



December 2014

Natural & Gourmet Supermarkets Driving Supermarket Growth

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Mainstream U.S. consumers are gradually becoming more aware of and interested in health and wellness. One indicator of this shift is the growth of natural/gourmet supermarkets. While the overall U.S. supermarket industry has grown very slowly since the depth of the great recession in 2009, the natural and gourmet supermarket segment has expanded rapidly.

According to data reported by the grocery trade magazine *Progressive Grocer*, since the economic recovery began 4 years ago, total U.S. natural/gourmet supermarket sales increased over 52% versus about 10% for traditional supermarkets, while the number of natural/gourmet supermarkets increased 32% (versus about 3% for traditional supermarkets). Despite accounting for just 5% of total supermarket sales and about 8% of total U.S. supermarket locations, the natural/gourmet supermarket segment accounted for 39% of the increase in total supermarkets and 17% of the increase in total supermarket sales.

Whole Foods and Trader Joe's, two very different companies, dominate the segment in terms of sales and number of stores. However, the remarkable growth and success of these two companies has attracted a range of rapidly growing upstart rivals, each positioned differently along a spectrum spanning from Whole Foods to Trader Joe's. These new entrants are growing so quickly that four (The Fresh Market, Natural Grocers, Fairway, and Sprouts Farmers Market) had successful initial public stock offerings since 2010. Privately held Fresh Thyme Farmers Market, based in the Midwest, opened its first store in 2014, currently operates 10 stores, will open 15 more in 2015, with a stated goal of operating more than 60 stores by 2020.

Industry analysts expect the natural/gourmet supermarket segment to continue to grow rapidly for the foreseeable future at annual growth rates multiple times greater than the forecast growth rate for traditional supermarkets. Whole Foods operates over 350 U.S. stores but sees potential for 1,000 more in the U.S. Sprouts Farmers Market, with over 190 stores, predicted there could be 1,200 Sprouts stores in the U.S. Even Natural Grocers, with just over 70 stores, sees potential for 1,000 U.S. stores. While these are individual company estimates, they are not

mutually exclusive since the market propositions and positioning of these formats is differentiated.

Traditional supermarkets have and will continue to expand their natural/organic/gourmet offers, and that has certainly cut into the growth of natural/gourmet chains. However, except for the best-in-class (Wegmans, HEB, etc.), traditional supermarkets struggle to replicate the natural/gourmet supermarkets' cultures which address consumers' needs for information, clarity, and confidence.

Traditional supermarkets also have challenges competing with the intimate size and feel of the shopping experience in the generally smaller, more focused natural/gourmet stores. In fact, after many years of developing larger stores, most traditional supermarket companies are developing smaller formats to respond to consumer desire for simpler, quicker shopping experiences.

Another factor is that conventional supermarkets do not necessarily have a pricing advantage. Despite the high-end image of Whole Foods, the category is not all upscale since Trader Joe's, Sprouts, and others are clearly value-oriented and together represent a huge portion of natural/gourmet stores. These stores are positioned as 'healthy yet affordable' to broaden the market to attract more value-driven yet health-conscious consumers. In response, Whole Foods is lowering prices and opening value-oriented stores in lower income neighborhoods. Whole Foods' downtown Detroit store opened in 2013 with a simpler, lower-priced format that has been very successful and is the model for similar sites in Chicago and other urban areas. This value trend reflects and enables the democratization of the natural foods sector by introducing a broader spectrum of Americans to affordable natural/gourmet foods.

To a certain extent, the natural grocery chains are also growing in popularity because they provide some clarity for consumers who are confused about terminology such as organic, natural, non-GMO, etc. Consumers want healthy food for their families but often rely on retailers to edit their assortments to clarify healthy choices and simplify shopping. Most natural grocery chains have fewer items than traditional supermarkets and tend not to carry mainstream products so consumers have mostly healthier options and fewer choices to make.

These natural/gourmet supermarket chains also tend to be focused on consumer health, providing training and educational programming and materials as an integral part of their go-to-market strategy; it's part of their corporate DNA. Traditional supermarkets have also begun to provide such services and opportunities but it's harder to 'walk the talk' since health and wellness are not as culturally ingrained and they also sell a broader spectrum of products, perhaps causing conflicting health signals.

Hand-in-hand with their training and education orientation is their customer service orientation. This is the product of somewhat similar company cultures across dimensions such as treating employees well, encouraging and expecting employees to be product experts and to engage with customers to provide solutions and education. The climate created by motivated, enthusiastic, knowledgeable employees helps build trust and loyalty among customers who in turn tell family and others through conversation and social media. As a result, most of the

natural/gourmet grocery chains spend proportionately less on advertising and promotion than traditional supermarket chains.

These companies also tend to have strong cultural commitments to sustainability, reflected in every possible way throughout their operations and organizations. Sustainability is another confusing area for many consumers and natural/gourmet retailers seem to provide clarity through messaging and product offerings.

The growth of natural/gourmet supermarket companies reflects growing consumer concern about wellness and health. While there always has been a niche of such consumers, increasingly mainstream consumers are concerned about what they eat, where food comes from, and how it's grown and processed.

There are a lot of small lessons here but the big one is this: value-oriented natural/gourmet retailers are growing rapidly in the U.S. and will broaden the appeal of natural/gourmet foods with smaller, customer-centric formats that alleviate confusion about terms such as natural, organic, sustainable, non-GMO, etc. through knowledgeable, engaging employees, accurate information, and focused edited assortments.

“Smart Marketing” is a marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews elements critical to successful marketing in the food and agricultural industry. *Please cite or acknowledge when using this material.* Past articles are available at <http://agribusiness.dyson.cornell.edu/SmartMarketing/index.html>.