

# Swot analysis on whole foods market

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The company offers a broad and fractionated product selection with a strong emphasis on perishable foods designed to appeal to both natural and organic food and gourmet shoppers. An extensive product offering allows the company to address multiple customer segments. However, intense competition could negatively impact the company through loss of sales, reduction in margin from competitive price changes, and greater operating costs such as marketing expenditure.

Strengths Broad product offerings Focused growth strategy Strong focus on right sizing of stores Opportunities Increasing demand for organic products Increasing popularity of private labels Trends support increased demand for food products Weaknesses Product recalls Weak international presence Increasing rental expenses Threats Intense competition Stringent regulations

Strengths Broad product offerings Whole Foods Market offers a broad and differentiated product selection with a strong emphasis on perishable foods designed to appeal to both natural and organic food and gourmet shoppers.

Its product selection in all of its stores includes produce, seafood, grocery, meat and poultry, bakery, prepared foods and catering, specialty (beer, wine and cheese), coffee and tea, nutritional placement, vitamins, body care, educational products such as books, floral items, pet products and household products. In its stores, it stocks a large selection of organic food and non-food products. These stores also feature catering departments, where customers can purchase made-to-order foods. Moreover, the company's emphasis on fresh food provides it with a competitive edge over its peers offering only packaged foods.

An extensive product offering allows the company to address multiple customer segments, apart from insulating it from any significant fall in demand for any specific product or segment and also enables it to retain its customer base besides attracting new customers to its stores. Focused growth strategy Whole Foods Market focuses on expansion, primarily through new store openings in existing trade areas as well as new areas, including international locations. During PAYOFF and PAYOFF, the company opened 25 and 18 new stores, respectively.

During the 16 weeks ended January 20, 2013, the company opened 10 new stores. Besides, the company is also expanding in the UK. The company opened a 22, 000 square feet store in Coiffing, Glasgow in November 2011, and plans to open a 20, 000 square feet store in Richmond, London in 2013. Further, the company estimates to open 32-34 stores in PAYOFF and 33-38 stores in PAYOFF. The company's strategy to grow through identical store sales growth, acquisitions and new store openings has enabled it to grow at a compounded annual growth rate (CARR) of 26% during 1991-12.

Since the natural foods retailing industry is highly fragmented and comprises many small local and regional chains, growth through store expansion provides the company access to desirable markets, apart from enabling it to expand its reach to a wide customer base and diversify its revenue streams. Strong focus on right sizing of stores Whole Foods Market is focused on the right sized store for each location. During recession, the company downsized 20 leases by an average of 13, 000 square feet each. The company reduced approximately 1. Million square feet from its development pipeline,

downsizing 20 leases for stores in development and terminating an additional 22 leases. Also in 2012, the company reduced the average size of its pipeline stores to 37, 000 square feet from 39, 000 square feet in 2010. While Whole Foods Market's larger-format stores have a strong presence in dense urban areas, the company's smaller stores have the potential to generate great returns as well. The company's decision to scale back the average size of its new stores is an important factor behind improving the company's chain-wide productivity and enhancing its return metrics.

**Weaknesses Product recalls** Whole Foods Market has recalled several products owing to contamination. For instance, in January 2013, Whole Foods Market recalled one lot code of Whole Catch Wild Alaskan Sockeye Salmon, cold smoked and sliced, due to a possible contamination with *Listeria monocytogenes*. The product was sold in stores in 12 states. In October 2012, Whole Foods Market recalled two prepare items, Chicken Spring Rolls and Peanut Sesame Noodles, due to possible *Salmonella* contamination in the peanuts used as an ingredient. In the same month, Whole Foods Market recalled soup sold in all stores in six states due to mislabel.

The Whole Foods Market Kitchens soup, labeled as Roasted Garlic and Eggplant Soup, was in fact Lobster Bisque, which poses the risk of allergic reaction if consumed by customers with a shellfish or milk allergy.

Previously, in January 2012, the company recalled certain Whole Foods Market Dairy Free bakery products because they Market of Austin, Texas recalled seven types of cheddar cheese over the possible risk of *E. Coli* or *Listeria* contamination. Such recurrent product recalls affect the brand image

of the company, which, in turn, leads to low customer loyalty and brand equity.

Page 5 Weak international presence The company has weak international presence with just seven stores in Canada and six stores in the I-J. Canada and the I-J accounted for only 3.2% of the total revenues in PAYOFF. Though the company intends to open new stores in the UK and Canada, its operations in these markets are not large enough to give economies of scale in purchasing and distribution, resulting in relatively high product prices. The higher prices erode the competitiveness of the company relative to its established international rivals, who have larger scale of operations and, therefore, leaner economics.

In a competitive environment, high dependence on few markets not only exposes Whole Foods Market to the vulnerability of local market conditions but also limits the growth opportunities. Besides, the company is deprived of the economies of scale and benefits which its competitors realize because of their global operations. Increasing rental expenses Whole Foods Market has obligations under certain capital leases for rental of equipment and certain operating leases for rental of facilities and equipment. Therefore, the change in rental expenses charged under operating leases affects the company's business.

In the recent years, the company's rental expenses have increased significantly. Rental expense charged to operations under operating leases for PAYOFF, PAYOFF and PAYOFF totaled approximately \$353.4 million, \$321.6 million and \$303.5 million, respectively. Increasing rental expenses

affect the company's profitability and consequently have a eternal adverse impact on margins. Opportunities Increasing demand for organic products  
The demand for natural and organic foods has increased over the years due to rising awareness about the importance of natural foods in the diets.

According to industry estimates, the US organic industry grew 9.5% in 2011, registering sales of \$31.5 billion. Organic food and beverage sales surpassed \$29 billion in 2011 and accounted for nearly 4.2% of the total food sales in the US. The organic food and beverages market in North America is expected to register strong growth rates in the coming years. Whole Foods Market offers natural and organic foods for special dietary needs in the US. The company is well positioned to benefit from the expanding organic foods market and improve its market share.

This would enhance the company's revenue base in a lucrative and stable growth the US is expected to grow at a fast pace. The economic slowdown is one of the reasons that kept price the top concern for consumers. Instead of expensive brands, consumers across the industry are turning to generic and private label products. Even upper-income shoppers are more willing to buy generic, which has traditionally appealed more to shoppers with Page 6 limited budgets. In a study conducted by an industry source in 2011, about 80% of consumers surveyed indicated that they consider store brands to be equal to or better than national brands.

The annual sales of private label products are estimated to have increased by 40% in supermarkets during 2000-10. Furthermore, in 2011, overall sales of store brands increased 5% in supermarkets. Moreover, industry surveys

estimate that currently around 25% of products purchased in the US are store brand products. This trend is expected to continue even after the economy recovers. Whole Foods Market's store brands feature approximately 2,700 SKU led by its primary brand, 365 Everyday Value. Additionally, Whole Foods Market has a number of store-made and regionally-made fresh items sold under the Whole Foods Market label.

It also offers specialty and organic coffee, tea and drinking chocolates through its subsidiary Allegro Coffee Company. In addition, the company has developed a grouping of 'exclusive' and 'control brand' products to complement its family of brands. Increasing popularity of private label products among consumers and the company's emphasis on enhancing its value offerings is expected to have a favorable impact on the company's sales and profit margins. Trends support increased demand for food products. Eating at home and eating healthy are important trends that are likely to increase the demand for grocery.

The economic downturn and the perception that home-prepared foods are much healthier, a view held by more than 90% of grocery shoppers according to an industry study, and an unmet desire to enjoy affordable, restaurant-style foods at home have given food marketers the opportunity to recapture mealtime. 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. A recent study by an

industry source in 2012 indicated that women dined out less frequently. Home cooks are purchasing fresh and organic food items for cooking at home, and are avoiding processed foods. Industry reports suggest that the perishable department has been registering steady growth despite the weak economic condition. This growth is driven by the consumer perception of healthy food, increasing working population with lesser time to cook, and the spending in which is not entirely discretionary.

The positive trends in the market will lead to increased sales in the segment which will also drive footfall. Threats Intense competition Food retailing is a large, intensely competitive industry. 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. Each of these competes with the company on the basis of product selection, quality, customer service, price or a combination of these factors.

Most supermarkets offer at least a limited selection of these products, while some have chosen to expand their selection more aggressively. As competition in certain areas intensifies, the company's results of operations may be negatively impacted through loss of sales, reduction in margin from competitive price changes, and greater operating costs such as marketing expenditure. Stringent regulations As the company operates in the natural and organic foods market, its stores and products are subject to several laws and regulations relating to health, sanitation and food labeling.



The company is also required to comply with provisions regulating licensing for beer and wine or other alcoholic beverages in many stores. Several federal agencies and departments, including the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission (COPS), the United States Department of Agriculture (USDA) and the Environmental Protection Agency (EPA) set critical standards for the manufacturing, processing, formulation, packaging, labeling and advertising of products.

Failure to comply with these standards could result in penalties and seizure of marketing and sales licenses. These regulations also result in additional compliance costs, which could reflect in reduced margins. Page 8 Copyright of Whole Foods Market, Inc. Soot Analysis is the property of Marketing, a Denominator business and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.