PROGRESSIVE GROCER

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2016 CATEGORY MANAGEMENT HANDBOOK

IN ALLIANCE WITH

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CATEGORY MANAGEMENT ASSOCIATION
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Stagnito BUSINESS INFORMATION

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NATURAL & ORGANIC

Mainstreaming Category Management

Natural product sales trends, and how to capitalize on them.

BY DANIEL LOHMAN

Natural product sales continue to dramatically outpace their conventional counterparts. This is true in almost every channel and category.

Americans today are focused on, and constantly looking for, healthier solutions to improve their lives. The old adage "You are what you eat" is resonating across the entire country as we strive to improve our overall health and wellness.

Natural and better-for-you brands are leading this trend by providing the thought leadership that resonates with consumers. Innovation from natural brands continues to develop the kind of products and solutions that appeal to consumers. This is largely because natural brands are much more closely aligned with their core shoppers' wants and needs. Natural product shoppers will gladly pay a few pennies more for healthy products that meet their needs and those of their families. Natual product shoppers carefully read food labels and are extremely loyal.

At the heart of the natural trend is transparency. Consumers are demanding to know what's in their food. They want simple ingredients that are easy to understand and trace back to their origins: how the product is produced, how it's grown, where it comes from, and whether it includes any artificial or modified ingredients. They also want condition- and attribute-specific solutions like gluten-free, non-GMO and organic. As a result, natural-product (health-and-wellness) consumers have larger market baskets with high year-over-year growth.

Natural Selection

Market LOHAS (Lifestyle of Health and Sustainability) recently released a report to help better understand and identify consumer perceptions regarding organic and non-GMO. The online survey of 1,000 shoppers of health and natural products indicated that 57 percent of consumers shop non-GMO over organic.

Consumers surveyed place more value on "trusted brands" (up 48 percent), compared with products labeled "natural" (down 36 percent). The research revealed that the top brand-choice purchase factors among regular non-GMO buyers were the ingredient list, non-GMO, taste and organic. Notably, the study highlighted the confusion and misunderstanding between non-GMO and organic, mirroring the confusion found in non-LOHAS consumers.

The Natural Foods Merchandiser 2015 market overview estimates that 41.2 percent of natural products are sold by mainstream retailers, compared with 40.7 percent by natural retailers. This is significant, as we're seeing a huge shift in consumer buying habits that includes significant leakage from the natural channel into mainstream retail.

According to Nielsen*, mainstream sales are flat, at 2.5 percent annually, compared with natural product sales (including organic) at 12.7 percent, and organic product sales at 16.7 percent. Natural products represent 9.4 percent of mainstream product sales, while organic products account for 28.3 percent of total natural product sales.

Natural and organic products sales are outpacing their mainstream counterparts in nearly every category. They are available in every department and are now capturing a significant share of total department sales. Total mainstream retail without natural is up only 1.5 percent, with department sales down significantly.

One-to-one Merchandising

Savvy retailers wanting to capitalize on these important trends need to merchandise natural and organic products side by side with their mainstream counterparts. This strategy gives consumers an at-shelf choice to select the products that best meet their needs, while encouraging them to make healthy selections in other categories. For example, shoppers buying natural entreés will typically also purchase natural side dishes and beverages. This is how you grow sustainable category sales and increase market basket size.

Price is certainly a concern for cost-conscious shoppers. Consumers are learning that natural products provides more satiety and a bigger bang for their buck. For example, eating more nutritious products, like organic whole grain bread, will keep you feeling full longer, so you end up eating less.

Consumers are voting for healthy choices with their wallets. Brands that think that merely modifying a label or changing a flavor is innovative should be worried. The natural products that are growing sales in every category provide transparency, healthy ingredients, and a commitment/mission that their mainstream counterparts lack.

Aisle By Aisle

The primary point of entry into natural/organic is the produce category. This is largely due to consumers being able to easily understand and identify with where the product comes from and how it's produced. Produce is also key because it helps shoppers learn about and appreciate healthy farming practices like organic farming (non-GMO, and pesticide- and herbicide-free).

A significant component of natural is locally sourced. Shoppers like to support trusted local food suppliers, especially from within their own communities. This awareness encourages shoppers to read product labels, helping them make better product selections in other departments.

Organic sales growth is nearly three times that of mainstream produce sales. Natural produce sales represent 26.3 percent of total mainstream sales, while organic produce represents 40.6 percent of natural sales.

Dairy is another key entry point for natural/organic consumers. Organic milk and eggs from cage-free hens continue to be a priority for new mothers and families with young children. Natural dairy sales represent 13.3 percent of total mainstream sales, and organic dairy sales represent 31.3 percent of natural sales. Natural/organic shoppers want dairy items that are free of antibiotics and growth hormones.

Overall meat department sales are trending downward. Natural meat sales are significantly higher compared with those in the mainstream channel. Similar to dairy, shoppers want clean, healthy products with transparency in labeling.

Grocery is the largest food department, representing 53.3 percent of total mainstream sales. Natural grocery represents only 7.1 percent of mainstream sales, but the growth of natural/organic items is several times greater than that of their mainstream counterparts.

Many of us were taught to avoid center store if we wanted to eat healthfully. This is no longer the case. Natural/organic products don't contain the additives associated with unhealthy eating, like added salt, sugar, colorings, preservatives or chemicals. They're minimally processed, with clean, easy-to-read labels that resonate with consumers. Retailers need to introduce more natural and organic items into their grocery category assortments. Key sales drivers include natural and organic convenience and snacking.

Frozen is the third-largest food department. Key sales drivers include natural and organic fruit and vegetables. Frozen food sales are flat in the mainstream channel, but they're trending up in natural and organic.

Partnering Strategically

How do these trends affect the natural channel, and should natural retailers be concerned?

No — natural retailers provide a level of service and consumer education that's unparalleled in the industry. They also provide a point of entry for innovative products and solutions that continue to fuel the trends driving sustainable sales for all natural brands. These are areas where their mainstream counterparts can't compete effectively, mostly due to their scale.

Natural brands and retailers needed to work together to defend against mass slippage. This term, coined by MegaFood, describes natural brands migrating out of natural and into mainstream. Natural retailers need to be more strategic and work more closely with their brand partners. There will always be a need and place for retailers that specialize in meeting specific consumer needs and wants.

Natural and organic products will continue to drive sustainable sales in every category, every channel and any economy.

All insights not specifically identified above come from Nielsen Answers, Period Ending Oct. 24, 2015, Total U.S. Food, Drug, Mass, Walmart, Sam's Club, BJ's, Dollar Stores and Convenience.

Market Basket Data: AOD RMS, Total U.S. — 52 weeks ending Sept. 26, 2015, Total $ Sales and % Change Versus Year-ago Reflect Total CPG Sales by Health Claim, = % of Total CPG $ Accounted for by the Top 10 Categories.* **PG

Natural and organic products will continue to drive sustainable sales in every category, every channel and in any economy.

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