Red state retail

The intersection between the cultural and nutritional could provide lessons for the supplement industry

By Rick Polito

We may be a nation divided, blue state vs. red state, city vs. country, but are we nutritionally divided as well? It would seem so.

In Colorado, blue in the November election and the leanest state in the nation, there are 21 Whole Foods Markets, roughly one for every 170,000 residents, three in ultra-healthy Boulder alone. In Mississippi, dark red and the second fattest state, with a population of 3 million and the highest rate of diabetes in the country, there are none. Some of the starkest food deserts in the country sprawl across rural areas and, in Mississippi, fewer than half of the residents live in cities. In Colorado, urban dwellers make up 86 percent of the population.


Is the nutrition industry ignoring an opportunity or a responsibility? Is there room for a Whole Foods in Biloxi? There's certainly a need.

Louisville, Kentucky, does have a Whole Foods. For some, that might be a sign of progress. For Summer Auerbach, it's a sign of competition, healthy competition perhaps. Auerbach is a second-generation owner at Rainbow Blossom Natural Foods Markets. She oversees five locations, four in Louisville and a fifth across the Ohio River in New Albany, Indiana. She knows she lives in “a blue bubble in a red state”; Hillary Clinton beat Donald Trump by 14

### Regional independent growth

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales ($)</th>
<th>% change from 2014</th>
<th>% of total</th>
</tr>
</thead>
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<tr>
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<tr>
<td>Middle Atlantic</td>
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<tr>
<td>Total</td>
<td>$28.57</td>
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<td>100%</td>
</tr>
</tbody>
</table>

Source: NFM/NBJ with market research from consulting firm SPINS.
HEAR IT AS IT HAPPENS: @NUTRITIONBIZJRL

01 Urban dwellers and rural residents need the same nutrients, but their nutritional choices can vary wildly; small town retailers report a different clientele with different needs and shopping habits

08 Grocery has been slow to adapt to changes in the retail environment, online engagement and home delivery present challenge and opportunity

12 Trust is the key to loyalty in a competitive multi-channel retail environment; retailers, marketers and manufacturers are working together to earn the confidence of consumers

16 Convenience is not the key driver in retail, at least not according to the small, independent specialty shops; niche natural could be the next big trend

19 The supplement industry is familiar with Europe’s regulatory country-by-country complexity, but the differences in retail models can be equally challenging

22 Tech promises to bring great convenience to retail, but consumers in the natural channel still demand a more personal touch; finding the balance between high tech and high touch is critical

25 The face of natural retail is changing quickly, with the Midwest showing surprising growth

27 Q&A with Pharmaca’s Don Summerfield

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DECEMBER 2016

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**LETTER FROM NBJ:**

**INTERNET KILLED THE SUPPLEMENT AISLE**

Fresh out of college, 1990, I donned a green apron and worked the supplement and body care department of a small independent natural foods store in Cambridge, Massachusetts. A few years later, I left the aisles and joined the cubicle maze, merchandizing a natural lifestyle mail order catalog—yes, the paper kind that so prolifically littered mail boxes in the ’90s.

Perhaps retailers of the time feared the demise of brick and mortar as mail order took over. A decade later, we in catalog certainly feared the internet-only sites that undercut our prices with margins to support neither brick and mortar nor the three P’s of mail order: paper, printing and postage.

Such is “disruption.” Though a sexy new term, all industries evolve—and always have evolved—through disruption. Food retail certainly hasn’t escaped the effects of such evolution. Big chains disrupted the mom and pops with bland efficiency. Independent natural foods stores disrupted the chains with better health and (eventually) better flavor. Internet disrupted everything. Today, things are changing in unpredictable ways: retail giants bring us same-day home delivery, while Amazon brings us brick and mortar. And on Main Street, retail specialization makes a surprising return.

So, after decades of stores getting bigger and all-encompassing, we’re now seeing an opposite trend. Smaller specialty purveyors emerge, as does a renaissance of large shared-space retail marketplaces, a la Seattle’s Pike’s Place, that put multiple independents under one roof. Welcome news for the small independents, where specialization and community are the best defense against the impersonal generalities of internet shopping.

Perhaps an unspoken agreement is emerging, where flashy websites and FedEx drivers deliver middle-of-store items to consumer’s doorsteps, while small neighborhood markets become the optimal venues for specialty items and fresh goods.

How will this play out for supplements? Today’s supplement aisle differs surprisingly little from the pre-DSHEA aisle I worked in the early ’90s. Nothing remarkably disruptive has taken place in this space. Mall muscle shops, pharmacies and natural foods stores each hold the same places on the playing board (though the current chapter in the GNC saga isn’t looking very cheery). Internet threatens them all, but eliminates none. Change may be slow because the category bears a conundrum that others don’t.

As non-perishable packaged goods, supplements are ideal for internet/mail order. But the high touch specialization provided in the best supplement aisles is yet to be matched on line. Supplements seem to find themselves in a sort of no-man’s land. Are they internet optimal? No, because a website can’t sell them as well as a human can. Are they retail optimal? No, because retail can’t sell them as inexpensively as the internet.

The result is a torn-between-two-worlds sales landscape much like supplements’ regulatory landscape, seen by some as straddling an amorphous space between the F and the D in FDA. But to look at the against-all-odds growth of the category, it is doing fine with a foot in each world.

Viewed against that growth and resiliency, maybe supplements are proving themselves immune to the disruption that has been tough on other retail categories.

For supplements, maybe no-man’s land has something for everyone.

**Bill Giebler**

NBJ Senior Editor

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points in Louisville. But she knows that bubble doesn’t stretch far beyond the city limits. Her clientele has a higher income and a higher level of education. Outside the city, where the urban gives way to farmland and “farm fresh” is more than a marketing term, the locals aren’t always eating local or healthy at all. “They’re growing this amazing produce that they sell to us and then go buy their chicken at Walmart and are still eating canned green beans,” says Auerbach. She describes a woman she met who does her own canning and lives simply, but adds “I’ve been to their farm before and they are making chicken nuggets.”

**Old wisdom, bad habits**

Beyond the outer fringes of the Louisville bubble, deep in Kentucky’s red counties, is the town of Winchester, population 18,383. Across the street from a Kroger supermarket, Laura Sheehan’s **Full Circle Market** stocks organic produce, bulk herbs and supplements, the staples of the natural channel, and draws what she describes as a community clientele. She knows them, by name. And they know her. “They know they can come in and find those things they can’t find anywhere around here,” Sheehan says. Many of them come in from the country with a kind of country wisdom that might resonate as both charming and healthful to bubble dwellers who seek out the old remedies—old, but also personal and immediate in rural America. Sheehan says a customer might come in for peppermint leaves to make tea and she will know “they didn’t read about that online. It was what their grandmother did if they had a sore tummy when they were a kid.”

Sheehan recalls a woman who came in recently with a special order for two pounds of dried elderberry. “She wanted two pounds of it to make elderberry syrup to give her family for Christmas,” Sheehan says. “That’s not something she found on Pinterest.”

But there is another side of the country life that has little to do with old remedies and recipes passed down through the generations. The problem, it appears, is that too many of the old ways are abandoned at the
Out in the country

» Jonathan Clinthorne is a Nutrition Education Department specialist for Natural Grocers by Vitamin Cottage, a rapidly expanding chain in the mountain west. We asked him about selling nutrition outside the cities.

» NBJ: What are the differences in attitude toward nutrition, and supplements in particular, between more urban and more rural locations?
Clinthorne: From the classes I have taught and feedback I have received from our nutrition health coaches in stores that are in more rural environments, I have come to understand that people in rural areas are as interested in living healthy lives as people living in urban areas. When it comes to supplements, they are a little more skeptical due to the negative press that supplements have received over the years. When incomes are not as high as they are in urban areas, they really want to feel confident in their purchase.

» NBJ: Do supplement companies need to think about different messaging in those locations?
Clinthorne: People are eager to learn about health, but oftentimes supplements and nutrition are a little new for them. In these cases it is important to go back to the basics and start with foundational information. They also trust their doctors, so if you are going to act as an educational resource, you need to be credentialed.

» NBJ: How are the demographics different than in a more urban location? Is it a bigger socioeconomic spread? What does that mean for supplement sales?
Clinthorne: It can be a larger socioeconomic spread, although it seems Natural Grocers has a pretty large socioeconomic spread in urban areas as well. It does mean that supplement sales can take a little longer, where you might suggest a supplement to someone, have them go home and read about it, and then make a decision to come back and buy it.

» NBJ: What do small town retailers know that urban retailers need to learn?
Clinthorne: Small town retailers know that $20-30 purchases can be a big deal for customers, so patience and education are key.

» NBJ: What can small town retail teach supplement companies?
Clinthorne: Experts in nutrition who are credentialed rather than “well-known” act as a trustworthy resource in small town retail. Making sure not to overwhelm or talk down to people who may not be as well versed in dietary supplements is key. Sometimes elaborately formulated supplements lose sales with inexperienced customers because the minutia becomes overwhelming rather than helpful. For example, feedback I have received is that all the different forms of things like fish oil is overwhelming for people who have never tried fish oil before.

nearest drive through—fast food is curiously ubiquitous in parts of the country where the produce is as fresh as the closest field.
And not all of the old ways are healthful. One study of attitudes toward healthy food among Appalachian residents found that “culturally appropriate” foods heavy on the meat and fat could be tied to health problems. In some of the counties studied, more than 70 percent of adults were overweight or obese.
Incomes are low. Participants in the study remarked that “healthy food” is more expensive. There’s a reason the Kroger across the street from Sheehan’s store has a bigger parking lot.

Local knowledge
Less processed foods, organic and fresh, are the obvious foundation to good health. It’s mission one at many of the natural grocers that dot the rural expanses in numbers that might be surprising to people who dismiss the flyover country as the land of Hardee’s and Velveeta. But in many cases, supplements, with their higher margins, are the foundation for the economic health of those stores.
The depth of knowledge and acceptance of good nutrition in the more remote spaces might be surprising to people on the coasts. Christine Klement runs the Good Health Market in Sheridan, Wyoming, near the northern border of the most sparsely populated of the contiguous states. “We’re probably more rural than most of rural America,” she says, with a hint of pride. “We’ve got to drive 130 miles to get to the nearest mall.”

In northern Wyoming, People eat “local” almost out of necessity, Klement says. It’s grass fed beef and pasture-raised pork. She believes the area residents can feel a connection to the land that might manifest in their interest in natural solutions. People who work in nature see how nature works. “You think of ranchers sticking to traditional things,” Klement says, equating “traditional” to conventional medicine, “but actually some of our ranchers are the most willing to try something new.” City people may read about the power of natural nutrition. Ranchers see it in front of them. “When they look at their animals, and animals have a sense of when to eat wormwood, they relate to nature in a very pure sense,” Klement says.
And, of course, they can find nutrition tips on the internet.
**Boon and bane**

The internet means the same challenge it means for any retailer, urban or rural. People might learn about an herb or essential nutrient in a store, and then find it cheaper online. What they won’t find online is the close personal connection that rural retailers enjoy with their customers. Jill Johnson grew up in **Sunshine Health Foods**, the third generation in the 48 years the store has been open in Cedar City, UT. She doesn’t need a loyalty card program to know her customer base. “We probably know 85 percent of our customers by name,” Johnson says.

That connection matters. The internet may poach customers from retailers coast to coast, but there is power in customer loyalty. “People who’ve left the community still have us ship product to them.”

The internet can work in both directions too. Sheehan says some of her customers found **Central Market** online. That’s a point of contact. The store’s website features photos and bios for everybody who works in the store. Sandra Folsom is the “essential oil guru.” Katie Wallace is a “foodie extraordinaire.” “When you come

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**NATURAL FOOD AND PRODUCTS SALES BY CHANNEL, 2015**

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<tr>
<th>Channel</th>
<th>2014 (B)</th>
<th>2015 (B)</th>
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<tr>
<td>Total natural sales in retail</td>
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<tr>
<td>Total natural sales nonretail</td>
<td>$21.7</td>
<td>$23.3</td>
<td>7.5%</td>
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Source: NFM/NBJ with market research from consulting firm SPINS.
in, one of those people is here to help you,” Sheehan says.

One rural retailer called the internet the “the great equalizer.” Many customers come in asking for something they learned about online and bring questions for the staff. Klement says her customers still depend on her for the final word on which supplement to buy. “We kind of maybe guide a little bit,” she says.

**Small town sensibilities**

Not all the lessons of rural retail are easily transferred from coast to country, but for supplement companies there is still much to learn from the heartland. Andrew Pittz grew up on an Iowa farm and could be called an activist farmer in his mission to promote aronia berries, high in antioxidants and sourced from dozens of farms in his native Iowa. Pittz, who has stood in the aisles across the Midwest demoing his

“I think transparency is important on the coasts, but I think it’s essential in the center of the country. It’s the only way to be successful in the Midwest.”

- Andrew Pittz, Sawmill Hollow Farm

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**Business statistics**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
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<tbody>
<tr>
<td><strong>Average # of natural products stores under same ownership</strong></td>
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<td>1.7</td>
<td>1.6</td>
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<td>$279</td>
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**Customers**

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<td><strong>Average sale per customer</strong></td>
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**Employees**

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<tr>
<td><strong>Average number of full time employees</strong></td>
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<tr>
<td><strong>Average number of part time employees (15-30 hours)</strong></td>
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</tr>
<tr>
<td><strong>Average number of part-time employees (&lt;15 hours)</strong></td>
<td>1</td>
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</tbody>
</table>

Source: NFM/NBJ with market research from consulting firm SPINS.
ingredient, believes that “transparency” is more than a marketing term in the farm belt.

“Transparency is important on the coasts, but I think it’s essential in the center of the country. It’s the only way to be successful in the Midwest,” Pittz says.

It certainly made it easier for Pittz to introduce the berry to new consumers. He had a story of growing up on a farm and could talk about the farms where the berries are grown. That kind of connection could have more resonance in his home state than just about anywhere. “If you know the farmer who grew the greens that have gone into a supplement, you basically know the supplement,” Pittz says.

Smart retailers are using that to bring customers in, staging farmers markets in their parking lots and introducing their customers to the faces along the supply chain. “Health is a natural component of that,” he says, and the journey from healthy whole foods to supplements is not a long one.

Some stores are better than others at helping shoppers along on that journey. Pittz admires the employee owned Hy-Vee grocery chain for its nutrition outreach. Bigger chains are attempting the store-within-a-store concept, but Pittz says in-store education was more common.

But they also have suggestions. Access to healthcare can be limited in the country, and, internet or not, the language of nutrition needs to be simple. “In the city they might say they have diabetes,” Sheehan says. “Here, they come in here and say ‘I’ve got the sugar.’” Rural customers like products with the supported conditions easy to see on the label. “They want things that are symptom specific, for achy back, or dry eyes. They don’t say ‘I have sciatica.’”

Every retailer interviewed for this story also said their customers want to see labels simplified and straightforward with ingredients they know. Trust is built into the smaller communities in a different way and the consumers there want to know where the companies making the products stand. “They want to see a clean label, where they can read the ingredients, or they have enough trust in the company that they are sourcing the right stuff with clean things,” Klement says.

That desire for a simple label can carry over to formulas as well. Sheehan says her customers are more likely to prefer one-ingredient products than formulations. Full Circle Market might stock a vision formula with lutein and blueberry, but many of her customers “would rather just buy the blueberry powder or the blueberry capsules.”

Then there are the undeniable economics. The rural economies are often stagnant. Jobs may be few. Money is tight. Price matters. Auerbach puts it simply: “They are looking for quality products that deliver results.”

All of these dynamics of price, quality, education and need, place a responsibility on the supplement industry that not every company is going to be eager to meet. The fundamentals of business include “go where the money is,” but if supplements are a kind of healthcare, as many would argue, there is a duty go where the need is as well.

The markets where the need could be greatest, in the red states of flyover country, could be the markets where the nutrition industry, both supplements and food, are not breaking through the cultural and economic barriers to deliver better health.

Good health doesn’t need to be the privilege of the affluent, and good health means more than tubs of muscle-boosting protein powder. There are 12 GNCs in Mississippi.

They could use a few Whole Foods.

“You think of ranchers sticking to traditional things, but actually some of our ranchers are the most willing to try something new.”

- Christine Klement, Good Health Market
Future shop

Digital presence in and out of the grocery aisle

By Lisa Polito

The future of retail has arrived. Last week, doors swung open for Amazon Go, the internet behemoth’s first brick and mortar grocery experiment (with others, including an order and pick-up site, reported to follow). Sans cashiers or cash, the tech-intensive storefront’s Just Walk Out strategy brings customers the ultimate fantasy of instant gratification: simply pluck products from shelves and—just like that—walk out the door.

That smart-phone driven physical store is an easy extension of the 24/7 one-click retail experience consumers are already having online. Customers ordering an Uber or a homespun Etsy craft from their phones also expect a similar mobile shopping experience everywhere else they shop, including grocery stores. And they probably research products before buying, sometimes while standing in the aisle.

“Their baseline level of expectation is being created by all the places that they’re shopping,” says Linda Shein, managing director, Baker Retailing Center at the Wharton School. Shoppers expect natural grocers to not only be present online but also be transactional, she says, just like the hundreds of stores consumers visit daily, right in the palms of their hands.

Raising expectations

When it comes to meeting that expectation, grocery, as a whole, lags behind. Former Abe’s Market co-founder, Richard Demb says the inherent complexity of grocery—with its vast array of SKUs, diversity of departments, and volume of perishables—makes for a slow-to-growth industry. On top of that, independents and small chains, consumed by day-to-day operations, lack the luxury of time or capital resources to take risks and experiment with technology or service programs. “If Amazon is leading the way and they’re a 10 on a scale of innovation, I think grocers in general are 4 to 5, and independents are a 2 to 3,” says Demb, whose latest venture, StorePower, Inc., serves traditional physical supermarkets with “the tools they need not just to catch up to be a 10 but to help them be 11s and 12s.” If a chain or store doesn’t meet the consumer’s online expec-
tations, he says, “frankly, that customer is going somewhere else online.”

With mass encroaching into natural products and Amazon gunning for grocery in general, independent natural grocers may feel overwhelmed by both the online competition and the complexity of retail’s omnichannel future.

But Shein believes co-ops, independents and small chains have something big chains and Amazon lack: a compelling story. Shein, who also serves on Philadelphia area Weavers Way Co-op board of directors, sees that story as one about the importance of nutrition, clean food, healthy living, concern for the environment and the community; “all the things that are becoming very important to consumers, especially millennials.” Bringing video content into the store, she suggests, can highlight that story and its characters—the farmer, the rancher, the local manufacturer, or the chef creating prepared meals. That engagement, exciting store experience then readily translates to online content, imbuing the natural space story with the requisite seamless feel and bringing the natural space story to life.

Connecting with customers in an interactive way works to build community around the store, according to Bill Bishop, chief architect at consultancy and analyst firm Bricks Meets Clicks. Stores can create that community digitally through social media or even contests that invite submission of video, photos, reviews, recipes or personal stories. By interacting with the retailer and other customers, the individual feels more connected, and the store gets dynamic, authentic content online.

In-store video, dynamic online content and a robust omnichannel experience may sound expensive, but foregoing it can be unintentionally costly, explains Steve Bishop, Bricks Meets Clicks managing partner. Content that engages shoppers and satisfies their expectations in the digital environment is critical, he says. Retailers and brands alike ignore their online image at great risk. “For both retailers and suppliers,” he says, “regardless of whether they are controlling it or not, [impressions] are being made out there in the digital universe.”

One grocery area in dire need of a digital assist is the supplement aisle. NBJ sources agree about the need to help consumers navigate supplements, yet there’s no clear path to digitizing staff knowledge and the nuanced answers around supplements. On-site expertise provides personalized service, and if that can be done efficiently and effectively, Shein says, “it gets customers in the door: that’s a very strong potential point of engagement.”

If stores haven’t already done so, the supplements aisle also could benefit from reorganization by condition or customer need rather than by brand, Bill Bishop says. Based on a study his company conducted, he says that type of arrangement can boost product sales, as well as ease supplement aisle navigation for customers.

New basics

Evolving beyond an informational website is not as expensive as some independent owners might think, Demb believes. An easy starting point, he suggests, is a weekly email of five meal recipes, along with nutrition information and a shopping list; then make that content available online. That simple strategy “just eases some tension around meal planning; I think it’s a great first step.” Meal planning tension is a major consumer pain point, one that meal kit delivery services stepped in to fill. But shipping ingredients for a single meal across several states doesn’t jibe with the environmental and community concerns of the natural space shopper. Salving the consumer pain of meal planning with locally-sourced meal kits offers a no-tech way to meet consumer expectations that developed through digital. When it comes to meal kits, Demb says, “the independent grocer should own that.”

Along with already “owning” the ingredients of meal kits, Demb adds, natural grocers already hold a set of valuable assets. Among them, key real estate is an advantage existing grocers have that online merchants don’t have, yet want and need. To wit: Amazon’s brick and mortar experiments. Along with location, Demb notes independent grocers have consumers’ trust, a close relationship with customers, and “a phenomenal mix of products.” Leveraging those assets can start with convenient meal planning but needs to include online transactional options. Online ordering is a must, he says, with a click-&-pick-up option, at minimum, but with an eye toward recurring orders of staples and home delivery.

Shein concurs: online ordering is a must, and home delivery is a smart move, offering another way of servicing your customer. The delivery option, she says, is now much more accessible through partner services. Yet Demb cautions he is “very wary of handing business to Amazon or to Instacart.” Those third party services, he contends, have a value proposition based on a relationship with the customer: “They just happen to shop at your store.”

Or with Amazon, sell your brand—at least for now. With Amazon, the hijacked relationship might be the one between consumers and your product brand.

Demb’s caution is echoed in a recent report from data analytics firm 1010data which spotlights the major market share inroads of Amazon’s private label brands into three categories: batteries, baby wipes and speakers. Amazon not only dominates online sales by category (94% for batteries and 88% for speakers) but is now gobbling

“There is never going to be complete elimination of the need for the touch and feel and tactical experience of physically going into a store.”

- Linda Shein, Baker Retailing Center at the Wharton School.
market share with its private label brands and enjoying tremendous year over year growth (75% for batteries, 181% for baby wipes, and 108% for speakers). All thanks to online purchasing habits initially cultivated through established brands.

While third party delivery services sound easy, Demb suggests retailers and brands steer clear because consumers quickly become customers of that service. And retailers have no way to get them back: “I don’t know who they are or what they buy,” he says. Local trucking companies can provide scheduled weekly delivery service without owning those customers or re-

### Growth & competition

<table>
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<th>Total</th>
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<th>Supplement stores</th>
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<td>None of the above</td>
<td>69%</td>
<td>66%</td>
<td>72%</td>
<td>75%</td>
<td>70%</td>
</tr>
<tr>
<td>% indicating competitor opened store in their region in 2015</td>
<td>39%</td>
<td>37%</td>
<td>41%</td>
<td>38%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>% indicating competitor closed store in their region in 2015</td>
<td>16%</td>
<td>13%</td>
<td>17%</td>
<td>26%</td>
<td>17%</td>
<td>9%</td>
</tr>
</tbody>
</table>

#### 2016

| % that plan to add onto one or more existing facilities in 2016 | 7% | 10% | 4% | 4% | 7% | 5% | 14% | 7% | 3% | 4% | 3% |
| % that plan to renovate/remodel one or more of existing facilities in 2016 | 25% | 28% | 25% | 15% | 25% | 21% | 35% | 21% | 28% | 20% | 10% |
| % that plan to add one or more locations through a new build or acquisition in 2016 | 6% | 9% | 2% | 7% | 4% | 12% | 11% | 2% | 1% | 8% | 7% |
| % plan to close one or more location(s) in 2016 | 3% | 2% | 1% | 2% | 6% | 2% | 1% | 4% | 0% | 3% | 3% |
| None of the above | 64% | 57% | 69% | 75% | 63% | 65% | 49% | 70% | 70% | 68% | 79% |

Source: NFM/NBJ with market research from consulting firm SPINS.
quiring a grocer to enter the transportation business, Demb explains. Plus, it supports another local business.

Drop shipping from a supplier such as UNFI is an alternate delivery option that brings an additional benefit of expanded product offerings, according to Bill Bishop. Grocers will never be able to stock every item a customer might want, he explains, but with a drop ship option, “all of a sudden now you’re able to get exactly what you want, from a very large range of products.” Particularly in the supplements aisle, drop ship can offer what Demb calls the “endless aisle,” with a customer’s range of choices expanded beyond the constraints of the physical inventory.

**Holding (food) court**

Delivery options provide great service, but Shein believes “there is never going to be complete elimination of the need for the touch and feel and tactical experience of physically going into a store. Physical stores are still the center of transactions.” Getting consumers to choose your store, she says, requires differentiators, such as products not available elsewhere (locally produced goods or fresh produce) and staff knowledge base.

Another obvious draw is food: Shein offers examples of retailers such as Urban Outfitters and Restoration Hardware bringing food service into stores as a point of engagement. Serving prepared food and providing a space to enjoy it invites shoppers to hang out in the store, which in turn makes them more likely to shop. “Food is really a magnet for attracting people into a physical environment,” she says. Natural grocers are in a unique position to exploit that attraction: “We’re already in the food business.”

**Get personal**

Getting customers to hang out online, Demb explains, not only offers them shopping opportunities but affords the retailer intimate insight revealing what customers looked at, what they passed up and why, what products were purchased together and at what frequency. “That is information that is not that hard to get at in a digital environment,” he says. That insight allows grocers to truly personalize the shopping experience for individuals: no need to advertise a sale on grass-fed beef to your vegan customer. “It’s a level of relationship that you can’t do in the physical store,” he says.

Bill Bishop reminds retailers that, whether digitally or in person, communication is a two-way proposition. “Be Alert,” he advises, which means listening—and responding to customers. “To not be communicating in the way customers expect to be communicating today is going to really hurt your business,” he says.

Demb urges grocers to focus on service, which includes a digital platform. “Thinking about how you can serve your customer across the board—and not being afraid to do so digitally—is very important for the smaller players right now. It sounds risky and out of the box, but keep in mind, every customer is going online.”

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**U.S. NATURAL & SPECIALTY CHANNEL SUPPLEMENTS SALES AND GROWTH, 2005-2018E**

Source: Nutrition Business Journal ($mil., consumer sales)

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Caught between a rock and a hard place

What role can natural retail play in building trust for supplements?

By Marc Brush

This much we know about natural retail as a sales channel for dietary supplements—it’s tough out there. The premium end of the supplements market has traditionally viewed natural and independent retailers as lifeblood, as a vital conduit to lasting relationships with consumers based on trust, education, and lots of high-touch handholding.

Then came Walmart; and then Amazon. And aggressive scrutiny of supplements by the mainstream media. Is there any room left for trust in the aisles of your local health food store?

A series of dramatic, psychographic shifts in consumer behavior have put that trust at lasting risk. Koeppel Direct, a direct-response marketing agency out of Dallas, Texas, paints the picture of what’s to come. The younger the consumer, the more likely she is to “showroom”—shop the aisles of a brick-and-mortar store to research products, only to then buy later online. According to Koeppel’s research, Baby Boomers showroom for 18% of their purchases. Gen X? 29%. Millennials? 32%. Gen Z? 39%. You see the trend.

Here are a few more alarming stats, these from NBJ and New Hope’s Carlotta Mast presenting at the ZingMojo Summit held by FoodState this past August. The year 2014 was a significant tipping point, with more natural products selling through mass than natural retail for the first time ever. In 2015, mass grew sales of natural products by 11.6% versus only 6.3% in natural, the slowest growth for that channel in more than a decade. Most alarming, Natu-
ral Foods Merchandiser research indicates that 21% of natural retailers saw no growth at all in 2015.

As a store-friendly generation of Baby Boomers passes the shopping mantle to Millennials and digital-native customers in Gen Z, natural retail finds itself in a bind, caught between a rock (Walmart) and a hard place (Amazon). What role might trust play in working loose from this bind? NBJ asked a leading voice from each major constituency in the value chain—the natural retailer on the front lines, the manufacturer focused on transparency, the marketer with a global perspective—to assess the path forward.

The retailer

Jon Fiume is the COO at Mustard Seed Market, an independent natural retailer with three locations in Northeast Ohio. He knows the challenges of late: “Over the last few years, the margins in supplements have definitely come down, but we’ve also been able to grow the category in our stores. There’s more pressure from e-commerce, but we work collaboratively with our vendors to manage that better than the big retailers. It’s not about getting a discount. Maybe it’s more about us passing that discount on to shoppers to promote the brand for long-term success.”

While common wisdom would point to the natural retailer’s close relationship with consumers as a point of distinction, Fiume also points to the close relationship with vendors. There’s history in these stores, so whenever supplement safety is called into question (again), Mustard Seed knows where it stands. The stores are asking manufacturers to do more on transparency—to show third-party lab assays on raw material testing, for example—but their companies are already there. “We’re not challenging brands on quality and safety any more than usual. These are long-term relationships we have with MegaFood, with NOW Foods, Garden of Life, with Vitamer Labs doing our private label line. As competition increases, we have to evolve, but we need to stay focused on building these strong relationships with our customers and our vendors.”

One of the more damning assaults to trust is bad press. Is that bad press showing up in store with skeptical consumers asking pointed questions? “We’re not seeing this play out at the customer level,” says Fiume. “Folks aren’t asking us for COAs or transparency statements. I see the degradation of trust in the industry as more of a problem with media influence. That’s where the decision is getting made now, not in the aisle.”

While many of the trust builders for natural retail remain applicable—great service,
rapport with customers, trained staff, in-store education and lectures—there’s new energy around localizing the store, grounding it even more strongly inside a community as a known hub for wellness. There’s new thinking around the use of advertising to connect online, but then drive customers into the stores with special discounting and price matching. And there’s a favorite of Fiverse’s from the above-and-beyond category of trustworthiness. “We stand behind the products,” he says. “We train our staff to offer guarantees. Guarantee that product for a customer. If they don’t like it, we’ll get them into something else.”

The manufacturer

Robert Craven is CEO at FoodState, home to two popular brands, the whole-food supplement leader MegaFood and the Innate Response professional line. He offers a bit of history to encapsulate the problem.

“Natural retail started to feel the pressure four to five years ago as some of these natural brands went to mass,” says Craven. “Three to four years ago, we started talking about ‘mass slippage’ with a central message that your favorite brand just slips into any cart now. A natural retailer educates you on the brand, and it ends up in your cart at a mass-market retailer.”

Efforts to compete on price proved ineffective, and then an entirely new adversary came on scene. “Over the past few years, the market shifted online. Amazon effects not only natural retail, but Walmart too. It’s an entirely different challenge. I can tell

my watch to order Nordic Naturals fish oil right now. This creates an omnichannel environment full of ubiquitous shoppers.”

Craven is referring to the consumer’s ability—perhaps expectation is a better word—to buy anything they want, whenever they want it, online. That’s the ubiquity, and it necessitates new sales strategies that target every channel and get them working off each other in productive ways. After all, here’s another ZingMojo stat: A full 82% of consumers consult their phones in store before making a purchase.

The ZingMojo Summit brought together key stakeholders for some code-cracking in natural retail. “This evolved over time,” says Wennström. “We’re an ultra-premium brand that relies on the natural retailer to tell our story. To get a consumer to purchase our product, someone’s got to tell the story. ZingMojo is about bringing a strategy and methodology to that segment of retail. Amazon has a strategy. Target has one. We’re putting stakes in the ground to build one for natural retail too.” It’s a strategy built less on price and more on trust, on natural’s capacity to mirror the values of its customers in ways that mass cannot.

The challenge is not isolated with the retailer, of course. An omnichannel environment jeopardizes the foundational trust built with consumers in store, but it also wreaks havoc with marketing plans and sales forecasts for manufacturers. It’s much more complicated to drill down on a plan with channel loyalty out the window. One day, the challenge is natural retail, then it’s online, then it’s CVS, each with their own idiosyncrasies.

To bring this crazy stew into focus takes new thinking, and Craven speaks passionately of using digital not to optimize sales but to drive the mission of his business. Think of surveying your online buyers to find out how they learned about your brand. Show them four or five natural retailers nearby. If that was the driver, why not spiff the retailer as a thank you, and market upcoming education events to the consumer? “We can market local education off Amazon data,” says Craven. “We want to use online product sales to connect our consumers to natural retail.”

The marketer

Peter Wennström is the founder and president of the Healthy Marketing Team, based in London and Sweden. At his recent SupplySide West presentation, “Credible Brands Create a Credible Industry,” Wennström spoke of pharma’s influence on supplement marketing. “The focus is too often on the medical need or symptom, and the health claim or benefit. There is no tradition of educating the consumer, nor of building a brand. The ‘brand trust’ usually comes from the doctor recommending you take a certain medication or supplement to fix your problem.”

The point here is that natural retail can only do so much to build trust in supplements. “Building trust starts way before retail,” says Wennström. “You must go back in the influencer chain. You must invest earlier in the lifecycle of these products.”

In this light, distrust in supplements

Average sales per store

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
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<tbody>
<tr>
<td>Avg. sales 2015</td>
<td>$3.30 M</td>
<td>$5.73 M</td>
<td>$1.47 M</td>
<td>$436 K</td>
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<tr>
<td>Avg overall net sales change</td>
<td>4.4%</td>
<td>5.4%</td>
<td>3.1%</td>
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<td>67%</td>
<td>71%</td>
<td>64%</td>
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<tr>
<td>Avg. sales increase</td>
<td>7.9%</td>
<td>8.5%</td>
<td>6.8%</td>
<td>8.3%</td>
</tr>
<tr>
<td>% of stores with sales decrease</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Avg. sales decrease</td>
<td>-7.3%</td>
<td>-5.6%</td>
<td>-9.3%</td>
<td>-4.6%</td>
</tr>
<tr>
<td>% of stores unchanged</td>
<td>21%</td>
<td>18%</td>
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<td>Forecast for 2016</td>
<td>6.2%</td>
<td>6.6%</td>
<td>6.0%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Source: NMN/NBJ with market research from consulting firm SPINS.
carries the ring not of failures in natural retail to compete with mass and online, or to convince and convert consumers, but a long-simmering failure to invest aggressively in marketing and innovation. “One of the biggest problems in supplements is the commoditization of the market,” says Wennström. “There's a real lack of brand building, a lack of engagement with the emotional side of the brands. Consumers have a stronger emotional relationship with their toilet paper brand.” This lack of emotional relevance with consumers makes the supplement industry more vulnerable than most to negative press, and more susceptible to any concomitant erosion of trust.

Healthy food brands do just fine with emotions and trust, so this is a challenge specific to the supplements shelf. According to Wennström, it’s a particular problem in the U.S. market, but applicable globally as well.

“The only way to really coerce a consumer away from that distrust is transparency and education,” says Wennström, offering a path forward. “We were just in Poland. Pharmacies there play the role of drug stores, and the supplements live behind the counter. There’s no education going on in mass retail, so you only find it in more dedicated health stores. That’s important. The same thing happens in Brazil, with supplements behind a desk. Everything looks the same. All of the vitamin C products are orange. If you apply good marketing practices with clear targeting, you stand out. It’s not that hard, but it is an investment.”

This is a subtle but simple message. Innovate to differentiate, market to educate, succeed. “The successful supplement brands in any country are built by consumer education,” says Wennström. “As retail moves online, brand matters even more. The supplements market is so dominated by co-packers that there’s little innovation. A consumer wants a better format, say a gummy, but the co-manufacturer doesn’t want to retool the machines. This is only going to get worse as supplements get more competition from foods as a source of health nutrients.”

Gummies to the rescue

MegaFood, in fact, is working to launch its own gummy, an entirely new delivery format for the company. Consider this a crash-course case study in building the kind of trust that works across the value chain, from manufacturer to marketer to retailer.

Says Craven: “Here’s another way we’re building trust—our ‘Gummy Bare All’ initiative. We get it, it’s fine to be less pill-focused, but we want to move to food-based gummies in line with our product promises. Gummies can be healthier. It’s one of those processes where you don’t always want to see how the sausage is made. So we’re inviting our customers into the process, to co-innovate with us, to help us build the product. We’re not doing it behind a curtain and launching it at a show. We’re asking real customers to join our team, and we’ll fly them out to visit co-manufacturers with us. It’s a year-long engagement to help us make decisions all along the way around cost, around the sugars we use, around our manufacturing choices. This is how we tell our story and build trust from day one.”

CONSUMER TRUST OF PRODUCTS AND INGREDIENTS BY COUNTRY OF ORIGIN

Source: Consumer Survey Conducted by NBJ

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Small is beautiful
Retail specialization may bring food and supplements back to Main Street

By Bill Giebler

The efficiency of the big box is compelling. A store that sells everything—or nearly every category, anyway—smacks of convenience: Jeans, aisle 14. Eyeliner, aisle 23. Tennis racket, broccoli, motor oil, desk lamp, vitamin C, you got it! Then a single checkout and customers are back to their SUVs, loading in the wares.

On the other hand, the big boxes are decidedly inconvenient—vast parking lot, hike to the back of the store, wait behind a big cartload of goods—when all you needed was a pair of socks and a lightbulb. It’s even less convenient when shopping for an herbal cold formula with no one present to answer questions.

Everything under one roof sounds convenient, but if that roof is the size of a city block, what’s gained? After all, the old-world corollary—butcher, pharmacist, bakery and cobbler all facing a single social town center—would fit into the same footprint as many big boxes. With walking distance the same, how many consumers would trade the convenience of a single transaction for the quality service and diversified offerings of such specialization? Whatever the answer, the number appears to be growing.

Something special

“Community, mastery of a craft and knowledge.” These, says Will Frischkorn, are key motivators for today’s consumer.

Frischkorn’s Boulder, Colorado-based shop, Cured, specializes in cheese and charcuterie with a variety of premium grocery items and artisanal breads. Many of these items combine into a popular grab-and-go sandwich program that has spawned a second location just 10 blocks away.

Cured shares space with an independent coffee shop, and the result is a communal space where customers linger. “We’re also a place where people can learn,” Frischkorn says. “That’s the thing that we, especially in the specialty food world, find really fun. We can cut you a slice to taste and while you taste it we can tell you a little about it.” It’s among Cured’s core values, Frischkorn says, that customers leave, not just with a shopping bag, “but that they know something about every product in there.”

This is not limited to food, Frischkorn says. “I think everywhere right now people are excited about knowledge.”

Ramona Billingslea is Marketing Manager for Betsy’s Health Foods in Houston, Texas—a store she has operated with husband John since the passing of John’s mother, Betsy. “Marketing” understates one of Billingslea’s central functions, however. As an independent retailer specializing in dietary supplements, staff education is critical to their success, and Ramona leads that effort.

Since opening in 1993, the store has maintained a reputation for thorough and current product knowledge. To keep staff on the sales floor, Betsy’s Health Foods uses a mentor training program, where a trainer works alongside other staff and performs much of the training, says Billingslea, “on the floor on the fly.” Billingslea also takes advantage of “all the manufacturer trainings that are offered.”

Their trainings start with top sellers and work their way down, with worksheets for each item, and then quizzes to follow.

Training goes well beyond product knowledge, however. It covers a Betsy’s ethos of excellent customer service, and responsible selling. “A lot of the people who come see us have already gone the doctor route and they’re either giving up on that or are trying to supplement what the doctor’s doing for them. We really try to work with them on when to check with their doctor on medication and that sort of thing.”

The bottom line is building a staff capable of creating, “a magical customer experience for each person that comes in.”

“Magic” is a key word for Frischkorn, too, as is “fun.” His shared-space retail is a micro version of the larger shared-space markets popping up, where variety under one roof is served up by multiple independents. “You walk into one of those places that is done really well and it’s so cool. You have all these people who are specialized and focused doing what they know really well next to someone that’s doing that other part.” This is a nice counter to large supermarkets, Frischkorn says. “Whole Foods does a great job, obviously, but it’s all these departments under one brand. It’s maybe more fun when it’s all independent, but you can do a lot of those things in the same space.”

NBJ Takeaways

» Shoppers are seeking community over convenience
» Specialization of goods and diversification of services are critical competitive points against mass
» Internet commodities may help specialty retailers differentiate
Independent thinking

“I guess it has been an unwritten strategy,” Marieke Cormier says of evolving her store into a more complete lifestyle center. The owner of Roots Natural Foods in Leominster, Massachusetts, Cormier has watched grocery, and especially natural, go to mass market retail. “I knew I needed to change a lot.”

Her shop, founded by her mother 40 years ago, offers—in addition to natural foods—a growing food service and even yoga. “We’ve always had yoga, we haven’t expanded on it, but it just seemed to fit.” Food service is the part she has expanded, with a juice bar, broth bar and even full service eats. “The restaurant food definitely piggybacked on what we were doing in the store.”

Cormier fondly recalls the old-world model. “I spent a lot of time in Europe when I was a kid, and we always went to the cheese guy and the meat guy,” she says. “I think it makes people value that food more because you’re going to a specialist.”

Admittedly, Roots is more like Whole Foods than a European plaza or the shared space Frischkorn describes, but, says Cormier, “we try to treat each one of our departments like [an independent shop] because each one of them has to be so unique from what the grocery stores are offering. When you specialize in those things I think it helps sales.”

The fun and magic that excites these retailers—and their customers—might be a product of independence. Whether independent specialists like Cured and Betsy’s, or indie generalists like Roots, customers are drawn to the unique experience.

This doesn’t surprise Christine Kapperman, editor-in-chief of NBJ sister publication Natural Foods Merchandiser. The unique face of independence is a welcome antidote to what Kapperman calls the “homogenization” of America.

“Go into any city and you have a mall, now a lifestyle center, and you have an intersection with the same Walgreens, same grocery store, same fast food, same Applebees.” Despite this trend, however, she reframes that “The backbone of America really is small business. The majority of business done in the US is your mom and pops. We get excited about big box, we see those everywhere, those are big dollars, those are big stories. But if you just look at the numbers it’s going to be small businesses.”

She includes service providers like doctors and nutritionists in the claim. In total, she says, these businesses are at the core of our towns. “Who’s building the community?” she asks. “Who’s putting the taxes into the community? Who’s donating to the community?”

Building—and supporting—community is an exciting trend, and one that recalls bygone Main Streets. But is that too quaint for the future of retail?

Staying relevant

“I don’t think anybody knows what the future will look like,” says Anthony Papageorgiou, founder of Living Green Market in Oakland Park, Florida. “But we have certain signs.” Signs that come from other industries, he says, talking about the “big buzzword: disruption.” Most of the time that happens with the internet, but we’re way past that. With cell phones and networks becoming faster and faster, the middleman is almost eliminated,” he says.

“That’s happened across different industries and eventually something similar or the same will happen in our industry,” Papageorgiou says. “We’re starting to see that with online ordering … we’re seeing things like Amazon Fresh offering same day delivery of grocery goods and various other experiments. There isn’t one that has taken the lead.” Yet.

Papageorgiou has implemented online ordering in his store. “That’s through an app and people can order a coffee or sandwiches or a bottle of wine and pay for it with the app,” he says. “That’s as easy as a transaction can get. When they come in the store it’s ready for them already paid and in a bag with their name on it.” He also mentions customizable ads and coupons, “so when someone enters a store the system will recognize your preferences and guide you with an interactive map for things you might be interested in.” Home delivery remains in the future for Living Green. He sees that coming, but so far the logistics are daunting, referencing the nine stages of banana ripeness as an example. When a customer orders a banana, what ripeness are they looking for?
For Betsy’s, staying relevant involves a two-pronged strategy against the internet competitors. First, “There’s nothing to stop customers from learning what they need to learn about a product from us and then buying it the next four times from their Amazon Prime account,” Billingslea says. “We’re running increasingly into those kinds of challenges, so we’re having to look at what products we really want to recommend, as far as which manufacturers give us a fighting chance and which throw us under the bus, and maybe we want to look at other products that … do a better job of their MAP programs.”

Their second prong is a growing private label program. “We’re working with three different companies for private label, so we have the abc’s but we also have the specialty formulas and a lot of tinctures, too. Our goal is that out of every three to five products we sell, at least one of those is private label.”

Back in the food world, internet competition may be helping the small independent specialty shops. Utilizing the convenience of home delivery for basics may provide the backdrop for taking in more outlets for the specialty items.

Cured’s Frischkorn thinks so, admitting that even his family uses the internet for groceries and home staples. “We get a lot of those ourselves through Amazon now,” he says. “Where we used to grab most of our things from our shop and stock up on staples from a bigger market, now we’re going to the bigger market less and we’re having those things sent to our home.”

Kapperman agrees that letting someone else handle commodity delivery creates an opportunity for independent brick and mortar to differentiate. “Let them lose money,” she says. “Because they’re not making money. Thrive is not making money, Amazon just recently started making money and it’s doubtful Fresh is contributing to that.”

For Papageorgiou, the most important thing is the present, and creating a store worth coming into. “We’re looking into the experience instead of the commodity,” he says. “It’s an exciting future ahead,” Papageorgiou says. “There’s definitely going to be a lot of changes, and if we want to stay in the business and be competitive, we’ve got to be on the forefront of change, not on the backend.”

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Natural products stores’ 2015 sales by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Total sales (M)</th>
<th>% change from 2014</th>
<th>Category as % of total sales</th>
<th>Organic sales (M)</th>
<th>% change from 2014</th>
<th>% of category that is organic</th>
<th>% of total organic sales</th>
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</thead>
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<tr>
<td>Dairy</td>
<td>$3,772</td>
<td>7.1%</td>
<td>7.2%</td>
<td>$2,548</td>
<td>7.8%</td>
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<td>16%</td>
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<tr>
<td>Fruit &amp; vegetables</td>
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<td>5.7%</td>
<td>13.0%</td>
<td>$5,237</td>
<td>6.4%</td>
<td>78%</td>
<td>32%</td>
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<tr>
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<td>2.2%</td>
<td>7.3%</td>
<td>$1,794</td>
<td>4.5%</td>
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<td>5%</td>
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Source: NFM Market Overview/Nutrition Business Journal with market research from consulting firm SPINS. (Totals may not add up due to rounding.)
Europe has always been a constellation of different markets with their own rules and, typically, their own interpretations of the European Food Safety Authority directives. And that’s just the regulatory piece. The hurdles at the cash register can be just as complex.

Like North America, dietary supplements are in hot demand across the pond. In Western Europe, sales topped $8.4 billion in 2016, up from $7.4 billion in 2011, according to Euromonitor. Meanwhile, in Eastern Europe—a significantly smaller but booming market—sales jumped to $2.9 billion from $1.9 billion in 2011.

“While there are different take-ups of supplements in different European countries, they are overall very popular and their use is increasing,” says Sue Oldreive, an independent food and nutrition consultant based in Surrey, United Kingdom. “Growth in some of the leading nations like Germany has slowed down, but emerging markets in Eastern Europe are showing double-digit growth rates.”

Similarly to the United States, retail outlets command the lion’s share of supplement sales across Europe, although internet vendors are steadily eating up more of the pie. In the Western nations, 83.6 percent of total supplement purchases came from retail in 2016, and in Eastern Europe, retail accounted for 85.1 percent of sales.

But unlike in North America, where you can find supplements at most any Costco, GNC, Walgreens, Whole Foods or independent health food co-op coast to coast, the retail landscape in Europe is more of a mixed bag. The market is often more fragmented by product category, and the types

**NBJ Takeaways**

- European markets vary by regulation and sales channel
- Partnering with local distributors eases market entry
- Emerging Eastern Europe markets show promise

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**AUSTRALIA/NEW ZEALAND SUPPLEMENT SALES, 2005-2020E**

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<tr>
<td>2018e</td>
<td>$6,500</td>
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</tbody>
</table>

Source: Nutrition Business Journal ($mil., consumer sales)
of retail outlets selling supplements can vary wildly from one nation to the next.

**Market by market**

There is no shortage of factors driving the differences. For one, regulations governing supplements are not uniform across the continent. Though products sold in European Union member states are subject to EFSA edicts, nations often have their own rules for formulations, dose limits, labeling and health claims.

“There is a lot of chaos at the European level,” says Andreas Wolf, a Munich-based attorney who advises U.S. supplement companies looking to expand overseas. “At least in the U.S., the Food and Drug Administration has a top-level channel of ruling. But in Europe we have EFSA guidelines, or directives, regulating nutritional supplements. Member states can implement those directives into national law, but they also have the authority to overrule the EU if they think it’s in the best interest of their citizens.” As a result, Wolf says several regulatory differences persist between nations, both in the strictness of laws and how heavily those mandates are enforced.

This patchwork of regulations also impacts distribution, further fragmenting the market with a different set of statutes at every border crossing.

However, even without these roadblocks, the experience of shopping for supplements in Slovenia would likely still be different from buying products in Paris. “Where supplements are sold varies by culture, in Southern and Eastern Europe, it’s more about smaller [independent] stores,” Wolf says. “In other regions, a main way of distribution is supermarkets, although it’s not to the extent of what’s sold in U.S. supermarkets. Supplements are usually found within a very small section of these stores.”

In the United Kingdom, sales outlets vary by category. “You’ll find most vitamin and mineral supplements sold in main-

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**“European drug stores are more like convenience stores, and many carry supplements at a lower cost than pharmacies.”**

- Andreas Wolf, supplements attorney
Stream food outlets such as Tesco, ASDA, Sainsbury’s and Waitrose,” Oldreive says. “They’ll maybe have glucosamine and a few other basic products, too. But if you’re looking for more specialty items, then you’re more likely to find those in pharmacies.”

Pharmacies in many regions of Europe aren’t quite like pharmacies in the States. Wolf says they mainly sell prescriptions, maybe some personal care and possibly a narrow set of supplements. On the other hand, European “drug stores” resemble a CVS or Walgreens—just without the drugs. “European drug stores are more like convenience stores,” Wolf says. “And many carry supplements at a lower cost than pharmacies.” Many drug stores and pharmacies, as well as supermarkets, often offer their own private-label brands.

Continental commerce

Yet despite the regulatory, distribution and cultural challenges, multiple North American brands have become well established in Europe. NOW Foods has sold in this market for 25 years. Solgar, Solaray and Nature’s Best all have a strong presence. But for some U.S. companies, especially those that came up in the natural channel, finding the appropriate lane wasn’t so obvious at first.

“In North America, our business model has historically been to focus on natural products retailers,” says Jim Emme, CEO of NOW Foods. “So the EU was a challenge to our culture at first because the channels are so different. For instance, until recent years, in Spain or in Amsterdam, natural products retailers didn’t exist like they do here. And in Eastern Europe we saw a strong practitioner base.”

NOW Foods started off working with a retail partner in Poland and eventually grew into a recognizable brand in that area. This experience and consumer familiarity helped the company expand to other regions. Today, NOW Foods is sold mainly in mass food retailers like Tesco and in pharmacies such as Boots.

“Our brand isn’t in as much of a value position in the EU because of regulations,” Emme says. “We are known for science-based high-potency products, which sometimes can’t be sold in the EU, so we’d have to formulate down.” In some cases, NOW has done so to meet formulation requirements. In other instances, if mandated upper limits reduce potency to a point where a product wouldn’t be effective, Emme continues, “we won’t sell it because we feel that wouldn’t be ethical.”

Emme believes a key to NOW’s success and growth across Europe has been its strong relationships with local and regional distributors. “Whenever we operate in the EU, we operate with distribution partners,” he says. “We give them plenty of support, such as content for their websites, but we rely on them to stage stores and market our products.”

Having allies on the ground with local knowledge is crucial. “Certainly, working within different cultures presents a challenge, but partnering with distributors in each region helps to overcome that cultural barrier.”

“Growth in some of the leading nations like Germany has slowed down, but emerging markets in Eastern Europe are showing double-digit growth rates.”

- Sue Oldreive, nutrition consultant

“Certainly, working within different cultures presents a challenge, but partnering with distributors in each region helps to overcome that cultural barrier.”

- Jim Emme, NOW Foods
High touch or high tech?

Bringing technology into the store requires a careful balance for natural retail

By Dan Fost

Emily Kanter watched the video of Amazon’s newest store concept, Amazon Go, with horror. “Oh god, it terrifies me,” she says. “You can take anything off shelf, put it in your basket, and your phone reads that you took that item,” says Kanter, the second-generation co-owner of Cambridge Naturals in Massachusetts. “It just charges you as you walk out.” Troubled by the idea of transactions with zero human contact, she describes Amazon’s experiment as “mindless consumerism.”

While Cambridge Naturals tries to stay current with technology, Kanter says, “We’re not going in that direction.”

Natural retailers are looking to strike a balance between moving into the 21st century while hanging onto the humanity their customers crave. Tech may be taking over retail everywhere we look, with scan codes, chip cards, Apple Pay, and ultimately, yes, stores that are run almost entirely by artificial intelligence, but the natural channel still relies on good-old-fashioned human interaction to help its business thrive.

“Nobody appears ready to sacrifice high touch for high tech. In general, independent retailers have incorporated and expanded marketing programs through social media and digital marketing and rewards programs,” commented Dot Peck, senior director of purchasing for the Independent Natural Food Retailers Association, responding by email. “The use of Apple Pay, scan codes, and screen kiosks are in an inquiry phase versus in use now, and I haven’t heard a lot of discussion in our channels.”

Jay Jacobowitz, president and founder of Retail Insights, a natural products industry consulting firm in Brattleboro, Vermont, says natural retailers are getting on board with tech, but sometimes doing so slowly. It’s the right approach, he says.

“The independent retailer view is that eventually there is going to be the reemergence of the model that has a direct personal interaction, human interaction, as a high value,” Jacobowitz said. “The technology removes friction. We can do things from anywhere, and that’s all great and it works, but there will never not be a place for human interaction.”

Baby steps

Where they are tiptoeing into tech, natural retailers are moving slowly. In the 39th WholeFoods Magazine Annual Retailer Survey for 2017, which Jacobowitz is publishing in January, he found that “the old economy marketing media are still getting the lion’s share of dollars.” Independent retailers are “figuring out how to use tech, but they’re still spending on more traditional media,” such as television, radio, newspapers and magazines.

They don’t see social media as an extra line in the ledger, since it’s typically an existing employee spending a little extra time posting to Facebook or Instagram. Deals on sites like LivingSocial are also popular, Jacobowitz said. Younger store owners like Kanter, age 31, are particularly

“The use of Apple Pay, scan codes, and screen kiosks are in an inquiry phase versus in use now, and I haven’t heard a lot of discussion in our channels.”

– Dot Peck, Independent Natural Food Retailers Association
active on social media.

Despite Kanter’s trepidation at Jeff Bezos’ dream of a technological wonderland that minimizes personal interaction, she has moved her store into the tech world at a more human scale. Most of the back-office operations have been computerized, as is common for a modern commercial operation. And the front of the shop is moving there as well; Cambridge Naturals accepts Apple Pay, a system in which customers wave their iPhone over a sensor at the cash register to make their payment. It also has a digital coupon system so patrons no longer need to fumble through clippings; when the checker scans an item with an associated coupon, the discount is automatically deducted.

At the same time, the store maintains its human focus. At the front of the store, Kanter says, “You are greeted by somebody. Your presence is acknowledged. We thank them on their way out. We engage with them. It’s as inviting as any other point of contact in our store.” Amazon Go would not only eliminate all that, she says, it could also sacrifice the impulse buys from racks by the register. Kanter says Cambridge Naturals is a few steps behind conventional supermarkets on some tech elements and that can be a good thing. One grocer near her shop “put in self-checkout kiosks about 10 to 12 years ago, but a few years ago, they actually took them out. People were finding them annoying.” Ratcheting that up a la Amazon Go, “also means someone has all of this data on what you buy, tracking your purchases,” Kanter says. “I think there is a large part of the population that doesn’t want any of that.”

**Subtly social**

Online, Kanter keeps Cambridge Naturals relatively personal. Store staff posts at least once or twice a day on Instagram, where it has more than 3,100 followers. “We try to keep ours true to our brand—authentic and funny,” Kanter says. “We try not to curate it to be too precious. We post real images of what our store looks like, and also make it aspirational and intriguing.”

There are signs the approach is working. She recalls posting a photo of a fuzzy wool fair-trade owl Christmas ornament on sale in the store. “I was at the register and a woman came up to buy one. She said, ‘I just saw it on your Instagram feed a couple of hours ago and ran in to come get it!’”

Another natural market having success with social media is Rainbow Blossom Natural Food Markets, which has four stores in Louisville, Kentucky, and one in southern Indiana. Summer Auerbach, 35, another second generation owner, is now starring in some of the store’s YouTube videos, demonstrating ear candling and sinus rinses with neti pots. If you thought YouTube was only good for crazy cat videos, you haven’t seen Auerbach remove a colleague’s earwax, or pour water into one nostril and out the other, right in the middle of her store. “If anybody’s looking for a good holiday cocktail conversation starter, google ‘neti pot video,’” Auerbach says. “Virtually every person I know has seen that video.”

Even though the store has a YouTube channel, the videos are more commonly watched on Facebook or the store’s website. Stores no longer need extraordinary technological proficiency to start a video channel. Rainbow Blossom shoots its videos on an iPhone and edits them in iMovie. Auerbach at first thought the videos would have a short shelf life, maybe driving people into the stores for a purchase that day. Her first video, around Thanksgiving, touted “golden milk,” a powder containing turmeric, ginger, cinnamon, black pepper and cayenne. Mixed with honey and warm milk, Auerbach described it as a type of chai with anti-inflammatory properties. Three weeks after the video went live, sales of golden milk were still on the upswing. The neti pot video touted a next day special, 20 percent off neti pots. Two weeks later, without the sale price, neti pots were still flying off the shelves.

**Newfangled nuisance**

Tech doesn’t always advance the cause. Much like Cambridge Naturals’ neighbor who scrapped their self-checkout aisles, Rainbow Blossom tried QR codes a few years ago, only to abandon the project when customers didn’t use it. They’d put the code on a sign on a shelf, inviting people to scan the code and get more information but, Auerbach says, smartphones never made scanning all that easy. “You had to download a reader and then open app and scan the code.”

If, say, Apple had made the scanner as easy to use as its camera, with a simple swipe from the lock screen, people might have been more inclined to use it. As for now, she says, “I don’t see that coming back…. QR codes are dead.”

The episode points to Rainbow Blossom’s willingness to try something new, without fear of failure. “We’re always trying to embrace technology in general,” Auerbach says. The stores use it for things like inventory management, transfers, and direct to vendor ordering. They had tried a point-of-sale system early on that proved...

“I believe there is going to be a renaissance for independent retailers, because direct human interaction will always have a place.”

- Jay Jacobowitz, Retail Insights
clunky, and that delayed implementation of a newer system, so sometimes Auerbach feels she has fallen behind.

Another challenge is that the digerati aren't necessarily going to work in natural food stores. “We’ve found that the people working in retail jobs aren’t always the tech savviest,” she says. “We know what we need in our store but translating that to what our IT guy can work with can sometimes be a challenge.”

She has installed Apple Pay and sees its potential to help reduce her stores’ credit card fees. But Auerbach put Apple Pay on her own phone and found she doesn’t use it much, sticking with the plastic credit card instead. Still, she is getting experience with it: Anytime she makes a purchase, an alert pops up on her Apple Watch.

Jacobowitz, at Retail Insights, echoes the experience of Auerbach and Kanter, noting that tech can be a useful tool, but that stores can’t lose sight of the actual people they are serving. That personal aspect is both the channel’s history and its future. “I believe there is going to be a renaissance for independent retailers because direct human interaction will always have a place,” Jacobowitz says. “They can go deeper, and uncover people’s unrealized needs, and give that human warmth.”

Jacobowitz describes tech as a double-edged sword. Advocates tout that “tech will bring us closer together,” he says, and in some sense, it has. “You can now be contacted by your kindergarten schoolmates on Facebook. But it’s also distanced us. It’s removed the need to go see someone. Human nature hasn’t changed. Those of us who succumbed to the tech environment will have a craving to go see someone. I think that plays well to the independent natural product universe.”

**U.S. SUPPLEMENT SALES BY PRODUCT, 2015**

- Vitamins: 31%
- Herbs & Botanicals: 18%
- Sports Supplements: 14%
- Meal Supplements: 12%
- Minerals: 7%
- Specialty/Other: 18%

*Source: Nutrition Business Journal (consumer sales)*
Innovation and evolution
Independent natural retailer search for unique niche

By Lisa Marshall

After years of shrinking sales, store closures and widespread worry about encroaching competition, the clouds are finally clearing for independent natural products stores. Legacy retailers and millennial newcomers alike are thinking outside the box and finding innovative ways to reinvent the challenged channel.

According to Natural Foods Merchandiser’s 2016 Market Overview Survey, 3 percent of independents plan to close up shop this year, which is slightly fewer stores than in past years. Meanwhile, a whopping 25 percent intend to renovate or remodel. Sales are also stabilizing, with just 12 percent of stores reporting year-over-year declines and 67 percent boasting sales increases. The natural products pie is still growing at a healthy 8.7 percent pace, hitting $131.2 billion in 2015. However, competition remains fierce, as conventional stores expand their natural sets and “super natural” chains move into regions previously spared the competitive frenzy.

Rather than trying to compete with Kroger, Whole Foods Market, Sprouts Farmers Market and the like, many independents are focusing on providing much more than a place to buy food. They’re offering classes in obscure crafts such as sausage making and home fermenting. They’re reaching into underserved neighborhoods with experimental mini-stores. They’re returning to the activist, uber-local roots from which the industry was born.

“The mood is still mixed, but many of our members are not as afraid as they’ve been in the past,” says Corinne Shindelar, CEO of Independent Natural Food Retailers Association. “They’re getting more comfortable with the idea of reinventing themselves, and they’re excited about the next new adventure.”

Competition en masse
While much ado has been made about the rise of specialty chains like Natural Grocers by Vitamin Cottage and The Fresh Market, “the big mover in 2015 was the conventional supermarket channel,” says Jay Jacobowitz, founder and president of Brattleboro, Vermont-based Retail Insights. Conventional retailers beat naturals at their own game again last year, growing 11.6 percent to capture 42 percent of all natural products sales. By comparison, natural retailers grew 6.3 percent, hanging on to 40 percent of sales.

Much of the conventional-channel growth came from Kroger, which now sells about $11 billion in natural and organic products annually, accounting for 10 percent of its total sales. Kroger’s Simple Truth line is one of the most successful private-label brands in the country, and the company continues to expand its natural and organic meat, poultry and dairy offerings. “Kroger now has the equivalent of a decent-sized natural foods store integrated into its shelves,” Jacobowitz says. “The company has managed to rebrand as an on-trend, high-value shopping experience with good-for-you foods.”

In April, 2016, Kroger announced it was investing an undisclosed amount in Lucky’s Market, a 17-store chain that’s fashioned like an indoor farmers market and designed to provide “organic for the 99 percent.” A press release announcing the partnership promised that it would “significantly accelerate” the growth of Lucky’s Market in new and existing markets.

Meanwhile, competition in the Midwest is blowing up, as everyone from Sprouts to Earth Fare to Fresh Thyme is swooping in to gobble up real estate in secondary markets that were, until recently, largely ignored. “Ten years ago, the competition was in the West, and then it shifted to the East,” says C.E. Pugh of National Co+op Grocers (NCG). “Now the Midwest is looking juicy, and here they come.”

This year, 33 percent of NCG’s 150 co-op members are growing strong, 44 percent remain flat, and the remainder—many of them in the Midwest—are losing ground. “They just haven’t been exposed to this kind of competition before,” Pugh says. “They’ll be fine, but they’ll have to fight a little harder.”

That said, not every natural chain has proven to be as big of a threat as predicted. After a disappointing stretch, Greensboro, North Carolina-based The Fresh Market pulled out of its numerous California locations in 2015, retreating to focus on core markets closer to home. In May, the 15-store Fairway Market in New York began bankruptcy proceedings.

Even the legendary Whole Foods Market has struggled as its wealthy, foodie, baby boomer base has aged and a new generation of brand-averse millennials are opting to shop with smaller, cheaper competitors. To lure shoppers back, Whole Foods announced last fall the launch of a new chain of smaller, more affordable, markedly hipper outlets dubbed 365 by Whole Foods Market. Via a novel program called Friends of 365, the stores will feature guest appearances by small, funky businesses—hot tea
“Millennials have champagne taste and a beer budget,” Jacobowitz says. “They want to be presented with a broad palette of options that are curated, interesting, local and not commoditized, but they don’t want to break the bank.” Given that there are 80 million millennials in the U.S. who are expected to spend roughly $1.4 trillion annually by 2020, Jacobowitz advises independents to keep this demographic’s tastes top of mind as they plan for the future.

New experiences, new locales

At 31, David Rand doesn’t consider himself a millennial (though most peg their birth years between 1980 and 2000), but he knows what people his age want. “We want a unique experience—not just a place to pick up groceries,” says Rand, co-founder of Chicago-based Local Foods. “My peers are far more likely to spend $100 on a hands-on sausage-making class than a grocery feel,” Rand says. “We don’t have 40,000 square feet with 4,000 SKUs. But you can get some potatoes, a nice can of beans and a really nice steak or some chicken without feeling like you’ve blown your food budget for the week.”

Across the state line in Milwaukee, Outpost Natural Foods is also thinking beyond the typical retail storefront. Five years ago, in an effort to grow its reach without opening more stores, the co-op set up a mini-store and restaurant in a 500-square-foot kiosk in the lobby of a nearby hospital. “They were looking for foods made without additives and preservatives or that could meet special dietary requirements like gluten free and vegan,” says Lisa Malmorowski, director of brand and store development at Outpost. “We were looking for creative ways to get more of our food into people’s mouths.”

Last September, Outpost opened another 500-square-foot satellite store with Wellness Commons, an innovative collection of wellness-related enterprises (juice bar, farmers market, etc.) in Lindsay Heights—one of Milwaukee’s most impoverished neighborhoods. “All of us in this building together are trying to turn it into a community gathering place,” Malmorowski says.

Elsewhere around the country, retailers are transcending their own storefronts to promote sustainable farming out in their communities. For instance, Abby Sayler of Abby’s Health and Nutrition in Tampa, Florida, just purchased a 6-acre property where customers and community members can learn how to grow their own food and medicinal plants. San Diego–based Jimbo’s … Naturally recently helped pay for and plant a 1-acre garden adjacent to a local school. Today, the produce for school lunches is grown on-site. “Whereas all of our competitors come from outside the community, we have established ourselves as the San Diego store that supports San Diego schools and families,” says Andy Huth, Jimbo’s grocery director.

While competitive prices, high-quality products and updated stores will no doubt remain important in the future, industry insiders say the key to independents’ success lies as much in their ethos as in which products line their shelves. “Will we continue to have a natural-channel ‘industry’ or will we become more of a movement—about food as community?” asks INFRA’s Shindelar. “It’s exciting to think about.”

Originally published in Natural Foods Merchandiser, July/Aug 2016

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Source: NFM/NBJ with market research from consulting firm SPINS.
Q&A with Don Summerfield

Don Summerfield’s history in natural retail and natural medicine prepared him for what may be the perfect position: Pharmaca’s vice president of integrative medicine. We talked about how Pharmaca has cracked the code for combining pharmacy with natural products and the role of retail in the biggest issues facing the supplement industry.

NBJ: Our research indicates customers in the natural channel are more likely to trust the supplement industry. Why do you think that is?

Summerfield: I believe the natural channel shopper trusts leading dietary supplement brands because they have a lot of shared values, such as pure ingredients, sustainable sourcing, environmental considerations, etc.

NBJ: Do you think the level or character of that trust changed in the natural channel and at Pharmaca?

Summerfield: Natural channel shoppers are witnessing the supplement industry evolve into a quality and transparency-driven industry, through transparent labeling and better manufacturing/QC testing operating practices. As the FDA has enacted and enforced DSHEA GMP guidelines, I have seen many leading dietary supplement manufacturers invest heavily in quality control testing labs and advanced manufacturing processes to ensure they are producing safe and effective dietary supplements.

NBJ: Retailers have been described as gatekeepers, standing between the public and low-quality or even dangerous supplements. Should they have to do that? Can they do that?

Summerfield: I believe retailers will continue to play a vital role in steering customers to high quality dietary supplement brands. Brands that invest in cutting edge quality manufacturing and testing should be recommended and supported by retailers. This is the best way to ensure our industry is represented by high quality, safe and effective products. Retailers should take the opportunity to visit dietary supplement manufacturers and get to know how products are manufactured and how raw materials are tested for quality assurance. Retailers can encourage their staff members to attend vendor trainings and ask questions about how the products are made and how they source their raw materials. I have visited more than 100 manufacturers around the globe, performing quality assurance audits on behalf of Pharmaca.

NBJ: It’s not always easy for consumers to tell the difference between high quality and low quality supplements. How can the industry and retailers interact to make that more clear?

Summerfield: Dietary supplement manufacturers can do a better job communicating what sets them apart in the quality department by being more transparent. That means opening up their facilities to customer and retailer tours, and using social media and other methods to communicate how products are made and sourced.

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NBJ: Do you think the level or character of that trust changed in the natural channel and at Pharmaca?

Summerfield: Natural channel shoppers are witnessing the supplement industry evolve into a quality and transparency-driven industry, through transparent labeling and better manufacturing/QC testing operating practices. As the FDA has enacted and enforced DSHEA GMP guidelines, I have seen many leading dietary supplement manufacturers invest heavily in quality control testing labs and advanced manufacturing processes to ensure they are producing safe and effective dietary supplements.

NBJ: Retailers have been described as gatekeepers, standing between the public and low-quality or even dangerous supplements. Should they have to do that? Can they do that?

Summerfield: I believe retailers will continue to play a vital role in steering customers to high quality dietary supplement brands. Brands that invest in cutting edge quality manufacturing and testing should be recommended and supported by retailers. This is the best way to ensure our industry is represented by high quality, safe and effective products. Retailers should take the opportunity to visit dietary supplement manufacturers and get to know how products are manufactured and how raw materials are tested for quality assurance. Retailers can encourage their staff members to attend vendor trainings and ask questions about how the products are made and how they source their raw materials. I have visited more than 100 manufacturers around the globe, performing quality assurance audits on behalf of Pharmaca.

NBJ: It’s not always easy for consumers to tell the difference between high quality and low quality supplements. How can the industry and retailers interact to make that more clear?

Summerfield: Dietary supplement manufacturers can do a better job communicating what sets them apart in the quality department by being more transparent. That means opening up their facilities to customer and retailer tours, and using social media and other methods to communicate how products are made and sourced.
their website to showcase their quality control processes. Pharmaca receives many customer requests asking for further product ingredient clarification and details, so this is an opportunity to build brand loyalty. And retailers can further support the industry by choosing to stock brands based on quality and transparency.

**NBJ:** People do a lot of internet research on natural remedies, what challenges does that present to supplement retailers?

**Summerfield:** The internet has freed customers to do their own research on medical and health topics. This trend will continue into the future as self-care becomes the foundation of health care. That being said, retailers are constantly challenged by customers using poor or misleading information from the internet. At Pharmaca, we guide customers toward more reputable online resources and offer education at the store level. That’s what sets us apart—the expertise of our practitioners helps customers wade through the huge volume of information out there.

**NBJ:** Pharmaca also sells online. Is there an effort to connect those shoppers with local stores?

**Summerfield:** As a multi-channel retailer, we encourage customers to shop both online and in stores. For people who live outside of our store markets, we try to provide as much of our practitioners' expertise through the website as possible—through blog posts, product recommendations, etc.—so that if they can’t have that in-person experience, they can at least get many health questions answered.

**NBJ:** Do you see anybody else doing a good job of that?

**Summerfield:** Our practitioner staffing model allows us to hold a very unique place in this market.

**NBJ:** How do you think brick-and-mortar retailers who also sell online approach price?

**Summerfield:** Many of our supplement brands require us to adhere to MAP pricing, so our online prices are comparable to many other retailers. For those that don’t require MAP, our pricing is as competitive as possible both in stores and online.

**NBJ:** You have been in the business a long time. Has change been incremental or in leaps?

**Summerfield:** I have seen incremental improvement in quality manufacturing as the marketplace for dietary supplements has expanded over the years. I have seen big leaps in transparency with regards to raw material sourcing and labeling among a hand full of leading brands such as: Megafood, Gaia Herbs, Garden of Life and Natural Factors. These brands continue to pull away from the pack with their investment in better labeling, packaging, sourcing and manufacturing processes.

**NBJ:** What has surprised you in the last year or two?

**Summerfield:** I am surprised how a company like Garden of Life can enter a category such as probiotics and dominate that category in just a year or two. This demonstrates phenomenal marketing, product development and manufacturing expertise.

**NBJ:** What do supplement companies not understand about retail?

**Summerfield:** Natural channel customers are sophisticated and demanding when it comes to product ingredients. Supplement companies can do a better job of listening to customer desires when it comes to label and manufacturing transparency. Putting “natural flavor” on the ingredient panel is not good enough any longer. Customers want to know what “natural flavor” means, what it’s made from, whether it contains chemicals, and so forth. Retailers are on the front line trying to answer customer questions and this information should be clearly displayed on the product labels.

**NBJ:** If you could say one thing to every customer who walks into your supplement section, what would it be?

**Summerfield:** I would say there are a lot of high quality dietary supplement companies on the market and Pharmaca works hard through our quality assurance program to find the very best brands to offer—so that customers don’t have to guess which products on the shelves are worthy of their purchase.
2016 Reports will include:

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- 2016 NBJ Direct to Consumer Report
- 2016 NBJ Supplement Report
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