OPENING CASE STUDY

WHOLE FOODS, whole people

Whole Foods Market is the largest natural food retailer in the world with more than 360 stores and approximately $12 billion in annual sales. With operations located primarily in the United States and also in Canada and the United Kingdom, Whole Foods sells natural and organic food products that include produce, meat, poultry, seafood, grocery products, baked and prepared goods, many drinks such as beer and wine, cheese, floral products, and pet products. The origin of the company dates to 1978 when John Mackey and his girlfriend used $45,000 in borrowed funds to start a small natural food store then named SaferWay. The store was located in Austin, Texas. John and his girlfriend lived in the space over the store (without a shower) because they were "kicked out" of their apartment for storing food products in it.

In 1980, Mackey developed a partnership with Craig Weller and Mark Skiles, merging SaferWay with Weller's and Skiles's Clarksville Natural Grocer to create the Whole Foods Market. Its first store opened in 1980 with 12,500 square feet and 19 employees. This was a very large health food store relative to others at that time. There was a devastating flood in Austin within a year of its opening and the store was heavily damaged. Much of its inventory was ruined and its equipment was damaged. The total losses were approximately $400,000, and the company had no insurance. Interestingly, customers and neighbors helped the staff of the store to repair and clean up the damage. Creditors, vendors, and investors all partnered to help the store reopen only 28 days after the flood. With their assistance, Whole Foods survived this devastating natural disaster.

Whole Foods started to expand in 1984 when it opened its first store outside of Austin. The new store was located in Houston, followed by another store in Dallas and one in New Orleans. It also began acquiring other companies that sold natural foods, which helped to increase its expansion into new areas of the United States. In 2007, it expanded into international markets by opening its first Whole Foods branded store in London, England. (In 2004, it acquired a small natural foods company in the United Kingdom, Fresh & Wild, but did not

WHOLE FOODS® MARKET

Logo property of Whole Foods Market

use the Whole Foods brand until opening its new store in London.) It also acquired one of its major U.S. competitors, Wild Oats, in 2007. And, it is currently planning on expanding its footprint in Canada from 9 stores (all in British Columbia) to 49 stores moving into other Canadian markets such as Montreal. It now has approximately 67,000 employees with about 7 percent growth in the employee base annually. Thus, Whole Foods has become a major business enterprise and the most successful natural and organic food retailer in the world.

MANAGING HUMAN CAPITAL

Whole Foods Market has done a number of things right, thereby achieving considerable success. Yet, many people believe that one of the best things it has done is to implement an effective people-management system. Each Whole Foods store employs approximately 40 to as many as 650 associates. All of the associates are organized into self-directed teams; associates are referred to as team members. Each of the teams is responsible for a specific product or service area (e.g., prepared foods, meats and poultry, customer service). Team members report to a team leader, who then works with store management, referred to as store team leaders. The team members are a critically important part of the Whole Foods operation. Individuals are carefully selected and trained to be highly knowledgeable in their product areas, to offer friendly service, and to make critical decisions related to the types and quality of products offered to the public. Thus, they operate much differently than most "employees" in retail grocery outlets. These team members work with their team leader to make a number of joint decisions with regard to their specific areas, and they contribute to store level decisions as well. Some observers have referred to this approach as "workplace democracy." In fact, many of the team members are attracted to Whole Foods because of the discretion they have in making decisions regarding product lines and so on. Of course, there are other attractions such as the compensation. For example, the company's stock option program involves employees at all levels. In fact, 94 percent of the stock options offered by the company have been presented to nonexecutive members, including front-line team members. The company pays competitive wages and pays 100 percent of the health insurance premium for all associates working at least 30 hours per week, which includes 89 percent of its workforce. Although the annual deductible is high ($2,500), each associate receives a grant of up to $1,800 annually in a Personal Wellness Account to be used for health care out-of-pocket costs. All of the benefit options are voted on by the associates in the company. Current programs include options for dental, vision, disability, and life insurance in addition to the full medical coverage for full-time associates.

Whole Foods follows a democratic model in the selection of new associates. For example, potential new team members can apply for any one of the 13 teams that operate in most Whole Foods Markets. Current team members participate in the interview process and actually vote on whether to offer a job to prospective colleagues. A candidate is generally given a four-week trial period to determine whether he or she has potential. At the end of that trial period, team members vote on whether to offer a permanent job to the candidate. The candidate must receive a two-thirds majority positive vote from the unit team members in order to be hired.

Teams also receive bonuses if they perform exceptionally well. They set goals relative to prior performance and must achieve those goals to attain a bonus. Exceptionally high-performing teams may earn up to $2 an hour more than their current wage base.

The top management of Whole Foods believes that the best philosophy is to build a shared identity with all team members. They do so by involving them in decisions and encouraging their participation at all levels in the business. They empower employees to make decisions and even allow them to participate in the decision regarding the benefit options, as noted above. All team members have access to full information on the company. It is referred to as Whole Foods' open-book policy. In this open-book policy, team members have access to the firm's financial records, which include compensation information for all associates and even the top management team and the CEO. Therefore, the firm operates with full transparency regarding its associates. This approach emphasizes the company's core values of collaboration and decentralization. The company attracts people who share those core values and tries to reward a highly engaged and productive workforce.

The company also limits the pay of top executives to no more than 19 times the lowest paid associate in the firm. While this amount has been increased over time in order to maintain competitive compensation for managers, it is still well below industry averages for top management team members. And, John Mackey, the former CEO and now co-CEO, only receives $1 annually in salary and no stock options.

The outcomes of this unique system for managing human capital have been impressive. For example, Whole Foods' voluntary turnover is much lower than the industry average. The industry average is almost 90 percent annually, but Whole Foods' data show that it has a voluntary turnover rate of only 7 percent (in 2012). In addition, Whole

Foods has been ranked in the top 100 best companies to work for by *Fortune* magazine every year since the inception of the ranking in 1998.

In addition to its flat organization structure (few layers of management between associates and top managers) and decentralized decision making (e.g., selection of new associates), the company believes that each employee should feel a stake in the success of the company. In fact, this is communicated in its "Declaration of Interdependence." The Declaration of Interdependence suggests that the company has eight core values. They are listed in Table 1.

The company attempts to support team member excellence and happiness through its empowering work environment in which team members work together to create the results. In such an environment, they try to create a motivated work team that achieves the highest possible productivity. There is an emphasis on individuals taking responsibility for their success and failure and seeing both as opportunities for personal and organizational growth.

The company develops self-directed work teams and gives them significant decision-making authority to resolve problems and build a department and product line to satisfy and delight the customers. The company believes in providing open and timely information and in being highly transparent in all of its operations. It also focuses on achieving progress by continuously allowing associates to apply their collective creativity and intellectual capabilities to build a highly competitive and successful organization. Finally, the company emphasizes a shared fate among all stakeholders. This is why there are no special privileges given to anyone, not even to top managers. It is assumed that everybody works together to achieve success.

TABLE 1 Whole Foods' Declaration of Interdependence (Eight Core Values)

1. Selling the highest-quality natural and organic products available.
2. Satisfying, delighting and nourishing customers.
3. Supporting team member excellence and happiness.
4. Creating wealth through profits and growth.
5. Serving and supporting local and global communities.
6. Practicing and advancing environmental stewardship.
7. Creating ongoing win-win partnerships with suppliers.
8. Promoting the health of stakeholders through healthy eating education.

SOCIAL AND COMMUNITY RESPONSIBILITIES

Whole Foods Market takes pride in being a responsible member of its community and of society. For example, it emphasizes the importance of sustainable agriculture. In particular, the firm tries to support organic farmers, growers, and the environment by a commitment to using sustainable agriculture and expanding the market for organic products. In this regard, the Whole Foods Market launched a program to loan approximately $10 million annually to help independent local producers around the country to expand. It holds seminars and teaches producers how to move their products onto grocery shelves and how to command and receive premium prices for their products. These seminars and related activities have been quite popular. Overall, the Whole Foods Market does business with more than 2,400 independent growers.

Whole Foods Market also supports its local communities in other ways. For example, the company promotes active involvement in local communities by giving a minimum of 5 percent of its profits each year to a variety of community and nonprofit organizations. These actions encourage philanthropy and outreach in the communities that Whole Foods serves.

Whole Foods Market also tries to promote positive environmental practices. The company emphasizes the importance of recycling and reusing products and reducing waste wherever possible. Furthermore, Whole Foods was the first retailer to build a supermarket that met environmental standards of the Leadership in Energy and Environmental Design Green Building Rating System (LEED). It offsets 100 percent of its energy use with wind credits. Finally, Whole Foods announced a new initiative a few years ago to create an animal compassion standard that emphasizes the firm's belief in the needs of animals. The company developed standards for each of the species that are used for foods and sold through their supermarkets (concern for human treatment and animal welfare). In 2012, the company produced its first Green Mission Report that reports on all of its areas related to environmental sustainability.

Whole Foods launched a program to encourage higher wages and prices paid to farmers in poor countries, while simultaneously promoting environmentally safe practices. In fact, the company donates a portion of its proceeds to its Whole Planet Foundation, which in turn provides microloans to entrepreneurs in developing countries.

Finally, Whole Foods has become a champion for healthy eating. It engages in healthy eating education to promote more healthy

citizens and communities. It provides recipes for preparing healthy meals.

Very few, if any, major corporations, including competing supermarket chains, have established programs that rival those of the Whole Foods Market to meet social and community responsibilities.

SOME BUMPS IN THE ROAD

While the Whole Foods Market has been a highly successful company, it still has experienced some problems along the way. Obviously, it has produced a concept that has been imitated by other natural foods companies and a number of competing supermarkets as well. Yet, in general, Whole Foods has been able to maintain its competitive advantage and market leadership, partly by being the first to the market and partly because of its practices, which continue to generate a strong reputation and a positive company image. Yet, a number of firms have developed competing products and are making headway in selling organic foods, including some regular large supermarket chains. For example, Sprouts Farmers Market has garnered a large number of customers with its sales of natural and organic foods. Major supermarket retailers such as Kroger have expanded the number and type of organic foods sold. Even Wal-Mart offers organic foods in its grocery operations. In order to maintain its leadership and to continue to command a premium price, Whole Foods Market has been continuously differentiating its products and building its image so that people will buy from it rather than from competitors. Whole Foods continues to expand the number of its stores and move into new markets. It has recently begun to expand into smaller cities such as Boise, Idaho (population is 212,000) and Lincoln, Nebraska (population is 260,000), with success. Previously, it only located stores in large metropolitan areas. It recently opened its first Domain store in which it offers dining experiences such as oyster bars and Texas barbecue along with retail groceries. And, Whole Foods recently market tested a "click and collect" program whereby consumers can order organic foods online and pick up the order at the nearest Whole Foods retail store.

The top management of the Whole Foods Market has been strongly opposed to unionization. The belief is that the company pays workers well and treats them with dignity and respect and that a union is likely to interfere in its relationships with associates. Mackey, the CEO of the company, suggests that it is a campaign to "love the worker, not a union." Yet, the first union for Whole Foods was voted in at its Madison, Wisconsin, store. However, the Whole Foods Market executives have been able to fend off union efforts at other stores, including a campaign launched that the company referred to as "union awareness training." Still, it may experience problems with its planned expansion into Montreal where unions are especially strong.

Several years ago Mackey was criticized for and investigated by the Securities and Exchange Commission (SEC) for posting on a Yahoo! financial message board anonymous online critiques of competitors and self-congratulating statements about the Whole Foods Market. These comments were made using a pseudonym so no one knew that he was the CEO of Whole Foods. This action was strongly criticized by analysts and others, and several questioned the ethics of his actions. The Whole Foods' Board investigated the actions and reaffirmed its support for Mackey. In addition, the SEC concluded that no enforcement action would be taken against the company or the CEO. Mackey has not engaged is such actions since that time.

FIRM PERFORMANCE AND THE FUTURE

Whole Foods Market has performed well over the past several years, sustaining significant growth in sales and profits. Its stock price has also generally performed well. However, during the period 2005–2008, some analysts argued that the stock was overvalued, partly because they did not believe that Whole Foods' growth rate and returns could be sustained. Undoubtedly, maintaining its growth rate will be difficult as the competition in its natural and organic foods continues to grow. It was a special concern during the recent economic recession. Yet, Whole Foods' business model seems to be strong even with the challenging economic environment. The company is highly profitable and continues to outperform its direct competitors. And the value of its stock has increased considerably with a return of 1,075 percent over its most recent five years ending with fiscal 2013. Shareholders enjoyed a 2 for 1 stock split in 2013.

The firm has been combating competition with its new approaches and stores and recently offering discounts on its products. The expansion of stores to new communities has been successful as well, hurting established supermarket competitors such as Albertsons in its own backyard (Boise, Idaho). Clearly, Whole Foods Market has been a very positive force in dealing with its associates through its highly unique means of managing human capital. It also has built a strong positive reputation and differentiated its products in the eyes of consumers. Yet, there are some challenges with which the firm must deal, such as growing competition and potential unionization. While the future likely remains bright, further evaluation will be needed to determine whether there will be continued growth and positive returns for all stakeholders of the Whole Foods Market.

Source: Whole Foods Market logo used with permission.

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WHOLE FOODS CASE DISCUSSION QUESTIONS

Chapter 1

1. Describe how Whole Foods uses human capital as a source of competitive advantage.
2. Identify the aspects of high-involvement management contained in Whole Foods' approach to managing its associates.

Chapter 2

1. Compared to other companies in the service sector, is Whole Foods more or less likely to experience discrimination problems? Explain your answer.
2. How could Whole Foods' democratic model of selection interfere with the development or continuance of a diverse workforce? What should it do to prevent difficulties?

Chapter 3

1. How do you think that globalization will affect Whole Foods over time? Please explain several ways it could affect the company operations.
2. In what ways can national culture affect the management of human capital? Will Whole Foods have to adapt its democratic approach to selecting new team