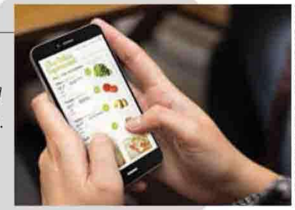
Sprouts in good spot for deflation rebound



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Sprouts is in the process of retooling its on-line platform.

SFM, L.L.C.

NEW YORK — Amin Maredia took over as chief executive officer of Sprouts Farmers Market in August 2015. That same month saw the start of the longest deflationary period since 1959.

While Mr. Maredia said that has resulted in a few white hairs, he said Sprouts sees the light at the end of the tunnel. Speaking as part of the Goldman Sachs Annual Global Retail Conference on Sept. 7 in New York, Mr. Maredia said Sprouts is perhaps better positioned than some discount and conventional retailers to catch a glimpse of that light.

"I think you absolutely take the 40,000 grocery stores and break them into three buckets," he said. "The discounters, the Aldis and the Wal-Marts and the Wal-Mart Neighborhood Markets and the coming Lidls … they're very different than the conventional grocery stores and then everybody else, including specialty."

Those discounters and conventional retailers are increasing friction in consumer packaged goods products, something that doesn't impact Sprouts stores, which emphasize organic foods, produce and fresh perimeter.

"I think going forward, the conventional grocers could have friction on both sides of potentially needing to invest in center store and fresh and healthy and health and that's a tough situation to be in," Mr. Maredia said. "So fortunately for Sprouts, we don't sell many of these items and we're not impacted by that friction of discounters. And we've not seen when stores, discounters have opened across the street from us in the past. We don't take any meaningful hit in sales starting day 1."

Now Sprouts sees a returning inflationary environment and said it is ready to capitalize with product innovation in the fresh department and undisclosed e-commerce developments.

Sprouts same-store annual sales have jumped to $18 million from $14 million over the past four years, and Mr. Maredia said that number can keep heading north with a continued focus in the fresh department, which has grown from the mid 40% range to more than 60% of the company's business.

"Many of the things we've done have fundamentally driven us from that $14 million to $18 million benchmark by growing our fresh department," he said.

On the e-commerce front, Sprouts is looking to leverage its findings from its early entry into first-hour home delivery — Mr. Maredia said the company was the first large-scale grocer to do it — into accelerated growth on the on-line ordering and delivery front.

Sprouts is in the process of retooling its entire on-line platform and will roll out the new system in the first quarter of 2018.

"We'll be rolling out something new that I'm very excited about, which is really adding a lot more consumer user interface to be able to see not only the value that we have at Sprouts, but more talking about the food, the attributes, being able to see the unique items at Sprouts, being able to see the unique product labels," Mr. Maredia said.

These solutions, which Mr. Maredia said Sprouts is keeping in its back pocket for now, are intended to add value to the consumer and make things simpler. The hope, Mr. Maredia said, is this can help combat the convenience advantage that traditional retailers have over Sprouts in many large markets.

"By definition, the conventional (retailer) is closer to our customer," he said. "With this home delivery platform, what we've actually seen is the inverse of sales where most of the sales are coming outside of the 5-, 7-minute trade area. So it's bringing us the strategic benefit of extending our trade area beyond what most customers like to shop and driving this."

Sprouts' relationship with Amazon Prime Now has continued, despite the on-line giant's recent acquisition of Whole Foods. Mr. Maredia said the company wants to be where the customer is, which means, ideally, every platform possible.

"We can say with one certainty, there's one platform which has full comfort, and that's the Sprouts platform," he said. "Past that, we're really looking at all the opportunities and risk with every potential partner. And so there's no change in our Amazon relationship today. We've been having really good dialogues with them around some of the ramification of the acquisition. **FBN**