

Wal-Mart's Organic Surge

Whole Foods and the rest of the natural foods industry, beware

Buoyed by the improving economy and Americans' belief that they can eat themselves healthy, sales of organic food are booming again. The growth in sales of organic products in the U.S., food and nonfood, had slowed to 4.6 percent in 2009 but has since rebounded. Sales rose 11.5 percent in 2013, to \$35 billion, according to the Organic Trade Association.

Once sold primarily in musty natural foods shops, organics went wide after **Whole Foods Market** took over the high end of the market, earning the nickname "Whole Paycheck" in the process. In recent years the mainstream has discovered more natural foods, and big chains,

including **Kroger** and **Safeway** have piled in. Sales of organic products at **Costco** have doubled in two years to about \$3 billion a year.

Now the organics industry is bracing for its next big shakeup.

Wal-Mart Stores, the nation's largest grocer, is expanding its selection of organic foods. And it's promising to

sell the stuff at the same prices it sells nonorganic food.

Most organic food costs at least 25 percent more than regular fare. Wal-Mart says it will keep prices low by using Wild Oats, a well-known name in organics, as its supplier. The deal came together in 2011 after two organics industry veterans bought the Wild Oats name from Whole Foods, then recruited billionaire Ron Burkle's **Yucaipa Cos.** as the majority owner and operator of the company. Anthony Zolezzi, who with Tim Luberski bought the name, said he visited Wal-Mart's Bentonville (Ark.) headquarters 13 times to sell the company on rebooting Wild Oats as a way to sell affordable organic foods. The idea was "to democratize organic to the masses," says Zolezzi.

Wal-Mart now accounts for more than 90 percent of Wild Oats' business.

"Our new, specific effort with Wild Oats, launched earlier this year, is a natural progression as we meet customer demand," says John Forrest Ales, a Wal-Mart spokesman. "We are working to lower the price of organic pantry staples to be at parity with national brand nonorganic products."

Retail's romance with organics has squeezed Whole Foods, which transformed the industry in the '90s by lavishly displaying organic food and repositioning it as delicious and upscale.

"I think for a long time Whole Foods had the field to ourselves pretty much," said John Mackey, Whole Foods' co-chief executive officer, in a May earnings call. "That was nice. But we don't any longer." The chain has responded to rivals by reducing prices and running its first national ad campaign.

Whole Foods bought Wild Oats, then a chain of 109 natural foods stores, in 2007. Soon after the deal

Wild Oats organic black beans
15-oz. can

Rollback

92¢

WAL-MART
Always

Progresso black beans
15-oz. can

88¢

Bush's Best black beans
15-oz. can

92¢

was announced, the Federal Trade Commission challenged the acquisition as anticompetitive. As part of a settlement in 2009, Whole Foods agreed to sell 32 stores, as well as the rights to the name Wild Oats. (Some of the stores ultimately were sold; others were closed or converted into Whole Foods stores.)

Wild Oats organic quinoa
16-oz. bag

Rollback

\$4.78

Retail

Wild Oats offers minimally processed natural peanut butter instead.

It's too soon to know how much Wal-Mart's organic expansion will further disrupt the industry. The company announced its big push into organics in 2006; that's steadily grown to include about 1,600 items, including dairy, meat, and pantry staples. Company executives declined to provide details on organic sales.

At a Secaucus (N.J.) Wal-Mart, Wild Oats products are scattered in the grocery aisles beside comparable conventional items, and they cost about the same as at least one major nonorganic brand. A 15-ounce can of Wild Oats organic black beans costs 92¢, the same as Bush's Best nonorganic black beans but slightly more than an 88¢ can from Progresso. A pack of six cups of Wild Oats organic cinnamon applesauce costs the same as Mott's nonorganic version, \$1.98. A 16-oz. bag of Wild Oats organic quinoa costs \$4.78, far cheaper than Bob's Red Mill, which is also organic and costs \$9.68, and less even than Village Harvest's \$5.18 nonorganic version.

Wild Oats CEO Tom Casey says the organic industry is historically fragmented, with small and inefficient companies relying on wholesalers to distribute their products for a premium. Only about 8¢ on the dollar winds up in farmers' pockets, he says. Wild Oats squeezes savings in the manufacturing and distribution chain, largely because Wal-Mart's size provides economies of scale. "It's really simple," says Casey, a former banker. "We are out to change the industry to make great-tasting, affordable organics available to everyone."

Wal-Mart's own research found that 91 percent of its shoppers would consider buying organic if it were affordable, says Wal-Mart spokesman Ales. "Conversations about obesity and health and all of these things have kind of rekindled America's experience in eating better," says Todd Linsky, vice president for organic sales for Grimmway Farms, the world's largest carrot grower. "There doesn't seem to be much end in sight to that proposition."

—Andrew Martin

Studies differ on whether organic food, produced without synthetic pesticides, antibiotics, or chemical fertilizer, is any more healthful than conventionally grown produce, but that hasn't slowed its appeal. "There's a growing belief among a lot of educated people, and it's filtering into the mainstream, that organic is a better way to eat," says Jim Hertel, managing partner for Willard Bishop, a retail consulting company in suburban Chicago. "It's kind of like the democratization of organics." Food accounts for 92 percent of overall organic sales. The other 8 percent includes organic clothing, personal care products, and pet food.

The biggest obstacle to continued growth—and cheaper prices—is lack of supply. Farmers can't convert to organic production overnight, and in recent years there hasn't been much incentive to do so because of the high prices they're getting for conventional products. The drought in California, where 21 percent of the 14,326 organic farms in the U.S. are located, is further limiting supplies.

"The entire organic dairy industry cannot keep up with the demand," says Eric Newman, vice president for sales for Organic Valley, a cooperative of organic dairy farmers based in Wisconsin. He says organic milk suppliers are rationing supplies, filling about 80 percent of what customers order.

In Idaho, bidding wars are breaking out for organic raw milk, caused by demand for organic cheese and such products as macaroni and cheese. In Michigan, Jim Sattelberg, a farmer and supplier, says he can't find enough organic black beans to meet demand and turns away at least one customer a week. Organic peanut butter is so scarce that

Bob's Red Mill organic quinoa
16-oz. bag

\$9.68

Village Harvest regular quinoa
16-oz. bag

\$5.18

Book It!

Airlines are packaging fees and selling them with a smile

U.S. airlines are honing their retailing skills by promoting extra fees as choices passengers won't want to pass up. "This is the model of the future," says Jay Sorenson of Idea Works travel consulting. JetBlue Airways is expected to join the fees fray in 2015 by charging for a first bag, along with bundles of extra services, to boost revenue. American Airlines has already adopted a bundling system, as shown below for a Denver to New York LaGuardia round trip in November. **B**

—Justin Bachman

American Airlines has three tiers of coach fares, with two offering bundles of extras

A la carte **Bundles**

First checked bag **\$25**

Priority boarding (no longer offered à la carte)*

Itinerary changes **\$200**

Earn 50% extra flyer miles, which normally must be bought for 3¢ each in bulk

Preferred seating** **\$14–\$34**

Same-day flight change **\$75**

Same-day flight standby **\$75**

Alcoholic beverage **\$7**

Meals **\$6.99–\$9.99**

Airport Club Day Pass **\$50**

Wi-Fi **\$16/day**

Changes made within 24 hours of scheduled flight

Some add-ons aren't included in the bundles—but are available for purchase à la carte

The Choice Plus bundle offers savings of up to \$382 vs. an à la carte purchase—if all features are used

CHOICE PLUS \$550	
CHOICE ESSENTIAL \$448	
CHOICE Airfare only \$390	

Regardless of ticket tier, you'll pay about \$132 round-trip more to sit in Main Cabin Extra, which has 6 more inches of legroom, for this itinerary***

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