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Whole Foods Case Analysis

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History, development and growth of the company

The first Whole Foods Market store was opened by 27 year old John Mackey and 23 year old Rene Lawson in 1980. This original storefront was 10,500 square feet and had 19 employees. Throughout the 1980’s, Mackey expanded Whole Foods to 10 stores. During the 1990’s and early 2000’s, Whole Foods acquired already existing natural food chains such as Wellsprings Grocery, Bread & Circus, Mrs. Gooch’s Natural Foods Markets, Bread of Life, and Amrion, among others. In 2004, Whole Foods entered the United Kingdom by acquiring an existing chain of seven natural food stores. In 2007, they opened an 80,000 square foot, three level store in West London. In fiscal year 2008, sales in the U.K. accounted for approximately three percent of total sales. The company’s goal is to approach breakeven in fiscal year 2011, for the U.K. market.

By 2006, Whole Foods Market had evolved into the “world’s largest retail chain of natural and organic foods supermarkets.” Their rapid growth and success is primarily due to being highly selective about what they sell, as well as being dedicated quality standards and core values. However, the acquisition that gave Whole Foods its dominant position in the organic market was the gaining of Wild Oats in 2007.

In early 2007, Whole Foods announced their proposal for acquiring Wild Oats Market,

Inc., for approximately $565 million and assumption of almost $106 million debt. This represented Whole Foods biggest acquisition to date. Wild Oats Market was their largest and closest competitor with a little over a billion a year in sales, slightly over 100 stores, and 8,500 plus. While Whole Foods has historically fueled its growth heavily through acquisitions and entrances into new markets, they now pursue a much more organic and opportunistic growth strategy, focused on opening stores and buying real estate in high traffic areas. According to co-CEO’s John Mackey and Walter Robb in their 2012 annual report, “This was the best year in our company’s 32-year history. We delivered our strongest financial performance, breaking records on many levels. Our sales approached $12 billion, translating to sales per gross square foot of $932. We opened 25 new stores, expanding into eight new markets, and increased our ending square footage 8% to 12.7 million. Our growth strategy is to expand primarily through new store openings, with the majority of our new stores to fall in the range of 35,000 to 45,000 square feet going forward.”

Internal Strengths and Weaknesses

One thing that makes Whole Foods such a strong company is their commitment to high standards and quality products. Their passion for what they do gives them a drive to perform at a level above many other competitors in the organic foods industry. Some of the other strengths that Whole Foods as a company exhibit include:

* **Store Size:** Whole Foods stores hold a tremendous advantage over other natural foods stores and organic food sections in the sheer size of their stores. While most other competitors rarely have stores or sections larger than 20,000 square feet, Whole Foods now has an average store size of 38,000 square feet. Whole Foods also customizes each store layout to strategically display key products for the target market in which it is located.
* **Revenue Growth:** In the past 5 years, Whole Foods has experienced explosive growth in sales and revenue. In 2008, Whole Foods reported net sales of $8.0 billion; in 2012, net sales approached $12 billion, making it their eleventh consecutive quarter of Comparable store sales growth of 7.8%, and close to 12% year over year annual growth. If this trend continues, Whole Foods can expect to post nearly $20 billion in net sales by the year 2016, a tremendous feat for such a niche oriented company.
* **Reach:** The once “mom-and-pop” style organic food store now operates 342 stores across the United States, Canada and the United Kingdom. This gives them an advantage of being much less susceptible to changes or occurrences in any particular region or country.
* **Dividends:** Subsequent to the fiscal year end (2012) the Board of Directors increased the quarterly dividend by 43% to $0.20 per share which annualized puts the dividend as yielding 0.87%. They also granted an additional $300 million in stock repurchase authority, and declared a special dividend of $2 per share.

For all their accomplishments and strengths, Whole Foods also has its weaknesses. They have a reputation for high prices, extremely high start-up costs, and a low level of brand recognition outside of the US due to their very low advertising budget. In addition to these, Whole Foods weaknesses include:

* **Valuation**: The Company carries a price to earnings ratio of 36.31, well above the S&P 500 average, and while some of the premium being paid on this stock can be credited to its astonishing growth, this valuation is still very steep.
* **Price:** One of Whole Food’s weaknesses would have to be their high prices. The costs of growing and marketing organic foods are about 25-75% more than conventionally grown items.
* **Focus on the US:** The staggering concentration of stores in the United States versus the few locations in Canada and the UK leaves the company vulnerable to national events such as the economic downfall in the United States.
* **Advertising:** Whole Foods allocates less than %0.4 of its budget to advertising. While they believe that word of mouth advertising is more valuable than traditional marketing outlets, they lose a significant amount of brand recognition by not marketing themselves better, especially when trying to change public opinion about their prices compared to their competitors. They also lack any promotional incentives such as coupons.
* **Recalls:** Whole Foods has experienced recent bad press for recalling contaminated food items. For example, in January of 2012, Whole foods recalled their Whole Foods Market Dairy Free bakery products because they contained milk that was not represented on the packaging. Earlier in November of 2010, a Whole Foods store in Austin Texas had to recall seven types of cheddar cheese due to a possible risk of E. coli or listeria contamination. In early 2009 Whole Foods was forced to recall their “Carob Energee Nuggests” because of potential Salmonella contamination. Also in 2009, Whole foods voluntarily recalled its 365 Everyday Value brand in-shell Dry Roasted and Salted Pistachios due to a risk of contamination.

External Environment

The organic foods industry exhibits many opportunities and is becoming an increasingly attractive market. Whole Foods already holds a very strong position within the industry and has the potential to increase their grasp and achieve and even more profitable position. The organic foods and health foods industry have grown in popularity over the last few years and shows little sign of slowing as consumers become more heath conscious and turn to organically grown products. With recent advances in technology and continuing development in the knowledge of the industry the process of bringing organic foods to store shelves has only become easier and less expensive, presenting many new opportunities for Whole Foods such as:

* **Increasing demand for organic products:** Since the increase in awareness of the importance of a healthy diet consisting of natural foods, the demand for organic food products has increased dramatically. According to industry estimates, the sales of organic food increased three fold since 2000 to exceed $28.6 billion in 2010. Organic food sales rose 7.7% in 2010, at a higher rate than the overall food industry in the US which grew at only 0.6%. The organic food and beverages market can expect continued growth in the coming years, putting Whole Foods in a position to take advantage of this lucrative trend in American society.
* **Increasing popularity of private labels:** Due to price conscious consumerism, private label products in the US are experiencing strong growth in sales. Rather than pay for expensive brand name products, consumers are turning to generic private labels. According to industry estimates, private label brands accounted for around 17.4% of the US food products sales in 2010 as against 15.2% in 2006.The private-label branded products industry in the US is estimated to be worth $90 billion, and account for nearly 30% of the total servings of food products sold. Whole Foods Market's store brands feature approximately 2,600 SKUs led by its primary brand, 365 Everyday Value. The company's total private label sales accounted for approximately 11% of its retail sales in FY2011 and FY2010. The growing demand for privately labeled products among consumers coupled with Whole Foods emphasis on increasing price value should result in positive impacts on their profit margins.
* **Trends support increased demand for food products:** Consumers looking for healthier diets for less money are also turning toward home cooked meals rather than eating out. Since the economic downturn, the perception that home-prepared foods are much healthier was held by and industry estimated 92% of shoppers. According to a recent survey, 86% of the budget-conscious women in the US prepared their meals at home in 2010. Approximately 71% purchased convenience produce (prepared salads, chopped fruits and vegetables, etc.) and approximately 81% purchased convenient forms of fresh poultry and meat regularly.

With the many opportunities created by the growing organic foods market come the challenges of stiff competition, stringent regulation, and high prices. Whole Foods faces problems such as store size deterring its customer looking for a small farmers market feel, as well as:

* **Intense Competition:** With the large amount of success seen by retail locations in the organic foods industry, it’s no surprise that Whole Foods is experiencing a lot of pressure from outside competition. Whole Foods Market competes with local, regional, national and international conventional and specialty supermarkets, natural foods stores, warehouse membership clubs, smaller specialty stores, farmers' markets, and restaurants. The main competitors of Whole Foods are privately held companies with the major players being Trader Joe’s and New Seasons. Trader Joes poses the biggest threat with 375 locations and very similar products to Whole Foods. In addition to these competitors, indirect competitors such as supermarkets are also trying to take advantage of the organic food craze. Companies such as Safeway have started offering their own private label of organic and natural foods, and these larger companies have the capacity to provide organic products at lower prices since they have the ability to leverage better prices.
* **Regulations:** Due to the nature of the industry Whole Foods is in, its stores and products are subject to many laws and regulations concerning the health, sanitation and labeling of their foods. Several federal agencies and departments, including the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission (CPSC), the United States Department of Agriculture (USDA) and the Environmental Protection Agency (EPA) set critical standards for the manufacture, processing, formulation, packaging, labeling and advertising of products. If they do not comply with these regulations and standards, it could mean penalties and/or seizure of their marketing and sales licenses. Also, resulting compliance costs may be reflected in reduced margins.

Corporate Level Strategy

Whole Foods is a mission-driven company that believes in providing exceptional quality products. The corporate level objectives of Whole Foods is to branch out and become an international brand synonymous with not just natural and organic foods, but also with being the best food retailer in every community they are a part of. Holding true to their motto, “Whole Foods, Whole People, Whole Planet” Whole Foods emphasizes that their vision reaches beyond food retailing, to helping support the health, well-being, and healing of both people (Customers, Team Members, and business organizations in general ).

Core Values

Whole Foods attributes much of their success to a list of seven core values. They believe that these core values have played a large role in their growth and help to drive profit:

* Selling the highest quality natural and organic products available
* Satisfying and delighting its customer;
* Supporting team member happiness and excellence;
* Creating wealth through profits and growth;
* Caring about its communities and its environment;
* Creating ongoing win-won partnerships with its suppliers; and
* Promoting the health of its stakeholders through healthy eating education.

The company's corporate-level strategy is defined through the company's operations and the related diversification of products. They mainly focus on expansion through new store openings, utilizing a “build versus buy” strategy so as to customize their stores to local preferences. However they also are open to acquisition opportunities. Whole Foods aims to grow at a “controllable” rate of 14% annually, while also striving to preserve their corporate culture of a people oriented company. They have slowly begun to diversify, expanding into private labeling and now control 2 private label lines: 365 Everyday Value® and Whole Foods Market™ brands. Whole Foods also plans to open its first freestanding "lifestyle" store in the West Hollywood suburb of Los Angeles on Oct. 28. The Lifestyle Store will feature eco-friendly designer clothing for men, women and children, as well as household items.

Business Level Strategy

Whole Foods business strategy can be defined as differentiated within a focused market. Their product categories include a wide range of products from seafood to hygiene items, pet products and now even clothing. The company also offers a different shopping experience to its customers by maintaining a well trained staff and services like delivery, cooking classes, and valet parking at some locations.

*Porter's Five Forces:*

* Having valued customers with brand loyalty lowers customer’s sensitivity to price and allows WFM to continue providing unique grocery shopping experiences to all of their customers.
* Differentiation allows WFM to have supplier power because of high margins.
* Buyer power is reduced because regular grocery stores provide fewer options and more expensive organic and natural products, so buyers lack a comparable advantage and again lowers customer sensitivity to higher prices.
* Differentiation increases customer loyalty, and decreases the threat of substitutes.

Whole Foods Market maintains its early mover advantage against some of its most direct competitors, like Trader Joes, Wait Rose and Mark n Spencer, through constant innovation, customer loyalty, market share, and product value that separates themselves from the competition. They have overcome Porters Five Forces and created a competitive advantage by utilizing the differentiation strategy and offering unique organic and natural products that are valued by a certain market. By positioning itself as a high quality retailer instead of differentiating itself solely on price, Whole Foods has built a reputation as a distinctive niche market for above average income earners.

Company Structure and Control Systems

In keeping with their company strategy of differentiation, Whole Foods has adapted a divisional organizational structure to operate its business utilizing decentralized control. They have structured their management into teams by region, allowing them to make decisions quickly and readily adapt to changing environments or shifts in the market. The basic work unit of the company is a self-directed team who meet regularly to discuss issues, solve problems and appreciate each other's contributions. The breakdown of a team follows a hierarchy within each store and region; the produce team is part of the overall store team, which is part of the market team, who make up the regional team, and so on. Every Team Member belongs to a Team, being very committed to business objectives, values and performance. Each team constantly competes against their own goals for sales, growth and productivity, as well as against other teams The competitive aspect of the structure is a major reason why performance information is so readily available within the company’s open book management philosophy and matches well with their overall corporate differentiation strategy. The ability for each team to directly measure other team’s performance promotes healthy competition between businesses, comparing performance features like sales, profits, and customer satisfaction.

Whole Foods lists as one if its core values “supporting team member happiness and excellence”. They express that the positive treatment of workers removes the need for unions. In the US locations, after 800 service hours, full-time workers are given an option to purchase health insurance coverage starting at $10 per paycheck for themselves (spouse and dependent coverage is offered for an additional charge). By offering such incentives, using decentralized management structures, and building a culture of trust among employees and managers, Whole Foods has empowered their employees in ways many companies fail to. In Mackey’s words, “Empowerment must be much, much more than a mere slogan, however. It should be within the very DNA of the organization. Empowerment unleashes creativity and innovation and rapidly accelerates the evolution of the organization. Empowered organizations have tremendous competitive advantage because they have tapped into levels of energy and commitment which their competitors usually have difficulty matching".

Recommendations

1. *Increase brand awareness through higher advertising budget*: By implementing promotions and other marketing initiatives to increase its brand awareness and awareness of the organic foods industry, Whole Foods stands to increase sales to current customers and to further attract new customers. More focus needs to be directed to developing marketing and sales initiatives to continue growing the Whole Foods brand.
2. *Continue growth strategy with new stores and further expansion into Canadian and European markets:* The largely untapped European market holds many opportunities for the Whole Foods brand. With the growing interest in the organic foods market, expansion outside of the US will correlate with their differentiation strategy and increase their company structured competitiveness.
3. *Continue to focus on being “Whole Foods”:*  Whole Foods has been receiving criticism for falling away from its early position as a home town store to a mega supermarket focused on maximizing profits. This recommendation would help to reestablish Whole Foods credibility as an organic food market again and, from a business standpoint it follows with the company’s goals and mission within the industry.

Implementation

Whole Foods needs to focus advertising money towards community promotions such as seasonal sales for frequent customers, implementing reward programs such as reward cards and points for buying eco-friendly products, and hosting community development programs like heath food cooking classes, home growing competitions and sponsored fitness programs. Additionally, national advertising promotions such as sponsoring health related events and advertising on television programs promoting healthy lifestyles during high times of target market attentiveness. Marketing initiatives through Facebook and twitter such as discounts and online promotions will also attractive options to today’s increasingly online social focus. With such a high interest in the organic and health foods industry, Whole Foods will easily increase its profit margins by increasing its advertising budget to 1.5% by drawing in many potential customers who may not know about or have a negative view of the company. Whole Foods will also generate brand awareness through outside collaboration and endorsements with influential stakeholders, organizations and athletes to increase their market visibility.

The expansion department of Whole Foods will be in charge of expanding on the current international locations and store development. The company’s impressive growth strategies need to be mirrored in these markets. By placing their private label products in international competitor’s stores they can increase their awareness abroad, while simultaneously opening stand-alone locations in these countries. By striving to open 20 new stores in foreign markets and have them up and running by the end of 2014 in addition to their planned openings, Whole foods can drastically increase its market presence in these regions. With a history of opening 90 stores within 4 years this should be a realistic goal and falls in line with their plans for continued growth. The addition of more locations in culturally different markets will also promote stronger completion within the team oriented company structure, helping to retain their reputation for quality and customer service. Since these markets are still relatively untapped, the focus will be to first expand into competitors locations, then focus on developing large storefronts which, while requiring more capital will also result in more revenue.

In conjunction with their new advertising projects, Whole Foods needs to remind the public of their core values and continue to demonstrate the competencies that separate them from the competition. This will be achieved through multiple community outreach programs including sponsorships of public health programs related to obesity, diabetes, and overall healthy diets. In line with their plans for the new clotting line, the company should also take steps toward donating portions of the profits to conservation programs and green initiatives. A Whole Foods “greenhouse” initiative will place functional gardens in or adjacent to stores, offering customers the freshest products possible, cared for by store employees. Further eco-friendly initiatives such as electric car charge stations will be implemented at test locations in supportable markets, reminding customers that Whole Foods is more than just a store, but a lifestyle promoting health for you and the planet.

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