

By Lisa Marshall

Market Overview

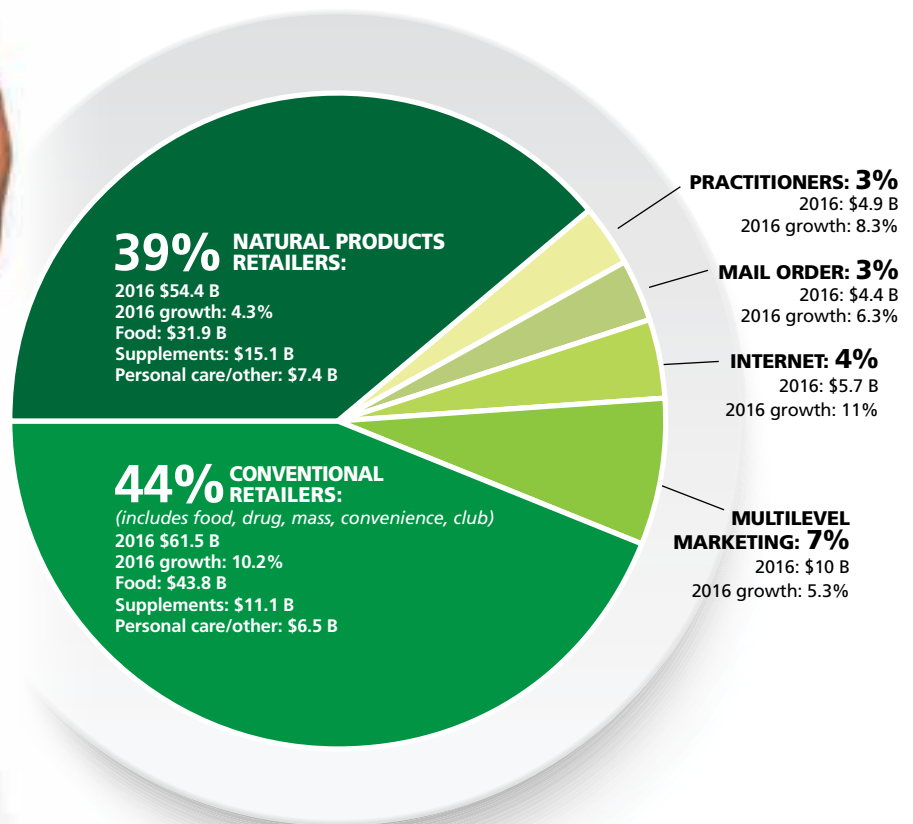
AS INDUSTRY MATURES, INDEPENDENTS THAT ADAPT, STAY TRUE TO THEIR ROOTS ARE THRIVING

With its childhood innocence in the distant past and the erratic growth spurts of adolescence now behind it, the \$141 billion natural products industry moved firmly into adulthood in 2016, maturing to a modest 7.4 percent growth rate across all channels, with independents and natural chains slowing to a 4.3 percent year-over-year change. ⇨



Thalia Lawrence

2017 Market Overview



Source: NFM/NBJ

Competition remained heated, with conventional stores now selling a whopping 44 percent of all natural products, compared to 39 percent sold in natural products stores.

The good news: With this maturity appears to have come some stability for independents, as those who have weathered the past few years have learned how to not only survive but thrive in an era of increased competition, shifting consumer demands and hunger for community in the wake of a divisive election. Just 4 percent of stores closed in 2016, down from 6 percent in 2015, according to *Natural Foods Merchandiser's* latest Natural Retailer Market Overview Survey. Sixty-nine percent of natural products stores surveyed reported a sales increase, and 72 percent noted that they did not have a competitor open in their neighborhood last year.

“We are starting to see some real positive changes and turnarounds, with many of our retailers doing better than in 2014 or 2015,” says Corinne Shindelar, CEO of the Independent Natural Food Retailers Association (INFRA). “They are starting to see some light at the end of this very competitive tunnel. They’re starting to have fun again.”

A tough year for the big guys

For conventional grocers and so-called “supernatural” chains, 2016 was a tough one.

With oil (and thus transportation costs) cheap and the dollar strong, food prices deflated for the first time since 1967, decreasing by 1.3 percent overall, with retail prices for eggs tumbling 21 percent, beef falling 6 percent and dairy declining 2 percent, according to the U.S. Department of Agriculture. For conventional chains already operating on razor-thin margins, this was not good news.

“It created havoc for the big players,” notes Jay Jacobowitz of Vermont-based consulting firm Retail Insights.

Price wars ensued. Retailers dipped into their margins to stay competitive, and some laid off workers and closed locations. Cincinnati-based Kroger Co. (which includes King Soopers, Ralph’s and Fred Meyer) reportedly offered buyouts to about 2,000 employees in 2016. In March 2017, it reported its first same-store sales decline in 13 years. (Walmart, in contrast, continued to enjoy double-digit gains).

Sales	2015 (B)	2016 (B)	% growth
Total natural sales in retail	\$107.9	\$115.9	7.4%
Total natural sales nonretail	\$23.3	\$25	7.3%

Key to charts

Natural channel: Includes chain and natural, health and supplement stores such as Whole Foods Market and small retailers not included by SPINS

Conventional channel: Food, drug, and mass merchandisers, including Walmart, convenience and club.

B: Billions of dollars **M:** Millions of dollars **K:** Thousands of dollars

Charts are courtesy of retailer surveys conducted by *Natural Foods Merchandiser* and *Nutrition Business Journal*; and market research by SPINS, a natural products consulting firm in Schaumburg, Illinois.

Natural products stores’ 2016 sales by category

	Total sales (M)	% change from 2015	Category as % of total sales	Organic sales (M)	% change from 2015	% of category that is organic	% of total organic sales
Dairy	\$3,934	4.3%	7%	\$2,649	3.9%	67%	16%
Fruit & vegetables	\$7,031	4.1%	13%	\$5,477	4.6%	78%	32%
Breads & grains	\$3,949	3.2%	7%	\$1,858	3.6%	47%	11%
Meat, fish, poultry	\$2,108	5.1%	4%	\$528	9.1%	25%	3%
Beverages	\$6,377	3.4%	12%	\$2,011	6.0%	32%	12%
Snack foods	\$3,158	4.2%	6%	\$812	3.3%	26%	5%
Packaged/prepared foods	\$4,031	4.5%	7%	\$1,588	5.3%	39%	9%
Condiments	\$1,354	5.4%	2%	\$756	6.3%	56%	4%
Food TOTAL	\$31,943	4.1%	59%	\$15,678	4.8%	49%	92%
Supplements TOTAL	\$15,081	5.3%	28%	\$400	7.4%	3%	2%
Personal care & other products TOTAL	\$7,388	3.5%	14%	\$885	8.1%	12%	5%
2016 TOTAL	\$54,412	4.3%	100%	\$16,963	5.0%	31%	100%
2015 TOTAL	\$52,150						

Source: NFM Market Overview/Nutrition Business Journal (Totals may not add up because of rounding.)

Note: NBJ includes homeopathics in specialty, but NFM has historically created a separate category because the FDA regulates them as drugs.

A collaboration with *Nutrition Business Journal*, the 2017 NFM Market Overview reports 2016 sales statistics from 390 respondents who answered questions about their operations.

Supplement sales

	Total sales (M)	% change from 2015
Vitamins	\$5,252	3.8%
Minerals	\$1,317	4.4%
Herbs/botanicals	\$2,506	6.4%
Sports	\$2,830	6.3%
Meal supplements	\$500	8.1%
Specialty	\$2,258	6.9%
Homeopathy	\$417	3.4%
TOTAL	\$15,081	5.3%

Source: NFM/NBJ

Profit & expense

	Total	Natural products stores	Health food stores	Supplement stores
Average revenue	\$3.1 M	\$5.3 M	\$1.5 M	\$580 K
Cost of goods sold	65%	65%	66%	63%
Storewide gross profit margin	35%	35%	35%	37%
Payroll expense*	16%	17%	14%	15%
Benefits*	2%	3%	1%	1%
Other expenses*	11%	10%	10%	12%
Net profit margin	7%	4%	9%	10%

Source: NFM. *These values not collected for 2016 but historical averages are reported here.



Corinne Shindelar

Average sales per store

	Total	Natural products stores	Health food stores	Supplement stores
Avg. sales 2016	\$3.1 M	\$5.3 M	\$1.5 M	\$580 K
Avg. overall net sales change	4.1%	3.9%	4.7%	4.0%
% of stores with sales increase	69%	76%	68%	58%
Avg. sales increase	7.4%	6.6%	7.9%	8.4%
% of stores with sales decrease	19%	18%	20%	18%
Avg. sales decrease	-4.2%	-5.0%	-3.0%	-4.8%
% of stores unchanged	12%	7%	12%	24%

Source: NFM/NBJ

Average sales by square footage

	Natural products stores			Health food stores		Supplement stores	
	<=3,000 sq. ft. retail	3,001-6,000 sq. ft. retail	>6,000 sq. ft. retail	<=2,000 sq. ft. retail	>2,000 sq. ft. retail	<=1,200 sq. ft. retail	>1,200 sq. ft. retail
Avg. sales in 2016	\$1.2 M	\$3.5 M	\$9.7 M	\$551 K	\$2.1 M	\$361 K	\$769 K
Avg. overall net sales change	4.3%	4.2%	3.7%	3.8%	5.2%	4.3%	3.8%
% of stores with sales increase	73%	71%	81%	59%	72%	62%	55%
Avg. sales increase	7.2%	7.8%	5.1%	8.3%	7.7%	7.5%	9.2%
% of stores with sales decrease	18%	26%	12%	31%	15%	7%	26%
Avg. sales decrease	-5.3%	-5.4%	-3.8%	-3.5%	-2.6%	-5.3%	-4.8%
% of stores unchanged	8%	3%	7%	9%	13%	31%	18%

Source: NFM/NBJ

Meanwhile, Whole Foods Market continued its lingering struggle, reporting in May that same-store sales fell 2.8 percent in the second quarter of its 2017 fiscal year (its seventh quarterly decline). In April, hedge fund Jana Partners became the second-largest shareholder of Whole Foods (after the investment firm Vanguard) with an 8.8 percent stake in the company. Jana is now putting pressure on Whole Foods to make changes to improve its bottom line.

Could the hard times befalling larger competitors benefit smaller independents?

Absolutely, say Shindelar and Jacobowitz.

Independents tend to be more agile and a bit less affected by commodity price fluctuations. And with the lines blurring between large corporate grocers and supernatural chains, independents now have a great opportunity to show off what makes them distinct.

“The difference between the corporate model, which you would now have to say includes Whole Foods, and the authentic, community-owned independent, is becoming clearer every day,” says Jacobowitz. “Those who embrace that authenticity and are passionate about serving their unique community will do well.”

Trump Effect

Regardless of who they voted for, consumers shared one thing in the wake of the 2016 presidential election. After a year of historically divisive politics, they were hungry for community.

“We saw stores become a place where people can gather—where they see community happening and they feel welcome,” says Shindelar.

Talk of budget cuts to the Environmental Protection Agency and U.S. Department of Agriculture (which oversees the National Organic Program) have served as a wake-up call, Shindelar says, galvanizing many consumers to “vote with their dollars,” supporting local farmers and independent retailers who share their concerns.

While many retailers say they steer clear of partisan political talk inside their store walls, some have taken creative steps to quietly engage their customers in activist causes they believe in.

For instance, Sunflower Natural Foods Market in Woodstock, New York, recently instituted a monthly “Giving Back” drive, encouraging customers to round up their purchases to contribute to a different local charity each month. The store then matches the total contribution. Recent beneficiaries →

have included Planned Parenthood and Healthcare is a Human Right—a campaign for universal, publicly financed health care.

“We don’t necessarily vocalize it, but people know which way we lean,” says co-owner Paku Misra, who with his wife Melissa is in the process of purchasing the 39-year-old store from her stepfather, the original owner. The store, which recently put in a deli, saw sales climb by double digits this year. It will double in size next year.

“Our business has always stood for taking care of the community and the environment. People appreciate us for that,” says Misra.

Politics aside, independents nationwide are bolstering their community offerings, rolling out everything from cooking and yoga classes to community garden spaces as they re-establish their original role as stewards, rather than mere purveyors of food.

When 45-year-old Ever’man Natural Foods Cooperative completed its latest remodel and expansion in 2014, it added a 3,000-square-foot stand-alone community education center, which now hosts 80 classes per month, ranging from Reiki for pets to yoga for wounded veterans.

Like many independents undergoing a face-lift, it also capitalized on busy millennials’ appetites for healthy prepared foods, expanding its deli into a full-blown café, adding a juice bar, smoothie bar and coffee bar, and boosting its array of healthy, made-from-scratch grab-and-go offerings.

“Fifteen years ago, people cooked and baked at home. Now everybody

is on the go but they still want to eat healthy,” says Thalia Lawrence, merchandising manager for Ever’man.

All the while, the store, founded in 1973 as a buying club for hippie surfers, has made a point of keeping its bulk offerings, organic produce and “conscious living” mission intact. Next year, it plans to open a new store.

“We have expanded outward without forgetting our base,” Lawrence says. “So far so good.”

Serving the underserved

While the natural products industry may be mature, there are areas of the country which are far from saturated, Jacobowitz notes.

Once you move away from big cities, or even away from higher-income neighborhoods within big cities, there are still plenty of “B and C” real estate markets, where the land is affordable and the community is still underserved.

For instance, according to *NFM’s* latest survey, while the Pacific region of the country accounted for 24 percent of all natural products sales in 2016, the East South Central region (Missouri, Alabama, Tennessee and Kentucky) amounted to only 5 percent.

“It’s a big country, and the big boys can’t be everywhere at once,” says Jacobowitz. “There are still opportunities out there.”

Mariposa Food Co-op found one.

Growth & competition

	Total	Natural products stores	Health food stores	Supplement stores	Natural products stores			Health food stores		Supplement stores	
					<=3,000 sq. ft. retail	3,001-6,000 sq. ft. retail	>6,000 sq. ft. retail	<=2,000 sq. ft. retail	>2,000 sq. ft. retail	<=1,200 sq. ft. retail	>1,200 sq. ft. retail
2016											
% that added onto one or more existing facilities in 2016	5%	6%	5%	6%	9%	0%	7%	2%	6%	0%	10%
% that renovated/remodeled one or more existing facilities in 2016	20%	18%	25%	16%	9%	24%	21%	24%	25%	12%	18%
% that added one or more locations through a new build or acquisition in 2016	4%	7%	0%	5%	5%	2%	10%	0%	0%	3%	6%
% that closed one or more location(s) in 2016	4%	4%	2%	7%	5%	4%	2%	1%	2%	5%	8%
None of the above	72%	71%	71%	76%	77%	71%	66%	73%	70%	85%	70%
% indicating competitor opened store in their region in 2016	28%	23%	29%	36%	15%	28%	28%	25%	31%	35%	36%
% indicating competitor closed store in their region in 2016	9%	10%	7%	10%	8%	3%	18%	2%	9%	6%	12%
2017											
% that plan to add onto one or more existing facilities in 2017	4%	5%	4%	4%	5%	15%	0%	2%	4%	0%	6%
% that plan to renovate/remodel one or more of existing facilities in 2017	19%	22%	18%	13%	17%	15%	30%	16%	19%	12%	14%
% that plan to add one or more locations through a new build or acquisition in 2017	4%	4%	6%	2%	3%	3%	7%	7%	6%	0%	4%
% plan to close one or more location(s) in 2017	1%	1%	1%	1%	5%	0%	0%	2%	1%	0%	2%
None of the above	74%	70%	72%	83%	75%	74%	64%	73%	71%	88%	80%

Source: NFM/NBJ

In 2012, the 45-year-old, 500-square-foot co-op in West Philadelphia moved into a newly remodeled space five times its original size in the middle of what would otherwise be considered a food desert. The move cost \$2.5 million, raised via public and private donors.

“It was scary,” recalls store manager Bull Gervasi. “But given how much our membership had grown and given the growing interest in natural and organic food, we felt it was a good bet.”

After four years of “phenomenal growth,” things began to taper off in early 2016, he says, slowing to 16 percent year-over-year growth that year.

This year, that number is around 8 percent or 9 percent.

What to do?

“We are talking about expanding again,” says Gervasi, whose co-op is mulling a larger space with room for a deli, more grab-and-go items and a community gathering place.

He has no doubt that the industry is maturing, and that more competition lies ahead as more people shop online. But he’s not worried, and he’s not lowering his expectations.

“We just have to stay on our toes, sharpen our pencils and keep adapting,” he says. “It’s the grocery industry. It’s always a wild ride.”

Business statistics

	Total	Natural products stores	Health food stores	Supplement stores	Natural products stores			Health food stores		Supplement stores	
					<=3,000 sq. ft. retail	3,001-6,000 sq. ft. retail	>6,000 sq. ft. retail	<=2,000 sq. ft. retail	>2,000 sq. ft. retail	<=1,200 sq. ft. retail	>1,200 sq. ft. retail
Average # of natural products stores under same ownership	1.4	1.5	1.3	1.3	1.1	1.4	2.1	1.2	1.4	1.0	1.4
Average square feet of store (retail ONLY)	4,842	6,856	3,702	1,871	2,011	4,535	13,657	1,489	5,708	956	2,652
Average annual sales per RETAIL square foot	\$633	\$770	\$407	\$310	\$579	\$762	\$714	\$370	\$373	\$378	\$290
% who own store space	34%	37%	35%	24%	34%	45%	34%	37%	35%	21%	26%
Average number of years store has been open	27.7	27.4	28.0	27.9	24.6	26.4	31.2	22.8	30.6	24.6	30.1
Average sales allocation											
USDA Certified Organic (70% or-ganic or more)	53%	58%	56%	38%	61%	63%	53%	59%	55%	34%	40%
Natural products	42%	36%	40%	58%	35%	34%	39%	37%	41%	60%	57%
Conventional products	4%	6%	4%	2%	4%	4%	8%	4%	5%	3%	2%
Other	0%	0%	0%	1%	0%	0%	1%	0%	0%	3%	0%
% sales Non-GMO certified	51%	49%	56%	48%	52%	47%	47%	62%	54%	54%	45%
% offering private label products	48%	49%	51%	41%	34%	53%	62%	28%	63%	36%	45%
Food	17%	23%	16%	5%	17%	28%	27%	14%	17%	6%	4%
Supplements	39%	35%	43%	40%	16%	40%	52%	16%	56%	33%	45%
Personal care	6%	5%	9%	1%	0%	8%	8%	2%	13%	3%	0%
Customers											
Average number of customers per day	343	607	145	53	167	361	994	57	226	42	63
Average sale per customer	\$33.56	\$29.40	\$33.33	\$42.19	\$28.60	\$28.58	\$31.07	\$34.12	\$32.90	\$48.73	\$38.14
Employees											
Average number of full-time employees	14	25	7	3	6	15	53	3	10	2	3
Average number of part-time employees - 15-30 hours	9	14	6	3	6	11	26	3	7	2	4
Average number of part-time employees - <15 hours	1	2	1	1	1	1	3	1	1	0	1

Source: NFM/NBJ

Market Overview methodology

The 2017 edition of *Natural Foods Merchandiser's* Market Overview represents the 37th year the magazine has presented statistics on store operations and the state of the natural products industry. From \$1.9 billion in 1980 to \$54 billion in 2016, sales in natural products stores have come a long way.

Just as the numbers vary each year, so does the methodology for collecting, compiling, analyzing and presenting the data. This issue marks the 19th year *NFM* has collaborated with *Nutrition Business Journal*, a New Hope Network sister publication and Informa property, to produce the data.

The inclusion of *NBJ* allows for a more complete and robust perspective of the natural products retail industry. The sales contributions of natural and organic foods, dietary supplements and other natural products through such diverse channels as food, drug and mass retailers; multilevel marketing; health care practitioners; mail order; and the internet are also included in the \$141 billion natural products industry figure depicted by the pie chart on page 33.

The primary vehicle for collecting data for the Market Overview is *NFM's* annual store survey. This survey was distributed to a representative segment of the natural products retail industry,

including, but not limited to, natural products stores, health food stores and supplements stores. They were asked 50 questions pertaining to store operations. A total of 390 respondents from 340 stores or chains reported the results of their calendar year 2016 operations.

Most of the operations data pertain to independent and small-chain retailers divided into three categories by sales mix and eight subcategories by size. This data subset represents 10,049 independent and chain stores.

The \$54.4 billion natural products retail channel is broken down into product category and region, and includes eight store categories plus the biggest chains—Whole Foods Market (\$15 billion in sales), GNC (\$1.6 billion in sales at company owned stores), Vitamin Shoppe (\$1.1 billion in sales), Natural Grocers by Vitamin Cottage (\$721 million)—and other specialty retailers (specialty/gourmet shops, personal care stores, health clubs, co-ops, herb shops, mall stands, etc., totaling \$2.9 billion).

Although most of the operating statistics are averaged or aggregated from the responses, estimating total product sales for the entire industry is challenging. Total product category sales and organic sales figures were derived from statistical analysis of survey results in each of the eight natural products retailer categories. Accurate and complete sales breakdowns were reported by 390 survey respondents. Aggregate sales figures and the percentage of organic were then compiled in each product category; the resulting proportions were applied to the total sales in each category.

For product breakdowns and organic sales information, data from large-chain respondents were incorporated into their appropriate store category. To complete industry sales subtotals from smaller natural product retailers, product sales in all of these store categories were added up. Organic figures were also compared and reconciled against findings from the Organic Trade Association's 2017 Organic Industry Survey data, also compiled by New Hope Network in the first quarter of 2017.

Data on mass-market sales and other sales channels are derived from several sources. In addition to the *NFM* survey, retail and consumer sales data is also compiled from *NBJ*, U.S. government sources, SPINS, IRI (a Chicago-based market research firm), ACNielsen, public company financial data, surveys published by other trade publications, and other sources.

Data for the mass market and non-retail channels are based on *NBJ* market estimates.

Not all of the results of the *NFM* Market Overview survey of 2016 performance and sales are directly comparable with 2015 results printed in the July/August 2016 issue of *NFM*, as certain adjustments have been made.

Universe of stores

Independents & small chains	Store size	No. of stores	Nutrition sales (M)**	% of sales
Natural products store	<=3,000 sq. ft.	1,297	1,721	3.2%
Natural products store	3,001-6,000 sq. ft.	1,154	4,176	7.7%
Natural food supermarket	>6,000 sq. ft.	2,209	15,140	27.8%
Health food store	<=2,000 sq. ft.	1,721	1,362	2.5%
Health food store	>2,000 sq. ft.	1,899	5,036	9.3%
Supplement store	<=1,200 sq. ft.	815	789	1.4%
Supplement store	>1,200 sq. ft.	955	1,521	2.8%
Total independents		10,049	29,745	54.7%
Whole Foods Market		446	15,354	28.2%
GNC		3,286	1,560	2.9%
Vitamin Shoppe		772	1,104	2.0%
Natural Grocers by Vitamin Cottage		131	721	1.3%
Sprouts Farmers Market		253	2,996	5.5%
Other*		11,106	2,932	5.4%
Total independents & specialty		26,042	54,412	100.0%

Source: *NFM/NBJ*

*includes specialty/gourmet, personal care (Body Shop, etc.), gyms, herb shops, mall stands, etc.

**includes foods, supplements, other (personal care, books, household goods, etc.)

Reported sales may not match public company reported earnings due to non-nutrition sales, including market standard products.

Model considers 74% of Sprouts sales, GNC store counts and sales for company operated stores only.

Regional independent growth

Region	Sales (B)	% change from 2015	% of total
New England	\$2.40	4.4%	8%
Middle Atlantic	\$3.60	5.1%	12%
South Atlantic	\$3.87	3.0%	13%
East South Central	\$1.38	2.9%	5%
West South Central	\$3.77	2.3%	13%
East North Central	\$2.55	4.2%	9%
West North Central	\$2.43	2.6%	8%
Mountain	\$2.69	7.1%	9%
Pacific	\$7.05	4.6%	24%
Total	\$29.74	4.1%	100%

Source: *NFM/NBJ*

By Jenna Blumenfeld

Fresh bet

SOLUTIONS TO YOUR MOST CHALLENGING— AND MOST LUCRATIVE—CATEGORIES



Stroll down the aisles of Natural Products Expo West or Natural Products Expo East and you'll discover innovations in packaged foods galore. Puffed snacks made from chickpeas. Nutrition bars formulated with meat and dried fruits. Corn-free tortilla chips made with cassava root and coconut flour. Shelf-stable snacks and center-store staples are continuously reinvented, rebranded and reimaged to boost nutrition, flavor and experience for shoppers. What you won't see at many trade shows, however, is much creativity surrounding key grocery store products such as perishable grab-and-go items and fresh produce that actually capture a significant portion of natural retail sales.

Sean Balsley

There are many factors working against the survival of natural retail stores. Conventional groceries have expanded their natural sections, making special diet and preservative-free items a cinch to find. Online grocery sales are slowly rising and are at risk of cannibalizing brick-and-mortar sales. A 2016 survey by Morgan Stanley Research found that from 2015 to 2016, online grocery sales increased 8 percent for fresh food and 16 percent for packaged food (over the same time period, personal care and household product sales grew the fastest, at 24 percent). Shoring up fresh and convenience items may be key in securing natural retail's future.

Natural Foods Merchandiser has covered extensively the evolving retail landscape that highlights the outer ring of the store—the area that many registered dietitians and nutritionists regard as where the better-for-you foods are located—and the shrinking of the inner aisles rife in processed, packaged food. In response, retailers are prioritizing categories such as produce, dairy and grab-and-go to offer a point of differentiation. That difference can be described as “fresh.” Produce, dairy and grab-and-go offer shoppers something that online sales can't: the opportunity to examine, smell, feel and ultimately buy specific fruits, vegetables and other ready-to-consume items themselves. Mainstream media outlets are recognizing this phenomenon, too. “Shoppers who don't buy groceries online most often cite the desire to pick their own produce as the reason,” the *Wall Street Journal* reported earlier this year. That desire has led many retail experts to believe that periphery categories could be the shield that halts future invasion from online sales.

These sections aren't without their own unique set of problems, however. Produce is limited by seasonality, short shelf life and quality. Trendy dairy options such as Greek yogurt and organic milk—as well as plant-based dairy alternative products—are now found in nearly every natural, specialty, conventional and convenience store around the country. Grab-and-go faces serious competition from the \$1.5 billion meal delivery market.

Around the country, natural retailers are implementing smart solutions that strengthen sales in these critical categories, placing them at a higher likelihood to thrive in the ever-changing grocery store business.

Produce power-up

Fruit and vegetable farmers typically don't receive noteworthy investments from budding food accelerators, and apart from the several newish crop varieties that have taken hold within the past years (Hello, Honeycrisps! Hello, finger limes!), innovations in produce offerings

are few and far between. It also doesn't help that marketing budgets for fresh fruits and vegetables are minuscule compared to packaged food brand budgets. But fresh produce sections are important for natural products retailers that typically see strong margins in this area—and fruit and vegetable sales are rising in natural.

In the 52 weeks ending April 21, 2017, sales of produce in the natural channel grew an impressive 17.7 percent to \$276 million, according to SPINS—almost double the amount of produce growth in conventional grocery stores during the same period. This is good news, because the Food Marketing Institute recently found that baskets including fresh produce gleaned larger sales in conventional grocery stores—they're about \$30 larger than baskets without fresh produce. Also of note is that, because produce doesn't keep as long as processed, shelf-stable products, health-seeking shoppers will make more frequent visits to stores to purchase produce—good for your store's brand recognition and community-building initiatives.

But discerning natural shoppers can be tough to please when it comes to produce. Minor blemishes on the surface of fruits and vegetables are enough to lose a sale, and a lifetime of having access to seasonal produce year-round has conditioned consumers to want everything—and want it now. “One of the main challenges we have for the produce department is that people want certain organic items all the time,” explains Sean Balsley, general manager for Nature's Food Patch in Clearwater, Florida, whose produce section is 90 percent organic. “For instance, grapes often aren't available organically year-round, so we have to weigh whether we sell non-organic grapes from Chile or just not stock them.” Not stocking them means risking the loss of an entire basket because shoppers may go to a conventional store instead. One solution? Try educating your staff about produce seasonality to arm them with honest answers when passionate shoppers ask why certain items aren't organic for part of the year. Also post signage by your non-organic items explaining why you made stocking decisions. Being transparent in your produce sourcing is paramount to maintaining trust between your store and your customers.

The continued desire for local fruits and vegetables is also a boon to produce sections. Not only can prioritizing local produce support farmers in your area, boosting the community feel of your store, but also shoppers are OK with paying a premium for local items. One recent survey from Packaged Facts found that nearly half of respondents said they were “willing to pay up to 10 percent more for locally grown or produced foods, and almost one in three said they are willing to pay up to 25 percent more.” These



The bountiful produce section at Portland Food Co-op. Photo by Rachel Sieben.

figures could represent serious sales boosts in an important category.

But local produce buying can be a headache—one that John Crane, general manager of Maine's almost three-year-old Portland Food Co-op, knows all too well. “Our sales in the produce department were increasing,” explains Crane, who says local produce is particularly important to his customers. “But we were having trouble [with the category] at the management level. We were working with a lot of individual farmers, and that communication was taking place on 20 to 30 emails, phone calls or text messages per day.” Juggling dozens of local produce purveyors was inefficient, costing time and staffing hours.

His fix? When a Maine-based startup called Forager approached Crane to test a local food-ordering tool, he enthusiastically agreed. Forager, a “digital procurement-to-payment platform,” is designed to streamline the entire process of sourcing local food. Farmer partners post what they have available in the morning, and buyers order produce and other food items directly from their smartphones. Crane estimates that using Forager saves him up to 8 percent in labor costs. “Our farmers appreciate the platform, too,” says Crane. “It gets us away from having to respond to so many back-and-forth emails, and farmers can receive and process orders while they are out in the field.”

Grab-and-go get-down

Probably any grocer would say that customers are significantly more interested in healthy convenience items than they were five years ago. With entertainment centered on cooking and gastronomy, DIY projects and kitchen culture seems to be growing—and yet, when it

comes down to quotidian actions, people aren't cooking meals as much as they used to. This is not a new trend. According to a study published in *Nutrition Journal*, since 1965 Americans, regardless of income, have been eating more meals outside the home. Plus, the glorification of working late and having long hours, and the prestige of constant busyness (blame it on start-up culture), have pushed cooking regular meals to the wayside.

Recognizing the vacuum for products that serve time-pressed, health-focused consumers, brands, meal kit delivery companies and natural retailers have rapidly overhauled business models to include quick-cook, heat-and-eat or preportioned ingredients to make feeding families less of a hassle.

Grab-and-go sections of grocery stores particularly catch the attention of retailers because shoppers are willing to pay more for time saved. “Convenience is king, with increasing convenience garnering higher price premiums. Consumers pay increasingly higher price premiums for the convenience of having to do less,” analyst Camilla Stice said in a 2016 Lux Research report on new food business models.

In response, smart retailers are retooling their store floor plans to capitalize on this trend that doesn't seem to be going away anytime soon. Simple changes to the grab-and-go section—such as creating more multi-servings (rather than single servings) of heat-and-eat meals crafted in its kitchen helped Nature's Food Patch increase annual category sales around 30 percent. “Growth itself is from the dinner crowd,” says Balsley. “Families want something that they don't need to put a lot of thought into but can consume almost instantly ... it sure beats going to McDonald's.” ➔

While much has been written about the popularity of delivery meal kits and their potential encroachment on grocery store sales, they aren't necessarily the harbinger of doom some media have chocked them up to be. While Packaged Facts found that one in four Americans reported purchasing meal kits in 2016, a separate report by the firm 1010data discovered that after several weeks of purchases, meal kit purveyors such as Blue Apron, Hello Fresh and Plated saw sharp declines in repeat users: after roughly six months, only about 10 percent of customers continued meal kit delivery service.

Plus, food retailers of all stripes are fighting back by leveraging their expert prep-kitchen chefs to make their own meal kits—and because they don't require delivery, they're sold in a fraction of the packaging that refrigerated, shipped meal kits contain. For example, earlier this year Publix started to offer bagged meal kits in two of its stores, positioned in a highly visible refrigerator and emblazoned with craveable images of the meals inside. Ranging in price from \$9.99 to \$37.99 for a family of four, shoppers can choose what level of prep-work they desire that night, from the slightly involved “SimplerPrep” Chipotle Shrimp Tacos to “SimplestPrep” heat-and-eat Caramelized Onion Meatballs. While the meal kits are still in their testing phase, media and community relations manager Brian West says Publix is very pleased with meal kit sales. “It appeals to those with varying levels of comfort and experience in the kitchen,” he says. “A general trend in grocery retail is always trying to deliver to the needs of your customers, and convenience is a piece of that.”

Natural retailers also capture improved sales by widening their convenience options in beverage. Exciting data show fortifying your beverage department—which *Natural Foods Merchandiser's* Market Overview identified as 11.7 percent of total store sales from 2015 to 2016—can be a game-changing income slugger. SPINS data reveal that beverage sales in the grab-and-go category are particularly impressive. In the year ending April 21, 2017, sales of functional beverages (which often contain energizing herbs, spices, botanicals or add-ins like whey or plant-based protein) spiked 5.9 percent to \$175.9 million. It's also notable that, while grab-and-go milk and nondairy options in single servings represented fewer sales at \$19.4 million, this category grew a remarkable 49.2 percent during the same time period. Recognizing the boost that grab-and-go beverages could offer, Nature's Food Patch recently expanded its section that contained small juices, infused waters and fizzy kombucha by 8 feet, displacing the retailer's beer offerings. Balsley estimates that this one improvement boosted grab-and-go beverage sales by about 20 percent from last year—numbers that will definitely slake your thirst.



Forager aims to help retailers streamline local produce sourcing right from their smartphones.

Dairy good

Out of all the categories in natural retail stores, dairy might look the most foreign to a time traveler from 2007. Milk is organic, grass fed and in some cases made from plant-based foods such as nuts, seeds and beans. Yogurt is thick, creamy, Greek and often vegan. In some stores, milk may even be flanked by other refrigerated offerings such as whole-food nutrition bars. Such innovation over the past decade has made the dairy case an important section of the grocery store. Surveys from *NFM's* Market Overview tell us that dairy accounted for 7 percent of total sales in natural retail in 2016. Notably, 67 percent of the dairy category is organic—the second-highest percentage of organic out of all categories except fruits and vegetables.

Offerings of novel products that cater to special diets and consumers interested in globally inspired options are key growth drivers in dairy. For example, refrigerated plant-based milk and creamers grew 12.6 percent in the year ending April 21, 2017, according to SPINS—indicative of the high-quality vegan milk products that have permeated the market in recent years. While cow's

milk garners more sales overall, it grew at a paltry 3.8 percent. But it's the explosion of yogurt and kefir that truly reinvigorated the dairy category: over the same period, refrigerated yogurt and kefir grew 5.2 percent to an incredible \$225.4 million in the natural channel.

“Yogurts that sell really well now are the ones that have something special about them. The days of original yogurt are gone,” Balsley says. “Now, most shoppers are looking for Greek yogurt, almond milk yogurt or even particular yogurt that comes from water buffalo milk.”

Skyr, too, the protein-packed, ridiculously thick Icelandic yogurt (that is technically a cheese) is gaining serious traction in dairy and, according to Nielsen, is even stealing sales from Greek yogurt consumers. For example, Icelandic Provisions, a skyr brand that employs 200-year-old skyr cultures as a fermenting agent, is the fastest growing yogurt brand in the United States. Icelandic Provisions' use of unexpected Nordic add-ins such as lingonberries, cloudberries and bilberries likely contributes to the brand's explosive 1,000 percent growth from February 2016 to February 2017.

Local products can also set a dairy case apart



John Crane, general manager of Portland Food Co-op.

from conventional grocery stores. For Portland Food Co-op's general manager Crane, local is a top priority. "The demand for local milk, yogurt and cheese is really strong. It accounts for over 50 percent of our dairy cooler sales," says Crane, who adds that the store's shoppers, being from the dairy-producing states of Maine, New Hampshire and Vermont, are extremely passionate about supporting local dairy farms. "If anything, we have not been very successful in bringing in mass-produced or out-of-state options, especially with yogurt."

The lesson: unique, exciting and mindfully sourced offerings are what shoppers want—a trend that seems to apply to natural retail categories in general, not just the dairy case. Now more than ever, it's vital that natural grocery stores pay attention to the macro trends influencing shopper desires. Specific ingredients such as kale, açai and chia can ride fleeting waves of popularity, but shoppers will never tire of the discovery associated with trying new products, flavors and delivery formats. Balsley stresses that being in the know about trends is paramount to remaining relative in an increasingly online world. "I think with our store, we like to be on the cutting edge," he says. "We like to be the first ones to have a hot trend in our area. I can't say what it will be, but I know we'll be the first."

By Melissa Kvidahl

Supplement upside

COMMITTED SHOPPERS DRIVE SALES

When *Natural Foods Merchandiser* asked retailers to name their store's top growth category of 2016, there was a clear consensus: More than one-third said the supplements sector was the most dynamic.

According to SPINS data, sales of herbal and homeopathic products shot up 13.4 percent over the 52 weeks ending March 19, 2017, to reach a market value of nearly \$2 billion. Vitamins and supplements rose, too, growing 3.5 percent to notch about \$12 billion in sales. All in all, SPINS reports 5 percent growth across the board, valuing the total supplements market at roughly \$14 billion.

This uptick in sales is a direct result of several trends making waves in the supplement aisle. First, when it comes to herbs, formulas are at the forefront. SPINS reports that sales of herbal blends grew 22 percent over the previous year and accounted for much of the herbal category's overall success. Why? According to research from Mintel, supplements that call out benefits, rather than ingredients, are top performers—and blends often meet this criteria.

Cindy Boyer, co-owner of Nature's Garden Natural Foods and Shoes in Reading, Pennsylvania, believes that herbal blends carrying condition-specific claims allow consumers to find what they need more easily—and get results more reliably than if they formulated their own blends using single-herb products. "I don't think it's cost-effective today for a consumer to buy many different herbs to meet their needs," says Susanne Fiori, Nature's Garden co-owner. "It's also inconvenient. Why open four bottles when you can open one?"

At The Whole Wheatery in Lancaster, California, supplement manager Cindy McClelland encourages shoppers to purchase herbal blends over single-ingredient formulas because, while store employees are certainly knowledgeable, they aren't formulators or homeopaths. "A range of →



Cindy Boyer and Susanne Fiori

professionals work on those herbal blends to make sure each dose is therapeutic,” she says. “Plus, while curcumin alone may take down inflammation, you may need another ingredient to help with delivery or provide additional anti-inflammatory support. A blend will take those additional ingredients into account and remove the guesswork for shoppers.”

In addition to blends, supplements in the spotlight include turmeric/curcumin, with about 30 percent of retailers telling *NFM* that this was a top performer in 2016. Also, cannabidiol, or CBD, is emerging as a top supplement for anxiety and pain management. While McClelland isn't surprised by the demand for anti-anxiety supplements overall (the National Institutes of Health reports that nearly 20 percent of Americans suffer from anxiety), the wave of interest in CBD has taken her by surprise. “Even though there are still some negative perceptions out there about CBD oil, it is doing better for me sales-wise than I ever anticipated,” she says. “It's multifunctional, and people are getting good results from it.”

Other supplement sectors of note include probiotics, with 16 percent of retailers citing it as a top growth category, as well as bone broth and kombucha (13 percent).

One category on the decline is weight loss. According to SPINS, sales of supplements with a weight loss claim dove nearly 9 percent over the past year. However, retailers agree this is likely just a natural rebounding of the market, not a widespread comment on the efficacy or popularity of such supplements.

“When television doctors recommend a weight loss supplement, we see tremendous growth and can barely keep it in stock,” Fiori says. “But where there's rapid expansion, there will be a contraction. It's fun to ride the wave, but it isn't sustainable at that level.” Therefore, retailers still see weight loss as a steady category, especially taking into account seasonal sales peaks in the new year and summertime. They find that shoppers are still generally interested, even despite the roller-coaster of fads.

Certification, application, dedication

One trend making a huge impact in the supplements department arguably migrated from the food aisles: organic and non-GMO certifications. Mintel reports moderate to high sales of supplements carrying organic claims, which is no surprise, says McClelland.

“Supplements are [widely available] in the mass market, and an organic or non-GMO seal will set quality products apart,” she notes. “I've had shoppers actually pass up products because they weren't USDA Organic. They walk out of the store. I'm working really hard to bring in more organic lines because of this.”

As for supplement formats, Mintel says gummy and other innovative applications are still in high demand, and consumers are increasingly intrigued by creative delivery methods like hard candy (64 percent of supplement consumers surveyed were interested) and fortified drinks that can be consumed throughout the day (61 percent were interested). Still, the top delivery formats among supplement users were pills that can be taken once a week (83 percent), dissolvable tablets (72 percent) and mints (65 percent). Clearly, convenience is king.

That said, supplement consumers haven't yet adopted the ultimate convenience: delivery box, subscription or automatic refill services, which are wildly popular in other categories from produce to personal care. Mintel research found that just 17 percent of supplement consumers were interested in a consistent regimen through the use of such a service. The firm took this to mean that supplement consumers just aren't committed enough to sign up for months-long regimens—but supplement retailers have quite a different view.

“I think that figure actually implies the opposite: that consumers are quite committed,” McClelland says. “They are committed to our store. They don't want to take out that personal component. They want to interact with us, ask us questions and see what's new.”

Boyer and Fiori have a similar take: Their customers are very committed, both to a lasting regimen and to Nature's Garden. As proof, shoppers will stock up on a year's worth of supplements—everything from multivitamins to joint health offerings—during the store's anniversary sales because they know they'll use these products. Fiori estimates that the average shopper haul during the three-day sale amounts to \$500. “When people line up at the register with a dozen jars, we know they've made the commitment,” she says.

“If you're getting your supplements delivered, you don't get to engage or learn if there's something better out there,” Boyer adds. “You can't switch. There's no dialogue. There's no human element. To me, this finding is actually encouraging; it indicates that people want to be engaged.”

By Jessica Rubino

HABA reimagined

TO BOLSTER NATURAL PERSONAL CARE SALES, RETAILERS INVEST IN THE CATEGORY—AND GET CREATIVE

What goes up must come down. In recent years, the rising bubble of media coverage around cosmetic chemicals, consumers demanding safe cosmetic ingredients and advancements in nontoxic product formulations (hooray!) has sent sales of natural and organic personal care products soaring. But now it seems that bubble has popped—at least in the natural retail channel. Sales of NOPC increased a mere 3.5 percent in natural retail in 2016—its worst showing in years—according to the 2016 *Natural Foods Merchandiser* Market Overview survey.

Ironically, this decelerated growth coincides with the natural personal care industry finally tackling two of its biggest hurdles: efficacy and awareness. Although some consumers remain skeptical of NOPC performance, many have acknowledged the vast improvements in products such as antiaging creams, toothpastes and, yes, even deodorants over the past decade. Today's high-performing offerings are a far cry from the chalky, unappealing options that gave the natural beauty biz a bad rap.

As for awareness of the potential dangers of cosmetic chemicals, a streak of highly

publicized reports in 2015, plus ongoing efforts by groups such as the Campaign for Safe Cosmetics, has finally moved the needle. According to the Kline Group, consumer demand for mild and safe products is one of the top five influencers of personal care formulations in the global market.

So, considering these strides, there *is* plenty of good news for NOPC. Clearly, natural beauty is no longer a niche movement, says Kimberly Heathman, chief marketing officer at the Louisville, Colorado-based natural skin care company MyChelle Dermaceuticals. “Natural has become more than just a focus of a handful of health-conscious, ‘quirky’ customers,” she says. “Natural products are now the mainstream expectation from consumers who are innately focused on nature and the environment, specifically Gen Y and Z consumers.”

Why, then, have sales slowed in the natural channel? One major reason is that while health and beauty aids could be one of a store's most exciting departments, most natural retailers have fallen short on merchandising and education in this area. This has given their customers little incentive to think beyond kombucha and kale. It has also left NOPC manufacturers wondering where and how to get necessary in-store support for their products.

The fight for NOPC sales

For years, New Hope Network editors have asked NOPC brands the same question: Which retailers best support your products? They'll rattle off several of the same staples but then suggest that, overall, support for the NOPC industry needs to go even further in order to boost sales in the natural channel. They'd like to see better merchandising, more in-depth knowledge, stronger in-aisle support and more robust sampling and testing. Why? Competition.

According to the Market Overview survey, NOPC sales are not lagging in all channels. They are actually growing steadily—a solid 8.3 percent—in food, drug and mass. For basics like soap, deodorant and lip balm, shoppers can easily find natural options at Target or Kroger. And the mass market may not even pose the biggest threat to natural retailers. When it comes to performance-driven skin, hair, nail and makeup products, Sephora, department stores, salons and clinics offer deep expertise along with strong customer service and appealing rewards programs—and they are dipping more than just their big toe into the natural pond.

What about online? Sales of beauty products—once reliant on the in-store experience—are finally making virtual inroads, according to recent research, as digital retailers create more personalization and offer better shopping experiences. Still, information-seeking shoppers, who tend to purchase natural, are more likely to shop



Starkie Sowers

brick-and-mortar. So although some websites are curating more natural beauty offerings, online may prove less of a threat to an industry that depends heavily on product sampling and experiential marketing.

Opportunities for natural retailers

Given these trends, the question for natural retailers becomes: How can you deliver the value and convenience found in mass along with the premium customer service of more specialized channels?

The solution is twofold. First, stay true to and nurture your strengths. After all, it's education, strict standards and product differentiation that bring customers back time and time again to buy nondairy yogurt or grass-fed beef. Shouldn't the same be true for cosmetics? Second, learn from the larger beauty industry. The innovative merchandising efforts that support sales of premium products can also encourage movement of higher-priced skin care in the natural retail environment.

You can also capitalize on the fact that specialty beauty stores typically lack authentic and verifiably natural options. "These retailers are still not at the level of traditional natural stores in monitoring toxic or synthetic ingredients," Heathman says. "They also stock only a few brands certified by Ecocert or NSF, or that are EWG Verified."

Difficult-to-attain quality seals are valued in the natural channel yet are often unappreciated or misunderstood in conventional. Therefore, touting your store's standards and educating on reputable certifications and verifications is one of the best ways to stay on top, right along with offering guidance on how natural products work to deliver serious results, sans harsh chemicals.

In hot categories such as aromatherapy, Clark's Nutrition and Natural Foods Market, which has four locations in California, keeps its quality standards top of mind. This makes its selection stand out from those of DoTERRA, Young Living and other companies that have fueled essential oils' impressive growth. "[We focus on] quality, sourcing, active constituents and how they function," says Starkie Sowers, director of education at Clark's. "This helps staff answer, with confidence, common questions such as: Why is one lavender oil more expensive than others?"

In addition to quality, exclusivity also helps differentiate independent retailers, although this is becoming increasingly challenging with the mass market moving in on the natural channel's turf. When a product line quickly goes into mass, "we lose the core message," Sowers says.

To combat this, independents may have to work even harder to stock unconventional NOPC offerings. "We make ourselves unique by the products we carry," says Angela Anderson, HABA category manager at The

Sunspot Natural Market in Kokomo, Indiana. "We try to showcase products that are not available in department stores, focusing on local vendors when possible. When customers shop at our store, they know they are going to find something they can't get anywhere else." Sunspot often highlights these products with staff-pick signage and employee testimonials. And with every new line comes robust staff training to support all products with education.

Create an experience

Another way that both brands and retailers can cultivate interest in the natural channel HABA department is to create a unique experience and a destination for shoppers. Clark's combined this concept with exclusivity to develop one of its most successful natural beauty initiatives to date. The retailer brought in Suzanne Somers' Suzanne Organics Cosmetics line, making it the only brick-and-mortar to sell these products.

Once Clark's scored the line, Sowers focused not just on putting it on shelves but on unique merchandising and robust educational programs to fully support it. Suzanne Somers lectures at an in-store kiosk while makeup artists complete the formula. "It's definitely something superunique for us," Sowers says. "We have done store-within-a-store with weight equipment and juice bars, but this is the first time we've done it in personal care."

Natural personal care company Mineral Fusion has strengthened its success in natural retail by working with stores to get its products *out* of the HABA department in order to bring more customers *into* it. "Historically in the natural channel, the majority of any given store's customers are unfamiliar with the natural beauty section and mostly do food shopping," says Tim Schaeffer, senior vice president of marketing at Mineral Fusion. That's why the company's "beauty tour" has been tremendously effective, he says. Booths outside of the beauty department introduce new natural consumers not just to Mineral Fusion but also to the entire natural beauty category.

Product sampling and on-staff experts are two additional ways to create a more premium experience that will validate higher price tags. In fact, according to Euromonitor, sampling is the fourth biggest influencer of beauty product purchases. Heathman, whose background includes brand building at Nordstrom, has brought new types of retail programs that leverage these successes into natural retailers' HABA departments. "Last year we created a pop-up sampling event, the MyChelle Skin Beauty Bar," she says. "Our on-site beauty experts serve up powerful, professional and personal skin care cocktail 'recipes' and skin solutions, while providing education on clean 'ingredient mixology' and the potency of our multi-ingredient formulas."