



Retailers grow share with organic, clean label store brands

[Julie Gallagher](#)

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Food retailers are democratizing organic and “clean label” foods with a growing array of aggressively priced private labels.

H-E-B recently debuted the H-E-B Select line that excludes 200 synthetic ingredients. It will add 350 such items to its mix.

Earlier this year, Topco, Elk Grove Village, Ill., made available for distribution through its 40 retailer member-companies, more than 800 rebranded Full Circle Market organic and “best of nature” products.

Then there is the blockbuster success of the Kroger Co.’s Simple Truth natural and organic line, which at \$1.5 billion in sales is the nation’s largest natural and organic brand, according to Jon Hauptman, senior director of Barrington, Ill.-based Willard Bishop, an Inmar analytics company.

With its premium but affordable line, Kroger is converting mainstream shoppers to consumers of natural and organic foods, said J. Michael Schlotman, Kroger’s CFO and EVP, during a recent earnings call.

“We continue to be thrilled with Simple Truth. It continues to grow as a brand,” he said. “More and more households continue to enter into the category and stay in the category. Our corporate brand folks continue to do a great job of expanding the category with incremental products in the category as well. It’s really the cornerstone of our natural and organics program.”

Natural and organic items comprise a little over 10% of Kroger’s business, according to CEO Rodney McMullen.

Organic store brands skyrocket

Sales of organic private labels in conventional multi-outlet retailers were up by double-digits during the 52 weeks ending Sept. 4.

Category*	Dollar sales**	Dollar sales % change vs. year ago
Frozen	\$297.4M	23.5%
Grocery	\$1.0B	26.0%
Produce – packaged	\$1.0B	15.4%
Refrigerated	\$1.1B	10.3%

*items with at least 70% organic content

**sales in grocery stores with \$2 million plus ACV, chain and independent drug retailers, mass merchandiser outlets including census Walmart, BJ's, Sam's Club, Dollar General, Family Dollar, Fred's Chains and census military.

Source: SPINS

Healthy perception

Products that have been certified organic or bear an otherwise clean label play to what Laurie Demeritt, CEO of The Hartman Group, Bellevue, Wash., classifies as the most significant trend or platform in food retail today.

“It’s really around this idea that consumers believe that products that are more real, more fresh and less processed are probably better quality, healthier and even better tasting,” she told SN. “So if you think about this umbrella of sort of fresh, real, less- processed being the big push behind all of these trends, I think that really manifested itself for many years in things like organic and more recently in things like clean labels.”

Demeritt, who strongly advises marketers to steer clear of “natural” claims given consumer skepticism, explained that Americans increasingly perceive products with clearer, shorter labels that do not contain mysterious words that they perceive to be chemicals as better for them.

“They can imagine them being grown in the ground somewhere, for example, and that’s an indicator that they will be better tasting, higher quality and a product that is probably better for them from a health perspective,” she said.

Such choices are a perfect fit for private label lines, added Demeritt, since they offer an even less expensive alternative to store brand organics.

“There is a real need for a more palatable price point for folks who want to bring these products into their homes,” she said. “It’s not just something that is being pursued by the high income, high education consumer who has a lot of discretionary income.”



Retailers are cognizant of the demand and increasingly adding to their natural and organic private label mix. In fact, more than half of retailers (56%) polled in August for SN’s Survey of [Center Store](#) performance indicated that they plan to add to/update their natural/organic private label offerings in the next 12 months.

Lakeland, Fla.-based Publix Super Markets is among those expanding its offering.

“We continue to grow our private label natural and organic line of products, [called] GreenWise,” said spokeswoman Maria Brous. “Our customers enjoy the selection of products and have an affinity towards produce, dairy and [meat](#) GreenWise products. While a lot of the [new product] growth is focused on the consumer packaged goods line, we continue to evaluate growth for our fresh products as well.”

Such offerings not only offer a win for consumers but are a good play for retailers in terms of increasing share, Hauptman said.

“All retailers are looking for ways to grow, not only by taking share from traditional grocers but by better serving shopper needs and in turn taking share from non-traditional folks like

Whole Foods and Trader Joe's and other natural and organic stores," he said.

Private labels are also poised to gain share, especially given the agility with which they can pass along lower retail prices in the face of commodity price deflation. Such is the case at Kroger, said McMullen.

"We find it always an advantage from a competitive standpoint because if national brands do something that's non-economic, our corporate brands pick up share," he said. "So we find them — our customers love them and they vote by buying a lot of them. We also find that it's a way of keeping the market honest. We certainly would have an advantage in terms of understanding the true economic cost to produce something, and retail pricing would be based on that true economic cost."

Moving away from 'natural'

Topco's retailer members, which leverage economies of scale and other resources by going to market as a "virtual national chain," are aggressively pricing the recently-revamped Full Circle Market line. About eight in 10 products in the line are organic with the remainder being better for you products that call out positive attributes, such as "gluten-free," "no artificial flavors or colors" and "no preservatives," as opposed to making a "natural" claim.

"About 18 months or so ago as the word 'natural' became more litigious and there was a lot of shopper questions about what natural was, we started our shopper-centric, data-driven approach to understand what shoppers who are looking for organic and best of nature products — what was really important to them," said Linda Severin, VP of [marketing](#) for Topco. "We found what was really important to them was understanding what the positive attributes in the products were."

In the past 12 months about 125 new items have been introduced to the line that spans store categories including meat, seafood, coffee, refrigerated juice, produce and smoothies. Among the new items that Topco is seeing "good volumes and pulls on," according to Chris Hooks, Topco's SVP of center and fresh departments, are salty snacks made with kale, sweet potatoes or other root vegetables in flavors like Hatch Chiles and Sweet Jalapeno.



Products like these are not just a hit with shoppers who continually seek clean labels, but also those who are new to the movement and may grow to trust their retailer's curated selection.

“Retailers that are aggressively pricing, whether it's organics or better for you products, are discovering that consumers that they wouldn't even think would be willing to pay a little extra, are paying extra,” Hooks told SN. “I think the days of ‘I'm going to price this 15%, 20%, 30% more than commodity items’ is shifting and we're seeing a number of members getting aggressive. They wouldn't price them at parity with a commodity item but it's not uncommon to see less than 10% spreads in pricing and it's translating into a new consumer base.”

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