




Jones Industrials
 7.49 Up 113.36, 0.93%


 Nasdaq Composite
 2,437.36 Up 24.15, 1.00%


 Standard & Poor's 500
 1,409.84 Up 13.13, 0.94%


 10-Year Treasury Note
 4.55 yield Up 0.11


 \$1 = 0.7576 Euro (\$ Up 0.0077)
 116.47 Yen (\$ Up 1.12)

Two area firms already big in the organic-meat market feel the competition.

Natural Growth Spurt

By Harold Brubaker
 INQUIRER STAFF WRITER

When Hormel and Oscar Mayer introduced "natural" deli meats this year, they were muscling into a niche dominated by two companies with strong ties to the Philadelphia region.

Applegate Farms and Wellshire Farms accounted for half of the \$154 million in frozen and refrigerated meat and seafood sold in natural-foods stores during the 52 weeks ended Oct. 7, according to data tracker Spins.

Combined sales of Applegate and Wellshire increased 22.3 percent to \$78.6 million during that period, compared with 13.9 percent for the whole category.

Now the privately held companies are wrestling with an explosion in retailer demand — beyond traditional natural-foods stores — for meat products from animals raised without antibiotics and without animal byproducts in their feed and processed without nitrates or chemical preservatives.

"It's kind of fun to be a big fish in a small pond," said Applegate chief executive officer Stephen McDonnell, who manages the business from his Bucks County home near Point Pleasant. However, he said, "the pond is getting larger," and he wants Applegate to hold its market position.

To that end, McDonnell — who graduated in 1979 from Hampshire College, a hippie haven in Amherst, Mass., where he ate bean sprouts and made

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What's Natural?

Here are the USDA definitions for:

Natural: The meat is minimally processed with no chemical preservatives, no artificial flavorings, and no artificial coloring.

No hormones: The beef cattle are not given additional hormones. When this label is used on pork and poultry, it must have an asterisk indicating that federal regulations prohibit the use of hormones with such animals.

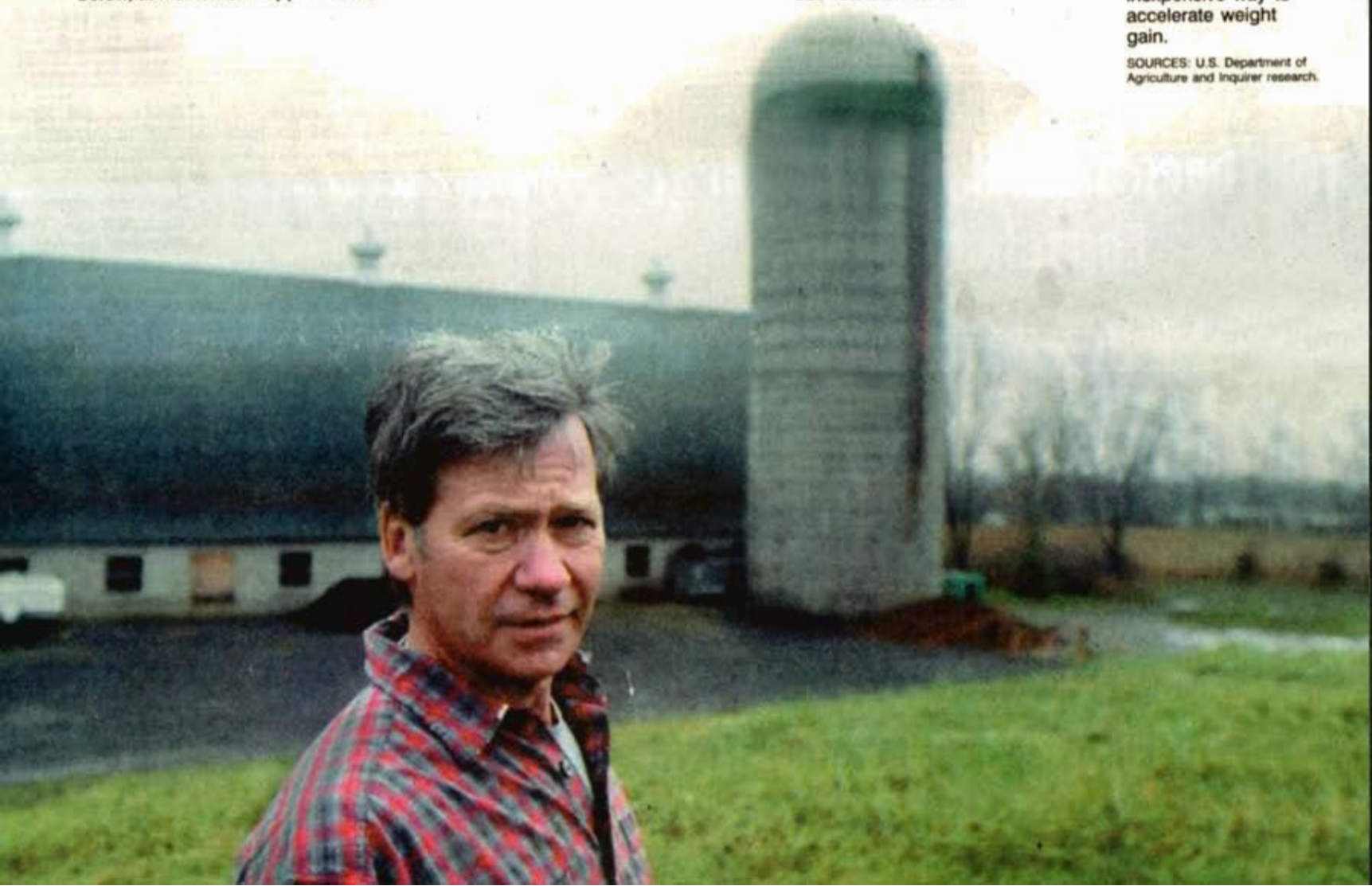
Vegetarian-fed: This term is not defined by regulators. Most poultry and livestock feed includes animal fat and protein because it is an inexpensive way to accelerate weight gain.

SOURCES: U.S. Department of Agriculture and Inquirer research.



GERALD S. WILLIAMS / Inquirer Staff Photographer

At Martin's Specialty Sausage Co., of Mickleton, above, Vanessa Rodriguez stuffs chorizo sausages. Beside her are president Martin Giunta (right) and Wellshire Farms president Louis B. Colameco 3d, who was visiting. Wellshire is one of the area's biggest natural-meat sellers. The other is Applegate Farms, founded by Stephen McDonnell, below, at his home in Upper Bucks.



"I like to sell to people who have the same mission" of selling more healthful foods.

"There is a shortage of raw materials, and I don't want to short the customers that really care about it."

Louis B. Colameco 3d, holding one of Wellshire's products, a premium sliced salami



GERALD S. WILLIAMS / Inquirer Staff Photographer

'Pond is getting larger' for natural-meat sales

NATURAL from E1

yogurt in five-gallon buckets — is embracing the mass market, selling in Wal-Mart Supercenters, BJ's Wholesale Clubs and ShopRite grocery stores.

In contrast, Wellshire's Louis B. Colameco 3d — a self-described "meat and potatoes" guy who worked in his family's excavating business before going into food — has a hard time stomaching the mass market.

"I like to sell to people who have the same mission" of selling more healthful foods, said Colameco, who makes many products exclusively for Whole Foods Market Inc. "There is a shortage of raw materials, and I don't want to short the customers that really care about it," Colameco said.

Wellshire's strong link to Whole Foods has put the 10-year-old Swedesboro company on track to reach more than \$40 million in sales this year. Applegate, founded in 1987 and based in Bridgewater, N.J., is expected to have more than \$50 million in sales this year — a growing portion from organic products, McDonnell said.

Neither of the companies owns meat-processing facilities. Instead, both rely on suppliers in the Philadelphia region and elsewhere. Dietz & Watson Inc., one of the nation's largest packagers of deli meats, is Applegate's largest supplier.

Colameco sticks to smaller processors, such as Martin's Specialty Sausage Co., of Mickleton; Watson's Quality Food Products Inc., of Blackwood; and Godshall's Quality Meats Inc., of Telford.

For all their differences, McDonnell and Colameco "have done a great job" during the last five years of filling what had been "a vacant spot in the natural-foods store," said David Browne, vice president at Spins, of Schaumburg, Ill.

Browne, who has worked in the natural-products industry since 1992, predicted that the market for natural and organic meat still had years of rapid growth ahead of it. Applegate and



JOHN SLAVIN / Inquirer Suburban Staff

Applegate Farms hasn't been afraid to go mass market. But others in the natural-foods industry gave its founder "a lot of grief from going to Wal-Mart."

Stephen McDonnell, inside his Bucks County barn

Wellshire said their sales had been growing more than 30 percent a year.

The overall market for processed meat was worth \$11.1 billion last year, up from \$10 billion in 2000, for an annual growth rate of 2.1 percent, according to Information Resources Inc., a Chicago data firm.

The fast growth of the natural-meats niche has caught the attention of large companies.

For example, Kraft Foods Inc. launched Oscar Mayer Natural Meats in September, spokeswoman Sydney S. Lindner said. However, the Northfield, Ill., company makes no claims about using meat from animals never given antibiotics, hormones or animal byproducts

in feed. The same holds for the Natural Choice line from Hormel Foods Corp.

In July, Giant Food Stores L.L.C. started selling Nature's Promise meats, a line of fresh beef, pork and chicken raised with no antibiotics, no growth stimulants or added hormones. Several processed varieties are in the works for early next year, spokeswoman Tracy Pawelski said.

Prompted by a Hormel petition, the federal Food Safety and Inspection Service is holding a public meeting Tuesday to collect comments on the use of the term "natural" on food labels, with the goal of revising the rules dating to 1982.

A Whole Foods executive said the competition from mainstream food

companies was good for the industry and for consumers.

"I applaud anybody who goes into this market," said Theo Weening, the chain's national meat coordinator. "I already see that there are a lot more farmers I can buy my pigs from."

The spread of natural and organic meats is leading Applegate Farms to diversify its customer base. "Our mission is to change the way Americans eat meat," said McDonnell, a former vegetarian, who advocates eating less, but better, meat. Applegate can only fulfill that mission if it expands beyond Whole Foods, he said.

McDonnell, 51, said he "got a lot of grief from going to Wal-Mart" from others in the natural-foods and organic-foods industry. Wal-Mart Stores Inc. said in March that it would dramatically increase its offerings of organic food and other items. Applegate sells lunch meat in a couple of hundred Wal-Mart stores.

Wal-Mart spokeswoman Karen A. Burk said it wanted to give shoppers the choice between organic and conventional products.

Marcia Mogelonsky, a senior analyst with Mintel International Group Ltd., a Chicago research firm, said she thought "it's not bad to cast your lot with Wal-Mart on this one. It seems like Wal-Mart is making it easier for a wider array of people to eat well."

Colameco, 47, remains a skeptic: "Are you really bringing it to the masses when you bring it to Wal-Mart or are you bringing it to Wal-Mart's bottom line?"

Colameco, who sells under eight brand names besides Wellshire, plans to go into some conventional supermarkets with his Garrett County Farms brand.

One problem for him is that "it takes 10 conventional stores to equal one Whole Foods" in sales, Colameco said.

The success of Applegate and Wellshire is pushing expansion at local meat processors. Larger and larger portions of Dietz & Watson's capital investments are related to processing meat for Applegate, said Louis Eni, Dietz & Watson's third-generation president.

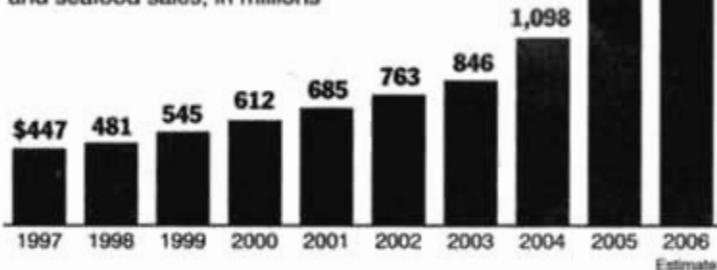
For example, Dietz & Watson just spent more than \$15 million on slicing and packaging equipment that will be used about half the time for Applegate, Eni said.

Wellshire is the biggest customer for Martin's Specialty Sausage in Gloucester County near Paulsboro. The five-year-old plant needs to expand soon. "We are just about at our limit," owner Martin Giunta said.

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Organic Growth

Natural and organic meat, poultry and seafood sales, in millions



SOURCE: Nutrition Business Journal

The Philadelphia Inquirer



SARAH GREEN

Organic turkey hot dogs from Applegate Farms, based in Bridgewater, N.J., and managed from Bucks County.