

Does the Corridor have too many niche grocers?

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Shoppers line up as Trader Joe's opens for the first day of business in Coralville on Friday, October 6, 2017. (Cliff Jette/The Gazette)

By Steve Gravelle, correspondent

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Once dismissed as naive idealists, supporters of fresh, organic, local food might feel vindicated these days as the big grocery chains take up the cause. Or they may feel a bit tested in a tight-margin industry.

"It's a challenge when you see new operators enter your market, but we're adapting to that," said Matt Hartz, general manager of Iowa City-based New Pioneer Food Co-op. "We saw this competition coming years ago."

Competition for what had been NewPi's niche was cited by cooperative treasurer Calvin Norris in his Dec. 1 report of a \$272,246 operating loss in fiscal 2017. The co-op's operating profit wasn't sufficient to service debt on such recent capital projects as its Cedar Rapids store and a new bakery and kitchen in North Liberty that supplies all three of its stores.

The Cedar Rapids store itself, opened in December 2014, performs well, Hartz said.

“We’re very happy,” said Hartz. “That community has been good for the co-op and we’re continuing to grow there.”

Norris noted retail grocery square footage in Johnson County increased 43 percent since 2013, a period when the county’s population increased by just under eight percent.

“That’s an astonishing number,” said C.E. Pugh, chief operating officer of Iowa City-based National Co+op Grocers, a buying group for 146 local co-ops in 38 states. “There’s going to be a shakeout. All of the new players aren’t going to be here, and NewPi, like cooperatives across the country, is continuing to do what it does best.”

“The market has been saturated with a lot of new players that are providing organic produce,” said Peggy Stover, a professor specializing in marketing at the University of Iowa’s Tippie College of Business.

Rapid growth

Stover also is a co-owner of Annex Analytics, a data analytics and research business based in Cedar Rapids.

Organic food remains a niche, accounting for just five percent of total nationwide food sales in 2016 according to the Organic Trade Association.

But it’s growing more rapidly than overall grocery sales, and in 2015, almost 75 percent of consumers said they “sometimes or usually” look for organic/fresh/local products while shopping, according to the food research firm Hartman Group.

“Johnson County has been a far more dynamic market than Cedar Rapids as far as these new operators,” Hartz said. “Everyone is affecting everyone else.”

New competition for Corridor shoppers that has come, and in one case gone, in recent years includes:

I National chain Trader Joe’s, which opened a Coralville store in September.

I Lucky’s Market opened at Iowa City Marketplace in summer 2015. The Colorado-based chain emphasizes natural foods.

I Fresh Market came to Cedar Rapids in October 2014 and left barely a year and half later, in May 2016. The local closing was one of 13 venues closed by the North Carolina-based chain.

“Fresh Market is near collapse and has sold out to a private equity group — to be milked and I would guess taken into bankruptcy,” Wisconsin-based industry analyst David Livingston wrote in an email.

“The market is reaching a point where it’s oversaturated,” Tippie’s Stover said. “In addition to the new markets, you have your traditional outlets who have really stepped up their game providing fresh produce.”

In April 2016, the Cincinnati-based Kroger chain announced it was taking an undisclosed but “significant” stake in Lucky’s. With more than \$1 billion in annual sales, Kroger claims to be the nation’s largest seller of organic and natural foods through such in-store brands as Simple Truth.

Meanwhile, traditional Midwestern chain Hy-Vee is remodeling stores, emphasizing fresh/local produce and tweaking its prepared-food offerings. German discount grocer Aldi’s also continues to remodel and expand its stores.

The Hy-Vee Homegrown program works with 250 growers in the chain’s eight-state region to supply stores where offerings are labeled “so Hy-Vee customers know exactly where their food comes from,” company spokeswoman Tina Potthoff wrote in an email. “The program allows our customers to get fresh, locally sourced produce while supporting local vendors.”

Pugh doesn’t expect Hy-Vee’s organic/local emphasis to be a long-term priority.

“As all this new competition has come in, Hy-Vee has not taken that lying down,” Pugh said. “They have gotten aggressive, but that’s not going to last forever.”

Hy-Vee continues to tweak its effort to chase another long-term trend — busier consumers — with changes announced in November. The Market Grilles at five Corridor locations are or will be converted to Market Grille Express, where customers order and pay at a central station, then dine in a “casual, self-service atmosphere” with a full-service bar.

The change “allows customers to have a more convenient and quick eating experience if they are on the go,” Potthoff wrote.

Hy-Vee announced in August it would build and operate 26 outlets in the Wahlburgers restaurant chain founded by Paul Wahlberg and his actor brothers Mark and Donnie. The first three locations will be in West Des Moines, Minneapolis and Kansas City, according to Potthoff; the fourth location has yet to be announced.

With 17 locations in Cedar Rapids, Marion, and Iowa City, Hy-Vee dominates the Corridor’s grocery market.

“If there are conventional competitors near a Hy-Vee, it’s only because Hy-Vee is allowing it to happen,” Livingston wrote. “They can decide at any moment to crush anything that would impact them beyond a tolerable level.”

Where does that leave another Iowa institution, Fareway Foods?

“Fareway has done a great job in competing on price, and of also bringing back some of the things baby boomers and Gen-Xers will remember, such as bringing your groceries out to your car,” said Stover. “They have a very strong distribution system and very strong controls of their other expenses — that’s always been that way.”

Officials at Boone-based Fareway, with seven stores in the Corridor, from Iowa City to Hiawatha, didn’t return calls seeking comment.

Meal kits

A trend on either coast yet to surface in Iowa — meal kits — may turn up here, Stover said. The kits include pre-measured ingredients ready to cook at home.

“These meal kits kind of give you the feeling of scratch cooking without having to take all that time,” Stover said. “It would not surprise me if they ended up piloting this program or something like it.”

A Hy-Vee official said the grocery chain has sold meal replacement kits for some time.

And in another bid to serve customers pressed for time, Hy-Vee has added catering, bakery items, floral arrangements and gifts to its Aisles Online home-delivery service. The chain plans to open new fulfillment centers to meet expected demand for home delivery, according to Potthoff.

Home delivery is free with an order of \$100 or more. If the order is less than that, then there is a small fee.

That could position Hy-Vee to respond to one of the industry’s biggest changes, the purchase of Whole Foods by e-commerce giant Amazon — “a real game-changer,” according to Stover.

Stover expects Amazon to reduce Whole Foods’ prices, expand the chain’s geographic reach and increase home delivery and curbside pickup options. Home delivery could even use drones, Stover said.

“If the Amazon-Whole Foods marriage works out, I can see some of the smaller grocery chains (especially organic chains) either merging with others, being acquired by bigger players, or just going out of business if they can’t stay competitive,” Stover wrote in an email.

‘Serving our mission’

Despite the deep-pocket competitors, NewPi’s future will build on longtime relationships with customers, members and local suppliers, Hartz said.

“We’re more focused on serving our mission than on getting large market share,” Hartz said. “Most of our suppliers we’ve had long-standing relationships with, so they take care of us and we try to take care of them. We want to see money spent locally.”

Pugh noted most cooperative customers are member-owners — it’s a one-time \$60 fee at NewPi.

“Their customers are very loyal as a result of that ownership, so that’s helpful,” he said. “That provides a foundation that permits them to weather this type of storm.”