



## LOOK BOTH WAYS BEFORE JUDGING WHOLE FOODS MARKET

By Harvey Hartman, Founder & Chairman

Let's step away from a common tendency in this business toward groupthink, something that encourages folks to pile onto the common themes and threads of the moment at the expense of alternative explanations, possibilities and opportunities. Following something most of us learned at an early age, The Hartman Group has always championed the need to look both ways before moving forward with our ideas, our strategies and our actions.



*Amid the storm caused by Whole Foods lowering its annual sales projection for the fourth time in nine months, the media and analysts predictably focused on price and organic, organic and price. The Hartman Group believes a more interesting story lies in the other direction – toward the reason consumers resonated so strongly with the Whole Foods proposition in the first place: It is in lockstep with a giant cultural shift toward higher-quality food experiences. From that perspective, Whole Foods has left open whole categories for other pioneering retailers.*

When you are lucky enough to become one of America's most revered brands, you also must endure a relentless onslaught of media coverage, criticism and critique as we all try to understand the secrets of your marketplace success.

Whole Foods Market has been at the center of such dialogues for more than thirty years. Out of the gate, it met with criticism from a core consumer base that felt its non-organic and specialty offerings were at odds with the spirit of a natural and organic retailer.

This summer, the media and analyst community ratcheted up such analyses amid the storm caused by Whole Foods lowering its annual sales projection for the fourth time in nine months.

The predictable mantra was price and organic, organic and price:

"The numbers lead to yet more worries about the competition's negative effects on Whole Foods; this includes not just from Sprouts, also set to report this week, but big grocers such as Kroger. And of course, there's Wal-Mart, which recently announced it would sell Wild Oats organic goods at lower prices. While it would be a surprise to see Whole Foods' core customers opting for Wal-Mart outright, the larger concern is that Whole Foods won't have as much ability to keep its prices elevated."<sup>1</sup>

There is some justification for looking at the price issue. Whole Foods is facing increased competition from the likes of Sprouts, which executes on quality and freshness in the produce category at prices often lower than Whole Foods.

But where does it end? Are we all going to bang the price drum until we've managed to commodify – both literally and metaphorically – anything once special about customer experiences in food retailing? Isn't there more to life than cheap organic produce?

1. "Whole Foods dives after cutting outlook again," Yahoo Finance blogs, May 7, 2014



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We believe a more interesting story is what happens when we look in the other direction. When we close our mouths, put down our pens and begin to think not about where Whole Foods headed, but where it has been.

Let's step away from a common tendency in this business toward groupthink, something that encourages folks to pile onto the common themes and threads of the moment at the expense of alternative explanations, possibilities and opportunities.

Following something most of us learned at an early age, The Hartman Group has always championed the need to look both ways before moving forward with our ideas, our strategies and our actions. For example, if every consumer product company is busy hammering away at traditional wellness platforms, what can we learn from studying companies that are wildly successful pursuing alternative wellness strategies?

Applying this perspective, we learn a great deal about Whole Foods.

Because the chain's rapid expansion mirrored the dynamic growth of the organic industry in the 1990s, its reputation as a leading natural and organic retailer was forever chiseled into the minds of every marketer, analyst and journalist of the era.

As everyone scrambled to understand this new breed of consumer – or really, a new occasion, because of the way food shopping and eating have exploded – there was only one logical place to find them in their natural habitat. And that place was Whole Foods Market. It emerged as the de facto category captain in a grocery industry caught off guard by the organic trend.

But what was lost on many in this business is that consumers don't think in terms of retail categories like "natural and organic retailer." That's an industry thing. Consumers think about what's relevant to them: products, product categories, retail experiences, occasions and so forth.

This distinction is huge, because it helps explain how so many people misunderstood what was driving Whole Foods' dynamic growth.

In fact, consumers resonated so strongly with the Whole Foods proposition because it was in lockstep with a massive shift in food culture that we've documented extensively and which includes the pursuit of higher-quality food experiences. Organic was part of that quality equation, but only one item on a list that includes fresh, distinctive, local, seasonal, artisanal and others.

And sure, price matters – but not in all categories or on all occasions. As it happens, plenty of consumers from all socioeconomic backgrounds were, and remain, interested in cheeses costing north of \$25 a pound on certain occasions. When you combine that occasion-based interest with a sufficient volume of shoppers and roll it across categories, suddenly you have a wildly successful proposition. One that defies simplistic labels like organic or upscale.

Nonetheless, most analysts and marketers continue to ignore the consumer perspective and hammer away at *organic* and *price* themes with only occasional references to Whole Foods' ability to deliver a "foodie experience" – with the term foodie itself now outdated in the shifting sands of food culture.

### Looking Both Ways...Our Seattle Perspective

We've watched a similar example play itself out in the NFL draft.

Historically the drama of the NFL draft all happens in the first or second rounds as teams strategize about their needs, their selections, and the future of their team. And of course the media and analysts are right by their side. The NFL draft is a spectacle of the highest order. Many continue to believe that, if chosen correctly, a team's first round selections will set a course for future success. And teams will pay top dollar for those choices.

Recently though, there's been an active voice of dissent emerge from the other side. Economists Cade Massey & Richard Thaler determined that the odds of 1st round draft picks proving successful in the NFL are no better than those chosen in the 3rd and 4th rounds. By implication, this suggests teams would be better to draft more players in the 3rd and 4th rounds and let probability do its thing.

This strategy quietly flew under the radar of most, and was virtually ignored by the mainstream media and analysts communities. Until it appeared to be working. The Seattle Seahawks famously followed in this direction – looking where others weren't – to build a championship team.

And as predicted, much of the media and analyst community quickly revised their discussions to consider this "most peculiar" management approach. One which emerged when someone was willing to look both ways, to consider an alternative perspective, however foreign it may have seemed.

### Go Seahawks!



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Whole Foods, after all, was once a curious little business emerging from the shadows of this “other direction,” once considered far too specialized and expensive to generate mainstream interest...until it did.

Looking more closely at the experience that Whole Foods now delivers to an increasingly mainstream audience, it becomes clear that there are significant opportunity spaces for those able to execute at even higher levels of quality.

New entrants – often in the form of regional, specialty grocers – are already stepping forward to explore these spaces. Others have been playing around here for some time, but are honing their retail propositions to capitalize on Whole Foods’ weaknesses.

Consider merely three of the challenges Whole Foods faces from this “other direction”:

- Meats: Whole Foods is big on product sourcing and sustainability narratives, but not always best in class on things like taste and selection.
- Prepared foods: Many of its options and preparations here are out of sync with consumer preferences. Look to Wegmans or Central Market to get a better sense of consumer desires in this category.
- Produce: This is where Whole Foods is most vulnerable.

Let’s look more closely at the produce opportunity. Produce is a category (or department) that consumers tend to use as a barometer of a retailer’s overall quality. It’s also one where Sprouts and others have made inroads on quality that sometimes supercedes that of Whole Foods.

Taking a lead from the burgeoning farmers market industry (there are now more than 8,000!), many sophisticated retailers are focused on absolute perfection in delivering the freshest, best-tasting produce from local sources.

And this is happening in marketplaces well beyond our borders. Tony Zahng is pursuing such a strategy in China, where his Tony’s Farm-branded organic produce promises perfection in appearance, shape, color, texture and, of course, taste.

Some will argue that it’s single retailers and small, regional chains that pursue these opportunities left open by Whole Foods — often at higher prices. They will gloss over what’s happening and return to conventional stories about price, organic and so forth.

We can’t help but recognize the great irony.

Whole Foods, after all, was once a curious little business emerging from the shadows of this “other direction,” once considered far too specialized and expensive to generate mainstream interest...until it did.

Suddenly, we were forced to wrap our minds around what was thought not possible – to readjust our narratives.

And the cycle repeats.



## Harvey Hartman

Harvey has earned a reputation among his many Fortune 500 clients for accurately translating how shifts in consumer behavior can be converted into solutions for overcoming growth and innovation challenges. Since founding the company in 1989, Harvey's been the soul, inspiration and charismatic force guiding Hartman Group's success. Under his leadership, Hartman Group has become recognized as the leading authority on consumer culture in America. Contact Harvey at: [harvey@hartman-group.com](mailto:harvey@hartman-group.com)

## About The Hartman Group

The Hartman Group is the principal provider of global research on consumer culture, behaviors, and demand and a leading advisor to the world's best-known brands on market strategy. Through a unique suite of integrated custom, primary research capabilities, market analytics, and business strategy services, The Hartman Group uncovers opportunity spaces and avenues for growth for clients across the consumer-driven marketplace. The Hartman Group is internationally recognized for breakthrough perspectives on emerging trends and evolving consumer behaviors in health and wellness, sustainability, and food culture.



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