

## WHOLE FOODS MARKET, INC. MarketBuster

### Summary

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When the first Whole Foods opened in 1980, very few consumers in the United States were concerned about where their food came from, how it was processed, and what chemicals were used to produce it. However, consumers were starting to become more aware of threats such as genetically modified foods, Mad Cow Disease, pesticides, additives and preservatives. The increase in awareness led to an increase in demand for organic and natural foods. If a large supermarket chain had realized the potential of the organic foods market earlier, it is likely that it could have smashed Whole Foods since the company was so small at the time. However, it took quite a while for traditional grocers to offer organic foods and as a result, Whole Foods had time to gain momentum and penetrate the market. Whole Foods no longer worries about being overtaken by competitors because Whole Foods has a strong brand name and is now large enough to compete with any of the competing food retailers.<sup>1</sup> The company has taken advantage of the trend towards organic foods and is now the world's leading retailer of natural and organic foods with 171 stores in North America and the United Kingdom. (See Exhibit 1 for organic growth statistics)

### The Story

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Anarchist, tree-hugger, vegan, laidback, and competitive are a few of the adjectives that can be used to describe John Mackey, founder of Whole Foods Market. Mackey refuses to play by traditional rules. He opened Whole Foods Market, an organic supermarket, when the organic community's mantra was, "small is beautiful." He decided to sell meats and fish in the stores even though many of his customers at the time were vegetarians. He insists that his employees make a difference and offers even the grocery baggers a stake in the company's success. His success has been significant—Whole Foods Market is the number one organic retailer and continues to grow organically and through acquisitions.<sup>2</sup>

Mackey first became interested in organic and healthy foods when he joined a student vegetarian group in college. He later dropped out of three Texas colleges, borrowed \$45,000 from friends and family and opened Safer Way Natural Foods in Austin, Texas.<sup>3</sup> Mackey was dedicated to the success of his store which sold groceries on the first floor, had a restaurant on the second floor, and had a bed on the third floor where Mackey lived. His third floor home did not even have a shower, so Mackey used the spray hose from the dishwasher in the restaurant to bathe.

In 1980, Mackey and Renee Lawson Hardy (co-owners of Safer Way Natural Foods) and Craig Weller and Mark Skiles (owners of Clarksville Natural Grocery) opened the first Whole Foods Market in Austin.<sup>4</sup> The vision for the store was to provide one-stop shopping for those who valued healthy, organic food. Whole Foods was one of many health-food stores in a very fragmented industry. Most health-food stores were extremely small, had little variety in their products, and did not offer a full range of products. However, Mackey knew that the industry was ready for an organic foods supermarket and he believed that Whole Foods Market could fulfill this need.

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<sup>1</sup> Fishman, 2004, p. 70.

<sup>2</sup> Lubove, 2005, p. 102.

<sup>3</sup> Ibid.

<sup>4</sup> *History of Whole Foods Company* 2005.

## MarketBusting Moves

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Whole Foods Market used the following MarketBusting moves to become the dominant player in organic foods retailing.

- #7: Eliminate tolerables and emerging dissatisfiers
- #8: Break up existing segments
- #11: Eliminate complexity

### #7: Eliminate tolerables and emerging dissatisfiers

Whole Foods' purpose in creating an organic superstore was to provide customers with a store that could meet all their organic needs. Before Whole Foods, there were many niche organic food retailers. Some sold only vitamins, others focused on produce, while still others provided packaged foods or meat. Customers had to visit several of these small stores to buy everything they needed. Those who were committed to buying natural foods were willing to put up with the inconvenience of shopping at multiple stores. Whole Foods believed that by providing one-stop organic shopping, it could eliminate a tolerable for existing organic shoppers and attract new customers who would shop for organic groceries if they could do so in one store.<sup>5</sup>

An inconvenience of both traditional grocers and small organic food stores was their unappealing store appearance. Whole Foods places a strong emphasis on having impeccably clean aisles, appealing displays, and many free samples throughout the store. According to one shopper, "Whole Foods creates markets that are a celebration of food: bright, well-staffed, and seductive; a mouth-watering festival of colors, smells, and textures; a homage to the appetite."<sup>6</sup>

Other added benefits of shopping at Whole Foods include a huge selection of produce and perishables (these products account for 2/3 of Whole Foods' sales), meat departments with prime cuts of aged beef, and an exotic wall filled with varieties of produce not found elsewhere.<sup>7</sup> The company has its own seafood facility and processing plant in Massachusetts and works with independent fishermen who are running their own small businesses. This relationship allows Whole Foods to stock fresh seafood in all of its stores and it can assure its customers that it knows the origins of its seafood. Whole Foods has partnerships with many local farmers near each of its locations and buys food from them to ensure that food is as fresh as possible. Customers value not only the quality of the fresh food, but also the fact that Whole Foods supports local farmers and small businesses.<sup>8</sup>

Unlike traditional grocers, Whole Foods prides itself on customer service and has extremely knowledgeable employees. It nurtures business relationships with its customers by demonstrating the following customer service beliefs:

- Customers are the lifeblood of our business and we are interdependent on each other.
- Customers are the primary motivation for our work—they are not an interruption of our work.
- Customers are people who bring us their wants and desires and our primary objective is to satisfy them as best we can—they are not people to argue or match wits with.
- Customers are fellow human beings with feelings and emotions like our own; they are equals to be treated with courtesy and respect at all times.<sup>9</sup>

The company's stated vision captures the way it provides customers with a superior organic shopping experience: "Our motto—Whole Foods, Whole People, Whole Planet—emphasizes that our vision reaches far beyond just being a food retailer. Our success in fulfilling our vision is measured by customer satisfaction, Team Member excellence and happiness, return on capital investment, improvement in the state of the environment, and local and large community support."<sup>10</sup>

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<sup>5</sup> Tarnowski, 2003, p. 175.

<sup>6</sup> Fishman, 2004, p. 70.

<sup>7</sup> Tarnowski, 2003, p. 177.

<sup>8</sup> Ibid.

<sup>9</sup> *History of Whole Foods Company* 2005.

<sup>10</sup> Tarnowski, Joseph, 2003, p. 178.

#### #8: Break up existing segments

Prior to Whole Foods' entry into the organic food market, organic shoppers made up a small niche in the food retail business. Traditionally, these shoppers were thought of as hippies, tree-huggers, vegans, and environmentalists. The trend towards fitness and well-being brought new customers to the organic foods segment. Whole Foods realized it needed to segment its customers in order to understand how best to serve them.

Many of the new customers interested in organic foods were aging baby boomers. To these customers, organic foods represented a new way to live healthy. Whole Foods determined that they were not price sensitive because healthy living and eating were more important to them than cost.<sup>11</sup> A 2002 study by The Natural Marketing Institute found that 39% of the US population uses organic products. These organic consumers can be further divided into three segments:

- The Organic Integrated Group: (37% of all organic users) consumes organic products more than once a day
- The Organic Middle Group: (39% of all organic users) consumes organic products at least weekly
- The Organic Fringe Group: (24% of all organic users) eats organic products occasionally<sup>12</sup>

Natural and organic foods retailing is the fastest-growing segment in the US grocery business. More and more Americans will flock to Whole Foods since they are on "hair-trigger alert to issues such as mad cow disease."<sup>13</sup> It is inevitable that the market will grow.

After identifying the buying characteristics of its customers, Whole Foods looked for new ways to add value to their shopping experience. It introduced new products such as cleaning supplies and pet foods so that customers with families would only need to shop in one place for all their needs. It realized that many customers would purchase meat and fish in the stores and that it could add these departments without alienating vegetarian and vegan customers. It allowed for differences across regions to let each individual store adapt to customer needs in a given market. It added a large section of the store for precooked meals, a salad bar, and other foods that could be purchased for lunch. In addition to these actions, Whole Foods is always looking for ways to improve its product selection and tailor it to the needs of its customers.

#### #11: Eliminate Complexity

Research has shown that consumers do not always trust the authenticity of organic products sold in supermarkets and that they have greater trust in the integrity of organic food sold through specialist and health food stores.<sup>14</sup> One of Whole Foods' objectives is to eliminate complexity and to let the consumers know exactly what they are purchasing. In June 2003, Whole Foods made great strides towards this objective by being certified as organic. In order to gain this designation,

"a grocer must verify current organic certification status of its products, maintain extensive records that demonstrate the audit trail of organic products is intact, ensure organic products are protected from commingling with conventional products and from contamination by prohibited materials, thoroughly train employees in the handling practices of organic products, and open facilities to on-site inspections."<sup>15</sup>

As of 2004, Whole Foods is the only grocer that has been able to meet the specifications to be designated organic.

In addition to assuring customers of the organic characteristics of its food, Whole Foods is committed to educating its customers. It does this through a variety of methods. First, customers encounter many informational signs while shopping in a Whole Foods store. These signs announce which foods are locally grown and often will include a mini-

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<sup>11</sup> Tarnowski, 2003, p. 178.

<sup>12</sup> 'The 2002 Organic Consumer Trends Report' 2002.

<sup>13</sup> Fishman, 2004, p. 70.

<sup>14</sup> 'Company Spotlight: Whole Foods Market', Inc.' 2004.

<sup>15</sup> Tarnowski, Joseph, 2003, p. 179.

biography of the farmer.<sup>16</sup> Other signs describe the benefits of organic foods, tell the characteristics of a certain item of produce, and offer nutrition tips. Customers can find brochures in the store regarding organic topics and can also find organic recipes. The Whole Foods employees are also a valuable source of information. Each employee is an expert in his department and can offer recommendations and help answer any questions a customer may have.

By eliminating complexity, Whole Foods makes the organic shopping experience more comfortable and enjoyable for its customers. Instead of wandering the aisles wondering what all the new brands and products are, customers learn about organic foods and become experts themselves. As the customers learn the benefits of organic foods, they are more likely to continue to shop at Whole Foods and gradually do more and more of their shopping there.

### **Key Lessons**

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If you ask John Mackey when he first knew that Whole Foods would be successful, he is likely to tell the story of the first Whole Foods that opened in 1980. It had only been in business for several months when a flood destroyed a large part of the store. Mackey thought that his vision for Whole Foods had ended because he lacked the funds to repair the store. However, the next day, Whole Foods' customers arrived with buckets and tools to repair the store. These customers volunteered their time to save the organic retailer that they had come to rely upon. It was then that Mackey knew Whole Foods would last. Satisfied customers saved the first Whole Foods store and have continued to fuel its growth. The company provided what other organic retailers lacked and was able to capture most of the existing and emerging market. Mackey says that Whole Foods will continue to grow and along with its growth will come the improvement of organic farming, better conditions for raising livestock, and a higher quality of food and life for Whole Foods' customers.

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<sup>16</sup> Tarnowski, Joseph, 2003, p. 179.

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**DRAT Table, Whole Foods Market, Inc.****SOURCE**

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**External**

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Powerful Incumbents	Traditional grocers, Wal-Mart
Opposition from advocacy groups	Criticized for having non-union workers; sometimes advocacy groups criticize suppliers of meats, produce, etc.
Risk to key external Stakeholders	NA
Inertia	Must prove that it can grow organically and not just through acquisitions. Must find new avenues of growth once the US market is saturated.
Disruption of customer's system or process	Need more customers to do all their shopping at Whole Foods instead of just purchasing certain items there. Organic foods must become more widely used and not just a niche segment.
Changes in standards or regulations required	Has gained organic certification as of June 2003. Must continue to maintain standards that demonstrate the audit trail of organic products and ensure that they are not contaminated.

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**Internal**

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Internal political maneuvering	As the company continues to grow, it may become more difficult to maintain its close-knit, decentralized employee culture.
Reluctance or resistance by those needed for active implementation	NA
Resource Constraints	As Whole Foods expands internationally, it will need to forge new relationships with local manufacturers and farmers and possibly will need to open new seafood plants.

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**Platform changes required**

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Human resource and skills platforms	Must continue to allow employees to make key decisions and feel like they play an active role in the company's success.
Logistics platforms	Needs to integrate all acquired companies effectively into the Whole Foods' culture.
Distributor platforms	NA
IT and database platforms	NA
Technology platforms	NA
Assets, operations, and systems platforms	Integration of newly acquired companies; expansion of processing plants as the company extends its stores abroad

## Marketbusting Kite

Element	Needed to Support the Marketbusting System
<b>Agenda</b> The key things that the critical people spend time on	<ol style="list-style-type: none"> <li>1. Expansion in the US and abroad</li> <li>2. Identifying potential acquisition targets</li> <li>3. Maintaining quality and organic status of merchandise</li> <li>4. Uniting Whole Foods' employees and ensuring that all are motivated to work towards a common goal</li> </ol>
<b>Norms</b> What principles and behaviors are valued?	<ol style="list-style-type: none"> <li>1. Selling the highest quality natural and organic products available</li> <li>2. Satisfying and delighting its customers</li> <li>3. Empowering its employees towards happiness and excellence</li> <li>4. Creating wealth through profits and growth</li> <li>5. Caring about the community and the environment</li> </ol>
<b>News</b> What information and measures are paramount?	<ol style="list-style-type: none"> <li>1. In-store sales</li> <li>2. Organic market penetration</li> <li>3. Sales relative to competitors</li> </ol>
<b>Allocations</b> What gets resourced and how are people rewarded?	Resources go to <ol style="list-style-type: none"> <li>1. Acquiring competitors</li> <li>2. Opening new stores</li> </ol> Rewards and recognition for successes go to <ol style="list-style-type: none"> <li>1. Profit sharing for teams that perform well within individual stores</li> <li>2. Employees who are actively involved in community service</li> </ol>
<b>Structure</b> Power, authority, responsibility structure	<ol style="list-style-type: none"> <li>1. Decentralized structure where each store location operates independently</li> <li>2. Significant responsibility given to each employee so that all have a stake in the success of the company</li> <li>3. Flat organization so that information flows freely</li> </ol>
<b>History</b> Key routines that have developed and drive activities	<ol style="list-style-type: none"> <li>1. Strong relationships with local farmers</li> <li>2. Commitment to the organic community</li> <li>3. Belief in the virtuous circle entwining the food chain, human beings, and Mother Earth</li> </ol>

## Exhibit 1: Organic Trends

### Growth Statistics:

- The average annual growth rate for organic products from 1998-2001 was 24.5%<sup>17</sup>
- More than 55% of Americans have tried organic foods<sup>18</sup>
- The US organic market is projected to reach a value of \$30.7 billion by 2007 (recorded \$10.8 billion value in 2003)<sup>19</sup>

### Total Foods and Organic Foods Consumer Sales and Penetration, 1997-2003

	Organic Food (\$mil)	Organic Food Growth	Total Food Sales (\$mil)	Organic Penetration
1997	\$3,566	Na	\$443,724	.8%
1998	\$4,272	19.8%	\$454,071	.9%
1999	\$5,043	18.1%	\$474,678	1.1%
2000	\$6,104	21.0%	\$498,379	1.2%
2001	\$7,359	20.6%	\$521,831	1.4%
2002	\$8,624	17.2%	\$538,033	1.6%
2003	\$10,381	20.4%	\$554,830	1.9%

Source: Nutrition Business Journal estimates based on OTA's 2004 Manufacturer Survey, annual Nutrition Business Journal surveys of manufacturers, and SPINS.

<sup>17</sup> Brandt, 2003, p. 28.

<sup>18</sup> Ibid.

<sup>19</sup> 'Company Spotlight: Whole Foods Market Inc.' 2004.

Organic Food Category Share, Consumer Sales in 2003

Organic Food Categories	Sales (\$mil)	% Growth 2003
Dairy	\$1,385	+20.3%
Bread & Grains	\$966	+22.9%
Beverages	\$1,581	+19.3%
Fruit & Vegetables	\$4,336	+19.9%
Snack Foods	\$484	+29.6%
Packaged/Prepared Foods	\$1,326	+16.0%
Sauces/Condiments	\$229	+23.5%
Meat/Fish/Poultry	\$75	+77.8%
Organic Food Sales	\$10,381	+20.4%

*Source: Nutrition Business Journal estimates based on OTA's 2004 Manufacturer Survey, annual Nutrition Business Journal surveys of manufacturers, and SPINS.*

Organic Non-Food Categories

Organic Categories	Sales (\$mil)	% Growth 2003
Personal Care	\$170	+19.4%
Nutritional Supplements	\$151	+15.1%
Fiber	\$85	+22.7%
Other (cleaners, pet foods, flowers, etc)	\$32	+41.9%
Total	\$437	+19.8%

*Source: Nutrition Business Journal estimates based on OTA's 2004 Manufacturer Survey, annual Nutrition Business Journal surveys of manufacturers, and SPINS.*

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