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For their annual omnichannel issue, NBJ interviewed Jay Jacobowitz, President of Retail Insights® for his perspective on the future of mid-sized supernatural chains and the transition of conventional supermarkets to an ominichannel strategy. Interview excerpts follow.

Mid-size mayhem

Fresh Thyme's flourish

Perhaps the most impressive growth trajectory belongs to the newest company in this set. Launched as a single store in suburban Chicago in 2014, Fresh Thyme, with financial backing from conventional grocery chain Meijer, now boasts 75 locations, with upwards of 20 more stores expected to open by 2020. "As Kroger is to Lucky's, Meijer is to Fresh Thyme," Jacobowitz says. "They don't need a huge box; they can expand into many more trade areas with a 30,000-square-foot box and, along with that, really pump up the focus on fresh and tip their hat to natural and organic."

Make no mistake, though: Kroger is certainly benefitting from its beneficiary. "Kroger will use Lucky's as pawn in the chess game to block competition," says Jay Jacobowitz, president of Retail Insights. "With the equity stake by Kroger, a controlling interest, all of a sudden Lucky's is infiltrating Florida, which is probably the biggest opportunity for Kroger where it didn't have a presence. This puts Kroger in a proxy war against Publix, yet Kroger doesn't have to find 80,000-square-foot boxes—they can put up 30,000-sqaure-foot boxes with the Lucky's banner."

Rates of new store openings will probably plateau somewhat. One reason, says Jacobowitz, is capital will be diverted away from store openings and toward beefing up delivery and click-and-collect services. But also, many markets will eventually become saturated, and the mid-size chains will start bumping up against one another.

Jacobowitz could also envision a Sprouts–Fresh Thyme future. "Fresh Thyme has tailored itself after Sprouts, filling in the Midwest as fast as they can. So, I could absolutely see Sprouts making an offer," he says. "Or maybe Hy-Vee would buy Fresh Thyme, but I think its synergies are greatest with Sprouts."

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Digital retail

Brands find their way in the grocery store of the future

Grocery delivery has long been an elusive goal of the industry. In the past, efforts fell short, most notably with the billion-dollar dot-com bubble crash of Webvan. But the time and technology may finally be right to make it happen. The brick-and-mortar stores are not willing to cede that space to Amazon without a fight. They're all ramping up their online presence, apps and delivery systems to compete in the omnichannel arena. Kroger is moving aggressively to meet the challenge. In 2014, it bought online retailer Vitacost. Last fall, it announced a partnership with the UK's Ocado to build three automated warehouses in the U.S.

"I think what they realized is, 'If we're going to be true to our mission, which is to put the customer first, then we have to meet the customer wherever they are,'" says Jay Jacobowitz, president and founder of Retail Insights®, a natural products industry consulting firm in Brattleboro, Vermont.

The goal is to enable customers to choose whether to buy an item in the store, on the web, through an app, have it delivered, or order it online for in-store pickup. Implementing that infrastructure comes with major challenges. "There is a logistical train wreck coming," Jacobowitz says. "If you try to satisfy click-and-pick and delivery, you have a new and different business model superimposed on your brick-and-mortar one."

Yet despite the challenges, Kroger has some advantages.

"Kroger has many millions of customer transactions a week," Jacobowitz says. "It has potentially the largest customer transaction database of anybody from a brick and mortar standpoint. What are the learnings from that? Processing that data and packaging it for sale to interested third parties is a data business. They've talked about that. They're freeing themselves up from just a straightforward retail grocery stream."

"I think that they are not going to throw the baby out with the bathwater," Jacobowitz says. "They're going to continue to have an omnichannel approach," selling in as many channels as possible—Kroger, natural markets, Amazon, third parties, wherever.

"The challenge is MAP [Minimum Advertised Price] adherence," Jacobowitz says. Amazon is facing the issue like everybody else. "The online model responds to the lowest price, and so that's the tendency. Manufacturers of VMS [vitamin, mineral and supplement] brands have to protect against being represented below a minimum advertised price. It's a huge, huge challenge."

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Jay Jacobowitz