

## STRATEGIC MARKETING PLAN FOR WHOLE FOODS MARKET INC.

What strategic marketing initiatives should Whole Foods implement, together with Amazon, in order to revitalize Whole Foods' overall growth prospects, and ensure the long term competitive viability of the company in the food retail industry, both online and offline?

A thesis submitted to Anglo-American University for the degree of  
Bachelor in Business Administration with an emphasis in Marketing and Communication

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## **DECLARATION**

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree, or qualification thereof, or for any other university or institute of learning.

I declare that this is my independent work. All sources and literature are cited and included.

I hereby acknowledge that my thesis will be made publicly available pursuant to section 47b of Act No. 552/2005 Coll. and AAU's internal regulations.

**JUSTINE TOM**

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*Most importantly, I would like to thank my parents and sisters for their unconditional love and support. I wouldn't be where I am today if it wasn't for them.*

*- Justine*

# **ABSTRACT**

Strategic Marketing Plan for Whole Foods Market Inc.

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Most industries have undertaken digitalization efforts to varying degrees in recent years. Some traditional ones however, have resisted or have been unable to devise a breakthrough strategy that addresses the needs of the customer and retain a personalized and quality shopping experience. The grocery industry has long established itself as such an industry, unable to convince shoppers to fully switch to online grocery shopping and delivery. Whole Foods Market, a premium grocery retailer offering quality natural and organic products may present itself as the company able to make the digital breakthrough in its industry. While the company enjoyed some success from its inception, introducing consumers to healthier products and popularizing the organic food trend, it has fallen by the wayside in recent years, flagging behind other competitors that have emulated their strategy while offering comparable products at lower prices. Following the recent acquisition of Whole Foods by global e-commerce giant Amazon, the company stands to completely revitalize its business model, through the creation of a multi-channel customer centric shopping experience, harnessing Amazon's digitalization and data mining capabilities, and targeting urban areas in line with customer trends. To achieve this will require a careful balancing act of managing organic food suppliers to build key relationships, and handling the post-merger integration of both company cultures. On the opposite end, Amazon's likely rationale for acquiring Whole Foods is to develop expertise in food delivery and integrating Whole Foods into its overall digitalization strategy.

This thesis aims to examine Whole Foods' marketing strategy, financial performance, as well as the effects of the acquisition by Amazon, both real and speculative, supported by careful analysis. Based on these attributes, the set of recommendations was designed to reinforce Whole Foods' position as the premier grocery retailer providing both an online and offline customer centric experience.

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## **LIST OF ABBREVIATIONS**

ATR – asset turnover ratio

CSF – Critical Success Factor

ibid. – ibidem, reference source previously used

ITR – inventory turnover ratio

n.d. – no date

n.p. – no page

M&A – mergers and acquisitions

PLC – product life cycle

ROA – return on assets

ROE – return on equity

SGA Costs – Selling, General, and Administrative Costs

SKU – stock keeping unit

SMP – Strategic Marketing Plan

VPC – Value Proposition Canvas

WFM – Whole Foods Market

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# **CHAPTER 1: INTRODUCTION**

This thesis will examine Whole Foods Market Inc. (henceforth known as Whole Foods or WFM), its marketing strategy, financial health, and the internal and external forces that affect the company. Following the analysis, several key strategic (marketing) issues have been identified, and these will serve as the basis for a newly suggested Strategic Marketing Plan that has been developed for Whole Foods Market by the researcher of the thesis.

The research is up-to-date to 24/11/2017.

## **1.1 Industry Overview**

The food and staples retailing sector in the United States can be described as a highly competitive and saturated market with razor-thin margins and a customer base which is constantly demanding greater value for lower prices. Some of the categories within this industry include Drug Retail, Food Retail, Hypermarkets and Food Distributors. Examining food retail at a closer glance, several key developments can be observed that are changing customer tastes and preferences, such as the rise of e-commerce, the increasing popularity of alternative channels, and shifting demographics (Duff&Phelps, 2016, p.3).

## **1.2 Historical Background**

Whole Foods Market is a high-end natural and organic food retailer which operates in the United States, Canada, and the United Kingdom. Whole Foods Market was founded in 1980 by John Mackey, Renee Hardy, Craig Weller, and Mark Skiles, in Austin, Texas, following a merger of two small natural foods stores: Safer Way Natural Foods, and Clarksville Natural Grocery (Wholefoodsmarket.com, n.d., n.p.). Whole Foods Market has been able to grow after various strategic mergers and acquisitions of natural food stores throughout the United States. In 2002, Whole Foods entered the Canadian market and acquired seven Fresh & Wild stores in the U.K in 2007 (ibid.). This paper will predominantly focus on the company's U.S. operations, since this market accounts for 97.1% (2016) of Whole Foods' revenue (Whole Foods Market, 2016, p.39).

**1.3 Company Background Information**

*Table 1: Company Background Information*

Name	Whole Foods Market Inc.
<b>Corporate Structure</b>	Public
<b>Subsidiary</b>	Wholly-owned subsidiary of Amazon.com Inc.
<b>Founded</b>	1980
<b>Headquarters</b>	Austin, Texas, USA
<b>Industry</b>	Food & Staples Retail – Organic & Specialty Retailing
<b>Total employees</b>	86,645
<b>Total Revenue</b>	\$14.9 billion
<b>Board of Directors</b>	CEO - John Mackey Co-CEO - Walter Robb President and COO - A.C. Gallo Executive Vice President and CFO - Glenda Flanagan Executive Vice President of Growth and Business Development - James Sud Executive Vice President of Operations - David Lannon - Executive Vice President of Operations – Christina Minardi Executive Vice President and Chief Information Officer - Jason Buechel

*(Information taken from Whole Foods Market - Annual Report, 2016)*

**1.4 Personal Interest**

Whole Foods was selected based on the researcher’s interest in the organic food industry. According to the Organic Trade Association (2017), organic food accounts for more than 5% of the total food sales in the United States, with the market growing at a rate of 8% from the past year, making it the fastest growing sector in the food industry (OTA, 2017, n.p) One of the main drivers of growth in the organic sector can be attributed to the changing tastes and preferences of U.S. consumers (Duff&Phelps, 2016, p.5). Shoppers are becoming

increasingly conscious about their health and the environmental impact of food (ibid.). The recent turn of events raises several interesting questions, namely, why has Whole Foods experienced such a dramatic decline in fortunes, and what does this takeover mean for the future of the company and the industry?

### **1.5 Purpose**

This thesis will examine the marketing strategy of Whole Foods, as well as its financial performance. The relationship between these two elements will also be explored, in regard to the extent that the marketing strategy affects financial performance. Additionally, an industry report will be created to study the external factors which have a considerable influence on Whole Foods' operations including competitors, retail trends, and demographic changes. An additional chapter will be dedicated to the recent acquisition of Whole Foods by Amazon, outlining the motivations behind the move, the future prospects of the firm, as well as the potential consequences.

### **1.6 Conceptual Framework**

The conceptual framework used to develop this thesis can be divided into three main stages. The first stage consists of gathering secondary data such as academic journals and articles, credible digital sources, industry reports, and books. The second stage focuses on analyzing the information to outline Whole Foods' current strategic marketing plan (SMP), using the relevant marketing analysis tools. Based on this analysis, a new SMP will be recommended, in the third stage.

### **1.7 Methodology**

The data used to analyze Whole Foods was gathered through four types of marketing research. Marketing Research can be defined as the methodical gathering, analyzing, and presenting of data related to a marketing problem or phenomena that a company is currently faced with (Kotler et al., 2008, p.333). The motivation behind this research was to gain a general market overview, to understand the market and competitive conditions in which Whole Foods operates, as well as to gain a more in- depth knowledge of Whole Foods' marketing and financial situation.

- *Exploratory Research* is used to gather information which will allow for the development of a general overview of the topic being researched. Exploratory Research will assist in recognizing and outlining specific issues the company faces in a more comprehensive way on which your suggestions can be based after (ibid.).
- *Secondary Research* is research previously conducted by a different party with another research purpose (ibid.).
- *Descriptive Research* is used for describing different marketing phenomena occurring within the company, an industry, or market (ibid.).
- *Causal Research* is conducted to test a hypothesis and find a correlation between two events (ibid.).

## **1.8 Statement of Sources Cited and Consulted**

The sources used to support this thesis have all been selected for their academic or reputable origins. These sources include books, academic journals, credible websites, and industry reports. The Works Cited section includes all sources which have been cited in this thesis, while the bibliography will contain all additional sources studied, but not cited.

## **1.9 Structure of Thesis**

In order to create a clear and logical flow, the thesis has been divided into nine chapters. A simple overview of each chapter follows below:

- *Chapter One* introduces the subject of the thesis and the research question to be answered. This chapter also provides an outline of Whole Foods' history and the industry it operates in as well as the researcher's motivations for choosing this particular company.
- *Chapter Two* discusses the literature accessed and used during the research process.
- *Chapter Three* analyzes Whole Foods' current marketing environment and trends through an extensive marketing audit.
- *Chapter Four* contains the most important assumptions the researcher draws about Whole Foods Market.

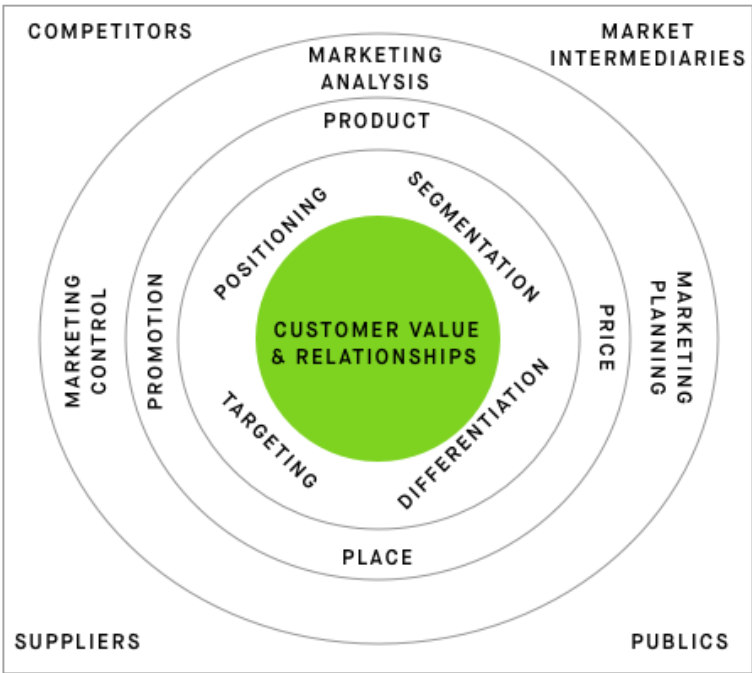
- *Chapter Five* lays out Whole Foods' Strategic Marketing Plan (SMP), detailing the current situation of the company and the environment it operates in.
- *Chapter Six* briefly analyzes Whole Foods' SMP, since the main analysis was already performed in chapter 5. Greater emphasis will be placed on chapter 8.
- *Chapter Seven* provides a financial audit of Whole Foods Market
- *Chapter Eight* evaluates the researcher's suggested marketing plan and recommendations
- *Chapter Nine* summarizes the findings and recommendations of the work and provides a conclusion.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Marketing Strategy

According to Walker and Mullins (2010), the primary goal of marketing strategy is to allocate a firm’s marketing resources in the most effective way that ensures the firm’s objectives are met (p.10).

Figure 1: Marketing Strategy



(Graph adapted Kotler and Armstrong, 2015, p.74)

## 2.2 Food Retail Industry

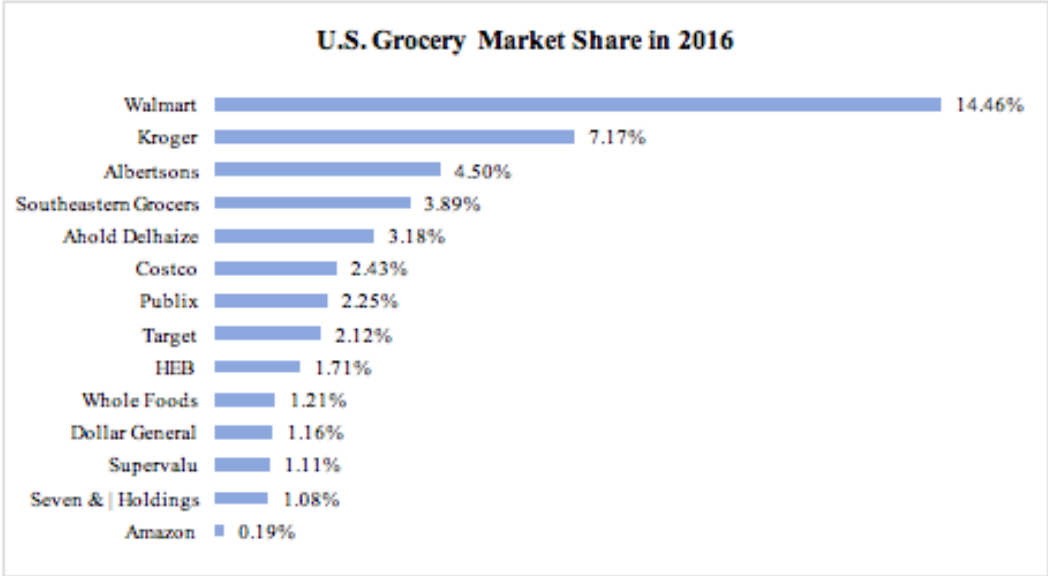
The food retail industry can be characterized as highly saturated, with intense competition, and ever diminishing profitability margins. Many larger retailers are confronted with a shifting industry landscape and changing consumer preferences, and there is a real and current need to adapt value propositions in order to better serve the market (Giammona, 2017, n.p.).

One of the most prominent challenges in the food retail industry has been how to speed up digitalization and increase the popularity of online grocery shopping. The adoption rate for online grocery delivery has been much lower than in other industries. For example, “online sales for food and grocery is 1-2% of this \$781 billion market in the U.S. Compare that to e-commerce, which has 10% penetration, and online travel, which has 40%. Since no one has figured out how to profitably deliver groceries, Amazon has decided to make an attempt through Whole Foods” (Singh, 2017, n.p.). This will be further discussed in chapter 3.10.

The biggest competitors in the U.S. grocery industry are Walmart, Kroger, and Albertsons, together owning almost 26% of the market (see figure 2). While these cannot be considered direct competitors of Whole Foods, as they are not solely specialized in selling natural and organic produce, they all offer a large organic food selection. Due to their economies of scale, they are able to sell a large amount of organic produce for a significantly lower price than Whole Foods, even the same name-brand items (Taylor, 2017, n.p.). Driving down the price of organic food items

puts increased pressure on the prices and growth trajectory of these organic specialty stores (Malleret, 2017, n.p.).

Figure 2: U.S. Grocery Market Share in 2016



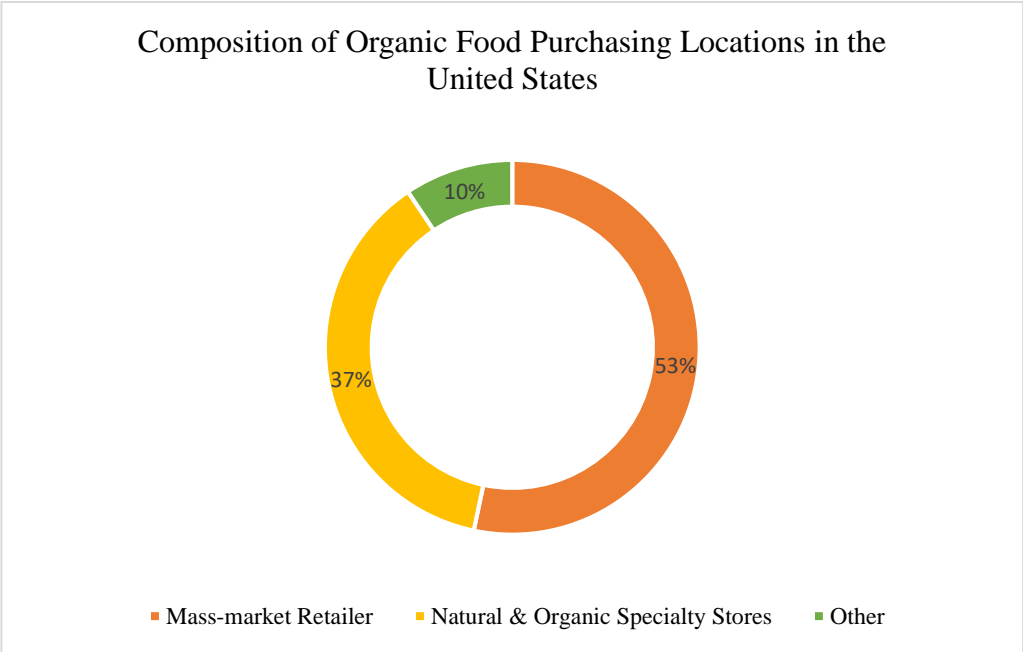
(Figure adapted from Berk, 2017, n.p.)



### 2.3 The Organic Food Industry

Analyzing the organic grocery market specifically, it can be seen that there has been a significant transformation from a small, niche market to an increasingly commoditized and saturated one (USDA, 2017, n.p.). The organic retailing segment, in which Whole Foods operates in, is under constant pressure from retail behemoths such as Walmart, Costco, and Kroger who have all been expanding their organic foods selections. Continuing to charge premium prices for their products has led to Whole Foods experiencing declining same-store sales and foot traffic. (Cheng, 2017, n.p.).

Figure 3: Composition of Organic Food Purchasing Locations in the United States



(Figure adapted from Dewey, 2017, adapted from the Organic Trade Association, 2015)

Looking at figure 3, the majority of the organic food items are sold through mass-market retailers, rather than specialty retailers, a trend which can be considered problematic for Whole Foods. A more in-depth overview of the organic food industry can be found in appendix A, page 66.

# CHAPTER 3: MARKETING AUDIT

## 3.1 PLEESTIC

Since companies do not operate in a vacuum, The PLEESTIC Analysis is performed to analyze the external drivers and forces that can have an influence on the company (Beamish & Ashford, 2007, p.24). Understanding the trends within an industry and what potential effect they can have can help companies to foresee change and predict what the future of the company could look like (ibid.).

Table 2: PLEESTIC Analysis

<b>Political/Legal</b>	<ul style="list-style-type: none"> <li>• Organic food regulations</li> <li>• Poor labor laws in developing countries</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Climate change</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>• Food cost deflation</li> <li>• Rising labor costs in the U.S.</li> <li>• Economic pressure on suppliers</li> </ul>
<b>Socio-cultural</b>	<ul style="list-style-type: none"> <li>• More online-shopping</li> <li>• Healthy lifestyle trends</li> <li>• Increasing concerns about the environment</li> <li>• Change in consumer shopping behavior</li> <li>• Upper-middle class is moving back into cities</li> </ul>
<b>Technological</b>	<ul style="list-style-type: none"> <li>• Gathering of customer insights through Amazon’s technology</li> <li>• Improve online/offline shopping experience</li> <li>• Inferior quality of mainstream food</li> </ul>
<b>International</b>	<ul style="list-style-type: none"> <li>• Overdependence on U.S. market</li> </ul>
<b>Competition</b>	<ul style="list-style-type: none"> <li>• Intensely competitive environment</li> <li>• Partnership Walmart &amp; Jet.com</li> </ul>

(Figure adapted from "The Business Environment", Worthington, I. and Britton, Ch., 2006, p.7)

Several key trends pose both threats and opportunities for Whole Foods Market. Rising labor costs in the U.S. can pose a threat to the cost structure of Whole Foods and its competitors (L.E.K. Consulting, 2016, p.1). This trend will be discussed further in-depth in the financial analysis of Whole Foods Market in chapter 7. An additional concern is the increased pressure Amazon will be able to put on Whole Foods’ suppliers, due to its size. Please refer to appendix B (page 67) for more detailed insights.

**3.2 SWOT Analysis**

The SWOT Analysis is performed to evaluate the internal and external forces facing the company (Kotler et al., 2008, p.134). Assessing the company’s strengths, weaknesses, opportunities, and threats highlight the critical areas a company should take into consideration (ibid.). Identifying these areas will allow the company to determine an appropriate marketing strategy which will improve its situation or place the company in a position where the competitive forces are more advantageous.

*Table 3: WFM SWOT Analysis*

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<p>Backed by an entrepreneurial venture</p> <p>High product quality</p> <p>Owns prime retail space in urban areas</p> <p>Strong private-label</p>	<p>Negative pricing perception</p> <p>Lagging digital transformation</p> <p>Overdependence on one supplier: United Natural Foods</p>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<p>Consumer spending growth</p> <p>Online retailing and delivery</p> <p>Deliver a superior customer experience through customer intelligence</p>	<p>Competition in the commodity and resource market</p> <p>Damage of reputation following the Amazon acquisition</p> <p>Food cost deflation</p>

*(Information taken from Razin, 2017, n.p.; Wholefoodsmarket.com, n.d., n.d.; Whole Foods Market Financial Statement, 2016; Zentes, Morschett, Schramm-Klein, 2017, p.273; Voight, 2013, n.p.; Wartzman, 2017, n.p.; L.E.K Consulting, 2016, p.1; Messinger, 2016, n.p.)*

To elaborate on the SWOT table presented above, several key strengths, weaknesses, opportunities, and threats will be discussed in more detail in Appendix C (page 68/69), as well as throughout this thesis.

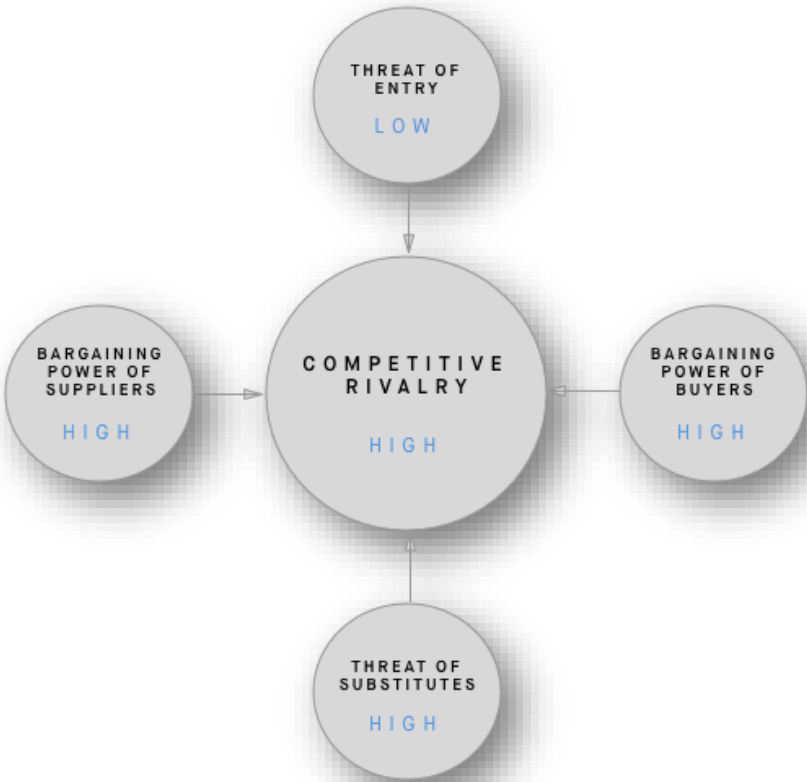
### **3.3 TOWS Matrix**

The TOWS matrix is a variation on the SWOT analysis. Following the identification of a company's strengths, weaknesses, opportunities, and threats, the TOWS matrix will match certain internal factors of the company to its external factors (Oxford College of Marketing, n.d., n.p.). This will help the company to uncover any strategic opportunities a company can potentially pursue (ibid.). Whole Foods' TOWS matrix can be found in the appendix D, page 70 and 71.

### **3.4 Porter's Five Forces Framework**

As a company, it is of utmost importance to not only understand your competition, but also the driving forces within the market you operate in (Beamish & Ashford, 2007, p.36). The nature of these driving forces and what influence they will have on your business serve as the foundation on which a company can build its corporate and marketing strategy (ibid.).

Figure 4: Porter's Five Forces Framework of WFM



(Adapted from Porter, 1979)

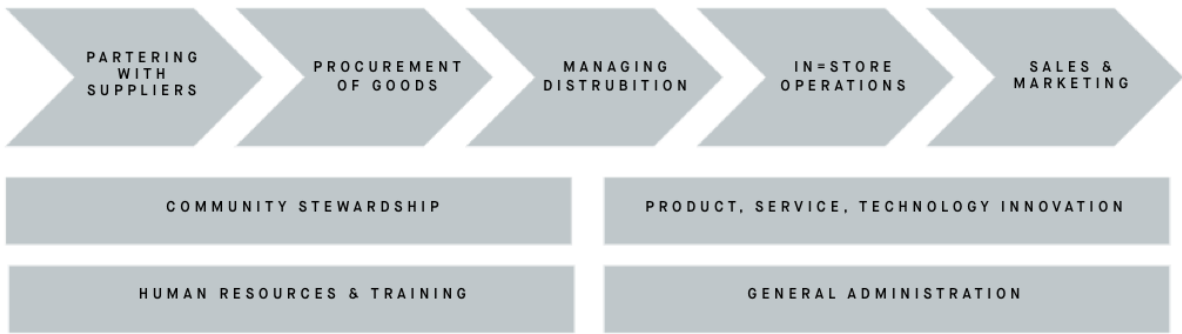
Based on the framework presented above, it can be assumed that the food retail industry is a tough environment to successfully operate in. Please refer to appendix E (page 72) for a brief explanation of Whole Foods’ five forces framework.

**3.5 Porter’s Value Chain Analysis**

The goal of analyzing a company’s value chain is to see how effectively and efficiently a company can transform its resources into profit (Harvard Business School, n.d., n.p.) The graph below depicts how Whole Foods Market creates value across five main activities and four sub activities. It is assumed, that Amazon will analyze and overhaul multiple aspects of the value chain. While there are certain activities that could improve with the help of Amazon’s technology, there are also key activities that Amazon will closely be

studying rather than modify to improve their own future brick and mortar strategies. Chapter 3.9 will discuss Whole Foods’ supplier partnerships and the procurement of goods in greater depth. The extended value chain analysis can be found in appendix F.

Figure 5: Whole Foods Market Value Chain



**3.6 Competitive Profile Matrix**

A competitive profile matrix analyzes the strengths and weaknesses of all major competitors in an industry in a single table, based on critical success factors (CSF) (Ozyasar, n.d., n.p.). The purpose of this tool is to “visualize and communicate the competitive landscape” (ibid.). The matrix below assesses the competitive position of Whole Foods against its closest competitors, Sprouts Farmers Market and Trader Joe’s. The weight assigned to each CSF and rating is based on the researcher’s assumptions and knowledge of the industry gained during the research process. The analysis of the rating can be found in appendix G, page 73.

Table 4: Competitive Profile Matrix Whole Foods Market

		WFM		SFM		Trader Joe's	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Brand Recognition	0,12	4	0,48	3,5	0,42	3,5	0,42
Product Quality	0,12	4	0,48	3,5	0,42	3,5	0,42
Marketing	0,11	3,5	0,385	3,5	0,385	3,5	0,385
Price Competitiveness	0,11	2	0,22	4	0,44	3	0,33
CSR	0,11	3,5	0,385	2	0,22	3	0,33
Customer Loyalty	0,11	4	0,44	4	0,44	4	0,44
Customer Service Quality	0,11	3,5	0,385	3,5	0,385	4	0,44
Financial Position	0,1	3,5	0,35	3	0,3	3	0,3
Innovation	0,11	2,5	0,275	3	0,33	3	0,33
<b>Total</b>	<b>1</b>		<b>3,4</b>		<b>3,34</b>		<b>3,395</b>

### 3.7 Business Model Canvas

A company’s business model can determine the failure or success of a company. The business model canvas is a tool which helps managers to map out nine essential components pertaining to the company. Each individual component “prompts the consideration of a business” in full scope, while the layout encourages deeper level thought about how the pieces fit together” (Greenwald, 2012, n.p.). Please refer to appendix H & F for a more detailed analysis and the Value Proposition Canvas (page 74-76).

*Table 5: WFM Business Model Canvas*

<b>Customer Segments</b>	Niche market, with four customer groups: health conscious customers, environmentally conscious customers, affluent customers, ‘foodies’, creative class*, tech-savvy customers
<b>Value Proposition</b>	Whole Foods Market provides high quality natural and organic food products through a unique, customer centric, online and offline shopping experience, focused on the target segment
<b>Channels</b>	WFM stores, mobile app, website, Instacart, Amazon Fresh/Prime/Go, social media
<b>Customer Relationships</b>	Combination of self-service and personal in-store assistance (when needed), delivery, secure payment, creation of an online community
<b>Revenue Streams</b>	Sale of assets, with fixed prices and product feature dependent
<b>Key Resources</b>	Stores, inventory, WFM owned distribution centers, WFM brand patent, human capital, prime real-estate
<b>Key Activities</b>	Implementing strategic and digital change, promoting a data-driven customer centric approach, managing retail operations, selling high-end quality products, creating a unique shopping experience, food delivery, moving commodity through digital platform
<b>Key Partnerships</b>	Suppliers (e.g. United Natural Foods)

	Strategic alliances: Instacart, Apple Pay, Amazon
<b>Cost Structure</b>	Regular WFM stores are value driven 365 by Whole Foods is more cost-oriented

*\*Creative class: “people in science and engineering, architecture and design, education, arts, music and entertainment whose economic function is to create new ideas, new technology, and new creative content” who drive the economic growth in cities (Florida as cited by Lutz, 2012, n.p.)*

### **3.8 Acquisition**

Following the acquisition of Whole Foods by Amazon, assumptions have been made about the motivations behind the purchase. Some believe this is Amazon’s move to finally expand their business to brick and mortar by making the investment to do so. This speculation is not definitive, as this is an instance where Amazon recognizes an opportunity to transform a traditional brick and mortar business through digital enablement and generating real time, accurate customer insights (Gagliardi, 2017, n.p.). As shown in figure 2, Whole Foods Market only had a 1.21% share in the U.S. grocery market. It is a probable instance where Whole Foods will serve to support Amazon’s overall e-commerce business. Assuming the role of a digital innovator, Amazon stands to gain ground by digitalizing one of the last areas of commerce that has resisted such change through this acquisition (Geronimo, 2017, n.p.). Please consult appendix J (page 78) for further reading on the acquisition.



## CHAPTER 4: ASSUMPTIONS

Based on the analysis performed in chapter three of the current state of the market and Whole Foods' and Amazon's role, the following assumptions can be made:

1. The most viable potential motive for the acquisition is that Whole Foods is a means for Amazon to test various pricing strategies and extract data on consumer behavior. Testing prices is a competitive advantage of Amazon on their online platform. Testing prices in a brick and mortar offline industry will allow Amazon to gain a wealth of knowledge on consumer shopping behaviors and their attitudes towards prices. By acquiring Whole Foods and experimenting with pricing, Amazon can potentially change Whole Foods' price perception and that of organic and healthy food, seamlessly integrate the online and offline shopping experience, as well as test out some potential ways on how store pick-up and/or a meal kit service will be received (Simon, 2017, n.p).
2. It can be assumed, that the acquisition by Amazon will raise concerns about the quality of Whole Foods' products, once Amazon attempts to lower prices and make adjustments in the supply chain. With attempting to bring the natural and organic food industry from niche to mainstream, as speculated, the consumer perception of exclusivity will diminish (Pearson, 2017, n.p.). Less exclusivity can lead to a perceived decrease in quality which can be damaging to Whole Foods' image, as it was once a significant differentiating factor (ibid.).
3. As more grocery stores are continuously selling or moving to stock organic produce, the assumption can be made that this is a maturing trend in the industry. (Rao, 2015, n.p.). With maturity, competition, and increased market saturation, Whole Foods has lost its competitive advantage and unique status as the single player in the organic food retail industry (ibid.). This assumption will be further explored in chapter 5.1.

## **CHAPTER 5: STRATEGIC MARKETING PLAN**

### **5.1 Corporate Strategy**

The corporate strategy prior to its first downsizing earlier this year since, was an organic expansion approach through small acquisitions aimed increasing the amount of stores and Whole Foods' reach throughout the U.S (Tom, 2017, n.p.; Bells, 2015, n.p.; Hill & Jones, 2012, p.288). Since Whole Foods was underperforming, it was decided that the strategic emphasis should be on developing a new store concept aimed at millennials and more price-sensitive shoppers, called 365 by Whole Foods (Monaco, 2016, n.p.). While the first new stores were opening up, Whole Foods was not able to restore investor confidence, resulting in an activist investor push for a takeover and ultimately the acquisition by Amazon (Morell, 2017, n.p.).

Until recently, Whole Foods took a generic and broad differentiation approach to carve out a unique position within the food retail industry. The product portfolio, consisting of unique, local, and predominantly organic products supports a strategy of differentiation and customer perception of exclusivity. Since competition has become more intense (see chapter 4), this value proposition is less unique, and indicates a reduced willingness by customers to pay a premium price for Whole Foods' products. Following the Amazon acquisition, a new strategy must be implemented which will counteract the negative impact these trends have had on Whole Foods.

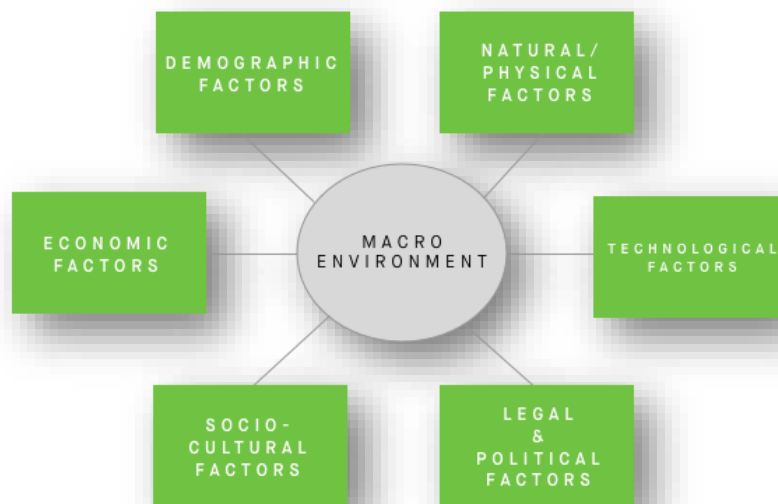
### **5.2 Markets and Segments**

The U.S. organic food industry remains a highly lucrative and growing market. As a result, many regular grocery stores are expanding their organic food selection to accommodate changing customer preferences and tastes. From 2005 to 2015, U.S. organic food sales have increased by 209 percent, making it a \$43.3 billion market in 2016 (Malleret, 2017, n.p.). Although niche-market retailers such as Whole Foods are responsible for the popularity and initial growth within the market, it is the mass-market retailers that collectively own more than 53% of the organic food market (ibid).

### 5.2.1 Macro Analysis

The macro analysis concerns itself with the study of external factors which can have an impact on the economy, and thus, influence a company's performance (Badenhorst-Weiss et. al., 2008, pp. 20-33; Oxford College of Marketing, n.d., n.p.). With regard to marketing, these external factors can heavily influence the success of a marketing campaign. The most significant external factors which affect Whole Foods' operations, have already been discussed in chapter 3.1 or will be discussed throughout this thesis.

Figure 6: Factors influencing the macro environment



(Adapted from "The Impact of Micro and Macro Environment Factors on Marketing" Oxford College of Marketing, n.d., n.p.)

### 5.2.2 Micro Analysis

A micro analysis is conducted to evaluate all trends and factors within the company and its close environment which can have an influence on company performance (Badenhorst-Weiss et. al., 2008, p.12). For Whole Foods in particular, the most influential factors are the customers, suppliers, and the competition. Please refer to appendix K (page 79) for a more detailed micro analysis.

### 5.2.3 Current State of the Market

As mentioned before, the food retail industry in which Whole Foods operates can be described as highly competitive and saturated. A more detailed description of the current state of the U.S. (organic) food and retailing market can be found in chapter 1.1/1.2 and in chapter 2.2/2.3.

### 5.2.4 Market Trends

There are several trends which have an influence on the U.S. food and retail industry, and eventually on Whole Foods as well. Looking at the table below, there are positive trends which Whole Foods can build upon to create a competitive advantage and enhance customer experience.

Table 6: WMF - Market trends

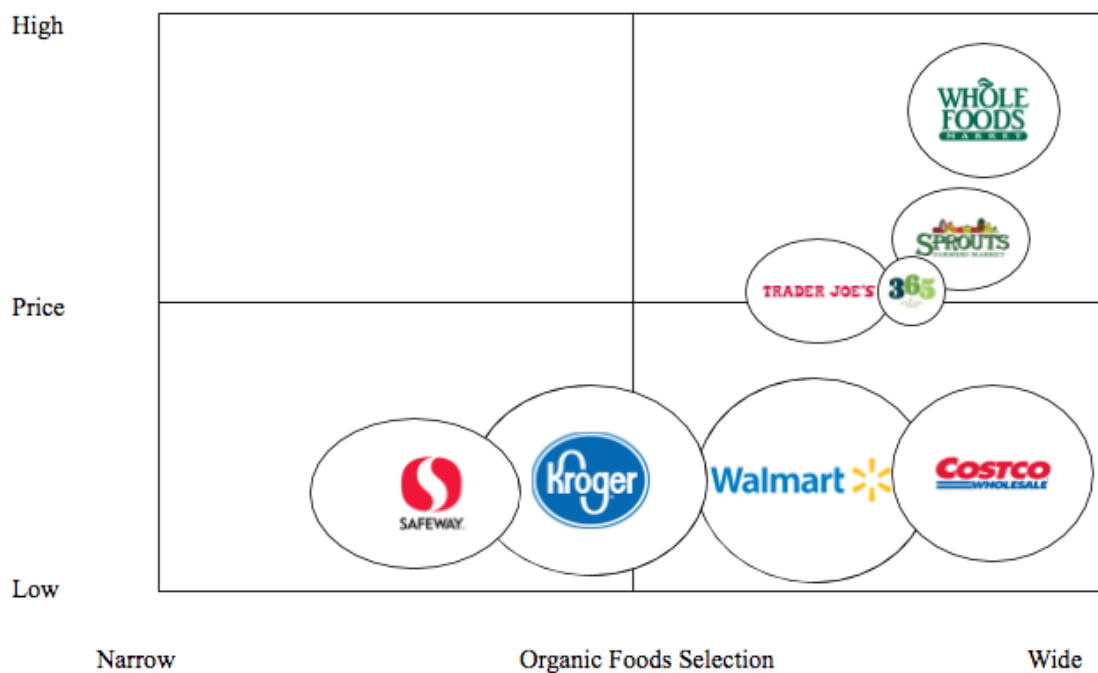
Positive Trends	Negative Trends
Increased demand for food supply chain transparency	Shrinking middle class
Omnichannel shopping	Gentrification
Personalization through big data and analytics	Affluent, highly-educated people are moving back to urban areas
Prepared meals	Intense competition
Cultural shift towards healthy eating	High bargaining power of buyers & suppliers
Growing demand for organic food	Commoditization of organic food

(Information taken from Badger and Ingraham 2016, n.p.; Skrovan, 2017, n.p.; Florida, p.294; Zegler, 2017, p.3-27)

### 5.2.5 Competitor Analysis

Looking at all the players in the U.S. grocery industry which compete with Whole Foods both directly and indirectly, a distinction can be made between mass-market retailers and specialty retailers. The mass-market retailers, such as Walmart, Costco, and Kroger sell a wide range of non-organic products, but have expanded their selections by selling organic foods as well to accommodate growing consumer trends in organic food (Bond, 2014, n.p.). While these can be considered closer competitors with a more similar business model to WFM, it is the mass-market retailers, as mentioned previously in chapter 5.2, that are capturing the most value in the organic food market (Malleret, 2017, n.p.).

Figure 7: Whole Foods' Strategic Group Map



(Figure taken from Tom, 2017, p.18)

Whole Foods' financial analysis, as well as a comparison with that financial performance of that of its competitors will be discussed in chapter 7.

### **5.3 Products / Services**

Whole Foods' product selection is relatively small compared to that of mass-market retailers in terms of number of products. A regular grocery store carries on average up to 142,000 SKU's, while Whole Foods only carries around 35,000-55,000 SKU's (Whole Foods Market Financial Statement, 2016, p.3; Walmart, n.d., n.p.). Whole Foods however, has a stronger emphasis on natural and organic produce compared to big box retailers that have a more diversified product range (Bells, 2015, n.p.). This allows the company to more closely supervise the supply chain and maintain a better, mutually beneficial relationship with suppliers and distributors.

Whole Foods places a strong emphasis on the sales of perishable goods, which account for approximately 67% of its merchandise/inventory mix. This attributes to Whole Foods' above-average turnover ratio of approximately 20 (Whole Foods Market Financial Statement, 2016, p.3; Tom, 2017, p.13).

While Whole Foods does have a competitive advantage when it comes to quality and organic food assortment, the wider availability of organic food for a lower price has led to consumers becoming more price sensitive. This explains the persistent drop in same store sales.

### **5.4 Marketing Objectives**

When it comes to creating a marketing strategy of a company, it is necessary to first set corporate objectives, which will serve as the foundation upon which the marketing objectives are developed. "A marketing objective is a statement of what is to be accomplished through marketing activities" (Beamish and Ashford, 2008, p.53). Based on the performed research, it can be assumed that Whole Foods' main marketing objective is to eliminate its "Whole Paycheck" image, as well as to explore new ways to provide customers with a more tailored omnichannel customer experience.

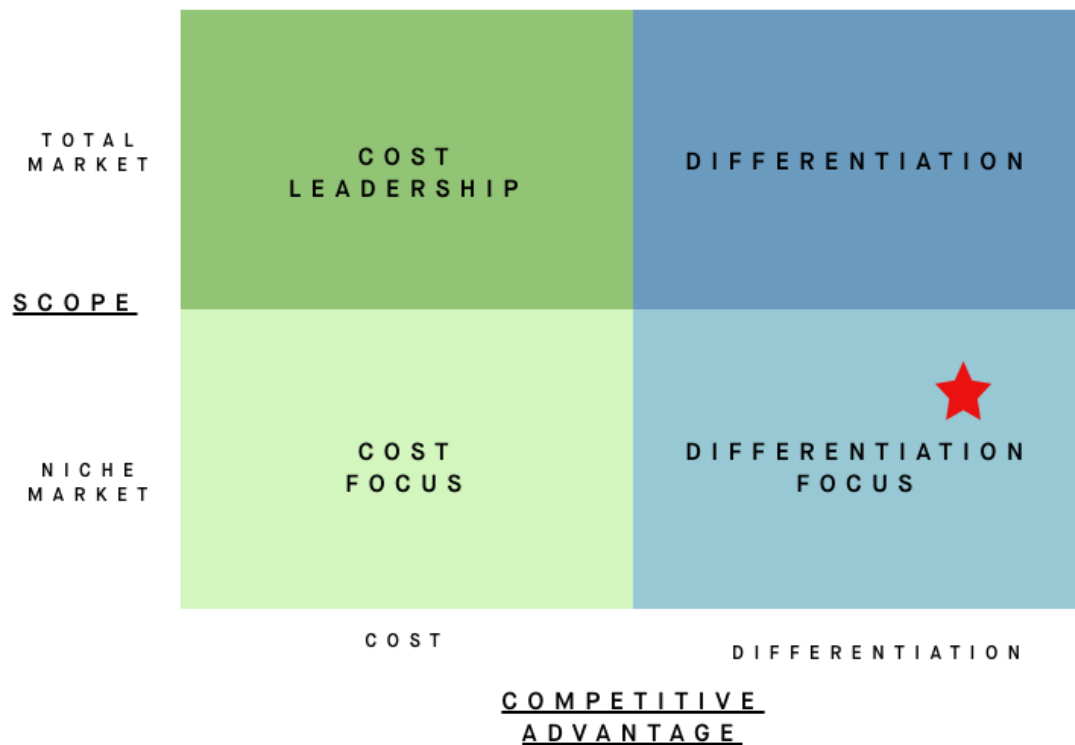
## 5.5 Marketing Strategies

A marketing strategy can be viewed as a framework that addresses which market segments are to be targeted, how value will be created, and how it is going to “achieve a positive competitive market position” (Beamish and Ashford, 2008, p.9). The main objective is to create long-term customer value (ibid.).

### *5.5.1 Porter’s Competitive Advantage Grid*

Before a company can segment and target its desired market, it must first distinguish and determine its competitive strategy. Porter defined three generic strategies that enable an organization to evaluate the competitive options it can choose to pursue, with the possibility of achieving a competitive advantage (Beamish and Ashford, 2008, p.58). In the case of Whole Foods, it was determined that the company follows of a mix of a differentiation and focused approach. Whole Foods combines elements of a differentiation strategy, such as product performance and augmentation, and those of a focus strategy, such as product specialism, which together define and drive Whole Foods’ competitive strategy. See the graph below for Whole Foods’ competitive position.

Figure 8: Porter's competitive advantage grid



(Adapted from Porter, 1980, p.11-15 as cited by the University of Cambridge, n.d., n.p.)

### 5.5.2 Segmentation & Targeting

Segmentation is the process of dividing the market into distinct segments of customers that may require separate products or need to be approached with a different marketing mix (Kotler and Armstrong, 2008, p.47). Following the segmentation process, a company needs to evaluate the attractiveness of each segment, and select one more segments to target which show the most potential (ibid.) Whole Foods' segmentation strategy is focused on the B2C segment, and its segmentation variables can be found in appendix L.

Due to its premium pricing as a result of its high product quality, Whole Foods' regular store generally targets and attracts customers that have a high-income, and are willing to pay premium prices for products. This can be due to a variety of reasons, whether health and fitness related, concerns about the quality of non-organically produced foods, or because Whole Foods' core values resonate with their own. Several additional aspects of Whole Foods' segmentation and targeting strategy will be discussed in appendix L (page 80 and 81).



### *5.5.3 Differentiation*

Differentiation is an element in Porter's three generic strategies that focuses on "the opportunity to market products or services distinctive from those of its competitors" (Beamish and Ashford, 2008, p.58). Differentiating features are simply not enough to gain a competitive advantage, and a company can only be competitively stand out if the customer perceives it as being different and if differentiation drivers actually add value to the overall customer experience (ibid.). The following attributes help Whole Foods in differentiating itself from its close and indirect competitors:

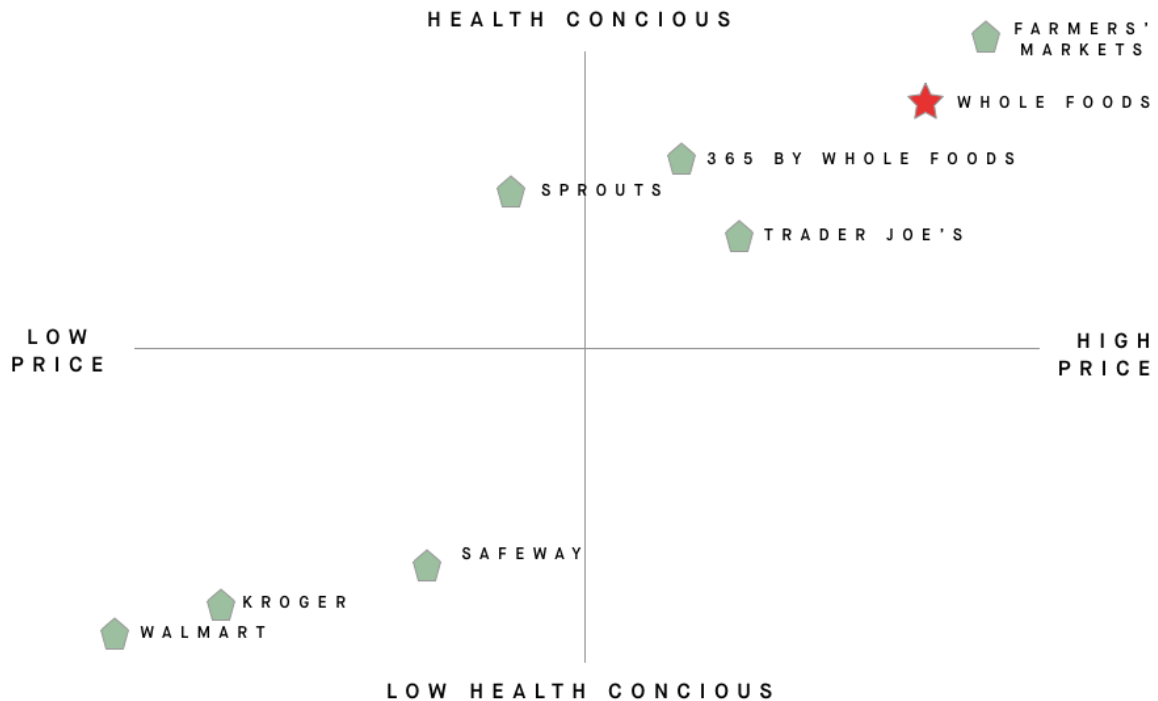
- Unique store design → unique customer experience
- High product quality
- Focus on natural and organic produce
- Strong focus on perishable goods

### *5.5.4 Positioning*

Positioning is "the act of designing an offer so that it occupies a distinct and valued place in the minds of the target customers (Kotler et al., 1998, as cited by Beamish and Ashford, 2008, p.71). Whole Foods is perceived by its customers, as reliable, transparent, high priced, and high quality (Voight, 2013, n.p.). Whole Foods has a core customer base that is loyal, which tends to be less price-sensitive (Choi, 2017, n.p.). However, customers that are more price sensitive regard Whole Foods as too expensive. This is also where Whole Foods got its "Whole Paycheck" image from, which has been a damaging development for sales (Voight, 2013, n.p.).

The figure below depicts the perceptual map of Whole Foods, based on the researcher's own assumptions.

Figure 9: Whole Foods' Perceptual Map



(Figure based on the assumptions of the researcher)

As the perceptual map shows, Whole Foods is positioned as high priced, while being highly focused on health. It must be noted that “no studies have been conducted to investigate the quality of the ‘organic’ products sold at these large retailers”, therefore it was not chosen as a criterion on the axis (Tom, 2017, p.18). Please refer to appendix M (page 82) for an analysis on Whole Foods’ organic labeling practices.

## 5.6 Gap Analysis

A gap analysis is performed to help the company identify what sort of gap lies between the present and future strategy, which can eventually provide valuable information

for the company to use during strategic development and meeting its objectives (Beamish and Ashford, 2008, p.50).

*Table 7: Whole Foods - Gap Analysis*

<b>Current State</b>	<b>Future State</b>	<b>Gap</b>
“Whole Paycheck” image	Expand customer base to millennials and more price-sensitive customers	Develop a more tailored, unique, omnichannel customer experience that provides the customer with more value than the competition
Loyal customer base amongst high-income earners		
Declining same-store sales		
High rivalry amongst competitors	Become the preferred organic grocery store in the U.S.	Develop offensive as well as defensive strategies
Digitally lagging	Become the most technologically advanced grocery store in the U.S.	Bolster Amazon’s technological strengths

This table is based on the research performed in the previous chapters and the assumptions of the researcher. However, this gap analysis cannot be a fully accurate prediction due to the rapid transformation that Whole Foods is currently undergoing.

**5.7 Product Strategies**

Due to the rapid transformation Whole Foods is currently undergoing as a result of the acquisition by Amazon, the product processes and the way products are currently managed are most likely going to change significantly and specific information in regard to product management has not yet been disclosed.

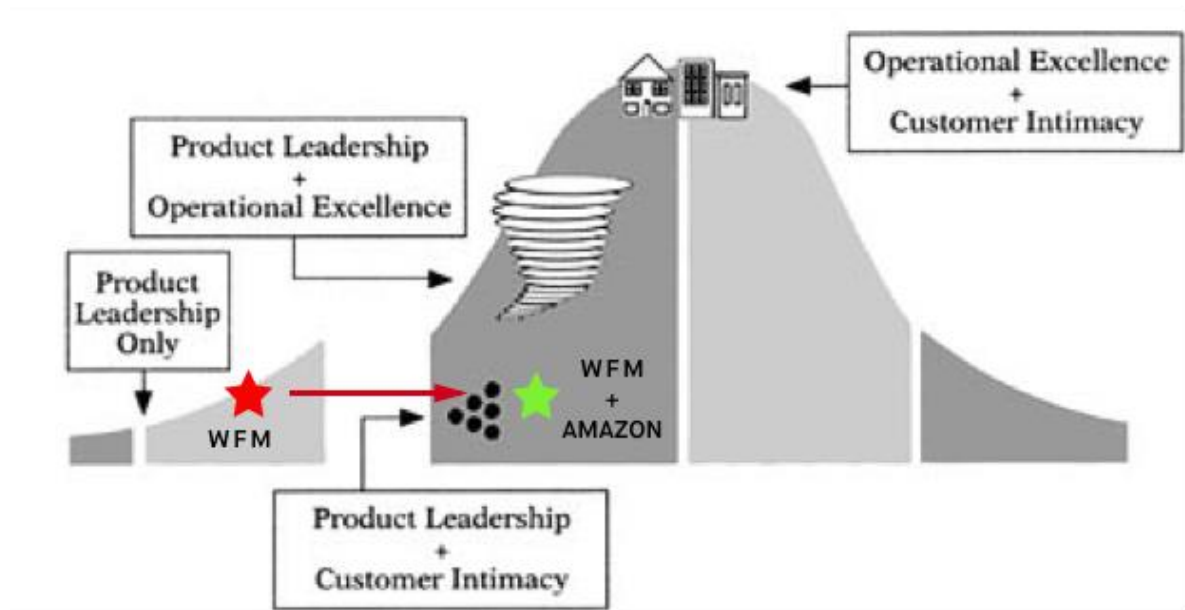
*5.7.1 Product Management*

Product management pertains to the way companies manage “the creation of an appropriate portfolio of products” (Beamish and Ashford, 2008, p.137). As a component of the strategic planning process, it is important for companies to evaluate their product ranges on variables such as relevance for the customers, strategic fit, and the product life cycle (ibid.). Please refer to appendix N (page 83/84) for an in-depth analysis of Whole Foods’ product management.

### 5.7.2 Product Life Cycle

Please refer to Appendix O (page 85) for an analysis of Whole Foods PLC.

Figure 10: Moore's Value Disciplines and the Lifecycle



(Figure adapted from Moore, 2005, p.267)

### 5.8 Price Strategies

Whole Foods' pricing strategy prior to the acquisition was to be "competitively priced on shelf stable grocery items, but to charge a premium for its perishables to reflect their higher product quality" (UC Davis, 2006, p.7). At the time of the acquisition, it was estimated that Whole Foods' products, were priced 14% higher than the industry average (Lempert, 2017, n.p.). A recent survey also revealed that 70% of the surveyed stated that their primary reason for not shopping at Whole Foods was pricing (ibid.). With the recent acquisition by Amazon, Whole Foods' new pricing strategy was immediately set into motion. Amazon's ultimate goal for Whole Foods is not completely known yet, but pricing will be a very important aspect of its new vision. As mentioned before in chapter 4, assumption 1, Amazon is going to leverage its competency in price testing on the offline retail industry through Whole Foods (Simon, 2017, n.p.). Pricing will be used as "a communications tool, a

recruiting tool, a psychological weapon, and a value driver in ways that transcend the basic mechanics of supply and demand and profit and loss” (ibid.). It is assumed, that Amazon’s new price-experimentation strategy for Whole Foods has the following objectives:

1. Changing the price perception of Whole Foods, and organic and natural foods in general
2. Growing the market for healthy foods, leading in this development, and positioning itself as the forerunner for the healthy foods market
3. Apply insights gained from studying the brick and mortar industry into other offline retail sectors and ventures (ibid.)

## **5.7 Place Strategies**

### *5.7.1 Distribution Strategies*

The majority of Whole Foods’ sales are made through their physical stores. However Whole Foods’ products can also be bought through its dedicated online shop, as well as through Amazon. A select amount of Whole Foods products are now available through Amazon’s web shop, adding a whole new distribution channel to Whole Foods’ operations (Tailor, 2017, n.p.). Please refer to appendix P (page 86) for further reading on Whole Foods’ distribution strategy.

### *5.7.2 Relationship Marketing*

Relationship marketing entails the creation, enhancement as well as the process of maintaining strong and mutually beneficial relationships with customers and other stakeholders that both parties consider as valuable (Kotler and Armstrong, 2008, p.387). From the viewpoint of the researcher, the relationship between Whole Foods and its customers can be considered basic and transactional. However, its careful considerations of quality, the environment, and its employees and other stakeholders enhances the relationship as well as Whole Foods’ accountability within this relationship. To enhance its relationships with customers even more, the researcher has proposed various strategies in chapter 8.

### 5.9 Marketing Communications Strategies

Marketing communications is the specific mix of promotional tools that a “company uses to persuasively communicate value to customers and build customer relationships” (Kotler and Armstrong, 2008, p.994). Although Whole Foods stated in its 2016 Annual Report that it has increased investments in marketing, no national campaigns following the 2014 campaign have been launched. Whole Foods’ marketing expenses only accounted for less than 0,5% of its sales over the 5 years, as of 2015, and it spends less on advertising and marketing than its competitors such as Kroger, Walmart, and Costco (Bells, 2015, p.4). Although the company maintains a strong online presence, it still relies heavily on word of mouth marketing and customer testimonials (ibid.).

Figure 11: Whole Foods’ Marketing Expenses as a % of Sales



(Figure taken from Bells, 2015, p.4)

Please refer to appendix Q (page 87 & 88) for further reading on Whole Foods’ marketing communications strategy in the past and some advertising examples.

## **5.10 Direct and Interactive Marketing Strategies**

Direct and interactive marketing refers to all the communication channels a company uses that directly reach the consumer without an intermediary (Kotler and Armstrong, 2008, p.988). In the case of Whole Foods, the company directly interacts with customers through e-newsletters, Facebook chat, Instagram. Whole Foods also has its own blog, as well as a corporate press room through which it keeps customers and other stakeholders informed on discounts, new products, or other important announcements.

## **5.11 Sales Strategies**

According to the researcher, the main sales strategies that Whole Foods is currently pursuing or will potentially pursue following the acquisition by Amazon are the following:

- Increasing basket size
- Increasing repeat purchases
- Omni channel sales strategy: pair Whole Foods' existing physical sales strategy with a digital presence to increase customer loyalty by being present in both realms (Tierney, 2017, n.p.)
- Personalizing the sales offer through Amazon's data mining capabilities
- Making use of Amazon's sales capabilities (e.g. delivery)

## **5.12 Ethical Considerations/ Ethical Audit**

Throughout this paper, several ethical considerations were addressed. The first ethical challenge that Amazon and Whole Foods must resolve following the acquisition is how to manage post-merger integration. More specifically, how to create a smooth transition between two distinct working cultures in an ethical manner. Additionally, any concerns that customers might have with regards to the future of Whole Foods' customer service and product quality following the acquisition should also be properly addressed. Communication, transparency, and commitment to Whole Foods' causes will be important factors which will help to reduce people's concerns, as well ensure a smooth transition.

A second ethical issue which was raised in chapter 5.5.4, is Whole Foods' fierce advocacy for high quality organic food and its positioning as an organic retailer. However,

both of these claims can be considered deceptive. A large proportion of the products Whole Foods sells are non-organic, and advertised with marketing buzzwords. Additionally, USDA's organic food labeling program is full of loopholes, which raises the question about whether this label is indicative of quality, and whether Whole Foods can even make such claims in regards to quality.

With the acquisition of Whole Foods by Amazon, the transfer of customer data raises several questions about security, privacy standards, and the risk associated with it. The influx of data that Amazon will receive following the successful completion of the acquisition must be handled by experienced IT teams that have the necessary knowledge to safely assist in the data transfer process (Hogan, 2017, n.p.). If not handled carefully, it can have massive implications for both companies, as well as for customers.

While not directly related to Whole Foods, Amazon was ordered to pay the European Union a fee of €250 million, following a decade of illegal state and tax benefit support from Luxembourg (Toplensky, 2017, n.p.). Corporate tax avoidance is a serious allegation and if Amazon is forced to pay this fine, it can pose serious consequences for the company, as well as indirectly for Whole Foods.

### **5.13 Implementation**

As previously mentioned, Whole Foods does not dedicate significant funds towards marketing, and it is thus difficult to measure whether the marketing strategy is successfully implemented. The small marketing budget is not enough to offset Whole Foods' declining same-store sales, or to improve the overall financial performance of the company. While Whole Foods' marketing strategy is not disclosed to the public, the consistency of Whole Foods' communication and brand image across all its offline and online channels is overall effective. However, the higher-level marketing strategic objectives, have seemingly not been successfully achieved.



### **5.14 Internal Marketing**

The researcher was not able to find any information disclosed on the internal marketing practices within the company. However, the company website states that all Whole Foods team members have access to the books of the company, and its annual compensation report. Additionally, Whole Foods has implemented a salary cap that “limits the compensation “... of any team member to nineteen times the average total compensation of all full-time team members in the company” (Whole Foods Market, n.d., n.p.) This creates a working culture that promotes transparency, and where employees are empowered and informed about forces that can impact their jobs (ibid.)

### **5.15 Branding Strategy**

Branding provides a company and “its product portfolio with an identity, something that people can associate with” (Beamish and Ashford, 2008, p.99). Ultimately this is also a company’s differentiating factor and a way to distinguish itself from the competition. All inputs such as the company’s name, logo, positioning, personality, and vision ultimately contribute to the shaping of a company’s brand (ibid.). Please refer to appendix R (89 and 90) for an analysis of Whole Foods’ branding strategy.

### **5.16 Monitoring and Control**

Whole Foods has very stringent rules when it comes to product quality and a very high standard for their suppliers. The entire value and supply chain of Whole Food is tightly controlled and supervised, to ensure that the high-quality standards are met (Whole Foods Market Annual Report, 2016, p.4). Since quality is one of Whole Foods’ main differentiating factors, any scandals relating to poor product quality or unethical sourcing can pose dire consequences for the company.

### **5.17 Recommendations and Conclusion**

Based on the research conducted, it can be concluded that prior to the acquisition by Amazon, Whole Foods’ strategic position in the market was eroding, mainly due to heavy competition, which lead to a poor financial performance in recent years. However, the

acquisition poses an array of new possibilities for the company, such as access to a strong digital platform, as well as a distribution and delivery network. If the challenges that come with the acquisition are properly managed, Whole Foods could see a change in fortunes. The following recommendations, based on the marketing strategy analysis, can be made:

1. Increasing basket size & repeat purchases by increasing brand loyalty as well as attracting new customers
2. Change negative price perception
3. Manage and maintain consumer trust and transparency of supply chain

# CHAPTER 6: EVALUATION OF THE CURRENT SMP

The figure below presents a summary of the most important advantages and disadvantages of Whole Foods’ current SMP which have already been discussed and evaluated in depth throughout chapter 5.

Figure 12: Advantages and disadvantages of WFM's SMP

ADVANTAGES	DISADVANTAGES
<p><b>STRONG DIFFERENTIATION &amp; POSITIONING STRATEGY</b></p> <p>STRONG PRIVATE LABEL STRONG BRAND IDENTITY OCCUPIES A CLEAR POSITION IN THE MARKET</p> <p><b>STRONG PRESENCE ON SOCIAL MEDIA</b> 13M+ FOLLOWERS ON SOCIAL MEDIA ACTIVE BLOG</p> <p><b>STRONG DISTRIBUTION STRATEGY FOR PERISHABLE GOODS</b></p>	<p><b>SOLE FOCUS ON HIGH-END PRODUCE HAS ALIENATED MORE PRICE-CONSCIOUS SHOPPERS</b></p> <p><b>ISSUE WITH NEGATIVE PRICE PERCEPTION</b></p> <p><b>POOR FINANCIAL PERFORMANCE</b></p> <p>POOR STOCK PERFORMANCE DECLINING SAME STORE SALES STAGNATING NET INCOME</p> <p><b>UNABLE TO DEVELOP A WORKING DEFENSIVE STRATEGY AGAINST LOWER-PRICED COMPETITION</b> "VALUES MATTER" MARKETING CAMPAIGN NOT EFFECTIVE</p>

It is important to mention, that some of the choices that have been made by Whole Foods with regards to their strategy, have forced them to make certain trade-offs which have directly contributed to some of the problems facing Whole Foods today. The recommendations which will be presented in chapter 8 have the potential to offset some of the problems that Whole Foods has been experiencing.

## **6.1 Corroboration of Thesis**

Owing to the lack of access to primary data as well as the absence of any clear statements from Amazon regarding the motivation behind the Whole Foods acquisition and future strategy, the researcher was obligated to make certain assumptions which can solely be based on speculations. Additionally, due to the recent developments and the complete change of circumstances for Whole Foods, the researcher had to completely re-evaluate the angle and perspective through which the thesis was approached. This means that it was necessary make certain trade-offs with regards to the emphasis of this thesis and the respective marketing analysis tools used.

## CHAPTER 7: FINANCIAL ANALYSIS

The financial analysis segment of this thesis will discuss the key ratios and finances of Whole Foods, as well as provide a financial comparison of WFM's and its direct competitors. Based on that, a conclusion will be drawn of Whole Foods' financial performance, and how this will affect the acquisition and the future of the company.

### 7.1 Revenue and Income Analysis

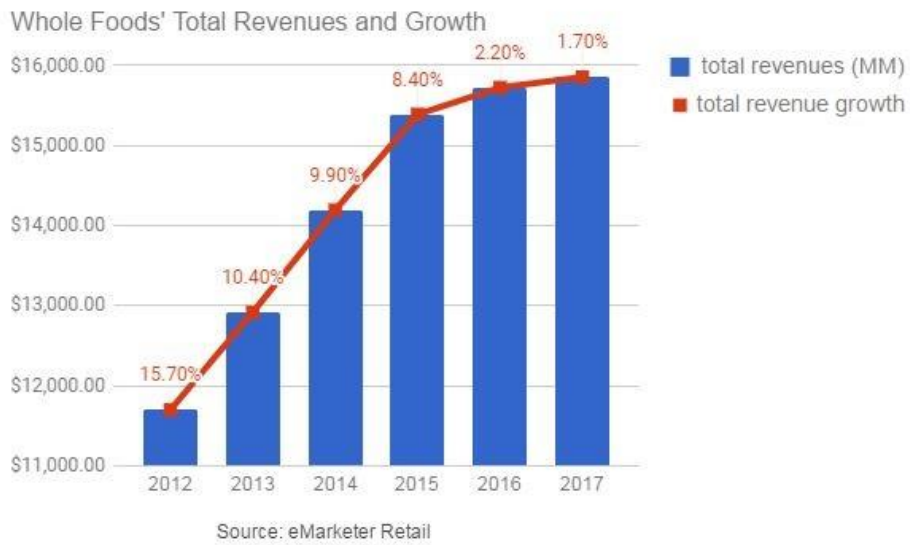
*Table 8: Whole Foods Market Key Numbers Income Statement*

<i>All numbers in millions (USD)</i>	2016	2015	2014
<b>Revenue &amp; Gross Profit</b>			
Revenue	15,724	15,389	14,194
Percentage Change Revenue	2,18%	8,42%	-
Gross Profit	5,411	5,416	5,044
Percentage Change GP	-0,09%	7,38%	-
<b>Operations</b>			
SGA Expenses	4,477	4,472	4,032
Percentage Change SGA	0,11%	10,91%	-
Operating Income	857	861	934
<b>Net Income</b>			
Net Income	507	536	579
Percentage Change NI	-5,41%	-7,4%	-

*(Adapted from WFM Financial Statement, 2016, n.p.)*

Looking at the numbers in the chart presented above, Whole Foods has been experiencing a slowing down of revenue growth. While there was a growth of 8,4% from 2014 to 2015, the growth slowed down in 2016 to 2,18%. The graph below exhibits the growth curve of the total revenue between 2012 and 2017. From 2015 onwards, there was stagnation in revenue growth, which can most likely be attributed to the increased competition in the market. This has led to Whole Foods experiencing a decline in market share, and declining profits (GuruFocus, 2016, n.p.).

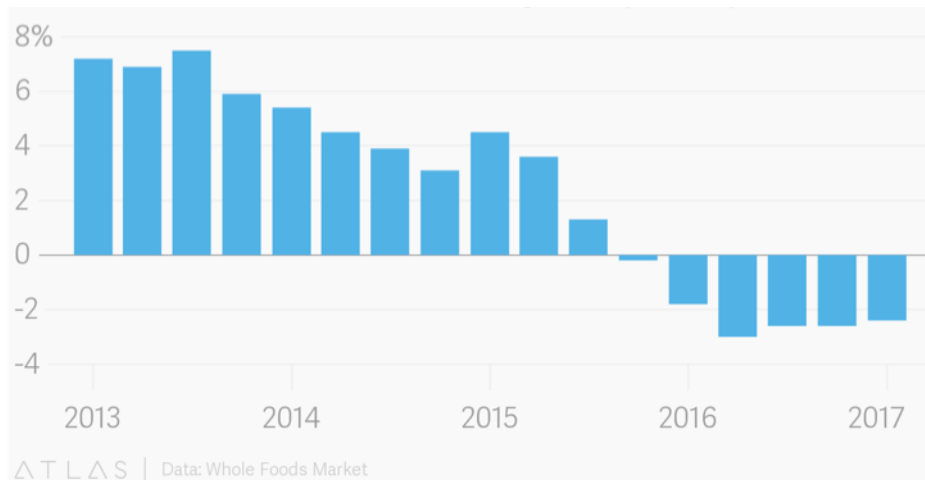
Figure 13: Whole Foods Market Total Revenues and Percentage Growth 2012-2017



(Figure taken from Whitten, 2017, n.p.)

Another critical factor to evaluate is the decline of Whole Foods' same-store sales for the past seven quarters (Purdy, 2017, n.p.). One of the factors responsible for this development is the pressure that competitively priced rivals exert on Whole Foods, affecting the number of customers that have visited the store and how much they purchase (see figure 14). (Dewey, 2017, n.p.).

Figure 14: Whole Foods Market same-store sales growth, year on year



(Figure taken from Purdy, 2017, n.p.)

As previously mentioned in chapter 3.1 in the PLEESTIC Analysis, the U.S. is currently experiencing an increase in labor costs due to rising wages, which increases Whole Foods' SG&A costs respectively (Mutikani, 2017, n.p.). Of Whole Foods' total net sales, 29% can be contributed to SG&A costs, the highest among the top ten largest retailers in 2015. Within these costs, labor is seen as the biggest component, accounting for approximately 14% of the sales on average (L.E.K Consulting, 2016, p.1). While Whole Foods has been able to keep the SG&A costs stable in 2016 due to a 2-year cost reduction initiative, these costs, relative to the total revenue, are still higher than that of Whole Foods' close competitors (Gurufocus, n.d., n.p.; L.E.K. Consulting, 2016, p.1). Since these costs have a direct impact on the net income, it is recommended to look at more potential ways to reduce these costs, especially after the acquisition by Amazon.

Figure 15: Selling, General, and Administrative Expenses as a % of Net Sales



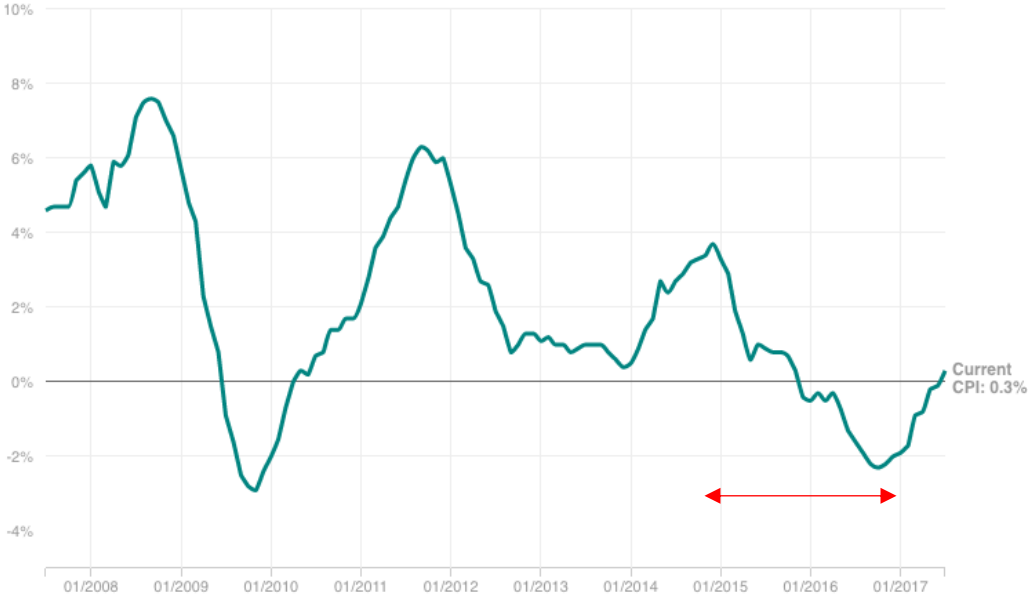
(Figure taken from L.E.K. Consulting, 2016, p.1)

Net income decreased by 5,41% in 2016 to \$507 million, contributing to 3,2% of sales. This can be attributed to the slight increase in COGS, and a significant interest expense in 2016, relative to previous years.

Food cost deflation has been affecting all competitors in the food retail industry over the past 19 months, from 2015 to 2017, as seen below in figure 9 (Selyukh, 2017, n.p.). While beneficial for the customers since prices are lower, the already thin-margin grocery industry has experienced shrinking profits due to this occurrence (Lempert, 2017, n.p.). This period of

deflation can be attributed to several causes, with the strength of the dollar against major currencies, and the shrinking demand for U.S. produce by China emerging as the most predominant ones. This drop in demand, followed by an excess supply, caused retailers to drop prices and enter into a price war with competitors “...as many retailers passed on these lower prices to shoppers to gain a competitive edge against other brick and mortar stores and the growing eCommerce competitors like Amazon” (ibid.). What specific implications this deflationary period has had for Whole Foods’ revenue will be further discussed in chapter 7.1.

Figure 16: Year-to-year price change comparison of retail food price deflation from 2008-2017



(Figure taken from Bureau of Labor Statistics Consumer Price Index, adapted by Mayes and Araya, 2017 n.p.)

Looking more specifically at the period from 2015-2017 (indicated by the red line), we can see a significant drop in the consumer price index spread out over a 2-year period. While there was slow recovery in the latter part of 2016, prices have not yet fully recovered.

**7.2 Profitability Ratios**

In the table highlighting the return on assets and return on investment, Whole Foods’ ROA has decreased in the past two years, while the return on equity has been balancing



around 14-15% in the past four years. These ratios are of particular importance in the grocery industry, due to the low margins. The industry average of ROA is around 6,41% in Q4 of 2016, indicating that Whole Foods is performing above average. However, prior to 2013, Whole Foods was had an ROA of 10%, which decreased to 8% in 2016. The decrease in ROA may indicate that Whole Foods is struggling to preserve its margins, while operating in an increasingly competitive industry.

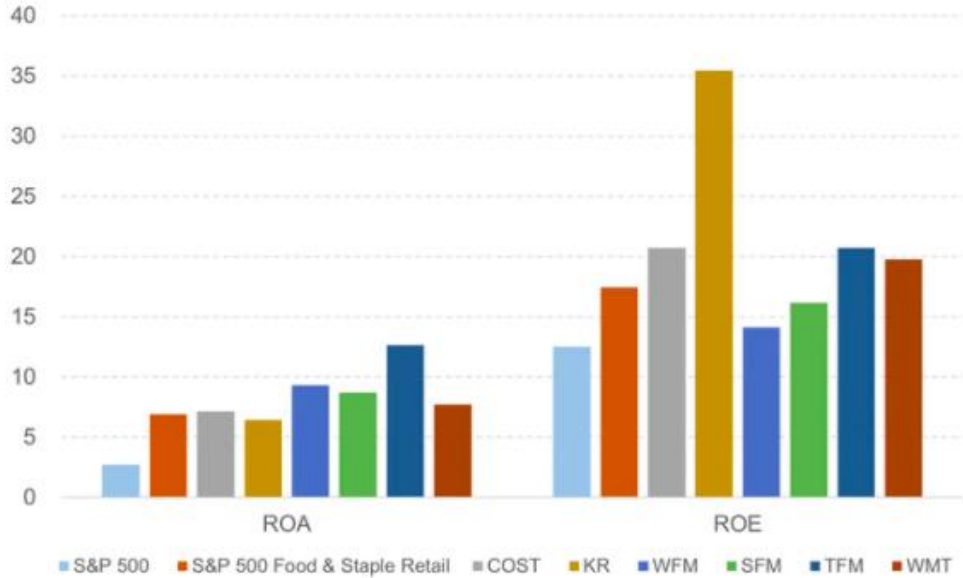
*Table 9: Profitability Ratios for Whole Foods Market 2013-2016*

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>GPM</b>	34%	35%	36%	36%
<b>NPM</b>	3,22	3,48	4,08	4,27
<b>OPM</b>	5,45	5,59	6,58	6,48
<b>ROA</b>	8,0%	9,34%	10,08%	9,95%
<b>ROE</b>	15,73	14,22	15,18	14,21

*(Source: WFM Annual Report, 2016)*

Looking at Whole Foods' ROE for the year of 2015 in the graph below, it is the lowest in its peer group (Bells, 2015, p.16). Whole Foods' ROE increased slightly from 2015 to 2016 possibly resulting from the buyback of Whole Foods' own shares to return cash to its shareholders and keep shareholder value up.

Figure 17: WFM and competitors' ROA & ROE Comparison



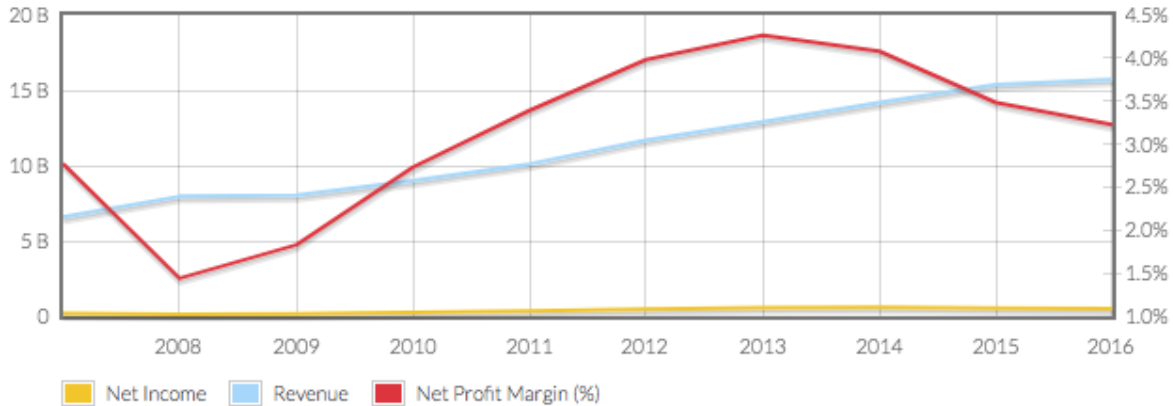
(Figure taken from Bells, 2015, p.16)

Figure 18: Whole Foods - Shares Repurchased

	2016	2015
Number of common shares acquired	31.7	13.8
Average price per common share acquired	\$ 29.82	\$ 37.06
Total cost of common shares acquired	\$ 944	\$ 513

(Source: WFM Annual Report, 2016, p.52)

Figure 19: Whole Foods' pricing power over the past 10 years



(Figure taken from Vuru, 2017, n.p.)

Whole Foods’ gross profit margin and net profit margin have slightly decreased in the past four years. However, in comparison to Sprouts and Kroger, WFM outperformed the competition last year. Typically, the net profit margin in the grocery industry is only 1%, and relies on volume to make up for the low margins (Huebsch, n.d., n.p.). In the case of Whole Foods, their high profit margin has been a source of criticism and has contributed to their negative pricing image, often referred to as “Whole Paycheck” (Garfield, 2017, n.p.). While Whole Foods is known to sell higher-end produce, which is often be associated with higher margins, this negative pricing perception is the most likely contributing factor to the decrease in same store-sales.

*Table 10: Revenues and Profit Margins WFM and competitors*

	<b>Sprouts</b>	<b>Kroger</b>	<b>WFM</b>
<b>Revenue</b>	4,046	115,337	15,724
<b>COGS</b>	2864	89,502	10,313
<b>Gross Profit Margin</b>	27%	22%	34%
<b>Net Profit Margin</b>	3,1%	1,7%	3,22%

*(Source: eMarketer Retail, 2017, n.p.; WFM Annual Report, 2016)*

### **7.3 Liquidity Ratios**

Whole Foods’ quick ratio has increased from 1,05 in 2014 to 1,09 in 2016. Typically, a ratio above 1 is considered healthy, and Whole Foods is clearly in a good position to pay off its debts. However, it is recommended to stabilize this ratio, to ensure any obligations and payments can be consistently met in the future. Everyone in Whole Foods’ peer group, has significantly lower liquidity ratios (see table 11). However, this is quite typical in the grocery industry since retailers have high inventory turnovers and keep relatively low levels of assets, and understandably do not need to set aside a significant amount of cash.

Cash flow from operations is used as “a cleaner proxy for profit rather than earnings or net income”, since earnings can differ greatly from the actual cash flow which a company generates (Investopedia, n.p., n.d.). In the case of Whole Foods, the operating cash flow decreased from 0,90 in 2015 to 0,83 in 2016, which indicates that Whole Foods’ current liabilities cannot fully be covered by the cash it generates from operations.

Table 11: Liquidity Ratios

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Quick Ratio</b>	1,09	0,83	1,05	1,44
<b>Current Ratio</b>	1,47	1,23	1,40	1,82
<b>Operating Cash Flow Ratio</b>	0,83	0,90	0,87	0,93

(Calculated from WFM Annual Report, 2016)

Table 12: Quick Ratio - Competitive Comparison

<b>Sprouts</b>	<b>Kroger</b>	<b>Costco</b>	<b>Walmart</b>
0.23	0.33	0.43	0.21

(Yahoo Finance)

## 7.4 Leverage Ratios

Until recently, Whole Foods did not carry any debt. Its expansions are typically financed through free cash flow. In 2016 however, it took on a \$1bn debt to finance its share repurchases, which was discussed in chapter 7.2 (Stoffel, 2017, n.p.). The significant increase of the D/E ratio from 2015-2016 as well as its D/A ratio, can be explained by the debt that Whole Foods has recently accumulated.

Table 13: Leverage Ratios

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Debt-to-Assets</b>	0,49	0,34	0,34	0,70
<b>Debt-to-Equity</b>	0,97	0,52	0,51	0,43

(Calculated from WFM Annual Report, 2016)

## 7.5 Efficiency Ratios

Because of the nature of the grocery industry and the products it sells, efficiency ratios are extremely important to analyze. Grocery stores must optimize the use of valuable shelf space, by selling inventory in an efficient manner to prevent waste. Approximately 67% of Whole Foods products are perishable goods, making it extremely important for Whole Foods

to maintain a high turnover ratio. Examining the inventory turnover of Whole Foods, it has slightly decreased in the past two years, yet remains relatively high. Whole Foods’ above average inventory turnover ratio can be attributed to the large amount of perishable goods it sells, relative to other products as well as its competitors (see tables 14 & 15)

Table 14: Efficiency Ratios

	2016	2015	2014	2013
<b>Asset Turnover</b>	2,48	2,68	2,47	2,33
<b>Inventory Turnover</b>	19,95	19,95	20,75	20,02
<b>Inventory Conversion Period</b>	18,30	18,30	19,59	18,23

(Calculated from WFM Annual Report, 2016)

Table 15: Inventory turnover - Competitors

<b>Sprouts</b>	<b>Kroger</b>	<b>Costco</b>
15.49	14.06	11.90

(Nasdaq, 2017, n.p.)

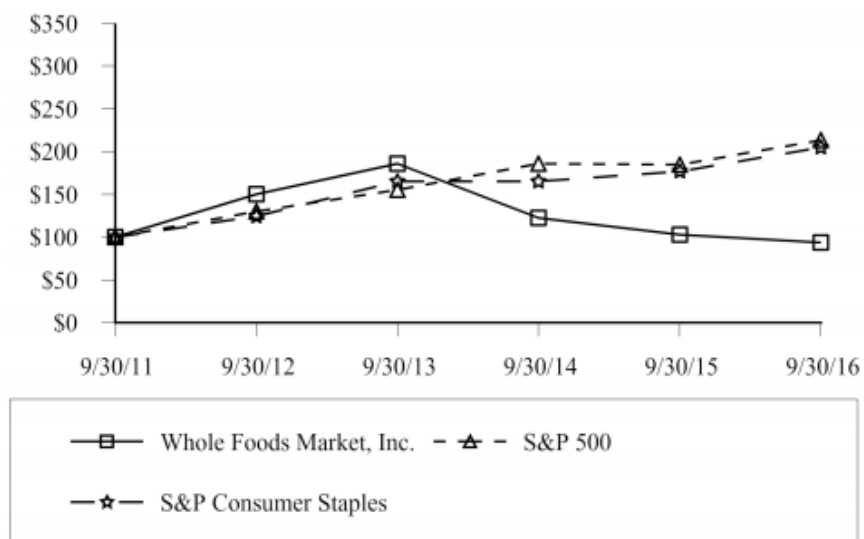
Typically, companies with low profit margins, tend to have a higher asset turnover (ATR). This correlates with the fact that Whole Foods’ profit margins are generally higher than those of the competition. Comparing the values of Whole Foods’ competitors, Sprouts has an ATR of 2.99, Kroger an ATR of 3.29, and Costco an ATR of 3.67.

Whole Foods’ inventory conversion period has remained relatively stable over time. In 2016, it took Whole Foods approximately 18 days to completely sell off or dispose of its inventory. As with the inventory turnover, the inventory conversion period is much shorter for Whole Foods than that of the competition. On average, Whole Foods’ peer group has an inventory conversion period of 26.7 days, as of 01/2017 (Morningstar, 2017, n.p). This can be explained by the large share of perishable goods Whole Foods sells.

## 7.6 Stock Performance

It can be seen in the graph below, that Whole Foods shares took a hit in 2016, probably due to the decrease in profits. However, the impact was most likely mitigated by the increase in dividends by half a cent approved for 2017, but profitability did not (Whole Foods Market Financial Statement, 2016, p.15). Although Whole Foods' stock performed better than the industry average until 2013 and was considered a growth stock, its fortunes turned from 2014 onwards. In its peer group, Whole Foods was among the worst performers, and the company's share price dropped by 40% in 2015. At the same time, competitor Kroger, saw a 15% share rise, and Costco Wholesale Corporation also gained more than 10% over this period (Bells, 2015, p.15).

*Figure 20: Whole Foods - Stock Performance*



*(Figure taken from WFM Financial Statement, 2016, p.16)*

Table 16: Whole Foods Stock Performance Progression in \$

	30/09/2012	30/09/2013	30/09/2014	30/09/2015	30/09/2016
<b>Whole Foods Market Inc.</b>	150.11	185.79	122.34	102.88	93.80
<b>S&amp;P 500</b>	130.20	155.39	186.05	184.91	213.44
<b>S&amp;P Consumer Staples</b>	124.30	141.77	165.19	176.92	204.82

(Figure adapted from WFM's Financial Statement, 2016, p.16)

## 7.7 Additional

- Average weekly sales per store were \$682,000 in 2016, translating to gross sales per square foot of approximately \$915 (Whole Foods Financial Report, 2016, p.17). However, the weekly store sales in 2015 were \$715,000, thus we can see a decrease in sales of 2,5% (ibid.).

## 7.8 Financial Impact of Acquisition for Amazon

Amazon was able to purchase Whole Foods Market for \$13.7 billion, although a large amount of it was goodwill. Prior to the acquisition on 30/6/2017, Amazon's goodwill was \$4,254 million, and following the acquisition on 30/9/2017, has risen up to \$13.3 million. This caused Amazon's net tangible assets, over the same period, to decrease from \$18.9 million to \$11.4 million, and caused the debt/equity ratio to increase from 2.78 to 3.67 (Amazon Financial Statement Q3, 2017, p.10). While Amazon was able to afford this acquisition, it has taken on a significant financial risk by borrowing the money.

Amazon paid \$42 per share for Whole Foods, which can be considered very reasonable considering the circumstances. In return, Amazon will acquire a company with a very strong brand with a reputable private-label, prime real estate sites, and a treasure trove of customer data which it can leverage to convert customers into Prime users.

## **7.9 Financial Analysis Conclusion**

Overall, Whole Foods' financial performance has been poor in the past few years, and the company was in financial decline prior to the acquisition. Although Whole Foods' ratios indicate that the company is faring relatively well, its overall performance growth, as well as the realized margins are amongst the lowest in the industry. To maintain the stock price, and elevate the perception of Whole Foods' overall performance, dividends were increased, and many shares were repurchased. These are all indicators that the company was not performing well financially. While there are multiple underlying causes, the increase in competition in the past few years can be seen as the main reason for its poor financial performance.



## CHAPTER 8: DISCUSSION

This chapter will focus on providing recommendations for Whole Foods and Amazon to ensure effective integration of two different company cultures and business models. While Whole Foods can significantly benefit from the acquisition, there are several concerns and risks which need to be mitigated for the acquisition to be considered a success. It must be noted that recommendations regarding the marketing communications do not take priority at this point in time, since a higher-level strategy needs to be laid out first. Therefore, the recommendations given in this paper will be more strategic in nature.

### 8.1 Strategic Recommendations

#### 1. Create a unique, multi-channel customer-focused experience

Whole Foods and Amazon should focus on creating a unique experience for customers; one which is strongly data-driven, and ultimately provides the customer with more value. By creating a customer experience that both delivers in-store improvements, the addition of useful technology, as well as support from a strong online presence, Whole Foods can become the preferred destination for grocery shoppers. Through the merging of a high quality, physical experience supported by key digital initiatives from Amazon's years of online expertise, Whole Foods can retain its appeal as a high quality grocery retailer, and solidify itself as a modern, forward thinking force in the food industry. The key is to create an ecosystem, which has the ability to satisfy and serve the customer, both offline and online, as well as to create a seamless integration between the two.

##### *In-store improvements*

While online retail is still a growing market, and a critical element for businesses today, customer needs can never be fully satisfied solely in the digital realm. Because of this, Whole Foods' physical stores should deliver an extraordinary experience, and become the preferred destination for consumers seeking personal attention to their grocery needs, culinary knowledge, and entertainment. To increase store loyalty, consumers need to feel an emotional attachment to the Whole Foods brand. This can be achieved in several ways: cashier-free checkouts, delivery, in-store pickup, and the utilization of knowledgeable personnel to serve and inform customers. Whole Foods' human talent should be deployed to deliver customer experiences, such as sampling, sharing their knowledge about the

origins of produce, and how to prepare dishes. Human interaction should be specialized, rather than wasted on performing routine tasks which can be automated. By utilizing employees in this way, it takes away the potential concerns they might have about automation. If Whole Foods can improve in these aspects, the added-value can justify Whole Foods' premium pricing.

### *Online store & grocery delivery*

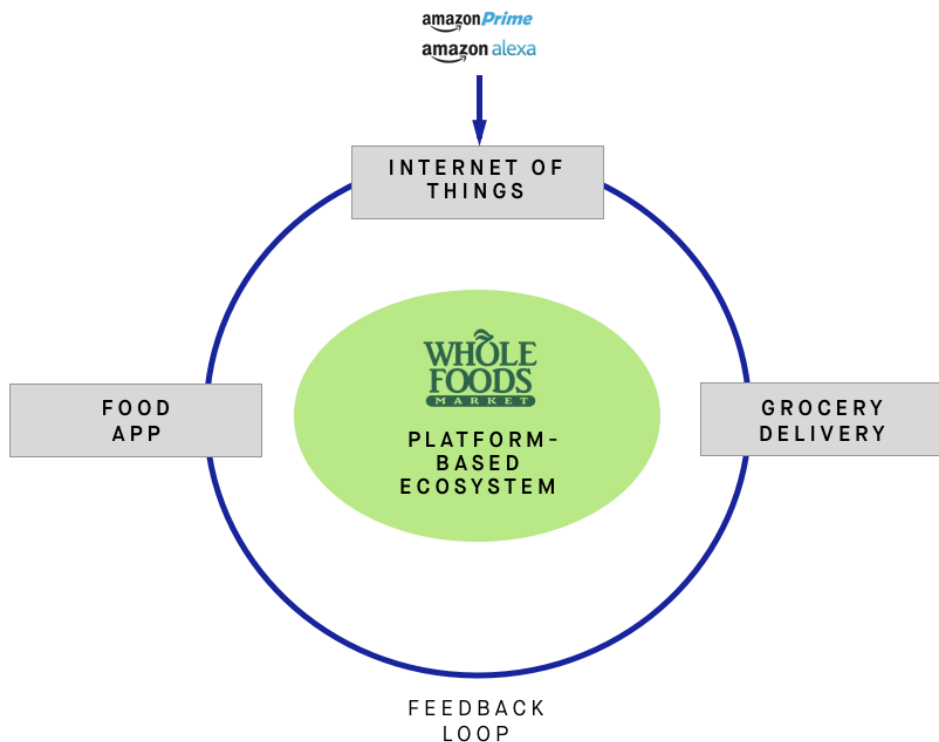
Online sales of groceries grew by 15% over the last year to reach \$48 billion, and by 2025 that number is expected to be \$150 billion globally (Shieber, 2017, n.p.). However, food retailers that only maintain a digital presence have not been able to capture enough market share, as customers still prefer to shop for certain produce in physical stores (Stevens and Haddon, 2017, n.p.). This could stem from a lack of trust, as the digital experience and the perceived freshness and quality of groceries is difficult to reconcile. Amazon's use of Whole Foods, known as a pricy and quality retailer would be sufficient to bridge this gap, and introduce customers to the digital ecosystem, one that is seamlessly integrated with the physical presence of Whole Foods. Amazon has long been touted as one of the world's most successful online retailers, emerging as one of the key players that has digitally disrupted traditional industries. Their tried and true web platform is user friendly, and tailored to customers and their preferences based on past visits, purchases, and searches. Pairing this online experience with Amazon's logistical expertise, Amazon is able to show customers what they want, make it easy to find and purchase, and deliver it themselves with minimal cost and hassle. Whole Foods and Amazon together have the necessary knowledge and the infrastructure in place to create a profitable grocery delivery service, combining the digital and physical aspects of food retailing. Achieving parity between the online and physical experience requires two capable partners, sharing knowledge and expertise in their respective areas, a feat that Amazon and Whole Foods could successfully accomplish.

## **2. Digitalization strategy (backbone strategy)**

In order for Amazon and Whole Foods to create a successful new, digital ecosystem, the initial challenge will be shift to Whole Foods' physical operations to a platform-based system. To create a "Whole Foods and Amazon digital universe", there must be complete synergy between all the components and different operational aspects. Without this, customers might not see the value in paying to be part of this ecosystem. However, if the

digital components are all aligned, these can form the backbone strategy of Whole Foods' entire ecosystem. While this is mere speculation at this point in time, the figure below is a graphical representation of what Whole Foods' future digitalization strategy, and ecosystem, might look like.

Figure 21: Graphical representation of Whole Foods' potential platform-based ecosystem



Looking at the graph above, we can see that Whole Foods and Amazon could together create a digital ecosystem which will serve as the backbone of their grocery delivery, and potentially several other services. After the acquisition is fully completed and all the data has been transferred and analyzed, Whole Foods and Amazon can together utilize their competencies to set up a grocery delivery system, which is reinforced by Amazon's Prime and Alexa systems. To successfully develop such a strategy, Amazon and Whole Foods will need to analyze pain points in the current customer journey, such as carrying groceries home, and busy checkouts. In the future, there could be a grocery delivery service which places groceries directly inside a customers' home, so no one needs to be home when the goods are being delivered. Amazon has already started experimenting with such a service, named Amazon Key (Popper, 2017, n.p.). Additionally, the digitization strategy will have to support the following features:

- Integrate data to develop more accurate customer profiles, and create more relevant and targeted offers → increase customer loyalty
- Cashier-free checkouts to create a more streamlined checkout process by directly charging customers' Amazon accounts
- Food app for customers to manage grocery delivery times and receive tailored discounted products based on purchase history
- Security

### **3. Managing potential organic food supply shortages**

As previously mentioned, the threat of organic food shortages can pose serious consequences for both Whole Foods' and Amazon's operations as well as long-term growth. To mitigate this threat, Whole Foods can do two things. First, the company can provide incentives for farmers to move from traditional large scale farming to organic farming, and do so by investing in the transition for select farmers, as the main barrier to organic farming is the cost. No direct subsidies are offered by the U.S. government to support conversion to organic farming, making it extremely expensive for farmers to make this shift (Constance and Choi, 2010, p.5). In helping farmers to finance the transition in exchange for exclusive contracts, this will allow Whole Foods to have exclusive access at a favorable rate relative to that of competitors. Access to specially selected suppliers would also mean a tighter and more optimized logistical integration. This will also allow Whole Foods to obtain a greater oversight into the quality of the products, and successful tracking will mean that the company will have an easier time maintaining its overall standards of quality. Amazon and Whole Foods must attract the right suppliers to ensure that competitive retailers do not sway them into supplying exclusively for them, and creating the right relationships is key. It is therefore important that Whole Foods and Amazon become their preferred partner of choice. Although Amazon often concerns itself with cost-savings in their supply chain, it is advised not to pursue an aggressive cost cutting strategy, as this would turn would-be suppliers and current suppliers away. Before this can be done however, it will be important for both companies to communicate their dedication to farmers by offering them a fair price for their produce, especially since Amazon has garnered a reputation for cost cutting.

#### **4. Post-merger integration**

In order for the acquisition to be considered a success, not only do the companies need to manage digital integration, but also the working culture of the companies. Since both companies have fostered different cultures, the challenge will be to effectively integrate them in a cohesive way. Typically, Amazon has only merged the digital aspect of a company, leaving the rest of the company to operate independently, as in the case of Zappos (Lashinsky, 2010, n.p.). Therefore, it is recommended for Amazon to follow the same principle with Whole Foods, and to only merge the digital aspects, leaving the company and its unique culture to operate independently. Whole Foods has cultivated a company culture with a strong emphasis on its employees and the benefits they receive. Amazon's work environment can be described as tough, hypercompetitive, with a stronger emphasis on cost-cutting rather than employee satisfaction (Wartzman, 2017, n.p.). The success and failure of an acquisition depends on many factors, but one of the dominant barriers to effective acquisitions is culture (Deloitte, 2009, p.1).

Additionally, since Amazon is most likely going to pursue automation, especially of cashier and warehouse jobs, it must be transparent about the process and what are the implications for Whole Foods' employees working in these positions (Calvin, 2017, n.p.). The uncertainty of the acquisition can pose a serious threat on the work-ethic of employees. This is also an ethical consideration, since employees are often the last to know whether their jobs will disappear. Change management will play a huge role in the reorganization of the company, and internal marketing will support it by making employees aware of new developments, aligning them with the new strategy and vision of the company.

#### **5. Prioritize urban areas in location-strategy**

While Whole Foods has attempted to attract more cost-conscious consumers in the past, the researcher recommends pursuing an urbanization strategy, to focus on the affluent customers and the 'creative class' living in cities. Studies suggest that the upper-middle class is moving back into cities, and therefore Whole Foods should focus its strategy on this as well (Florida, 2017, p.38). Amazon is already pursuing a similar strategy with its Amazon Fresh service, by shutting down its operations in suburbs and rural areas (Reuters, 2017, n.p.). Based on the research conducted, the assumption is that Whole Foods will never be able to compete on price with competitors like Walmart, Kroger, and even Trader Joe's. Additionally, Whole Foods already has a strong presence and retail

space in urban areas compared to retailers such as Walmart and Kroger. Therefore, Whole Foods needs to establish a competitive advantage through its digitalization strategy, and focusing its efforts on affluent customers living in urban areas. With more value to offer, especially if Whole Foods and Amazon manage to create a successful digital ecosystem, customers will be more willing to pay for these value-adding services. Additionally, if Whole Foods does not have to pursue an aggressive cost-cutting strategy, they can secure their place as a preferred partner if they are able to offer suppliers more money for their produce.

*Table 17: Evaluation of Recommendations*

	<b>Investment</b>	<b>Risk</b>	<b>Priority</b>	<b>Time Span</b>
<b>Create a unique, multi-channel customer-focused experience</b>	High	High	1	Long
<b>Digitalization Strategy</b>	High	High	2	Medium-Long
<b>Managing potential organic food supply shortages</b>	High	Medium	2	Long
<b>Post-merger integration</b>	Medium	Medium	1	Short
<b>Prioritize urban areas in location-strategy</b>	Medium	Medium-high	3	Medium

## **CHAPTER 9: CONCLUSION**

The purpose of this thesis was to analyze Whole Foods' current strategic market position, its performance, and explore the potential motivations behind the acquisition by Amazon as well as what the potential implications could be. In order for the researcher to make justified assumptions and recommendations, the macro as well as the micro environment in which Whole Foods operates was analyzed, as well as its current marketing strategy. The results of the analysis indicated that Whole Foods was in a poor financial position following the decline in same-store sales, negative price perception, with increasingly aggressive competition having taken a toll on Whole Foods in recent years.

With the need for the grocery industry to adapt to digitalization, the acquisition by Amazon could not have been more opportune for Whole Foods. Because of Amazon, Whole Foods can gain a significant competitive advantage, as well as customer advantage through digitalization. Additionally, the two companies can together explore the potential of grocery delivery, and find new ways to better serve the customer in both the online and offline realm.

### **9.1 Personal Opinion**

The researcher believes that Whole Foods has a great business model, and is a prime example of a 'do-good' company which has been struggling after going public. The problem is that when a company files for an IPO, short-term profits often take precedence over long-term value building. While this is the reality of the situation, the acquisition by Amazon presents an opportunity for Whole Foods to focus on larger, long-term vision oriented projects, since Amazon has always had a similar, entrepreneurial drive and culture.

### **9.2 Research Limitations**

The research within this thesis was limited by the lack of primary data, as well as by the lack of a clear strategy and direction laid out by Amazon for Whole Foods. Because of this, the researcher was forced to make assumptions about Whole Foods' marketing strategy as well as the potential future strategy Amazon might have in store for Whole Foods. In general, the transitory state Whole Foods is currently in, and the lack of clarity made it rather

difficult to analyze the company and adequate recommendations relevant to Whole Foods at this point in time.

### **9.3 Suggestions for Future Research**

The research conducted in this thesis, forms a good basis on which additional research can be conducted in greater depth. Topics which could be analyzed further are:

- Further research on mergers & acquisitions in the digital age, and how this changes the way the M&A and data transfer process
- The future of selling prepared foods and meal kits, something Whole Foods and Amazon have been exploring
- Conduct more in-depth research into the situation with organic food shortages in the U.S. and what the implications are



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## **APPENDICES**

### **Appendix A: Extended Organic Food Industry Overview**

Due to the rising popularity of organic products, marketers have been increasingly studying people's motivations, attitudes, and shopping behaviors for purchasing organic items. In regards to marketing organic produce, marketers have been emphasizing the presumable health and environmental benefits of organic food (Marketing-schools.org, n.p., n.d.). While the organic food industry is a relatively young market and does not have a fully defined customer profile, the following general characteristics can be defined (ibid). Organic food consumers can be divided into two categories: "classic", or "emergent" customers (Hamzaoui-Essoussi and Zahaf, 2012, p.68). The "classic" customer is typically a well-educated individual and is willing to pay a premium price to acquire organic produce, also taking an active interest in the origins of the produce (ibid.). Although the "emergent" consumer is also well-educated, the motivations behind purchasing organic produce arise from their interest in personal health benefits, with convenience as an important purchasing factor (ibid). Thus, they would be more likely to shop in a mass-market grocery store rather than in specialty stores, for the sake of convenience.

## **Appendix B: Extended PLEESTIC Analysis**

While this will enable Whole Foods to cut costs, lowering the prices of various staple products in Whole Foods stores could develop into potential supply and pricing problems (Skrovan, 2017, n.p.). Amazon is known for putting enormous pressure on their suppliers (Pfeffer, 2014, n.p.). Since Amazon is an online retail business, a mutually beneficial relationship with suppliers is not a first priority. For traditional retailers, shelf space in stores is limited, thus, when a product arrives in the store, both the retailer as well as the supplier have a mutual concern for ensuring the product sells (ibid). In the case of online retailers such as Amazon, 'shelf space' is indeed unlimited, making the cost of adding new products to their online store virtually nonexistent. Therefore, Amazon has less interest in making every product successful, and "that is why relationships with suppliers, always contentious, will be particularly problematic at Amazon, especially when Amazon controls so much of the retail market share" (ibid.). However, since organic products are already scarce, putting too much pressure on suppliers to cut costs could result in the decrease of quality for products, or a disruption in the supply chain. While Amazon can afford to pressure suppliers in other ventures, this is a matter that should be handled delicately.

## **Appendix C: Extended SWOT Analysis**

### *Strengths*

The key strengths listed in the table above, provide an insight into the some of the motivations behind the the Whole Foods acquisition. Whole Foods provides a unique combination of strengths which Amazon can use to its advantage in future endeavors, especially in its grocery delivery business. Whole Foods' prime real estate assets can serve as the brick-and-mortar delivery hubs which Amazon needs to successfully start competing in the online food delivery segment (Razin, 2017, n.p.). Amazon needs these physical locations to serve as its fulfillment centers; the last stop before goods are shipped out to the customer (ibid.). The experience Whole Foods has in the management of perishable goods, combined with its extensive and exclusive vendor and supplier network are additional competencies that have made Whole Foods an attractive choice for Amazon.

### *Weaknesses*

In the past few years, Whole Foods has been struggling with its “Whole Paycheck” image. Attempts to cut costs and shed the image that it is too expensive have not been effective. Since Whole Foods was acquired, Amazon has also been attempting to change Whole Foods' pricing perception. Shortly after the acquisition, Amazon has been lowering prices across the country in Whole Foods stores by cutting operating costs (Kowitt, 2017, n.p.). The first data gathered from the recent price decrease strategy indicates that although Whole Foods has been able to attract more customers, they are largely from the same demographic that Whole Foods was already serving (Keyes, 2017, n.p.). It remains to be seen whether lowering the prices will be sufficient enough to tap into a new demographic and change public perception of Whole Foods.

### *Opportunities*

The Amazon-Whole Foods deal provides several opportunities for Whole Foods. Having struggled with transforming its operations and services, the company encountered difficulty in shaking off its reputation as a pricy supermarket for affluent shoppers. Whole Foods stands to gain a digital overhaul of its services under the close supervision of Amazon, a company already renowned as one of the leading figures in the tech world. Whole Foods will gain a wealth of customer insights that it previously would not have had access to, owing to Amazon's significant data mining capabilities. Knowing what customers want, when they

want it, and what other products they buy in conjunction with others will enable Whole Foods to provide a more accurate and relevant service to its customers.

Another interesting opportunity for Whole Foods could be to further expand the selection of prepared foods. Whole Foods is able to charge premium prices for these products, leading to higher profit margins compared to other products it sells (L.E.K Consulting, 2016, p.1). As of 2016, prepared foods accounted for 19% of Whole Foods' total sales. The prepared foods market is expected to have an annual growth of 4.5% through 2019 (Duff&Phelps, 2016, p.5). The expected growth, paired with Whole Foods' pre-existing competency in prepared foods make this a great concept for Whole Foods to develop even further.

### *Threats*

Even though Amazon can potentially counter some of Whole Foods' weaknesses through digitalization, some of the threats facing Whole Foods could pose serious challenges for both companies in both the short and long-term. Competition, especially in the resource market, is a growing issue (Messinger, 2016, n.p.). The biggest impediment to increasing organic farmland in the U.S. is the time and expense required to get an organic certification (ibid.). Since Whole Foods' business model and value proposition rests on selling organic produce, a shrinking supply of organic food could significantly hurt the business. Moving forward, if Amazon is going to expand its business of selling (organic) food through Whole Foods, they will have to come up with a solution that would reduce this threat.

## Appendix D: Whole Foods Market - TOWS Matrix

Table 18: Whole Foods Market - TOWS Matrix

	<b>Strengths</b>	<b>Weaknesses</b>
	<ol style="list-style-type: none"> <li>1. Backed by an entrepreneurial-driven venture (Amazon)</li> <li>2. High product quality and standards</li> <li>3. Owns prime retail space in affluent neighborhoods</li> <li>4. Experience with acquisitions</li> <li>5. Strong private-label</li> </ol>	<ol style="list-style-type: none"> <li>1. Negative pricing perception – “Whole Paycheck”</li> <li>2. Lagging digital transformation</li> <li>3. Management restructuring &amp; integration of two different business models</li> <li>4. Overdependence of one supplier: United Natural Foods</li> </ol>
<b>Opportunities</b>	<b>S/O Strategies</b>	<b>W/O Strategies</b>
<ol style="list-style-type: none"> <li>1. Consumer spending growth</li> <li>2. More emphasis on prepared foods</li> <li>3. Online retailing &amp; deliveries</li> <li>4. Deliver superior customer experience → customer intelligence (CI)</li> </ol>	<p><u>(S1, S2, O1)</u> Leverage the firms’ backing by Amazon to expand its prepared foods selection</p> <p><u>(S1, S3, O3)</u> Become a major player in the grocery delivery industry through partnership with Amazon</p> <p><u>(S1, S2, O4)</u> Become the preferred grocery store for organic groceries by providing the customer with a superior product and customer experience based on CI</p>	<p><u>(W2, O3, O4)</u> With the backing of Amazon and its technological knowledge, Whole Foods can speed up its digital transformation through digital enablement. Selling its its produce online, and gaining more accurate customer insights through which Whole Foods can provide the customer with a more tailored and individual shopping experience</p>
<b>Threats</b>	<b>S/T Strategies</b>	<b>W/T Strategies</b>
<ol style="list-style-type: none"> <li>1. Competition in the commodity market</li> <li>2. Competition in the resource market → organic food supply shortage</li> <li>3. Damage in reputation following Amazon acquisition</li> <li>4. Food cost deflation</li> </ol>	<p><u>(S1, S2, S6, T1)</u> Capitalize on core competencies such as product quality and WFM’s strong private-label and backed by Amazon, strengthen its competitive position</p> <p><u>(S1, T2)</u> Leverage the firms’ economy of scale (together with Amazon) to gain a more favorable competitive position in the organic food resource market</p>	<p><u>(W1, T4)</u> Whole Foods can use food cost deflation and subsequent lower prices to communicate price reductions, raise customer awareness and simultaneously combat its negative price perception (Tom, 2017, p.24)</p>

(Information taken from Razin, 2017, n.p.; Wholefoodsmarket.com, n.d., n.d.; Whole Foods Market Financial Statement, 2016; Zentes, Morschett, Schramm-Klein, 2017, p.273; Voight, 2013, n.p.; Wartzman, 2017, n.p.; L.E.K Consulting, 2016, p.1; Messinger, 2016, n.p.)

## Appendix E: Extended Porter's Five Forces Framework

Table 19: Porter's Five Forces Framework - Brief Explanations

Competitive Rivalry - HIGH	Competing in a highly saturated market Slow, but steady industry growth High fixed costs Many competitors with similar product offerings
Bargaining Power of Suppliers - HIGH	Organic food supply shortage in near future Highly dependent on one organic food supplier (United Natural Foods) (Whole Foods also has its own vertically integrated supply chain for its private-label)
Bargaining Power of Buyers - HIGH	Low buyer switching costs Similar products can be found in different grocery stores High proportion of buyer's costs
Threat of Potential Entrants - LOW	Barriers to entry are high Many economies of scale (Walmart, Kroger, Albertsons) Capital requirements are high (costs of store facilities, human capital) Cost of setting up a distribution network is high
Threat of Substitutes - HIGH	Non-organic products can be seen as a substitute, which is an even larger market than organic food.



## **Appendix F: Extended Value Chain Analysis**

Analyzing Whole Foods' procurement and distribution management, the company is currently pursuing a more centralized distribution approach, more closely matching that of the mass-market retailers (Gasparro, 2017, n.p.). While this could reduce operating costs, it means that Whole Foods' offerings will be less localized and changes to product offerings will be more difficult to implement (ibid.). Previously, both the selection of the location, as well as the selection of merchandise were value added features, which was considered a unique approach and a differentiating factor for the company. Pursuing a more centralized distribution approach, and taking power away from regional procurement managers are significant trade-offs to make, since these are elements through which Whole Foods has been able to carve out their position in the market and create a unique value proposition in the first place.

## **Appendix G: Evaluation of Whole Foods' Competitive Profile Matrix**

Evaluating brand recognition, product quality, CSR, and customer loyalty, Whole Foods performs better or similarly when compared to the other two competitors. This is due to Whole Foods' status as an established brand, with a history of high product quality and community stewardship. By offering greater transparency in regards to the origins of produce, as well as the production process itself, Whole Foods has generated significant trust and loyalty from customers (Singh, 2017, n.p.; Bloomberg, 2017, n.p.). Whether Whole Foods will be able to maintain customer trust and product quality under Amazon management however, is uncertain. Whole Foods is also behind its competitors in terms of price competitiveness and innovation, a major point of concern for the company, and one that Amazon will try to resolve in coordination with Whole Foods.

## **Appendix H: Extended Business Model Canvas**

### *Customer Segments*

Prior to the acquisition, Whole Foods served predominantly affluent customers that were willing to pay a premium price for their products. Additional customer segments which Whole Foods serves are health and/or environmentally conscious customers and ‘foodies’. While they will remain the core customer segment which Whole Foods is targeting, by lowering the prices of WFM’s products, Amazon is potentially looking to expand into customer groups that are more cost-conscious (Keyes, 2017, n.p).

### *Value Proposition*

Whole Foods value proposition must focus on creating value for the customers, in a differentiated way, which communicates the unique features of a shopping experience at Whole Foods. Therefore, Whole Foods’ value proposition is as follows: *Whole Foods Market provides high quality natural and organic food products through a unique, customer centric, online and offline shopping experience, focused on the target segment.*

### *Channels*

While most of Whole Foods’ products will still be sold through the existing physical store channel, additional channels such as the Amazon website, will be added to the portfolio. Whole Foods’ products, including its private-label 365 Everyday Value, can already be bought through Amazon Fresh.

### *Customer Relationships*

Customer relationships is another dimension which the Amazon acquisition will significantly impact. While customers will still be able to purchase their products in the stores through a combination of self-service and personal in-store assistance, Amazon will now be able to enhance the customer relationship by also enabling customers to order their WFM products online and have them delivered.

### *Revenue Streams*

Whole Foods generates its revenue from the sale of assets. These assets are sold with a fixed price, but are product feature dependent. Whole Foods sells both natural and organic products, and has a vertically integrated private-label. The products are individually sold with a fixed

price and are product feature dependent (list price) (Tom, 2017, p.13). Meaning, organically certified products yield a higher price than products that do not carry that label. Whole Foods' currently enjoys a profit margin of 2.65% which surpasses that of most of its rivals (1.7%) (Cohan, 2017, n.p. as cited by Tom, 2017, p.13). This high margin has been a source of criticism, and has contributed to the negative price perception Whole Foods has been struggling with, although it has significantly decreased since its peak (ibid.).

### *Key Resources*

Whole Foods has several unique resources which has made the company an attractive purchase for Amazon. Whole Foods owns prime real estate in affluent neighborhoods through which Amazon can start distributing its products and testing prices. Additionally, Whole Foods' private label is sold through Amazon Fresh, with the motivation of increasing Amazon's private-label portfolio (Mccoy, 2017, n.p.). Additionally, Whole Foods' employees, are highly skilled, experienced, and knowledgeable in managing perishable goods operations and the organic food industry in general.

### *Key Partnerships*

One notable partnership concerns the recent acquisition of Whole Foods by Amazon. Chapter 3.9 will discuss in greater detail what the consequences of this move will be. Additionally, Whole Foods' supply chain partners, such as United Natural Foods, play an important partnership role.

### *Cost Structure*

Whole Foods' cost structure can be categorized as value driven. This has been part of the business model and subsequent strategy since the company's inception. Following the Amazon acquisition, some of the prices of key staple items have been lowered, indicating a potential move towards a more cost-driven structure. However, it is uncertain exactly how Whole Foods will benefit from the reductions in the long-term and what Amazon's motivations are behind this move. The price reduction could simply be a test by Amazon to study Whole Foods' customer base, and more generally, the brick-and-mortar retail industry (Simon, 2017, n.p.). "By buying Whole Foods, [Amazon gets to] test price points and assortment interactions, redefine the price perception for organic and healthier foods, merge offline and online shopping experiences, and perhaps test home delivery or store pickup with

ideal early adopters” (ibid.). Thus, Whole Foods’ cost structure, and how it will evolve will ultimately depend on the conclusions of Amazon’s testing.

## Appendix I: Value Proposition Canvas

Figure 22: Whole Foods' Value Proposition Canvas

# Value Proposition Canvas



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## **Appendix J: Acquisition**

Given the relative financial freedom afforded to a massive company like Amazon, it only makes sense to expand into new potential areas of business and further the growth and diversification of the company. By diversifying and increasing Amazon's retail offering, the company can generate greater brand awareness. It also becomes possible to start competing in a traditional industry by testing and breaking the boundaries through digital disruption and harnessing innovative business models, in an industry that has not done so to a great extent. Amazon's motivations and its position is clear. With strong investor backing, brand recognition, and financial assets, coupled with a world class logistics and distribution service, Amazon is poised to take on the traditional grocery retailers by harnessing its strengths in data mining to reinvent the processes of the grocery business (Aziza, 2017, n.p.). By doing so, Amazon can work towards its goal to create seamless integration of online and offline shopping for its customers. Whole Foods is the perfect vehicle to experiment with such a strategy, owing to its strong brand perception, as well as a proven method of logistics for perishable goods. This would undoubtedly benefit Amazon in a knowledge transfer, as the company has not found a way to successfully establish a food delivery service and manage the inventory of perishable goods with Amazon Fresh, which it intends to do with its Amazon Go service. (Gagliardi, 2017, n.p.).

The possibility of converting Whole Foods customers into Amazon Prime members is another motivation for the acquisition. Absorbing affluent customers into the Amazon ecosystem is guaranteed to lock these users into using Amazon not only for their groceries, but the other products and services that the company offers. Amazon Prime members typically spend nearly twice as much on Amazon for their goods than the typical Amazon user (Braverman, 2017, n.p.). With 62% of Whole Foods shoppers already subscribed to a Prime membership, Whole Foods is the perfect platform through which Amazon can acquire them (Pearson, 2017, n.p.). In addition to Prime memberships, Amazon also intends to sell its Echo and Echo Dot devices in Whole Foods stores, which are non-perishable goods and have the potential to reap high margins. This is a way to diversify the offer through which Amazon can reduce their risk of selling low-margin perishables.

## **Appendix K: Expanded Micro-Analysis**

Whole Foods' general target audience is composed of high-income earners in the lower middle age group, living in affluent neighborhoods (Info Scout, n.d., n.p). A typical Whole Foods customer is female, with a discretionary monthly income of more than \$1000 USD (Peterson, 2015, n.p.). According to Marketing-Schools.org (n.d., n.p.), the average organic food consumer attributes the following values to themselves:

- Altruism (Relationships with others)
- Ecology (Harmony with the Universe)
- Universalism (Protection of the welfare of all people/nature)
- Benevolence (Enhancing welfare of loved ones and friends)

In order for Whole Foods to resonate with and relate to the typical organic food consumer, it is recommended to communicate added values such as health, sustainability, and animal-welfare through Whole Foods' marketing efforts.

Whole Foods's biggest supplier is United Natural Foods, which provided the company with 32% of its purchased goods in 2016 (WFM Financial Statement, 2016, p.6). WFM has also closed an exclusive distribution deal with United Natural Food, ensuring a steady supply of dry grocery and frozen goods, which will extend until 2025. While this deal has been criticized due to its overdependence on one supplier, the future scarcity of organic food and lack of cost efficiencies and enough relationships with distributors to replace United Natural Foods makes the exclusive deal a more viable alternative (Tharakan and Baertlein, 2017, n.p.). The majority of Whole Foods' purchasing is done on a regional, and national level, enabling Whole Foods to closely supervise the supply chain of its producers in order to meet its high quality standards (ibid.).



## Appendix L: Extended Targeting & Segmentation Strategy

Table 20: Whole Foods Market - Market Segmentation

B2C Segment	Characteristics
<b>Geographic</b>	<ul style="list-style-type: none"> <li>- Present in three countries: Canada, U.S., U.K</li> <li>- Strong emphasis on the U.S. market</li> <li>- Affluent neighborhoods and city/urban areas, as well as suburban areas</li> </ul>
<b>Demographic</b>	<ul style="list-style-type: none"> <li>- High income</li> <li>- Highly educated</li> <li>- Regular WFM stores: working parents between the ages of 30-50</li> <li>- 365 by Whole Foods stores: millennials</li> <li>- Upper-middle to upper-class</li> <li>- Creative class</li> </ul>
<b>Psychographic</b>	<ul style="list-style-type: none"> <li>- Health and fitness conscious</li> <li>- Foodies</li> <li>- Conscionables: embody the core values of Whole Foods such as sustainability, anti-animal cruelty, and overall holistic approach</li> <li>- Seek out natural and organic produce</li> <li>- Experientialists: seek out Whole Foods for their unique product offerings</li> <li>- Willing to pay premium price</li> </ul>
<b>Behavioral</b>	<ul style="list-style-type: none"> <li>- Shoppers make small to mid-size trips</li> <li>- Brand loyal</li> </ul>

(Information taken from Consultants Mind, 2013, n.p.; Infoscout, 2015, n.p.; Gaille, 2014, n.p.)

Whole Foods is attempting to expand its target market to millennials that regard Whole Foods' regular stores as too expensive. This was done through establishing a new store concept, called 365 by Whole Foods. These stores will be more tech-oriented, place greater emphasis on prepared foods, and will generally carry less products (Monaco, 2016, n.p.). According to (Bolton, 2015 n.p.) however, Whole Foods has used a very traditional (demographic) segmentation approach, through which it assumes that the entire millennial customer base can be targeted and served in a similar way. A better way to look at customer

segments is “to successfully design offerings that satisfy a range of functional, emotional, and social needs” (ibid). This new store strategy not only has to appeal to millennials that can have a variety of needs, but must also take care so as to not appeal to the regular customer base which shops at Whole Foods’ regular stores. If Whole Foods fails to design a strategy which addresses both of these issues, the store concept might not attract as many new customers as hoped for, and cannibalization of sales between the two stores can become a serious concern (ibid.). Currently, Whole Foods has opened five new lower-priced stores. However, Amazon does not seem to share the same optimism about the potential of these new stores, and has most likely already stalled the expansion (Lempert, 2017, n.p).

## **Appendix M: Organic Labelling Practices in the U.S.**

One point of concern is that the organic labelling practices in the U.S. raise a lot of questions with regards to ethicality. Whole Foods has built its image and value proposition around the role of an organic food retailer, however, much of its products are not organic at all (UC Davis, 2006, p.9). There are no regulations in the U.S. when it comes to labelling products with marketing buzzwords and making claims about ‘natural’ or ‘healthy’ produce, of which Whole Foods also takes advantage of (Steen, 2016, n.p.). While the consumer assumes these products are somehow superior or healthier, this is often inaccurate. Examining the USDA organic food label, there are approximately 200 non-organic ingredients that are exempted from the requirement list (Laufer, 2014, n.p.). While customers turn to government-approved labels as a benchmark or measurement of quality, the list of exempted ingredients is so long that it loses its credibility and mainly serves as a marketing tool. The fact that the majority of the customers are unaware of this fact and are willing to pay a premium price for these products while Whole Foods advertises them as pesticide, additive, and GMO-free, suggests that the practice is extremely deceptive. However, the USDA’s organic labeled produce contain significantly less pesticides than non-organic produce, so Whole Foods can afford to make the claim that its produce is somehow of better quality, to a certain extent.

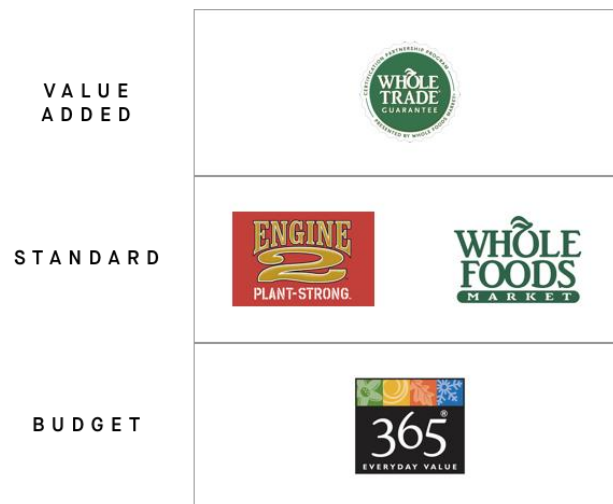
## **Appendix N: Whole Foods Extended Product Management Analysis**

Whole Foods' product assortment has three major differentiating qualities: exclusivity, freshness, and quality. In each of these three categories, Whole Foods can be considered to have a competitive advantage. The exclusivity of Whole Foods' products pertains to their purchasing strategy of buying as much local, regional, and national produce as possible and giving local managers the autonomy to make product offering decisions in their stores. Because of this strategy, Whole Foods is able to provide the customer with a unique, location-tailored assortment, which mainly attracts gourmet shoppers and foodies (Zentes, Morschett, Schramm-Klein, 2017, p.272; Whole Foods Market Annual Report, 2016, pp.5-6).

Whole Foods' second competitive advantage is its handling of perishable goods, and its extensive offer of fresh produce, as mentioned previously in section 3.2/3.9/5.3. This knowledge can serve Amazon well, as it has been seeking the right methods and strategy that can turn the delivery of perishable goods into a profitable business (Gagliardi, 2017, n.p.). These products also create a strategic fit with store design, since fresh products contribute significantly to the overall aesthetic of the store, which is an integral aspect of the Whole Foods overall brand image and customer experience.

Organic foods can generate a price premium of up to 30% compared to regular produce (Haas et al., 2010, as cited by Zentes, Morschett, Schramm-Klein, 2017, p.272). To take full advantage of this price premium, Whole Foods has developed a dedicated product range. The company's exclusive store brands generated a total of 14% of total sales in 2015, of which 55% is certified organic, making these store brands "a key component of the Whole Foods' value concept and essential for the company's product innovation and differentiation" (Whole Foods Market Annual Report, 2016, p.3; Zentes, Morschett, Schramm-Klein, 2017, p.272). Amazon seems to also have an interest in Whole Foods' private-label brands, which are also currently available for purchase on Amazon. "The swift addition of the natural grocer's lines significantly bolsters Amazon's increasingly aggressive expansion into private-label categories" (Amato-McCoy, 2017, n.p.). These vertically integrated private labels can also be a source of differentiation for a company like Amazon. In an industry where third-party brands can be purchased everywhere, it is the successful private labels that can give Amazon a competitive edge (ibid.)

Figure 23: Selected Whole Foods store brands



(Figure adopted from Zentes, Morschett, Schramm-Klein, 2017, p.273)

## **Appendix O: Whole Foods' Product Life Cycle Analysis**

The PLC is a useful tool in providing insights for a company into "... ascertaining the expected life of products within the product portfolio" (Beamish and Ashford, 2008, p.138). For this thesis, Moore's product lifecycle, a more complex approach to the traditional PLC, was utilized in order to better illustrate Whole Foods' current market position. Moore argues that in the early market stages, only product leadership is considered important. However, in order to grow, companies need to cross the 'chasm', in order to gain wide market adoption, operational excellence, and customer intimacy (Moore, 2005, p.268). The 'chasm' refers to the period between early adapters utilizing a product or service, and the early majority adopting it. Prior to the acquisition, Whole Foods was considered to be stuck between these two stages, as its produce were never adopted by the early majority. However, the acquisition by Amazon and the expansion of selling channels, has spearheaded Whole Foods into the 'bowling alley' stage, where it will be easier for Whole Foods' products to be accepted by the early majority. The question will be whether Amazon can take Whole Foods into the next stage, to achieve even wider market adoption.

## **Appendix P: Extended Distribution Strategy**

Whole Foods owns a produce procurement center through which it procures and distributes the majority of its products. Additionally, it operates 11 regional distribution channels that predominantly handle the distribution of its perishable goods, an element which Whole Foods is competitively strong in. For its vertically integrated own product lines, Whole Foods operates three seafood processing and distributing facilities, a coffee and tea roasteries, three commissary kitchens, and four bake house facilities. The rest of the products are acquired through specialty wholesalers as well as direct distributors (Whole Foods Market Annual Report, 2017, p.6). By procuring products the way Whole Foods does, the company says it can “negotiate better volume discounts with major vendors and distributors while allowing stores to focus on local products” Bells, 2015, p.4).

As previously mentioned in chapter 3.6, Whole Foods is currently in the midst of moving towards a centralized distribution strategy, which is more similar to that of mass-market retailers. The main reason for this new strategy is assumed to be due to the potential cost savings.

## **Appendix Q: Whole Foods' Extended Marketing Communications Strategies**

Prior to 2014, WFM had never launched a national ad campaign, making it one of the only B2C product companies in the Fortune 500 list (Dobrow, 2014, n.p.) not to have invested in national ad campaigns. Whole Foods' first national ad campaign launched in 2014, worth 15\$-20\$ million, containing national TV spots and a two-page spread in national newspapers, with the slogan 'Values Matter' (ibid). Storytelling and visualization play an important part in the way Whole Foods communicates its quality standards and healthy offerings with its target market (Dupre, 2014, n.p.). Therefore, Whole Foods only uses media that can express both of these aspects, such as TV, print, and with a central focus on the online experience (ibid.). Looking at the graph above, the increase in marketing spending correlates with the graph.

According to the researcher, Whole Foods online presence is very strong. Both social media accounts and the website are updated daily with new, engaging content, boasting strong visuals. Whole Foods' website also has a very active blog, which can serve as a powerful tool for storytelling, if properly implemented. All the themes of quality, values, ethics, and health are consistently communicated through all of Whole Foods' (online) channels. Examples of some of Whole Foods' advertising can be found below.



Figure 24: Whole Foods Market Ad Examples



VALUES MATTER.

WE THINK FOOD TASTES EVEN BETTER WHEN YOU ALSO LOVE THE WAY IT'S GROWN.

Our new Responsibly Grown rating system was created with growers, scientists, and sustainable agriculture experts to recognize fresh vegetables, fruits, and flowers that demonstrate farming practices:

- GOOD
- BETTER
- BEST

We consider:

- Soil Health
- Air, Energy, and Climate
- Water Reduction
- Pesticide Use
- Worker Safety and Protection
- Community and Fairness
- Food Management

www.wholefoodsmarket.com

WHOLE FOODS MARKET

America's Healthiest Grocery Store®

(Sources: Dupre, 2014, n.p.; MacVey, 2014, n.p.)

## Appendix R: Whole Foods' extended Branding Strategy

Looking at the graph below at a brand comparison between Amazon and Whole Foods, we can see that the Whole Foods' brand is very strongly associated with or linked to identity. This means that customers view Whole Foods as having an aspirational image, as something to strive for, which deeply resonates with customers' beliefs. One can conclude from this, that with regards to communication, WFM has been able to transfer its values over well to the public (MBML Brand Intimacy Report, 2017, n.p.)

Figure 25: Brand Intimacy in Retailing: Amazon vs. Whole Foods



© MBML 2017

(MBML Brand Intimacy Report, 2017, n.p.)

Another aspect of Whole Foods' brand is its exclusive brand program, which contributes greatly to Whole Foods overall brand image. As mentioned in section 5.7.1, Whole Foods own store brands are a key element of Whole Foods value proposition and are "essential to [the company's] product innovation and differentiation strategy" (Whole Foods Market Annual Report, 2016, p.3).