

A consumer analysis of Whole Foods Market

Lawrence Fernandes, Dr. R. Srinivasan

Abstract: Consumer demand for organic produce has exploded in recent years. Growth in organic food sales is induced both by growing consumer demand for organic food and greater accessibility in retail outlets. Whole Foods Market is one of the pioneer sellers of natural and organic food in the grocery industry. They are first ones to be certified as national “Certified Organic” grocer. This paper discusses the growth of organic market from consumer perspective for Whole Foods Market, Inc. It elaborates competitive analysis for Whole Foods, it further throws light upon buying preferences of the organic consumer at Whole Foods. However, the company has faced recent difficulties as a result of the economic recession, increasing competition, and complications from acquisitions. Finally paper suggests growth strategies for Whole foods.

Key words: Consumer demand , organic produce, Whole Foods Market, growth strategies.

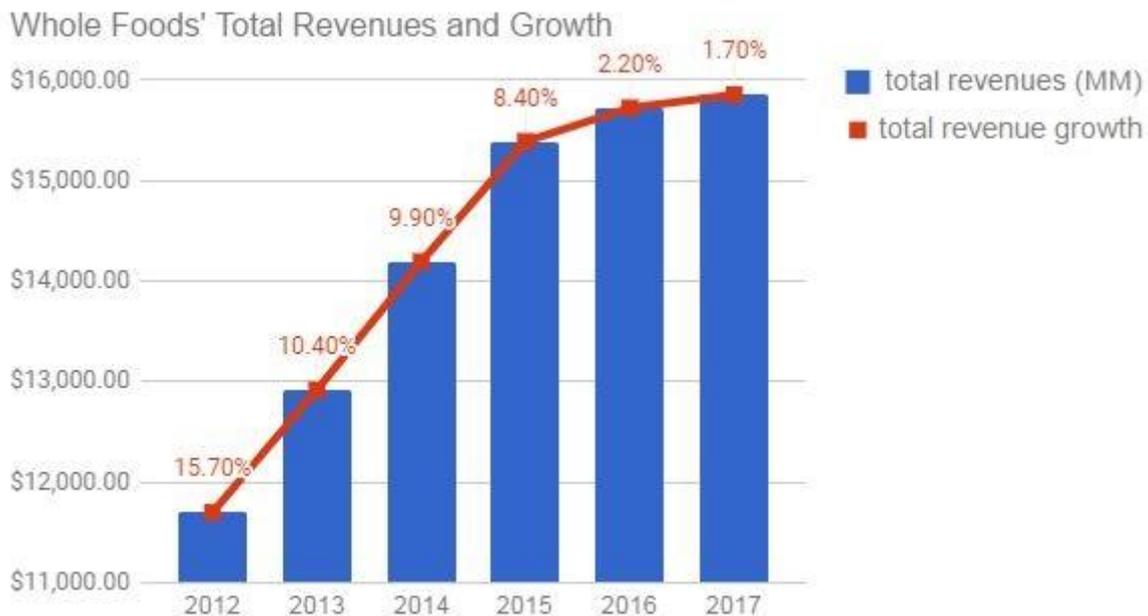
Introduction:

Food and clothing has always been the necessities of human beings for their survival. Globally, all over the world firms are trying to fulfill the demand of the growing population and projecting much greater demand with rapid growth in population for future years. As the years are passing by, there is a significant growth in people’s income and incentives resulting in creating more demand over the years. Global supply chain strategies have led bigger retail chains to compete each other within a market where customer’s satisfaction is at highest priority. As the income of people began to increase the need to eat healthy increased too. With many factors contributing to the growth notably the increase in the income level of the people, preference to home cooked food over the take-out foods, increasing health awareness, growing population and increasing perception to have a wide variety of choices. Over the past five years the growth of the supermarkets and grocery stores are enormous in terms of both the revenue and the number of new outlet opened. Food and beverage industries can be considered as the evergreen industrial firms working over their retail chain expansions all over the world to sustain in the competitive market. Each of these factors contributed in a significant way like increasing health awareness and preference for home cooked food over take out foods led to increase in sales of premium, organic and all-natural brands. They are priced higher than the regular products. These premium, organic and all-natural brand products come with risks of less shelf life and logistical difficulties. These impacted the small retailers more than the large chain stores.

Whole Foods Market

Whole Foods Market Inc. is one of the grocery chain selling all organic food and health products without and harmful preservatives and additives which are not healthy for consumption. Whole Foods Market is one of the pioneer sellers of natural and organic food in the grocery industry. They are first ones to be certified as national “Certified Organic” grocer. They have the excellent quality natural and organic foods available matching with their strict quality standards, and that’s how they contribute to sustainable agriculture. Natural and healthy organic foodstuffs are in great demand with the younger and health conscious generation. They strictly follow the quality standards and regulations and only sells products those are passing the quality check and the standards for being "natural". Their main aim is to sell the produce which is free of unhealthy and saturated fats.

The Whole Foods Total Revenue and Growth



Source: eMarketer Retail

Source: emarket retailer

While procuring, the company checks for the authenticity of their suppliers for the raw or the finished products that they procure from. The products go through a strict quality check and then finds its way in the Whole Foods Market store. They specifically choose products which are fat free healthy for consumption, with no artificial flavors or preservatives and which can be marked as natural and organic. As Whole Foods is a Grocery Supermarket chain, they have all the products which ranges from vegetables to Fruits, , Grains to coffee, tea, Seafood to Poultry, wine to beer, cheese. Healthcare products like nutritional supplements, body care and lifestyle and household products too.

Competitive analysis for Whole Foods

Whole Foods is listed under Grocery Stores which explicitly operates within the Natural Products Industry. The Retailer’s product categories include: produce, seafood, grocery, meat and poultry, bakery, prepared foods and catering, specialty (beer, wine and cheese), Whole Body (nutritional supplements, vitamins, body care and educational products such as books), floral, pet products and household products. Whole Foods faces competition from many sources including traditional grocers, big box retailers and pure rivals. Safeway and Kroger compete with Whole Foods as traditional grocers while Wal-Mart, Sam’s Club, and Costco come at them as big box retailers. Finally, Wild Oats and Trader Joe’s act as pure rivals in the market. The Company also competes with smaller chains and local farmer’s markets.

Challenges for Whole Foods (WFM):

- **Intensifying Competition:** Due to a growing number of retailers entering the organic food market, WFM has experienced a stark decline in store traffic and same-store sales. Considering WFM’s recent sluggish performance, we forecast fewer new stores openings going forward, decreasing from 24 in 2016 to 18 in the CV year.
- **“365 by Whole Foods Market”:** Given a shift in consumer preferences, we anticipate this lower-cost store format to be the dominant driver of future revenues, accounting for over 80% of additional stores opening in the CV year. However, it may not prove to be a viable source for long-term organic growth.
- **Stock Underperformance:** While the S&P 500 increased 15% over the last 12 months, there was only a 4% gain in WFM, which lost over 50% of its value since October 2013.
- **Increased Stake by Activist Investor:** Jana Partners built an 8.8% stake in WFM to urge accelerated operational improvements to better compete with large-scale grocers. The dissemination of this news caused WFM’s price to surge over 10% on Monday, April 10, 2017.

Whole Foods Target Customers

Looking at operational feasibility, Whole Foods strategically decided to operate in a few key markets catering to a select target group, as this would ensure the stores are profitable.

According to MRI+, "People who bought organic foods in last 6 months: 55% are age 25-54, 60% are at least graduates and 53% have Income over \$50,000." The primary target market is men and women 22-40 (more women), who care about the sustainability of the earth and prefer all-natural products.

Many of Whole Foods customers are graduates and are from the upper-middle class of the society. They have opted for Whole Foods as a store by choice because of its brand experience, and for them its not about buying from a store, but more of a lifestyle choice. There is a probability that customers of Whole Foods may be in a line of work that holds similar beliefs to the Grocer, or participate in volunteer work having to do with earth sustainability. Many people that fall under this segment also have children, whom they share this belief and experience with.

A secondary target market that Whole Foods sells to is the health-conscious upper-class. It's no secret that Whole Foods is more expensive than other supermarkets, its mission to make organic foods with no chemicals comes at a price. For this wealthy target market, shopping at Whole Foods provides healthier options with no worries over price. Most of these customers are college graduates and enjoy a luxurious lifestyle (even celebrities). This target differs from the primary market in the sense that this market sees Whole Foods as a healthier supermarket for the slightly wealthier, whereas the first market is more conscious about the organic sustainability features and are willing to pay a little more for them. Because sustainability isn't this target's main concern, an opportunity for growth could be laying down stores in higher income areas, where customers in this target market can be found. Providing more expensive gourmet foods could be beneficial to target this market as well.

Understanding the Buying Preferences of the Organic Consumer at Whole Foods

Organic shoppers are influenced by outside sources including bloggers, the media, and their friends and they are much more likely to do the research and read the fine print than most consumer groups. Pairing this information with what you know about your target audience will help you make wiser marketing decisions that drive sales.

a) They Want the Best for Their Family

Parents want to do what's best for their children, and buying organic is a great way for the whole family to eat healthier. It's tough being a mom or a dad today — schools are underfunded, kids get distracted by video games and the internet, and exercise for children is at an all time low. Plus, many parents and household decision makers have concerns about the long-term effects things like GMOs and artificial dyes could have on their family's health.

Buying organic assuages these fears, and makes them feel like a better parent. The fact that many organic products are now easily accessible, and more affordable than ever before, makes it easier for shoppers to make this commitment to their family, and not feel guilty because they didn't.

b) Health Conscious is Not a Trend

Many consumers buy organic food for the health benefits it offers. While organic produce appears to offer comparable nutritional benefits to conventional crops, they utilize more environmentally friendly farming methods, meaning **organic consumers** are at less of a risk of eating foods contaminated with pesticide residue. Additionally, new research has found that organic produce contains significantly more antioxidants than conventional.

When it comes to meat, eggs, and dairy, a significant **motivation to buy organic** is to avoid the risks associated with factory farming — which has been known to be responsible for the spread of diseases like E. Coli and Salmonella.

Truly health conscious consumers are knowledgeable, and they do their research. They are on top of the latest news and trends, and they genuinely seek the healthiest options for themselves and their families. They see through inauthentic marketing and they read the fine print.

c) Socially Conscious, Environmentally Friendly, Animal Friendly

The social and environmental impact of consumption is of the utmost importance for some organic consumers. They oppose the environmental damage done from pesticide runoff into rivers, and they find the conditions under which factory farms operate appalling for workers and animals alike.

Organic produce offers an environmentally friendly alternative, for those who care about the earth and don't want to see it destroyed. Buying organic makes these consumers feel that they are doing their social and moral duty to preserve the environment for the next generation.

Just like the health conscious, they are oftentimes very educated and see through brands that are trying to jump on the bandwagon without the systems, products, and production to back it up.

d) It's Cool!

But wait . . . you don't buy organic? For many, green is the new black. It's cool — and in many circles even expected — to buy organic, and no one likes to feel left out. Free range, cage free, organic, non-GMO, no artificial flavors, no animal testing, and the list goes on, is trendy. And trendy sells.

This does not mean that consumers who are keeping up with the Jones' don't also fall into other conscious and educated categories above, it just means that marketers need to understand there are multiple factors that play into these buying decisions.

e) It's Much More Accessible Than Ever Before

In 1980, there was just one Whole Foods. Far fewer people cared about organic, if they had even heard of it. Today, not only does Whole Foods have 340 stores nationwide, but even companies like Walmart and Target are getting in on the organic action. Farmers markets and locally made and sourced products are more popular than ever before.

While buying organic is more accessible than it was even 3 or 5 years ago, and prices have certainly gone down, it is still a financial investment. It costs more to create organic products, and this is passed down to the consumer in most cases. However, this is not stopping organic shoppers by any means. They don't have to drive to a local farm for the freshest, cleanest produce anymore. They can stroll down the street to their local grocery store now.

What this means for marketers is that while organic is highly coveted amongst a large group of consumers, there are more competitors than ever before. Consumers expect accessibility and are now able to price compare like they weren't able to do before in this industry.

Suggestions:

Overall, we should expect consumer expectations for quality, taste, and healthfulness to continue to increase. Whole Foods will need to reinvent themselves. In the past, food companies often pushed to lower their costs rather than to win consumers with their taste and varieties. Food companies must keep in mind that consumer demand for these things is based on consumer perceptions. For example, almond milk in the refrigerated section is not fresher, but it is perceived to be. There has been a general rejection of new technology with food. Thus, any food with new technology must be carefully marketed to consumers and shown to benefit them in some way. Ideally it should have an enhanced product attribute that consumers want.

Consumers must perceive high eating quality in order for food products to command a premium price. This is especially important for socially responsible and origin-based products. We can expect increased product differentiation and customization. At the same time, there will always be a budget-conscious consumer segment. This can mitigate other trends. Dietary globalization will provide new opportunities abroad for companies.

As demographics change, retailers must change also. They need to offer new products and flavors that might have Asian or Hispanic influences. They need to be conscious of calorie levels. They need to position snack items as healthful meal options for single-person households. Whole Foods can capitalize on is college-aged individuals who care about sustainability. The primary market consists of earth-conscious customers, just as this one does, the only difference between these markets is the age. As the new organic age spreads, many people are jumping on board and embracing natural foods. In fact, according to Euromonitor Passport, "gluten-free food and organic beverages were the fastest growing categories in US health and wellness." There is a new kind of "hippie" in today's society that we call "hipsters." These hipsters have many similar views as the first target market but with far less money due to their young age. With Whole Foods being so expensive, there needs to be a change in pricing if it wants to reach this potential target market. The retailer needs to offer sales or rewards systems with Amazon (Whole Foods is acquired by Amazon) if Whole Foods wants to see this market flood in, but if it lowers sales then other markets might be affected. For example, if wealthier individuals see the clientele change and food start getting cheaper they might decide to change stores, so finding opportunity for this market is difficult. This might be a step in the right direction towards reaching the maximum consumer base.

References:

- [1]. W. Lawrence Neuman, 2003. Social Research Methods: Quantitative and Qualitative Approaches, p.51
- [2]. Norse and Tschirley, 2003. Organic Agriculture: A Global Perspective, pp. 2-5
- [3]. Kuester, Sabine, 2012. MKT 301: Strategic Marketing & Marketing in Specific Industry. Contexts, University of Mannheim, p. 110
- [4]. Sarah Whitten (2017),” Whole Foods stock rockets 28% on \$13.7 billion Amazon takeover deal”,<https://www.cnbc.com/2017/06/16/amazon-is-buying-whole-foods-in-a-deal-valued-at-13-point-7-billion.html>
- [5]. Caitlin Dewey (2017), “Why Whole Foods is now struggling”,
https://www.washingtonpost.com/news/wonk/wp/2017/02/09/why-whole-foods-is-now-struggling/?utm_term=.969c679b045a
- [6]. Whole Foods Market. (2015). 10-K Report. Retrieved from <http://assets.wholefoodsmarket.com/www/company-info/investor-relations/annual-reports/2015-WFM-10K.pdf>
- [7]. Whole Foods Market. (2013). 10-K Report. Retrieved from <http://www.wholefoodsmarket.com/sites/default/files/media/Global/Company%20Info/PDFs/WFM-2013-10-K.pdf>
- [8]. NFM 2015 Market Overview data charts and graphics. (2015, May). Retrieved from <http://newhope.com/nfm-market-overview/nfm-2015-market-overview-data-charts-and-graphics>
- [9]. Bolton, Robyn. (2015, May). Whole Foods’ Misguided Play for Millennials. Harvard Business Review. Retrieved from <https://hbr.org/2015/05/whole-foods-misguided-play-for-millennials>
- [10]. Sarich, Christina. (2014, February). Dangerous Ingredients: 54% of Food Sold at Walmart is Banned by Whole Foods Market. Retrieved from <http://naturalsociety.com/54-percent-ingredients-ban-walmart-whole-foods/>
- [11]. Del Rey, Jason. (2016, February). Whole Foods to Invest in Instacart, Signs New Multi-Year Delivery Deal. Retrieved from <http://recode.net/2016/02/23/whole-foods-to-invest-in-instacart-signs-new-multi-year-delivery-deal/>
- [12]. Whole Foods Market. Real Estate. (n.d.). Retrieved from <http://www.wholefoodsmarket.com/company-info/real-estate>
- [13]. Jargon, Julie. (2013, August). Whole Foods’ Battle for the Organic Shopper. Wall Street Journal. Retrieved from <http://www.wsj.com/articles/SB10001424127887323455104579015162135676136>
- [14]. Mohammed, Rafi. (2015, August). Whole Foods Needs a More Consistent Pricing Message. Harvard Business Review. Retrieved from <https://hbr.org/2015/08/whole-foods-needs-a-more-consistent-pricing-message>
- [15]. Bells, Sonya. (2015, November). Evaluating Whole Foods’ Marketing and Purchasing Strategies. Retrieved from <http://marketrealist.com/2015/11/evaluating-whole-foods-marketing-purchasing-strategies/>
- [16]. Horovitz, Bruce. (2014, September). Whole Foods to test first rewards program. USA Today. Retrieved from <http://www.usatoday.com/story/money/business/2014/09/18/whole-foods-rewards-program-grocery-stores-supermarkets-organic-natural-foods/15828413/>
- [17]. Dobrow, Joe. (2014, October). The Un-Marketing And Re-Marketing Of Whole Foods. Retrieved from <http://www.fastcoexist.com/3037452/the-un-marketing-and-re-marketing-of-whole-foods>
- [18]. Kell, John. (2015, July). Starbucks wants your phone as much as it wants to sell you coffee. Forbes. Retrieved from <http://fortune.com/2015/07/24/starbucks-mobile-investments/>
- [19]. Zlati Meyer (2017),”This is Amazon’s top challenge for Whole Foods Market”,
<https://www.usatoday.com/story/money/2017/08/30/amazons-top-challenge-whole-foods-market/609033001/>
- [20]. Beth Kowitt (2017),”What We Know about the Amazon and Whole Foods Shopper”,
<http://fortune.com/2017/06/28/whole-foods-amazon-shopper-data/>
- [21]. Sarah Halzack (2017), “Amazon-whole-foods-deal-comes-with-data-on-real-world-shoppers”,
<https://www.cnbc.com/2017/06/16/amazon-whole-foods-deal-comes-with-data-on-real-world-shoppers.html>
- [22]. Kate Taylor(2017),” Whole Foods and Walmart are battling for one crucial set of customers — and it reveals a dark truth about the American middle class”,
<http://www.businessinsider.com/whole-foods-walmart-battle-for-high-income-customers-2017-10>
- [23]. Investopedia Reporter (2017),Who are Whole Foods’ (WFM) main competitors? | Investopedia <https://www.investopedia.com/ask/answers/052015/who-are-whole-foods-wfm-main-competitors.asp#ixzz54lv0d28U>