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BUSINESS

Natural Grocers Shrug Off Amazon-Whole Foods Threat

Natural and organic markets worried Amazon's Whole Foods acquisition would hurt sales but many are actually ringing up increases

By [Heather Haddon](#) [Follow](#)

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A year after Amazon.com bought Whole Foods, sales are up at Natural Grocers by Vitamin Cottage. Shown, a Natural Grocers store opening in Richardson, Texas. PHOTO: NATURAL GROCERS

When Amazon.com Inc. **AMZN 2.39% ▲** bought Whole Foods last year, Kemper Isely worried about how his regional health-food chain would compete with the e-commerce giant.

A year later, the chief executive of Natural Grocers **NGVC 0.93% ▲** by Vitamin Cottage Inc. is sleeping better. Sales are up, shares have nearly doubled since January and the Colorado-based company is expanding its network of 147 stores.

Executives at many natural and specialty chains who expected Whole Foods under Amazon ownership to hurt their businesses have seen growth instead.

One year after Amazon's \$13.7 billion takeover of the natural-foods pioneer closed on Aug. 28, sales at Sprouts Farmers Market Inc., SFM **-0.91%** ▼ Natural Grocers and hundreds of other health-food stores are up in dollar and unit terms from a year ago, according to retail-data firm Spins.

"Our growth rate has doubled since the Amazon transaction," said Nicholas Green, co-founder and chief executive of Thrive Market, a natural and organic online grocery site.

Some natural grocers lowered prices after Amazon slashed the price of staples such as organic produce. Some said they have always kept their prices a notch below those at Whole Foods.

"We've been hyper-focused on price," said Ben Friedland, vice president of marketing at Lucky's Market, a 31-store natural-food chain based in Colorado. Kroger Co. invested in Lucky's in 2016 to expand its health-food reach.

Mr. Friedland, who previously worked for Whole Foods, said the Amazon deal spurred Lucky's to speed up its rollout of online ordering, and sales haven't suffered.

Some natural grocers said they have attracted new customers in the past year because of better service and more local products. At the same time, they said, Whole Foods stores have become more mainstream.

"After they put their blue signs all over everything and started selling Amazon Echos, it really kicked in that this is no longer this specialty, healthy chain," said Tony Antoci, chief executive of California's Erewhon Market, where same-store sales are up more than 20% from a year ago.



Same-store sales are up more than 20% compared with a year ago for Erewhon Organic Grocer and Cafe in Santa Monica, Calif. PHOTO: CARLOS R. HERNANDEZ/EREWHON ORGANIC GROCER AND CAFE

Lucky's recently hired a manager to help in recruiting local brands. Thrive Market is signing more deals with suppliers to sell their products exclusively. Some of those food makers were unhappy that Whole Foods centralized purchasing and raised supplier fees, Mr. Green said.

Jimmy Stewart, co-owner of Stewart Brothers Inc., an Oregon-based juice company, has lost shelf space recently to bigger brands at Whole Foods and is sending more juice to independent natural grocers and conventional chains instead.

"They left us in the dust," said Mr. Stewart, whose family company has sold products at Whole Foods for 20 years.

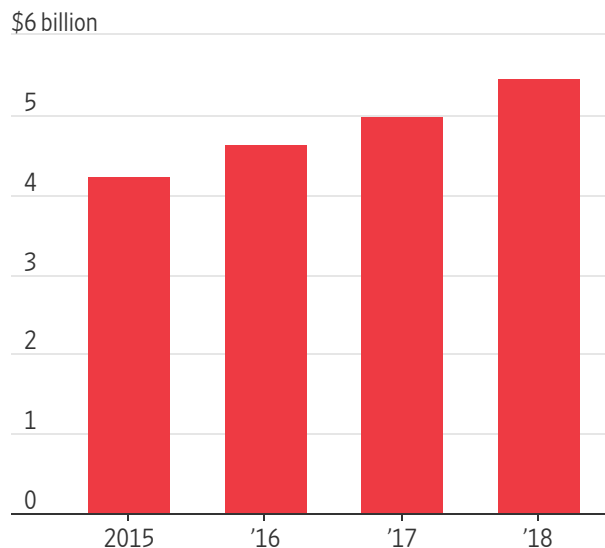
Spokeswomen for Amazon and Whole Foods declined to comment.

Whole Foods rivals have had to sacrifice margins to keep up on pricing, staffing and convenience. Some have used savings from federal tax cuts to fund the effort. Analysts remain concerned about how they will continue to fund the efforts.

"We have been and remain cautious on the bottom-line uncertainty within food retail given ever-increasing competition," said Vincent Sinisi, Morgan Stanley equity-research analyst.

Healthy Sales

Natural grocers have seen higher sales in recent years.



Note: Data for first 28 weeks of each year

Source: Spins

Foot traffic at Whole Foods stores was up 8% in June and July compared with those months last year, before Amazon took over, according to data firm inMarket. Amazon reported \$4.3 billion in physical-store sales during its latest quarter, mostly at Whole Foods. That was up from the \$3.7 billion in sales for the same period last year when the chain was a stand-alone company.

Amazon has added discounts and delivery at Whole Foods stores for Prime members. A pricing study by Morgan Stanley earlier this month found the price for a basket of items

at Whole Foods was the second-lowest since the survey began in 2014.

Some shoppers say they don't like the new feel at Whole Foods. "Except for an occasional sale on tomatoes and avocados, so far there's hardly a positive," said Vik Puri, a 56-year-old nonprofit founder who switched from shopping at Whole Foods to Seattle Metropolitan Market, a local chain.

Some believe Whole Foods is stocking more conventional brands in products such as cereal and beer and displaying them more prominently.

Whole Foods executives have previously said that its centralization push is helping the chain become more efficient and promote products better, and the company still works with local suppliers in getting their goods on shelves.

Grocery shares plunged last summer after Amazon said in June that it would buy Whole Foods. Stocks for six large food retailers including Kroger and Walmart Inc., lost around \$12 billion in value. Some investors saw an opportunity.

"There is a world where retailers and manufacturers can co-exist with Amazon," said Jacob Gamerman, senior research analyst for Neuberger Berman Group LLC, the asset-management firm that took an activist position in Whole Foods

last year. One of the firm's funds built up a stake in Kroger after the Amazon-Whole Foods deal was announced.

A year later, Kroger's shares are up around 20%. Sprouts shares are up roughly 20%, and Natural Grocers shares have climbed by around two-thirds.

Many analysts said prospects are uncertain for grocers competing with Amazon and deep discounters. Since the Whole Foods deal, grocery executives mentioned the chain twice as often on average during earnings calls compared with calls in the months before, financial data firm Sentieo Inc. found.

Trader Joe's and Aldi, fast-growing chains that sell natural and organic goods at a discount, have posted strong sales growth since the deal, according to an analysis of anonymized consumer credit- and debit-card transactions by data firm Second Measure.

Tony Olson, chief executive of the Spins research firm, said that health-food stores that innovate will remain competitive, but the sector will continue to face challenges, given that many players are smaller and face rising costs.

"We will have the same worries," said Natural Grocers' Mr. Isely, who estimated that 60% of his company's stores were near a Whole Foods location.

Write to Heather Haddon at heather.haddon@wsj.com

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