



# ALL EARS!!

*The Litchfield Fund Weekly Newsletter*

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



**Litchfield**

**In early 1900s urban America** gathering provisions meant many stops. First, the dry goods store or grocer to get bulk, boxed or canned goods that did not spoil -- beans, flour, salt, sugar, spices, etc. Then a butcher for that favorite Sunday cut of meat, the fishmonger for salted cod & if the family did not have its own vegetable garden, the farm wagon for fresh produce. Milk & dairy were delivered to your door! At the grocer, the owner behind the counter filled your order from his shelves. All that changed 100 years ago in 1916 in Memphis, Tennessee when the first self service grocery store -- *Piggly Wiggly* -- opened!

**Grossarius Wars:** When urbanization began in Medieval Europe grocers (purveyors of dry goods) arose in the market place. From the French word *grossier* (wholesaler) & Latin *grossarius* (gross – a dozen dozen), groceries remained unchanged for more than half a millennia. Clarence Saunders’ *Piggly Wiggly* allowed customers to pick the product they wanted from the shelves. The self service concept led to turnstiles, product price marking, check-out counters & shopping carts! Most importantly, the concepts of branding, marketing, advertising & packaging immediately became big, big business! *Kroger, IGA & Safeway* expanded the self service model rapidly in the 1920s. In 1930 *King Kullen*, the first supermarket, opened in Queens. Supermarkets, offering departments for meat, dairy, etc., grew rapidly, first to cut costs during the depression & then to feed a burgeoning post-war suburban boom!

It is apropos that on its 100<sup>th</sup> anniversary the grocery store industry was on **The Litchfield Fund’s** 2016 watch list! There are tremendous forces working on both retailers & the packaged & fresh food industry. Grocery store wars in many areas are pushing down prices, especially for organic or gourmet foods that once demanded a premium. Yet at the same time, a lack of organic farmland & supply is cutting into producer & store margins as the cost of acquiring ingredients increases. The strong dollar, and social economic concerns, lead producers to look to off supply shore sources & foreign government assistance to move farmers to legal crops! Meanwhile, AgTech investment (both conventional & sustainable) is hitting record heights!

Competition increases as every grocery chain is expanding -- building or acquiring footprint. Mega-stores push down cost while niche retailers try to offer the more local & transparent feel millennials demand. Every retailer wants a part of the exponentially growing natural/organic market. Entrepreneurs find easy money to fund their food start-up but limited shelf space, driving them to e-commerce. Traditionalists flock to farmers market for produce & local products adding to competition & decreasing same store sales growth. Yet many urban areas are grocery dead zones with limited access to quality food for lower income households.

Each week, news of the changing grocery industry abounds. This week Moody's indicated New York based *Fairway Market* may default on its debt. Analysts report that Kroger (**KR**) is in discussion to purchase *The Fresh Market*, possibly alongside a private equity firm. Also Kroger may be interested in *Ingles*, a southeast based grocery, & overseas expansion into Israel. To attract millennials Whole Foods (**WFM**) may add tattoo parlors to new stores!

Quite the economic model! Investment dollars are pushing new product despite limited shelf space, supply sources are changing & costly, increased competition is driving down prices, consumers demand transparency & authenticity & retailers want a part of the millennials' expanding purchase power. As free marketers, we believe it is consumer demand that will drive the final outcome dictating which stores & products survive!

**Industry News:** Campbell Soup announced the formation of a \$125M fund, *Acre Venture Partners*, to invest in food product start-ups. Chick-fil-A began to sell its first ever organic offering *Honest Kids Appley Ever After* organic juice.

**Portfolio News:** Analysts suggest a possible good 4<sup>th</sup> QTR report from Sprouts Farmers Market (**SFM**) next week. **SFM** has been bucking overall trends in the grocery industry with strong revenue growth & same store comparable sales growth. Stiefel began coverage of **SFM** with a BUY rating. Natural Grocers by Vitamin Cottage (**NGVC**) saw some upbeat analyst ratings this week. Whitewave Foods (**WWAV**) holds a consensus BUY from 31 analysts covering the stock. William Blair weighed in with an OUTPERFORM rating. General Mills (**GIS**) will introduce *Annie's Homegrown* organic cereals. Zoe's Kitchen (ZOES) will expand its Mediterranean offerings adding lupini bean, faro, Calabrian peppers, & piadina flatbread to its menu.

**Market news:** Markets rose alongside a rebound in oil prices but stagnated by week's end as inflation reports above the Fed's target instilled fears that more rate hikes are to come. China made personnel changes in its economic leadership helping to stoke market exuberance.

**Seeds, Sprouts, Grow, Harvest!**

**The Litchfield Fund**

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