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REVIEW & OUTLOOK

WHAT HAPPENED LAST YEAR. WHAT MAY HAPPEN THIS YEAR. WHAT YOU MIGHT—AND MIGHT NOT—DO IN 2022

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THE CONSUMER DRIVES ALL—INCLUDING PANIC BUYING

We must view 2021 through the eyes of the 2020 pandemic lockdowns. Many retailers—of food, clothing, electronics, and more—saw decreases in 2021 without the panic-driven hoarding that boosted 2020 sales. Because of this sales anomaly, many retailers preferred to compare their 2021 results to 2019, skipping over 2020. Fair enough. And you'd be right to make the same comparison. If your 2021 sales are on par with 2019, I believe you should feel good about that. If your sales are up, that's a great result.

The pandemic silver lining for our industry is this: people have begun thinking more seriously about how diet affects health. Many streamed into our stores looking for resilience, and the most basic health advice. What's a good multivitamin? How do I boost my immunity? In 2020, natural organic stores saw some customers return after years of absence; saw current customers double down on supplements and high quality food and, to a lesser extent, saw customers new to natural organic seeking an immunity insurance policy.

CONVENTIONAL SUPERMARKETS GET WELLNESS RELIGION

The pandemic affected conventional supermarkets as well. According to the Food Marketing Institute (FMI), in 2020, fewer than half (49%) of supermarket managements said they had wellness initiatives in place. As of 2021, FMI's survey revealed 84 percent did. That's a 70% increase. In response to sudden, urgent consumer demand, supermarket managements established wellness programs for both employees and customers. Cooking classes, healthy menu suggestions, store tours, self-care initiatives, mental and physical wellbeing benefits, and on-site medical clinics staffed with skilled nursing are all part of conventional supermarkets' new wellness package.

We estimate this massive, mainstream increase in wellness marketing is reaching 21 million conventional supermarket-shopping households—covering about 50 million adults and children—that hadn't previously considered, or been exposed to, natural organic concepts and products.

2022 PREDICTION NO. 1

Smart independent natural products retailers will recognize this once-in-a-generation opportunity, and will successfully market to reach the tens-of-millions of customers newly exposed to natural organic products in conventional supermarkets, to offer them a more tailored, personalized and relevant approach to natural organic products and the wellness lifestyle.

Non-essential businesses go out—landlords get nervous

As the lockdowns took effect in 2020, and employees exited the office en masse to work at home, many non-essential retailers that depended on this daily foot traffic closed their doors. Fortunately for independents, most or all of the states deemed natural organic retail stores essential businesses, allowing them to stay open.

In addition to independents maintaining business throughout 2020, by 2021, landlords began approaching with offers of adjacent and nearby expansion space, or separate locations newly available due to the pandemic-driven closures of non-essential businesses. Just one example: in the last year, Starbucks closed and relocated 500 existing stores to more advantageous sites with better economics.

Expansion and relocation present an opportunity—and a threat. It will be tempting for independents to jump on retail real estate opportunities that until recently have been unavailable, in some cases for decades. But this is the moment when the tailor's advice is relevant: measure twice, cut once.

2022 Prediction No. 2

As a result of pandemic-driven retail closures, many independent natural organic retailers will have once-in-a-lifetime opportunities to expand or relocate. Many will overpay for square footage; sign unfavorable leases; neglect to negotiate precise rates in the options periods, and take on too much space. But some will figure out how to measure these variables and avoid mistakes, setting themselves up for long-term market-share gains and a solid future.

Is there a limit to technology spending?

Artificial intelligence makes suggestions to shoppers for what products to buy next. Supermarkets' online apps maintain records of shoppers' previous purchases in a digital shopping list, offering menu suggestions with recipes that include new, related products. Wave your smart phone at the shelf and be directed to a brand's website for detailed product information. At checkout, wave it again and have your credit card—already on file—automatically charged so you can exit the store without any employee contact. Or sit home and have Walmart, soon to be followed by others, deliver your order via drone—that is, dropped from the sky—in 30 minutes. We could go on.

The race is on to fully facilitate delivery of products and services digitally, as consumer-products businesses chase Amazon and Walmart, trying to capture a portion of consumer spending before these two behemoths lock up market share, and lock them out. But there is a large gap between—let's call it the Big Two consumer-products companies—Amazon and Walmart, and everyone else. Managements of conventional supermarket chains with hundreds, or thousands, of stores, believe they must compete in the "omni-channel" space, or die. But even Kroger and Target, each with annual sales in the $100-billion range, are dwarfed by Walmart's $520-billion heft, and Amazon's *$1.8 trillion* stock market capitalization.

Kroger, Target, and some others may successfully walk the tightrope of digital investing while maintaining large, legacy brick-and-mortar infrastructure, unionized labor forces, and vanishingly small net profit margins of two percent (2%) or less. But the question of their ability to sustain investment in the continuously demanding digital-delivery universe remains unanswered

And let's remember: delivering *real* products—some of them needing refrigeration and freezers—over the "last mile" to people's homes is still unprofitable. Not Amazon, not Walmart, not any of the supermarket chains; nor are any of the third-party delivery services such as Door Dash, Instacart, or Uber Eats, profitable. Last-mile delivery will continue to be unprofitable, with only the largest, best-capitalized companies able to distract investors from this fact for a while longer.

In the 1980s and 1990s, as natural organic products gained wider distribution, we counseled independent retailers to not compete on price, making the point that unless you are the low-cost provider, you can't win a discount war against larger, deep-pocketed corporations that buy product much better than you. With the black hole of technology investment threatening the survival of even much larger retailers, independents with one, or a handful of stores, need to consider circling the investment wagons around analog delivery of services and face-to-face customer contact.

2022 Prediction No. 3

Smart independent natural organic retailers will limit their investment in the bottomless pit of technology, instead directing investment towards maintaining and enhancing the physical facility; increasing the skills and knowledge of their workforces; and rededicating themselves to diligently curating and meticulously merchandising a selection of only the highest quality products.

Bricks-and-mortar make a comeback

Did you think physical retail stores were dead? Think again. Bricks-and-mortar stores have two advantages over pure-play online brands: the cost of acquiring new customers, and the cost of delivering an order to shoppers' homes. Target, for example, estimates it costs 40% less to ship orders from its stores than from its warehouses.

Amazon continues to add physical stores, approaching 600, including more than 500 Whole Foods Markets. Dollar General and Dollar Tree, which are increasing their food offerings and adding refrigeration, have opened more than 1,500 stores combined. Many other food retailers have continued to open stores, including hard discounter Aldi, value retailer Trader Joe's, and natural organic chains Natural Grocers and Sprouts. For the first time since 2017, in 2021, retail store openings exceeded closings according to a survey of more than 900 retail chains by research firm IHL Group.

Over the last five years, as more brands vie for eyeballs online, the cost of acquiring new customers through advertising on Facebook and Google increased 50%, according to software maker ProfitWell. These costs are likely to increase as Apple and Google restrict the use of "cookies;" bits of computer code that record consumers' online activities and allow marketers to target their advertising.

Even native online brands are rethinking a bricks and mortar strategy. Untuckit LLC, which opened exclusively online in 2010, never intended to open physical stores. But potential customers kept emailing the company saying they wouldn't buy the shirts unless they could touch and try them on first. The company is approaching 100 stores, with plans for 150 in the near future.

As reported in the Wall Street Journal, Untuckit CEO Chris Riccobono says his view of bricks-and-mortar has evolved: "We don't look at the stores and e-commerce as separate. Bricks-and-mortar is an extension of our online business. We get a bump online within a 10-mile radius of each store we open. Stores are like an inexpensive billboard."

2022 Prediction No. 4

Brick and mortar store counts will continue to increase, including food retailers, but with smaller footprints than the traditional 40,000 to 80,000 square feet of conventional supermarkets. Hybrid spaces will serve both retail shoppers and non-retail space designed for efficiently fulfilling pickup, delivery, and shipping. **JJ**

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