Whole Foods Market, Inc.

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Abstract

This case explores the rise and expansion of Whole Foods Market, Inc. As the world's leading natural and organic food supermarket, Whole Foods, faces major strategic issues in both its external and internal environment. These issues include the deterioration of the American economy, the uncertain future of the organic segment of the grocery industry, the increased competition of the major players in the food industry, the increased cost of food, the acquisition of Wild Oats and the Federal Trade Commission's subsequent objection to that acquisition.

Keywords: Whole Foods, John Mackey, entrepreneur, strategy, organic food, supermarket, acquisition, merger, Federal Trade Commission and Wild Oats

Introduction

From the fairly humble beginning of being a one-store entrepreneur living on the third floor and taking baths in the dishwasher, John Mackey has seen his 1978 Safer Way grocery store grow into an $8 billion a year corporation. As of September 2008, Whole Foods had 264 stores in the United States, six in Canada, and five in the United Kingdom. There are few companies that attract the kind of following Whole Foods and its CEO/founder has both among its customers and the national media. Type Whole Foods on Google and one would get over 3 ½ million hits. Type John Mackey in and one would get some 100,000+. Their corporate website averages more than 50,000 visitors a day (Whole Foods Market, 2008a).

The Whole Foods impressive new headquarters building is located above its 80,000 square foot flagship store in Austin, Texas. Through a long series of acquisitions, John Mackey has created a niche retailer which enjoys lofty profits in a very price competitive industry that is typically characterized by accordingly low profit margins. With projected 2009 sales of more than $8 billion, and a goal of $12 billion by 2010, Whole Foods currently has 275 stores, and 50,000 plus team members (Whole Foods Market, 2008a).

This ever-evolving, often controversial organic retailer is facing several major strategic issues in both its external and internal environment. CEO John Mackey admitted that 2008 was the toughest year in the company's history. In the first quarter of 2009, Whole Foods posted its first decrease in same-store sales in its twenty-nine year history. Confronting Whole Foods today are such issues as: the deteriorating state of the American economy; the uncertainty of the future of the organic segment of the grocery industry; the increasing competition of the major players in the food industry and their inroads in the organic market; the overall increasing cost of food for American consumers; the company's struggle to assimilate its acquisition of Wild Oats; and the Federal Trade Commission's objection to that acquisition (Whole Foods Market, 2008a).

The History of Whole Foods

Two years after opening his SaferWay store, John Mackey merged with Clarksville Natural Grocery in Austin, Texas. This resulted in the opening of the original Whole foods Market in 1980. In 1984, Whole Foods expanded out of Austin into Houston, Dallas, New Orleans, and one store in California (Whole Foods Market, 2008b). This expansion was accomplished in significant part through many acquisitions of other natural food chains throughout its three decade history.

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. Initially they planned for up to forty more stores in that country. During 2007 and 2008, they opened five more stores but later closed one of them. 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 (Whole Foods Market, 2008a).

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, closest competitor with a little over a billion a year in sales, slightly over 100 stores, and 8,500 plus employees (Whole Foods Market, 2008a).

Whole Foods Market is one of only thirteen companies to be included in Fortune magazine's annual list of the "100 Best Companies to Work For" every year since the list's inception in 1996. In 2009, it was rated at Number sixteen out of 100. John Mackey has a long list of awards, ranging from making the top 30 corporate leaders named by Barron's to being named the 2003 Overall National Ernst & Young Entrepreneur of the Year. Whole Foods employee-friendly touches include capping executives' pay at 19 times the average workers' annual wages, up from 14 times a few years earlier (Clark, 2006).

The company is heavily involved in environmental issues and community involvement. They donate at least five percent of their net profits yearly to charitable causes. Whole Foods made the U. S Environmental Protection Agency's list of the "Top 25 Green Power Partners" with such efforts as: eliminating plastic, working to ensure the humane treatment of animals, protection of the fishing industry, and offsetting its energy costs through wind power credits (Hartwig, 2007).

Whole Foods Is John Mackey

There is little doubt among those who know and follow John Mackey's career that he has a supersized ego. Many stories and quotes would attest to this. One story is the "I'm going to destroy you" shouted by Mackey at the CEO of Wild Oats market the first time they met during an open conference (Kesmodel & Eig, 2007). Another is the "Obviously, WFMI is no Wal-Mart (not yet anyway)!" he posted anonymously on the Yahoo Finance message board (Kesmodel & Eig, 2007; Levisohn, 2008).

He is one of the most followed CEO's in the American media. On July 20, 2007, the Wall Street Journal ran a front-page article entitled "For Whole Foods CEO, A History of Brashness". In that same article, Jeff Metzger, publisher of Food World and Food Trade News called Mackey a "rock star" (Kesmodel & Eig, 2007).

"I always wanted to make money, I never thought profit was bad or evil," (Smith, 2005) is a quote of Mackey's. When he gives speeches at business schools and asks if the purpose of business is to maximize shareholder value, he says one-half the students and all the professors agree. He goes on to suggest to these same individuals that a new paradigm which leads to the collective good of all – not just shareholders – one in which "you can do well and do good" (Smith, 2005) should apply. "With great power comes great responsibility," (Smith, 2005) is his philosophy.

For eight years, John Mackey used an alias to post messages on Yahoo Finance messages boards bashing his competitors and praising his company. These posting came to light during the Federal Trade Commission's investigation of Whole Food's takeover of Wild Oats. At least 240 of the 1,300 plus posts concerned Wild Oats. While the SEC eventually found that Mackey never tried to manipulate the stock or the merger, the issue raised ethical questions. "My mistake here was one of judgment, not ethics," (Haverstein, 2008) Mackey later posted on Yahoo. In November of 2007, the board of Whole Foods issued a code of conduct banning its executives from participating in online message boards (Haverstein, 2008).

John Mackey has always been modestly compensated by prevailing standards for CEO pay. He recently moved to accept just $1 per year in salary, and promised to donate all his stock options to charitable causes (Herbst, 2007).

Whole Food's Strategy: Not Your Mother's Grocery Store

Whole Foods Market is the world's leading natural and organic foods supermarket. Their mission is to promote the vitality and well-being of all individuals by supplying the highest quality, most wholesome foods available (Whole Foods Market, 2008a). Their aspiration is to become an international brand synonymous with not just natural and organic goods, but also with being the best food retailer in every community in which they locate. Perishable product sales accounted for approximately 67% of their total retail sales in fiscal year 2008. Prepared meals (which allow for rich premium prices) represent almost 20 percent of total sales (Whole Foods Market, 2008a).

A 2005 Forbes article entitled "Food Porn" likened Whole Foods food presentation as "theater" (Lubove, 2005). Another article by Thayer (2008) described their presentation as "eye candy". With gourmet foods being freshly prepared by chefs on site, shoppers are tempted by a wide array of both looks and smells. With onsite sushi bars, brick ovens pumping out pizza, salad bars, deli sandwiches, and coffee roasting it is difficult not to be impressed and persuaded. If it is correct as some believe that up to one-half of grocery shopping decisions are made on impulse, then perhaps, all of this makes sense (More are, n.d.). One just has to overlook the prices of many of the products offered by Whole foods. There is at least some justification for the "whole paycheck" moniker that seems to have stuck on this food retailer (Smith, 2005).

Whole Foods is more than a "fancy grocery store". With its culture and cult following, one might more aptly describe it as a lifestyle store. Some customers say they are making a statement by shopping there. Their motto "Whole Foods, Whole People, Whole Planet", emphasizes the company's vision as more than just a food retailer (Hogan, 2006). In the Harris Interactive/The Wall Street Journal ranking of the world's best and worst corporate reputations, Whole Foods placed 12th overall and received the best score of any company for social responsibility. They were recently rated as the number one "green brand" with Generation Y (Whole Foods Market, 2007).

Customers come from a 20 mile radius to shop at Whole Foods as compared to just two miles for the typical supermarket shopper. Yet only 25 percent of Whole Foods shoppers provide 75 percent of total sales. Whole Foods caters to local tastes by allowing their managers the discretion to stock 10 percent of each store with whatever might sell best in that area. Managers are allowed to set prices on locally competitive products (Lubove, 2005).

"We're selling the highest quality foods in the world," says John Mackey. He goes on to reject any comparison with Wal-Mart, "It's like comparing a Hyundai to a Lexus, their focus is on getting the cheapest stuff in; we're focused on getting the best stuff" (A Wal-Mart, 2005).

Whole Foods has several competitive advantages due to their differentiation strategies. Generally speaking, their associates are much more knowledgeable and willing to help than in the average grocery store. Another competitive edge lies in the depth and breath of their item selection. Offering fifty different brands of olive oil is but one example. Such excess, combined with, in some cases, obscenely high prices, might be a turn off for some customers.

What might be considered both a plus and a minus is the fact that the store shuns most major brands in favor of specialty ones. Because their niche is so narrow, and there are so few of their stores in each area, they can skim the market. This is a major factor contributing to their higher profits.

Whole Foods is also somewhat different from competitors in the area of prepared foods. There's a wealth of selection for lunch, dinner and dessert. You can eat in or take out. About 28 percent of shoppers do not know what they are having just two hours before the meal, according to the Food Marketing Institute, making the prepared meal a great opportunity for grocers (More are, n.d). While pre-made food carries a higher price tag than buying ingredients for meals, it is still less expensive than dining out and has become more popular as high-end consumers look for ways to curb spending in a weak U. S. economy.

The company relies primarily on word-of-mouth advertising. They only spend about 0.5 percent of their total sales on advertising and marketing, much less than the industry. They also contribute at least 5 percent of after-tax profits in the form of cash or products to not-for-profit organizations. Ninety-two percent of their 53,000+ employees are full-time team members. Those who work 30 or more hours per week and have worked a minimum of 800 service hours qualify as full-time. Whole Foods Markets provides healthcare insurance at no cost to its approximately 47,000 full-time members (Whole Foods Market, 2007).

Whole Food's Acquisition of Wild Oats

Whole Foods has a long history of acquisitions (approximately one-third of their existing square footage was derived from acquisitions). The Wild Oats acquisition represented the company's largest, both by square footage and dollars ($565 million). Wild Oats Markets, Inc. was started in Boulder, Colorado in 1987. By the year 2006, it had grown into the nation's second largest natural and organic foods supermarket chain, with more than 110 stores in 24 states and British Columbia, and annual sales of more than $1 billion (Koenig, 2008).

One of the arguments for the merger-acquisition was so Whole Foods could compete against much larger rivals like Kroger, Safeway, and Wal-Mart, all of which are starting to offer organic and natural products. It further gained Whole Foods entry into 15 new markets and five new states. As with most mergers, the company anticipated significant synergies; however, some industry experts remain skeptical. One grocery consultant commented: "they get some additional store locations at probably a reasonable price versus building them, but I'm not convinced that this is a marriage made in heaven" (Koenig, 2008). Their post-acquisition plans included selling some 35 non Wild Oats stores (Henry's & Sun Harvest), closing 10-30 Wild Oats stores, relocating seven, and remodeling/enlarging many more (Koenig, 2008).

The Federal Trade Commission initially raised antitrust concerns over the acquisition as early as May-June 2007. They contended that the two chains would compete directly against one another in 21 geographical areas, and that this combination would limit competition, and therefore increase prices in the marketplace for natural and organic foods. Whole Foods countered that it already faced plenty of competition from Kroger, Safeway and other big supermarket chains as well as local producers selling directly to customers in that segment (Court clears, 2007).

In August, 2007, a U. S District Court ruled that the two companies could proceed after finding that the "marginal" customers (those more likely to seek out better prices), rather than core customers (those more loyal), could easily find the products in other stores. The judge based his decision in part on the fact that about 60 percent of natural and organic foods are sold by conventional grocery stores (Court clears, 2007). The FTC still was not convinced, and the United States Court of Appeals in mid 2008, by a 2-1 vote, sent the case back to the lower court to consider the evidence more fully, suggesting that the judge there had rushed the decision. Following the ruling, one antitrust lawyer commented: "what are you going to do – the eggs have already been scrambled" (Martin, 2008a). Another critic of the FTC's action commented "we've got bigger problems than organic grocery monopolies" (Lomax, 2008). While all this was being sorted out, Whole Foods was proceeding with their plans for the Wild Oats acquisition (Koenig, 2007).

In early March of 2009 a final settlement was announced. Whole Foods agreed to divest itself of 31 Wild Oats stores in 12 states, including 19 that had already been closed, and one Whole Foods store. They also agreed to relinquish the rights to the Wild Oats brand, which could be sold to a potential competitor. In exchange, the FTC agreed to drop its legal bid to undo the merger. Neither side could claim a victory. In that Whole Foods paid roughly $565 million for 110 stores under the Wild Oats name, and suffered another $19 million in settlement issues, one analyst likened it to an exercise in killing the competition rather than gaining a major brand (Rockwell, 2009; FTC, 2009).

The Organic Food Industry

In 2007, the global market for organic food and beverages was worth $22.75 billion. The United States accounted for about 45 percent of that total (Hunt and Dorfman, 2009). Typical growth rates of 20 to 30 percent for organic food sales in the U.S. eased in the second half of 2008 as middle and upper-income families felt the effects of layoffs and declining portfolios (Martin and Severson, 2008). While it may be safe to assume that organic food is past the stage of being a fad, and that there is a hard core of customers, the future for this industry is cloudy at best.

It is still debatable exactly what organic food is or how to define it. The issue of whether it is healthier or more "green" is still open to question by some. There is, however, according to some estimates, a core group of organic consumers that consists of approximately 15 percent of the overall American population (Martin, 2008b). This core is willing to spend the price premium that organic foods carry (which typically ranges from 20 to 200 percent over regular foods (Martin and Severson, 2008). Because the appeal is narrow, the prices are high, and several other reasons combined, one would suspect that many natural and organic foods have a long shelf tenure. An early critic of organic foods in general and Whole Foods specifically, wrote "today, health food, in cultural terms is primarily a gourmet treat for the rich" (Our view, 2008).

One health and wellness marketing research group postulates that the past years' double digit growth of organic foods has started to level off. Supervalu (the number four or five grocer) closed down their five-store Sunflower market that focused on organic items in 2008, after opening it in 2006, because it failed to meet the company's expectations (Wohl, 2008).

On the other hand, since food companies have been increasing prices to offset the rising commodity prices and currency related affects, the pricing gap between regular food products and organic products has narrowed. This narrowing of prices could make organic products more appealing to a greater number of customers.

Industry Trends

Grocery stores are ranked among the largest industries in the U. S. In the early 2000's, there were almost 100,000 stores providing some 3.4 million jobs. In 2004, approximately 35,000 stores had annual sales of $2 million or more. Cashiers, stock and order fillers make up 50 percent of all grocery store workers (Supermarket, n.d.) At one time the retail grocery store sector of retail was, in relative terms, a higher paid industry; however over the past 25 years the grocery industry has become one of low wages and part-time employees.

At retail, the industry makes less than a penny of profit on every dollar spent (Lubove, 2005). Winn-Dixie Stores, Inc. (500+ stores) emerged from Chapter 11 bankruptcy in November of 2006; and Albertson's began selling off their 6000 stores in 2004. However, both Safeway and Kroger have spent millions, if not billions, sprucing up their stores in an effort to confront Wal-Mart (Grocery store, 2009).

Recent trends in the industry of grocery stores consist of expanding their offerings, trying to draw in customers with Web sites, recipes, loyalty cards, cooking classes, ready to eat meals, sit down spaces to eat, salad bars, and coffee (Starbucks in some cases) areas. Higher gas prices, mortgage failures, job losses, stock market fears, and food inflation has taken its toll. Many grocery shoppers have begun looking for bargains. In this recent downturn, even the affluent are showing signs of pulling back. A 2008 survey found that many adults are preparing more meals at home (43 percent), using more coupons (40 percent), or going out of their way to look for lower-cost items (37 percent) as a result of higher food costs (Survey shows, 2008).

The Food Marketing Institute found that in 2008 some 64 percent of shoppers said they often or always buy a store brand rather than a national one. That was up from 59 percent the prior year. These cost-conscious shoppers are turning away from premium priced goods produced by name brand labels such as General Mills and Kraft to individual store brands. Kroger has lead the movement by capitalizing on their Private Label brand which is the most extensive line in the industry. Their brand is expected to generate over a billion dollars in 2008 sales and represented some 27 percent of their total sales (Shoppers, 2008).

The Competition

With over 100,000 grocery stores in the U.S., the landscape is filled with a vast variety. Stores range from the mom-and-pop operations to the super-huge (a Woodman's in Wisconsin with over 240,000 square feet; and a Wegmans 130,000 square footer in Virginia with projected sales of over $125 million which will make it America's highest volume grocery store) (Grocery store, 2009; Wegmans, 2009).

It is somewhat difficult to compare apples with apples in this industry because of all the various product mixes and different customers targeted. Wild Oats was probably the closest rival for Whole Foods. With their 100+ stores, $1 billion+ in sales, and aggressive growth plans, at least initially one could see the logic of Whole Foods acquisition.

Currently, Trader Joe's may represent the one closest in appeal to Whole Foods. In 2008, they had 300 stores in 25 states and were growing. Their stores are concentrated in California and along the mid-to-upper East Coast, with some single stores spread throughout the U.S. Trader Joe's products are usually priced lower in comparison to Whole Foods (Gustafson, 2008). Sunflower Farmers Market represents the discounter of organic and natural foods. In 2009, they had 20 stores concentrated in the southwest (Sunflower, 2009).

Wegmans is a growing force to be dealt with in the industry with their European open-air market concept. With $4.8 billion in 2008 sales, they placed 30th on the list of top 25 supermarkets based on sales. They have 70+ stores with most in New York and the rest in neighboring states. Many consider them to be the best of breed in the industry. They are consistently rated in the very top tier of Fortune magazine's "100 Best Companies to Work For" list (Wegmans, 2009).

There is also a lengthy list of others, both large and small, that aggressively competes for the consumer's food dollar. Some examples would include the Fresh Market chain of 86 stores in 17 states, and the Central Markets of seven or eight stores in Texas. Then there are the individual stores like Stu Leonard's two New England stores which have been called the "Disneyland of dairy stores", and Jungle Jim's six acres of food in Fairfield, Ohio which attracts over 50,000 people a week with food from over 70 countries.

In addition to the more unique grocery companies, there are the more traditional. Companies like Wal-Mart (the number one seller of groceries – over $100 billion in 2008) (Gale, 2009c), Kroger (over $76 billion in 2500 stores) (Gale, 2009a), Safeway (over $44 billion in 1750 stores) (Gale, 2009b), Albertsons, and Winn-Dixie all compete for some of the same dollars that Whole Foods seeks (Gale Group, 2009). In early 2009, Wal-Mart announced plans to completely overhaul its oldest and biggest store brand. These plans include testing and improving the quality as needed for over 5,000 products and introducing possibly hundreds of new ones. Their Great Value store brand is not only the biggest brand Wal-Mart carries, it is the biggest store grocery brand in the entire country (Boyle, 2009). Whole Foods, in late summer of 2008, began emphasizing value, offering greater discounts and lower-priced goods in an attempt to recast at least somewhat their premium price image due to the economic downturn (Whole Foods Market, 2009).

Kroger is the number one pure grocer in sales, and has with some degree of success, taken on Wal-Mart the discounter, and Whole Foods the natural/organic retailer. Kroger is still in the experimental stages of expanding its Marketplace store concept; where it sells not only groceries, but also furniture, appliances, and home furnishings, with some locations featuring some of its own Fred Meyer's jewelry stores, Starbucks, and even pizzerias (Gale Group, 2009a).

While total national sales and number of total stores are revealing, it is in the local markets where share is determined. Most grocery shoppers will not travel far to buy food; convenience of location is most important. Whole Foods is somewhat of an exception as noted earlier, but even for their core customers there are limits to how far they will travel.

The Future for Whole Foods

"In all my profound wisdom I decreed a maximum of 100 stores, and thought that would saturate the United States," recalls John Mackey of the time when his company went public in 1992 (A Wal-Mart, 2005). Although the company has a store in 40 different states, almost 50% of them are in just six states. Currently, CEO Mackey is thinking in the neighborhood of 500 stores for the future. One would think that even he has to be amazed by the company's success.

While Whole Foods Market past success can hardly be contested, its future is somewhat cloudy. One of Mackey's immediate goals is to convince more of his customers to do all their shopping at his chain, rather than cherry-picking the items they can't find at the big name chains. Companies like Wal-Mart, Safeway, and Kroger are all increasing their offerings of organic goods. Many smaller competitors, like Trader Joe offers a similar product mix on the cheap (example: its "Two-Buck Chuck" wines).

Digesting the Wild Oats Market has taken its toll on the company, both legally and financially. Entering fiscal year 2008 with $736 million in long-term debt, and over $19 million spent in legal fees alone in Federal Trade Commission legal bills related to the acquisition, combined with a third-quarter 2008 slowdown in store growth, revenue growth, and profit growth, has to have both Mackey and his investors nervous. In a late 2008 earnings conference call, John Mackey said of the Wild Oats purchase, “If I could get my money back, I’d take it back” (Whole Foods: Not, 2008). At that time only 55 of the 109 Wild Oats stores Whole foods originally purchased remained open.

All of these negative happenings have put a damper on Whole Foods Market stock. In late 2006, one financial analyst rated its stock as a buy stating, “history shows little to no relationship between the company’s sales and data for economic growth, employment, or even consumer spending” (Hogan, 2006). However, after peaking at almost $80 in January 2006, its stock has continued a downward slide from then. In the spring of 2009, it fluctuated between lows of around $9 and highs around $19 (Yahoo, 2009).

In January of 2009, Mackey was quoted as saying “we have to manage the business differently; economic growth used to be the tail wind that the company built into its business plan. The new era requires a different mindset – we have to be more frugal, to think about every expense, every capital investment – because we won’t be bailed out by growth” (Colvin, 2009). During the fiscal years of 2008 and 2009, Whole Foods implemented several strategies to deal with the tough economic times (Whole Foods, 2008). These included:

- cutting in half the planned new store openings (30 to 15);
- cut discretionary spending by 50 percent;
- suspended their cash dividend;
- increased the range of lower-priced items;
- strengthened their value image;
- launched their Whole Trade product line

The company faces multiple strategic issues in its efforts to continue its growth and success. For one, their distribution effectiveness isn’t nearly the equivalent of its national competitors. A second issue would be how do they maintain their differentiation competitive advantage? This is always a problem for a niche or focused player. Their differentiation advantage has narrowed due to the competition’s encroachment on that niche. A third issue would be: how does the economy’s downturn affect even those “core” customers who have been willing to pay a premium for natural and organic? Will Whole Foods over-expand and go the Starbucks/Gap route? Just how big is the market for Whole Foods? How many more stores are viable in the United States? Additionally, will the Wild Oats acquisition pay off in the long run or has the company ended up with egg on its face as well as a huge debt? And last, but not least, who might succeed John Mackey in the event of his leaving, dying, or being relieved by the board?

EXHIBIT 1
Whole Foods Market, Inc.
Summary Financial Information

(in thousands)	2008	2007	2006
Consolidated Statements of Operations Data			
Sales	$7,953,912	$6,591,773	$5,607,376
Cost of goods sold and occupancy costs	5,247,207	4,295,170	3,547,734
Gross profit	2,706,705	2,296,642	1,959,642
Direct store expenses	2,107,940	1,711,229	1,421,968
General and administrative expenses	270,428	217,743	181,244
Pre-opening expenses	55,554	59,319	32,058
Relocation, store closure and lease termination costs	36,545	10,861	5,363
Operating income	236,238	297,451	319,009
Interest expense	(36,416)	(4,208)	(32)
Investment and other income	6,697	11,324	20,736
Income before income taxes	206,519	304,567	339,713
Provision for income taxes	91,995	121,827	135,885
Net income	$ 114,524	$ 182,740	$ 203,828
Basic earnings per share	$ 0.82	$ 1.30	$ 1.46
Weighted average shares outstanding	140,011	141,836	145,082
Diluted earnings per share	$ 0.82	$ 1.29	$ 1.41
Weighted average shares outstanding, diluted basis	140,011	141,836	145,082
Dividends declared per share	$ 0.60	$ 0.87	$ 2.45
Consolidated Balance Sheets Data			
Net working capital	$ (43,571)	$ (104,364)	$ 114,211
Total assets	3,380,736	3,213,128	2,042,996
Long-term debt (including current maturities)	929,170	760,868	8,655
Shareholders' equity	1,506,024	1,458,804	1,404,143
Operating Data			
Number of stores at end of fiscal year	275	276	186
Average store size (gross square footage)	36,000	34,000	34,000

Source: WFMI 2008 Annual Report

EXHIBIT 2
Whole Foods Market, Inc.
Consolidated Balance Sheets

Assets (in thousands)	2008	2007
Current assets:		
Cash and cash equivalents	$ 30,534	$ -
Restricted cash	617	2,310
Accounts receivable	115,424	105,209
Proceeds receivable for divestiture	-	165,054
Merchandise inventories	327,452	288,112
Prepaid expenses and other current assets	68,150	40,402
Deferred income taxes	80,429	66,899
Total current assets	622,606	667,986
Property and equipment, net of accumulated depreciation and amortization	1,900,117	1,666,559
Goodwill	659,559	668,850
Intangible assets, net of accumulated depreciation	78,499	97,683
Deferred income taxes	109,002	104,877
Other assets	10,953	7,173
Total assets	$ 3,380,736	$ 3,213,128

Liabilities and Shareholders' Equity	2008	2007
Current liabilities:		
Current installments of long-term debt and capital lease obligations	$ 308	$ 24,781
Accounts payable	181,134	225,728
Accrued payroll, bonus and other benefits due team members	196,233	181,290
Dividends payable	-	25,060
Other current liabilities	286,430	315,491
Total current liabilities	666,177	772,350
Long-term debt and capital lease obligations, less current installments	928,790	736,087
Deferred lease liabilities	199,635	152,552
Other long-term liabilities	80,110	93,335
Total liabilities	1,874,712	1,754,324
Shareholders' equity:		
Common stock, no par value, 300,000 shares authorized; 140,286 and 143,787 shares issued, 140,286 and 139,240 shares outstanding in 2008 and 2007, respectively	1,066,180	1,232,845
Common stock in treasury, at cost	-	(199,961)
Accumulated other comprehensive income	422	15,722
Retained earnings	439,422	410,198
Total shareholders' equity	1,506,024	1,458,804
Commitments and contingencies		
Total liabilities and shareholders' equity	$ 3,380,736	$ 3,213,128

Source: WFMI 2008 Annual Report

EXHIBIT 3
Whole Foods Market, Inc.
Percentage Revenues by Product Category

	2008	2007	2006
Grocery	33.2%	32.9%	31.5%
Prepared foods	19.3%	19.8%	19.6%
Other perishables	47.5%	48.3%	48.8%
Total sales	100.0%	100.0%	100.0%

Source: WFMI 2008 Annual Report

EXHIBIT 4
Whole Foods Properties
(as of Sep 28, 2008)

Location	#Stores	Location	#Stores	Location	#Stores
Alabama	1	Kentucky	2	Ohio	6
Arkansas	1	Louisiana	3	Oklahoma	1
Arizona	7	Maine	2	Oregon	6
California	51	Maryland	7	Pennsylvania	7
Colorado	18	Massachusetts	19	Rhode Island	3
Canada	6	Michigan	5	South Carolina	2
Connecticut	5	Minnesota	2	Tennessee	3
District of Columbia	3	Missouri	3	Texas	14
Florida	14	Nebraska	1	United Kingdom	5
Georgia	7	Nevada	4	Utah	4
Hawaii	1	New Jersey	9	Virginia	9
Illinois	16	New Mexico	5	Washington	5
Indiana	2	New York	8	Wisconsin	2
Kansas	2	North Carolina	5		

Source: Whole Foods Market, 2007 Annual Report, p21.

EXHIBIT 5
Whole Foods Management
(as of Nov 20, 2007)

Regional Presidents

Name	Age	Tenure	Position
Scott Allshouse	45	7	South Region
Michael Besancon	61	13	Southern Pacific Region
Patrick Bradley	47	21	Midwest Region
Mark Dixon	45	24	Southwest Region
David Lannon	41	14	Northern California Region
Ron Megahan	37	18	Pacific Northwest Region
Kenneth Meyer	39	12	Mid-Atlantic Region
Christina Minardi	41	12	Northeast Region
Juan Nunez	49	25	Florida Region
William Paradise	47	17	Rocky Mountain Region
Jeff Turnas	35	12	North Atlantic Region

Executive Officers of the Registrant

John P. Mackey	54	29	Chairman of the Board & CEO
Albert Gallo	54	14	Co-President & COO
Walter Robb	54	16	Co-President & COO
Glenda Chamberlain	54	19	Exec. VP & CFO
James Sud	55	10	Exec. VP of Growth & Bus. Dev.
Lee Valkenaar	51	20	Exec. VP of Global Support

Source: Whole Foods Market, 2007 Annual Report, p16.

EXHIBIT 6
Drop In Average Consumer Spending Per Visit
(January 2008 – October 2008)

Whole Foods	19%
SuperValue	16%
Trader Joe	12%
Food Lion	12%
Publix	8%
Albertson	6%
Safeway	5%
Stop & Shop	1%

Average Spend Per Visit at Popular Supermarket Chains
(October 2008)

Safeway	$45
Publix	42
Stop & Shop	42
SuperValue	38
Trader Joe	38
Food Lion	32
Albertsons	30
Whole Foods	28

Source: Geezeo, "Whole Foods In A Whole Lot of Trouble," http://www.seekingalpha.com/article/105807-whole-fodds-in-a-lot-of-trouble?source=yah

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INSTRUCTOR'S NOTES FOR:

Whole Foods Market, Inc.

Case Overview

This case deals with Whole Foods Market, Inc. The company is the largest natural/organic food chain in the United States and in the top fifteen in total grocery sales. It has grown rapidly since its start in 1978 as a one-store grocer in Austin, Texas. Today it consists of close to 300 stores, almost $8 billion in sales for 2008, and some 50,000+ team members (employees). The company now has a presence in the United Kingdom, with future plans for expansion in that country.

Whole Foods' growth has been achieved in large part through a long history of acquisitions. In 2007, they made their largest acquisition with the purchase of Wild Oats, the second largest natural/organic food grocer. Whole Foods differentiated-focused strategy, coupled with superior product presentation skills, has provided them with a much larger profit margin than is typical in the grocery industry. This success has been engineered by the guiding hand of its CEO/entrepreneur John Mackey. His talents and vision, accompanied by an experienced long-term management team, have made this company a darling of the media and the company's shareholders. At the end of 2008, however, the company is facing a host of problems which could derail the future success of Whole Foods.

Courses and Levels

This case is designed for use in either graduate or senior level business policy/strategy or marketing management classes. It gives students the opportunity to analyze many issues including some of the following: reasons for the company's past and current successes; ethical issues surrounding the company and its CEO; the merits and demerits of a sizable acquisition involving the industry's second largest competitor; debating the pros and cons of the Federal Trade Commission's objections to the acquisition; forecasting the future for both this niche market and the largest competitor in that market; generating alternative strategies with a discussion of their merits; and finally making recommendations which would ensure the future success of the company.

Discussion Questions & Answers

1. Identify and discuss what you consider to be the strengths and weaknesses (internal environmental factors) of Whole Foods.

2. Identify and discuss what you consider to be the opportunities and threats external (environmental factors) of Whole Foods.

3. Discuss some of the current and possible future trends in the grocery industry, particularly as it affects the natural foods and organic segment.

4. Discuss the advantages and disadvantages of the Wild Oats acquisition.

5. Discuss the arguments for and against the Federal Trade Commission's objections to the acquisition?

6. What are your recommendations for Whole Foods strategies for the future?