? Check all that apply

- Spend more time outdoors than indoors
- Most of their food is from pasture
- Have access only to the area outside of the barn
- Have access to the outdoors only on nice days
- Raised on pasture all year round
- Have access to the outdoors when they choose
- Have access to pasture a couple hours a day

Total responses 18,455 April 12-13, 2006

Chosen as important to customer

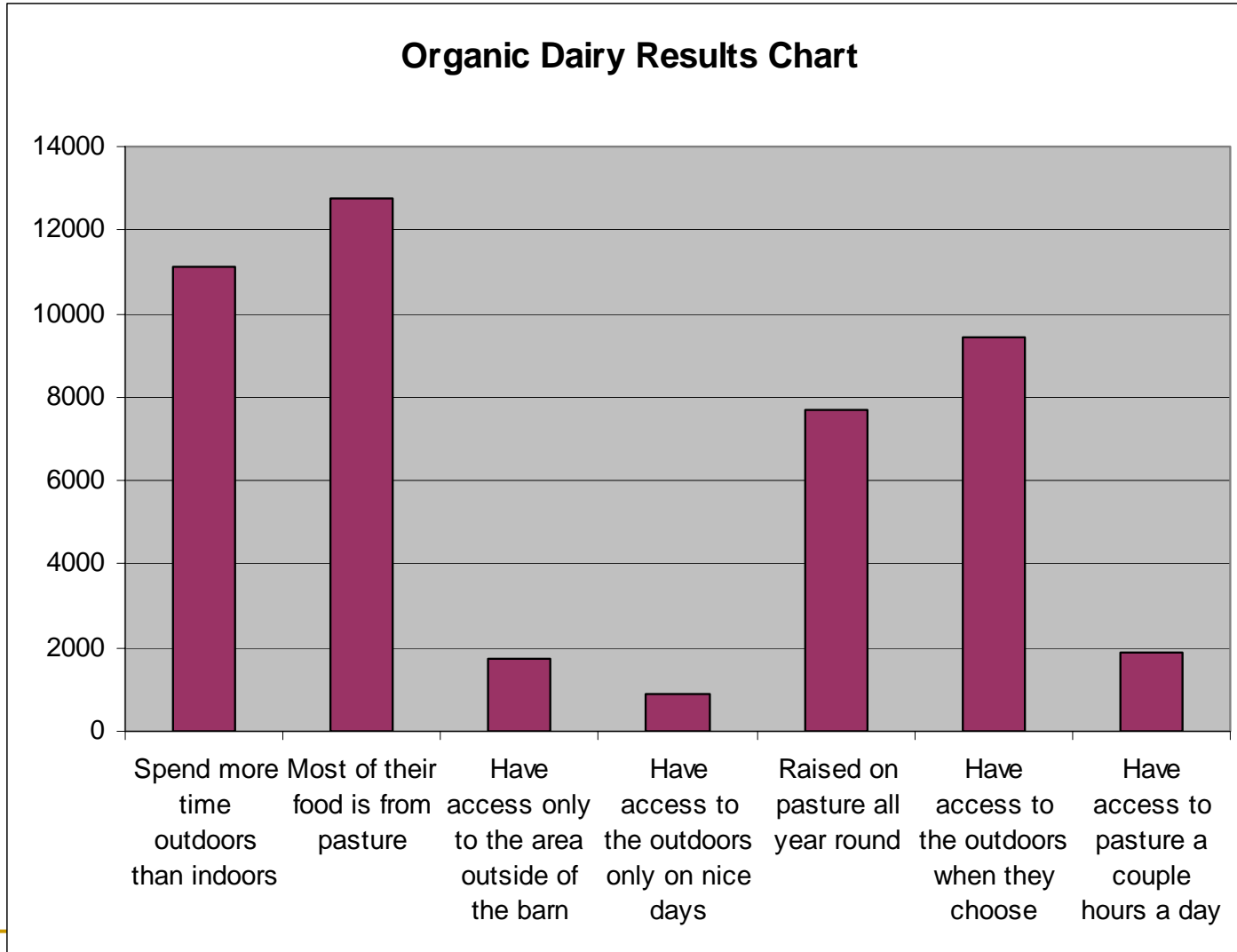
- **Spend more time outdoors than indoors**
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Positive Answers

- | | |
|----------------|------------|
| ■ 11113 | 60% |
| ■ 12779 | 69% |
| ■ 1720 | 9% |
| ■ 871 | 5% |
| ■ 7700 | 42% |
| ■ 9438 | 51% |
| ■ 1877 | 10% |

Whole Foods Market Fl@vors email newsletter

Survey results April 12, 2006



Same question survey to non-Whole Foods Market customers 1000 respondents representative of U.S. adult population

Chosen as important to customer

- **Spend more time outdoors than indoors**
- **Most of their food is from pasture**
- Have access only to the area outside of the barn
- Have access to the outdoors only on nice days
- **Raised on pasture all year round**
- **Have access to the outdoors when they choose**
- Have access to pasture a couple hours a day
- None of these

Positive Answers

37%

54%

5%

2%

53%

36%

9%

14%

Consumer feedback bottomline

- Organic dairy is considered the gold-standard with high expectations.
 - Pasture-based year round, not simply access to pasture, for animals raised organically, along with the pasture supply much of the animals' nutrition is assumed by most Whole Foods Market and general public as status quo. Few could fathom animals from whom are derived certified organic products would have anything less.
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What are Whole Foods Market's expectations as a retailer regarding pasture and organic dairy?

Statements from Whole Foods Market

- March 2005 testimony to National Organic Standards Board
 - “Whole Foods Market supports a National Organic Standard which requires that all ruminant livestock be grazed on pasture, in order to allow the livestock to fulfill its natural behavior as closely as possible and to respect the expectations of organic consumers.”

 - September 2005 letter to all organic milk producers who sell to Whole Foods Market
 - “We believe that organic consumers expect that organic milk comes from cows which are given access to pasture....we fully expect our organic dairy vendors to meet or exceed the recommendations made by the NOSB with regard to the amount of pasture provided per animal, percentage of dry matter intake from pasture and the percentage of time per animal spent on pasture.”
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Whole Foods Market

Animal Compassionate Standards

A further enhancement of Whole Foods Market's current strict animal welfare standards already required for meat and poultry sold in our stores that specially highlights producers whose environments and conditions support the animal's physical, emotional, and behavioral needs, meeting the standards created within our multi-stakeholder process.

Species Specific Standards completed—all requiring pasture-based production system based on clear definition of what constitutes a pasture. Barns as “places to visit” for temporary shelter.

- Cattle Broiler chickens--near completion
 - Ducks Turkeys--near completion
 - Pigs Chicken egg layers—2006
 - Sheep Dairy cattle—2006-early 2007
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Whole Foods Market

Animal Compassionate Standards

guiding principles

- Goal A is to maximize the welfare of the animal
 - Goal B is to minimize costs and maximize the efficiencies.
 - We recognize that Goal B cannot be ignored, but we are making it subordinate to Goal A.
 - Animals can practice their natural behaviors and maintain highest health in pasture based systems
 - The five people in the airport test
 - Animal Compassion Foundation as an educational and worldwide network of animal compassionate producers to share knowledge and improve practices
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The Big Picture

- Demand exceeds supply
 - Market opportunity is growing
 - Dairy is key crossover item for organic consumer
 - Organic consumer expectations continue to grow, including marketing transparency
 - Most organic dairy producers are already pasture-based.
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Whole Foods Market's Bottomline

- Integrity of organic dairy standards, including pasture-based system as a requirement, is more important than watering them down to increase supply or keep prices down.
 - The National Organic Standards should ensure that our farmers provide optimum conditions for their cows, including a standard for pasture be clearly stated in order to assure consumers that their expectations for organic dairy are being met.
 - A level playing field benefits farmers and consumers. Anything less will diminish the value of organic.
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Next steps:

- Support the public/private partnership of the National Organic Standards Board—the USDA’s advisory board—similar in importance to the USDA as listening to our customers is to Whole Foods Market
 - USDA’s pasture Advanced Notice of Rulemaking and this symposium is providing opportunity for all voices to be heard but keep the process moving with a defined date for completion
 - Support an approach to livestock rearing standards, including pasture access, that focuses on the animal and then balances consumer expectations regarding organic integrity with workable standards for farmers
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