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# LOHAS

Lifestyle of Health and Sustainability

## Design of the study

For this study, an independent marketing institute was assigned to survey over 700 consumers across Switzerland on the relevance of a number of health and sustainability issues to their buying decisions. Our aim was to find out how well informed the consumer is on the LOHAS (Lifestyle of Health and Sustainability) topic; how much more the consumer is willing to pay for “organic”, “fair trade” and “sustainable” products; and whether he would change brands or retailers in favor of a more enhanced range of products elsewhere. We also wanted to find out how important the ethical practices of companies are to the consumer’s product choice, and how he would react to violations in this area. In particular, we wanted to find out whether the consumer would support, through the purchase price of the products, investments in social justice and ethical conduct.

A total of 24 producers and retailers were surveyed on topics covering the importance of “organic farming”, “fair trade” and “sustainability” for their companies; what the companies are doing to gain or maintain consumer trust; and whether they are poised to a sufficient degree to adapt to changing consumer behavior.

The results from the consumers and the producers/retailers were then compared and are presented with the conclusions relevant for the various stakeholders.

In the final section, three possible future scenarios are portrayed with their consequences to the food production and retail industry.

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## Executive Summary

### The relevance of LOHAS – Lifestyle of Health and Sustainability

Throughout every level of society, the issues represented by the keywords “health”, “wellness”, “sustainability”, “natural”, “organic” and “light” have become increasingly important. Healthy and ethical consumption has been fuelled by various factors including public initiatives to promote and encourage healthy diets and lifestyles. The media have also taken up the trend and are bringing it to the attention of more consumers, while consumers themselves are becoming more aware of what they consume, keeping in mind the motto “You are what you eat”.

The role of the consumer has become more active and demanding due to the broad choice of goods available on the market. Consumers are not only more demanding about their product choices for their own benefit, but also realize the direct and indirect impact of their consumption on the environment. Attributes like “organic farming”, “fair trade” and “sustainability” are becoming increasingly anchored in the consumer’s mind.

Consumers’ changing behavior and concerns relating to the source of purchased goods in the era of rising globalization and global sourcing have consequently influenced the investment and commercial community, which is beginning to demand evidence of ethical policies from producers. In turn, retailers are using ethical standards to build consumer trust and gain a competitive advantage.



### Consumers' perception of LOHAS

The broad variety of products and the introduction of new product lines and labels with targeted benefits have at the same time caused consumer confusion. Information overload and the overlapping of attributes that consumers receive have resulted in a jungle of symbols and messages in the consumers' minds. The consumer may recognize a label on the shelf, but not remember the name of the label. In the survey, a large number of participants recognized the key labels that stand for "organic farming", "fair trade" or "sustainability". However, over 60% of the respondents were not able to name a single brand that is associated with organic products. In total, over 80 product, brand and company names were given.

### Value-consciousness versus price-consciousness

According to the survey's results, Swiss consumers tend to be relatively more quality-conscious than price-conscious. As competition rises in the retail market sector with competitive prices and a broader range of product choice, consumers have become more price-sensitive and at the same time more demanding. One key criterion lies in value for money. An average of 37% of the participants would pay up to a 10% price premium for organic and fair trade products with a further 36% who would accept up to a 20% premium price. Over 80% of the survey participants are willing to pay a surcharge for products that are ethically justifiable. The results of the survey also show that buying organic or fair trade products is not significantly influenced by the level of disposable income. It is not

only consumers with a high disposable income who tend to seek out organic and fair trade products. These products also attract consumers with average and low disposable income. In other words, it can be concluded that LOHAS is not only a topic for affluent people.

### Consumers' high willingness to change

With the plethora of products and promotions on offer, consumers increasingly place their trust in products and certified labels that portray attributes and assured precepts corresponding with the consumers' values. Product reliability and a given quality standard are important to consumer trust. Ethical and sustainable methods of sourcing and production are issues that are increasingly important.

From the survey, 69% of the respondents would change brands in favor of an organic product, showing stronger affiliation with organic farming than conventional brand loyalty. Around half the respondents would change their retailer in preference for an enhanced range of organic products offered elsewhere.

Driving this decision is not only the range of organic products offered. Other issues regarding social responsibility are also gaining popularity. Three quarters of the participants expect their retailer to offer fair trade goods, and over 90% of the consumers would change brands if it came to light that the producer disregarded ethical production practices.

### LOHAS as an opportunity for all types of retailers

Currently, the most widely used channel to purchase organic products are supermarkets, where 83% of the respondents have bought organic goods. Purchasing organic food directly from the farmers or at the weekly farmers' market is also popular. Our study shows that the retail type with the highest customer change potential for the future are farmers, the weekly farmer's markets and convenience food stores. The discount chains also have a remarkable potential with 15% of the consumers who would change their existing organic products retailer.

Whichever type of retail chain, one of the key criteria lies in accessibility. 68% of the consumers would not change their existing retailer if the distance is bigger than 5 km from the customer's residence. In other words: "reachability beats LOHAS".

### Building consumer trust – the responsibility of various stakeholders

To answer the question whether "bio" labels truly deliver organically cultivated products, most customers (51%) place their trust in certified organic labels provided by the relevant institutions. 44% and 39% of the consumers regard it as both the retailers' and producers' role and responsibility to take the necessary actions to provide a guarantee for the products they offer.



### Trust is good – control is better

Whether from certified institutions, retailers, producers or any other members involved in the value chain, consumers require assurance and expect a guarantee. And as the last component of the value chain, retailers may be the first to notice changing consumer behavior. Nearly 90% of the participants expect a guarantee from retailers that the products offered comply with the stated precepts; products that are safe, not harmful to the environment and socially justifiable.

From the replies given by the producers and retailers, in general they place their trust in certified labels, such as Bio

Suisse. The majority of the retailers in the survey also have their own control system for organic goods. However, around one-third of the surveyed producers and retailers have not implemented a control system for suppliers delivering "organic", "fair trade" or "sustainable" products, and around two-thirds of these producers and retailers do not intend to implement a comprehensive control and sanction tool. This can be explained by the well-organized certification process provided by, for example, the Bio Suisse organization, and the fact that large retailers in Switzerland already apply an in-house control system for their private labels.

Given the increasing label diversity and consumer awareness towards LOHAS, it is fair to ask: "Is this sufficient?" Consumers do not necessarily differentiate the producers', retailers' and institutions' role and responsibility in the value chain. What comes down to the consumer is the price, value and attributes of the end product at the point of sale in the retail store. Food scandals in the past show the level of reputation damage that can be caused by companies who fail to deliver its undertaking. This requires from the producer and retailer an appropriate control system and a corresponding risk management.

# Safe and Reliable Business Processes Enhance the Credibility of Corporate Communication

As the findings of our study show, informed consumers not only consider organic farming when making their consumption decisions, but also increasingly ethical and social factors. For example, consumers seek to find out where a product was made and under what conditions. To name a few, child labor, the use of poisonous or hazardous substances in the production process and inadequate wages for workers are a few of the concerning issues.

Compliance with legal restraints are expected from government, the society in general as well as the company's stakeholders. Sustainability aspects relate to the companies' broader responsibility for the common welfare, and signify the integration of social, societal and environmental issues into their business processes. This form of corporate commitment is generally subsumed under the heading of "Corporate Social Responsibility" (or CSR). Sustainability management yields many benefits for enterprises that adopt a proactive

policy: minimized risks in the value chain, stable and long-term relationship with suppliers, employee motivation for and commitment to the company, early detection of deviations, and a positive impact on the company's image and reputation.

Companies that communicate this responsibility, but fail to keep their undertaking can cause serious harm to their reputation. Revelation of non-compliant production processes by the media can have disastrous consequences on product sales for the producers concerned and for retailers. It is therefore essential to establish codes of conduct and implement a control, monitoring and sanction system for critical business processes.

Critical issues need to be identified and analyzed from the perspective of shareholders, investors, suppliers and in particular customers. Further, the objectives need to be formulated and the strategy to be defined. In particular, it is

essential to recognize which stakeholders place what kind of requisites on the company. Depending on the stakeholder group, workshops, surveys and tests can be useful tools for this process.

To implement the defined strategy, special codes of conduct should be drawn up that incorporate sustainability considerations and thereby complement existing procedure regulations. Such codes of conduct lay the foundation for day-to-day business operations. For example, the conclusion of a contract with a supplier or producer must be governed by clearly defined rules and requirements.

An effective control, monitoring and sanction system embeds monitoring activities in business processes. One aspect could be, for example, procurement guidelines that accommodate sustainability considerations (organizational safeguards). Another example might involve purchasing managers verifying whether contracts comply with the defined rules and regulations (controls).

In addition, the internal audit department and independent third parties come in consideration for non-process-oriented monitoring.

Next to the codes of conduct in writing with sustainability issues anchored, for example in suppliers' contracts, further measures are required. A company will not be able to protect or enhance its reputation unless it can demonstrate adherence to the regulations. Company representatives and external auditors should therefore visit and inspect suppliers' production facilities at regular intervals. The inspections should be repeated, including unannounced visits, in order to monitor and document critical issues such as child labor, compliance with working time regulations, job safety, health-hazardous working conditions

and all forms of discrimination. Appropriate training and support measures provided by companies can help to ensure that, especially at production facilities in emerging countries, full compliance with all standards can be guaranteed.

As markets increasingly converge and fuel competitive pressures, it will be unlikely to eliminate all risks in complex and global value chains. By taking the precautions outlined above, it is nevertheless possible to contain these risks, and to respond swiftly and professionally should any situations threaten to get out of hand. This too is a powerful tool to win and retain consumers' trust, and to enhance it by acting consistently and sustainably.

Professional sustainability management that covers all the aspects described above provide a company with the assurance that all public disclosures are reliable and water-tight. This is crucial as it takes a long time to build up trust, which can be destroyed overnight by a misconduct.



# I. Introduction LOHAS

## The significance of LOHAS

LOHAS, the Lifestyle of Health and Sustainability, is conquering societies and markets. Whether in articles in the press, on TV, in supermarkets, in research studies done by marketing institutions, or as part of a company's strategic direction, one cannot help but take note of the current trend and development pointing towards a new focus on a healthy and sustainable lifestyle. This new focus encompasses benefits such as health, wellness, indulgence and convenience for the individual, as well as broader concerns covering social responsibility, ethical practices, fair trade and sustainability.

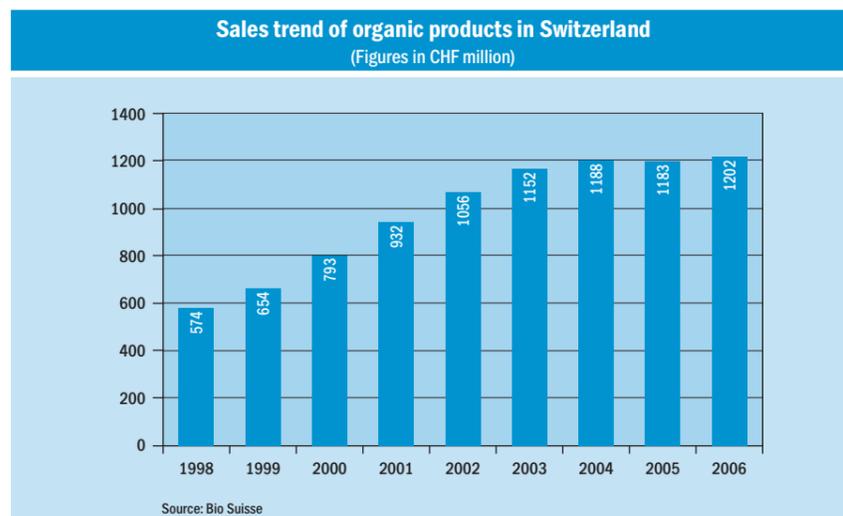
Consumer awareness is fuelled by media reporting on food scandals, education delivered by magazines on how to be a better consumer, tests and research done by independent institutions on product quality and safety, discussions about civilization's impact on the environment or propaganda by activist groups. And the list goes on.

Consumer concerns are also growing with the rise of globalization. People

increasingly look for safety, traceability and credibility. Aspects relating to fairness and sustainability form an integral part of consumer conscience. The need for transparency is rising: Where are the goods from? Under what conditions are they manufactured? What are the practices? How reliable and safe are the products? What are the health benefits? How does it contribute to fairness and sustainability?

In anticipation of societal and consumer concerns, the investment community

is also beginning to demand evidence of policies covering ethical and sustainable practices. Companies face increasing demand for their active involvement in integrating social responsibility factors into their business practices. What is essential are clear policies, control measures and standard procedures for credibility and quality assurance. This not only contributes to sustainable growth, but also builds consumer trust.



## Market developments

Looking at the developments of the organic products market sector in Switzerland, total sales of organic products reached CHF 1.2 billion with a growth rate of 1.6% in 2006. The market share of organic products in the Swiss food market was 4.5% with a per head consumption of CHF 170. The organic food industry in Switzerland is not only advanced, but has further potential for future growth opportunities.

## Understanding the LOHAS

LOHAS, an acronym for Lifestyle of Health and Sustainability, is a postmodern lifestyle where affiliated consumers are geared towards the conscientious consumption of products with health benefits that go in alignment with social justice, ecology and sustainability. These consumers recognize the importance of their contribution and responsibility as an individual towards the society and environment, and show their support for business practices that apply ethical principles.

The question is, what do consumers explicitly look for? Is LOHAS only a hip term or does it effectively involve a set of criteria that consumers make use of when purchasing goods and services?

Problems arise when traditional terms and definitions are beginning to erode. The number of labels, brands and seals in the market is complex and unclear, with differing or overlapping attributes complying with varying policies. What was meant to be a confidence- and trust-building activity for the consumers has instead confused the consumer with a



glut of brands and labels. This glut directly impacts the retail market since consumers will only pay price premiums if they recognize the value-added benefits of the products.

## LOHAS labels

The fundamentals of organic agriculture are regulated by the Swiss organic regulation ("Schweizer Bio-Verordnung"). This applies for all "biologisch" and "ökologisch", i.e. organic- and eco-labeled products, which have to comply with strict principles governing the production, processing and control of organic products. However, new labels have been introduced on the market that resemble a "bio" label. These labels may not have clear specifications in relation to ecology and animal welfare, thereby diluting the perceived understanding of "organic".

Other labels and seals apply, in addition to the regulatory principles, private guiding principles and standards, which may cover other ethical attributes, but are only partly related to ecological farming.

Within the framework of this survey, when the terms "organic" and "ecology" are used, they are in alignment with the Swiss organic regulation. The "fair trade" term applies to the avoidance of exploitation of labor and the promotion of better working conditions.

Issues concerning "sustainability" cover a broad spectrum, often also relating to social responsibility. The covered topics can range from child labor to sustainable sourcing. There is also considerable overlap with organic agricultural procedures and fair trade principles. In order not to confuse the respondents, the subject of sustainability in this survey concentrates on the aspects around environmentally-friendly production procedures and environmental protection. The ethics aspect comprises the issues of child labor, discrimination at the workplace, working conditions with adverse health effects and dumping wages.

# Label Diversity and Consumer Disorientation

Consumer confidence is built up by orientation, product and brand familiarity, and is developed through positive experiences. However, consumer trust has recently been reduced due to food safety incidences, such as product contamination and recalls, as well as disorientation over marketing claims. Food and drink safety has also been a growing consumer concern due to the globalization of supply.

Common interest is shared by informed consumers who seek accurate information about the origin, safety, attributes and practices that affect the food they eat. This involves consumers perceiving the food to be generally safe without causing any adverse health effects or harm to the environment.

However, the large number of labels that currently exist with varying attributes and practices has resulted in consumer confusion. In Switzerland, there are over 30 certified labels. The companies as well face numerous policies and stand-

ard procedures. The usage of terms and marketing claims need to be verified, and if required, companies need to apply for the essential regulatory approval. Negligence or lack of comprehension on legitimacy issues could otherwise result in later conflicts for the company. As an example, the following describes when the terms “Bio” (organic) and “Öko” (ecological) can be applied:

The use of the terms “biologisch” and “ökologisch”, i.e. organic- and eco-labeled products, are regulated by the Swiss organic regulation (“Schweizer Bio-Verordnung”). Both terms can be applied for products when at least 95% of the product content are cultivated organically, which also applies for imported goods. The commodity may be labeled as an organic product when manufactured, processed, imported, stored and marketed in compliance with the control system defined by the regulation.

The regulation included the specification of full organic cultivation on organic farm operations until March 2007, when the parliament decided to soften the organic regulation. Farms and operations no longer needed to cultivate fully organically, allowing room for conventional farming in specified categories. Individual certification organizations such as Bio Suisse fear the risk of damaging the credibility, and have decided not to follow suit and only certify farming that is fully organic. Hence, this results in higher variations in policies and practices between the legal regulation and the policies set by the certification organizations. These developments point towards a further dilution of the organic label and an increasing complexity for the consumer. Furthermore, the control systems will consequently turn out to be more intricate for farm operations that apply both organic and conventional cultivation.

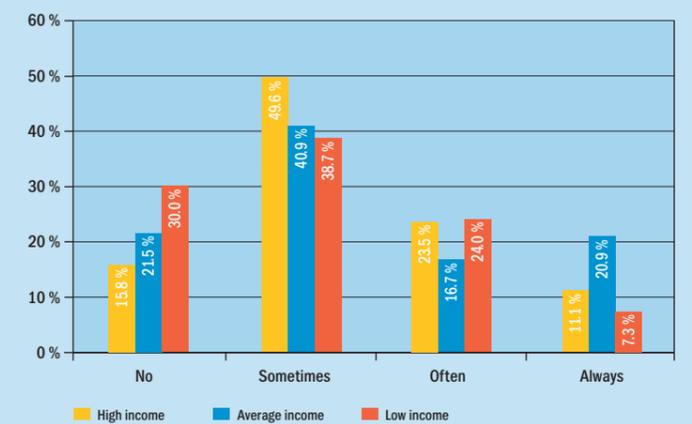
## II. Results of the Study

### The relevance of LOHAS – Lifestyle of Health and Sustainability

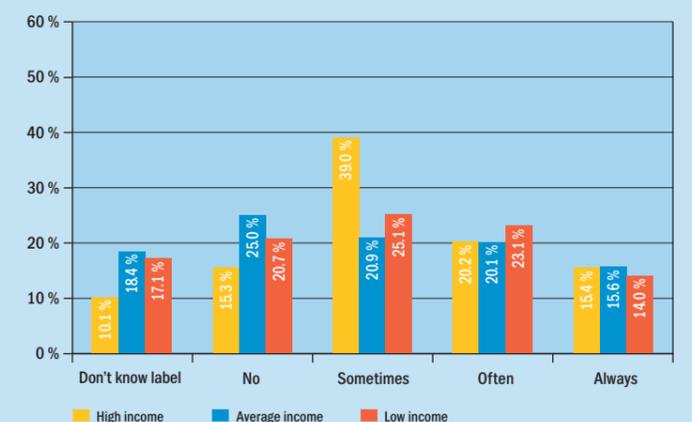
An increasing number of labels and product lines that have been introduced in recent years with a guarantee and/or promotion of ethical attributes is sweeping across markets. The trend towards health and sustainability has seen rising popularity. For the right value it is common to hear comments such as “everything has its price” from consumers. Yet, do consumers explicitly look for these attributes when doing the groceries?

From the survey, Swiss consumers generally look out for organic products with a varying degree of importance. Around 43% of the participants sometimes pay attention to organic food labels. Over one third of them often or always pay attention to the consumption of organic food. The results also show that buying organic or fair trade products is not significantly influenced by the level of disposable income. It is not only participants with a high disposable income who look for organic and fair trade products. These products also attract consumers

Do you look out for the organic label when doing the groceries?



Do you look out for the fair trade label when doing the groceries?

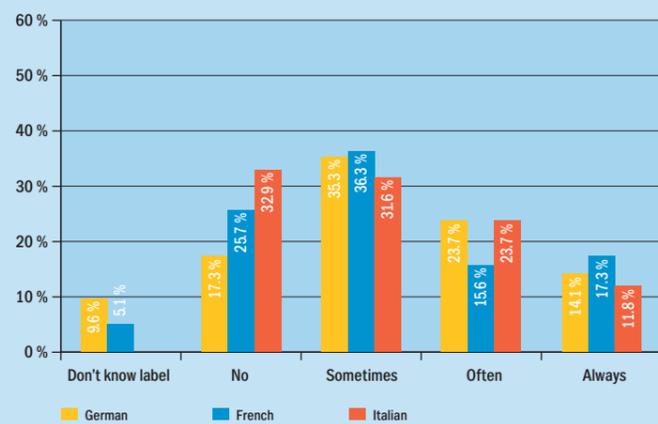


with average and low disposable income. It can be concluded that LOHAS is not only of interest for affluent people. As can be assumed, almost three quarters of the consumers relate organic food with “health and healthy nutrition” followed by “species-appropriate animal housing”.

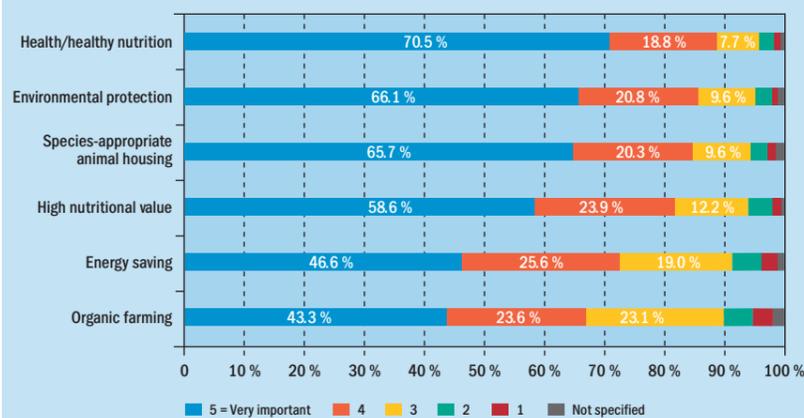
Fair trade products are, in comparison to organic products, less well-known to consumers. In the survey, 15% of the participants had not heard of the fair trade label before. This can be explained with the smaller offering of fair trade products in the market and lower penetration of educational advertising on the practices behind fair trade. Nevertheless, over one third of the respondents often or always look out for fair trade goods. Here too there are no significant variations between consumers with low, average and high disposable income.

The trend towards health and sustainability is visible across Switzerland. 73% of the consumers in the German-speaking region, 69% in the French-speaking region and 67% in the Italian-speaking region sometimes, often or

**Do you look out for the organic or fair trade label when doing the groceries?**  
(Overview of the German-, French- and Italian-speaking regions of Switzerland)



**How important are the following topics for you?**



always look out for organic or fair trade products when doing their groceries.

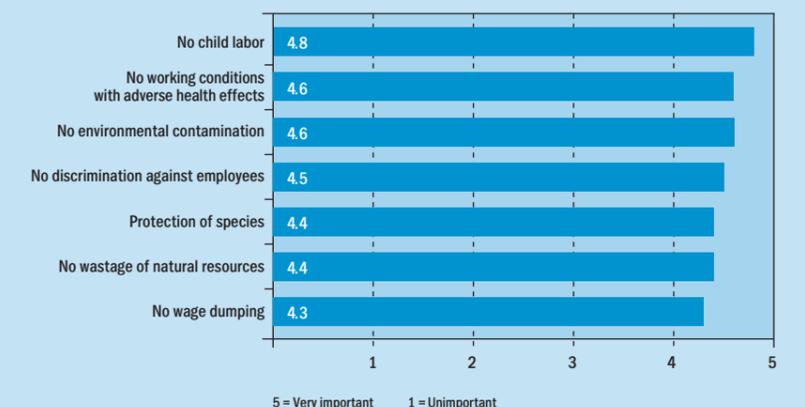
From six given topics, “health and healthy nutrition” is the most important factor for 71% of the respondents. Differences in gender and age also show that three quarters of women place very high importance on health & nutrition, whereas 61% of men regard healthy nutrition as highly important. Health-related aspects also become more relevant to the age groups above 35 years, where over 70% of the participants see healthy nutrition as highly important in comparison to younger generations (58%).

Other top priorities include “environmental protection” and “species-appropriate animal housing”. Even though consumers may look out for organic-labeled products, issues relating to “organic farming” is not a top priority. It can be said that some consumers buy organic products to support the producers’ environmentally friendly practices, but most consume organic food out of health-related issues where people try to minimize their exposure to chemicals and “E-numbers” in the food they

eat. Elderly women tend to place higher value on organic products and species-appropriate animal housing.

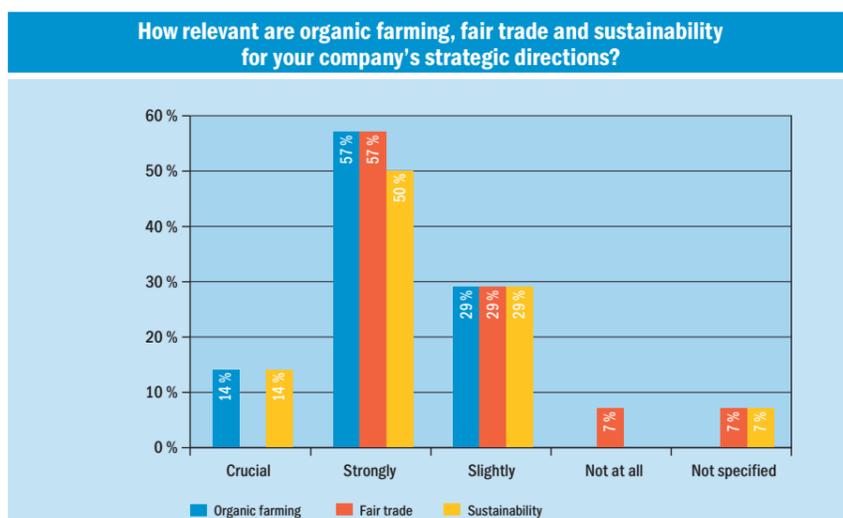
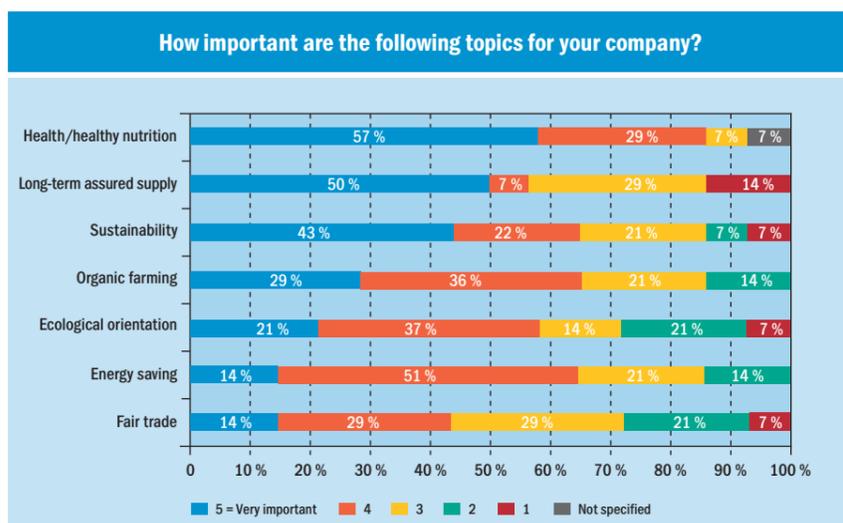
In relation to fair trade and sustainability, some consumers may not as explicitly look out for fair trade goods as for organic products. However, about 90% of the consumers would change brands if it came to light that the producer applies unethical manufacturing practices, such as employing child labor and discriminatory working conditions or violating environmental protection.

**How important are the following subjects for you when doing the groceries?**



Since product packaging does not often include declaration details on ethical conducts and sustainability, consumers were asked about the importance of relevant aspects. On a scale from 1 to 5, the absence of child labor was the number one issue and received an average of 4.8, the highest rate of importance for that question.

Switching to the views provided by producers and retailers, health-related aspects are highest in priority, similar to consumer views. Other important issues and concerns for the companies include assured long-term supply, sustainability, energy saving and organic cultivation. Organic farming, fair trade and sustainability are also strongly relevant for a number of the surveyed companies in their company's strategic directions, with organic-related issues having the highest relevance. This is also due to the fact that most of the 24 surveyed companies produce or offer organic products.



### Consumers' perception of organic farming, fair trade and sustainability

Organic labels have guiding principles with set criteria and standard procedures that have to be met. Consumers, however, may not be thoroughly informed on these attributes and practices. Therefore, it is interesting to know with what consumers actually associate the term “organic”.

#### What do you associate organic farming with?

Healthy nutrition	76.4%
Species-appropriate animal housing	65.3%
Environmental protection	60.9%
High nutritional value in food	60.6%
Environmentally friendly cultivation	60.5%
Energy saving	36.4%

In the first place, the respondents associate organic products with healthy nutrition (76%), followed by species-appropriate animal housing (65%) and environmental protection (61%). These

answers raise questions relating to the understanding and perception by consumers of actual organic attributes. Environmental protection, for example, may include crop farming without using conventional pesticides, synthetic fertilizers and ionizing radiation. However, other aspects in relation to environmental protection, such as the “food miles”, the distance food travels from where it is grown to where it is consumed, are not regulated.

The number of labels introduced with varying and at the same time overlapping features of attributes relating to organic farming, fair trade and sustainability has caused consumer disorientation. In this situation, the attributes of each label become unclear to the consumer, resulting in broad interpretations of what a label stands for. In addition, awareness of specific label names is less ingrained in the consumer mind. Even though half the respondents trust the organic label, when asked to name a few brands, over 60% of the respondents could not name a single brand that is associated with organic products. This implies that the individual labels are only in the subcon-

scious mind of the consumers. In total, over 80 different brands were named, including brands such as Hipp, Heidi and Weleda. Some of the labels mentioned include names that stand for fair trade, another indication of consumer confusion. Among the labels, Coop Naturaplan and Bio Suisse/Bio Knospe are the ones respondents know best.

Even though many participants could not name any labels, when asked if they could recognize any names from a list of given labels, the replies given for the guided answers differed immensely from the open-ended question. Over 80% of the consumers, for example, recognized the Coop Naturaplan, while only 13% were able to name the label. This implies that consumers are unconsciously aware of the labels.

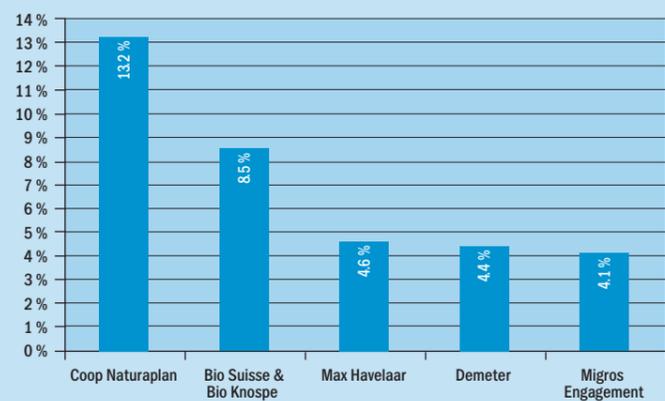
The level of brand awareness provided by the participants shows much potential for the establishment of brands, both for private labels and producers' brands.

### Value-consciousness versus price-consciousness

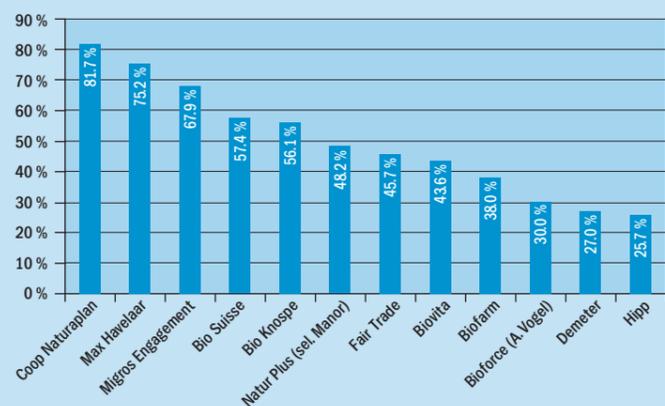
Organic products often connote higher production costs and higher prices for the added value benefits. In terms of price-sensitivity, consumers are generally willing to pay a premium price for organic products. The average limit reaches between 10–20%. From the total respondents, 33% accept prices that are up to 10% higher, while another 35% would pay up to 20% more for organic products. Nearly 10% of the participants would even pay up to 50% or more for organic products. Not surprisingly, respondents with a high disposable income tend to be less price-sensitive. Female and elderly participants also tend to accept higher prices.

The acceptance of higher prices for organic food shows variations between the different regions of Switzerland. Respondents from the French-speaking region are inclined to be more price-critical: Only two thirds of the respondents would pay more for organic products.

### Can you think of any labels that stand for organic products? (Open question)



### Do you know any of the following labels?

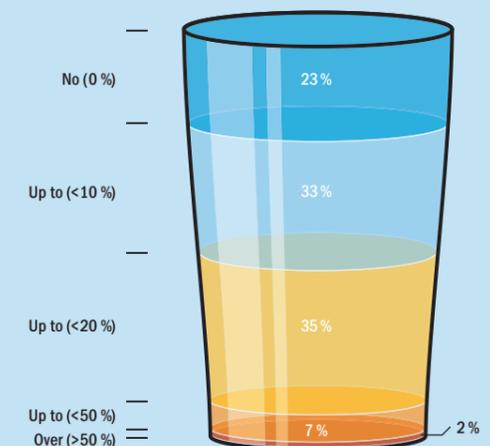


Consumers' willingness to pay a premium price for the added value shows the market potential for the promotion of LOHAS products. This, however, requires enhanced and adequate educational advertising to promote and increase consumer awareness of the practices behind these attributes.

In the survey, the companies do not see an increased need for action as to the contemporary trends in “organic farming”, “fair trade” and “sustainability”. The majority of the companies also do not see the need to increase their marketing expenses on these attributes. However, individual companies see a strong need for action in issues relating to organic products and sustainability.

For many of the surveyed retailers, products offered in the “organic”, “fair trade” and “sustainability” categories are more lucrative than conventional goods, especially when it comes to organic products.

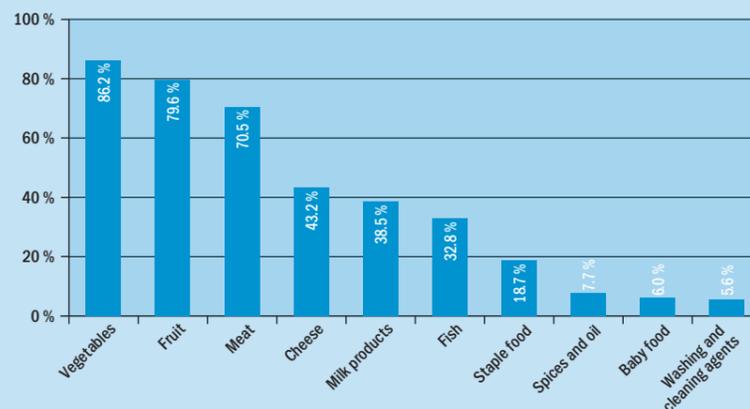
### Would you pay more for organic products?



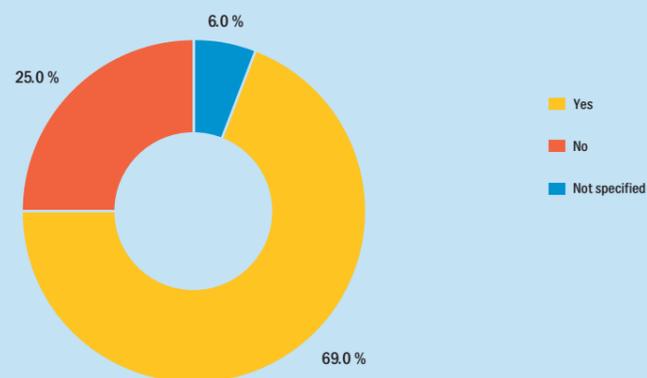
### Consumers' high willingness to change

The establishment of product categories with attributes related to health, sustainability and ethical practices not only offers higher price elasticity, but also a competitive advantage. In this era with a plethora of product offerings, global sourcing and an increasing awareness of social responsibility issues, consumers have become more critical, more demanding and less brand loyal. In addition, the abundance of product choice has caused increasing consumer confusion. Certified labels and product lines with defined value-added attributes that enhance health benefits and enable the consumer to support ethical and sustainable manufacturing practices provide consumers with a guarantee and quality assurance and promote good conscience, too. Brand loyalty in conventional terms has weakened, whereas trust is placed on values that are more interlinked with sourcing, manufacturing and processing practices. In the survey, 69% of the respondents would be willing to change from a branded good to an organic product.

Which product categories do you attach importance to organic products?



Would you change the brand in favor of an organic product?

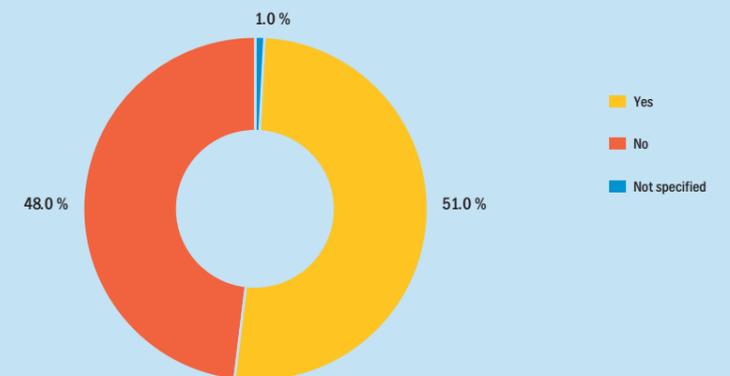


Not only brand loyalty, but also retailer loyalty has been decreasing with the changes taking place in the market environment. A better range of “organic” or “fair trade” products offered elsewhere would drive half of the participants to change retailers in favor of a guaranteed and more enhanced range of environmentally friendly products.

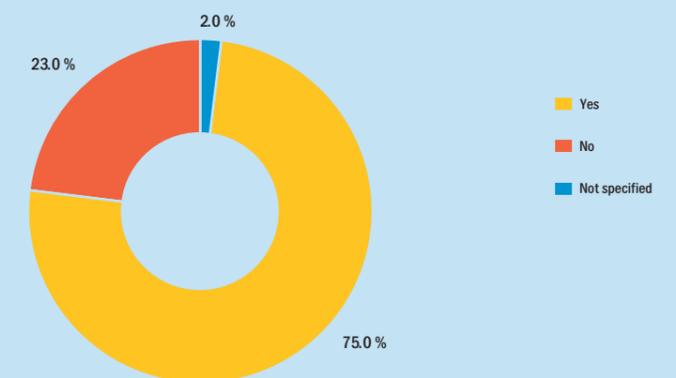
### LOHAS as an opportunity for all types of retailers

With the decreasing retailer loyalty and consumers' high willingness to change retailers in favor of a guaranteed and more enhanced range of organic products, the question arises: Who has the highest potential to benefit from the LOHAS trend? We asked consumers where they currently do their groceries, where they specifically buy organic products and where they would buy organic food and drinks if the range of products were enhanced. For the last question, the survey participants were given a scale from 1 to 5, where 5 reflected the highest affirmation to change.

Would you change retailers if an enhanced range of organic products were offered elsewhere?



Would you change retailers in favor of a guaranteed and more enhanced range of environmentally friendly products?



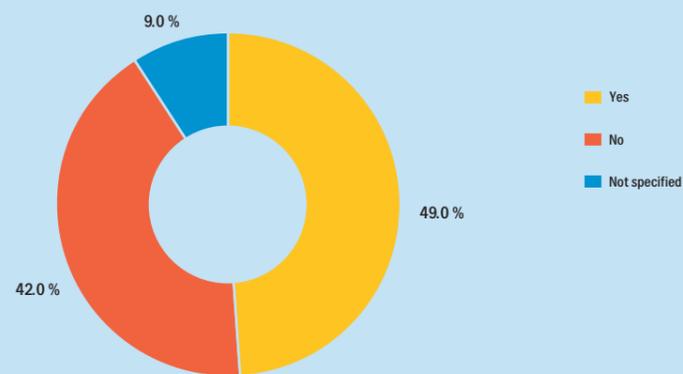


The undisputed market leaders in the retail sector are Migros and Coop, where 83% and 86% of the respondents respectively do their groceries. In the third and fourth position, Denner and Manor are more popular with younger consumers. Manor is especially well represented in the French-speaking region of Switzerland.

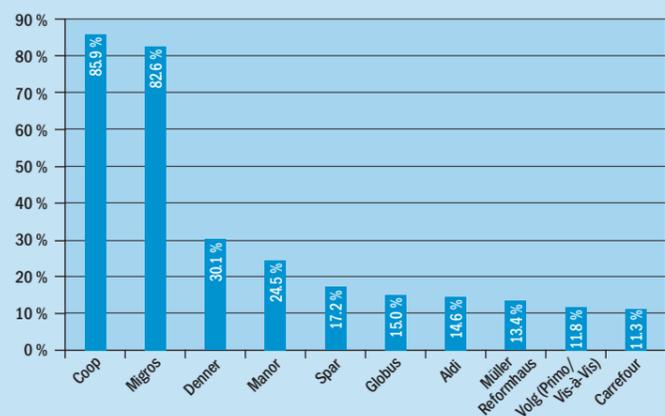
The most widely used retail chain to purchase organic products are supermarkets where 83% of the respondents have bought organic goods. Purchasing organic food and drinks directly from the farmers or at the weekly farmers' market is also popular.

When it comes to specifically providing the name of the retailer where the participants purchase organic products, a total of 31 retailers were given. Migros and Coop are distinctly the two top retailers from which the consumers purchase organic products. From the percentage of participants who do their shopping at Migros (83%) and Coop (86%), both retailers enjoy a high level of trust from their customers. Over 60% of the customers rely on their

Would you change retailers if an enhanced range of fair trade products were offered elsewhere?



Where do you go shopping?

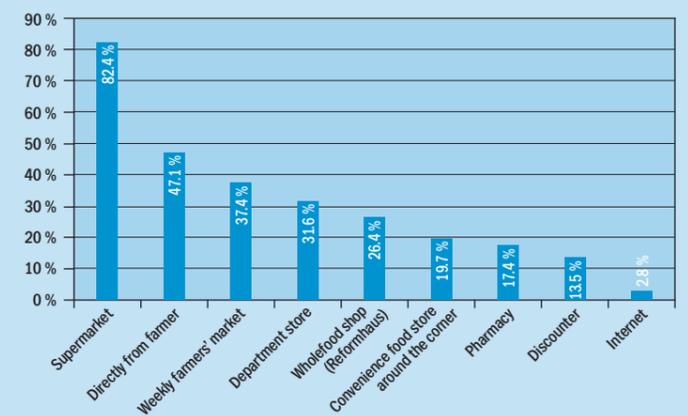


offered product range when purchasing organic products. Müller Reformhaus and Volg also enjoy a high level of reliance from their customers when it comes to the consumption of organic goods.

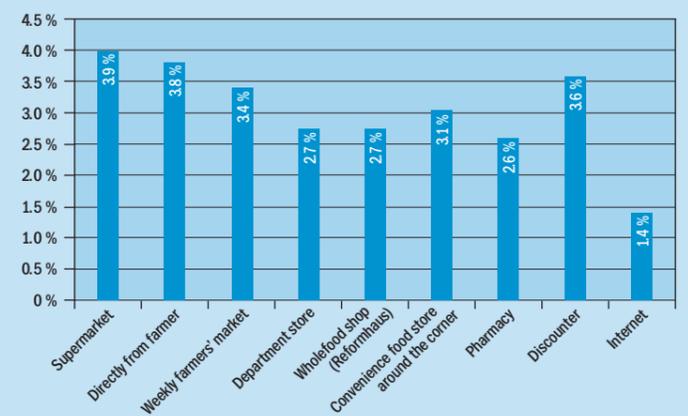
Given an enhanced product range, consumers affirmed their willingness to change at an average rate of 3 (on a scale from 1 “no change” to 5 “change for sure”) with the supermarkets and the farmers leading the score. However, more interesting than this ranking is the following analysis. We first added the number of responses which were a 5, meaning “change for sure” and those that were 4, meaning “change more than likely”. The difference of this sum to the share of customers who have already used the respective retail chain for buying organic products is indicative of the change potential.

It is interesting to see that the potential of the “classic” retail formats is limited. In the case of “supermarkets”, the zenith has even been crossed and the risk of losing market share is inherent. The winners are the farmers, the weekly farmers’

Where have you bought organic products before?



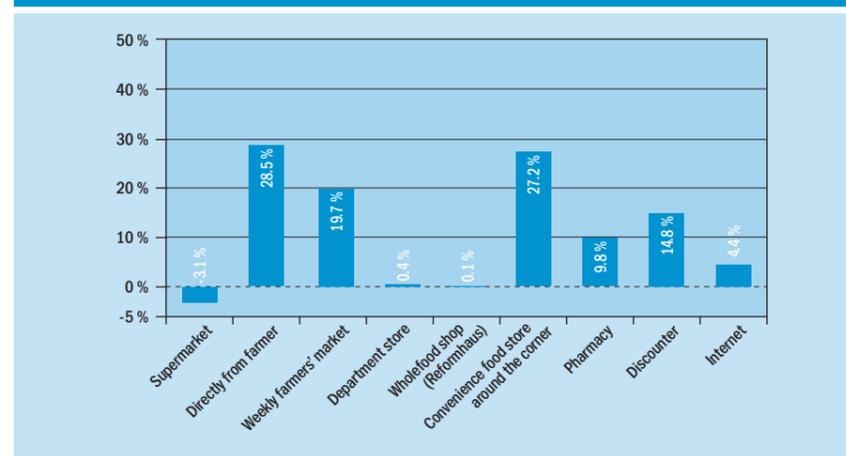
Would you buy organic products from the following retailer if the range of products were enhanced?



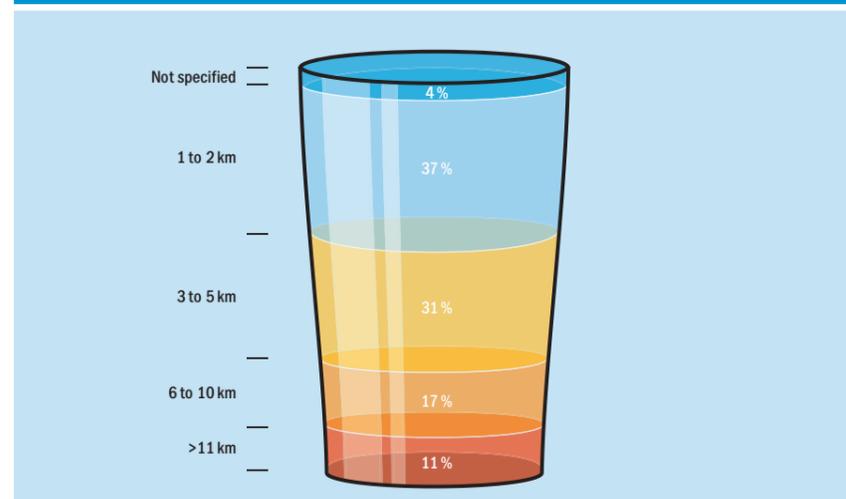
markets and convenience food stores, which show a significant potential that can be realized through innovative and smart product assortments and marketing efforts. Another winner might be the discounters with a 14.8% change potential. In the current retail market, since discount chains offer a small range of organic products, reliance from consumers is also relatively low. Furthermore, discount shops may not be perceived by the consumers as the retail outlet to purchase organic food. Over 65% of the customers of Denner and Aldi do not purchase organic food there. If the discount chains were to enhance their range of organic products, dedicated efforts into promotion and educational advertising would be required in order to realize this potential.

Whichever type of retail outlet, one of the key criteria lies in accessibility. Retailers should be within a maximum of 5 km reach.

**Change potential among the retail formats**



**How far away can the retailer offering organic products be from your residence?**



**Ethical and sustainable production practices**

The organic market sector has seen steady developments with increasing consumer awareness of the organic label and more consumers seeking out organic products. Determining aspects are also issues relating to ethical production practices and sustainability. After all, three quarters of the respondents expect their retailer to offer fair trade goods. More significant are the consumers' expectations when it comes to issues concerning ethical practices.

In the era of globalization and information influx, social responsibility is a rising issue in the media and in consumers' minds. Through increasing awareness and insights fuelled by the media, consumers are more consciously taking an active role in determining their consumption choices that are in accordance with their consciences in relation to ethical principles. Consequently, consumers are becoming more demanding and critical with regard to manufacturing practices.



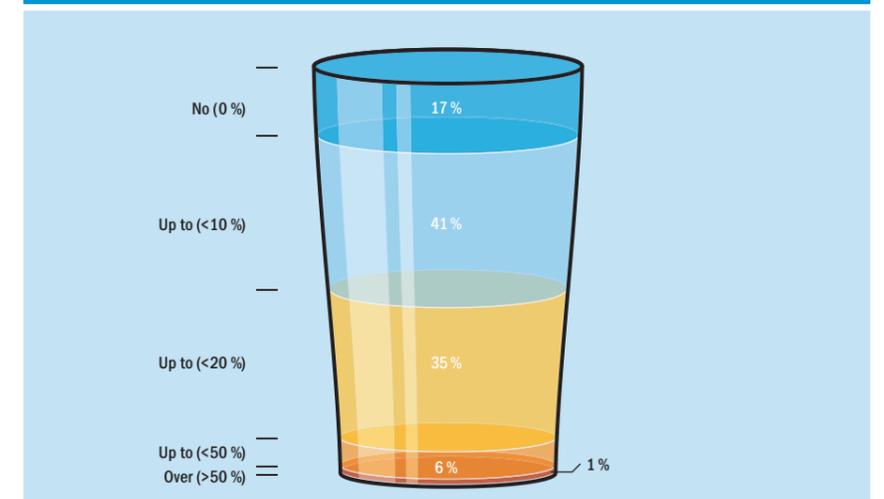
In the survey, participants were questioned on the relevance and importance of fair trade, sustainability and ethical practices. Not only are they important aspects for the consumer, over 90% of the participants would change brands if it came to light that the producer violated ethical production practices such as using child labor, working conditions with adverse health effects etc.

Considering the number of participants who have not heard of fair trade labels

(15%) and the level of consumer awareness, there is significant improvement potential in leveraging brand awareness and educational advertising. The promotion and enhancement of product offerings with ethical and sustainable principles by retailers and producers help to build up consumer trust.

Similar to organic products, over 80% of the consumers would accept a surcharge for fair trade products, with 41% of the respondents saying they would

**Would you pay more for fair trade products?**



pay up to an additional 10%. The limit is reached with goods that cost up to 20% higher, which 35% of the respondents would accept.

### Building consumer trust

Consumers make it clear that ethical principles and sustainable practices are the producers' and retailers' responsibility. Guarantees are expected not only from the producers, but also from relevant institutions.

Trust is placed in the retailers. In fact, consumers expect their retailers to take off from their shelves goods coming from producers who violate ethical manufacturing practices. Nearly 90% of the participants, for example, expect a guarantee from retailers that the products offered comply with the stated precepts. Half the consumers would change their retailer for an enhanced range of fair trade products offered elsewhere. However, the travel distance from home should not be more than 5 km. One third of the consumers expects the retailer to be within a 2 km reach.

In short summary, the consumer:

1. expects a range of organic, fair trade and environmentally friendly products offered by the retailer;
2. would change the retailer in favor of a more enhanced product range elsewhere;
3. expects a guarantee from the producer, retailer and relevant institutions.

As the last component of the value chain, retailers may be the first to notice changing consumer behavior. Consumers, on the other hand, do not

necessarily differentiate the producers' and retailers' role and responsibility in the value chain. What comes down to the consumer is the price, value and attributes of the end product at the point of sale in the retail store.

From the replies given by the producers and retailers, in general they place their trust in certified labels, such as Bio Suisse. The majority of the retailers in the survey also have their own control system for organic goods. However, around one third of the surveyed producers and retailers has not implemented a control system for suppliers delivering "organic", "fair trade" or "sustainable" products, and around two thirds of these producers and retailers do not intend to implement a comprehensive control and sanction tool. This can be explained by the well-organized certification process provided by the Bio Suisse organization, and the fact that large retailers in Switzerland already apply an in-house control system for their private labels.

The issues covering LOHAS are, as can be gathered from the survey, a complex

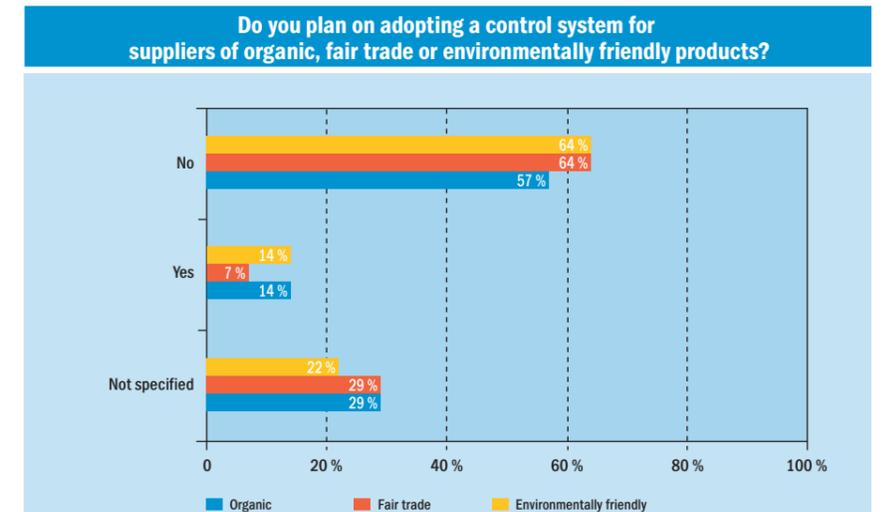
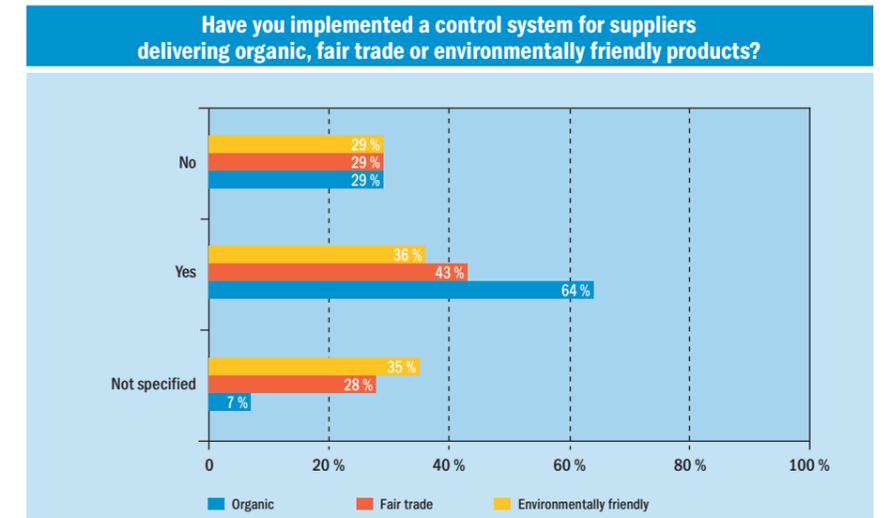
topic with overlapping issues that can make transparency difficult. It is challenging to grasp where risks of non-compliance in the value chain may arise, and what can be done to identify and manage these issues at an early stage. The challenge for both retailer and manufacturing industry is to assure the safety of the products, and that the value-added attributes comply with the specified principles and practices. Food security incidents have shown what impact of damage this can have on a company. Consumers react with boycotts, switching to another brand and spreading negative word of mouth – in short, consumers lose trust. A control system and adequate risk management are required by producers and retailers.

Responsibility not only lies with the producers and retailers, but also with public and private organizations. This includes providing a uniform appearance and coordinated standards that enable consumers to clearly recognize which attributes cover his/her needs and expectations. It also grants companies, through comprehensible control and sanction systems,



the possibility to deliver commitments they can keep.

Winning, building and maintaining consumer trust is crucial for all members and players involved in the value chain. In the end, all the effort to provide customers with "organic", "fair trade" and "environmentally friendly" products is of little benefit if consumers on the broad front lose confidence in the undertakings of the industry.



# Future Scenarios

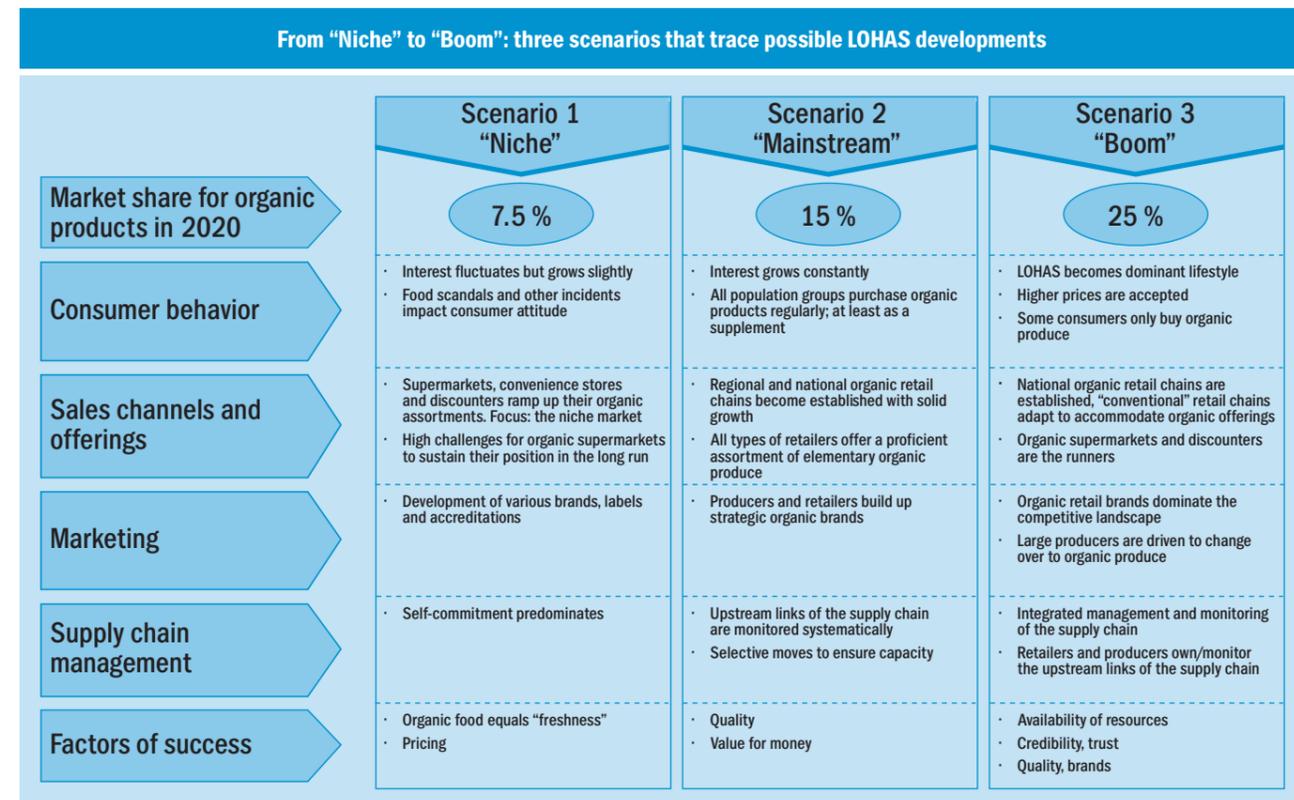
## What would happen if 25 % of the population wanted to live on organic food?

Drawing on our surveys, we ventured into identifying three possible scenarios. It is to be expected that the manifested behavior by consumers and the strategic actions planned by producers and retailers will reinforce each other. An enhanced range of products, clearly defined

standards and repositioned brands fuel demand, and vice versa. Satisfied consumers will “vote with their feet and their wallets”, indicating which retail channels and which products they prefer and which new offerings live up to their expectations. In any case, we anticipate

further growth. In consideration of the replies given by the surveyed consumers, a market share of up to 25 % is possible by 2020.

The diagram below outlines the three scenarios.



### Scenario 1: LOHAS remains a niche market

If food retailers retain the current breadth and depth of their organic food assortments and miss the opportunity to exploit consumers’ demand for better information, fail to establish clear labeling practices and do not sharpen the focus of their offerings, we believe that organic produce will not exceed a market share of 7.5 % by 2020. Individual food scandals may fuel higher demand for organic food. The market in general, however, would remain a niche market. The establishment of a well-stocked selection with a comprehensive monitoring of organic crops will probably not take place. Contrary to expectations, land for organic cultivation will not be in short supply as the volume of organic food remains low. In terms of competition, price remains one key criteria and conventional produce still has the edge on organic food. Organic produce remains a niche market for providers who wish to carve out a distinctive profile.

### Scenario 2: LOHAS goes mainstream

It is, however, more likely that the market will respond to customers’ wishes, at least in terms of product assortments, information and labeling. Retailers and producers would sharpen their profile and ramp up their organic brands. In this scenario, we believe that a market share of 15 % by 2020 is realistic. One food scandal after another constantly fuel consumers’ interest in organic food and related issues. All population groups buy organic products regularly. Consequently, the food and retail industry becomes obliged to systematically monitor the upstream links in their supply chain and to gain secure access to increasing agricultural capacity in order to avert supply risks. Organic food has gone mainstream.

### Scenario 3: LOHAS dominates the market – organic food is booming!

But what would happen if the trend identified, as can be extracted from the consumer survey, occurred? What would happen if LOHAS (a “Lifestyle of Health and Sustainability”) became a dominant lifestyle with a market share of 25 % by 2020? National organic supermarket and organic discounter chains would become established. Like wholefood retailers in the USA, the leading organic supermarket chain would become one of the shooting stars in Switzerland’s food retail market. If this scenario sets in, it will have a substantial impact on corporate strategies and processes in the future. Producers and retailers must analyze their organizations to identify individual risks relating to the production and sales of organic products. The adherence to fair trade practices and issues concerning sustainability must be ensured. With this, it is imperative to develop a risk avoidance strategy and build a robust risk management system.

On the **production** side, the following questions will arise: “Which countries will be the suppliers of raw materials?”; “Where will organic farmland be?”; “How can the monitoring of suppliers be anchored in contractual agreements?”; “What accreditation, scoring, monitoring and sanction systems are needed?”. To integrate LOHAS into their internal processes, companies need to develop and launch special monitoring and control systems. Transparent control measures must ensure that suppliers, producers, employees and distribution partners all comply with prescribed standards. Accordingly, suitable systems – such as a specially developed balanced scorecard – need to be introduced to verify such compliance.

The **purchasing** division will also face a number of challenges: “Where can we find reliable organic procurement sources?”; “Do retailers need their own production facilities or even their own farmland?”; “Which kind of distribution structures will organic producers use?”; “Is it necessary or does it make sense to establish private labels?”; “How should these be designed?”; “How should an organic category management look like?”; “What is the appropriate pricing and what labels should be used?”; “What kind of supplier management systems and controls are needed?” (quality control per se is not sufficient); “How must the terms and conditions be designed in the future?”. To answer these questions, it will be necessary to develop a supplier scorecard and management system that is specifically tailored to the needs of LOHAS. This system must guarantee the compliance of suppliers and define the specifications for the implementation of a LOHAS strategy. Vital aspects in-

clude professional master data entry, the storage of self-regulation declarations and the documentation of all target agreements and controls.

The **supply chain management** will be involved in issues such as how to build a regional logistics network for fresh produce and how to reconcile this with centralization efforts. It will also become increasingly complex to manage the logistics on an international level. Changes in agricultural and supply structures will require the development and implementation of completely new logistical solutions. Accordingly, producers and retailers will have to analyze, assess and adapt their supply chains to accommodate the LOHAS-related products. Close monitoring of compliance with the organic, fair trade and sustainability criteria, including the need to reduce both CO<sub>2</sub> emissions and the burden that transportation places on the climate, must be assured at all times.

**Marketing** must align itself with the changed conditions to optimize the customer pitch for LOHAS products. The first thing to clarify is how to communicate an organic strategy consistently. All activities – PR, advertisements, the store design, shelving structures, promotion placements and the labeling of products on-shelf – must be brought in line with the LOHAS strategy. Store managers need to know what kind of information is needed at the point of sale.

The **distribution** division will need to identify the focus of future format strategies and determine the level of service, customer advice and personnel resources that will be required. The issue of which locations are suitable for direct



supply from organic farmers must likewise be clarified (for example wholefoods).

Last, but not least, players in the food industry must rethink their **strategies** in light of the LOHAS trend. Who will gain the upper hand? Will vertical retailers – for example Alnatura in Germany – assert themselves by controlling the entire

supply chain from production to sales? Will the establishment of organic discount chains emerge? One thing is for certain, it is time to review the product groups and make provisions for the move to organic product assortments; to analyze market potential, perform benchmarking tests, examine best practices, formulate alternative courses of actions, design concepts and implement strate-

gies for the different types of retail operations selling organic produce. First-mover advantage can be gained in the food industry, too; and the first industry players are already heading in the LOHAS direction.

In short, if the market share of organic produce increases to 25% of total food sales by 2020, the whole industry will

face demanding changes and challenges. And now is the time to gear up.

# Overview of Well-known Swiss LOHAS Labels

All organic produce must comply with the rigorous legal restraints of Swiss organic regulation (“Schweizer Bio-Verordnung”). The Swiss regulation is consistent with that of the EU and constitutes the minimum requirement for organic products.

The following labels are well-known by over 45% of the survey participants. What do they stand for? Here is a brief summary:



“Bio Natur Plus”, the organic label of Selection Manor, stands for:

- Farming in harmony with natural cycles and processes
- Livestock that spend their lives on organic farms and are fed on organic fodder
- Alignment of livestock volumes to farm space and fertilization volumes
- No use of chemically synthesized additives or ingredients
- No use of genetically modified organisms or by-products thereof
- No (ionizing) radiation of food

The Max Havelaar Foundation (Switzerland) label stands for fair trade with products from economically disadvantaged regions in the southern hemisphere. The aim of fair trade is to improve working and living conditions for small farmers and workers on plantations. Products that bear the Max Havelaar quality seal are produced and traded in compliance with international standards. Compliance with these standards is monitored by an independent accreditation center. Max-Havelaar-accredited products are available in Swiss retail chains and restaurants.

The organic food program of Migros promotes natural and sustainable agricultural practices. The domestic organic products of Migros are delivered by farms that comply with Bio Suisse, the umbrella association of over 30 organic farming organizations. Organic foods are produced without the use of chemically synthesized pesticides or artificial fertilizers. Air transport and the use of genetic engineering are strictly prohibited. Livestock must be regularly free to roam outdoors and be fed primarily with organic fodder.

Founded in Basel on September 1, 1981, Bio Suisse is the umbrella organization of more than 30 local and regional organizations of organic farms in Switzerland.

Products from Bio-Suisse-accredited producers can be identified by the bud (“Knospe”) label.

The Bio Suisse bud stands for:

- Full organic farming operations, i.e. the whole farm must be committed to organic farming, not only individual produce categories
- Minimum social standards: Bio Suisse requires that all farmers accredited with the bud seal must satisfy defined minimum social standards for their employees
- No use of genetic engineering
- No use of chemically synthesized pesticides or artificial fertilizers
- Promotion of biodiversity: Farmers accredited with the bud seal must set aside at least 7% of their land for ecological land compensation. Grass must be sown on viticultural and tree-growing grounds
- Climate protection: Bud-labeled pro-

ducts are not allowed to be transported by air

- Energy saving: Heating greenhouses in winter for bud-labeled vegetable produce is prohibited. Greenhouses may only be kept frost-free
- No clearing of primeval forests for bud-labeled products
- Complete traceability: It must be possible to trace every bud-labeled product (including imports) back to the farmer
- No artificial colorings, flavorings or coloring ingredients, for example, no beetroot juice is used to make strawberry yoghurt redder
- No radiation of food, for example microwaves
- No vitamin additives
- No hydrogenated fats (bud-labeled products contain virtually no trans fats)
- Environmentally-friendly packaging
- Regular independent inspection of organic farming and processing

Coop Naturaplan stands for food coming from organic farms that is produced in accordance with the rigorous guidelines of Bio Suisse (the umbrella association of over 30 organic farming organizations) and is distinguished by the bud label (“Bio Knospe”). Above and beyond compliance with the minimum legal standards for organic produce, such as the prohibition of chemically synthesized pesticides, artificial fertilizers and GMO’s, the label attests that Naturaplan products also satisfy the following criteria:

- Full organic farming operations, i.e. the whole farm must be committed to organic farming, not only individual produce categories
- Minimum social standards
- Ecological land compensation to promote biodiversity
- No clearing of primeval forests
- Conservation of water resources
- Prohibition of air transport
- No heating in greenhouses
- Non-aggressive processing, for example no artificial colorings or flavorings, no hydrogenated fats etc.





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