Embracing progress and change adds up to Healthy Living.


State of Natural Retail

The market sizing and benchmarking stats retailers need to know.
You could call it the calm before the storm.

After a tumultuous decade characterized by fierce competition and narrowing margins, independents rose to the challenge and settled into a healthy rhythm in 2019, holding on to modest year-over-year sales gains and winning back customers from struggling soon-to-be shuttered chains.

“If there is one word I would use to describe 2019, it would be ‘stable,’” says C.E. Pugh, CEO of the St. Paul Minnesota-based trade group National Co+Op Grocers. “Folks had begun to adapt to all the changes, expand and grow.”

Little did independent retailers know that their investments in store upgrades and expansions, online platforms and employee benefits would also help them weather the unimaginable pandemic in 2020.

“I have absolutely no regrets,” says Paku Misra, co-owner of Sunflower Market, which completed a glistening 9,000-square-foot addition to its 40-year-old Woodstock, New York, store in September (with plenty of space for what we now know as social distancing). “If we hadn’t done that expansion, we would be really struggling to provide what our customers need right now.”

Competition easing up, e-commerce on the horizon

Overall, according to Natural Foods Merchandiser’s latest Natural Retail Market Overview Survey, 2019 looked a lot like 2018. Sales of natural products across all channels hit $166 billion, up about 5% from 2018. Conventional stores held 44% of market share, while natural retailers held 36%—a balance largely unchanged from the previous year. But a few subtle shifts were on the horizon.

E-commerce sales increased a whopping 20%, as large online retailers like Amazon and Walmart doubled down on internet sales, nudging some forward-thinking independents to dabble in it, too.

“We started doing e-commerce (curbside and in-store pickup) about two years ago—thank goodness,” says Jeff Rice, owner of...
Jackson Whole Grocer and Café in Jackson, Wyoming. It was slow to catch on, he says, noting it accounted for only about 1% of his business last year. Now it’s up to 15%. “I feel bad for all these retailers trying to spin up a new system in real time because of COVID.”

Large chains and specialty stores struggled in 2019, with year-over-year sales gains barely breaking 1%, while independents overall saw sales increase by 3%. That mediocre showing for the so-called “supernaturals” foreshadowed announcements in January and February of 2020 that natural chains Lucky’s and Earth Fare were filing for Chapter 11 and closing dozens of stores across the country.

While no one wants to see a competitor go under, those imminent closures—and the sagging performance of such stores—were already benefitting independents like Rice’s Whole Grocer in 2019.

Six years ago, he moved out of his 14,000-square-foot natural foods store in the ski town of Jackson Hole to expand into a 40,000-square-foot one a half mile away—complete with an in-house bakery, juice and coffee bars, a café and a modern vibe. To his chagrin, Lucky’s moved in to his old space, piling more competition on to that from Albertson’s and Smith’s, which had expanded their natural sets too.

For a time, the double-digit sales increases Rice had once enjoyed went away.

But in 2019, as the quality of his neighbors’ offerings began to deteriorate, his foot traffic picked up again, pushing year-over-year sales increases to 12%. Once Lucky’s closed in 2020, that increase doubled to 25%.

He’s not alone.

Just over 81% of retailers surveyed by NFM said no new competitors had opened in their neighborhoods in 2019, while 3% closed a location.

Among the locations that closed, one of 20-year-old Mustard Seed Market’s locations in Solon, Ohio.

“When my family opened the Solon store, we had high expectations,” says CEO Gabe Nabors, announcing the Oct. 30 closure on Instagram. “It was the largest natural foods grocery store east of the Mississippi, and the natural foods industry was having double-digit growth. Unfortunately, the store did not develop as we had hoped and today with the increased competition both in brick-and-mortar stores as well as online, our time has come.”

Most retailers soldiered on last year, making massive investments to support employees and customers.

At Jackson Whole Grocer and Café, which boasts 140 employees, Rice ramped up wages an average 16% to reduce employee turnover at a time when unemployment was extremely low and quality workers to fight for every dollar. But the independents that have continued to reinvest in their stores and stay current are doing very well.”

**The hive mind**

Retailers also are learning that there is strength in numbers and are joining trade organizations in droves.

“If there is a secret sauce to success here, it is the network,” says Pugh, whose National Co-op Grocers (NCG) now includes 147 co-ops operating 200 stores in 38 states. They share ideas via Listserv, visit one another’s stores and use group buying to level the playing field on pricing against larger chains.

For instance, NCG recently worked with distributor UNFI to get a good price on its controlled brand, Field Day, giving its members access to a value priced private label to put on their shelves.

“We facilitate a hive mind and leverage combined purchasing power to save people money,” Pugh says.

The Independent Natural Food Retailers Association (INFRA) also exerts its group buying power. In June 2019, INFRA—which represents 385 store locations in 40 states and the District of Columbia—entered into a new, nationwide, seven-year primary supply agreement with natural foods distributor KeHE Distributors.

“It gave us better pricing and better access to products that our members can pass on to consumers,” says Pat Sheridan, interim president and CEO of INFRA.

Meanwhile SENPA, a nonprofit trade group boasting 300 independent retailers in the South and beyond, puts on two trade shows to unveil new products and provides an array of educational programs and network offerings for its members.

“Back in the ‘90s if you had another health food store coming in, that was your competition,” says Debra Short, executive director of SENPA. “Now the independents support each other.”

**Investing in people and progress**

Only 1% of retailers surveyed by NFM added a new location in 2019, while 3% closed a location.

Among the locations that closed, one of 20-year-old Mustard Seed Market’s locations in Solon, Ohio.

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Unfortunately, the store did not develop as we had hoped and today with the increased competition both in brick-and-mortar stores as well as online, our time has come.”

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At Jackson Whole Grocer and Café, which boasts 140 employees, Rice ramped up wages an average 16% to reduce employee turnover at a time when unemployment was extremely low and quality workers
The big picture

The $166 billion natural market grew 4.8% in 2019.

NATURAL PRODUCT RETAILERS
2019: $60 B
2019 growth: 2.3%

CONVENTIONAL RETAILERS
2019: $73.7 B
2019 growth: 5%

MULTILEVEL MARKETING:
2019: $11.9 B
2019 growth: 5.4%

E-COMMERCE
2019: $9 B
2019 growth: 20%

MAIL ORDER/DIRECT RESPONSE
2019: $4.8 B
2019 growth: 2%

PRACTITIONERS
2019: $6.3 B
2019 growth: 8.1%

Key to charts
Natural channel: Includes chain and independent natural, health and supplement stores, including Whole Foods Market and other retailers not included by SPINS.
Conventional channel: Food, drug and mass merchandisers, including Walmart, convenience and club.

<table>
<thead>
<tr>
<th>Sales</th>
<th>2018 (B)</th>
<th>2019 (B)</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total natural sales in retail</td>
<td>$128.8</td>
<td>$133.7</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total natural sales nonretail</td>
<td>$29.3</td>
<td>$32</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

were hard to find in the ski resort town. He also recruited a new director of culinary operations from San Francisco to take in-house foodservice and bakery to the next level and worked hard to continue building a culture that employees wanted to be a part of.

“When COVID hit, our employees stuck around,” he says. “They are committed to what we do and who we are, and I am really proud of them.”

Sunlower Market’s Misra also made major investments in 2019. Founded in 1978 in Woodstock, New York, by his father-in-law Bob Whitcomb, the store was a cramped but beloved community landmark that needed a facelift.

Misra and his co-owners (all family) bumped it up from about 5,000 square feet to 14,000 square feet, still breaking even despite the need to close portions of the store throughout the year. When they opened the doors in the fall, the response was phenomenal, he says.

“We knew right away it was a good move,” he says. “People were calling their friends from the aisles and saying, ‘You gotta come check this out.’”

Not everything went according to plan. The owners installed a kitchen and planned to open a hot bar, >>
MARKET OVERVIEW

a cold bar and indoor café. But because of the labor shortage of 2019, they couldn’t find enough people to staff it. That proved serendipitous because foodservice offerings were the first to suffer or get shut down when COVID-19 hit.

Now, with restaurants nationwide struggling because of the pandemic, Misra is rethinking his café.

“The trend before was that you had to get into the foodservice game to get people to come into your stores, but now I hear a lot of retailers saying they are going to shut down their cafes and just leave that to the restaurants.”

Instead, what was to be a seating area has been transformed into a discount section. Because of the pandemic, the store’s additional square footage has become invaluable.

“In our other store, it would have been unimaginable to social distance,” he says. “This addition was the best thing we ever did.”

While the landscape for independent retailers, as with every business, looks quite different now than it did in 2019, INFRA’s Sheridan says he remains optimistic.

Often smaller and more agile, independents were among the fastest stores in the nation to get personal protective gear for employees and social distancing measures in place for customers—moves that not only secured the faith of existing customers but drew in new ones. With people cooking at home more and health top-of-mind more than ever, natural retailers are poised to play an even more important role, he says.

“Despite all of the negative impacts and challenges that this pandemic has brought, it also brings with it opportunities,” he says. “My outlook for independents is quite positive.”

Total food sales growth
Percentage total food sales grew in 2019 compared with 2018.

Source: NFM

Supplement sales growth
Percentage total supplement sales grew in 2019 compared with 2018.

Source: NFM

Personal care sales growth
Percentage total personal care sales grew in 2019 compared with 2018.

Source: NFM
NATURAL PRODUCTS STORES
These stores make 60% or more of their revenue from food. They are typically the largest stores in the market and offer a wide array of products from supplements and body care to groceries, to cold and frozen, to produce. Many stores in this category also have large pet product sections and household sections. Foodservice (bakery and deli departments) are common, as well.

HEALTH FOOD STORES
These stores receive more than 20% of their sales from food and more than 50% of their sales from food and supplements combined. Normally they are smaller than natural products stores; and while they have grocery, cold and frozen sections, in addition to supplements and body care, the sections are probably smaller. If they have produce, it is more likely to be a modest offering.

SUPPLEMENT STORES
As this title indicates, these stores focus on supplements, with at least 60% of their sales from supplements and less than 20% of sales from food. Their dominant product offering is supplements, usually with some body care and possibly a small grocery (drinks and snacks) offering. They are also the smallest stores in terms of retail space.
**MARKET OVERVIEW**

**Forecast revenue growth for 2020**
What kind of revenue growth do you expect in 2020 compared with 2019?

![Pie chart showing revenue growth expectations for 2020]

- 2.9%: About the same as 2019
- 4.9%: Slightly stronger growth in 2020
- 9.7%: Much stronger growth in 2020
- 6.3%: Slightly slower growth in 2020
- 35.4%: Much slower growth in 2020
- 40.8%: We expect declines in 2020

**2019 net profit margin**
What was your net profit margin for 2019?

![Pie chart showing net profit margins for 2019]

- 3%: Negative (our expenses exceeded revenue)
- 11%: Broke even (our expenses were about equal to revenue)
- 19%: Less than 5% (we made a little money)
- 48%: 6% to 10% (it was a pretty good year)
- 12%: 11% to 20% (it was a great year)
- 7%: More than 20% (it was an amazing year)

**Average sales by store type**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. sales 2019</td>
<td>$3.8 M</td>
<td>$6.1 M</td>
<td>$1.6 M</td>
<td>$586 K</td>
</tr>
<tr>
<td>Avg. overall net sales change</td>
<td>3.1%</td>
<td>3.2%</td>
<td>2.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>% of stores with sales increase</td>
<td>62%</td>
<td>68%</td>
<td>55%</td>
<td>59%</td>
</tr>
<tr>
<td>Avg. sales increase</td>
<td>6.2%</td>
<td>6.0%</td>
<td>6.2%</td>
<td>6.6%</td>
</tr>
<tr>
<td>% of stores with sales decrease</td>
<td>23%</td>
<td>19%</td>
<td>28%</td>
<td>27%</td>
</tr>
<tr>
<td>Avg. sales decrease</td>
<td>-4.7%</td>
<td>-5.2%</td>
<td>-4.3%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>% of stores unchanged</td>
<td>15%</td>
<td>13%</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td>Percent expecting stronger growth in 2020</td>
<td>42%</td>
<td>39%</td>
<td>44%</td>
<td>43%</td>
</tr>
</tbody>
</table>

**Growth and competition**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>% that added one or more locations through a new build or acquisition in 2019</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>% that closed one or more location(s) in 2019</td>
<td>3%</td>
<td>1%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>% indicating competitor opened store in their region in 2019</td>
<td>20%</td>
<td>27%</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>% indicating competitor closed store in their region in 2019</td>
<td>24%</td>
<td>19%</td>
<td>25%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: NFM
$799: Average sales per square foot at the largest stores

### Business statistics

<table>
<thead>
<tr>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;=3,000 sq. ft. retail</td>
<td>3,001-6,000 sq. ft. retail</td>
<td>&gt;6,000 sq. ft. retail</td>
<td>&lt;=2,000 sq. ft. retail</td>
<td>&gt;2,000 sq. ft. retail</td>
<td>&lt;=1,200 sq. ft. retail</td>
</tr>
<tr>
<td>Average number of natural products stores under same ownership</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Average number of years store has been open</td>
<td>31.1</td>
<td>30.8</td>
<td>32.6</td>
<td>30.1</td>
<td>22.8</td>
<td>33.4</td>
</tr>
<tr>
<td>Average square feet of store (retail only)</td>
<td>5,566</td>
<td>7,692</td>
<td>3,909</td>
<td>1,840</td>
<td>1,888</td>
<td>4,447</td>
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<tr>
<td>Average annual sales per retail square foot</td>
<td>$681</td>
<td>$793</td>
<td>$406</td>
<td>$319</td>
<td>$661</td>
<td>$586</td>
</tr>
<tr>
<td>Average retail space allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Produce</td>
<td>8%</td>
<td>14%</td>
<td>6%</td>
<td>0%</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Foodservice/prepared foods (including deli/bakery/grab-and-go)</td>
<td>8%</td>
<td>13%</td>
<td>6%</td>
<td>2%</td>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>Packaged food (shelf stable and frozen)</td>
<td>39%</td>
<td>53%</td>
<td>42%</td>
<td>13%</td>
<td>61%</td>
<td>52%</td>
</tr>
<tr>
<td>Supplements/herbal products</td>
<td>33%</td>
<td>13%</td>
<td>31%</td>
<td>71%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Personal care</td>
<td>9%</td>
<td>6%</td>
<td>11%</td>
<td>10%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Other (household products, books, etc.)</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Average sales allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USDA Certified Organic (70% organic or more)</td>
<td>50%</td>
<td>56%</td>
<td>51%</td>
<td>34%</td>
<td>63%</td>
<td>52%</td>
</tr>
<tr>
<td>Non-GMO certified</td>
<td>57%</td>
<td>60%</td>
<td>58%</td>
<td>48%</td>
<td>69%</td>
<td>60%</td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of customers per day</td>
<td>404</td>
<td>659</td>
<td>159</td>
<td>50</td>
<td>141</td>
<td>376</td>
</tr>
<tr>
<td>Declined from 2018 to 2019</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
<td>11%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Flat from 2018 to 2019</td>
<td>37%</td>
<td>26%</td>
<td>45%</td>
<td>47%</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Increased from 2018 to 2019</td>
<td>46%</td>
<td>56%</td>
<td>35%</td>
<td>42%</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>Average sales per customer</td>
<td>$35</td>
<td>$30</td>
<td>$37</td>
<td>$41</td>
<td>$30</td>
<td>$29</td>
</tr>
<tr>
<td>Declined from 2018 to 2019</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>9%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Flat from 2018 to 2019</td>
<td>44%</td>
<td>43%</td>
<td>44%</td>
<td>47%</td>
<td>39%</td>
<td>59%</td>
</tr>
<tr>
<td>Increased from 2018 to 2019</td>
<td>49%</td>
<td>50%</td>
<td>49%</td>
<td>47%</td>
<td>49%</td>
<td>38%</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of full-time employees</td>
<td>18</td>
<td>34</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Average number of part-time employees - 15-30 hours</td>
<td>8</td>
<td>14</td>
<td>5</td>
<td>2</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Average number of part-time employees - &lt;15 hours</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: NFM

Whole Foods Market represents 27.5% of natural channel sales.
Market overview methodology

The 2020 edition of Natural Foods Merchandiser's Market Overview represents the 40th year the magazine has presented statistics on store operations and the state of the natural products industry. From $1.9 billion in 1980 to $166 billion in 2019, the natural products industry has grown into a multichannel force that has changed food and nutrition.

Just as the numbers vary each year, so does the methodology for collecting, compiling, analyzing and presenting the data. This issue marks the 22nd year NFM has collaborated with Nutrition Business Journal, a New Hope Network sister publication and Informa property, to produce the data.

### Universe of stores

<table>
<thead>
<tr>
<th>Independents and small chains</th>
<th>Store size</th>
<th>Number of stores</th>
<th>Nutrition sales (M)**</th>
<th>% of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural products stores</td>
<td>&lt;=3,000 sq. ft.</td>
<td>1,294</td>
<td>$1,628</td>
<td>2.7%</td>
</tr>
<tr>
<td>Natural products stores</td>
<td>3,001-6,000 sq. ft.</td>
<td>1,323</td>
<td>$4,606</td>
<td>7.7%</td>
</tr>
<tr>
<td>Natural products stores</td>
<td>&gt;6,000 sq. ft.</td>
<td>2,417</td>
<td>$20,485</td>
<td>34.1%</td>
</tr>
<tr>
<td>Health food stores</td>
<td>&lt;=2,000 sq. ft.</td>
<td>1,217</td>
<td>$613</td>
<td>1.0%</td>
</tr>
<tr>
<td>Health food stores</td>
<td>&gt;2,000 sq. ft.</td>
<td>1,901</td>
<td>$4,406</td>
<td>7.3%</td>
</tr>
<tr>
<td>Supplement stores</td>
<td>&lt;=1,200 sq. ft.</td>
<td>856</td>
<td>$692</td>
<td>1.2%</td>
</tr>
<tr>
<td>Supplement stores</td>
<td>&gt;1,200 sq. ft.</td>
<td>856</td>
<td>$692</td>
<td>1.2%</td>
</tr>
<tr>
<td>TOTAL INDEPENDENTS</td>
<td></td>
<td>9,639</td>
<td>$32,642</td>
<td>54.4%</td>
</tr>
</tbody>
</table>

| Whole Foods Market          | 487        | $16,504          | 27.5%                 |
| GNC                          | 2,727      | $1,398           | 2.3%                  |
| Vitamin Shoppe              | 744        | $891             | 1.5%                  |
| Natural Grocers by Vitamin Cottage | 155 | $912            | 1.5%                  |
| Sprouts Farmers Market      | 341        | $4,339           | 7.2%                  |
| Other*                      | 10,376     | $3,354           | 5.6%                  |
| TOTAL INDEPENDENTS AND SPECIALTY | 24,468 | $60,039         | 100%                  |

Notes: * 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 77% of Sprouts sales. GNC store counts and sales for company operated stores only.

### Regional independent growth

<table>
<thead>
<tr>
<th>Census area</th>
<th>2019 sales ($)</th>
<th>% change from 2018</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>$6.86</td>
<td>5.1%</td>
<td>21%</td>
</tr>
<tr>
<td>South</td>
<td>$9.56</td>
<td>1.2%</td>
<td>29%</td>
</tr>
<tr>
<td>Midwest</td>
<td>$5.30</td>
<td>2.6%</td>
<td>16%</td>
</tr>
<tr>
<td>West</td>
<td>$10.91</td>
<td>3.6%</td>
<td>33%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$32.64</td>
<td>3.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: NFM
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 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 2019 Organic Industry Survey data, also compiled by New Hope Network in the first quarter of 2020.

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), 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 2019 performance and sales are directly comparable with 2018 results printed in the July/August 2019 issue of NFM, as certain adjustments have been made based on the latest available information.
Even before the coronavirus pandemic, 2020 started out rocky for the so-called supernaturals.

Just weeks after grocery giant Kroger pulled its massive investments from Lucky’s Market, the beloved 18-year-old Boulder, Colorado, natural grocery that grew into a nationwide chain in recent years, announced in late January that it was shuttering 32 of its 39 stores and filing for Chapter 11. That same week, the New York-based specialty chain Fairway Market announced it, too, had filed for bankruptcy and planned to sell off five of its 14 stores.

Then, in early February, Asheville, North Carolina-based natural foods chain Earth Fare made its surprising announcement. Just one year earlier it had celebrated its 50th store opening and spoken of plans to open 50 more. Instead it was closing them all and liquidating everything.

Industry experts say the closures could have a profound impact on the natural foods landscape, serving as an opportunity for independents that for years have been struggling to compete with well-funded chains. But they also serve as a cautionary tale about the perils of growing too fast and the value of remembering one’s roots.

“The common thread with all three of these retailers is that at one point or another they went out and got investor money and the founders ultimately lost control of the strategic decision-making,” says Jay Jacobowitz, president and founder of Brattleboro, Vermont–based Retail Insights.

Earth Fare, which began in 1975 as a mom-and-pop health food store in Asheville, had been sold from one private equity firm to another, with some customers complaining that the chain’s ingredient quality standard declined as the chain expanded. At one point, consumers could get coupons for a free bottle of Coca-Cola (“with no high fructose corn syrup!”) as pallets of the soda piled up in stores.

Fairway, billed as “like no other market,” began as a family-owned fruit and veggie stand in the Upper West Side of Manhattan and was known for its hip urban flair, fresh breads and artisanal cheeses. But that culture, Jacobowitz observes, didn’t play well in the suburbs of Connecticut and New Jersey as it expanded. And in the city, loyal customers grumbled to the New York Times that the quality of the produce had changed since the store had sought financing from a private equity firm four years ago.

Lucky’s, born in 2002, enjoyed modest growth to 17 stores before Kroger obtained majority ownership and pushed it to enter new and distant markets like Florida. Those stores didn’t perform well. Kroger pulled out. And Lucky’s had to retreat.

Most of its shuttered stores were sold to conventional retailers via virtual auction, while its founders Bo and Trish Sharon announced plans to buy back seven locations, including its original Colorado stores.

“They suffered from trying to grow too fast,” says Pat Sheridan,
interim president and CEO of the Independent Natural Food Retailers Association (INFRA). “We believe the best way to sell natural food in this country is through an independently owned natural food retail model and to take that model and try to turn it into an investor-owned model; it’s hard to make that work.”

With competition easing from Lucky’s and Earth Fare specifically, some independents were reporting 10% to 25% increases in sales in early January, Sheridan says.

Meanwhile, other supernatural retailers seem to be taking steps to avoid the fate of their lost brethren.

Leaders of Sprouts Farmers Market have vowed to ease up on expansion, with smaller stores, fewer prepared foods and a focus on high-quality produce, bulk foods, dietary supplements and supporting a high-quality staff. It’s still opening new stores in strategic regions such as Florida, where it believes a gap exists because of Lucky’s departure. In late April, amid the coronavirus chaos, it unveiled a new 30,000-square-foot store in Jacksonville.

The company appears to be thriving, with a 16% increase in net sales and a 10% increase in same-store sales for the first quarter of 2020, according to its first-quarter earnings report. But the future is nothing but uncertain.

“The COVID-19 crisis has created a lack of visibility for the remainder of 2020 with many unknowns,” says Denise Paulonis, chief financial officer of Sprouts Farmers Market, in a prepared statement. “While April sales trended higher than average, we are making significant investments in pay, benefits and safety measures, as the health of our team members and customers is our number one priority. We remain uncertain as to when consumer behavior will return to normal or what may emerge as the ‘new normal.’”

Meanwhile, Amazon has taken a bold step in the face of stagnating foot traffic at its brick-and-mortar Whole Foods Market stores, crushing demand for online sales and home delivery, and increasing concern about worker safety after a series of COVID-19-related deaths at its stores: In May, it began to transform some to “dark stores”—essentially online warehouses for fulfillment of Whole Foods and Amazon Fresh online orders.

Going forward, some industry watchers wonder if Whole Foods will permanently reduce its number of brick-and-mortar stores.

“Amazon must know that paying premium metropolitan area rents for stores no one will shop at is a waste of resources,” Jacobowitz says.

Looking ahead, he and others believe the key to success for the remaining supernaturals rests in three things: Don’t grow too fast and take on too much debt. If you seek investors, be sure to keep majority shareholder voting control.

And modernize, but stay true to your roots.
Once again, the organic industry continued to grow in 2019. While not wanting pesticides in products and food is still a key growth driver, as the organic marketplace becomes more mainstream, consumers are turning to it for myriad reasons from clean products and sustainability to transparency in supply chain, human and animal welfare. Of course, the COVID-19 pandemic has also brought new and different growth to the category.

Over the past decade, the organic marketplace has more than doubled in size, growing from $24.9 billion in sales in 2010 to $55.1 billion across all retail channels in 2019, according to the Organic Trade Association’s (OTA) recently released annual Organic Industry Survey. In 2019, organic food sales reached $50.1 billion while nonfood sales, including dietary supplements, personal care, textiles, household cleaning products, pet food and flowers, hit $5 billion in sales. Together, the organic products industry grew at a rate of 5%. Organic food sales grew at a rate of 4.6% and organic non-food product sales grew at 9.2% across all channels, well above total sales growth of similar products (organic and conventional) which was 2.6%, according to the Natural Foods Merchandiser Annual Market Overview Survey.

Beyond millennials and young families looking for clean food, the appeal of organic now extends beyond food issues for millennials and Gen Z shoppers, who were born after 1996. They also seek out organic for its human and animal welfare practices and because its sustainable and transparent supply chains outshine their conventional counterparts. As a result of these holistic, better-for-the-world demands, brands pair the USDA Organic certification with others such as non-GMO, fair trade or B Corp, even as organic itself addresses the welfare of people, animals and the planet. And thus, consumer conversation has grown to include “organic regenerative agriculture,” which now has its own certification through the Rodale Institute.

Some industry members worry that the rising organic regenerative agriculture movement will cause consumers confusion rather than clarity (remember the confusion as non-GMO took center stage?) while splintering the industry. Yet leaders at brands such as Dr. Bronner’s, Patagonia Provisions and Alter Eco say regenerative agriculture, with organic certification as a baseline, is necessary to preserve organic’s intention to provide clean food while also being better stewards of the land. It’s a distinction they say is necessary as the organic industry becomes more mainstream with larger companies and big ag involvement. Consumers are starting to catch on.

“We’ve seen a big uptick in questions and excitement around regenerative agriculture,” says Lee Robinson, Whole Foods Market’s...
MARKET OVERVIEW

director of dairy and beverage. “It’s one of the trends we’ve noted in 2020; people want to know more about where their food comes from, they see regenerative agriculture as organic-plus. Most consumers don’t understand the intricacies of the National Organic Program (NOP) and the regulations. They see organic as a cleaner product and see regenerative as building soil health, thinking more about climate change and the potential of organic farming to reduce carbon. For different people, regenerative means different things, and that is what we will see play out. We don’t want to discount the great work organic farmers are doing, but the barrier to entry of organic is the three-year transition time.”

Organic category growth
Back in 2019, the gateway to organic continued to be fruit and vegetable sales, which were up nearly 5% and reached $18.2 billion in sales for the year across all retail channels according to the OTA Organic Industry Survey. Organic fruit and vegetables, which includes produce as well as dried fruits, vegetables and beans, now holds a 15% penetration into the overall fruits and vegetables market. Organic produce alone now makes up almost a third of all organic food sales.

On the other hand, organic milk, though still a household staple, maintained relatively stable sales in 2019 as the industry dealt with oversupply issues and the continued large pricing gap between conventional and organic. Still, the $6.6 billion organic dairy category grew at a rate of almost 2%, once again faster than the overall dairy market, which only grew at a rate of 0.2%.

While staples drive organic, two natural products industry trends changed organic, too: low-to-no-sugar products and those serving special diets, including keto, Paleo and others.

The growing interest in lower-sugar products has significantly reduced sales in the organic beverage aisle as juice sales of any kind have fallen off only to be replaced by an increasing number of water-based beverages that are natural but not necessarily certified organic. The reduced-sugar influence was also seen in condiments with the revamping of organic salad dressings, sauces and condiments such as sugar-free ketchup. In fact, organic ketchup sales hit $57 million in 2019, up almost 16% from the previous year. These items include eggs, flour, rice and pasta. Noting that the recently released OTA Industry Survey gathered information in 2019. These items include eggs, flour, rice and pasta. Noting that the recently released OTA Industry Survey gathered information in 2019, we all get through these unsettled times.”

In times like these: COVID-19
While demand for ready-made and prepared foods translated to strong organic sales in 2019, with the onset of COVID-19, foodservice and deli both took a hit as consumers started shopping online, and natural products retailers and grocery stores closed salad bars and deli areas. Yet with consumers still wary of restaurants, there is an opportunity for retailers to rethink deli and how they offer prepared foods in-store and online.

Pandemic purchasing changes are expected to translate into growth for organic staples, some of which experienced slow growth in 2019. These items include eggs, flour, rice and pasta. Noting that the recently released OTA Industry Survey gathered information before COVID-19, CEO and Executive Director of the Organic Trade Association, Laura Batcha says, “Our 2020 survey looks at organic sales in 2019 before the coronavirus outbreak, and it shows that consumers were increasingly seeking out the USDA Organic label to feed their families the healthiest food possible. The pandemic has only increased our desire for clean, healthy food.” She adds, “The commitment to the organic label has always resided at the intersection of health and safety, and we expect that commitment to strengthen as we all get through these unsettled times.”

Even as organic becomes more readily available, in some categories, price can still be a barrier to entry for organic. For this reason, combined with possible economic pressures post-pandemic, stores likely will continue to invest heavily in private label and broaden their depth of offerings.

Private label organic is perceived by customers to be reliable and trustworthy while also being affordable.

That’s a win in these times.
Steady sales
Supplement sales shift with changing trends and refocused needs

BY NANCY COULTER-PARKER

While a 2018 regimen may have been a multivitamin, probiotic and fish oil, the 2019 focus was buying CBD, a superfood like collagen and perhaps some gummies. Consumers continued to buy supplements in the natural and specialty retail channel in 2019, they just shifted where their dollars were spent. Sales reached $16.6 billion for 2019, up just 1.6%.

Yet with the onset of COVID-19, consumers likely will focus on immunity and overall health as they look to dietary supplements once again as an insurance policy for their health.

Overall trends
A consistent trend across all categories and conditions in 2019, regardless of formula, was a shift toward non-pill formats as consumers turned to gummies, powders, shots and effervescent formats. For the first time, non-pill format dietary supplement sales eclipsed pill formats accounting for 52% of sales across all channels, says Claire Morton Reynolds, senior industry analyst at Nutrition Business Journal. “Gummy supplements alone increased from 6% of the market to 13% of the market,” she says.

As an increasing number of consumers understand the role dietary supplements can play in overall health and prevention, the breadth of interest in supplements has transitioned from a focus on multivitamins to as Reynolds explains “modern conditions,” namely sleep, brain health (cognition and focus), eye health, digestive health, inflammation and immunity.

Retailers concur that these categories were the ones that held steady. “Sleep, anxiety, inflammation, constipation, the standards that you can’t talk too much about, all did well,” says Ed Jones, owner of Tennessee’s Nutrition World.

In 2019, retailers also reported strong growth in herbs and botanicals, including ayurvedic herbs, turmeric, adaptogens, and, in particular, mushrooms. Herbs and botanicals matched meal supplements to lead supplement sales growth at a rate of 3.6% last year, according the Natural Foods Merchandiser Market Overview Survey.

CBD in transition
For the year, the hemp-based CBD marketplace across all channels (except for specialty hemp and medical/recreational cannabis retail outlets) continued to increase with sales estimated around $618 million according to NBJ, doubling year-over-year with growth of 102%. The hemp CBD market is expected to reach $2.8 billion by 2023. Yet, while the bulk of sales are still in supplements, natural products retailers reported a drop-off in sales in-store, even during COVID-19 when they might have expected to see an increase to offset stress or anxiety.

While many consumers were eager to try new CBD products in 2018 to see what would work best for them, in 2019 customers were not buying as many products and there were fewer new customers seeking CBD.

“There are fewer people saying, ‘I want to get this for my mother, grandmother and uncle.’ They’ve done that and bought three different things to try it out, and now they’re buying one product instead of three,” says Emily Kanter, co-owner of Massachusetts-based Cambridge Naturals.

The drop in CBD sales also contributed to companies lowering prices. At the same time, CBD is now available everywhere, Jones says.

“Every street corner had a new CBD store, so we are slicing the pie a lot more,” he says. “Now the question is, why would you want to come to a health food store rather than a gas station to buy CBD? Education with strong language is the only way to do that.”

But natural products stores can play a leadership role in continuing to educate consumers about what quality products look like. “You have to be bold, accurate and kind, but very straightforward,” Jones adds.

Retailers note seeing customers primarily take hemp CBD products for stress, pain and inflammation. Areas of growth that are expected to maintain traction in 2020 are CBD herbal blends with a focus on health conditions.

For instance, while NBJ reports sleep growing 11% in 2019, with melatonin still accounting for over half of sleep sales, it was noted that hemp CBD is driving quite a bit of growth in this category as formulas that combine it with melatonin or herbs and botanicals have come to market.

Shifting supplement trends
Other notable supplement trends in 2019 included growth in sports nutrition, as NBJ reported 3.4% growth for sports nutrition supplements sold in the natural channel. Keto diet supplements held strong and influenced some of the sales in sports nutrition whether for electrolyte products or protein powders. Yet, if it wasn’t for the ongoing growth of CBD, collagen would have been the “it” item for 2019. Primarily in powder form, collagen is easy for consumers to take with the older demographic taking it more for joint health and younger consumers turning to it for hair, skin and nail health.

Collagen’s recent stardom as a superfood led the way but retailers saw collagen sales start to take from protein powder sales.
Similarly, in gut health, while probiotics accounted for 27% of gut health sales in 2019, sales in probiotics have been seeing slower growth, Reynolds says, while at the same time consumers are becoming more aware of prebiotics supplements and synbiotic supplements, those which combine probiotics with prebiotics.

“I definitely heard more people talking about prebiotics,” Kanter says. “Whether or not sales rose, there was more buzz around the idea of prebiotics and supporting your gut from the other end of the spectrum, in addition to probiotics.”

While cognitive health is an area that has drawn interest, with nootropics gaining momentum in 2019, the category will likely not see as much growth in 2020, notes Jonathan Lawrence, senior director of grocery and natural living at Fresh Thyme Farmers Market. “Nootropics are really cool and I see it continuing to build. But if you can only buy three things, it may not make it onto the list. People want their brain to work better, they don’t want to feel foggy. But it’s going to be secondary to those basic everyday regimen supplements at this point in time,” he says.

“We still have collagen and CBD, but the new regimen will see a focus on multivitamins, probiotics, fish oil and immune products. That is where we will see stable growth in 2020,” Lawrence says. He expects to see categories such as keto and sports nutrition decline because people aren’t going to the gym and, again, they only have so many dollars to spend.

Immunity, cold and flu

Immunity supplement sales have been on the rise for a few years, Reynolds says. For 2019, NBJ reports cold, flu and immunity supplement sales across all channels at $3.3 billion with 8.5% growth. But with the onset of COVID-19, for 2020, cold, flu and immunity is expected to spike to nearly 16% growth. “Immune products have seen explosive growth with the COVID-19 outbreak,” says Lawrence.

For 2019, vitamins and minerals saw static growth at 1.6%, according to the NFM Market Overview Survey, with several products such as vitamins C, and A, D and K reporting negative growth, according to SPINS. Minerals, such as zinc, reported the highest growth in this category at 6.71%. Yet, with the onset of COVID-19, vitamin C sales grew 85% through April compared with the same time in 2019. As zinc and vitamin D also increased in demand, vitamins A, D and K reported a 23% increase and overall minerals are up 20% early this year. Vitamins and minerals for children grew just over 42% through April in comparison with the 0.76% growth they saw for all of 2019. Overall, SPINS reported that the vitamins and minerals category is up 25.82% through April.

Elderberry, vitamin C and zinc are expected to continue to be leaders in growth in immunity. While elderberry took an initial dip in sales at the start of COVID-19 because of concerns that it could stimulate a cytokine storm in the body, once research and experts cleared this as not true, sales took off again. “People will take zinc or elderberry daily. We don’t know how long this pandemic is going to go, and people want their immune system to be armed and ready to go,” Lawrence says.

Likewise, mushrooms, which were already experiencing strong growth in 2019, saw accelerated growth with COVID-19. Several retailers noted they completely ran out of certain mushroom products as the pandemic started.

“People recognize they want their immune system to be healthy in a deep way, not just fighting something off when they get sick, fighting ahead of time instead of after,” Kanter says. “Mushroom supplements and whole extract mushroom supplements are sought for supporting a healthy immune system that is balanced and not overstimulated.”

Not surprisingly supplements for stress, anxiety and sleep have also been in demand with the start of COVID-19. Kanter says she sees customers seeking things that help with stress and sleep as part of a way to strengthen their immune system and keep as healthy as possible.