

Mission and external analysis of whole foods market



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According to Whole Foods Market, Inc.'s Form 10-K from 2002, the company's "goal is to become an international brand synonymous with not just natural and organic foods, but with being the best food retailer in every community in which we are located." The vision of Whole Foods goes deeper than just being a successful grocery store. The company is dedicated to ultimately improving the world in general; it plans to do this by continuing to focus on its immediate visions, which include offering the highest quality of all-natural foods and nurturing a respectful, motivated workplace in which employees are treated fairly. The company's philosophy also includes the declaration that "companies, like individuals, must assume their share of responsibility as tenants of the Earth."

Overall external factors with immediate effects on Whole Food Market Inc.'s business include economic, social, and ecological. Currently, consumers are overspending their personal income limits, energy costs are remaining high as well as interest rates rising. All of these economic issues result in a decreasing disposable personal income among consumers, which could lead to cost saving and discount purchases efforts. For Whole Foods, this can be seen as a possible threat to sales and earnings because of the company's well-known high prices. The most influential social factor, which can be seen as a definite opportunity for Whole Foods is America's current Health Consciousness state. Many consumers are taking a stake in improving their eating habits and overall health than ever before. With the continued spread of the health conscious movement, stores like Whole Foods can do nothing but gain.

Industrial Analysis

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The natural and organic food retail industry has grown rapidly over the past 20 years. This industry saw vast growth during the 1990s, but upon arrival of the 2000s, the growth has steadied itself at 7-9 percent per year from the previous decade's two-digit growth figures. The natural and organic food retail industry to which Whole Foods belongs is only a small segment of the large Grocery retail industry. Whole Foods' sales account for less than 1% of the US grocery market. However, this small segment is still a great influence on the grocery/supermarket business. Natural food stores have become increasingly more prosperous and popular over the past 20 years due to the demand for organic products by a growing number of consumers. According to a survey by the Organic Trade Association, the average US household will spend 14% of its budget on organic products by 2025.

Consumers shopping within the natural and organic food retail industry cannot be classified into one category of the market. According to many surveys, all age groups can be found shopping in natural and organic food stores, but there has been a significant increase in young adults between the ages of 18 to 24 as well as adults aged 55 to 64. The main reasons customers shop at natural and organic food stores include the avoidance of genetically modified foods and pesticides, health and nutrition, and freshness.

Suppliers to the natural and organic food retailers are of course organic farmers. In 2004, only 1 percent of US farmland was designated as organic cropland, however, this number has doubled since 1997, seen in Exhibit 1. It is an important goal for at least 5 percent of U. S. farmers to be dedicated to organic farming by 2013. Current, obstacles to adoption of organic farming <https://assignbuster.com/mission-and-external-analysis-of-whole-foods-market/>

include high managerial costs and risks of shifting to a new way of farming, limited awareness of organic farming systems, lack of marketing and infrastructure, and inability to capture marketing economies. However, as prices for staple commodities are falling, many U. S. farmers are embracing organic farming in order to capture high-value markets and increase farm income.

The largest competitors in the natural and organic foods retail industry are Whole Foods Market, Inc., Trader Joe's and Wild Oats Markets (full list in Exhibit 2). Wild Oats Markets is a 113-store chain, which operate under 12 or more different names in 24 states as well as Canada. One major weakness of Wild Oats is the inconsistent form of customer service and product selection from store to store due to an "aggressive acquisition streak" lead by former CEO and founder, Mike Gilliland. Trader Joe's operates over 200 specialty supermarket stores in 19 U. S. states. Trader Joe's chain is very attractive to the cost-conscious natural and health food customer. They are able to keep the prices of their organic food items low while still maintaining the high quality.

Internal Analysis

Whole Foods Market, Inc.'s CEO and cofounder, John Mackey, has been with the company since its start in 1980. He has driven the company to its success at being the nation's largest natural and organic foods retailer. Mackey is very motivated in keeping the company's sales high and growth rates increasing. The company utilizes a "decentralized team" approach to store operations. The majority of operational decisions are actually made at

the individual store level. With this kind of store operation, it is important that each store have an efficient “ team leader,” capable of making higher-level decisions with only the help of an “ associate team leader.” Each aspect of the store is divided into a different segment; employees are then assigned in teams to each segment. Customer service is a prime aspect of operations as well. This method of operations has proven successful thus far.

Whole Foods is an internationally known brand name. It markets itself to its customers as a company mainly concerned with “ promoting the vitality and well-being of all individuals.” The main company logo is “ Whole Foods, Whole People, and Whole Planet.” Each area of this logo is an important part of Whole Foods’ marketing plan as well as mission statement. “ Whole Foods” is carried out by the company acquiring the highest quality food items and from suppliers, which claim to be the least processed, most flavorful and naturally preserved foods. “ Whole People” refers to the company’s employees. Whole Foods prides themselves on having a very motivated, respectful and fairly treated staff. “ Whole Planet” symbolizes Whole Foods obligation to take part in their share of responsibility for the planet as a company. They carry this out by being active supporters of organic farming as well as promoting environment awareness. In 2004’s fiscal year, less than . 5% of total sales went to advertising and marketing costs. Whole Foods relies on its loyal customers to spread the word for the business. Rather than focus on community-wide advertisement, Whole Foods is focuses on a national brand-awareness marketing plan.

Financial Analysis

Whole Foods outperforms its industry in all aspects of financial ratios including liquidity, profitability, debt and market value (Exhibit 3). To begin, the liquidity ratios of Whole Foods are on average 35% greater than that of the industry. This suggests that in terms of meeting short-term financial obligations, Whole Foods is more capable than its competitors in the industry. Profitability ratios for Whole Foods also outweigh the industry. Specifically, Whole Foods has a net profit margin of 3.2% in 2005 double that of the industry. Return on assets for Whole Foods are also twice as much as the industry, while the return on equity is almost equal to the industry's. These profitability ratios are evidence of Whole Foods success at generating income within its vast share of the market. The debt to equity ratio for Whole Foods in 2005 was 1.38 double that of the industry. This implies that overall long-term solvency for Whole Foods is more suitable than its industry. The price/earnings ratio of Whole Foods is 78% higher than the industry, meaning that the company earns significantly more per stock price than its competitors in the industry. There is the overall noticeable trend of growth among Whole Foods' 2004 and 2005 financials as well as compared to the industry financials.

Assumptions/Challenge/Objectives

Assuming the U. S. economy continues, as it is currently, disposable personal income will continue to decrease, causing Americans to continue to look for discount shopping opportunities. This could pose itself as a possible threat for Whole Foods, considering the price of its high-quality inventory. It is assumed that Americans will gravitate away from wanting to spend extra for

high quality in order to save money on mediocre-quality items from discount stores.

The major challenge that Whole Foods Market, Inc faces is competition. Although Whole Foods is the nation's largest natural food retail store, its competition still raises concerns in certain locations and areas of business. One obstacle in Whole Foods' rapid growth strategy is suppliers. As stated before there is currently only 1 percent of cropland dedicated to organic farming in the U. S. Although organic farming, does have its strengths in the market it also has several weaknesses, which keeps many mainstream farmers from adopting its methods.

The overall strategic objective of Whole Foods is growth. It plans to continue to expand through opening new stores as well as acquiring existing stores. Whole Foods has been extremely successful in opening new stores in ideal real estate locations, which capture many different markets. The acquiring of existing stores has also proven successful to the Whole Foods' company (Exhibits 5). The acquisition of the existing stores is normally small chains, which provide Whole Foods with more of the market, experienced employees and opportunistic locations. In accordance with Whole Foods strategic objective, its financial objective is to increase sales. The projected sales target for 2010 has recently been increased from \$10 billion to \$12 billion because its business has been doing so well.

Alternative Analysis

The first possible alternative that presents itself as a resolution to Whole Foods challenge of competition is the continued acquisition of existing stores
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and the openings of new stores. Whole Foods has been very successful and efficient in this operation, in terms of its vast growth over the years. Another alternative, which can also be combined with the previous alternative, is the acquisition of suppliers. Whole Foods already owns several of its vendors, owning more has the potential to decrease inventory costs as well as the hassle of negotiating prices with outside vendors. However, along with the acquisition of vendors comes the added cost of maintaining the vendors. The last alternative for Whole Foods would consist of the lowering of its prices. With lowered prices, Whole Foods could maintain its current market share as well as increasing it. This is the most difficult alternative in terms of implementation. Whole Foods strives to provide its customers with high-quality items of which they must price at high rates. This practice turns away many cost-conscious customers. While cutting prices has the potential to increase volume sales and market share, it also has the potential to stagnate or decrease total sales.

Resolution

The best resolution for Whole Foods would be to continue along its current strategic plan. The overall growth by acquisition of existing stores and opening new stores has proven to be very successful as well as efficient. Because, the natural foods retailing industry is highly fragmented and includes many smaller local and regional chains, its in Whole Foods best interest to obtain acquisitions that provide access to advantageous markets, locations and experienced employees. Whole Foods has a strategy to picking prime real estate locations and acquiring small chains of stores, which only benefit its overall operations. Whole Foods has a system dedicated to <https://assignbuster.com/mission-and-external-analysis-of-whole-foods-market/>

seeking out new markets as well as penetrating existing trade areas. As the only foreseeable challenge to Whole Foods Market, Inc. is competition, if it continues its aggressive growth plan then it will remain the largest national retailer of natural and organic foods.

List of Sources

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