



The Knowledge to Decide

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PRESS RELEASE

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Organic food demand may ride out recent adverse publicity, thanks to consumer loyalty and non-health benefits

A joint research project saw Spire Research and Consulting collaborating with the S.P. Jain Centre of Management, Singapore to size up opportunities in Singapore's organic food market, valued at S\$68 million in 2008, up from under S\$10 million in 2002, and growing at 20-30% a year. As organic foods are priced at an average premium of 112% over non-organic equivalents, demand comes from high-to-middle-income locals and expatriates. However, most consumers strongly identify with the category, recommending organic food to friends and relatives and maintaining spending levels in spite of the economic crisis. Future growth will be led by the penetration of organic food into mass market retailers like NTUC Fairprice and Cold Storage, as well as the rise of franchised and direct/internet organic food retailers that may penetrate beyond the CBD and traditional expatriate retail areas. While customers are not drawn to organic foods solely on the grounds of health benefits, an improved certification and testing regime would help push the industry forward.

The findings of a recent joint study by Spire Research and Consulting and the S.P. Jain Centre of Management show that organic food consumers are a loyal base of customers, paying premiums of over 100% over non-organic food, recommending organic food to people they know and accounting for close to S\$ 70 million in revenues a year.

While health concerns are an important consideration in buying organic food, the study showed that other considerations were also deemed important, such as taste, environmental friendliness, safety, concern for animal welfare and fashion-consciousness.

The study included a survey of 80 consumers, a pricing research exercise, in-depth industry interviews and secondary data analysis on Singapore's organic food market.

The consumer research study revealed that Singapore's organic food customers segment demographically into four groups; high income Singaporeans, middle/low income Singaporeans, expatriates from more developed countries and expatriates from less developed countries (see *Graph 1 in Annex*).

Other highlights from the study, conducted in Singapore on June 2009, were as follows.

- Singapore's organic food consumption market was valued at under S\$10 million in 2002 and S\$68 million in 2008.
- In spite of the current economic crisis, 97% of organic food consumers cited that they would spend the same or more on organic food.
- Across all food categories, the average price premium enjoyed by organic food products over non-organic equivalents was 112%. The beverage category was associated with the highest price premium (159%) while the fruit and vegetable category had the lowest (58%) (see *Graph 2 in Annex*).
- 85% of organic food customers surveyed indicated that they would recommend organic food products to their family members, friends and relatives (see *Graph 5 in Annex*), underlying the loyalty of the organic food customer base and how customer relationship management may be the marketing arena on which the battle for organic food customers may be fought and won.
- Most of the organic food sold in Singapore originates from the USA, United Kingdom, Australia, New Zealand, Japan, Thailand and Malaysia.

- At each stage of distribution, mark-ups range from 20% to 50%, with retailers marking up the most and accounting for much of the final retail price.

- Health is not the only factor driving the consumption of organic food. Other motivations include:
 1. Superior taste and consumption experience (“more wholesome”)
 2. Concern for the environment
 3. Concern for food safety, i.e. lack of confidence in the conventional food industry
 4. Concern over animal welfare
 5. Support for small producers/“local” economic activity
 6. Nostalgia
 7. Being aligned with new lifestyle trends

Opportunities for the organic food industry in Singapore:

“While detractors argue that the health benefits of organic food are unsupported by empirical evidence, market research demonstrates that the organic food consumer in Singapore is loyal, less price-sensitive and motivated by a range of considerations, not purely health benefits,” commented Leon Perera, Spire’s Group Managing Director. “Skillful marketing can turn this into a niche growth play.”

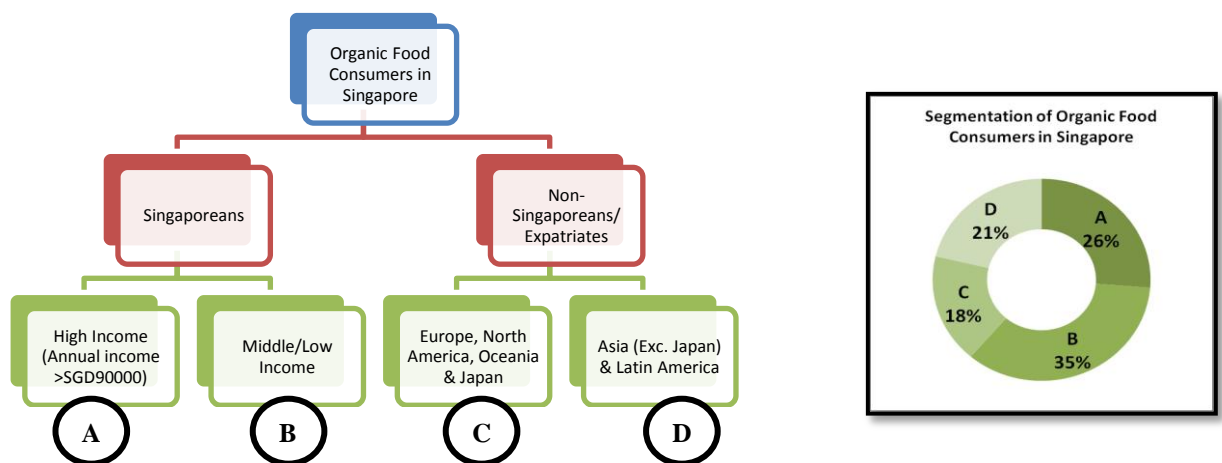
“The two defining trends today among Singapore’s educated consumer base are of lifestyle awareness and environmental social responsibility. As these views gain momentum, so does the demand for organic food which is widely perceived to be both wholesome and environmentally friendly. The economic downturn notwithstanding, Singapore is witnessing an increasing demand from customers, both expatriate and local. The predilection towards this growing food trend is particularly obvious when it comes to food choices for the youngest and most vulnerable consumer segment, babies and young children. As this is typically a high involvement food choice, there is much scope for sales enhancement through targeted and informative marketing,” commented Associate Professor Vinika Rao, S.P. Jain Centre of Management, Singapore.

With organic food making inroads into mass market retailers such as NTUC Fairprice and Cold Storage, the potential exists for marketers to build on the current loyal customer base through a strategy of franchising retail

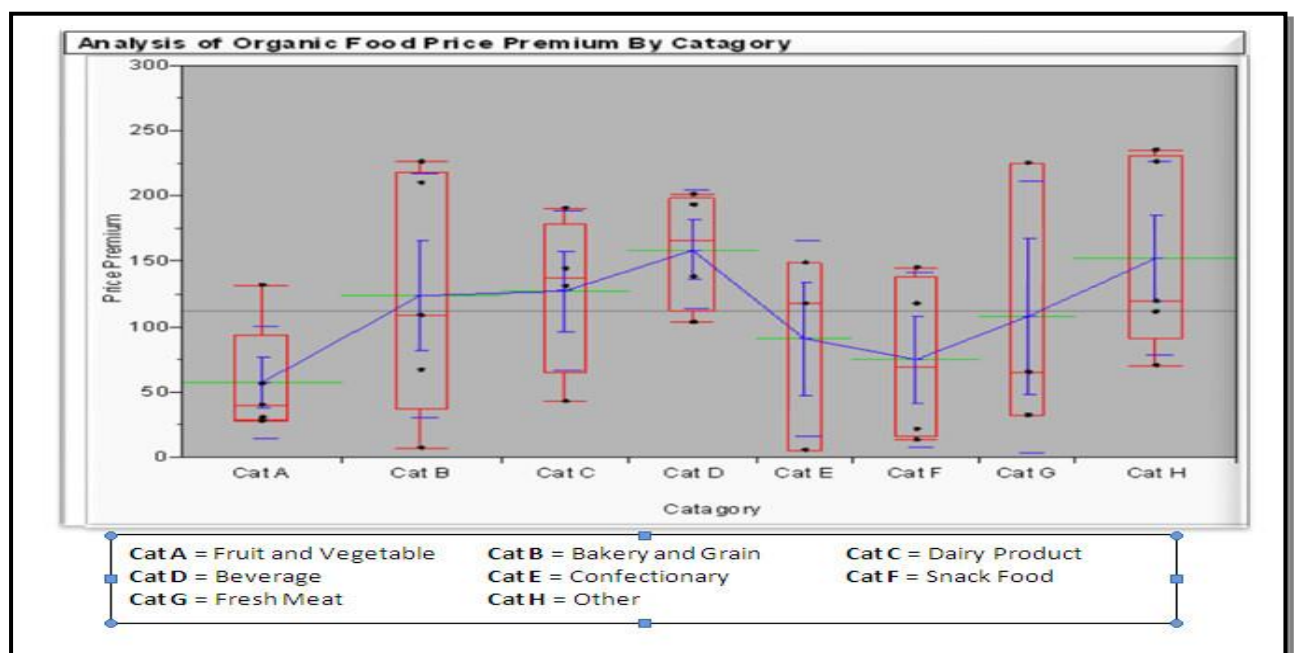
outlets or expanding outreach through direct sales or internet sales, with the latter having the advantage of reducing the current high mark-ups at the retail level. The availability of sources for organic fruits and vegetables in neighbouring countries like Malaysia, Indonesia and Thailand will be a crucial factor in deciding whether organic food can appeal to a broader group of local consumers.

Annex

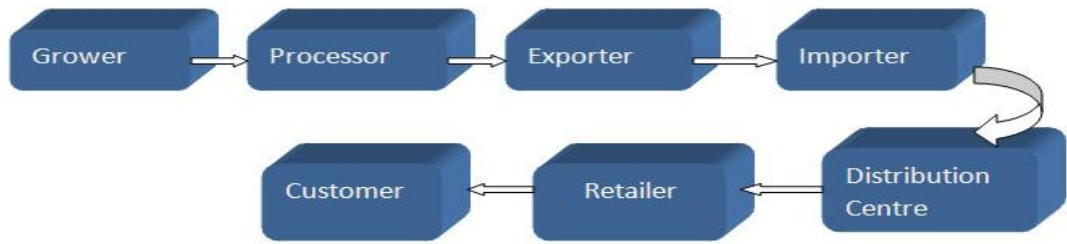
Graph 1: Segmentation of organic food consuming population



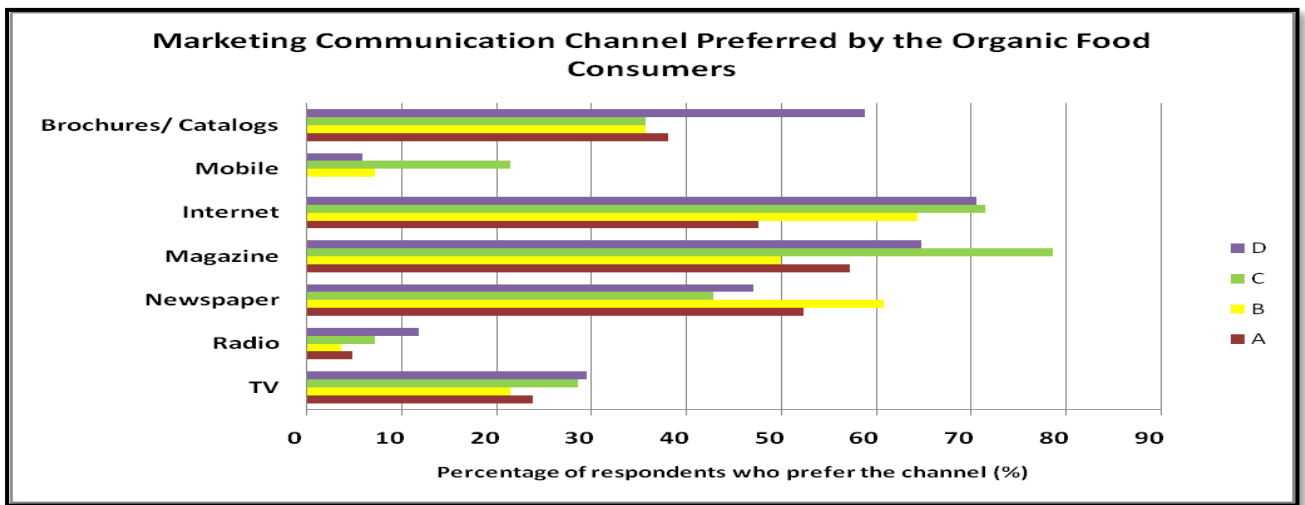
Graph 2: Box plot of price premium enjoyed by organic food products for each food category (in percentages)



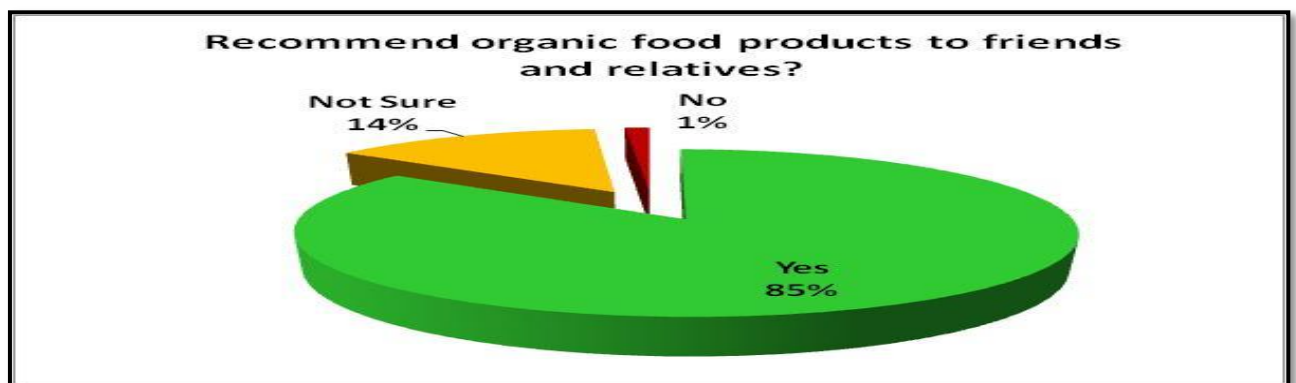
Graph 3: Supply chain structure of organic food products in Singapore.



Graph 4: Marketing communication channels preferred by each organic food consumer segment



Graph 5: Responses on whether the respondents would recommend organic food products to friends and relatives.



About Spire Research and Consulting

Spire Research and Consulting is Asia's leading strategic market intelligence consultancy. Spire's competitive advantage lies in its ability to deliver to its clients actionable intelligence on the external business environment in support of their strategic decision-making in marketing and business development. Spire's clients include over 30 Global Fortune 500 companies as well as Government agencies across a wide range of industries. For more information, visit us at www.spireresearch.com.

About S.P. Jain Centre of Management, Singapore

The GMBA program of S P Jain is an intellectual journey in management education. It comprises a variety of academic and non-academic learning, which goes beyond the conventional classroom method. The entire learning process at S P Jain's GMBA program is focused on inculcating sensitivity to real world issues, along with the ability to become 'leaders and change agents' in their chosen fields.

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