

Among the intense economic, social, technological, regulatory and marketing forces swirling in the rapidly growing U.S. organic foods market, the most important determinants of business success are decidedly personal – and ethical. Just ask Heather Howell, chief executive officer of Louisville, Ky.-based Rooibee Red Tea, a fast-growing organic beverage company that received early-stage capital from the Baylor Angel Network (BAN).

Howell asserts that earning the U.S. Department of Agriculture's (USDA's) organic seal of approval requires a significant time and money investment, but she emphasizes this compliance activity marks only one of many facets of running an organic food business. The success of the business, Howell firmly believes, hinges on maintaining as much transparency about the product's ingredients, manufacturing and sourcing as possible. Howell and her team decided to identify the serving size of their products – naturally decaffeinated iced "red tea" for adults and children that is made from the rooibos ("red bush") that grows in the Western Cape of South Africa – as one bottle. They did so, even though some competitors opt for multiple serving sizes per unit, which can obscure the amount of sugar in their beverage. That organizational belief matches Howell's personal beliefs. As a mother, she wants to know every single ingredient in the food she buys for her two children. Obtaining that knowledge sometimes can be difficult given opaque labeling practices and other masking and marketing practices that are not within the purview of the organic seal requirements.

ETHICS  OF...

THE BOOMING Organic SECTOR

BY ERIC KRELL

ETHICAL QUESTIONS

ORGANIC GROWTH

The organic food segment, which since 2001 has been governed by the USDA Organic Seal, and the broader (and much more loosely defined) "natural" products segment are exploding.

The latter surpassed \$290 billion in the U.S. in 2013, according to Academics Review's "Organic Marketing Report." The U.S. organic segment posted a whopping 3,400 percent increase in total revenue from 1990 to 2014, according to the Organic Trade Association, which projects 2014 revenue at \$35 billion. Despite their recent and meteoric rise, the natural and organic segments seem likely to sustain their healthy growth rates due to several factors, including social media, demographics and psychology.

"Consumer preference for 'organic' is related to preference for 'natural,'" notes Ann Mirabito, assistant professor of Marketing. "We know that people prefer 'natural' for two reasons. First, many people believe natural is morally

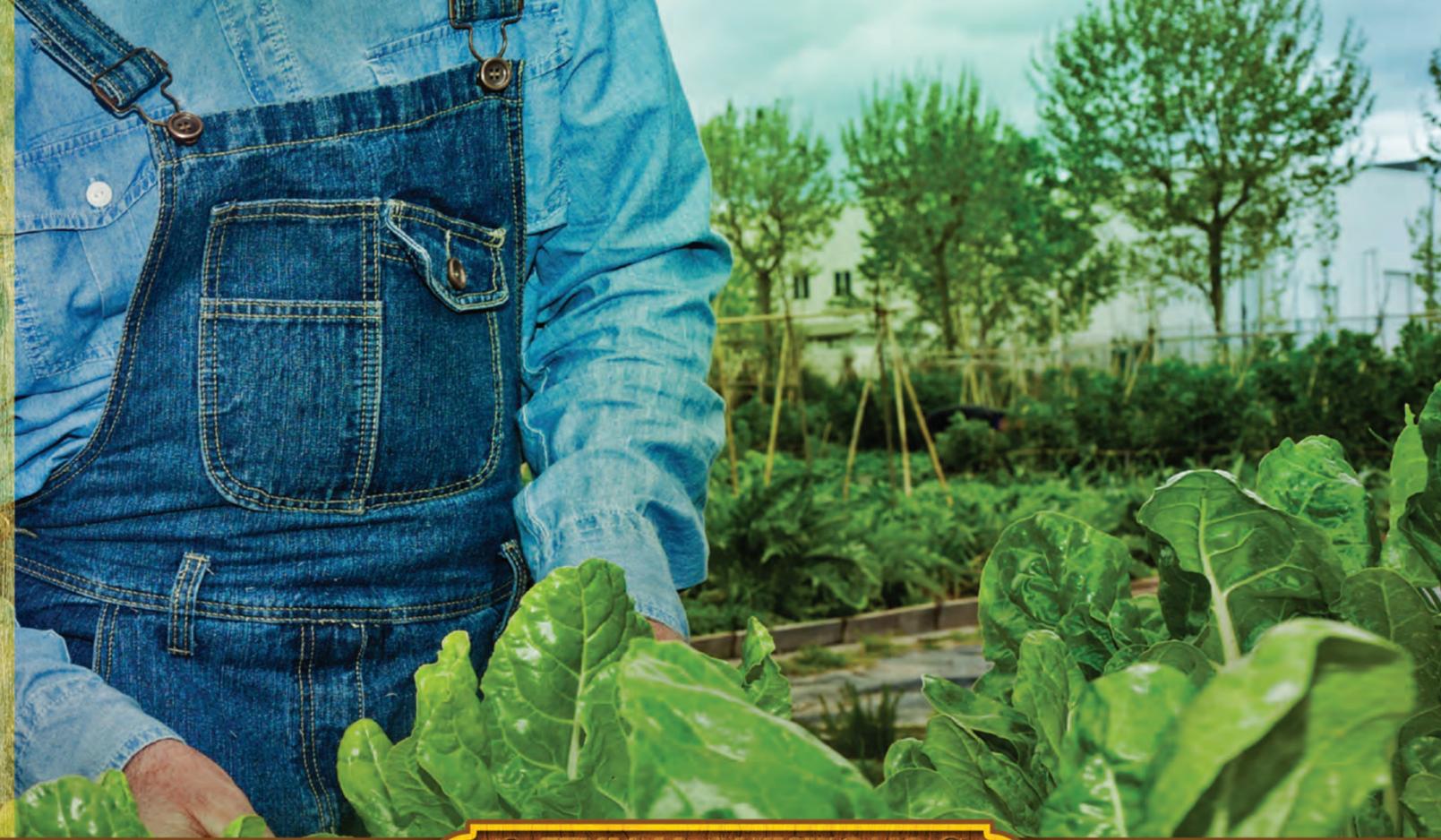
or aesthetically superior to manmade. And second, natural products are often believed to be functionally superior to manmade in terms of safety, taste, effectiveness or environmental benefits. The flip side is true, too: people think manmade harms are worse than natural disasters."

Mirabito points to a scenario conducted by University of Colorado at Denver and Rutgers University researchers in which people were asked which fictitious city they'd rather live in. The two cities were identical except in one city, tree pollen emitted small amounts of an allergy-causing chemical, and in the other city, residue from a long-shuttered factory emitted the same allergy-causing chemical. "People thought the chemical from the factory would be riskier," Mirabito adds, "because, despite being told otherwise, they couldn't shake the

concern that the factory chemical would cause other problems down the road."

These tendencies help explain why email- and social-media-fueled news, facts, opinions and misinformation related to food health issues are disseminated so widely and efficiently today. "[P]erceived safety concerns tied to pesticides, hormones, antibiotics and GMOs [genetically modified organisms] are the critical component driving sales in the organic food sector," according to a review of 25 years of market research published by organic and natural marketers conducted by the Academics Review, an association of professors, researchers and authors.

That's not to say that information about non-organic ingredients and practices are automatically right or wrong. What's certain is consumers have greater access to health information (and misinformation), and they seem increasingly intent on using this information to determine if the food they buy meets their subjective definition of "healthy."



The benefits of the USDA organic label is it provides an objective standard – mainly defined by what the food product does not include (e.g., pesticides, GMOs, antibiotics, growth hormones, irradiation, sewage sludge, synthetic fertilizers, etc.). But this standardization only extends so far because food labels – which the U.S. Food and Drug Administration (FDA) is considering updating to limit serving-size fuzziness and other gray areas – and terms like "natural" allow ample wiggle room. This wiggle room raises tough questions for professionals running and managing organic product businesses to evaluate, including:

✿ Is organic worth it?

Howell, and Austin-based Rhythm Superfoods chief financial officer Jeff Tusa, emphasize the USDA organic certification process marks a significant investment. The USDA indicates certification costs "vary widely depending on the certifying agent [which are sanctioned by the USDA] and the size, type and complexity of your operation," ranging from "a few hundred to several thousand dollars" annually. "Yes, there's a cost associated with the seal," Howell says, "but it really is an investment in your commitment to transparency."

✿ Are you leveling the playing field?

"Some competitors make certain claims that are questionable," Tusa acknowledges. Howell agrees, emphasizing she firmly believes in a level, competitive playing field. Companies and their executives must decide whether to call competitors on sketchy marketing claims or let them slide, which could tilt the field unfairly against more transparent companies.

✿ Are you living up to your own standards?

The organic certification covers only a portion of the factors that determine the healthiness of a food product. That's why many organic businesses create

their own standards; the trick is living up to them. For example, the mission of Rhythm Super Foods (another BAN-funded company) is to be "nutrition positive with no negative impact." It lives up to that mission in several ways – one is by baking its Super Foods Chips line so that they are lower in fat than competing products.

As clear as the organic standards are, "healthy," "natural" and other marketing terms and practices remain highly pliable. That's why some organic product leaders favor a strategy that rises above and beyond compliance: "I think the best thing any food company can do," Howell adds, "is to be 100 percent transparent."