Case Analysis – Whole Foods Market

Comfy Shoes
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I. Introduction:

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. Whole Food's stated mission statement was to "promote vitality and well-being for all individuals by offering the highest quality, least processed, most flavorful natural and naturally preserved foods available."

II. Situational Analysis

a. Firm Analysis (Internal Strengths and Weaknesses) (Based on Appendix A).

i. Current strategy and strategic position in industry:

Whole Food's strategy since 2002 has been to open its own large stores, 50,000 square feet and larger, rather than acquiring small chain stores ranging from 5,000- 20,000 square feet. The driving concept behind their merchandising strategy was to create and "inviting and interactive store atmosphere that turned shopping for food into a fun, pleasurable experience." Whole Food's wanted customers to think of the store as a "third place" outside of home and work, where they could relax as well as interact with others in a colorful environment.

Financials Analysis:

After reading the case and reporting the financial numbers the profit margins from year 2005 have been decreasing each year. The costs of goods sold are on the rise over the past three years and debt over the past three years has risen dramatically to all time highs. Compared to the competitors Whole Foods Market has extremely low revenues and also low EPS. (www.hoovers.com)

Assessment of Marketing:

In 2005 sales were 1.3 million and rose to 1.7 million in 2007 showing for a increase in sales over the three year time period. As stated in the financial analysis the profit margins have been decreasing each year. According to yahoo financials the market capitalization has been on the rise.

Assessment of Finance:

Stock price according to yahoo financials is 33.69 but has drastically reduced since 2005. The P/E ratio in comparison is well above the industry average. The prices of whole foods are well above the industry average.

Assessment of physical resources:

The company's stores some can be up to eight years of age which is fairly young for the grocery industry. These stores average about 30,000sq.ft. As of 2006, 113 of the company's 180 stores were 30,000sq.ft. or larger. The stores only get newer as the company looks to build new large stores in the larger metropolitan areas. Over the next five years the company will need to continue to match the competition with stores that fit what the consumer market is looking for at the current time.

Assessment of human resources:

The employees are very well trained, knowledgeable and experienced in the grocery industry products making for a better customer experience. The payroll, bonus and other benefits increased from 2004 to 2005 almost $26,000,000 but if well below the competitor's payroll. Kroger is 571million in 2004 and dropped to 547million which shows one of two things there are more employees and possibly better pay for the workers. The management believed its team members were inspired by the company's mission because it complemented their own views about the benefits of a natural and organic foods diet. In management's view, the team members feel good about their job because they feel like that contributes to the welfare of society and to the company's customers by selling clean and nutritious foods.

ii. **What are the key Strengths and Weaknesses?**

One of Whole Food's strengths is their passion for food and high standards for quality products. They guaranteed 100 percent satisfaction on all items purchased.

They have a competitive advantage when it comes to the size of their stores. Very few natural foods stores have stores larger than 20,000 square foot.

Each Whole Food's store had a customized layout to fit the particular site and building to show off particular products for their target customers in that area.

Another strength within the Whole Foods corporation is that they offer an economic value added management and incentive system for employees. This system worked well for team members to use in finalizing decisions that created sustainable shareholder value.

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.

iii. **Complete the IFAS matrix**

Internal Strategic Factors	**Weight**	**Rating**	**Weighted score**
Strengths			
Passion for high quality products.	0.40	4	1.6
Large size stores.	0.10	2	0.2
Customized facilities.	0.20	3	0.6
Weaknesses			
High prices	0.20	-3	-0.6
Large store size.	0.10	-2	-0.2
Total	**1.0**		**1.6**

b. Environmental Analysis (External Opportunities and Threats) (Based on Appendix B)

i. **How attractive is the market?**
The organic foods market is very attractive and continuing to increase in attractiveness. Whole Foods holds a very strong position in the market and could potentially position themselves in an even stronger and more profitable position. Health and organic foods have become very popular and show no signs of slowing in demand. The processes by which organic foods are made will only become less expensive as new technologies and continuing knowledge of the industry grow.

ii. **What are the key Opportunities and Threats?**
The key opportunities for Whole Foods include: increasing attractiveness of the health/organic food industry, growth through acquisition, and enhancing their brand image/loyalty through community service. Whole Foods has already bought its largest competitor, Wild Oats, which has shown to be profitable. By promoting organic foods Whole Foods can increase sales and attract new customers by introducing them to the Whole Foods experience. Whole Foods would benefit not only by promoting itself but the industry in general. In addition to promoting organic foods, they could enhance their brand image and loyalty by continuing their community service efforts. If the industry continues to grow and they continue to bring about brand awareness and loyalty, Whole Foods could strengthen its market share and profitability.
The key threats that Whole Foods faces include: local grocers increasing their organic food options, the size of Whole Foods stores deterring customers, and the price of organic foods. Local grocers could potentially take away from Whole Foods sales by stealing the customers that want to get in and get out. If customers can get the organic foods they want at a smaller grocery store, some customers may switch to them. This is where the size of Whole Foods' stores becomes a threat to themselves. If they continue to buy and build large stores they could potentially deter some of their consumers to the smaller grocers in the area. Also what is a threat now is the high price of organic foods. Consumers must pay a premium for these items because they cost more to produce. Whole Foods must keep the customers they have now loyal or they could lose them to non-organic foods that are cheaper.

iii. Complete the EFAS matrix

External Strategic Factors	**Weight**	**Rating**	**Weighted score**
Opportunities			
Growth through acquisition	.20	4	.80
Increasing attractiveness of health food industry	.20	4.5	.90
Brand image through community sponsored events	.15	3.5	.525
Threats			
Local grocers increasing organic food options	.15	-3.0	-.45

Large store size deterring "in and out" consumers	.15	-2.0	-.30
Economy troubles: customers switching to lower cost products	.15	-2.0	-.30
Total	1.0	5.0	1.175

III. Summary of Strategic Position:

Based on the IFAS and the EFAS we feel that Whole Foods has a high competitive strength and they are competing in a highly attractive industry.

IV. Issue Identification

Based on the Generic Strategy Matrix, what is the key strategic question?

How can Whole Foods Market continue their success by attracting non-users, (consumers who don't normally purchase natural and organic products) convince current customers to buy extra and more often, as well as gaining customers from competitors.

V. Strategy Formulation:

Given their position on the Generic Strategy Matrix, Exploit competitive position, Whole Foods needs to focus their strategy on market penetration.

VI. Evaluations of Alternatives:

a.

1. Increase the brand awareness, image, and loyalty through various forms of advertising and public relations.
    - i. Advantages: Not only promoting the Whole Foods brand but organic foods in general to increase sales of current customers and continue bringing in new customers. Whole Foods already holds a strong position in the market, and by increasing the awareness and demand for organic foods they will inevitably increase their market share and profits. Whole Foods can continue to increase their brand image through their community service in the local operation areas to enhance the brand loyalty.
      Disadvantages: Whole Foods traditionally relies on word of mouth advertising and also their continuing customers, an increase in the advertising costs would initially affect the bottom line. If the large scale advertising plan does not generate the projected sales, it could have a very detrimental affect on the company's long term performance.
    - ii. Attractiveness score (EFAS)
      1.2
    - iii. Ability to compete score (IFAS)
      1.8
2. Determine the most effective and efficient store sizes for each market location
    - i. Advantages: Determining the best store size to better serve the area they are operating in. This could help Whole Foods attract and keep the "in and out" shopper that they could miss out on with the larger facilities. Another advantage would be reducing overhead costs by reducing store sizes where necessary. Whole Foods could become more efficient in customer service by improving their employee to shopper ratio.
      Disadvantages: Conducting the analysis of the appropriate store sizes would be very costly. Surveying the market area and determining a precise answer would be extremely difficult. Reducing future store sizes

would limit the volume at which they operate and could limit the assortment of products offered.

   ii. Attractiveness score (EFAS)
   0.7
   iii. Ability to compete score (IFAS)
   1.2

b. Use the EFAS and IFAS scores to plot each alternative on the Strategy Matrix
   Alternative 1: is very attractive and Whole Foods has a great ability to pursue this alternative. Whole Foods would be penetrating the market through advertising, promotions, and increasing their brand image/loyalty through community service.
   Alternative 2: is a medium attractiveness, and a medium ability to achieve. It would be difficult for Whole Foods to overcome the obstacles in place to succeed in this venture.

VII. Conclusion

a. Increase the brand awareness, image, and loyalty through various forms of advertising and public relations. This will help Whole Foods further penetrate the market and continue to increase market shares and profits.
b. Whole foods should implement 95 % of available resources to alternative 1 and the remaining 5% could be concentrated on determining store sizes and locations for the highest customer acquisition.

VIII. Implementation

a. Short term implementation: Whole Foods could hold radio station promotions for the local community to gain new customers. Use billboard ads to grow the Whole Foods name to grab customers that might not have a awareness of the local areas
b. Long term implementation: Launch national advertising promotions by sponsoring a large health related event and gain statistics on the target market TV shows and advertise in or on these channels at the given time of the target markets attentiveness.
c. Assumptions: The demand for organic and health foods are going to continue to increase therefore the market share and profits will also continue to increase with the demand rising in this market.
d. Identify critical success factors: The consumer continues to view Whole Foods as the best and primary provider of organic and health food.
e. Identify key risks: Devoting to much of the resources to advertising and losing focus on company operations.