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LOOKING BACK AND AHEAD: 2022 REVIEW, 2023 OUTLOOK

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Trends and Predictions

What forces in 2022 will continue in 2023, and which ones will change? Here's my best guess on a few.

Staffing: The massive, late-2022 tech-industry layoffs of tens of thousands of workers will increase the size of the available U.S. workforce. At least some of these newly unemployed will seek jobs in the real world, including food retailing. And those that do will gravitate towards higher-quality stores, like independent natural products retailers focused on wellness, where they can more easily find a sense of purpose. Even if a former tech worker doesn't want to get their fingernails dirty, other non-tech jobseekers competing for employment will have to consider real-world work, and organic food is a relatively attractive option.

Local: The supply chain disruptions in 2022 will continue to ease in 2023. Independents that pivoted to develop stronger relationships with local growers, ranchers, and producers were less dependent for supply on the national brands and on the large wholesalers. Emphasizing your local bona fides and highlighting the many benefits of supporting the local community will continue to resonate with your customers. These include ownership of your store supporting the local economy.

Make "local" a regular part of your conversations with customers. Have prominent, consistent messaging around local throughout your store. Ask your customers about their local buying habits. Everyone *says* they support local but engaging shoppers in this conversation will cause them to align their stated "beliefs" about buying local with their actual buying "behavior." Remaining unaligned will trigger a phenomenon known as "cognitive dissonance," which is psychologically unsustainable.

Bulk is back. One of the silver linings of food inflation is the relative affordability of bulk foods. Create menus using multiple items from your bulk bins. Offer simple, quick recipes—beans and rice—that extend shoppers' food dollars. They'll thank you. Also, bulk is a point of differentiation for you compared to most other food competitors.

Deli, salad and hot bars are back. Fears of contamination have faded, and shoppers are once again self-serving soup, salad, and entrees. In-store prepared foods programs are also more competitive with restaurant pricing now, as menu prices have increased for dining in, and delivery fees have dampened restaurant take-out demand.

Wellness is evergreen. As the economy sputters from higher interest rates, inflation, and corporate downsizings, households concerned for their future will ask your advice and seek resilience in your supplements department. Make your messaging about "An ounce of prevention is worth more than a pound of cure."

Bricks and mortar endure. Increased shopper traffic and yearly growth have shifted back to bricks and mortar stores from the internet. Lockdown fatigue and Covid fears have given way to the need for social, the desire to touch and feel, and to see and be seen. A wise investment in 2023 is in your physical space. Make it beautiful and they will come.

Authenticity is a differentiator: Resisting digitization and automation such as "click-and-collect," "Just Walk Out" no-touch checkout, and third-party delivery of your products to customers may be smart long-term strategy. Unless you are the largest, like Amazon and Walmart, adopting these technologies will increase your costs and threaten your bottom line. All for questionable

benefit. Remaining exceptional and being unafraid to be different are a better bet on the future. As one retailer put it, “We aren’t afraid of Whole Foods [Markets] anymore. Their authenticity is declining. People want a real, ideal store, with better product standards, and real people who can engage with them authentically.” I couldn’t have said it better myself.

Retailers Sum Up 2022, Foresee 2023

Around the country, natural organic retailers remain optimistic and ready to adapt to the challenges of the last several years. Here are recent comments from some of my independent friends.

New England Retailer: “What will happen in 2023 is the million-dollar question. This year [2022] has been full of surprises that were unpredictable. The predictions we did make did not pan out, so I am hesitant to attempt to predict 2023.

“We plan to figure out how to tighten expenses and increase efficiency. We will continue to promote the local community, local products, and shopping in person. New customer acquisition has changed a lot in the last several years. The population here has turned over more than in the past. We have lost dozens of long-time customers who have moved away, and new residents haven’t found us yet. That loss of a reliable customer stream has us not expecting stability; economically, politically, or environmentally. So, we are asking ourselves, how do you increase stability, resilience, responsiveness in an unstable world? Are we in a recession, or are we heading there?

“Our local economy is tech-heavy, and we are local-income dependent. During the last recession [2009-2011] we saw an increase in customers concerned about losing their jobs coming in to preemptively take care of their health. So, we may see an uptick in customers now as the tech employment situation is unpredictable.

“We are also still dealing with inflation, so we are emphasizing our private label as an affordable option. We are increasing our education and training of staff to ensure that their customer interactions have an impact [on sales].”

Mid-Atlantic Retailer I: “INFRA [the Independent Natural Food Retailer Association] has helped benchmark retail rents, and we plan to negotiate a lower rate. I may be the only one to say this, but we are fortunate to be in a center with a Trader Joe’s. When they opened, we had an immediate 25% increase in traffic in the shopping center. Any existing customers we lost were more than made up for by new customers brought in by Trader Joe’s. It would have been totally different had Trader Joe’s located a quarter mile away.

“Inflation is scary, and I’ve never been more scared for my customers, when you see a \$3.99 item increase to \$5.49. And freight is so high. We used to pay [a premium bulk supplier] \$300 for a [less-than-load, LTL] pallet and now it is \$800, and \$1,200 for a refrigerated pallet. One of our main wholesalers has a \$75 fuel surcharge, while our other main wholesaler is charging \$25. So, we’ve decreased our orders to once a week from two times per week because I don’t want to pay \$75 for each order. It appears they are making it a profit center.

“But with this inflation, who is going to stop shopping at Trader Joe’s? No one. They all want to continue to save money. With us being a medium-size store along with Trader Joe’s, shoppers come to us for our emphasis on local farmers, for our bulk, and our big deli department. Also, we’re a good-looking store, so we’re a destination. Our salad bar and deli are doing well, with the deli and produce departments having the biggest increases in sales.

“Our goals for 2023 include figuring out if we can add more deli. We are looking to reconfigure our space. Our mission statement has dramatically changed from when we first opened. The mission now includes ‘local’ as a key focus along with our traditional ‘wellness’ focus. We really work the local angle in a genuine way. We have a large variety of farmers we work with, including four

different tomato suppliers, for example. Farmers like getting full price at farmer's markets and in their CSAs [community supported agriculture buying clubs], so you have to find your niche. What we've done is allow once-a-week CSA pickups in front of our store. They can even set up their own farm stand in the parking lot. It has really blossomed. For Thanksgiving, we had local fresh turkeys.

"It's exciting to be part of the industry now, although I miss the personal relationships we had with suppliers when the industry was younger. If you don't have a good distributor representative that regularly calls on the store, when there's a problem, you can't contact your supplier's transportation or turnover departments directly, for example. I don't like that."

Southern Retailer: "We have been talking about next year's strategies for a while now because we know that with inflation and rising gas prices, shopping patterns have changed quite dramatically and will continue to do so. We can tell when people are between paychecks, often doing better on those Fridays when people are paid. With this inflation, it's just a more dramatic expression of this long-time truth. Also, we have better days on our existing sales promotion days, when customers can save even more off our everyday discounted prices on supplements. We have even had many customers call to ask when the next sale is, or just trying to get as much off as possible for the purchases they are making.

"With all this in mind, we plan to up our sales game in 2023. Even though we are a discount store, we need to be seen as a place where people can purchase quality products from informed sales staff at good prices. In today's mix of things, that means having that sale or coupon that gives just that little bit extra that helps make people feel better about their purchases or makes it possible for them to purchase products.

"In 2023, we plan to have a special sale day almost every week of the month. We will continue to emphasize our store app [online digital link to store website] and email sign-ups to help us communicate these sales to our customers. The app has a 'SHOP' button which links directly to our Shopify [a third-party, customizable e-commerce website platform] mobile-friendly website. We have a 'DEALS' tab where we put special sales and coupons. Other tabs include our blog, videos, podcasts; basically, everything they may want or need to know about our store.

"When we first launched our mobile application, we did it to replace the coupons we were mailing to customers, cutting down on expenses when we went digital. That set us up well to eventually start offering our products online as well. The program we found [Shopify] after much searching allows us to sell online and can also handle our point-of-sale needs. We couldn't afford to run the online store as a separate business with its own inventory.

"When I think about how much I have put together for our online presence—and I am the only one working on that presence—I realize why I have these anxiety issues of my own. At least I know the boss—my husband—won't give me a hard time!"

Northwest Retailer: "Our competition during Covid was the online and delivery businesses, and I think that is continuing, affecting our customer count, which is down almost 20% from pre-pandemic levels. Basket size has increased this fall to higher than pre-pandemic levels, which is encouraging and shows that customers are interested in what we have. We just need more customers. I think many people need more time to transition from the fear of Covid and that 2023 will show more people out and about in the real world.

"Additional competition is that many of our products are available in mainstream stores. An Amazon Fresh store opened near one of our locations. Our manager says it's not busy when she goes in to 'check it out.' She also says how convenient it is because it takes so little time to shop. She is probably our classic customer, one who shops at several stores, and now Amazon Fresh. Our deli and produce continue to be ways to draw our customers in, so we need to focus on that.

"Our 2023 goals are definitely due to changes over the last three years with our employees, customers and the competition. We want to increase sales by increasing our customer base, and by

reevaluating budgets and cash flow. We have quite a few new buyers who need ongoing training, as well as long-time buyers who need a refresh training. Short staffing has caused stress and lack of energy within our core group, who tell me they have found it ‘difficult to work at the top of our game,’ and need motivation.

“We are working to increase our social media presence and use it as a way to draw customers into our stores. Our deli is a draw as always and sales in that department are increasing, so I want to use the deli as a marketing tool. Our category managers need to focus on getting really good promotions to draw customers in.

“We have an ‘all hands on deck’ call out for our entire team. Buyers receive additional training and support by managers and directors, including analyzing each department’s budget and managing cash flow. We have customer service refresh trainings to get back to engaging the customer rather than the ‘show them the product and leave’ system that developed during Covid. ‘All hands on deck’ includes using the versatility of many employees even more than usual to get the most efficient work out of everyone and keep labor as low as possible.

“We are updating our human resource policies and procedures to adapt to staffing issues and the way employees think about their jobs while still maintaining the expectations that our business requires of our staff. We are providing as many ‘small wins’ for employees as we can, such as adjusting an aspect of our dress code employees recently requested, handing out ‘thank you’ notes for jobs well done that can lead to a gift card reward, and potluck lunches to share recipes.

“Job applicants are asking—demanding, really—more and more from employers. As a small business, many of their requests are difficult for us and we have to juggle what we can do. Employees want Amazon-level wages. Soon after hiring, new employees inform us of schedule changes they *must* have. Respectful communication is happening less in the workplace. Employees have a tendency to not follow rules they don’t like. People quit jobs easily, often with no notice. Managers are wary about enforcing policies and protocols because they are afraid the employee will quit, which creates a vicious circle.

“We are revising and clarifying policies and procedures to help the directors and managers as well as front-line employees. Interviewing, hiring, current employees applying for in-store positions, reviews—all need to be updated so there is more clarity and easier decision-making. I am meeting with each director and manager to discuss, support and establish updated procedures. We are working hard at keeping communication lines open with employees; making rounds, checking in with individuals, and following up with memos.”

Northeast Retailer: “Looking back on 2022, it was a challenging year for us. Our ‘baby’ store, just one year old, did really well. But our other two stores had challenges, from global issues like inflation, to pricing, staffing, management, and product supply particularly during the first half of the year. Stepping back and viewing our society, it was a hard year. Humans are slightly altered in a negative way from the pandemic, and it’s hard to recover from that, both staff and customers.

“In the larger picture, we are struggling to identify and communicate who we really are. We’ve hired an agency to help us with that. Up until now, 80% of our marketing messaging has been about price, and you can never win on price. So, we need a new direction. We are focusing on loyalty, but our current point-of-sale system is [expletive], and we are divorcing. It’s okay at the cash registers, but not its loyalty function, and its online store is garbage.

“We’ve gone with a Business Intelligence (BI) provider that will move our database away from the point-of-sale system. We will have centralized control of loyalty, customer data, marketing, category management, all so we can make truly robust, personalized offers to our customers. It’s been a huge, one-year effort for us.

“Now we are deep into 2023 planning. Starting a few years ago, we adopted a serious approach to planning. Our CFO (chief financial officer) has documented everything, all costs and expenses,

hours worked, and budgeted for the next year. Managers are now responsible for their direct department expenses. The general manager, finance manager, marketing manager, operations manager, all have their own budget responsibilities. ‘You need to plan for the year, what you will need and spend, instead of “run-and-gun,” “I need this.”’ Things like broken equipment, staff shortages, are predictable based on past experience, so we say, ‘You should know better.’

“We are laser focused on customer counts and basket size; we live and breathe by them. It’s a week-to-week game in retail. General managers know this now and are generally running our company better and better. But we had a [expletive] year on expenses for labor and the cost of food, so we’re really looking to control for that better in 2023.”

Mid-Atlantic Retailer II: “Our goals for 2023 are: 1. Continue to implement the last four months of 2022 goals for better efficiency, reducing labor expenses, especially in kitchen and bakery, use more quality outside-vendor prepared food and less made in-house kitchen products. 2. Technology: Continue to focus on better, quicker updating of product pricing and other systems with a commitment to designate a key core staff person exclusively focused on technology for this goal. 3. Reposition a small amount of in-store real estate for outside vendors for departments including specialty prepared foods, gifts, and floral.

“To address competition and customers in 2023, we will continue to sharpen our advantages as a small store; the interior shopping experience, and staffing advantages we have vs. large, corporate grocers. Healthy food choices are declining, and we will compete by promoting ours. We will also provide a more educational experience and manifest a stronger connection to the customer and community. We plan to promote the message that spending on healthy foods is the most important thing a person can do in caring for themselves.”

Mid-Atlantic Retailer III: “We just posted a record week of sales with all stores outperforming last year, plus our new store which opened on October 31st. Our average unit product cost is up 7.3% over last year, a reflection of inflation. I expect that price increases will level off in the coming year. Our strategy has been to minimize price increases across the board, especially on the top 10% of our skus (stock-keeping units), and to tighten our margins to mitigate inflation.

“We experienced a 7% increase in customers last week, not including the new store, which is a very good sign. Looking back on 2022, 2021 and 2020, we have shown a 50% increase in sales. We will continue to execute our EDLP [everyday low pricing] strategy, which in most cases makes us not only competitive but lower in price than Wegman’s, our principal competitor. I am also placing more emphasis on improving our supply chain of local producers. Our emphasis on local supply during the early days of Covid meant we had ample inventory on key perishable items when the conventional grocery world did not.

“Unlike our competitors, we will not move to self-checkout counters and will continue to devote monies to hire customer service reps at our front end. One of our locations realized sales of \$250,000 last week with most transactions going through three registers. Personal service will continue to be one of our commitments. We claim to be a community market and that is what we strive to be.”

Carry On!

Independent natural organic retailers continue to have the opportunity to serve their communities in unique and valuable ways. Go forward in 2023 and prosper! JJ