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Nat Pierce and Aaron Anker with the all-organic granolas

Natural selection

Grandy Oats goes all organic as part of an expansion strategy

BY MICHAELA CAVALLARO

Four years ago, Aaron Anker made his first sales trip for Grandy Oats, the Brownfield granola maker he'd just begun running with partner Nat Peirce. Anker was scheduled to call on clients in New Jersey, New York and Washington, D.C. By the time he was halfway through the trip, he was on the phone with Peirce suggesting a major change in the company's strategy. "I said, if we're going to [make Grandy Oats viable], we need to go organic," Anker recalls. "I'm a salesperson — I would like to have had it happen the next day. But he said we need to take it slow."

And over the last several years, Anker and Peirce have done just

that. They began with oats, their largest-volume ingredient, and found a distributor who could supply them with high-quality organic oats — from growers in Saskatchewan — in the quantities they required. As other organic ingredients became available, Peirce negotiated deals with the suppliers who carry them. Finally, early this month, Anker and Peirce announced that all their products — their granolas, a new line of snack mixes sold under the Organic Trails name, and the bulk goods, also branded Organic Trails, they've recently begun selling to health food stores — are 100% organic. "From a business standpoint, [100% organic] is a natural thing that the natural products industry has been

progressing toward," says Anker. "It's a good way to differentiate yourself from the mass of products that are out there. We also thought it was the responsible thing to do — we believe in organic products."

Anker and Peirce aren't alone in that approach. According to the Organic Trade Association, a Greenfield, Mass.-based organic advocacy group, about 1,500 new organic products were introduced in 2002, the last year for which statistics are available. What's more unusual about Grandy Oats' move to organic is that the company was able to make the switch without increasing prices. (Though the Organic Trade Association doesn't track price comparisons between organic and

non-organic products, saying the costs vary based on when and where a product is purchased, common wisdom is that organic products can cost as much as 20% more than their non-organic counterparts.)

The decision is part of Grandy Oats' emerging strategy to buttress its business by diversifying its revenue streams — thus the introduction of the trail mix and the bulk goods — and emphasizing what the company says are its high-quality ingredients. Anker and Peirce are hoping the strategy will pay off: Anker is projecting a profitable year, with sales of \$700,000 — up from \$100,000 four years ago — for the 10-employee company.

But while Anker says retailers have responded enthusiastically to the all-organic product line — and particularly to the lack of a price increase — the move raises questions for Joe Marra, executive project director at the Natural Marketing Institute, a consulting and market research firm in Harleysville, Pa. Grandy Oats' ability to keep prices steady “begs the question, were they overcharging for the non-organic product?” says Marra. “Organic products, from a sourcing perspective, are more expensive because there simply aren't that many of them — if [Illinois-based agribusiness company] Archer Daniels Midland was producing hundreds of organic products, it would be a different story.”

Anker responds that the company was able to keep prices down because at the same time it was switching to organic ingredients, it was increasing the volume it ordered from suppliers to fill orders for bulk goods and for *Uncle Roy's Granola*, a product line it acquired in late 2001 — as Anker puts it, they began ordering pallets of individual products rather than cases. Besides, Anker and Peirce felt that maintaining Grandy Oats' existing pricing was an important way to

retain customers and perhaps attract new ones. “We already were a higher priced granola,” Anker says. “We didn't want to go beyond what we thought the market could bear. We also didn't think the consumer should have to pay more for a product that's making the planet do better.”

Buying in bulk

That combination of concerns for both the business and the environment is ingrained in the company, which was founded in the Farmington area in 1979 by Sarah Carpenter and Penny Hood. They eventually distributed their product across the state, as well as to stores in Boston and New York City. In 1996, they sold the business to Peirce, who at the time owned a Bridgton bakery and café.

Anker, who had attended the University of New Hampshire along with Peirce, took an ownership stake in Grandy Oats in 2000, after several years working in the marketing department for Fresh Samantha, a natural juice company that was then based in Saco. Anker's role is to direct Grandy Oats' sales and marketing efforts, while Peirce focuses on all aspects of production. Peirce's conversations about pricing for raw ingredients got easier when the company acquired Uncle Roy's, a western Massachusetts granola maker. “That immediately doubled our volume, which allowed us to get more things organic — nuts and seeds and oil,” says Anker.

Along the way, Anker brokered deals with large chains; the company's granola — both in bulk and packaged — is now available in Hannaford, Whole Foods and Wild Oats stores. Though the chains make up what Anker says is a “substantial” part of GrandyOats' business, he continues to cultivate relationships with the small health food stores that have been longtime supporters of GrandyOats' products. It's an unusual approach,

according to Marra of the Natural Marketing Institute. “In the natural products channel, new products get introduced first at the smaller stores, then they move into natural foods supermarkets, then ultimately they move into the mass food and drug channels, which will cannibalize sales at the smaller stores,” he says.

But Anker and Peirce's hearts are with people like Connie Ratner, who owns Harvest Moon Food Store in Floyd, Va. Ratner is enthusiastic about the company's decision to go all organic while keeping prices down, saying, “If you put an organic product next to a non-organic and the prices are even close, our customers will always go organic.”

But she's more interested in discussing the attention GrandyOats pays to helping retailers market its bulk ingredients, including its latest addition, flavored, roasted nuts such as maple-roasted cashews. The company began offering the bulk goods — essentially, the raw ingredients for its granola — early this summer. The extra volume helps the company keep costs down, and it essentially passes those savings along to its retailers. “We're taking a very slim margin as a way to pad our bottom line,” Anker says.

Stocking bulk bins with organic ingredients provides a competitive advantage to small health food stores, according to Anker. And he's backed up by industry magazine Natural Foods Merchandiser, which in its August issue reported that, according to its proprietary consumer research, if the bulk section were removed from their favorite store, more than 60% of natural food shoppers would go elsewhere. “As more and more grocery chains put health food sections in their stores,” Anker says, “[small natural foods stores] need to become more competitive — and one way to do that is to promote the fact that they're more organic.”