



# Identifying Your Market Segment

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## Overview of market opportunities

During the last five years, remarkable shifts in the food industry have taken place -- shifts that are likely to continue into the next century.

First, sales in grocery stores have been quite flat, showing very little growth. At the same time, specialty and natural food stores have increased in numbers and in the amount of sales they generate. For example, Whole Foods and Wild Oats, the two largest natural food chains in the United States, increased their sales by about 25 percent in 1998 and opened or acquired an additional 30 stores. This rate of expansion is expected to continue in 1999.

This phenomenal growth is due to substantial increases in availability and sales of gourmet and natural foods, especially organic products. Specialty and gourmet foods have become a sizeable market, currently representing 10 percent of all food sales in the United States -- a figure that continues to increase by about 7 percent a year. Natural food sales have also increased dramatically, with sales of organic products, in particular, increasing by about 24 percent each year. This growth has stemmed in part from the massive expansion of chains of natural food stores, most notably Whole Foods and Wild Oats, but also from the growth of many smaller, local or regional natural food chains.

There are three major retail market categories in the specialty food industry: organic/natural, specialty/gourmet, and vegan. Each can be linked to particular values and causes, and their appeal to consumers enhanced by this connection. Understanding the potential for growth in each category can help you determine how to position your products and create the most effective marketing strategy.

## Grocery

The US grocery industry had revenues of \$517.3 billion in 1997, accounting for a 4.6 percent increase over 1996. Most of those dollars were spent in the mass market grocery store channels-- chain supermarkets, supermarkets, independent grocers (IGA's), and convenience stores. This trend is changing in the 1990s, however, as supercenters (WalMart and Big K) and warehouse clubs are securing more of the grocery share. According to the Food Industry Report, these operations now account for 11.4 percent of the grocery market and are expected to increase to 14.8 percent by the year 2002.

## Specialty foods

The specialty foods segment is generating almost \$30 billion in annual retail revenues, according to a Joint Industry Task Force consisting of the Grocery Manufacturers of America, Food Marketing Institute, National American Grocery Wholesale Grocers Association, National



Association of Chain Drug Stores, National Food Brokers Association, and National Grocer Association.

### **Natural foods**

According to Natural Food Merchandiser, overall sales figures of natural foods in 1996 were \$11.5 billion. This analysis was obtained through interviews with natural products distributors whom, NFM believes, provide the most reliable measure of industry sales from a single channel of distribution without any redundancy in product sales. This figure reflects sales in the natural and health food store channel only.

### **Vegan foods**

The number of vegans in the United States is currently estimated at 650,000 individuals, and the number of vegetarians is nearly 6 million. Although we were not able to find information about the increase in vegan markets, it appears to be a niche market small processors should consider, based on this empirical evidence.

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## **Definition of Terms**

### **Specialty foods**

The National Association for the Specialty Food Trade (NASFT) has adopted the following description for specialty foods: Specialty food products shall mean: foods, beverages or confections meant for human use that are of the highest grade, style and/or quality in their category. Their specialty nature derives from a combination of some or all of the following qualities: their uniqueness, exotic origin, particular processing, design, limited supply, unusual application or use, extraordinary packaging or channel of distribution, the common denominator of which is their unusually high quality.

Many food products are deemed specialty because of their limited, seasonal, or regional availability. In many cases whether the products are fresh, prepared, or processed, the marketing and packaging of these items will appeal to consumers by differentiating them from common grocery items in those categories. Gourmet or specialty food items generally position themselves at a higher price point than their mass-market, grocery counterparts. The rationale for this pricing strategy is that high quality ingredients and more laborious processing are involved in the manufacture or production of these items. Specialty food items are typically produced in much smaller batches, drawing more demand than supply.

### **Gourmet Foods**

The word "gourmet" is often considered synonymous with specialty food because few industry terms are standardized. The gourmet/specialty category comprises a wide range of products including sauces, condiments, ethnic foods, and indulgences such as chocolates, hearth breads, and gourmet cheeses. During the last decade, customers' tastes have become more sophisticated. The gourmet customer wants unique food, ethnic foods, local and regional varieties, and seasonal foods and dishes.



### **Natural Foods**

"Natural foods" is a term used to describe products that do not contain any artificial flavor or coloring, chemical preservative, or any other artificial or synthetic ingredients, and that are minimally processed. Various consumer surveys since 1990 indicate that only the terms "natural" and "grown without pesticides" are claims that have grown in importance to consumers as a whole.

### **Vegan foods**

Vegan foods are those products that do not contain any animal-based ingredients, including meat, seafood, dairy products, honey, and eggs. The vegan market is growing rapidly, especially among young people. Even among those young people who are not vegan, this product category has considerable appeal because it is seen as moral "high ground." Of the 466,000 Webpages on vegetarianism, 136,000 are about veganism.

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### **Print Resources**

*From Kitchen to Market*, Ch. 1: "Understanding the Food Industry"

*Kitchen to Consumer*, Ch. 7: "Marketing Your Product"

*Marketing to the New Natural Consumer*, Part I: "The New Consumer"

*Starting a Shared Use Kitchen Incubator*, Chapter 7: "Marketing Specialty Foods"

Look for these book titles at your public library or local bookstore. All books are also available through online booksellers, such as [amazon.com](http://amazon.com).

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### **Web Resources**

#### **Supermarket Business**

<http://www.supermarketbusiness.com/>

#### **Supermarket News**

<http://www.supermarketnews.com/>

#### **Food Marketing Institute**

<http://www.fmi.org>



**Food Distribution Institute**

<http://www.fdi.org/>

**Natural Business**

<http://www.naturalbusiness.com>

**New Hope Media**

<http://www.newhope.com>

**Natural Food Merchandiser**

<http://www.nfm-online.com/>

**Gourmet Retailer**

<http://www.macfadden.com/gourmet/>

**Chain Store Age**

<http://www.chainstoreage.com>

**The Food Dude**

<http://www.fooddude.com/>