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Organic Outreach

With deep roots in the natural and organic market, Wild Oats Markets broadens its store brand reach as new players plant seeds.

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Cover Story WILD OATS MARKETS

BY JILL RIVKIN



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Having already established roots in the natural and organic market, Wild Oats Markets broadens its store brand reach as new players plant seeds.

The retail industry is changing, some would say at a considerably faster pace than in decades prior. The supercenter concept has planted strong roots in consumers' minds and the specialty, niche players have lured consumers with a sense of adventure, only to challenge traditional grocery stores in new ways.

"There are lots of changes taking place in the retail industry. We see the growth of the specialty retailer at one end — this space occupied by Wild Oats, Whole Foods, Trader Joe's. On the other hand, you have Wal-Mart obviously building its business and looking for ways to grow. And in the middle you have the world of conventional grocery retail, which is getting squeezed on both ends as customers start to believe they don't need to get everything at one store," says Laura Coblenz, vice president of marketing at Wild Oats Markets Inc., Boulder, Colo.

To Coblenz's point, much of the shift in the retail industry is happening to the detriment of traditional supermarkets that are now focused, more than ever, on again changing the retail landscape as they tweak their images to meet evolving consumer demands. Traditional grocers are building new formats, expanding their scope and often adding specialty items such as natural and organic products. Some of the leading retailers have made a mark already: Rochester,

N.Y.-based Wegmans gets accolades for customer service, attention to detail and strong store brands; Pittsburgh's Giant Eagle boasts a reputation for great perishables and solid store brands; and San Antonio's H-E-B is always at the center of conversations on differentiating with private label and meeting the needs of its consumer base.

Earlier this year, Safeway launched its O brand from its Pleasanton, Calif., headquarters and pushed it aggressively through stores nationwide as a very visible private label organics program set to ride the momentum of the recent healthy eating trend. Target Corp., Minneapolis, just announced plans to offer organics in its Archer Farms store brand, and Bentonville, Ark.-based Wal-Mart Stores Inc. got the industry aflutter recently when it announced intentions to step up its organics program, too, because even

Wal-Mart can only rest on its supercenter laurels for so long — growth needs to happen organically, so to speak.

A Natural Path

According to *The Natural Foods Merchandiser*, the natural products industry is approximately \$44.5 billion, a number that is expected to grow at a compound annual growth rate of 10 percent over the next five years. And the *Nutrition Business Journal* reports organic sales in the United States more

than doubled in the past five years, having grown from \$6.1 billion in 2000 to nearly \$14 billion in 2005.

Mainstream retailers have noticed this trend and are focusing more heavily on incorporating natural and



organic products in their assortment, and in private label in particular, while some specialty players already have established programs with sharp focuses on natural and organic products.

Austin, Texas-based Whole Foods Market captures a huge part of the natural and organic business, generating sales upward of \$4.7 billion, and offering a well-respected store brand program featuring a wide assortment of natural and organic items. Some would argue Whole Foods' sheer size and reputation gives it the feel of a more traditional supermarket with the assortment of a specialty player. And as it spreads its wings nationwide, Whole Foods is creating a presence in the retail industry, and can be blamed for some of the squeeze on traditional grocers. But a smaller natural and organic player based in the mountains of Colorado isn't hiding in the forest.

Serving Wild Oats

Boulder, Colo.-based Wild Oats Markets Inc. has spent the past 20 years planting its roots in the natural and organic food retailing business and has grown to comprise 113 Wild Oats Marketplace stores across 24 states and British Columbia, Canada, plus a group of additional outlets under the Henry's Farmers Markets, Sun Harvest and Capers Community Markets banners. Wild Oats reported sales last year of \$1.1 billion, an increase of 7.2 percent, and for the first half of 2006 reported sales up 5.7 percent over the same period last year. Though only a quarter of the size of competitor Whole Foods Market, Wild Oats Markets has a competitive strategy in place focused squarely on the value of its store brand — a brand Wild Oats executives say is set to become the "leading natural and organic brand" in the marketplace as they build it in and outside the walls of its stores.

"There is significant growth in this industry," says David Young, senior director of Wild Oats corporate brands. "We know that Whole Foods has dramatically increased the size and number of its stores. So how are we going to compete? We're going to compete two different ways: new stores and with our brand. We have found that over the past two years this brand has resonated within the grocery industry and garnered a lot of attention."

Throughout the past few years, the Wild Oats corporate brands team — hand-in-hand with the quality assurance team — has uprooted and replanted the retailer's store brand program by rationalizing, relaunching and/or inventing hundreds of Wild Oats branded items, and the process is still underway. Currently, the program comprises more than 1,200 items under the Wild Oats brand or its sub-brands — Wild Oats Organic, Wild Oats Natural, Wild Oats Living (non-food), Wild Oats Essentials (body care) and vitamins, minerals and supplements under the Food Origins brand.

The combination of government regulations on organics that went into effect in October 2002 and the increased knowledge base and commitment from consumers looking for natural and organic items spurred the Wild Oats team to set out on a trek to clearly define natural.

Wild Oats Markets' team: (clockwise) Brian Albert, brand manager of corporate brands; David Young, senior director of corporate brands; Dan Heiges, director of research and development, quality assurance and corporate standards; and Laura Coblentz, vice president of marketing.

"Because the word 'natural' is so corrupted, anybody can call anything natural," Coblentz says. "We developed our own definition

educational programs. Wild Oats wants its customers (and of course suppliers) to know that, from its perspective, natural products

'Private label is a physical manifestation of the brand and the store.' — Laura Coblentz, Wild Oats

of natural. We explain it to our customers and identify our products as either natural or organic."

The retailer's definition of natural and organic resonates throughout the thought process for all company execs, from ideation to product development and marketing and

contain no synthetic ingredients at any level from raw materials through processing. No "natural" flavors with synthetic carriers, no high-fructose corn syrup, no GMOs (genetically modified organisms), no sweeteners, no artificial colors or flavors and no preservatives. And if it's certified organic by U.S. Department of Agriculture

standards, that's even better.

"Our version of natural is still a more stringent standard than what most people refer to as natural," Young says. "And one thing we're not going to do is



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deviate. Our standards are the highest in the industry, and they're going to remain the highest. We're not going to cut corners, and while sometimes that prohibits us and costs us a little more, in the long-term that's what our customers want from us."

"Private label is a physical manifestation of the brand and the store," Coblenz adds, "so it has to fit within the brand umbrella overall and everything that Wild Oats stands for."

Organic Extends Its Reach

With the influx of interest in organic products by sizeable, mainstream retailers, the industry has been abuzz wondering if there is enough supply.

Wild Oats' Dan Heiges, director of research and development, quality assurance and corporate standards, says he is not overly concerned about supply because much of the mainstream attention is



on more commodity-type items, not the specialty, niche items the Wild Oats brand uses to differentiate itself and the store.

"It's always a concern when conventional retailers dive into organics and natural products, but overall I think we'll be in good shape," Young adds. "We continue to source and go to different parts of the world to find the right products to meet our requirements."

Heiges says the team is increasingly going overseas to find small, specialty suppliers that have "been doing this for generations." He says, "Sometimes we taste something, we love it, we love the story behind it, we love the manufacturer, and then we have to go through the process of educating them about our standards."

And, he adds, suppliers recognize the value of a partnership with Wild

Oats, even beyond the business they do together. "As they get involved with us, they see that we have the strictest standards in the retail industry," Heiges says. "They know that if they can formulate to meet our standards, they can take products anywhere in the world and it will meet anybody's standards."

But even with such high-quality products, as Whole Foods Markets makes a sizeable imprint on the marketplace and mainstream retailers try to get a piece of the natural and organic growth, also, does a smaller player like Wild Oats have reason to worry? Wild Oats execs don't think so, though of course they have plans in place to differentiate in an increasingly competitive segment of the market.

"When a new competitor opens in our markets, we experience a short-term hit to comp sales in the affected store or stores," said Perry Odak, former Wild Oats Markets' president and chief executive officer, in the latest earnings conference call. "The new competition we are

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experiencing is related to several competitive openings, as well as aggressive advertising and promotion from some of the conventional supermarkets as they remodel stores and introduce more natural and organic products."

"We believe both of these events will result in longer-term positive affects on our business," he adds. "As our stores lap the competitive grand openings and build back their sales, which they have historically done, same-store sales turn strongly positive. And with an additional retailer in the market, we raise awareness together — expanding the overall market for our products. The same is true with conventional retailers getting into more natural and organic products. As they aggressively advertise and promote an enhanced assortment... they are helping to build awareness of natural and organic foods among their customers, thereby serving as a gateway to our stores."

Conventional food retailing is "flat-lining," Coblenz says, and

"consumers have voted with their feet as the organic food business has grown 20 percent in the past eight years. Conventional retailers realize they can either ignore that trend or they can participate and capitalize on it. That's why you're seeing this tipping point — huge demand for organic products by retailers across the country because they believe that's what their customers want."

Catering to Consumers

In original research conducted earlier this year for *PL Buyer*, Stamford, Conn.-based InsightExpress surveyed consumers, and the study results showed that many consumers are changing their buying habits and putting an emphasis on healthful foods, including natural and organic items.

About 42 percent of shoppers say they purchase organic products, according to the study, but 53.1 percent say they have never seen or heard of private label organic products, with only 26.6 percent saying they have heard of them, and

20.1 percent were not sure.

Retailers new to the natural and organic segment have realized there is opportunity as a fresh batch of consumers explores natural foods, and those retailers already established in this marketplace have seen a broader range of customers come through the doors. Store brand items in this segment are a particularly strong loyalty builder because these consumers have a vested interest in what they consume, and an appreciation for value.

"We have a committed core of natural and organic customers who trust Wild Oats and everything it stands for because we've been committed to natural and organic foods for more than 20 years," Coblenz says. "But we have a lot of newer customers, too. Some have



new families and are concerned about the integrity of the food supply and the food they eat. And some are 'foodies' — people who are really interested in food and have a passion for different kinds of high-quality ingredients. And then we have customers that are interested in improving their health overall."

For Wild Oats, knowing their customers is a critical part of new product development because, "Our focus is really on what the customer will buy — what they want,"

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Coblentz adds. "That's been a great philosophy for us. We have a really strong understanding of our customers, what they're looking for and what's going to resonate with them."

With such a strong brand image,

Wild Oats has been able to take advantage of improved consumer attitudes about both private label and natural and organic products — they can be good for you, taste great and come at an affordable price.

"We find that customers who are

committed to quality foods, better nutrition and the kinds of products that Wild Oats offers make choices in their lives. They allocate a bigger percentage of their budget to grocery shopping," Coblentz says. "But Wild Oats is competitive. We have lots of

sales promotions, we run discounts and sell in bulk. If you are committed to these kinds of foods, Wild Oats is very price competitive, and probably more so than a conventional grocery store because of our relationships with suppliers, our supply chain and our volume."

Thanks to "lean thinking" and producing to order, Heiges says Wild Oats manages to balance the often pricier high-quality ingredient and processing demands. In product development, price is not the initial consideration, Young asserts. "We don't think price first," he says. "We want quality and a story behind the product — Who is the grower? Where is it grown? Is it a family?"

"Our shoppers are motivated by things other than price," Coblentz adds. "There's a value proposition for the shopper — they want an emotional or psychological benefit, or a physical or intellectual benefit."



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At A Glance



Wild Oats Markets Inc.

HEADQUARTERS:
Boulder, Colo.

SALES:
\$1.1 billion last year, up 7.2 percent

STORE BANNERS/FORMATS:
Wild Oats Natural MarketPlace, Henry's Farmers Markets, Sun Harvest and Capers Community Markets

STORE COUNTS:
113 Wild Oats MarketPlace stores across 24 states, plus British Columbia, Canada

PRIVATE LABEL BRANDS:
Wild Oats, Wild Oats Organic, Wild Oats Natural, Wild Oats Living (non-food), Wild Oats Essentials (body care), Food Origins (vitamins and supplements), plus private label products under the Henry's brand

SKU COUNT:
More than 1,200 Wild Oats private label products

KEY EXECUTIVE:
Gregory Mays, interim chief executive officer

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They think they're a better world citizen if they shop Wild Oats because we have policies regarding the environment."

Building the Brand Outside the Store

Over the past two years, the Wild Oats brand has proven it also has legs outside its retail stores. In the Chicagoland market, the Wild Oats brand currently is the No. 1 selling brand sold through online grocer/delivery service Peapod.com. Approximately 300 Wild Oats natural and organic store brand products are available through the online grocer. Since mid-September, Peapod.com shoppers in Washington, D.C., also have had the opportunity to buy Wild Oats items, with more than 120 items available thus far.

"As consumers are introduced to this growing natural and organic industry, the Wild Oats brand can cover all their needs," says Brian Albert, brand manager of corporate brands, pointing to the "breadth and depth of products" Wild Oats has to offer. "The Peapod partnership is exciting and definitely a growth opportunity for us," he adds. "We're taking our brand outside of our four walls with success — it has promise and opportunity, but we're going to be sure-footed about it as we go to market."

The Peapod.com venture offers Wild Oats access to a larger customer base and helps build brand



awareness in markets with only a few stores or untapped potential. Chicago, for example, is home to only two brick-and-mortar Wild Oats stores, but when Peapod.com exposes consumers to the Wild Oats branded products, consumers may have more interest in exploring Wild Oats stores, Albert says. And distribution through Peapod.com helps Wild Oats set a foundation to potentially open more Wild Oats locations around Chicago because the retailer is building brand equity.

In Washington, D.C., there are no Wild Oats stores — yet — but a



demographic indexing particularly high for interest in natural and organic was a solid starting point for Wild Oats to build brand equity through Peapod.com sales there.

"This can be a precursor to introducing a Wild Oats store to a new market," Albert says. "It is a great opportunity to get consumer exposure."

Though only in the early stages of development, web retailer Amazon.com has ventured into selling groceries, and Wild Oats also has a partnership to sell Wild Oats-branded items through Amazon.com's system.

And Wild Oats executives talk gingerly about additional opportunities for the Wild Oats brands beyond their stores and the Internet.

"We have been contacted by several retailers domestically and internationally wanting to talk to us about accessing the Wild Oats brand," Young says. "They don't have their own program, they don't understand the industry entirely, and it would take them years to develop what we have to offer them today."

Young says they are considering partnering with these retailers in markets where Wild Oats does not

have a presence and where a retailer has the appropriate demographics.

"We're taking a very cautious approach and being very careful with what we do," he adds. "But I think we have a real opportunity to potentially grow this program significantly."

"For those retailers that don't have the credibility in natural and organic products that Wild Oats does, our brand comes ready-made with equity," Albert says. "It's hard to manufacture authenticity overnight."

But Coblenz asserts, the Wild Oats team will fiercely protect its brand integrity and be particularly careful about any potential partnerships. "Our focus continues to be on the in-store portion of the business, but this opportunity has come up and we're pursuing it," she says.

The continued in-store focus on store brands is glaring within the walls of Wild Oats outlets, with ample shelf-space and end-cap merchandising drawing attention to the private label items that Wild Oats says are: "Better Food. Pure & Simple." The merchandising strategy is set to offer "the optimal experience for our consumers and allow them to walk down an aisle,

notice our brand, and at the same time see variety and selection," Albert says.

With a category-by-category approach, the Wild Oats corporate brands team analyzes the role store brands can play and are not averse to going after the captain's role. "In many cases, we can be the brand in the category and be the 100 percent solution," Young says. "If we're garnering 85 percent of a category today, it proves to us that the customers are satisfied with what we're doing with the Wild Oats brand."

"But I do think there's a balance that you have to maintain," he adds. "Customers want variety, and we don't want to eliminate that because it's important... It's a continuous process, but I think there's no limit to what we can do with this brand."

Coblenz agrees and says the Wild Oats team will keep planting seeds to grow the business and the brand, regardless of the size of the forest. "A lot of the conventional players are coming to market with natural and organic, and it will take them time to build a level of trust with customers. After a while, as organics become more commoditized, consumers will be less concerned about natural and organic brands, and that's why it's so important for us to keep innovating." **PLB**

Choose Local

Because a firm commitment to the environment and local communities is core to Boulder, Colo.-based Wild Oats Markets' do-good philosophy, its retail stores feature a program called Choose Local. The program identifies all of the local products in the stores through shelf signage. In the summer months, in particular, Wild Oats is able to source locally, ultimately saving the company on transportation costs and building a differentiation tool against larger competitors. According to Wild Oats, during the peak growing season, many of its stores could feature as much as 40 percent of the produce section sourced from local or regional growers.



RETAILER: Wild Oats Markets, Boulder, Colo.
PRODUCT: French Milled Hand Soaps

For a retailer that touts the image of simplistic, natural and good-for-you, the French Milled hand soaps submitted by Wild Oats Markets were a delightful surprise to our judges.

“This is a category where you haven’t really seen private label be especially strong,” Acevedo says. “It’s more than just hand soap that you stick under the vanity. It’s a decorative lifestyle product that’s a pretty strong entry into private label.”

The clear bottles allow customers to view the color of the soap within. An added design feature is the matching colors between the soap and the label. The main label uses rich colors and features an inviting photo of the scent within. The notation that the soaps are a “Product of France” also gives them an upscale look and feel.

“Additionally, I like the up-scale pump on these,” Pierce adds. “It’s a nice touch for a private label hand soap.”

RETAILER: Wild Oats Markets, Boulder, Colo.

PRODUCT: Flatbread Crackers

A good representation of the company’s simplistic, natural and wholesome approach, the Flatbread Crackers from Wild Oats Markets caught the collective eye of the judges for its simplistic and clean design.

“I like the use of the window,” Tingas says. “I think the shape of the window is unique, it does a good job at making the cracker appealing, and the colors work nicely — using a two-toned theme.”

“Overall, the line is simple, and it works really well,” Acevedo concludes.

