**Case 29: Whole Foods Market 2010: *How to Grow in an Increasingly Competitive Market?***

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* **1** Reflecting back over his three decades of experience in the grocery business, John Mackey smiled to himself over his previous successes. His entrepreneurial history began with a single store which he has now grown to the nation’s leading natural food chain. Whole Foods is not just a food retailer but instead represents a healthy, socially responsible lifestyle that customers can identify with. The company has differentiated itself from competitors by focusing on quality as excellence and innovation that allows them to charge a premium price for premium products. This strategy has formed their success over the last 30 years but like any success story there are limits to how far it can go before a new direction is needed so that it remains successful for the next 30 years. While proud of the past, John had concerns about the future direction Whole Foods should head.

**COMPANY BACKGROUND**

* **2** Whole Foods carries both natural and organic food offering customers a wide variety of products. “Natural” refers to food that is free of growth hormones or antibiotics, where “certificated organic” food conforms to the standards, as defined by the U.S. Department of Agriculture (USDA) in October 2002. Whole Foods Market® is the world’s leading retailer of natural and organic foods, with 193 stores in 31 states and Canada and the United Kingdom. John Mackey, current president and cofounder of Whole Foods, opened “Safer Way” natural grocery store in 1978. The store had limited success as it was a small location allowing only for a limited selection, focusing entirely on vegetarian foods. John joined forces with Craig Weller and Mark Skiles, founders of “Clarksville Natural Grocery” (founded in 1979), to create Whole Foods Market. This joint venture took place in Austin, Texas in 1980 resulting in a new company, a single natural food market with a staff of nineteen.
* **3** In addition to the supermarkets, Whole Foods owns and operates several subsidiaries. Allegro Coffee Company was formed in 1977 and purchased by Whole Foods Market in 1997 now acting as their coffee roasting and distribution center. Pigeon Cove is Whole Foods’ seafood processing facility, which was founded in 1985 and known as M & S Seafood until 1990. Whole Foods purchased Pigeon Cove in 1996, located in Gloucester, MA. The company is now the only supermarket to own and operate a waterfront seafood facility. The last two subsidiaries are Produce Field Inspection Office and Select Fish, which is Whole Foods’ West Coast seafood processing facility acquired in 2003. In addition to the above, the company has eight distribution centers, seven regional bake houses and four commissaries.

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* **4** “Whole Foods Market remains uniquely mission driven: The Company is highly selective about what they sell, dedicated to stringent quality standards, and committed to sustainable agriculture. They believe in a virtuous circle entwining the food chain, human beings and Mother Earth: each is reliant upon the others through a beautiful and delicate symbiosis.” The message of preservation and sustainability are followed while providing high-quality good to customers and high profits to investors.
* **5** Whole Foods has grown over the years through mergers, acquisitions and new store openings. The $565 million acquisition of its lead competitor, Wild Oats, in 2007 firmly set Whole Foods as the leader in natural and organic food market and added 70 new stores. The Federal Trade Commission (FTC) focused their attention on the merger on antitrust grounds. The dispute was settled in 2009, with Whole Foods closing 32 Wild Oats stores and agreed to selling the Wild Oats Markets brand.
* **6** The organic grocer’s stock plunged in 2008 as its sales staggered. Later that year the private equity firm Green Equity Investors invested $425 million in Whole Foods, thereby acquiring about a 17% stake in the chain. For the first time in its 29-year history, Whole Foods reported negative same-store sales in the quarter ended December 2008 as traffic in its stores fell.
* **7** Today Whole Foods is listed in the S&P 500 and ranked 284th in the Fortune 500. It is the world’s leading natural and organic foods supermarket and is America’s first national certified organic grocer. In 2009, it had sales of $8 billion and 289 stores; 273 stores in 38 states of the U.S. and the District of Columbia, 6 stores in Canada, and 5 stores in the UK. The company has grown from 19 original employees to more than 53,500 team members. [**1**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-1)
* **8** While the majority of Whole Foods locations are in the U.S., European expansion provides enormous potential growth due to the large population and it holds “a more sophisticated organic-foods market than the U.S. in terms of suppliers and acceptance by the public.” Whole Foods targets their locations specifically by an area’s demographics. The company targets locations where 40% or more of the residents have a college degree as they are more likely to be aware of nutritional issues.

**WHOLE FOODS MARKET’S PHILOSOPHY**

* **9** Their corporate website defines the company philosophy as follows, “Whole Foods Market’s vision of a sustainable future means our children and grandchildren will be living in a world that values human creativity, diversity, and individual choice. Businesses will harness human and material resources without devaluing the integrity of the individual or the planet’s ecosystems. Companies, governments, and institutions will be held accountable for their actions. People will better understand that all actions have repercussions and that planning and foresight coupled with hard work and flexibility can overcome almost any problem encountered. It will be a world that values education and a free exchange of ideas by an informed citizenry; where people are encouraged to discover, nurture, and share their life’s passions.”
* **10** While Whole Foods recognizes it is only a supermarket, they are working toward fulfilling their vision within the context of their industry. In addition to leading by example, they strive to conduct business in a manner consistent with their mission and vision. By offering minimally processed, high quality food, engaging in ethical business practices and providing a motivational, respectful work environment, the company believes they are on the path to a sustainable future.
* **11** Whole Foods incorporate the best practices of each location back into the chain. This can be seen in the company’s store product expansion from dry goods to perishable produce, including meats, fish and prepared foods. The lessons learned at one location are absorbed by all, enabling the chain to maximize effectiveness and efficiency while offering a product line customers love. Whole Foods carries only natural and organic products. The best tasting and most nutritious food available is found in its purest state—unadulterated by artificial additives, sweeteners, colorings, and preservatives.
* **12** Whole Foods continually improves customer offerings, catering to its specific locations. Unlike business models for traditional grocery stores, Whole Foods products differ by geographic regions and local farm specialties.

**EMPLOYEE AND CUSTOMER RELATIONS**

* **13** Whole Foods encourages a team based environment allowing each store to make independent decisions regarding its operations. Teams consist of up to eleven employees and a team leader. The team leaders typically head up one department or another. Each store employs anywhere from 72 to 391 team members. The manager is referred to as the ‘store team leader.’ The ‘store team leader’ is compensated by an Economic Value Added (EVA) bonus and is also eligible to receive stock options.
* **14** Whole Foods tries to instill a sense of purpose among its employees and has been named for 13 consecutive years as one of the “100 Best Companies to Work For” in America by Fortune magazine. In employee surveys, 90% of its team members stated that they always or frequently enjoy their job.
* **15** The company strives to take care of their customers, realizing they are the “lifeblood of our business,” and the two are “interdependent on each other.” Whole Foods’ primary objective goes beyond 100% customer satisfaction with the goal to “delight” customers in every interaction.

**COMPETITIVE ENVIRONMENT**

* **16** At the time of Whole Foods’ inception, there was almost no competition with less than six other natural food stores in the U.S. Today, the organic foods industry is growing and Whole Foods finds itself competing hard to maintain its elite presence.
* **17** In the early to mid 2000s, its biggest competitor was Wild Oats. In 2007, Whole Foods put a bid on Wild Oats for $670 million[**2**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-2), and drew an antitrust investigation from the FTC. The FTC felt that a merger of the two premium natural and organic supermarkets would create a monopoly situation, ultimately harming consumers. It was found that although Whole Foods and Wild Oats were the two key players in the premium natural and organic food market, they are not insulated from competition from conventional grocery store chains. With the decision coming down in favor of Whole Foods and Wild Oats, the transaction was completed. Although this eliminated Whole Foods most direct competitor, they still faces stiff competition in the general grocery market.
* **18** Whole Foods competes with all supermarkets. With more U.S. consumers focused on eating healthfully, environmental sustainability, and the green movement, the demand for organic and natural foods has increased. More traditional supermarkets are now introducing “lifestyle” stores and departments to compete directly with Whole Foods. This can be seen in the Wild Harvest section of Shaw’s, or the “Lifestyle” stores opened by conventional grocery chain Safeway.
* **19** Whole Foods competitors now include big box and discount retailers who have made a foray into the grocery business. Currently, the U.S. largest grocer is Wal-Mart. Not only do they compete in the standard supermarket industry, but they have even begun offering natural and organic products in Supercenter stores. Other discount retailers now competing in the supermarket industry include Target, Sam’s Club and Costco. All of these retailers offer grocery products, generally at a lower price than what one would find at Whole Foods.
* **20** Another of Whole Foods’ key competitors is Los Angeles based Trader Joe’s, a premium natural and organic food market. By expanding its presence and product offerings while maintaining high quality at low prices, Trade Joe’s has found its competitive niche. It has 215 stores, primarily on the west and east coasts of the U.S., offering upscale grocery fare such as health foods, prepared meals, organic produce and nutritional supplements. A low cost structure allows Trader Joe’s to offer competitive prices while still maintaining its margins. Trader Joe’s stores have no service department and average just 10,000 square feet in store size.
* **21** Additional competition has arisen from grocery stores, such as Stop ‘N Shop and Shaw’s, which now incorporate natural foods sections in their conventional stores, placing them in direct competition with Whole Foods. Because larger grocery chains have more flexibility in their product offerings, they are more likely to promote products through sales, a strategy Whole Foods rarely practices.

**A DIFFERENT SHOPPING EXPERIENCE**

* **22** The setup of the organic grocery store is a key component to Whole Foods’ success. The store’s setup and its products are carefully researched to ensure that they are meeting the demands of the local community. Locations are primarily in cities and are chosen for their large space and heavy foot traffic. According to Whole Foods’ 10K, “approximately 88% of our existing stores are located in the top 50 statistical metropolitan areas.” The company uses a specific formula to choose their store sites that is based upon several metrics, which include but are not limited to income levels, education, and population density.
* **23** Upon entering a Whole Foods supermarket, it becomes clear that the company attempts to sell the consumer on the entire experience. Team members (employees) are well trained and the stores themselves are immaculate. There are in-store chefs to help with recipes, wine tasting and food sampling. There are “Take Action food centers” where customers can access information on the issues that affect their food such as legislation and environmental factors. Some stores offer extra services such as home delivery, cooking classes, massages and valet parking. Whole Foods goes out of their way to appeal to the above-average income earner.
* **24** Whole Foods uses price as a marketing tool in a few select areas, as demonstrated by the 365 Whole Foods brand name products, priced less than similar organic products that are carried within the store. However, the company does not use price to differentiate itself from competitors. Rather, Whole Foods focuses on quality and service as a means of standing out from the competition.
* **25** Whole Foods spends much less than other supermarkets on advertising, approximately 0.4% of total sales in the fiscal year 2009. They rely heavily on word-of-mouth advertising from their customers to help market themselves in the local community. They are also promoted in several health conscious magazines, and each store budgets for in-store advertising each fiscal year.
* **26** Whole Foods also gains recognition via their charitable contributions and the awareness that they bring to the treatment of animals. The company donates 5% of their after tax profits to not-for-profit charities. It is also very active in establishing systems to make sure that the animals used in their products are treated humanly.

**THE GREEN MOVEMENT**

* **27** Whole Foods exists in a time where customers equate going green and being environmentally friendly with enthusiasm and respect. In recent years, people began to learn about food and the processes completed by many to produce it. Most of what they have discovered is disturbing. Whole Foods launched a nationwide effort to trigger awareness and action to remedy the problems facing the U.S. food system. It has decided to host 150 screenings of a 12 film series called “Let’s Retake Our Plates,” hoping to inspire change by encouraging and educating consumers to take charge of their food choices. Jumping on the bandwagon of the “go green” movement, Whole Foods is trying to show its customers that it is dedicated to not only all natural foods, but to a green world and healthy people. As more and more people become educated, the company hopes to capitalize on them as new customers. [**3**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-3)
* **28** Beyond the green movement, Whole Foods has been able to tap into a demographic that appreciates the “trendy” theme of organic foods and all natural products. Since the store is associated with a type of affluence, many customers shop there to show they fit into this category of upscale, educated, new age people.

**THE ECONOMIC RECESSION**

* **29** The uncertainty of today’s market is a threat to Whole Foods. The expenditure income is low and “all natural foods” are automatically deemed as expensive. Because of people being laid off, having their salaries cut, or simply not being able to find a job, they now have to be more selective when purchasing things. While Whole Foods has been able to maintain profitability, it’s questionable how long they will last if the recession continues or worsens. The reputation of organic products being costly may be enough to motivate people to not ever enter through the doors of Whole Foods. In California, the chain is frequently dubbed “Whole Paycheck.”[**4**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-4)
* **30** However, the company understood that it must change a few things if it were to survive the decrease in sales felt because customers were not willing to spend their money so easily. They have been working to correct this “pricey” image by expanding offerings of private label products through their “365 Everyday Value” and “365 Organic” product lines. Private label sales accounted for 11% of Whole Foods total sales in 2009, up from 10% in 2008. They have also instituted a policy that their 365 product lines must match prices of similar products at Trader Joe’s. [**5**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-5)
* **31** During the economic recession, restaurants had a severe impact. A survey conducted showed that adults were eating out 50% less than they were prior to the economic crash. [**6**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-6)Whole Foods saw this as opportunity to enter a new area of business, the pre-made meals sector. They began selling pre-made dinners and lunches marketing towards those still on the go but interested in eating healthy and saving money. Offering the feed “4 for $15” deal, they were able to recapture some lost sales. In November of 2008, the stock fell to $7 dollars. After the pre-made meals were created, the stock increased to $28 dollars in September 2009. [**7**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-7) If Whole Foods continues to come up with innovative ideas to still compete during a recession, there is much opportunity as the economy evolves and climbs up the economic life cycle into recovery, expansion, and boom states.

**ORGANIC FOODS A COMMODITY**

* **32** When Whole Foods first started in the natural foods industry in 1980 it was a relatively new concept and over the first decade Whole Foods enjoyed the benefits of offering a unique value proposition to consumers wanting to purchase high-quality natural foods from a trusted retailer. Over the last few years, however, the natural and organic foods industry has attracted the attention of general food retailers that have started to offer foods labeled as natural or organic at reasonable prices.
* **33** As of 2007, the global demand for organic and natural foods far exceeded the supply. This is becoming a huge issue for Whole Foods, as more traditional supermarkets with higher purchasing power enter the premium natural and organic foods market. The supply of organic food has been significantly impacted by the entrance of Wal-Mart into the competitive arena. Due to the limited resources within the U.S., Wal-Mart begun importing natural and organic foods from China and Brazil, which led to it coming under scrutiny for passing off non-natural or organic products as the “real thing.” Additionally, the quality of natural and organic foods throughout the entire market has been decreased due to constant pressure from Wal-Mart.
* **34** The distinction between what is truly organic and natural is difficult for the consumer to decipher as general supermarkets have taken to using terms such as “all natural,” “free-range,” “hormone free,” confusing customers. Truly organic food sold in the U.S. bears the “USDA Organic” label and needs to have at least 95% of the ingredients organic before it can get this distinction. [**8**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-8)
* **35** In May 2003 Whole Foods became America’s first Certified Organic grocer by a federally recognized independent third-party certification organization. In July 2009, California Certified Organic Growers (CCOF), one of the oldest and largest USDA-accredited third-party organic certifiers, individually certified each store in the U.S., complying with stricter guidance on federal regulations. This voluntary certification tells customers that Whole Foods have gone the extra mile by not only following the USDA’s Organic Rule, but opening their stores up to third-party inspectors and following a strict set of operating procedures designed to ensure that the products sold and labeled as organic are indeed organic–procedures that are not specifically required by the Organic Rule. This certification verifies the handling of organic goods according to stringent national guidelines, from receipt through repacking to final sale to customers. To receive certification, retailers must agree to adhere to a strict set of standards set forth by the USDA, submit documentation, and open their facilities to on-site inspections – all designed to assure customers that the chain of organic integrity is preserved.

**OPERATIONS**

* **36** Whole Foods purchases most of their products from regional and national suppliers. This allows the company to leverage its size in order to receive deep discounts and favorable terms with their vendors. It still permits store to purchase from local producers to keep the stores aligned with local food trends and is seen as supporting the community. Whole Foods operates ten regional distribution centers to support its stores. It also operates two procurement centers, four seafood-processing and distribution centers, a specialty coffee and tea procurement and brewing operation, five regional kitchens, and eight bake house facilities. Whole Foods largest third-party supplier is United Natural Foods which accounted for 28% of total purchases in 2009, down from 32% in 2008.
* **37** Product categories at Whole Foods include, but are not limited to:
  + • Produce
  + • Seafood
  + • Grocery
  + • Meat and Poultry
  + • Bakery
  + • Prepared Foods and Catering
  + • Specialty (Beer, Wine and Cheese)
  + • Whole body (nutritional supplements, vitamins, body care and educational products such as books)
  + • Floral
  + • Pet Products
  + • Household Products
* **38** While Whole Foods carries all the items that one would expect to find in a grocery store (and plenty that one would not), their “… heavy emphasis on perishable foods is designed to appeal to both natural foods and gourmet shoppers.” Perishable foods now account for two-thirds of its sales. This is demonstrated by the company’s own statement that, “We believe it is our strength of execution in perishables that has attracted many of our most loyal shoppers.”
* **39** Whole Foods also provides fully cooked frozen meal options through their private label Whole Kitchen, to satisfy the demands of working families. For example, the Whole Foods Market located in Woodland Hills, CA that has redesigned its prepared foods section more than three times in response to a 40% growth in prepared foods sales.
* **40** Whole Foods doesn’t take just any product and put it on their shelves. In order to make it into the Whole Foods grocery store, products have to under go a strict test to determine if they are “Whole Foods material.” The quality standards that all potential Whole Foods products must meet include:
  + • Foods that are free of preservatives and other additives
  + • Foods that are fresh, wholesome and safe to eat
  + • Promote organically grown foods
  + • Foods and products that promote a healthy life
* **41** Meat and poultry products must adhere to a higher standard:
  + • No antibiotics or added growth hormones
  + • An affidavit from each producer that outlines the whole process of production and how the animals are treated
  + • An annual inspection of all producers by Whole Foods Market
  + • Successful completion of a third party audit to attest to these findings
* **42** Also, due to the lack of available nutritional brands with a national identity, Whole Foods decided to enter into the private label product business. They currently have three private label products with a fourth program called Authentic Food Artisan, which promotes distinctive products that are certified organic. The three private label products: 1) 365 Everyday Value: A well recognized and trusted brand that meets the standards of Whole Foods and is less expensive then the regular product lines; 2) Whole Kids Organic: Healthy items that are directed at children; and 3) 365 Organic Everyday Value: All the benefits of organic food at reduced prices.
* **43** Whole Foods growth strategy is to expand primarily through new store openings. New stores are typically located on premier real estate sites, often in urban, high-population locales. They do not have a standard store design, instead each store’s design is customized to fit the size and configuration of the site selected. They have traditionally opened stores in upper-income, more urban neighborhoods that typically have a high percentage of college graduates. [**9**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-9)
* **44** The Company tracks what it calls the “Tender Period” which is the time between when it takes possession of the leased space for construction and other purposes and the time when the store is opened for business. [**Exhibit 1**](https://jigsaw.vitalsource.com/books/0077807634/content/id/Ecase29-1) shows the time and cost involved can be significant with pre-opening expenses running between $2.5 to $3 million dollars and the time required ranging from 8.5 to 12.6 months. If Whole Foods opens 17 stores per year, this will consume $43 to $51 million dollars of its available cash each year.
* **45** When opening a new store, Whole Foods stocks it with almost $700,000 worth of initial inventory, which their vendors partially finance. Like most conventional grocery stores, the majority of Whole Foods inventory is turned over fairly quickly; this is especially true of produce. Fresh organic produce is central to Whole Foods’ existence and turns over on a faster basis than other products.

**FINANCIAL OPERATIONS**

* **46** Whole Foods Market focuses on earning a profit while providing job security to its workforce to lay the foundation for future growth. The company is determined not to let profits deter the company from providing excellent service to its customers and quality work environment for its staff. Their mission statement defines their recipe for financial success. Whole Foods, Whole People, Whole Planet—emphasizes that our vision reaches far beyond just being a food retailer. Our success in fulfilling our vision is measured by customer satisfaction, Team Member excellence and happiness, return on capital investment, improvement in the state of the environment, and local and larger community support.
* **47** Whole Foods also caps the salary of its executives at no more than fourteen times that of the average annual salary of a Whole Foods worker; this includes wages and incentive bonuses as well. The company also donates 5% of their after tax profits to nonprofit organizations.
* **48** Over a period from September 2005 through January 2010, while total sales of Whole Foods have continued to increase, the operating margin has declined. With the acquisition of the Wild Oats the operating margin decreased significantly from 5.7% in 2006 to 3% in 2008 as Whole Foods struggled to handle the addition of 70+ new stores. The fiscal year 2009 has shown some improvement with the most recent operating margin back up to 3.9% on an annualized basis from the low point of 3.0% for the year ended September 2008. The operating margin has improved due to cost and efficiency improvements

**49** Whole Foods’ strategy of expansion and acquisition has fueled growth in net income since the company’s inception. The total number of stores has increased from 175 at September 2005 to 289 in January 2010. They managed to open only a total of ten new stores for the two years ended September 2009. This was a result of their integrating the stores from the Wild Oats acquisition in 2007 and conserving cash in order to pay down some of the debt taken on in that transaction. The company did open five new stores in the first quarter of 2010 with a projection of an additional ten new stores for the remainder of the year. They forecast to open 17 new stores in each of the following two years

* **51** Whole Foods has improved its balance sheet since the acquisition of the Wild Oats chain in 2007. Long-term debt has declined from $929 million at September 28, 2008 to $734 million as of January 17, 2010, a reduction of $195 million or 21%. Cash and short-term Investment balances for the same periods increased from only $31 million to $482 million, an increase of $451 million. The company’s long- and short-term debt ratios are in line with industry averages and reflect a solid financial condition. [**12**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-12) These improvements to the balance sheet were primarily the result of a preferred stock offering in late 2008 for approximately $413 million which was subsequently called and converted into common stock. During the fourth quarter of 2008, they suspended the quarterly dividend on common shares for the foreseeable future.

**52** Whole Foods has improved its accounts receivable and inventory levels as compared to sales. In 2005 and 2006, the combined percentage was 5.1%. This jumped dramatically to 8.5% in 2007 with the acquisition of Wild Oats. The company has now brought this metric back to the historical norm of 5.1% as of January 2010.

**53** Whole Foods stock was outperforming the market and its industry based on the company’s growth and earnings prospects. The Wild Oats acquisition and the economic recession have impacted the stock, but it has subsequently recovered somewhat as Whole Foods has improved its efficiency and resumed its growth strategy through store expansion.

**STRUGGLING TO GROW IN AN INCREASINGLY COMPETITIVE MARKET**

* **54** Whole Foods has historically grown by opening new stores or acquiring stores in affluent neighborhoods targeting the wealthier and more educated consumers. This strategy has worked in the past however the continued focus on growth has been impacting existing store sales. Average weekly sales per store have decreased over the last number of years despite the fact that overall sales have been increasing. It is likely that this trend will continue unless Whole Foods starts to focus on growing sales within the stores they have and not just looking to increase overall sales by opening new stores. It is also increasingly difficult to find appropriate locations for new stores that are first and foremost in an area where there is limited competition and also to have the store in a location that is easily accessible by both consumers and the distribution network. Originally Whole Foods had forecast to open 29 new stores in 2010 but this has since been revised downward to 17.
* **55** Opening up new stores or the acquisition of existing stores is also costly. The average cost to open a new store ranges from $2–$3 million and it takes on average 8-12 months. A lot of this can be explained by the fact that Whole Foods custom builds the stores which reduces the efficiencies that can be gained from the experience of having opened up many new stores previously. Opening new stores requires the company to adapt their distribution network, information management, supply and inventory management and adequately supply the new stores in a timely manner without impacting the supply to the existing stores. As the company expands this task increases in complexity and magnitude.
* **56** The organic and natural foods industry overall has become a more concentrated market with few larger competitors having emerged from a more fragmented market composed of a large number of smaller companies. Future acquisitions will be more difficult for Whole Foods as the FTC will be monitoring the company closely to ensure that they do not violate any federal antitrust laws through the elimination of any substantial competition within this market.
* **57** Over the last number of years there has been an increasing demand by consumers for natural and organic foods. Sales of organic foods increased by 5.1% in 2009 despite the fact that U.S. food sales overall only grew by 1.6%. [**13**](https://jigsaw.vitalsource.com/books/0077807634/content/id/FNcase29-13) This increase in demand and high margin availability on premium organic products had led to an increasing number of competitors moving into the organic foods industry. Conventional grocery chains such as Safeway have remodeled stores at a rapid pace and have attempted to narrow the gap with premium grocers like Whole Foods in terms of shopping experience, product quality, and selection of takeout foods. This increase in competition can lead to the introduction of price wars where profits are eroded for both existing competitors and new entrants alike.
* **58** Unlike low-price leaders such as Wal-Mart, Whole Foods dominates because of its brand image, which is trickier to manage and less impervious to competitive threats. As competitors start to focus on emphasizing organic and natural foods within their own stores, the power of the Whole Foods brand will gradually decline over time as it becomes more difficult for consumers to differentiate Whole Foods’ value proposition from that of their competitors.