

The organic food revolution that is minting millionaires

Elaine Pofeldt, special to CNBC.com | Friday, 6 May 2016 | 11:35 AM ET



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Whole Foods Market sales increased \$3.7 billion in the second quarter, driven by America's insatiable appetite for organic, healthy food. As consumers become more discerning about what they eat and more are willing to pay for better-quality foods or those for special diets, many small food makers are carving out footholds in this fast-growing marketplace.




Whole Foods Market up after it beats on earnings per share, misses on revenue

The trend is not surprising, considering that about \$45 billion is spent on organic food every year in the United States. Today, organic products are available across America in more than 20,000 food stores and nearly 3 out of 4 grocery stores, according to **TechSci Research**. And it is projected to grow at a compounded annual rate of **16 percent** through 2020.

On a global scale, the market for organic, functional allergen-free and better-for-you foods will reach a record \$1 trillion in 2017, according to **Euromonitor International**.


Consumer demand is helping many start-ups pull off a successful launch, even in an industry notoriously difficult to crack because of competition from large retailers. Take Thrive Market, a Los Angeles start-up that sells specialty organic food and beauty products. The online grocer garnered \$10 million in sales after just 17 months from its launch — **a stunning rate of growth** that has surprised its founders and investors, as well as execs across the food industry.

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Vanessa Phillips is another success story. Frustrated that she had to give up Chinese food after going on a gluten-free diet for Celiac disease, she teamed up with a chef and launched Feel Good Foods, a Brooklyn-based company that makes gluten-free frozen Asian dishes, such as shrimp and vegetable egg rolls. Selling its products in stores such as ShopRite and Wegmans, the four-year-old company has taken off, growing to six full-time employees and \$3 million in revenue.

"We're surprised year over year by how this industry is changing, evolving and growing," said Phillips, who is also the company's CEO. "It's become a huge food movement."



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"There is a seismic change in what people are eating and want out of their food and beverages," said Greg Wank, practice leader of accounting firm Anchin, Block & Anchin's Food and Beverage Industry Group in New York City. "People want more than good taste and their hunger satisfied. They want food and beverages that have some functionality for their bodies and their health."

Venture capitalist and angel investors are stepping in to back start-ups in the organic food chain. Last year they invested more than \$2 billion in the sector, according to AgFunder. Even **Silicon Valley firms, like Khosla Ventures and Andreessen Horowitz**, are eyeing deals.

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-Vanessa Phillips, co-founder and CEO, Feel Good Foods

Wank's firm has been seeing a large number of start-ups in the healthier eating and drinking space in recent years, he said. "We probably talk to close to 50 potential new clients a year in food and beverage, and probably 40 are in some kind of healthy food and beverage category," said Wank.

Among the hot trends are gluten-free, paleo and non-GMO foods, he said. "Clean label is very hot right now — only a few ingredients and the consumer has heard of everything on the label," Wank explained. "There are no scientific names that no one knows what they are."

Of course, increasing competition in these niches is raising the bar for anyone who enters the space, noted Wank.

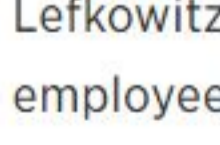
"Do we really need 10 kale-chip companies or are two or three enough?" he questioned. "Eventually, some may disappear because they are not differentiated enough."

Stacey Schlaman is up for the challenge. In April 2015 she started Liberated Specialty Foods — a bakery in Madison, Alabama, focusing on grain-free, gluten-free foods — after her daughter, then 11, was diagnosed with several autoimmune diseases. Although Madison is a small city, the bakery, which ships its products nationally, is thriving as customers on similar diets flock. Liberated Specialty Foods has grown to eight employees.

"I think the mind-set of America is getting frustrated with the options available," said Schlaman. "Autoimmune diseases are on the rise everywhere."

Small companies that supply makers of healthier foods are also seeing opportunity. Tapping into consumers' growing awareness of "gut health," Andy Lefkowitz supplies a probiotic added to more than 100 products — from Red Mango frozen yogurt to Bigelow tea. His Cleveland company, Ganeden, founded in 1997, is an international probiotic ingredient manufacturer whose clients also include tiny organic brands.

"We have clients that started their business in their kitchen," said Lefkowitz, the firm's CEO, claiming that revenues for Ganeden's 25-employee firm are doubling every year.



Cramer: Food revolution crushing the averages

Small companies aren't the only ones trying to get in front of consumers' demands for healthier fare. Big grocery-store chains are paying more attention to what they put on their shelves, as mainstream consumers, more knowledgeable about food, demand improvements like better-quality meats, noted CPA Jeff Cohen, a partner at New York City area accounting firm Grassi & Co., who works with clients in the food-and-beverage industry. "Even Stop & Shop has their own commissary," he noted.

The Schwan Food Company, a frozen-food maker with \$3.2 billion in sales, has launched a program to simplify the labels of its frozen goods and remove unpopular ingredients, such as high-fructose corn syrup. It plans to remove high-fructose corn syrup from its products by the end of the year.

"Even though the science is being debated, consumers don't want it in their food products," said Dimitrios Smyrniotis, CEO of Schwan, which is known for brands such as Mrs. Smith's pies and Tony's pizza.

The company is enlisting a collective of up-and-coming chefs to develop a new generation of frozen foods as it removes other ingredients many consumers try to avoid, such as artificial flavors.

Food makers of all sizes that don't take changing consumer demands into account are likely to fall behind, say experts.

"You are starting to see things like gluten-free Cheerios," said Crystal Stranger, a small-business consultant in Honolulu. "I see this trend moving from specialty food to all-encompassing."

— By Elaine Pofeldt, special to CNBC.com