

WHOLE FOODS CASE UPDATE

BADM4801 - 11:10 Group: Hires, Kim, Kos, Seo, Vanderbilt

Below is an update on Whole Foods Market (NASDAQ: WFM), describing the current business of the company. Within the past few years, Whole Foods has expanded its geographic reach and product mix to address consumer needs and shifts in attitudes while also responding to internal and external factors.

Competitive Environment

Whole Foods has been a leader in supplying organic and natural foods market, but the organic industry currently has been growing and becoming standardization throughout the years. The major competitors are Wal-Mart, Costco, Kroger, and Trader Joe's that may negatively impact on loss of sales and gross margins, competitive price changes, and high operation costs. Whole Foods reported that "sales growth had slowed to 3.6% in the most recent quarter." Since 2014, Whole Foods has focused on lowering prices, especially on fresh fruits and vegetables and has started its first national advertisements as well as its campaign "values matters" in order to attract shoppers aggressively.

Operations:

Whole Foods has different operating strategies on the local and national level. Nationally, their produce procurement center facilitates the procurement and distribution of the majority of the produce they sell also operating three seafood processing and distribution facilities, a specialty coffee and tea procurement and roasting operation, and 11 regional distribution centers that focus primarily on perishables distribution. On the local level, team leaders and employees in these local stores manage ordering decisions.

Product Mix:

In 2015 Whole Foods has increased its fair trade product selection, expanded its varieties of nut butters, as well as dairy alternative products. Being that Whole Foods does not just sell food and beverages, their body care selections have been expanded with things like aromatherapy and essential oils. Other trends include the branching out of 'convenience' foods like grab and go juices and oven-ready veggies. Despite overarching trends, products offered at Whole Foods differ by location, with each store tapping into local and regional supply chains.

Employee Relations

Historically, Whole Foods has been highly regarded as an excellent place for employees with unique labor models. The company has remained on the Forbes "100 Best Companies to Work For" list for eighteen years. However, the company has dropped significantly in recent years, moving from the 18th position in 2010 to the 55th position in 2015. Additionally, Whole Foods announced in September 2015 that it plans to lay off 1,500 jobs, approximately 1.6% of its workforce.

Customer Outreach

Whole Foods offers two applications to their customers: The Whole Foods Market app and Whole Kids Foundation Awesome Eats. The Whole Foods Market App offers recipes, ingredients, shopping list options, intuitive navigation and timesaving features. The second is the Whole Kids Foundation Awesome Eats application, offering children fun games while learning about healthy eating. Both apps are compatible with Apple iOS and Android, and the Whole Foods Market app syncs with Apple Watch. Whole Foods Market is also offering Apple Pay, Android Pay, and soon, Samsung Pay to keep up with technology trends and increase convenience for Whole Foods shoppers.

Corporate Social Responsibility

Whole Foods has a "Green Mission", to reduce, reuse, and recycle and cultivate an environmentally friendly image. Whole Foods has implemented paperless ordering systems to reduce paper waste. The company only offers recycled paper bags as well as recyclable and reusable bags for sale. For each reusable bag, the company gives \$.10 cents to a charity. Additionally, Whole Foods organizes the collection of compostable waste, and either donates the compost to community gardens or sells it in their stores, significantly reducing their landfill waste.

New Business Developments

By the end of 2016, Whole Foods Market plans on opening five new locations for their low-priced store option: 365 by Whole Foods Market. These stores will be located mainly on the Pacific Northwest with locales in Portland, Santa Monica, Los Angeles, Bellevue, and Houston. These metropolitan populations vary in college education and have a median-income level. The lower priced store option will be opening in existing markets. Whole Foods Representative Robin Rehfield Kelly states, "Complementing our Whole Foods Market stores, the streamlined store concept and efficient shopping experience will allow us to grow in both urban and suburban markets." 365 by Whole Foods Market will offer an alternative to lower priced grocery stores and chains including Trader Joe's, Costco, Target and Walmart that also offer organic products.

Recent Issues

Whole Foods began using prison labor in 2011 to support local communities. This controversial practice has drawn criticism and protests from activists who argue that the upmarket chain was exploiting a cheap workforce. As a result, Whole Foods announced that prison-labor products would be phased out by April 2016. Another point of contention for the firm was a recent investigation by the New York Department of Consumer Affairs, who found that the firm overcharged for pre-packed foods like nuts, berries and vegetables.

Sources Consulted:

- [Whole Foods Market - Introducing Our New Store Concept: 365 by Whole Foods Market™](#)
- [Market Watch - Cheaper Whole Foods '365' stores will be in hipster havens](#)
- [Fox Business - Whole Foods Goes Discount, Takes on Trader Joe's with New '365' Stores](#)
- [Living Maxwell - Wednesdays at Whole Foods: Top Trends for 2015](#)
- [Bloomberg - The New Organic Walmart Is Eating Whole Foods' Lunch](#)
- [Business Insider - Whole Foods' Biggest Problem](#)
- [Whole Foods Market - Green Mission](#)
- [Buzz Bin - 10 Ways Whole Foods is Raising the Bar in #CSR](#)
- [CMU Supply Chain Management - Comparing Whole Foods and Trader Joe's supply chain](#)
- [Philly Mag - Whole Foods CEO: We're Victims in Overcharging Scandal](#)

Whole Foods Market, Inc.
Consolidated Balance Sheets
(In millions)

	September 28, 2014	September 29, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 190	\$ 290
Short-term investments - available-for-sale securities	553	733
Restricted cash	109	111
Accounts receivable	198	188
Merchandise inventories	441	414
Prepaid expenses and other current assets	97	93
Deferred income taxes	168	151
Total current assets	1,756	1,980
Property and equipment, net of accumulated depreciation and amortization	2,923	2,428
Long-term investments - available-for-sale securities	120	302
Goodwill	708	679
Intangible assets, net of accumulated amortization	81	65
Deferred income taxes	132	72
Other assets	24	12
Total assets	\$ 5,744	\$ 5,538
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of capital lease obligations	\$ 2	\$ 1
Accounts payable	276	247
Accrued payroll, bonus and other benefits due team members	379	367
Dividends payable	43	37
Other current liabilities	557	436
Total current liabilities	1,257	1,088
Long-term capital lease obligations, less current installments	60	26
Deferred lease liabilities	548	500
Other long-term liabilities	66	46
Total liabilities	1,931	1,660
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, 600.0 shares authorized; 377.1 and 375.7 shares issued; 360.4 and 372.4 shares outstanding at 2014 and 2013, respectively	2,863	2,765
Common stock in treasury, at cost, 16.7 and 3.3 shares at 2014 and 2013, respectively	(711)	(153)
Accumulated other comprehensive income (loss)	(7)	1
Retained earnings	1,668	1,265
Total shareholders' equity	3,813	3,878
Total liabilities and shareholders' equity	\$ 5,744	\$ 5,538

The accompanying notes are an integral part of these consolidated financial statements.

Whole Foods Market, Inc.**Consolidated Statements of Operations**

Fiscal years ended September 28, 2014, September 29, 2013 and September 30, 2012

(In millions, except per share amounts)

	2014	2013	2012
Sales	\$ 14,194	\$ 12,917	\$ 11,699
Cost of goods sold and occupancy costs	9,150	8,288	7,543
Gross profit	5,044	4,629	4,156
Direct store expenses	3,586	3,285	2,983
General and administrative expenses	446	397	372
Pre-opening expenses	67	52	47
Relocation, store closure and lease termination costs	11	12	10
Operating income	934	883	744
Investment and other income, net of interest expense	12	11	8
Income before income taxes	946	894	752
Provision for income taxes	367	343	286
Net income	\$ 579	\$ 551	\$ 466
Basic earnings per share	\$ 1.57	\$ 1.48	\$ 1.28
Weighted average shares outstanding	367.8	371.2	364.8
Diluted earnings per share	\$ 1.56	\$ 1.47	\$ 1.26
Weighted average shares outstanding, diluted basis	370.5	374.5	368.9
Dividends declared per common share	\$ 0.48	\$ 1.40	\$ 0.28

The accompanying notes are an integral part of these consolidated financial statements.