



Wal-Mart's Organic Woes

As the produce industry gathers in Chicago for the last iteration of the Power of Five trade show, combining FMI, the US Food Export Showcase, United, All Things Organic and the Fancy Food Show, it is worth noting what is going to happen next year and what it tells us about the role of organics in the produce industry.

United will be teaming up with FMI and going on to Las Vegas, but the Organic show is co-locating with the Fancy Food Show. Think of it as the moment in time when the produce industry saw its future as part of the mainstream supermarket while the organic industry saw itself partnering with specialty and gourmet product.

This all comes to pass just as Wal-Mart, which last year was trumpeting a future filled with organically grown food, is now backtracking wildly.

Organics are hot. They fit with the zeitgeist of the times. Individual consumers, feeling burdened with problems they can't control and that have no easy solutions, such as the War on Terror, are told they have the power to improve the world by purchasing organic, fair-trade, carbon-neutral and local produce.

Organics are also hot because it is where the money is. All across the country growers, packers and processors are finding that the 5 percent of their production that is organic is producing 25 percent of their profits.

Everyone wants to sell organics because, in a commodity business with thin margins, the organic items price in a world of their own — but only because it is still a small market. You will notice that organic advocates like to trumpet enormous percentage increases in organic production and consumption. They rarely, though, compare it to overall food production and consumption. Perhaps that is because, even now, with years of extraordinary growth in organics behind us, less than 1 percent of all U.S. crop and range land is certified for organic production.

When it comes to organics, Wal-Mart's problem is three-fold:

First, it threw out Sam Walton's rulebook of trying to please the customer and sell what they wanted to buy. Instead it approached the issue of organics as a geo-political issue, and top Wal-Mart executives felt the need to push organics into the stores as part of its sustainability initiative. This was driven not by customers demanding sustainable practices but by political concerns, such as anti-Wal-Mart legislation and difficulty getting site approvals for new stores.

This transformed what should have been a "Store of the Community" initiative, in which organic products were added to serve the purchasing desires of customers in certain neighborhoods, into an effort in which Wal-Mart was attempting to "push" product into the market baskets of consumers that often were indifferent to organics

and unable to see the benefits of such purchases.

Second, at the highest levels, Wal-Mart executives forgot that Wal-Mart, with its extraordinary reach, cannot just do every nifty thing. It can only do those things that are scaleable. And organic agriculture, living under the tyranny of an iron-clad three-year transitional requirement before conventionally farmed land can be certified organic, is practically the least scaleable thing in agriculture. If Wal-Mart wants more Tickle Me Elmo dolls quickly and wants them bad enough, it can have its suppliers run three shifts a day and fly them on planes rather than ships, etc.

But for all its might and all its money, Wal-Mart can barely influence the amount of certified organic apples available this fall because that quantity is based on decisions made three years ago.

Add to this that many organic growers feel culturally alienated from Wal-Mart and are uncertain of Wal-Mart's commitment to organics — which means they are unlikely to simply abandon long time buyers because Wal-Mart comes to town — and it is instantly obvious that it would be impossible for Wal-Mart to procure enough organic fresh produce to fulfill the hype.

In fact so many organic producers are so small and seasonal that Wal-Mart's buyers were spending wildly disproportionate amounts of time attempting to track down tiny bits of supply to fulfill the announced plans.

Which brings us to the third problem, a PR machine that simply went out of control. Because it was a message they enjoyed talking

about and because the whole purpose of the organic initiative was to enhance public relations, it was portrayed as if Wal-Mart was going to make a major commitment to organic and become an organic leader. Four hundred organic SKUs were talked of and all would be priced within 10 percent of conventional items.

Call it the arrogance of a big company. At the top corporate level, executives were used to thinking they could tell suppliers to jump and the suppliers would ask "how high?". The plan became detached from any tie to the difficulties on the ground of executing such a strategy.

A sensible role for organics at Wal-Mart, even one tied to a sustainability strategy, would probably involve years of promoting transitional product and selling that as Wal-Mart's big contribution to making the world a better place.

One wonders about the wisdom of merchandising based on ideology rather than customer demand. Should retailers really pick sides in the culture wars? Wal-Mart decided it was more important to impress the editorial board of *The New York Times* than its own customers. That is called taking your eye off the ball.

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