

Market Report 2016



The recipe for better food

This Year's Development

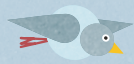
Consumer demand for KRAV-labelled products continues to rise sharply. The market has matured and KRAV-labelled products have become a standard part of the marketing and supply strategies of many companies. In this vigorous growth phase, an adequate supply of Swedish raw materials is the industry's biggest challenge. An all too slow development of KRAV-certified primary production risks slowing down the positive trend. The signal to processing companies and Swedish farmers is clear - convert!

CONSUMERS

9/10

LOHAS regularly purchases KRAV-labelled products

LOHAS consumers are very interested in health and sustainability and are an interesting target group for anyone who works with organic and KRAV-labelled products. The LOHAS population segment in Sweden has increased by 11% in 10 years.



THE RETAIL SECTOR

32%

sales increase of KRAV-labelled dairy products, driven by the breakfast segment

FOOD SERVICES

300

new KRAV-labelled restaurants in Sweden

In 2015, everything from large café chains and restaurants at trade fairs and on trains to gourmet restaurants with Michelin Guide stars have chosen to become KRAV-certified. There are now 1,170 KRAV-labelled restaurants in Sweden.



*KRAV-labelled
product share
of total sales*

6%

PRODUCTION & IMPORT

45%

*of KRAV-labelled food
is Swedish*

There is great potential in several product areas for increased Swedish production of KRAV-labelled products.

EXPORT

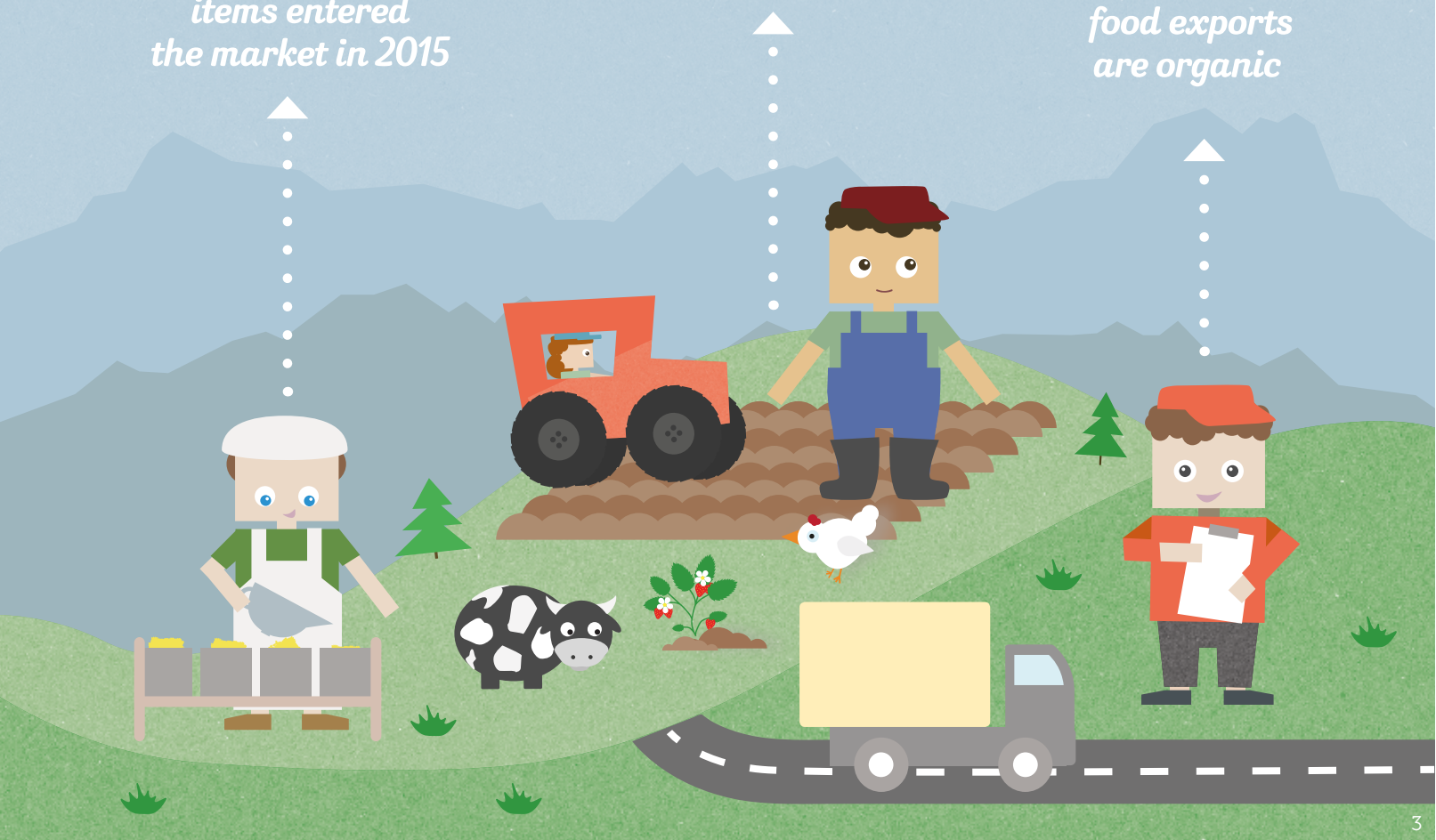
1%

*of Swedish
food exports
are organic*

PROCESSING COMPANIES

1,600

*new KRAV-labelled
items entered
the market in 2015*



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Summary

Insights From This Year's Report

The KRAV Market Report 2016 describes how the market for KRAV-labelled and organic food has developed in Sweden. Consumer insights, trends, sales volumes, channels, company examples and export opportunities are presented.

Organic Sales Continue to Increase

In 2015 the market for organic food increased by 39%. The Swedish market for organic products, including exports, is equivalent to a sales value of approximately SEK 23 billion.

A Shortage of Raw Materials Hampers Growth

The market for KRAV-labelled food is limited by availability. There is, amongst other things, a shortage of KRAV-certified milk, certain kinds of cereals, Swedish fruit and vegetables and pork. This leads to limitations in the production of both existing and new products

Everyone Knows About KRAV

Almost all Swedes – 98% – are familiar with KRAV. Familiarity with the EU-organic label is 55%. Seven of 10 Swedes know that KRAV has stricter standards than the Euro-leaf.

The Positive Attitude is Getting Stronger

The positive attitude towards KRAV has strengthened during the past five years. Seven out of 10 Swedes – and 84% of the target group LOHAS (Lifestyle of Health and Sustainability) – have a positive attitude towards KRAV. KRAV is associated with characteristics such as reliability, expertise, high status and modernity. Eight of 10 Swedes, and nine of 10 in the target group LOHAS, regularly buy KRAV-labelled products. Three of 10 Swedes and half of all LOHAS consumers prefer organic food products that are also KRAV-labelled.

Showcase and Give Great Deals

LOHAS consumers, to a greater extent than other consumers, choose shops according to the selection of organic products. LOHAS consumers want clear information and good displays of organic choices, appreciating when they are connected to advertising campaigns and membership discounts.

Strong Demand in the Retail and Food Services Sectors

The demand for KRAV-labelled food in the retail sector is expected to continue to increase. Within the foods services sector, demand is strengthening in both the private and public sectors. The major actors plan to further expand their KRAV-labelled selection. There is a potential here for both primary producers and processors to convert and develop the organic options that there is a demand for.

Great Export Opportunities

Exports of organic food total SEK 700 million. It is a very small share, both in terms of Sweden's total food exports of SEK 67 billion and the global market for organic food that totals SEK 550 billion.

The Potential for Increased Swedish Production

The share of Swedish-produced organic food in the retail sector is approximately 43%. The equivalent share of KRAV-labelled products is 45%. The share of Swedish products is biggest for dairy and fresh products, and lowest for colonial products, confectionery products, fruit and vegetables.



INTRODUCTION

The Market has Matured	9
Continued Strong Growth.....	10
Six Clear Trends	11

CONSUMERS

Growth in Number of LOHAS Consumers.....	13
KRAV Strengthens Its Position.....	14
Get To Know LOHAS Consumers In Depth	16
A Broad Organic Selection and Information Result in Increased Sales.....	18
Where to Reach LOHAS Consumers.....	20
How to Reach LOHAS.....	21
Honest, Transparent and Interactive.....	22

THE RETAIL SECTOR

Strong Development in the Business Sector.....	25
The Retail Sector and Digital Purchase Behaviour	26
The Sustainable Future of the Retail Sector	28
Training in Shops Increased Sales	30
Sales Development	32

FOOD SERVICES

Increased Cooperation Important for Growth.....	35
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PRODUCTION & IMPORT

Shortages Limit Market Development.....	37
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EXPORT

Small Organic Exports With Great Potential.....	39
Four Hot Markets for KRAV-labelled Products	40

KRAV-certified companies can easily test their wings at international trade fairs using KRAV's exhibit. KRAV has chosen three special international trade fairs to participate in: Nordic Organic Food Fair (NOFF) in Malmö, Biofach in Nürnberg, and Natural & Organic Products Asia (NOPA) in Hong Kong. Pictured here is Johan Cejje, KRAV Sales Manager, and the KRAV exhibit at NOFF.



“The market has matured.”

We will remember 2015 as the year when the market for KRAV-labelled products matured. If 2014 was characterized by a focus on producing goods, the market matured during 2015 and KRAV-labelled products became part of the marketing and supply strategies of many companies. Product portfolios grew and marketing departments communicated about sustainability in a completely new way. At KRAV we saw this clearly with entirely new contacts at processing companies that had many new perspectives. As 2016 begins, all data points to a continued high demand and sales increase for KRAV-labelled products. New buying patterns are emerging - a large group of consumers are willing to choose KRAV-labelled products and to pay a little more for them. This development presents both problems and opportunities. The opportunities of course include the great demand, and the fact that the number of products on the market is growing. The increase in volume and selection has also led to an increase in competence regarding both product development and purchasing.

One of the problems is that we no longer have the surplus of milk that we have had in recent years. The surplus of meat is also beginning to decrease, which leads to back orders and ultimately higher prices. Some types of grains are also limited in quality or quantity. That the market is limited by the availability of raw materials is confirmed by several surveys, for example from The Swedish Food Federation (*Livsmedelsföretagen*) and EkoWeb. This problem brings with it an increased risk for types of fraud new to our market. The first case came in January this year, when fraud with KRAV-certified

meat was discovered. There are thus two main challenges this year:

- building up the supply from agriculture, and
- further strengthening supervision of the system.

I think there is great potential to deal with these challenges, and thus the conditions are good for achieving our goal – a 20% market share by 2020. It looks however like the growth in 2016 may not exceed the growth in previous years, due mainly to the limited supply of milk and perhaps even meat. None-the-less, I forecast continued high growth of 25-30%.



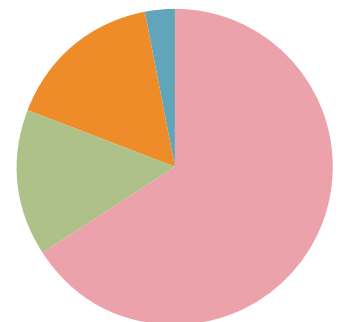
JOHAN CEJJE
Sales Manager, KRAV

“New buying patterns are emerging – a large group of consumers are willing to choose KRAV-labelled products.”

Distribution of Total Organic Food Sales in 2015

Total market value ca. SEK 23 billion.

- The Retail Sector 66%
- Systembolaget 15%
- Food Services 16%
- Export 3%



Continued Strong Growth

What will the market for KRAV-labelled products look like in five years? All indications suggest continued growth and that sustainable choices are becoming increasingly self-evident for consumers.

Increased demand for organic and KRAV-labelled foods are a strong and lasting trend. This is confirmed by Movement Consulting's prognosis for the year 2020. Consumer awareness and knowledge about origin of raw materials, production and transport is increasing and in five years even larger groups of consumers will see organic food as the natural and obvious choice.

"There is a paradigm shift taking place, strengthened by social media. It is easier for people to share their knowledge and experience. An increased commitment is a breeding ground for future growth in demand," said Johannes Andvaller, CEO at Urban Deli, a combined grocery store, market, restaurant and bakery with three units in Stockholm.

Broader Perspective on Sustainability

The increased awareness of future consumers is not only about organic and locally produced products, but also about sustainability in a broader perspective.

The UN Sustainable Development Goals for 2030 are already reflected in young consumers, who believe they will be thinking more and more in the long term. "Everything must be done right, all the way from the farmer to the plate," notes the young consumers in Movement Consulting's focus group discussions. For the market leader ICA, sustainability in the broad sense is a strategic priority:

"We want to support customers' sustainable choices and organic products are an important

component," said Anna Karin Lindberg, Head of Environment and Social Responsibility at ICA.

From single raw materials, we see how organic products are moving into completely new categories and channels. The target group broadens, more products are processed and shops as well as restaurants are taking the step to become KRAV-certified.

"Our guests show great interest. They are willing to pay more for organic raw materials," said Fredrik Eriksson, chef and owner of Långbro restaurant.

The Industry Takes a Holistic Approach

When the target group grows and broadens its perspective on sustainability, more industry actors take a holistic approach to organic production and strive for continued strong growth for organic and KRAV-labelled alternatives.

"We are working on promoting long-term sustainability. As a market leader in the restaurant business, we must dare to be proactive and challenge our suppliers as well as our customers," said Niclas God, Procurement Director at Martin & Servera.

Throughout the entire value chain, a growing number of actors are working to increase consumer awareness about sustainability. A clear expectation is being expressed from many sources that KRAV must play an even more central role in this development.

Representatives from all parts of the food industry are in agreement. The strong growth of organic food options continues unabated! More consumers are buying more KRAV-labelled food, in stores as well as restaurants, and the growth is undoubtedly demand-driven. The involvement throughout the sector is expected to increase gradually in the coming years. By working together, the industry can succeed in meeting the strong increase in demand.

The Market 2020

Six Clear Trends

From Product to Shop and Restaurant

The selection of products continues to increase, and a growing number of shops and restaurants see the value in becoming KRAV-certified.

From Growth to Continued Growth

Sales of KRAV-labelled products will continue to increase sharply in all sales channels – the retail sector, food services and export.

From Awareness to Commitment

Awareness is transformed into knowledge and actively deciding to purchase KRAV-labelled food.

From Organic to Sustainability in the Broad Sense

Organic is a self-evident part of the sustainability agenda. The perspective is broadened and we reflect on how our food affects us and the environment around us.

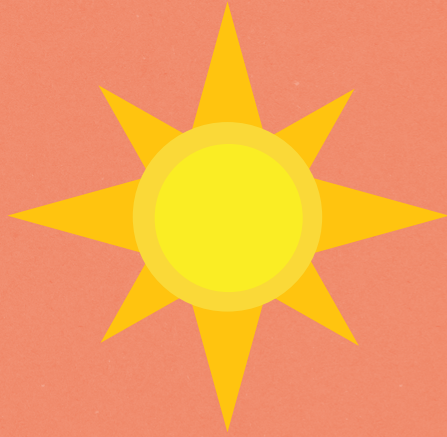
From Selected Actors to the Entire Industry

Everyone – from discount stores to market halls, from school kitchens to star restaurants – wants to be a part of the organic trend and increasingly more grow, produce, and sell KRAV-labelled products.

From Only Those with a Special Interest to Everyone

In the year 2020 there will no longer be a typical consumer of organic products, and more people will purchase organic products – regardless of demographics, geography and lifestyle.





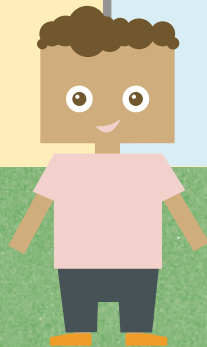
1



Consumers



Shop



Growth in Number of LOHAS Consumers

Confidence in KRAV continues to increase among Swedes, not least among LOHAS consumers – KRAV's primary consumer target group.

It is clear that LOHAS (Lifestyles of Health and Sustainability) consumers is an interesting target group for anyone who works with organic and KRAV-labelled products. They are aware and engaged consumers who are willing to pay a little extra for organic and KRAV alternatives.

For a couple of years, KRAV has had LOHAS consumers as its primary target group for its consumer communication. Consumers who belong to the group have, as the name describes, a keen interest in health and sustainability. It is a group that has grown in Sweden during the last few years. KRAV's latest poll shows that 38% of all Swedes are LOHAS consumers, compared to 27% 10 years ago.

What makes LOHAS consumers interesting for KRAV, and all companies with KRAV-labelled products, is that the target group has a lot of confidence in KRAV, they know what KRAV stands for and actively look for KRAV-labelled food when shopping. Compared to other Swedish consumers, this is also a group that is both more interested in organic options and is willing to pay more for them.

LOHAS Consumers Prioritize Health, Animal Welfare and Nature

Among LOHAS consumers, 62% believe their consumption, as individuals, can be part of the solution to climate and environmental problems, as compared to 46% of all consumers.

When LOHAS consumers buy food and choose amongst various alternatives on shop shelves, the group is extra careful about choosing healthy food. Of LOHAS consumers, 66% think in this manner, as compared to 60% of Swedish consumers in general. LOHAS consumers want to contribute to sustainable consumption, and that includes both aspects that contribute to personal health and to added value for animals and nature.

Great Confidence in KRAV

Every year KRAV has TNS Sifo carry out an extensive survey of Swedes' views towards the KRAV trademark. In this year's survey TNS Sifo has also found out what the LOHAS consumer target group thinks about KRAV as well as how the KRAV label measures up compared to the Euro-leaf.

The results are very positive for KRAV in many respects. Almost all Swedes – 98% – are familiar with KRAV, compared to 55% that are familiar with the Euro-leaf. As it turns out, seven of 10 Swedes also know that the KRAV standards are more strict than the Euro-leaf.

Most pleasing is perhaps that the positive attitude towards KRAV is steadily increasing. In the last five years, from 2011 to 2015, the proportion of Swedes with a positive attitude towards KRAV went from 57% to 70%. For the LOHAS consumers target group, a total of 84% have a positive attitude towards KRAV.

LOHAS Consumers Want to Buy KRAV-labelled Products

This year, KRAV has also had the company NORM carry out a survey to find out what LOHAS consumers think is important when they buy food. It was also clear in this study that LOHAS consumers

are characterized by a great interest in organic products. Among other things, a large organic selection is an important parameter for LOHAS consumers when choosing a shop. Once in the shop, LOHAS consumers also want information about ecology – both on the shop shelves and on the organic products.

When LOHAS consumers get more information about KRAV, it also leads to an increase in purchases of KRAV-labelled products by the group. The TNS Sifo study shows the same thing – i.e. that the more consumers know in detail about what KRAV stands for, the more they choose KRAV-labelled alternatives. This is good news for everyone who works with trying to increase sales of KRAV-labelled alternatives. By honing communication, more will move their hands on the shelf!

Three Insights

- ▶ More information about KRAV leads to increased sales.
- ▶ Provide good displays and give LOHAS consumers more information about KRAV both on shop shelves and on products.
- ▶ For LOHAS consumers, a broad selection of KRAV-labelled alternatives is an important reason to choose a shop.

KRAV Strengthens its Position

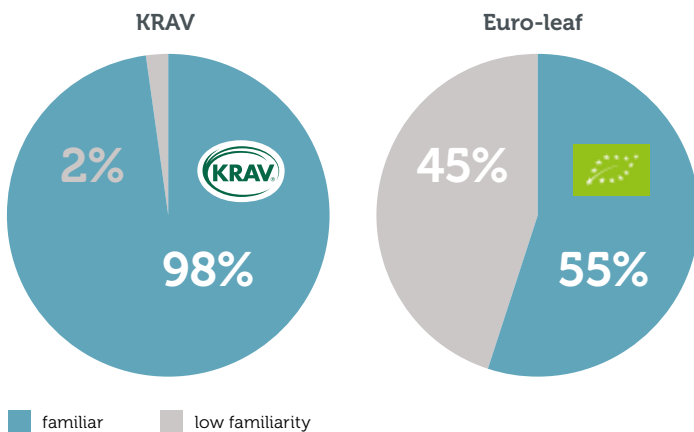
Swedish consumers' familiarity with KRAV is as before almost 100%. This year, TNS Sifo challenged consumers' "perceived awareness" and also asked specific questions about KRAV in relation to the Euro-leaf.

The survey shows that familiarity with KRAV is high even at a detailed level. For example, seven out of 10 Swedes know that KRAV has stricter standards than the Euro-leaf. The LOHAS consumers target group has great confidence in the KRAV trademark, know what KRAV represents and also actively look for KRAV-labelled food when shopping. LOHAS consumers generally have a more positive attitude towards KRAV than the Euro-leaf. KRAV is also associated to a greater degree with reliability, expertise, high status and modernity.

98% are Familiar with KRAV

Almost all Swedish consumers – 98% – are familiar with the KRAV trademark. This can be compared to a 55% familiarity with the Euro-leaf.

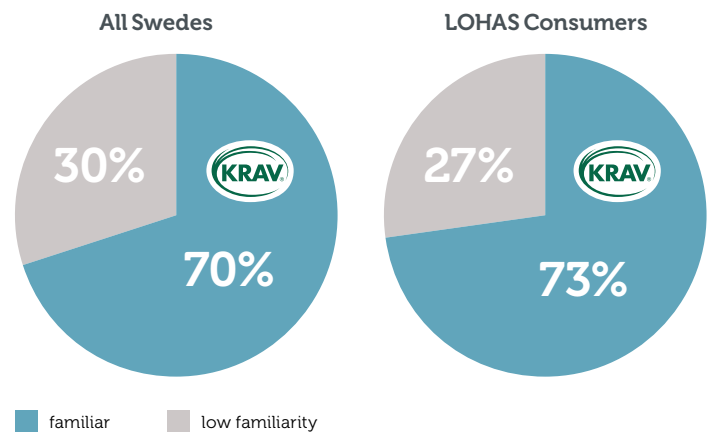
Question: What is your perceived familiarity?



Good Familiarity with the KRAV Standards

Seven of 10 Swedes know that KRAV has stricter standards than the Euro-leaf. Among LOHAS the number is somewhat higher.

Question: How familiar are you with the following labels?

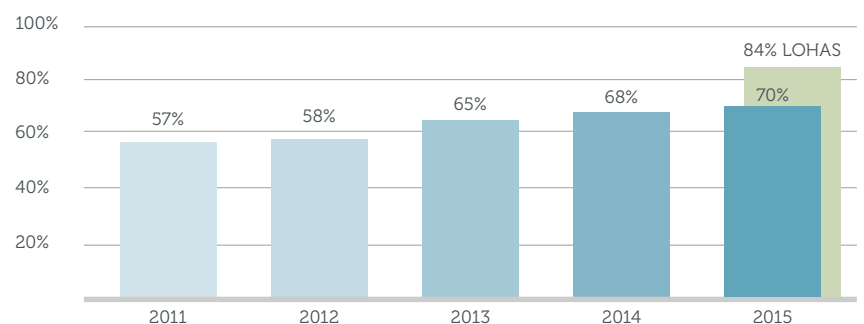


The Positive Attitude Towards KRAV is Increasing

The positive attitude towards KRAV has strengthened in the last five years. 70% of all Swedes and 84% of LOHAS consumers have a positive attitude towards KRAV.

Question: What is your attitude towards the following labels?

All Swedes and LOHAS Consumers



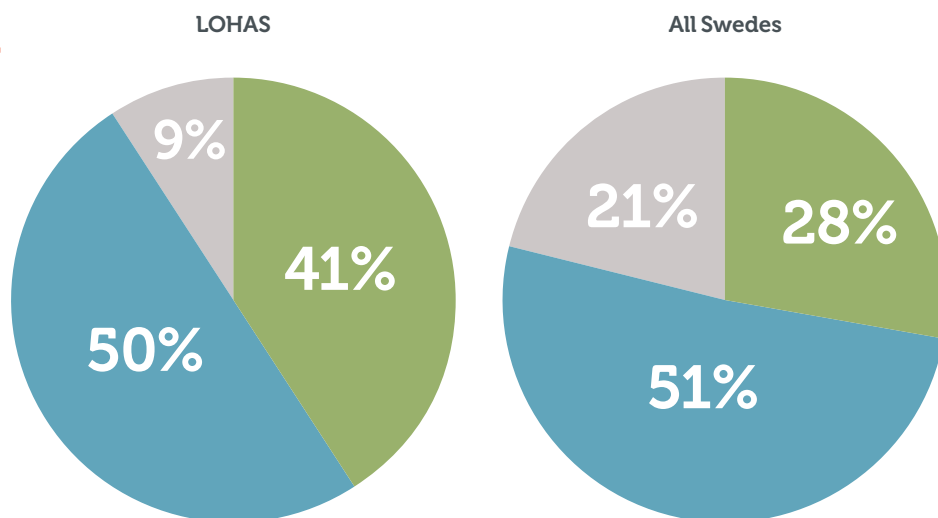
Source: TNS Sifo KRAV Awareness Survey 2015.

Nine of 10 LOHAS Consumers Regularly Buy KRAV Products

The proportion of consumers who buy KRAV-labelled products as often as they can or occasionally has increased significantly between 2014 and 2015. Eight of 10 Swedes and nine of 10 LOHAS consumers regularly buy KRAV-labelled products.

Question: How often do you buy KRAV-labelled products?

- As often as I can
- Sometimes
- Seldom/never/don't know

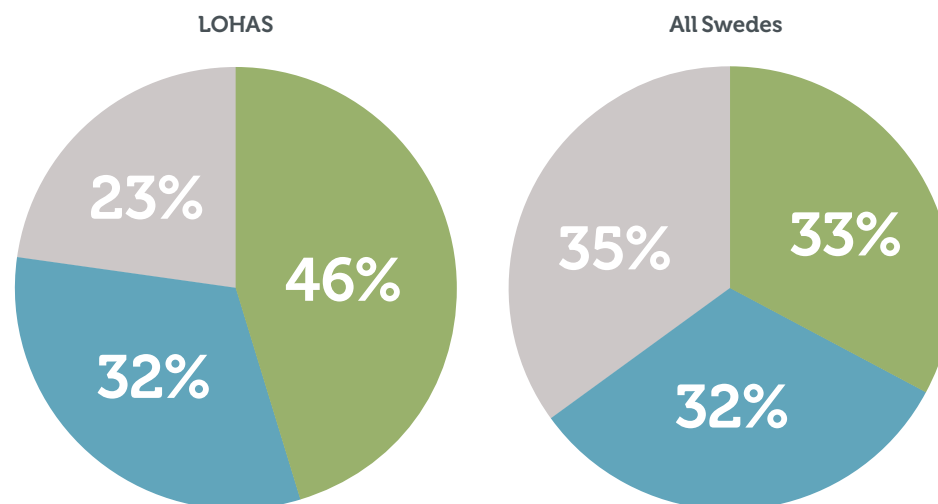


Eight of 10 LOHAS Actively Try to Find KRAV-labelled Products in Shops

46% of LOHAS actively look for an organic product that is **also** KRAV-labelled, as compared to a third of all Swedes.

Question: If/when you choose organic products, how usual is it that you look for an organic product that is also KRAV-labelled?

- Very/quite usual
- Sometimes
- Seldom/never/don't know



KRAV Stands for Reliability, Expert Knowledge, High Status and Modernity

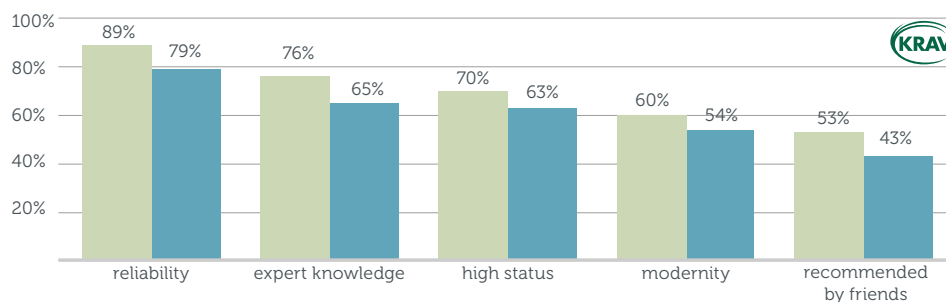
Swedes think that KRAV stands for reliability, high status and modernity and that the label rests upon expert knowledge. KRAV is recommended by friends to a greater degree than the Euro-leaf.

LOHAS consistently have a stronger and more positive attitude towards KRAV than Swedes in general. The difference in attitudes towards the Euro-leaf is not as great.

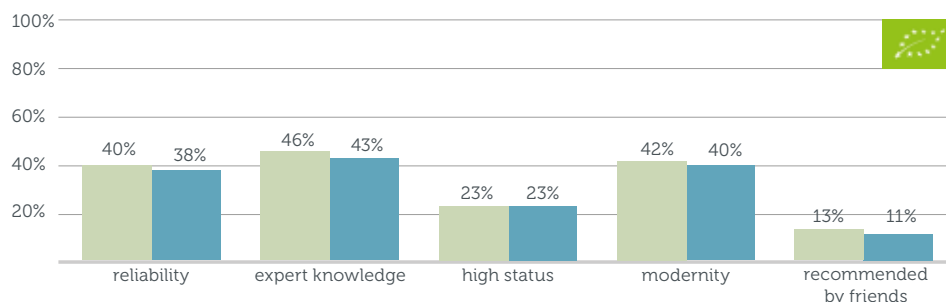
Question: Which description do you think applies to the following labels?

- LOHAS
- All Swedes

Applies to the KRAV Label



Applies to the Euro-leaf



Get to Know LOHAS Consumers In Depth

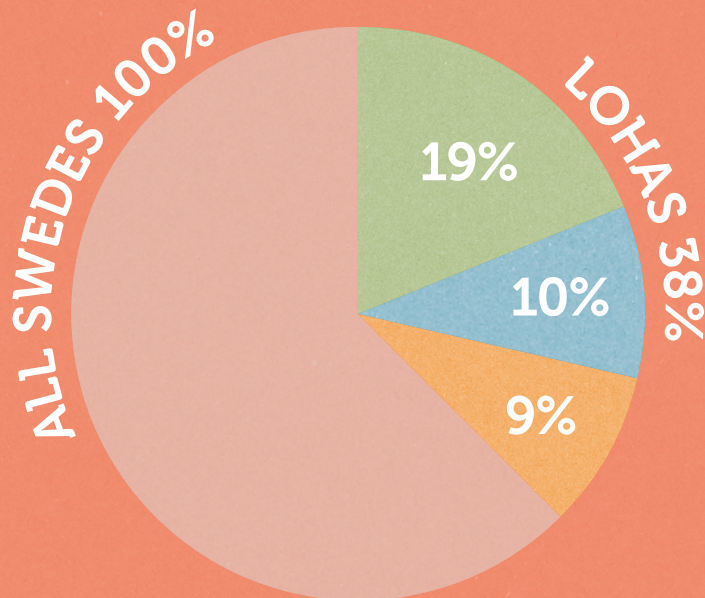
In recent years, the number of Swedes in the LOHAS consumer sector has grown. In 2005, 27% of Swedes were LOHAS consumers, compared to 38% in 2015. That is an increase of close to 40%. If the pace continues to 2025, LOHAS consumers will account for a little more than half of all Swedes (52%).

Six of 10 LOHAS consumers are interested in ecology and an environmentally friendly lifestyle, compared to three of 10 Swedes. That is one of the reasons why KRAV has chosen LOHAS consumers as a target group, just as many companies that work with KRAV-labelled products have done.

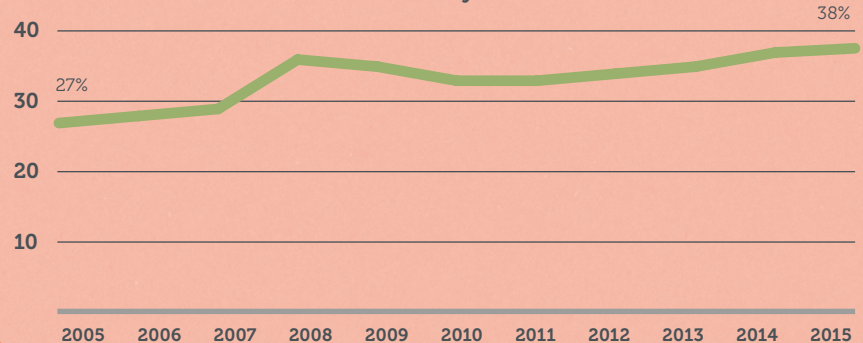
What unites LOHAS consumers is a great interest in health and sustainability. When it comes to socio-demographics, a typical LOHAS consumer is described as a woman between 35 and 60 years of age living in a big city or a university city. LOHAS consumers often have an above average income, but what distinguishes them the most is that LOHAS consumers have a distinctly higher level of education than Swedish people in general.

As more than one-third of Swedes are LOHAS consumers, it is relevant to break down the group to see how LOHAS consumers differ. We have studied the subgroups Pioneers, Prospectors, and Settlers. By getting to know them better, we can develop products, promotions and communication tailored to each group.

Just as the name of each group suggests, those who belong to a particular subgroup share certain values, attitudes and behaviours.

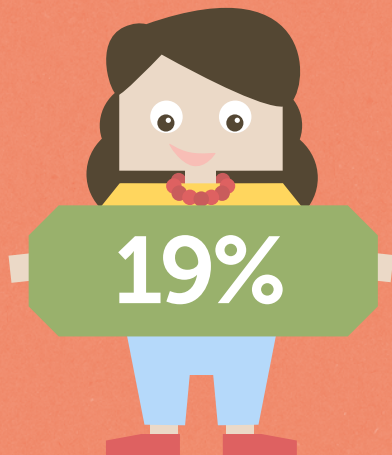


Percent LOHAS Consumers of All Swedes by Year

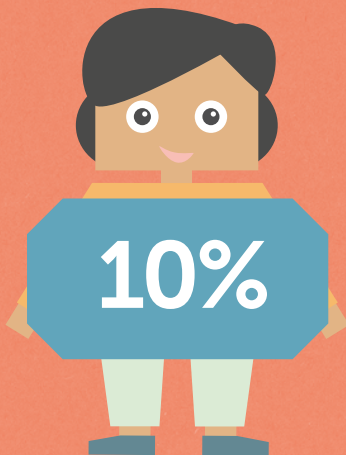


Source: The segmentation model was made by Futerra in cooperation with LOHAS Sweden and Cultural Dynamics. Data from TNS Sifo's consumer database Orvesto.

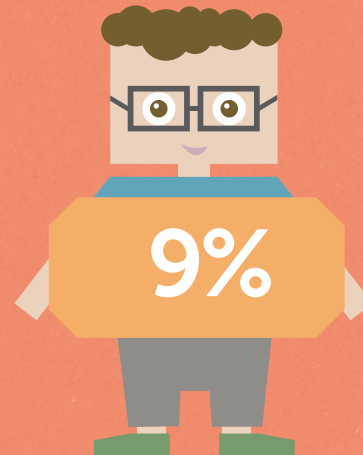
“I’ll gladly buy after careful consideration.”



“I saw it on the net and got it delivered in no time.”



“Right, maybe it’s time, but I’ll wait a little longer... .”



LOHAS Pioneers

The LOHAS Pioneers have a great interest in politics, and social and global issues. They thirst for knowledge and enjoy reading books or watching the news on SVT. The LOHAS Pioneers appreciate authenticity and are selective when shopping. The group gladly spends money on charity.

LOHAS Prospectors

The LOHAS Prospectors appreciate fashion and entertainment and willingly spend money on clothes, accessories and beauty products. The Prospector is sensitive to trends and pays more for stylish design. Personal health and well-being is another major interest for this group. This is a group that consumes news and entertainment online.

LOHAS Settlers

Family is the top priority for the LOHAS Settlers, who are also greatly interested in the home and garden. They spend money on garden products and flowers, as well as mail order products and charity. The LOHAS Settler appreciates structure and traditions. This group consumes news from SVT, and daily and evening newspapers.

Shopping Cart Preferences



Kiviks juice
Zoégas coffee
Oatly oat products
Hjordnära yoghurt
Svenska Lantchips
Leksands hard bread



Tropicana juice
Nespresso coffee
Skånemejerier
Skyr (Icelandic cultured milk)
Exotic snacks
Finn Crisp hard bread



ICA Juice
Gevalia coffee
Arla dairy products
Bärry Yoghurt
Svenska Lantchips
Leksands hard bread

A Broad Organic Selection and Information Result in Increased Sales

This year KRAV commissioned a shopper survey to find out more about consumer attitudes to KRAV-labelled products in shops. The results show that LOHAS consumers choose both online shopping sites and conventional shops according to the selection of organic products to a greater extent than other consumers. This aware consumer group also wants clear information and good displays about organic choices – preferably linked to advertising campaigns and membership discounts.

LOHAS Consumers Choose Shops with a Broad Selection of Organic Products

Two out of 10 Swedes do some of their grocery shopping online – there is no difference in this regard between LOHAS consumers and other Swedish consumers. However, more LOHAS consumers choose to shop for groceries online in order to access a broader selection of organic products. (On page 26 you can read more about how consumer behaviour is influenced by online opportunities.)

Just as with online shopping, LOHAS consumers, to a greater extent, choose grocery stores according to the selection of organic and KRAV-labelled products. Of all LOHAS consumers, 27% specify “better selection of organic products”

as a reason for their choice of grocery store, as compared to 7% for other consumers. However, most important for all consumers, including LOHAS, is store location, price level, and how easy it is to find things in the shop.

Once in the grocery store, LOHAS consumers believe, to a greater extent than consumers in general, that the selection and display of organic products works well. LOHAS consumers also to a greater extent feel that they meet knowledgeable staff and get inspired about food when shopping. The positive experience is probably connected to the fact that LOHAS consumers often choose a shop because of its broad selection of organic products.

Information about KRAV Steers the Hand on the Shelf

The shopper survey included a so-called “purchase simulation”. We had the interview subjects stand in front of the shelf and choose the product they would buy given the selection on the shelf. In the next phase they were given information about the meaning of the KRAV-label and then asked to choose again. The results clearly show that both LOHAS and other consumers buy more organic and KRAV-labelled products after having received more information about KRAV. The survey also showed that LOHAS consumers to

a greater extent than other consumers believe that organic and KRAV-labelled products are worth the price. Regarding information, LOHAS consumers prefer it to be clearly visible on the shelf or on the product itself.

LOHAS Consumers Also Choose Economically

LOHAS consumers are generally more aware and engaged in their grocery shopping than other consumers. This has to do not only with a greater interest in organic and healthy food, but also because they make more conscious choices by taking advantage of promotions connected to chain-store membership or selecting products being promoted in the shop.

Half of all consumers plan their purchases before going shopping. At the same time, about four of 10 make decisions about what to buy while moving around in the grocery store. This means there is a great potential for shops to help more consumers, especially LOHAS consumers, find the organic and KRAV-labelled options on the shelves with the help of information and displays.



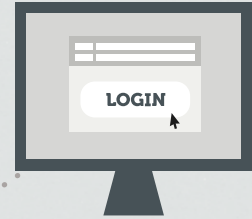
1. Buy online to get access to a broader selection of organic products.

10%

LOHAS

5%

Not LOHAS



2. Choose shops according to the selection of organic products.

27%

LOHAS

7%

Not LOHAS



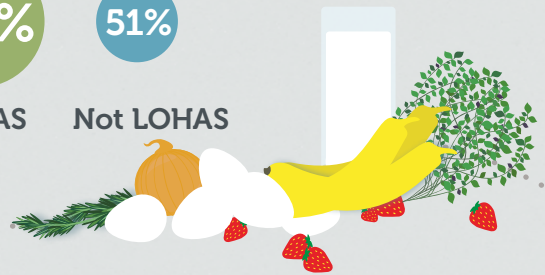
3. Think that the selection of organic products is good.

67%

LOHAS

51%

Not LOHAS



4. Think that displays of organic products work well.

56%

LOHAS

41%

Not LOHAS



5. Often buy products being promoted.

75%

LOHAS

64%

Not LOHAS



6. Want more information about organic and KRAV products:

on shelves

51%

LOHAS

30%

Not LOHAS

on products

47%

LOHAS

28%

Not LOHAS



7. Often take advantage of membership promotions.

77%

LOHAS

57%

Not LOHAS



Where to Reach LOHAS Consumers

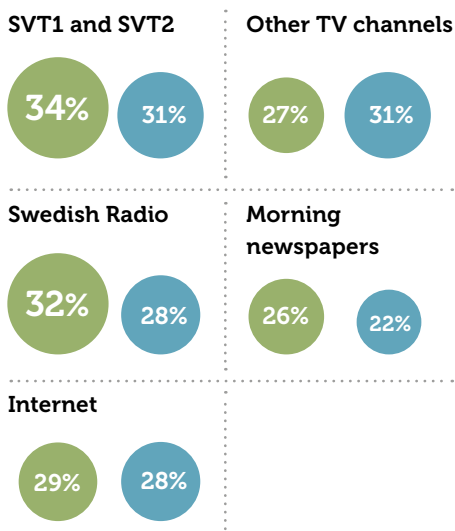


LOHAS consumers have a thirst for knowledge, read a lot and are especially interested in politics and social issues.

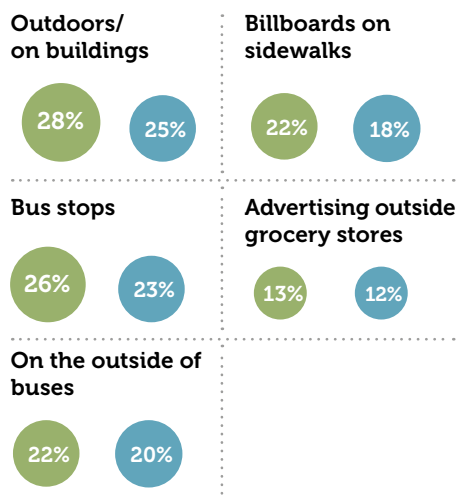
LOHAS consumers are curious and want to learn more about the world around them. LOHAS consumers read morning newspapers regularly and most prefer to watch news on TV rather than other TV programs. When purchasing food, LOHAS consumers find store advertising most useful.



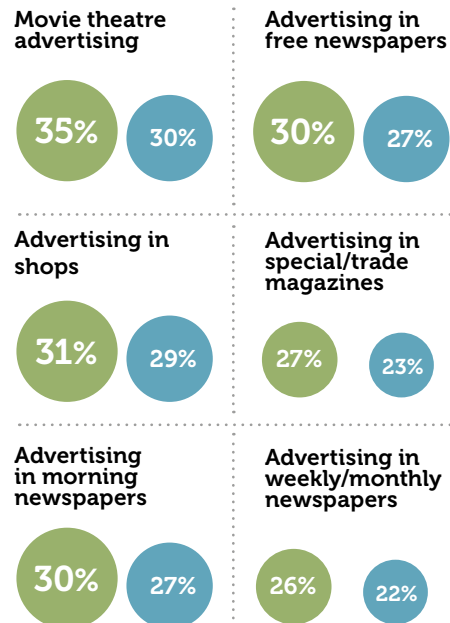
Heavy user:



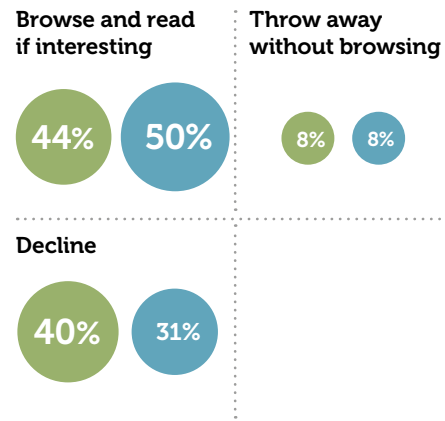
Advertising seen several times a week:



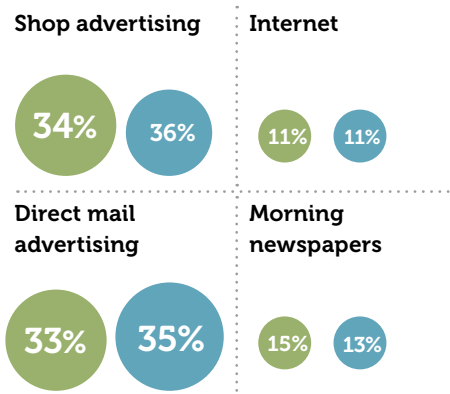
Quite/very positive to:



Handling unaddressed advertising:



Most useful when buying food:



Source: Data from TNS Sifo's consumer database Orvesto.

How to Reach LOHAS

The following 10 points can be useful to think about when communicating with LOHAS consumers. The list, developed by Futerra, can be seen as inspiration for everyone who works with communication on sustainability.

1

Why

Why do you care about sustainable development?

2

Show the big picture

How does your activity make the world a better place?

3

Be open and honest

Transparency and humility inspire confidence.

4

Be concrete

Show what you do in a way that people understand.

5

Be brave

Dare to take a position.
Dare to take command.
Dare to aim high.

6

Be enticing

Make it pleasurable.
Everyone will want to join you if you are more fun than the alternative.

7

Make it into a movement

Sustainable development is the future. Make it easy to participate.

8

It is about people

It is not about pandas, not about polar bears, and not about the climate.

9

It is about me

Show how I will benefit.
Give me the tools for change.

10

Show what has to be done

Say what has to be done, and do it.

Reko Chicken

Reko Chicken was put on the market in the fall of 2015 and has quickly made a name for itself in the organic market.

The company has a regularly visited Facebook page that already has 26,000 followers. Trusting their intuition in marketing has worked well so far, but CEO Sebastian Holm now wants to take a holistic approach to the company's communication strategy.

"The initial idea with Facebook was to show everyone interested in us what we do. That was the only strategy I had. Entries and responses to comments were written spontaneously and honestly, and it's gone well. We also post a lot of films

and photos from our production. We think that's better than product photos and recipes. There is certainly a lot that can be done better if you ask people who work professionally with communications rather than chickens, but we believe in starting from what we believe in and want to say."

What else do you do?

"Last year we arranged a press conference with invited media, including food critics and bloggers. Buying advertising spots or paying a cook to like us is not part of our plan. We do however cooperate with several of the best cooks in the country, but we don't ask for anything in return. We want to be seen in a genuine and honest way and those who talk about us should do it because they want to, not because they make money from it."



"We want to be seen in a genuine and honest way."

Honest, transparent and interactive

From dialogue in social media to local marketing drives in shops - four companies tell how they communicate with LOHAS consumers.

"Consumers took part throughout the conversion."

Brämhults

With two and soon three KRAV-labelled juices, Brämhults has made the longed for debut on the organic juice shelf.

"The path to today's KRAV-certified juices has not been easy, but through dialogue with producers, and not least consumers, we have finally reached the goal," explains Stina Haglund, Product Manager.

"Consumers have long been asking us for organic juices, and even expecting them from us. For a long time however, conversion to KRAV-certification was a challenge for our production. We tried for a long time explaining this via email and

Facebook, but in the fall we started our own Internet forum to create even more room for questions and answers about production. At the same time, we tried hard to create KRAV-labelled juices and consumers could follow that process in the forum, right up until we succeeded!"

How will you continue to promote your new juices?

"The digital channels are incredibly important, so we will continue to launch through Facebook, Twitter and Instagram. There will also be demonstrations in stores. As well we communicate via the back of our one-litre bottles of orange juice, where we tell about our juice and now also about our KRAV-certification."



“We focus on local marketing and a presence in social media.”



Scandinavian Organics

Through small marketing investments, Scandinavian Organics has gained ground in the organic market.

“Organic broth, curry and burgers made from excellent raw materials that would otherwise have been discarded is a production philosophy that is easy to like. Stylish and uniform packaging design, but above all, local marketing, are keys to success,” explains Nils Wetterlind, the company’s CEO.

“We have to be up-to-date on what’s happening in the stores. Even though we are listed with one retail chain, it doesn’t mean that our products are in all of its stores. Or we’re supposed to be there, but the store forgot to order our products. We have to keep a close eye on things, and then make local marketing pushes

on Facebook. We can for example have a campaign with three ICA Maxi and two Kvantum stores for a 50% discount on meatballs during week 10. We then go into Facebook and pinpoint everyone living in the same area as these five businesses, so we reach them via Facebook with an ad that says ‘50% discount on the world’s most delicious organic meatballs!’”

How important is social media for communication with consumers?

“Incredibly important, both for marketing purposes and for answering questions. I sit for one to two hours each evening and answer questions from consumers on forums such as LinkedIn and Facebook. We have also published a video online about our food philosophy that has been viewed over 300,000 times. That, rather than conventional advertising, feels like a better and more important way for us to tell about our products.”

Arla

All of Arla’s Swedish organic products are KRAV-labelled and the company has the world’s broadest selection of organic dairy products.

“Communication with consumers can be everything from explaining about ecology to product information on arla.se, information on the back of milk cartons, or campaigns to inspire consumers to try new products. With today’s media information overload, it is important to supplement traditional advertising with daily consumer contact in different ways,” explains Kajsa Hasselqvist, Customer Marketing Manager, Arla.

“Our sales staff do an incredibly important job when they visit stores and present and inform about new products. Consumers can call our consumer contact line if they have specific questions about our products. At the same time, we realise

that we need to be more proactive, for example in social media, where many of our consumers are active.”

What is your way of thinking regarding packaging design?

“Our organic and KRAV-labelled line is often a spearhead in conjunction with our packaging improvements. It involves both design and choice of materials. To highlight the organic products we started with a recyclable lid and now we have our gold ‘ECO’ logo on the entire Arla Cow range. This makes it easier to recognize and find our products on store shelves. Then, for example, on the Arla Kitchen crème fraiche and meze food yoghurt, the green lid signifies that it is organic.”

“It involves both design and choice of materials.”



2

The Retail Sector



Strong Development in the Retail Sector

There is a belief in the future in the retail food sector. The industry grew strongly during 2015. The positive development is expected to continue.

During the past year the Swedish retail trade experienced strong development. It is mainly infrequently bought commodities that have driven growth forward, but the retail sector also had a positive year with an increase of 4.1% compared to the previous year.¹ The industry has not shown such strong growth figures since the beginning of the financial crisis. The year 2015 has been characterized by political unrest around the world, though at the same time the Swedish economy in general and the retail trade in particular continued strong. Compared with the other Nordic countries, the Swedish retail trade is strong. In particular, good conditions for consumption, in the form of continued low interest rates and real wage increases, lifted household finances during the year. Even the sharp increase in refugees that came to Sweden contributed to growth of the retail trade. A larger number of individuals' basic needs had to be met, especially in the form of food and other goods.

Higher Food Prices

Although development in the retail sector was good during the year, a large part

of the growth can be explained by price increases. Inflation in the industry was expected to be weak in 2015, as prices have had a relatively modest development in recent years. However, during 2015 prices rose by 2.5%.¹ Due to the interest rate cuts that occurred, the Swedish crown weakened in relation to the outside world, which greatly affected the import-dependent retail sector in the form of higher food prices.

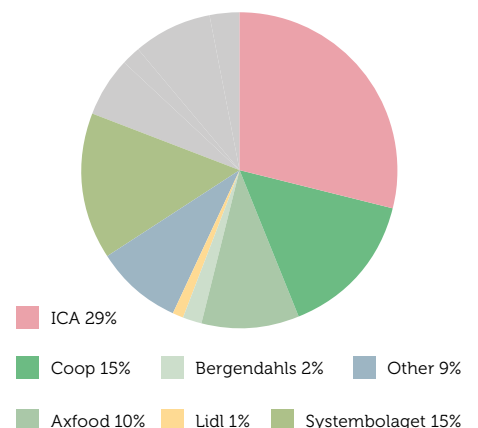
Positive Forecast

In the coming year the positive sales trend in the retail sector is expected to continue, though somewhat weaker than during the last year. The prognosis for the industry is 3.5% growth in 2016 and 3% growth in 2017.² Most of the consumption of people seeking asylum will be food, which in part will contribute to the expected growth in the retail sector. Price trends are also expected to remain positive in 2016, with growth of approximately 1.5%. Threats to the Swedish economy, in the form of a wavering housing market or increases in the interest rate that risk affecting overall retail growth, are not likely to have a strong effect on the retail sector, which is less sensitive to economic trends. Belief in the future among food companies also remains good.

The National Institute of Economic Research's confidence indicator for December reveals a position stronger than normal.³

Swedish Sales of Organic Food by Channel in the Retail Sector

Total market value ca. SEK 19 billion.



Three Insights

- ▶ Good development in the retail sector during the past year.
- ▶ Higher import prices have affected prices for consumers.
- ▶ An unsettled world situation affects industry growth.

The Retail Sector and Digital Purchase Behaviour

More people are buying groceries online and digital tools are integrated into the buying process in the physical shops. The digitization of the retail sector can benefit the organic market.

Sales in the retail sector via the Internet are still in their infancy, accounting for just over 1% of the total retail sector trade. However in 2015 online sales showed double-digit growth quarter after quarter – sales of food online increased by 40% compared to the previous year.¹

The market is still diverse without any clearly dominant company. Geographically, the logistic coverage for home deliveries is still low and in general is concentrated in metropolitan areas. The year was however characterized by announcements about investments by the large physical actors in online grocery stores, which can further lift the digital food market. ICA, which is the largest company in the Swedish food market, increased the number of stores connected to online shopping from a few stores to about 150 during 2015.

One in Five Has Bought Food Online

The greatest challenge, other than increasing geographic coverage, is to get consumers to try out grocery shopping via the Internet. Approximately every fifth person, or 22%, purchased food online, as compared to 9% five years ago.² Geographic proximity is the most important factor for consumers when choosing a retail shop.³ The actors that offer online food shopping must consider the consumer need for accessibility, including quick delivery, in order to tempt them into shopping online.

Digitization in Physical Shops

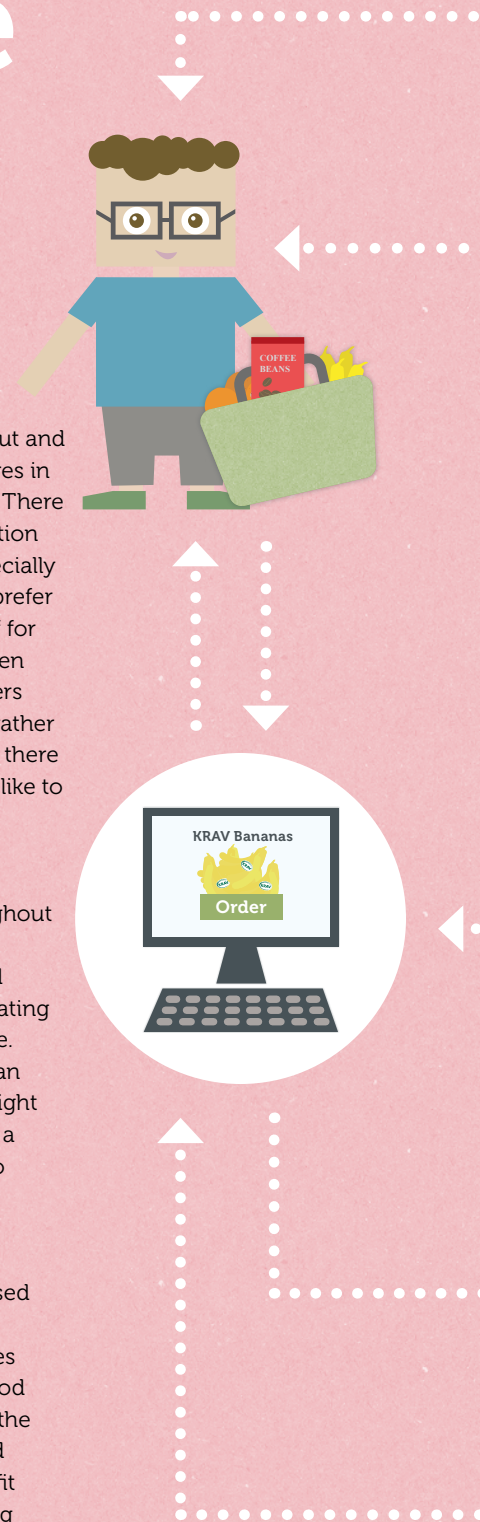
Other than self-scanning, self-service checkout and shopping lists in mobile phones, digital features in physical stores are still relatively uncommon. There is however a clear potential for better integration of digital aids in the purchasing process, especially when it comes to smartphones. Consumers prefer to use their smartphones rather than ask staff for help to get price and product information. Even with regards to navigating in shops, consumers prefer to get help using their mobile phones rather than getting help from staff.³ This means that there is a discrepancy between how people would like to shop and reality.

Navigation and Self-scanning

Seamless integration of digital devices throughout the buying process is the key to an increased breakthrough for digitization in physical retail shops. For example, the technology for navigating via a smartphone is used elsewhere in Europe. At Carrefour shops in France, the customer can immediately see and follow the route to the right shelf. Another example is self-scanning using a mobile phone camera, which is then linked to digital payment solutions for quick payment.

Can Benefit Organic Products

Investments by the major actors in an increased selection of organic products have been well received by consumers. In light of the changes in consumer behaviour, digitization offers good opportunities for sales of sustainable food. If the selection in online grocery stores is packaged correctly, sales of organic products can benefit from the broadening of the market now taking place online. As well, the more clearly arranged the selection of organic products in physical stores is made visible with the help of intelligent technical solutions, the easier it will be for consumers to make sustainable choices in their grocery consumption.



¹ D-food Index Q4 2015, Swedish Digital Commerce/HUI Research. ² Food on the Internet 2015, Swedish Digital Commerce/HUI Research. ³ Digital and Mobile Shopping Behaviour in the Retail Sector, Visma Retail/HUI Research, 2015.

Digital Solutions

Mobile Phone Apps Show the Way in Shops

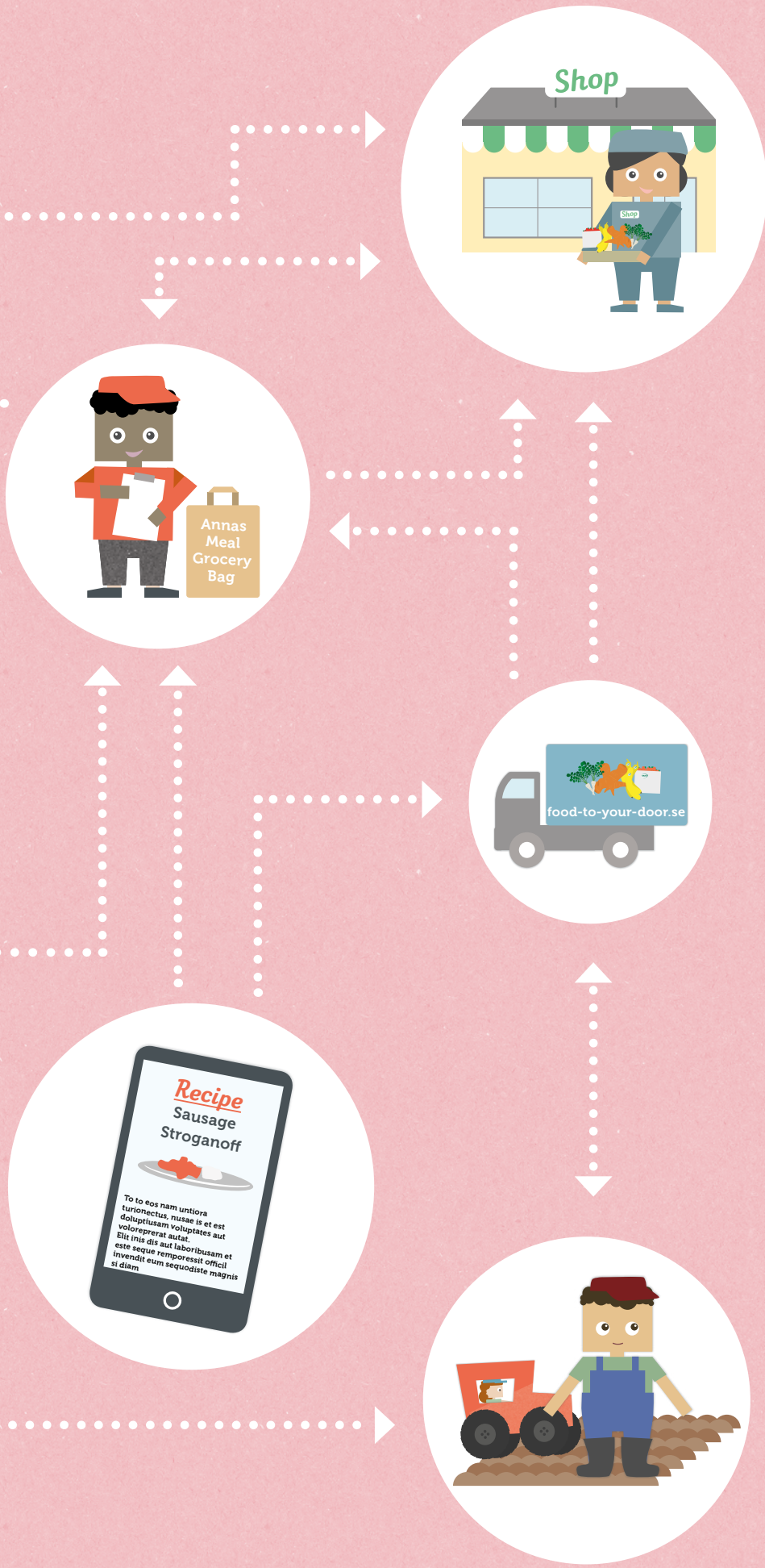
The French retail chain Carrefours new mobile phone app C-Où (Where is it?) makes everyday grocery shopping easier and more efficient for consumers, from planning at home to purchasing in a shop. In C-Où, customers can organize their purchases, find recipes, discounts and make shopping lists. Based on the list, the app creates an optimized route on a map to all the goods in the customer's shop. The app also has a scanner that, with the help of the product's barcode, can provide information on contents, origin and promotions.

Network Brings Together Consumers and Farmers

The MinFarm network is an e-commerce option with the goal of improving farmers' margins by helping consumers buy directly from local producers. The initiative started in 2013 and has grown steadily since then. Today about 50 Swedish farms and more than 1,300 households are members. Besides being able to order food from a local farm and have it delivered to your door, consumers receive a newsletter with information and invitations to visit local farms.

The Market for a Shopping Bag of Organic Groceries is Increasing

For many people, home delivery of a bag of groceries is a good overall solution. Coop.se, Mathem and Ecoviva are a few of the e-commerce stores that offer a shopping bag of organic groceries. Varied shopping bags with organic goods and accompanying recipes is a simple and inspiring way to get more people to make sustainable choices and provide an opportunity to cook entirely organic meals.



The Sustainable Future of The Retail Sector

The shortage of goods is preventing the retail sector from selling even more KRAV-labelled food. Demand is expected to remain strong and many are investing in broadening their selection.



Axfood

Åsa Domeij, Head of Environment and Social Responsibility

“The demand is there, so for us price and supply are the issues. It’s also important to have several KRAV and organic alternatives per product category. One organic alternative is not always enough for all consumers, which may lead them to choose a conventional product instead. I think there will be continued increase in sales in the future. We are working for that by improving our selection of products, filling the most important organic product gaps, and by developing our own brands. We are also trying to increase our volumes and lower our margins to reduce prices. It is also important to highlight our selection of organic products in campaigns.”



Bergendahls

Carola Grahn
Manager Organic Food

“The availability of raw materials and products is a limiting factor for us, especially with pork, meat and bread, but also with certain categories of colonial products. Prices also have an effect. In some categories the price is too high compared to the corresponding conventional product. If we look at the future development of organic food sales in general, I believe the strong development of private organic brands that we’ve seen in recent years will continue, even if the major suppliers launch more products. We believe, and hope, that organic products will be a self-evident part of everyday purchases.”

What is it that limits sales of KRAV-labelled products in your business?

Sales, value for all of 2015	Increase in sales of organic food	44%	Increase in sales of organic food	52%
	Portion of sales that is organic food	6%	Portion of sales that is organic food	5%
	Portion of sales that is KRAV-labelled food	4%	Portion of sales that is KRAV-labelled food	1%
Number of food items, 2015	Organic (#)	1,500	Organic (#)	1,867
	Private brands of organic goods (#)	200	Private brands of organic goods (#)	71
	KRAV-labelled (#)	700	KRAV-labelled (#)	595
	Portion of total number of items that is organic	8%	Portion of total number of items that is organic	6%



Coop

Louise König

Sustainability Manager

"Organic products sell like hotcakes, even the broader sustainable selection which includes environmentally friendly, health foods and fairtrade. I see no immediate limitations. There are some challenges for organic and KRAV-labelled Swedish pork. The challenge is to further make clear the added value to the customer, which we have tried to do using various forms of PR, marketing and store communication during the year. For 2016 I think there will be a continued increase with even more organic products that are Swedish, local and connected to an added value, producers and farmers."



ICA

Maria Smith, Senior Manager

Environment & Social Responsibility

"First and foremost supply is a limiting factor. More producers, preferably Swedish, will have to convert, and the processing companies will have to develop organic alternatives for products where those are missing. However, for the increase to continue, long-term security is needed in the area of political regulation. If we don't manage to solve that, we'll likely soon reach the peak of the organic market. One option is to find a solution for producers who convert so that they can make a good profit with their products during conversion. The interest in sustainable products will continue to increase."



Lidl Sweden

Katarina Rosenqvist

Manager Corporate Social Responsibility

"For some years now we've been building up our selection of organic products, and strive to have at least one organic item in each relevant product category. We are beginning to have a good basic selection. The challenge is now to get consumers to discover it. In 2015 our sales of organic products increased by 60% and we doubled the number of organic products. Next year we want to continue in the same spirit. I believe that the boom in organic products that we've seen in the past two years, in 2016 will evolve to a normalization in purchases of organic products. It will be natural for more consumers to buy organic food."

Increase in sales of organic food	19%	Increase in sales of organic food	47% ¹	Increase in sales of organic food	60%
Portion of sales that is organic food	9%	Portion of sales that is organic food	5% ¹	Portion of sales that is organic food	2%
Portion of sales that is KRAV-labelled food	8%	Portion of sales that is KRAV-labelled food	no information ²	Portion of sales that is KRAV-labelled food	no information ²
Organic (st)	3,048	Organic (#)	1,740 ¹	Organic (#)	no information
Private brands of organic goods (#)	460	Private brands of organic goods (#)	410 ¹	Private brand of organic goods (#)	no information
KRAV-labelled (#)	1,767	KRAV-labelled (#)	no information ²	KRAV-labelled (#)	no information ²
Portion of total number of items that is organic	9%	Portion of total number of items that is organic	no information	Portion of total number of items that is organic	5%

¹ Refers to sales of ICA Sweden's centrally purchased organic selection which does not include the local organic purchases of ICA stores. Sales of MSC certified products are not included in the figures from ICA. ² ICA and Lidl Sweden do not measure the number or proportion of KRAV-labelled products.

Case: Arla Organic Breakfast

Training in Shops Increased Sales

With knowledge under their belts, shop staff are more confident highlighting and recommending KRAV-labelled products. Arla and KRAV had this in mind for a joint education initiative.

Increased knowledge results in increased sales! That is the insight behind KRAV's in-store training. A successful example is the Arla Organic Breakfast project that was carried out together with Arla and during 2015 in collaboration with Coop.

"It is crucial that the staff believe in KRAV-labelled products. They decide which products to place in the best places in the shop and can put up signs that raise awareness among consumers. We've seen a strong link between the signs and sales," said Nina Nilsson at KRAV who led the project.

During the year, the Organic Breakfast project visited 18 KRAV-certified Coop stores. The morning began with a short training for staff about KRAV's added value, at the same time as Arla served breakfast. After the training, there was time for staff to ask questions, and then store customers had the opportunity to try Arla's KRAV-labelled products. In total, almost 400 store employees took the training and about 3,000 consumers got to taste samples.

Direct Contact with KRAV

Coop Forum in Värmdö was one of the stores visited by the Organic Breakfast project. Micke

Christensen, Sales Manager Colonial, enjoyed having direct contact with KRAV.

"The visit was appreciated and we were able to ask a lot of questions. One of the most important things we learned was that organic and KRAV are not the same thing – KRAV provides more. When we came to the breakfast, many of us didn't know about the differences," said Micke Christensen. His colleague Sandra Larsson, Sales Manager for fruit and vegetables, also felt that she became more confident recommending KRAV to customers.

"We get a lot of questions in the fruit and vegetable department. Many customers are interested in organic products."

In conjunction with the Organic Breakfast, Coop Forum in Värmdö had an organic food week where they promoted organic food to an extra extent. After the training, they made sure to add more products from Arla's KRAV-labelled selection and sales have gone up.

For Nina Nilsson at KRAV, who coordinated many of the breakfast trainings, it's clear that the training was appreciated.

"I noticed that it stimulated a lot of thought about how staff can increase sales of KRAV-labelled products in shops. I explained that increased sales often result in increased profits in the store. It's related to the fact that the customers who are interested in KRAV are more interested in quality than price," she said.

"It of course benefits us both at Arla and KRAV for store staff to become more knowledgeable about what organic means and what the various labels stand for."



Kajsa Hasselqvist
Customer Marketing
Manager, Arla



The table is set for a breakfast meeting. Arla invited shop staff to breakfast and KRAV held a workshop in the successful cooperation, the Arla Organic Breakfast project.

Everyone Benefits

The Organic Breakfast project benefits Coop, Arla and KRAV. Arla wants to increase sales of KRAV-labelled and organic products, and for KRAV it is valuable, with the help of Arla, to get out and meet shop staff. Kajsa Hasselqvist, Customer Marketing Manager for milk at Arla, is positive about the cooperation.

“It of course benefits both us at Arla and KRAV for store staff to become more knowledgeable about what organic means and what the various labels stand for. As well, our sales increase when both staff and customers get to taste the products.”

What effect did it have? The evaluation showed that Arla Organic Breakfast

increased shop sales of Arla products. There was a very marked increase during the day there was sample tasting in the store, but even in the long-term a change was also evident. During the three months the project ran, sales of KRAV-labelled milk in Coop Forum stores increased by 45%, which was a larger increase than in other Coop stores.

Training Gives Results

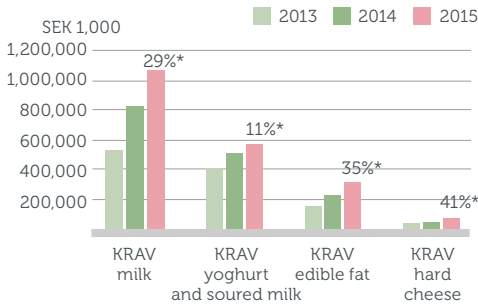
That it pays to train store staff has also been shown in an earlier training project. In 2014 KRAV carried out deep training in six ICA Kvantum stores. The results were analysed in a thesis at the Swedish University of Agricultural Sciences (SLU).¹ Although it was difficult to clearly connect the training initiative to increased sales of KRAV-labelled products, the study

concluded that training did give results. The participants felt that they could more confidently recommend organic products to customers who asked for advice. Participants displayed KRAV-labelled products better and more frequently after the training, and many also changed their own purchasing behaviour.

Dairy Product Sales

The product group KRAV-labelled dairy products increased by 32% in 2015 and is worth SEK 2.5 billion. Drinking milk dominates the category and continues to account for the largest increase. With an increased selection in the entire breakfast segment, including amongst other products new hard cheeses, it is important for dairy companies to recruit more farmers to ensure an adequate supply of milk.

KRAV-labelled Sales of Dairy Products²
*Change in percent between 2014 and 2015



¹ Bondesson, Victoria, 2014: NGO's role in a public-private partnership: assessment of environmental educational efforts on short term. See <http://bit.ly/bondesson2014>.
² Nielsen Scantrack. 2015. Sales in the Retail Sector (including hard discounts) Weeks 1-53, 2015.

Succeed with In-store Training

Relevance
Training must be relevant for staff. Show a connection to better profitability.

Be Concrete
Give ideas about concrete ways to work for increased sales. Provide arguments for KRAV-labelled products and show examples of good displays.

Fact Cards
Arla hands out small cards that fit in a shirt pocket with facts about KRAV-labelled products that staff can refer to if people ask questions.

Important Categories

Sales Development

The fantastic year 2014 has been followed by yet another strong year. Presented here are some important categories of great interest.

If you would like information about other categories, more specific data or to make your own diagrams, KRAV has collected the annual statistics in an Excel file that can be downloaded at www.krav.se/marknadsrapport-2016.

The diagrams below show, if not otherwise indicated, sales of KRAV-labelled products in Swedish kronor (SEK).



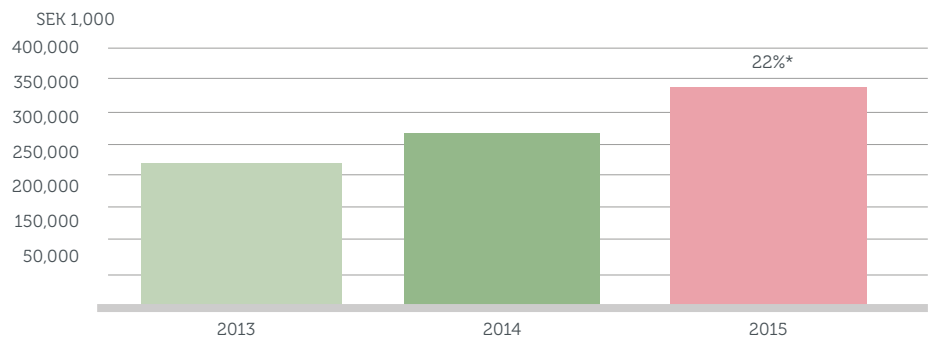
2013 2014 2015

Fresh Herbs

With an increase of about 22%, KRAV-labelled fresh herbs have continued to increase strongly from an already high level and account for 51% of total sales in the category. Lettuce and leafy vegetables have increased by 58% from a much lower level. Note that Nielsen does not measure fruit and vegetables in bulk.

KRAV-labelled Sales of Fresh Herbs¹

*Change in percent sales between 2014 and 2015

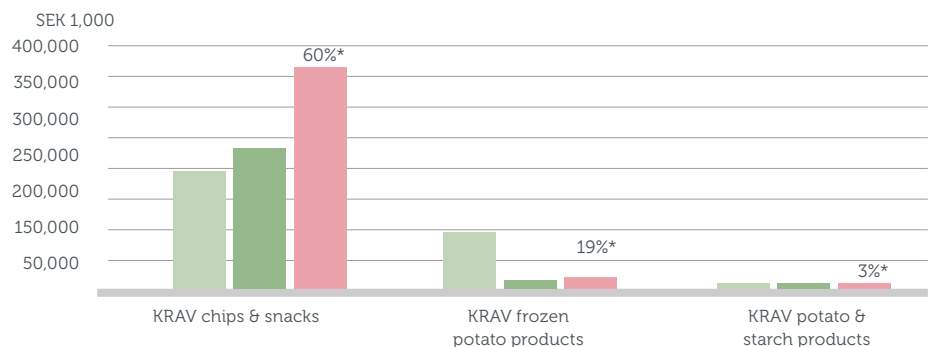


Potatoes

The product group KRAV-labelled chips and snacks increased by 60% during the year. All store chains have their own brand of chips and Estrella launched a limited edition which spurred the development. KRAV-labelled chips account for barely 2% of all sales of chips and snacks and 68% of organic snack sales. Note that Nielsen does not measure the sale of potatoes in bags or in bulk.

KRAV-labelled Sales of the Biggest Individual Product Groups¹

*Change in percent sales between 2014 and 2015

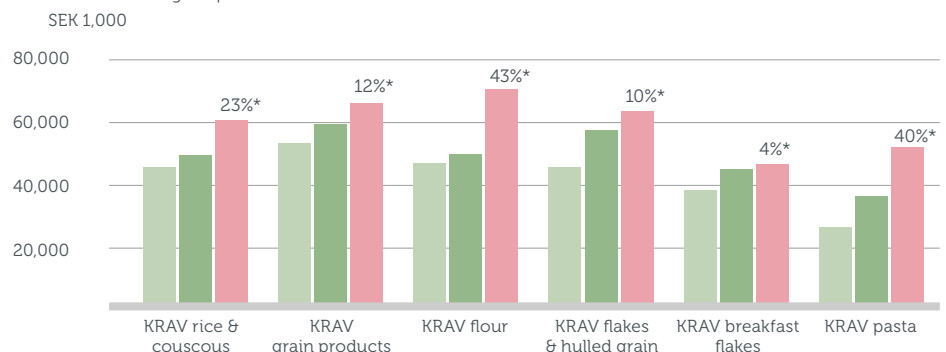


Cereals

The product group KRAV-labelled cereals increased by 21% during the year. Flour increased the most by 43%, closely followed by pasta at 40%. KRAV-labelled products in these groups accounted for 7.5% of total sales, with flakes and hulled grain as well as grain products accounting for the highest proportion, about 20%.

KRAV-labelled Sales of the Biggest Individual Product Groups^{1,2}

*Change in percent sales between 2014 and 2015



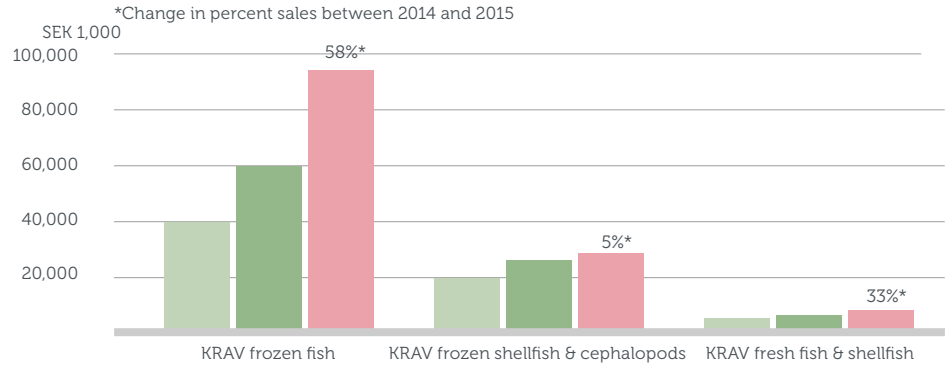
¹Nielsen Scantrack, sales in the retail sector (including hard discounts) weeks 1-53, 2015.

²The category includes grain products, flour, breakfast flakes, flakes and hulled grain, pasta, rice & couscous.

Fish

There was a continued good supply of both white fish and shrimp, which made possible continuation of last year's sales growth. The average increase for the groups was 41% and all organic frozen fish sold is KRAV-labelled. However only 4% of total frozen fish sales are KRAV-labelled.

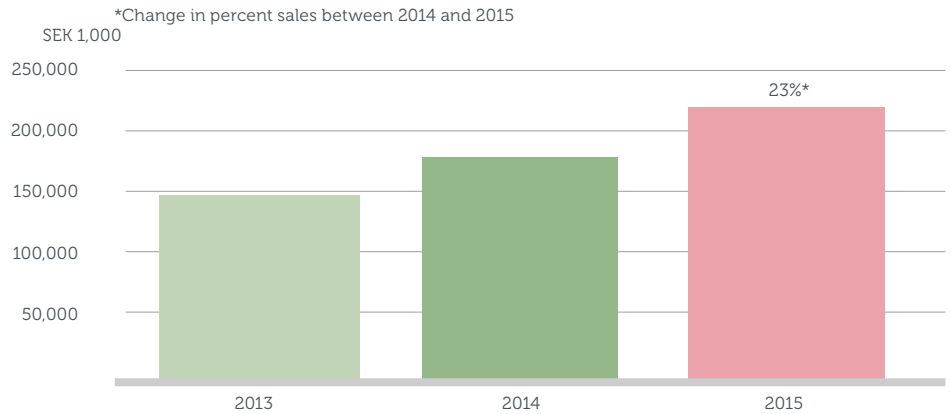
KRAV-labelled Sales of the Biggest Individual Product Groups¹



Baby Food

Sales of KRAV-labelled baby food increased by 23% in 2015, primarily thanks to an increased supply of both fresh and canned baby food. Slightly more than 65% of the organic baby food is KRAV-labelled, accounting for almost 16% of total baby food sales in Sweden. The value of the KRAV-labelled sales was SEK 216 million.

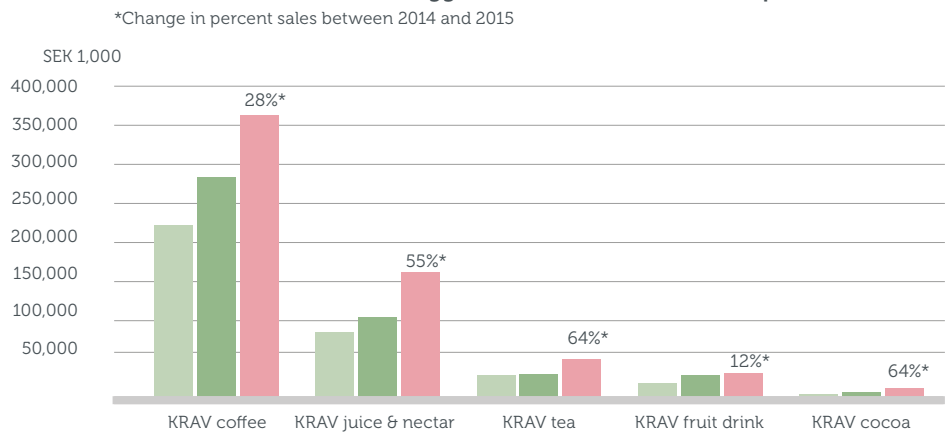
KRAV-labelled Sales of Baby Food¹



Alcohol-free Beverages

The product group increased by 36% in 2015. Juice and nectar increased by 55% and tea by 64%. Tea is also the product with the highest percentage of KRAV-labelled sales, with a little more than 9% of total sales, and has thus overtaken coffee. KRAV-labelled products account for an 80% share of organic sales of alcohol-free beverages.

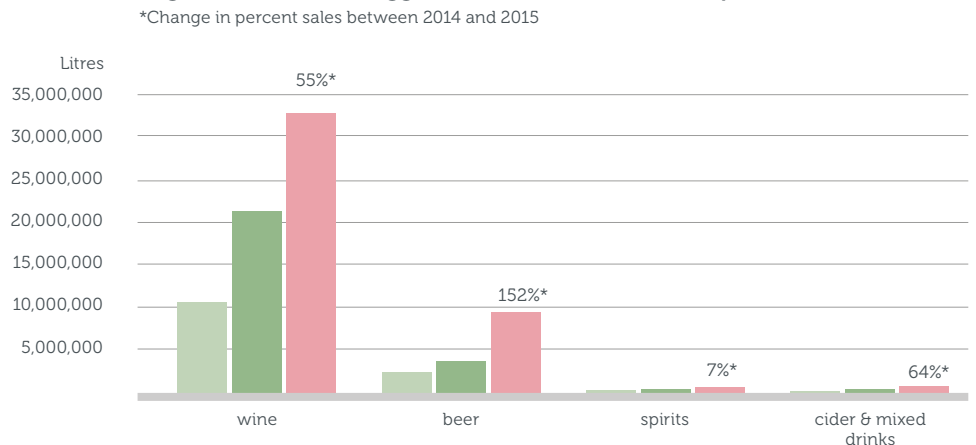
KRAV-labelled Sales of the Biggest Individual Product Groups¹



Systembolaget

Organic beer is this year's rocket at Systembolaget, with an increase in sales of 152%. Sales of organic wines were also strong during 2015, with an increase of 55%. Cider and mixed drinks increased by 64%. Systembolaget does not separately report KRAV-labelled, and sales are measured in volume, not value.

Organic Sales of the Biggest Individual Product Groups³

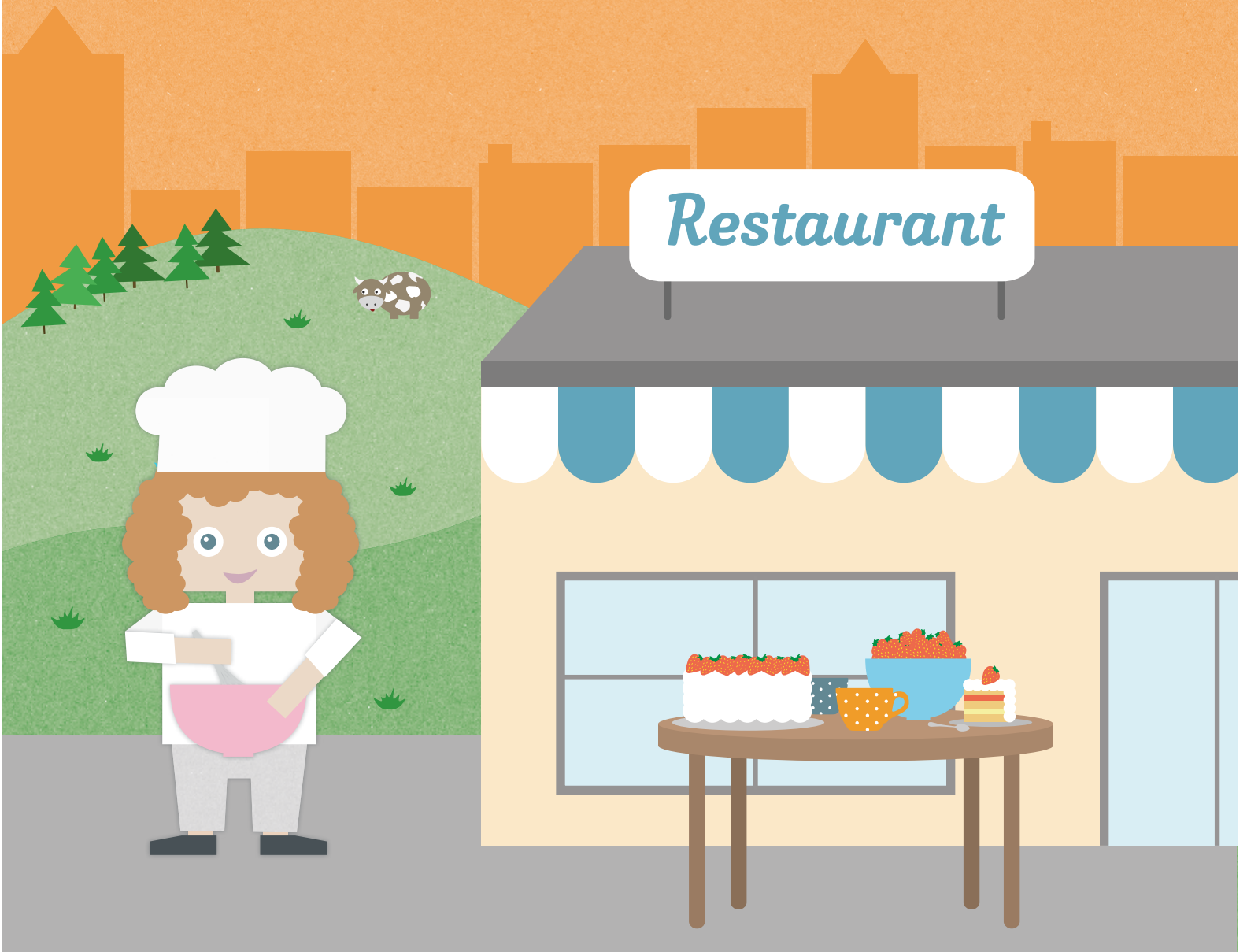


³Systembolaget.

3

Food Services

Restaurant



An Analysis by Movement in Cooperation with KRAV

Increased Cooperation Important for Growth

Growth in the use of organic food continues to be strong within food services. Some actors are however unsure if the rapid growth can continue.

In 2015, the market for organic and KRAV-labelled food continued to be strong. Just as in 2014, the proportion of products increased for most actors within food services, including private and public catering as well as restaurants. Some actors have however experienced that the increase was not as large as in previous years. More are focusing on locally produced products and some actors are taking a holistic view of sustainability and believe that raw materials do not necessarily have to be certified organic.

"We buy from local producers who cultivate in a sustainable way and produce high quality goods. It's enough for many customers to know where the raw materials come from and that we have a good relationship with farmers," says Peter Eriksson, who runs the restaurant Linnéa and Peter in Örnsköldsvik.

Threats to Growth

Other reasons why growth has slowed in some municipalities are the new conditions and demands for cost reductions. Here, the refugee situation has been a factor. However the shortage of raw materials is the biggest threat to continued strong growth.

"Most products are available as organic in small amounts, but if you want a larger volume, the availability is very uncertain. More restaurants would go in for organic if supplies could be ensured," says Niklas Brandt, Head Chef at the Folkets Bar & Restaurant in Vasterås.

More Want Organic and KRAV-labelled Products

Despite some signs of a reduction in growth, demand is expected to continue to increase. In homes for the elderly, dietary managers in the public and private sectors expect a significantly higher demand for organic food. With the upcoming generation shift, the demands of the residents, which up until now have not been very high, will increase. As well, in schools there is a demand for a higher proportion of organic and KRAV-labelled products. Both students and parents want to be sure with regards to where and how school food is grown and produced.

Managing the Shortage of Raw Materials

As the demand increases, the question arises as to how the industry should deal with the current shortage of raw materials. Many food services actors point out that more producers have to start converting their farms now so that the demand for organic raw materials can be met in two to three years.

"We believe in increasing the compensation to producers during the conversion period and are willing to participate in supporting that issue," says Christoffer Carlsmose, Ecology Manager, Menigo.

Increased Cooperation

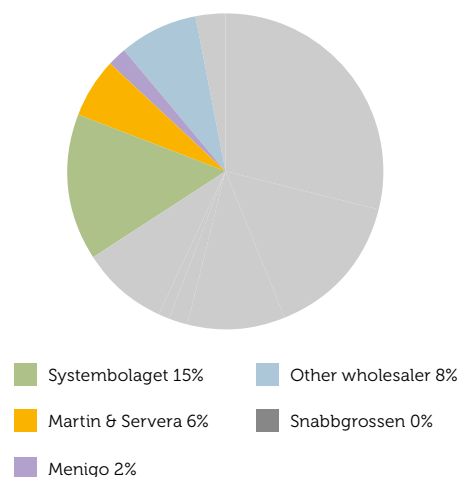
There is a clear willingness to work on sustainability. Within both the public and private sectors changes are being made in the way work is being carried out. This is visible in the food served, which is greener, more often vegetarian and especially more organic.

Increased cooperation throughout the whole value chain - farmers/growers, suppliers, wholesalers, operators, local authorities, caterers and restaurants - is a prerequisite for succeeding with

continued strong growth for organic and KRAV-labelled food in food services. KRAV plays an important role, and can undoubtedly make a difference.

Swedish Sales of Organic Food Per Channel in Food Services

Total market value ca. SEK 7 billion.



Three Insights

- ▶ The shortage of raw materials in 2015 is the main reason why growth has not been quite as strong in food services as in previous years.
- ▶ To meet the expected consumer demand in two to three years, producers need to convert their farms now.
- ▶ The high demand shows no sign of declining, as within the private and public sectors, and in restaurants, there is a greater focus on organic and KRAV-labelled products.

4

Production & Import



Shortages Limit Market Development

The market for KRAV-labelled products is limited by supply, and the shortage of easily accessible raw materials drives up prices. Despite this, there was no extensive conversion of farms in 2015.

For those purchasing KRAV-labelled raw materials in the shop and restaurant industries, at the beginning of 2016 access to sufficient quantities of dairy products such as butter and cheese has been difficult. Within the industry there is a supply problem for powdered milk. The shortage of hops and to some extent malting barley leads to a limited production of KRAV-labelled beer. For meat there is often a supply problem with pork and occasionally with beef. Fats, such as canola oil, are also in demand.

There is a more stable supply of grain products such as flour and hulled grains. Here, international trade that functions well is the key to a good balance. The same applies to fruit and vegetables, provided that Swedish origin is not a condition. The supply of seafood, such as mussels and cod at good prices, has capacity to grow. Chicken, poultry and egg supplies are working well. When it comes to chicken, a sharp increase in production is planned for 2016, so any problems are transient. Egg production is growing steadily, but those planning large volumes need to book them at a packing facility well in advance.

Milk Shortage

There is a shortage of KRAV-certified milk. Farms change dairies depending on payment, but overall more farms need to be recruited before there can be a significant increase in the production of dairy-based products. Due to the standards for conversion, the first new farms can start delivery when the cows are let out to pasture in the spring of this year.

Beef and Pork

Regarding beef, there are still a number of farms that raise KRAV-certified animals, but sell them as conventional for slaughter. There is also a potential to increase production from dairy farm calves that cannot be used for milk production, but this requires an investment at the farm level. Regarding pork, there is always some deficit. This is because a new price level is being established. This deficit resulted in some actors not getting any KRAV-labelled pork at all.

Fruit and Vegetables

For fruit and vegetables there is strong demand for KRAV-labelled products in combination with Swedish origin. Much more of these products could be sold, but currently no significant price premium is given. However imports of KRAV-labelled products solve part of the supply problem and availability seems relatively good. With regard to root vegetables, the supply is good.

Grains

For grains, the supply is relatively good for most crops, but prices are going up, and there is a shortage for certain specific

requirements. In Sweden, raising the level of protein in wheat is problematic, resulting in shortages at mills. However, the Lantmännen company plans to pay more for protein, which should improve supplies beginning with the harvest in 2016.

Production is Hampered

Consequently, during much of 2015 and early in 2016 it was difficult to obtain enough basic raw materials, such as dairy products, some grains, and Swedish fruit and vegetables. This means that production of existing products is restricted, and also that development of new products is limited. Despite the prevailing shortages there was significant conversion to KRAV in certain specific types of agricultural production. The probable reason more farms do not convert to KRAV-certification is that the extra payment is not adequate for it to be profitable to invest in KRAV. More detailed statistics can be found at www.krav.se/marknadsrapport-2016.

Three Insights

- ▶ The market is limited by availability of raw materials.
- ▶ Milk shortages inhibit development.
- ▶ Availability of beef, wild fish and grain is good.

5

Exports



Small Organic Exports With Great Potential

Strong demand and purchasing power in Sweden restrict companies' incentive to look for new markets. Swedish export of organic products is still small, but the growth potential is huge.

Sweden is one of the world's most export-dependent countries. Since the 1970s, the importance of exports has increased substantially and now represents almost half the country's GDP. About two-thirds of exports are goods and one-third is services.

Swedish food exports are small compared to many other industries. Historically, most Swedish food companies focused on the domestic market, partly due to various forms of trade barriers to import and export of food.

Steady Increase

However, in the past five years food exports increased by 5% per year. In 2014 food exports amounted to SEK 67 billion, which is equivalent to 6% of the total export of goods (vehicles account for 40%). Swedish food is exported mainly to European countries and represents 80% of the export value.

Despite major Swedish export successes such as Absolut Vodka, coffee, peas and frozen cakes, Sweden is still a net importer of food in most categories. Total food imports amount to SEK 120 billion and is large, for example, for seafood, beverages, dairy products, fruit and vegetables. Grain and grain preparations are the

only categories in which Sweden is a net exporter.

Organic Exports

Swedish exports of organic food amount to SEK 700 million according to a survey by the consulting firm Macklean. This is a very small portion of both the country's total food exports (SEK 67 billion) and the world market for organic food (SEK 500 billion).

In interviews with food companies many reported that demand and willingness to pay for organic foods is very strong in Sweden, which reduces the incentive for companies to focus on exports.

Of Swedish organic exports, KRAV-labelled products account for 39%, and the rest of the products have other organic labels, for example EU-organic. Swedish organic food is exported mainly to neighbouring markets such as the Nordic countries (38% of the value) and Germany (25% of the value), but also to more distant countries such as the USA, Russia and Australia, which are important export markets.

Expansion of Private Brands

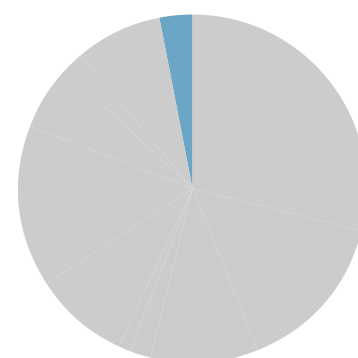
The survey found that many food companies have built up large exports by producing and selling private brands for major wholesalers such as IKEA, Coop and ICA. Several respondents reported that this has been a market channel that quickly opened up a large export market without it being necessary for the companies to make their own large market investments.

All interviewed companies see the export market as an important marketing channel for balancing and broadening the demand

for organic food from the Swedish market. Demand for organic food is growing both in Sweden and in export markets. Prognoses¹ point to increases in the global organic market by between 13 and 16% by 2020, indicating continued growth for Swedish organic exports.

Swedish Exports of Organic Food by Channel

Total market value ca. SEK 1 billion.



Exports 3%

Three Insights

- ▶ The turnover for Swedish food exports was SEK 67 billion and is growing.
- ▶ Swedish organic food exports are worth SEK 700 million, which represents 1% of food exports.
- ▶ Demand for organic food is growing both in Sweden and in export markets.

¹ Technavio: Global Organic Food and Beverages Market 2015–2019, <http://bit.ly/technavio-2019> as well as Grand View Research: Global Food and Beverages Market 2014–2020, <http://bit.ly/grandview-2020>. Macklean is a consulting company that focuses on strategic advice to the Swedish food industry and forest industry. For more information see <http://www.macklean.se/>.

Four Hot Markets for KRAV-labelled Products

The world's organic markets are growing and creating new opportunities for Swedish export successes. Here are four markets with a potential for KRAV-labelled products, and tips from companies that found new business abroad.

Denmark



The Danish organic market is worth SEK 8.4 billion.¹ According to Organic Denmark, the organic portion of the market is 8%, which is the highest in the world. Denmark is also among the countries with the highest per capita consumption, SEK 1,474.² The rate of increase along with the large per capita expenditures make it an attractive export country that is close geographically, which is valuable in terms of close contact with customers. In the Nordic countries, Denmark is an inspiring food market where demand by consumers for organic food is based on taste and quality. The country has political goals to increase organic sales – SEK 20 billion and triple exports by 2020.



Lantchips Exports Chips to Denmark

"The Danish organic market is the biggest in Europe, though Sweden may exceed it in 2016. It is therefore very competitive and there are possibilities to drive down prices. So keep an eye on your pricing! But at the same time, be careful not to compromise on your quality. The business climate in Denmark is also relatively hard. It's not personal, but many are straightforward and tough when negotiating. Prepare yourself well, especially your unique selling points."

"Keep an eye on your pricing!"

– Gianni Cucarano
Export Manager, Lantchips



USA



The world's largest organic market continued to grow during 2015. After an increase of 12%, the US market is valued at SEK 312 billion.³ Organic food accounts for 5% of total food sales. Though the USA and North America have the largest organic market in the world, only 7% of the world's organic agricultural land is there.² This makes it an attractive export market, although it helps to be big and have economic muscle. A shift of sales channels is taking place in the USA, from specialty stores to mass-market stores. Whole Foods plans to open a discount chain and Walmart wants to democratize organic sales and reach the masses.



Lantmännen Exports Oats to the USA

"Visit exhibitions. You can find out about those who have succeeded and learn about the preferences of potential customers. Something that applies to all markets, not least in the US, is to be fearless, stubborn and to dare to make new contacts. It is important, whether you are selling something or not. The market goes up and down – listen to it, be present in it – when the opportunity presents itself you can then make contracts before your competitors. Being able to speak the language and having a reasonable grasp of the culture in the country you want to work in are a clear advantage."

"Listen to the market!"

– Göran Karlsson,
Product Marketing Manager
Oats/Canola, Lantmännen



¹ Calculation by Ekoweb. ² The World of Organic Agriculture Statistics and Emerging Trends 2016, published by FiBL and IFOAM. More statistics from the report are available at: <http://www.ifoam-eu.org/en/organic-europe>. ³ USDA: Consumer Demand Bolstering Organic Production and Markets in the U.S., <http://bit.ly/USDA-2015>.

Swedish Exports Of Organic Food⁴

Food Exports Per Product Category

Product Category	SEK million	% KRAV
grain	138	100%
coffee	136	35%
grain preparations	124	5%
baby food	97	28%
beverages	75	0%
chips & snacks	36	100%
fruit, berries, jam	33	15%
dairy products	29	3%

Food Exports Per Market

Market	SEK million	Market Share
Nordic countries	251	38%
Germany	165	25%
USA	151	23%
Europe	72	11%
Russia	10	1%
Australia	6	1%
China	4	1%
Japan	2	0%
Other	7	1%

Germany



Germany continues to be the big motor for organic sales in Europe. With an organic market worth SEK 81 billion,⁵ the country accounts for one-third of total sales in Europe, although per capita consumption is only SEK 883 kronor.² Germany is an attractive export market, partly because it is the world's second largest organic market, but also because market growth was 11% in 2015.⁵ There is strong development of organic food stores in the country – over 50 organic supermarkets open every year. In addition, well established export relations between Germany and Sweden pave the way for good business.

Organic Market

SEK 81bn

Market Increase

11% ↑

Fazer Exports Bread to Germany

"If you have a company selling fast-moving consumer goods and want to enter the German market, you must first and foremost ensure that you have all the necessary quality control and certification in place. Otherwise it is impossible to succeed. It is also important to be sure that you have sufficient capacity. Getting contracts in Germany generally means that you both need to produce and deliver products quickly."

"Quality control and certification is absolutely necessary."

– **Annika Westby**,
Marketing Manager,
Fazer Bakery Sweden



China



The Chinese organic market grew by over 50% in 2014 and is Asia's largest and the world's fourth largest market, with a value of SEK 34 billion.² China is one of the Asian countries with a high proportion of domestic organic production. Despite this, China also has a high and growing demand for organic imports and is seen as a target market for many organic food exporters. The demand for organic dairy products, especially baby food, has soared as a result of several food scandals.

Organic Market

SEK 34bn

Market Increase

52% ↑

Almnäs Bruk Exports Cheese to China

"Start with Hong Kong, where people are used to European products and where EU-organic is approved. On the mainland you have to be approved both centrally in Beijing and also be certified, which is quite an extensive process. At a trade show in Europe you can often do well without looking for contacts and scheduling meetings in advance – but not in China. There, you have to be prepared and book meetings in advance. Business Sweden in Hong Kong, as well as KRAV, are good contacts when taking the first steps toward China."

"Prepare well for Chinese trade shows."

– **Thomas Berglund**,
CEO Almnäs Bruk



⁴ Source: Survey conducted by Macklean on behalf of KRAV in December 2015.

⁵ Organic-market.info 2016-02-12: German organic market grows to 8.6 billion Euros, see <http://bit.ly/germany-2015>.

U&W is a consulting company that aims to combine profitability with social responsibility and environmental stewardship, see www.uandw.se.



Our Manifesto

REFUSE PESTICIDES
in food and the environment

CHOOSE NATURAL FOOD
without strange additives

DEMAND DECENT CONDITIONS
for farmers all over the world

TREAT ANIMALS WITH DIGNITY
let them root and graze

**SPREAD COW PIES
AND BIRD TWITTER**
every time you buy food

Index of Tables and Diagrams

Sales By Channel

Overview.....	9
The Retail Sector.....	25
Food Services.....	35
Exports.....	39

Consumers that Buy KRAV-labelled Products

Awareness and Attitude.....	14
Purchasing Frequency and Searching.....	15
Value Words.....	15
LOHAS Divided into Sub-groups.....	16
How LOHAS Consumers Choose.....	19
Communication with LOHAS Consumers.....	20

The Retail Sector

Shop Barometer.....	28
Sales Development:	
Dairy Products.....	31
Fresh Herbs.....	32
Potatoes.....	32
Cereals.....	32
Fish.....	33
Baby Food.....	33
Alcohol-free Beverages.....	33
Systembolaget.....	33

International Trade

Export of Organic Food.....	39
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A Fantastic Year for KRAV

In 2015, 1,600 more KRAV-labelled products appeared on the market, there was a positive sales growth and rapidly growing demand. The Swedish market for organic products has increased by 39% to a value of SEK 23 billion, including exports.

The record strong growth for KRAV-labelled food in recent years is continuing. The rapid growth also creates challenges, and development is hampered in several areas due to a shortage of KRAV-certified raw materials.

The KRAV Market Report presents a clear picture of the market for KRAV-labelled products, both in Sweden and internationally. We present recent statistics, analysis, company examples and interviews from all branches of the industry. Also included this year is an analysis of Swedish exports of organic food and in-depth information about the ever-growing main target group for KRAV-labelled food, LOHAS.

Tasty reading!

Interested in the data behind a diagram?
You can find it at KRAV.se



The recipe for better food

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www.krav.se KRAV Association, Box 1037, 751 40 Uppsala, Tel. 018-15 89 00 We are on:  

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