



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!!!!”



Brand consists of image & value. In 1902, *Ford Motor* was liquidating assets in a dispute between Ford & his investors. Henry M. Leland, an engineer whose company was making engines for *Olds Motor Company*, was hired to appraise the factory & equipment. Leland, however, convinced the investors to create a new company, *Cadillac*, based on his engine. In 1908 Leland, a genius with interchangeable parts, put *Cadillac* through a test. Several *Cadillac* cars were disassembled, the parts mixed, rebuilt & then driven for many miles to demonstrate the quality of the engineering. The *Cadillac* brand was now set forever.

The Cadillac Effect: Whenever there is a discussion of a brand, of its perceived quality & value, someone will still utter the phrase, “*This is the Cadillac of (fill in the blank)!*” Over the years many would not be able to afford a *Cadillac* but everyone knew what *Cadillac* stood for: luxury, quality, precision, perfection & most importantly, value worth the price. For years, the *Whole Foods Market* brand gave consumers this same perceived value, but it is no surprise to us that this week the industry was abuzz over millions of customers departing from *Whole Foods*. Long gone are the days when a weekend road trip included a stock up at a *Whole Foods* when none were near us or the joy of a weekly trip when the store made it to our community. *Whole Foods* has struggled with its image, high prices, lack of innovation, community perception & leadership of the organic movement. Bigger fish, like *Kroger* & *Costco*, are swimming out in front, surpassing *Whole Foods* in organic sales, while smaller fish, of which there are many, are not content to eat *Whole Foods* scraps any longer, they are grabbing share up in front, bringing exciting products & lower prices to consumers in direct competition. Brand is hard to rebuild, just ask *Kodak*!

As for Mr. Leland, *Cadillac* become the first American car to win the prestigious British motoring award, the Dewar Trophy. In 1909, he sold *Cadillac* to *General Motors* for \$4.5M. He left GM in 1917 due to a dispute over building aircraft engines to support the war effort. He founded *Lincoln Motors*, building aircraft engines & luxury cars. When *Lincoln* fell on hard times in the early 1920s, Henry Ford exacted his revenge, buying *Lincoln* from Mr. Leland, the man who helped force him out of his first car company in 1902!

Industry News: *Danone*, to comply with anti-trust concerns, will sell *Stonyfield Organic* to complete the \$10.4B acquisition of *Whitewave Foods*. *Stonyfield*, with \$370M in annual revenue, could sell for \$1B. *Land O’Lakes* purchased *Vermont Creamery*. *Blue Apron* is rumored to be engaging investment banks to lead an IPO. *Blue Apron* had a \$2B valuation in 2015 & reported \$750M in 2016 revenue. *Coco-cola* completed the acquisition of *AdeS*, a soybean beverage

manufacturer, from *Unilever* for \$575M. Analysts believe an *Albertsons/Sprouts Farmers Market* combination would benefit *Sprouts*, expecting \$50M in purchasing & distribution savings.

Organic Valley reported that more than 2,000 farmer/owners are in their co-op, covering 11% of all organic farmland & 15.6% of all organic farms. *Organic Valley* reached \$1.1B in sales in 2016 & opened a new cheese & ghee facility in Wisconsin. *Cargill* reported an 8% increase in 3rd QTR revenue & a 42% increase in net income, driven by their food ingredients & applications segment. *Inventure Foods*, which purchased *Fresh Frozen Foods* for \$39M in 2013, sold the segment to *PicSweet* for \$23.7M after reporting a 4th QTR loss. *Inventure Foods* will focus on building upon its *Boulder Canyon* snack line. *United Natural Foods* reported mixed earnings, in line with analyst estimates & slightly better year-over-year. *Kroger* will reduce its 2017 store development, expansion & relocation to 55 stores from 85 stores in 2016, saving \$500M on capital expenditure. This follows similar trends at *Whole Foods*, *Sprouts* & *Walmart*. Meanwhile, *Target* will begin a 3 year, \$1B makeover of its stores including expanding grocery, produce & grab & go. Arizona-based *Shamrock Farms* announced the expansion of its Virginia facility & adding 70 jobs. *Mars Candy Company* will reinvest \$70M in USA production, adding 250 jobs. *Costco* will expand its delivery options by partnering with *Shipt* in Tampa. *Costco* uses both *Google Express* (5 cities) & *Instacart* (26 cities). *Amazon* has introduced *Fresh Pickup*, on-line ordering then pickup-ready in Seattle. *Chipotle* reported that they are now free of artificial colors, flavors & preservatives. Colleen Wegman has been named to take over leadership at her family's supermarket. *General Mills* is removing the Honeynut Cheerios mascot 'Buzz the Bee' from packages to bring awareness to pollinator population concerns. *General Mills'* program to send out wildflower seeds, while successful in numbers, has been met with criticism. Packages contain seeds that in some states are considered invasive or simply won't grow. National distribution is the goal for *1908 Brands* with its brands such as *Yummari* & *Boulder Clean*.

Organic products can now be found in 82.3% of American households. This is a 3.4% increase in 2016 from 2015. In the past 10 years, beef consumption has fallen 19%. Beef producers feel this is due to drought impacting supply & raising prices. Beef consumption has seen recent gains. Carotenoids, which give vegetables their vibrant colors, may increase brain function in older adults. A study from China showed that the daily dietary dose of magnesium can reduce the chances of heart disease, stroke & diabetes by as much as 10%, 12% & 26% respectively. Per the *Journal of Child Psychology & Psychiatry*, D3 improves children's Autism symptoms.

Market News: Markets were mostly higher as Consumer Confidence reached a 17-year high!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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