

Analysts: US quality groceries trend on trial in Haggen expansion

May 12, 2015, 5:00 pm

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Fresh, local, sustainable, natural.

These buzzwords -- popular enough to verge on becoming white noise at this point -- are nonetheless coming to define the word quality, a concept gaining traction with baby boomers and millennials alike. But how effective are they really at selling seafood in US grocery stores?

The question is on trial in Bellingham, Washington-based Haggen's expansion of its quality-focused, mainstream-consumer-facing brand from the 18 stores it has in Washington state to 146 more stores, largely in California and ranging widely in affluence.

"They're going to take their quality offerings upscale from the typical Albertsons or [Safeway-owned] Vons store," Phil Gibson, who analyzes opportunities in the retail market for seafood companies as CEO of Resiliensea Group, told *Undercurrent News*.

Already, Haggen is ordering high quality species such as halibut and ahi tuna on a more consistent basis than Albertsons formerly did, Santa Monica Seafood vice president Giovanni Comin told *Undercurrent*. Santa Monica, known for its quality due to its background in foodservice, is the company's main service case supplier for 100 of its new stores. Gibson said it is known to be increasing its fresh seafood offerings as well.

Haggen declined to reveal to *Undercurrent* the full plans its seafood department, but a spokesperson for the company said that the store conversions include a mural behind the seafood counter and more upscale lighting.

How well Haggen's quality focused model works depends upon whether markets in its wide range of locations respond favorably, Gibson notes.

The new stores are in Washington, Oregon, Nevada Arizona and California. The California locations -- making up the bulk of them -- have very wide ranging wealth levels, from the affluent in Long Beach and Santa Barbara to the low income in Lompoc and mid-low in Bakersfield.

But if there were ever a time to launch higher quality concepts, Gibson said now is increasingly a good time.

"People are more comfortable, so they're willing to buy and trade up," said Gibson, who worked in Safeway's seafood program in 2008, when US Department of Agriculture data shows the Great Recession caused a drop in retail grocery sales, which did not begin growing again until 2010.

Gibson points to the success of Whole Foods' competitors as a sign that mainstream consumers are interested in quality. Whole Foods has long been known for its focus on quality through sourcing sustainable, organic and fresh foods.

"The Trader Joe's and Sprouts [Farmers Market] and different smaller chains are just eating them alive," Gibson said, referring to Whole Foods slowing sales.

While these stores' success is a sign of slowing expansion for Whole Foods, it is also a sign the Whole Foods' brand of quality is taking off among consumers outside of the core, wealthy clientele Whole Foods launched its business on.

As the quality-conscious market expands, Whole Foods continues to grow each quarter, but the rush of competitors is causing upset. Having seen earnings growth drop 9% last year, the company saw shares tumble 11% in after-hours trading last Wednesday due to its less-than-expected 3.6% same store sales growth in the second quarter, which was down from 4.5% the prior quarter and 5.3% the quarter before that.

The company responded last Wednesday by announcing it would launch a more cost-conscious store format, in hopes of capturing the more cost-limited millennial generation, which is said to be keenly interested in and aware of where food comes from and its health benefits.

Jim Prevor, an industry analyst and founder of PerishablePundit.com, told *Undercurrent* grocery stores focus on quality has increased gradually over the past few decades thanks to Walmart's explosive growth.

"I would say that as Walmart has grown across the nation, it has capitalized on and been the most successful with the paycheck to paycheck buyer, so inherently the rest of the market is a little more upscale, as the rest of the market is looking for quality as a differentiating factor," Prevor explained.

However, he questions is how far this quality trend can continue spreading and whether it is as large as the public discourse suggests, and Prevor warns it may be over-exaggerated.

"To some extent, this may be white collar people reporting on themselves," he said.

The fresh focus in seafood may work in some areas, but less in others, he added.

"If you're talking about things like fresh seafood, even in some ethnic communities they might not be big buyers of fresh seafood," he said. "Haggen may try to nudge the quality up a little, but they may not have communities that support that price."

Ultimately, Haggen's store conversions will complete by June 20. Suppliers will change right away, but the full extent of the sourcing changes will come to light gradually, as the company introduces new products into the market, Gibson and Prevor said.

Haggen's changes result from the Federal Trade Commission's largest supermarket divestiture order on record, issued as a condition for the \$9.2 billion Safeway-Albertsons merger, which will come with its own set of changes for suppliers.