



Whole Foods Market: A Strategic Analysis

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EXECUTIVE SUMMARY

Whole Foods Market, Inc. has long been admired as an innovative company with quality standards, a devotion to community and environmental responsiveness, a healthy growth model and highly-regarded employment practices. However, the company has faced recent difficulties as a result of the economic recession, increasing competition, and complications from acquisitions. To revitalize the company from historical lows in its toughest year in history, Whole Foods Market must reassess its costs, refocus its expansion strategies, and promote its brand to compete for the diminishing consumer spending dollar.

During the changes in strategic initiatives, it is also important for the company to keep Whole Foods Market's mission and its brand value intact. The chain is known for its high standards, quality, and ethical practices; this image is at stake when any changes in brand or reputation are made. It is of utmost importance to balance the positioning in order to increase awareness and sales, but at the same time avoid diminishing the brand and message of the company.

Without the value behind the Whole Foods brand, the company will not survive—recession or not. If Whole Foods can successfully complete these initiatives that include major restructuring while also generating public relations buzz that coincides with its vision of quality and goodwill, the specialty food retailer will be well-positioned to experience rapid growth again when the economy turns around.

COMPANY BACKGROUND

Whole Foods Market, Inc. is an Austin, Texas-based foods grocer of the finest natural and organic foods available, including produce, seafood, grocery, meat and poultry, bakery, prepared foods and catering, beer, wine, cheese; in addition to whole body, floral, pet products, and household products. Since its opening in 1980, the company has maintained the strictest quality standards in the industry and an unshakeable commitment to sustainable agriculture.

The company's Core Values are:

- Selling the Highest Quality Natural and Organic Products Available
- Satisfying and Delighting Our Customers
- Supporting Team Member Happiness and Excellence
- Creating Wealth Through Profits & Growth
- Caring about our Communities & Our Environment
- Creating ongoing win-win partnerships with our suppliers

Whole Foods defines its mission in terms of “Whole Foods, Whole People, Whole Planet,” incorporating the highest quality, least processed, unadulterated foods with a decentralized, self-directed team culture and a commitment to helping to take care of the world through active support of organic farming and assisting its global neighbors through its Whole Planet Foundation's micro-lending operations and support food banks, neighborhood event sponsorships and donations to local non-profit groups. Overall, the company's community giving well exceeds 5% of its total net profits each year.¹

Innovation and experimentation occur at the store level, as managers are permitted to choose up to 10% of store items, allowing stores to cater to local tastes and availability.² While the average Fortune 500 CEO makes 431 times the pay of the average worker, no Whole Foods Market executive makes more than 19 times the average worker's salary under the company's pay cap. Whole Foods Market's “no secrets” management philosophy makes

¹ “About Whole Foods Market.” <<http://www.wholefoodsmarket.com>>

² Lubove, Seth. “Food Porn.” *Forbes*. New York: Feb 14, 2005. Vol. 175, Iss. 3; pg. 102.

all financial data and salary information freely available all of its employees; the SEC lists all 54,000 employees as insiders.

Whole Foods Market has also received an array of awards for their business practices, including a #22 ranking in Fortune's 2009 list of "100 Best Companies to Work For," and is one of only 13 companies to rank each year since its inception 12 years ago.³ The company was also recognized as Health Magazine's healthiest grocery store of the year, and once again made Fortune's list of "America's Most Admired Companies." Among the Food and Drug Stores category, Whole Foods is ranked #1 in innovation, social responsibility, and quality of products.⁴

ORGANIC/NATURAL FOOD INDUSTRY

The organic/natural segment is one of the three major retail market categories in the specialty food industry, along with specialty/gourmet and vegan. Sales of natural products grew to approximately \$62 billion in 2007, a 10% increase over the previous year.⁵

Over the past decade, consumer awareness and demand for organic food and beverages has increased, with insistence on a wider variety of organic food in local grocery stores. The increasing popularity of organic food is playing into the rapidly growing "green

³ "Whole Foods Market® Makes Fortune's '100 Best Companies To Work For' List for 12th Consecutive Year." <<http://www.wholefoodsmarket.com/pressroom>>

⁴ "Whole Foods Market: 2008 Annual Report." <<http://www.wholefoodsmarket.com/company/annual-reports.php>>.

⁵ "Whole Foods Market: 2008 Annual Report." <<http://www.wholefoodsmarket.com/company/annual-reports.php>>.

movement" in North America, which spans all levels of the food processing, distribution, and retail grocery and foodservice industries.⁶

Accompanying the organic food and green movements, "buy local" has developed into a burgeoning trend worldwide. U.S. and international markets are increasingly implementing campaigns capitalizing on growing consumer demand for fresh, locally-grown food. As preferences are influenced by a sense of social responsibility, this trend involves every aspect of the food chain, from local produce to finished goods and the retail and foodservice sectors.⁷ Whole Foods has acknowledged this consumer preference and continues to support the local community, with a continued direction of adding more local vendors and local products to its stores.

Hoping to capitalize on popular consumer trends, U.S. supermarket chains have begun to supply specialty items offered at a competitive price point. Grocery stores are emulating Whole Foods Market's successful formula of fresher items, larger produce selections, more natural and organic choices, expansive prepared foods and an enjoyable shopping experience in their own formats. The nation's leading supermarket chains are all growing upscale niches. Wal-Mart, Safeway, A&P, Kroger's, BJ's and other mainstream groceries have bolstered their organic prepared food offerings in their aisles.

⁶ "Ethnic & Specialty Food Expo 2008."

⁷ "Ethnic & Specialty Food Expo 2008."

GROWTH STRATEGY

Historical Expansion

Whole Foods Market has seen rapid growth with 16 acquisitions in 24 years. In 1984, Whole Foods Market began its expansion out of Austin, expanding to Houston and Dallas, and later New Orleans in 1988. The company expanded to the West Coast with a store in Palo Alto, California in 1989 and fueled rapid growth by acquiring other natural foods chains throughout the 1990's: *Wellspring Grocery* of North Carolina, *Bread & Circus* of Massachusetts and Rhode Island, *Mrs. Gooch's Natural Foods Markets* of Los Angeles, *Bread of Life* of Northern California, *Fresh Fields Markets* on the East Coast and in the Midwest, *Florida Bread of Life* stores, Detroit area *Merchant of Vino* stores, and *Nature's Heartland* of Boston. Whole Foods Market started its third decade with additional acquisitions of *Food for Thought* in Northern California and *Harry's Farmers Market* stores in Atlanta. Whole Foods moved into Manhattan in 2001 and in 2002 expanded into Canada.

The company entered the United Kingdom in 2004 with the acquisition of seven Fresh & Wild stores, opening its first full-sized store in June 2007 on the site of the old Barker's department store in Kensington High Street, West London.⁸

Wild Oats

On February 21, 2007, Whole Foods Market, Inc. and competitor *Wild Oats Markets Inc.* announced the signing of a merger agreement under which Whole Foods Market, Inc.

⁸ "Our History." <www.wholefoodsmarket.com>

would acquire Wild Oats Markets Inc.'s outstanding common stock in a cash tender offer of \$18.50 per share, or approximately \$565 million based on fully diluted shares. Under the agreement, Whole Foods Market, Inc. would also assume Wild Oats Markets Inc.'s existing net debt totaling approximately \$106 million and 109 stores in 23 states and British Columbia, Canada.

FTC Antitrust Case

The FTC challenged the acquisition of Wild Oats Markets, Inc. arguing anticompetitive consequences. Prior to the August 28, 2007 completion of the acquisition, the FTC filed a motion in the United States District Court for the District of Columbia seeking a preliminary injunction to enjoin the acquisition and a complaint commencing an administrative proceeding challenging the acquisition. On August 16, 2007, the United States District Court for the District of Columbia denied the FTC's motion for a preliminary injunction. On July 29, 2008 the Court of Appeals reversed the District Court and remanded the case to the District Court for further proceedings.

A settlement agreement, finalized on March 6, 2009, established that Whole Foods would itself of 31 Wild Oats stores in 12 states, including 19 stores that already have been closed, and one Whole Foods store. Whole Foods will also relinquish the rights to the Wild Oats brand, to be sold to a potential competitor. These terms are contingent on a third party's ability to sell the properties; if they are not sold in a twelve month period Whole Foods will

be able to keep them. Employees at the stores that will be sold will either receive a guaranteed job offer in another store or an enhanced severance package from Whole Foods.

Current Expansion Plans

Planned new store openings for fiscal year 2009 were at a range of 25 to 30. However, given the current challenging economic environment, the number has been lowered to 15.

To further scale back, in fiscal year 2008 the company terminated 13 leases for stores in development, and downsized nine leases by an average of 13,000 square feet each. As of November 5, 2008, Whole Foods had signed leases for 66 stores scheduled to open through fiscal year 2012. (See Attachment: Appendix 1)

CHALLENGES

Increasing Competition

Competitors include but are not limited to local, regional, national and international supermarkets, natural food stores, warehouse membership clubs, and small specialty stores and restaurants. Whole Foods competes in many markets with privately held specialty grocery store chain headquartered in Monrovia, California, Trader Joe's, which offers similar organic goods and has also seen rapid growth in recent years. In addition to Trader Joe's and

local organic food stores, the company is facing increasing competition from mainstream U.S. supermarket chains hoping to capitalize on popular consumer trends.

Grocery stores are emulating Whole Foods Market's successful formula of fresher items, larger produce selections, more natural and organic choices, expansive prepared foods and an enjoyable shopping experience in their own formats. Supermarkets like Safeway, A&P, Kroger's, BJ's and other mainstream chains have begun to supply specialty items offered at a competitive price point.

Wal-Mart

Supermarkets are the sales leader in food sales, comprising \$457 billion annually. But their market share is declining as discount and other mass-market formats multiply. "Supermarkets have struggled to stay viable, but are losing to supercenters," explains Nick McCoy, senior consultant of Retail Forward, a Columbus, Ohio-based retail market tracker.

Megamerchants have become a dominant force in grocery. Wal-Mart alone operates 1,866 supercenters with grocery departments—and that number could triple by 2010. Minneapolis' Target Corp. plans to incorporate larger grocery sections into most of its 1,239 stores. Wal-Mart is the largest grocery retailer in the United States, with an estimated 20% of the retail grocery and consumables business. To take some of the market share from specialty stores, Wal-Mart has launched two new upscale endeavors, doubling organic produce and

dairy selections and opening a 217,000-square-foot store in Plano, Texas featuring a sushi bar, specialty foods and a wine department.⁹

The Safeway Lifestyle

Pleasanton, Calif.-based Safeway, the nation's third largest supermarket chain, emphasizes prepared foods and perishables at its Lifestyle stores. The Lifestyle format—set to comprise one-quarter of Safeway's 1,775 U.S. stores by the end of 2006—differs from traditional Safeways with sushi stations, soup carts, larger delis and meat-carving counters as well as expanded wine departments and more organic products. Yet the model is deliberately flexible to allow individual stores to tailor offerings to their trading area.

Safeway opened 21 new Lifestyle stores and completed 293 remodels to the upscale format in 2005. The company's shares were up by the end of 2006, indicating that this rebranding campaign had a major impact on sale figures.¹⁰

Economic Recession

During the summer of 2008, the company's stocks and sales margins took a hit as a “perfect storm” of higher gas prices, a slowing economy, and higher food costs hit the US and inflation and growing unemployment diminished consumers' purchasing power. Currently, in a recession environment, consumers are concerned with falling home prices, lower job security, and commodity inflation.

⁹ “Whole Foods Deals With Increased Competition.” *The Gourmet Retailer*. Nov. 9, 2006.

¹⁰ “Supermarkets Go Specialty.” <www.specialtyfood.com>

As the recession deepens, customers have returned to buying cheaper food. New and increasing price-sensitivity has driven grocers to offer deep discounts and price promotions, as well as forming new in-house discount brands. This sometimes creates cannibalization of existing sales, not to mention lower revenues and profit margins.¹¹

Also troubling is the social effect that the recession is playing on customers. Shoppers are only too aware of the plight of businesses and their neighbors and bracing themselves for a long road to recovery. Out of fear for their own impending financial dilemmas, and respect for their unemployed compatriots, consumers are avoiding any products that might be considered lavish or more than a necessity.

This “luxury shame” can cut sales of Whole Foods products because organic foods in general are perceived to be expensive. Organic foods are often seen as a personal indulgence for rich consumers, but consumers are less dismissive on fair-trade and locally-sourced products, which are also sold at premium prices, yet are distinguished as a way to do good for others. This public aversion to high prices and perceived luxury goods might possibly outlast the financial recession.¹²

This poses a number of problems for Whole Foods Market, which already carries a high-quality image that can deter cost-conscious consumers from shopping anywhere that is perceived as luxurious. Retailers are fighting over fewer food dollars being spent.

¹¹ “Austerity Chic.” The Economist. 28 April 2009.

¹² “Austerity Chic.”

Whole Foods took the following proactive measures to the response to the drop in sales and stock prices: implementation of cost-cutting measures (including the elimination of 306 positions), cut all discretionary capital expenditure, suspension of cash dividend, and sale of \$425 million of Series A Preferred Stock to affiliates of Leonard Green & Partners, LLP., in addition to the lowered number of planned new store openings.

More recently, Whole Foods has implemented a new marketing strategy to combat the perception of high prices. *The Whole Deal* offers coupons—which the chain has never done before now—as well as meal ideas, recipes, and ways to go green. These brochures are found in stores and invite the shopper to save through price promotions. Some items include “3 for \$3,” “Entertaining on a Budget,” “Seasonal Savings,” and “Budget-Conscious Recipes.” This new marketing campaign may entice customers to rethink Whole Foods Market; however, it reaches primarily existing shoppers since they are in-store promotions and they threaten to undermine Whole Foods’ reputation of high quality.

Losses in the United Kingdom

Whole Foods entered the United Kingdom in 2004 through the acquisition of seven Fresh & Wild stores. In June 2007, it opened its first full-size store, a total of 80,000 square feet. There was a lot of media buzz for the three-level store, built on the site of the old Barker's department store in Kensington High Street, West London. At the time, Whole Foods executives claimed that as many as forty stores might eventually be opened throughout

the United Kingdom. However, by September 2008, following the financial troubles of the company along with the rest of the global economy, Fresh & Wild had been reduced to four stores, all in London. In one year, the company reported losses of 9.9 million pounds (\$18.4M) in the UK. Though many shoppers were looking, they did not seem to be buying. For serious food shopping, customers would go back to their own neighborhoods. One critic said that the store was “too Disneyland without being unique.”¹³

The poor economic conditions led to a decline in overall organic food shopping. One year ago, almost half of middle-class shoppers in Britain bought organic foods. This figure has decreased to a third this year, according to IGD, a grocery think-tank. Instead, shoppers are hunting for bargains, doing comparison shopping and going to cheaper food stores.

In addition, the organic market in Britain is well-developed and established chains have a strong loyalty among longtime shoppers. Waitrose, Marks & Spencer and Tesco have all been selling organic goods for years and enjoy strong relationships with the local farmers. These stores’ brands are well-known and respected, and some critics accused Whole Foods of underestimating their competition in the UK market. Its core business of natural and organic foods is a category already found in the mainstream supermarkets—generally at a

¹³ “Whole Foods a Loser in London.” TreeHugger: A Discovery Company. 8 August 2008. <<http://www.treehugger.com/files/2008/08/whole-fods-market-losing-profit.php>> Accessed April 14 2009.

lower price. The company seemed to be suffering from lack of differentiation, high price sensitivity and limited brand exposure.¹⁴

By Whole Foods Market's 2008 Annual report, Mackey acknowledged the company's financial struggles in the UK through his annual letter to stakeholders:

Our Kensington store in London produced high sales during its first year; however, we were disappointed in our overall results in the U.K. We continue to believe there is great growth potential in the U.K. and are diligently seeking to improve all aspects of our operations there. We have closed one of our Fresh & Wild stores and expect steady year-over-year sales growth and improved financial performance at our Kensington store to drive a reduction in our operating losses. We hope to approach breakeven in fiscal year 2011.¹⁵

In February 2009, Whole Foods declared that Jeff Turnas, the regional president of the North Atlantic region—comprising all stores and facilities in Maine, Massachusetts, Rhode Island, Central Connecticut and the UK—would focus on the UK region as president. This reorganization has split the company's North Atlantic region into two, signifying Whole Foods' strategic dedication to turning the London stores around.¹⁶

¹⁴ "Whole Foods a Loser in London." TreeHugger: A Discovery Company. 8 August 2008. <<http://www.treehugger.com/files/2008/08/whole-fods-market-losing-profit.php>> Accessed April 14 2009.

1. ¹⁵ "Whole Foods Market: 2008 Annual Report." <<http://www.wholefoodsmarket.com/company/annual-reports.php>>.

¹⁶ "Whole Foods Suffers Losses At London Store." The Independent. 21 February 2009. <<http://www.independent.co.uk/news/business/news/whole-foods-suffers-losses-at-london-store-1628270.html>>.

RECOMMENDATIONS

In order to continue the company's success under these challenging conditions, Whole Foods Market must take immediate actions to increase financial performance and maintain its competitiveness.

Further Cost Cuts

By far most expensive area in the cost structure is the labor cost. The company needs to reevaluate which services are highly valued in the store, such as well-trained customer service representatives, and which ones add less value, such as full-time artisans. For one, the full-service bakeries in the stores can be changed to self-service without deeply dissatisfying customers. Cutting the expenses that are not integral to the exceptional in-store experience will free up resources the company can use to bring value back to customers and shareholders.

Increased PR and Marketing

Whole Foods has spent much less on advertising and marketing than other supermarkets – only approximately 0.5% of its total sales in fiscal year 2008. Instead, it typically relied on word-of-mouth recommendations and testimonials from shoppers. Stores spend most of their marketing budgets on in-store marketing-related activities, including promotional signage and events such as local farmers' markets, taste fairs, classes, tours and product samplings. While it is important to create an exceptional in-store experience for

customers, it should be a priority to first draw customers in, especially in a time that many shoppers do not think they can afford to shop at Whole Foods.

The stores have found success in offering promotional coupons in stores, but these discounts should be more publicized through mass circulars. Whole Foods has made efforts to showcase its affordability through signage and in-store guides, but this needs to reach audiences outside of the stores. The company also needs to be careful not to diminish its reputation of quality and unique mission by over-promoting price discounts, rather, emphasizing its value and benefits, as well as its under-publicized charitable causes.

Strategic Entry into New Markets

No longer operating in an environment of aggressive growth, Whole Foods must plan carefully to maximize slow and steady growth opportunities rather than entering saturated markets and cannibalizing its existing stores. Twenty of the sixty-six stores in development will be located in California, a market already dominated by Trader Joe's and impacted particularly negatively by one of the sharpest real estate downturns. The planned U.S. openings on the list are predominantly in regions that have already been penetrated by the chain, such as Illinois, which already has 16 stores and is scheduled to receive three more, totaling the Chicago locations to eight.¹⁷

In determining its long-term direction, the company should look to untapped regions that fit Whole Foods' requisite location attributes—most importantly, density of college

¹⁷ "Our Stores." <www.wholefoodsmarket.com>

graduates, as well as health-consciousness and middle to upper-income families. Cities without a presence of Whole Foods, or other major chain, with no current plans that are potential candidates for future expansion: Charlotte, NC, the 12th most educated city in the U.S.; Burlington, VT, with a well-educated population and named the US's healthiest city in a CDC study; Richmond, VA and Cedar Rapids, IA, both homes to multiple universities, cultural and art centers, and popular local health/organic stores and restaurants; and Sioux Falls, S. Dakota, with a population of healthy, educated residents and 14 higher level institutions.¹⁸

Rebrand image for London stores

The list of complaints about the flagship UK store include claims that the market is “horribly impersonal,” glamorous but humorless, pretentious, expensive, and more. With customers used to the familiarity and warmth of their local stores, and the brands of the chains they already shop at like Waitrose and Tesco, Whole Foods must establish itself as more than just another big supermarket chain. The company must develop the image of superior quality and ethical practices combined with one of family values. Like in the US, Whole Foods does not currently advertise much in the UK, and publicity for the company's goodwill and demonstration of its value can go a long way.

There is a place in the market for an upscale food retailer; British customers are enjoying Whole Foods' prepared meals—one of its fastest-growing categories—especially

¹⁸ Mahoney, Sarah, Brad Edmonson. “AARP The Magazine's Healthiest Hometowns.” Nov. 2008.

on the busy Kensington business street. Marketing, as well as operations, should focus more on the convenience and quality of a lunch from Whole Foods, and the stores should expand these offerings. Currently, its UK competitors do not have the balance of indulgence and convenience in its deli and prepared foods offerings, and this is an area where Whole Foods can gain ground.

Loyalty Club

Whole Foods Market had traditionally avoided loyalty card membership programs that mainstream supermarkets use to encourage repeat shoppers through rewards and discounts in order to retain its image of quality and social-consciousness above all rather than price-consciousness. This is an important determination, and it is critical to the integrity of Whole Foods stores to keep that vision intact. However, in an environment of increased competition and declining budgets, the company must implement a program that convinces consumers to spend their limited funds at Whole Foods rather than its low-priced competitors.

Whole Foods can do this by offering a reward tied to its company mission: for example, for every \$150 a customer spends at Whole Foods, the company donates the amount required plant a tree, provide clean drinking water to a child in a developing country for a month, or provide a meal to a child in Rwanda, etc. on behalf of the customer. He or she could pick from Whole Foods' existing causes (which already receive a significant percentage of the company's net profits every year) and feel that his or her dollar is better

spent at Whole Foods. This will add even more value to the shopping experience and play into the company's new marketing strategy of publicizing its philanthropy while balancing a message of affordability.

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Appendix 1

Store Locations/Growth

Store locations as of September 2008—278 stores in 38 states and Washington DC, Canada, and the UK.

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	1	Kentucky	2	Ohio	6
Arkansas	1	Louisiana	3	Oklahoma	1
Arizona	7	Maine	1	Oregon	6
California	51	Maryland	7	Pennsylvania	7
Canada	6	Massachusetts	19	Rhode Island	3
Colorado	18	Michigan	5	South Carolina	2
Connecticut	5	Minnesota	2	Tennessee	3
District of Columbia	3	Missouri	3	Texas	14
Florida	14	Nebraska	1	United Kingdom	5
Georgia	7	Nevada	4	Utah	4
Hawaii	1	New Jersey	9	Virginia	9
Illinois	16	New Mexico	5	Washington	5
Indiana	2	New York	8	Wisconsin	2
Kansas	2	North Carolina	5		

Source: Whole Foods Market: 2008 Annual Report

Historical store growth summary:

	2008	2007	2006	2005	2004
Stores at beginning of fiscal year	276	186	175	163	145
Stores opened	20	21	13	15	12
Acquired stores	-	109	1	-	7
Divested stores	-	(35)	-	-	-
Relocations and closures	(21)	(5)	(3)	(3)	(1)
Stores at end of fiscal year	275	276	186	175	163
Remodels with major expansions ¹	1	2	1	-	2
Total gross square footage at end of fiscal year	9,895,000	9,312,000	6,377,000	5,819,000	5,145,000

¹ Defined as remodels with expansions of square footage greater than 20% completed during the fiscal year.

Source: Whole Foods Market: 2008 Annual Report

Stores in Development

	November 5, 2008	November 20, 2007	November 2, 2006	November 9, 2005	November 10, 2004
Stores in development	66	87	88	65	53
Average size (gross square feet)	49,000	51,000	56,000	55,000	49,000
Total gross square footage in development	3,294,000	4,485,000	5,003,000	3,626,000	2,594,000
As a percentage of existing square footage	33%	48%	77%	60%	50%

Source: Whole Foods Market: 2008 Annual Report

Appendix 2

Whole Foods Market, Inc.**Consolidated Statements of Shareholders' Equity and Comprehensive Income**

(In thousands)

Fiscal years ended September 28, 2008, September 30, 2007 and September 24, 2006

	Shares Outstanding	Common Stock	Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholder Equity
Balances at September 25, 2005	135,908	\$ 874,972	\$ -	\$ 4,405	\$ 486,299	\$1,365,676
Net income	-	-	-	-	203,828	203,828
Foreign currency translation adjustments	-	-	-	2,494	-	2,494
Change in unrealized gain on investments, net of income taxes	-	-	-	76	-	76
Comprehensive income						206,398
Dividends (\$2.45 per share)	-	-	-	-	(340,867)	(340,867)
Issuance of common stock pursuant to team member stock plans	5,510	199,450	-	-	-	199,450
Purchase of treasury stock	(2,005)	-	(99,964)	-	-	(99,964)
Excess tax benefit related to exercise of team member stock options	-	59,096	-	-	-	59,096
Share-based payments expense	-	9,432	-	-	-	9,432
Conversion of subordinated debentures	194	4,922	-	-	-	4,922
Balances at September 24, 2006	139,607	1,147,872	(99,964)	6,975	349,260	1,404,143
Net income	-	-	-	-	182,740	182,740
Foreign currency translation adjustments	-	-	-	8,824	-	8,824
Change in unrealized loss on investments, net of income taxes	-	-	-	(77)	-	(77)
Comprehensive income						191,487
Dividends (\$0.87 per share)	-	-	-	-	(121,802)	(121,802)
Issuance of common stock pursuant to team member stock plans	1,961	52,925	-	-	-	52,925
Purchase of treasury stock	(2,542)	-	(99,997)	-	-	(99,997)
Excess tax benefit related to exercise of team member stock options	-	13,187	-	-	-	13,187
Share-based payments expense	-	13,175	-	-	-	13,175
Conversion of subordinated debentures	214	5,686	-	-	-	5,686
Balances at September 30, 2007	139,240	1,232,845	(199,961)	15,722	410,198	1,458,804
Net income	-	-	-	-	114,524	114,524
Foreign currency translation adjustments	-	-	-	(7,714)	-	(7,714)
Change in unrealized loss on cash flow hedge instruments, net of income taxes	-	-	-	(7,586)	-	(7,586)
Comprehensive income						99,224
Dividends (\$0.60 per share)	-	-	-	-	(84,012)	(84,012)
Issuance of common stock pursuant to team member stock plans	1,040	17,206	-	-	-	17,206
Retirement of treasury stock	-	(199,961)	199,961	-	-	-
Excess tax benefit related to exercise of team member stock options	-	6,083	-	-	-	6,083
Share-based payments expense	-	10,505	-	-	-	10,505
Cumulative effect of new accounting standard adoption (Note 10)	-	-	-	-	(1,288)	(1,288)
Other	6	(498)	-	-	-	(498)
Balances at September 28, 2008	140,286	\$1,066,180	\$ -	\$ 422	\$ 439,422	\$1,506,024

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

Appendix 3

Whole Foods Market, Inc.
Consolidated Balance Sheets
(In thousands)
September 28, 2008 and September 30, 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 30,534	\$ -
Restricted cash	617	2,310
Accounts receivable	115,424	105,209
Proceeds receivable for divestiture	-	165,054
Merchandise inventories	327,452	288,112
Prepaid expenses and other current assets	68,150	40,402
Deferred income taxes	80,429	66,899
Total current assets	622,606	667,986
Property and equipment, net of accumulated depreciation and amortization	1,900,117	1,666,559
Goodwill	659,559	668,850
Intangible assets, net of accumulated amortization	78,499	97,683
Deferred income taxes	109,002	104,877
Other assets	10,953	7,173
Total assets	\$ 3,380,736	\$ 3,213,128
Liabilities and Shareholders' Equity	2008	2007
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 380	\$ 24,781
Accounts payable	183,134	225,728
Accrued payroll, bonus and other benefits due team members	196,233	181,290
Dividends payable	-	25,060
Other current liabilities	286,430	315,491
Total current liabilities	666,177	772,350
Long-term debt and capital lease obligations, less current installments	928,790	736,087
Deferred lease liabilities	199,635	152,552
Other long-term liabilities	80,110	93,335
Total liabilities	1,874,712	1,754,324
Shareholders' equity:		
Common stock, no par value, 300,000 shares authorized; 140,286 and 143,787 shares issued, 140,286 and 139,240 shares outstanding in 2008 and 2007, respectively	1,066,180	1,232,845
Common stock in treasury, at cost	-	(199,961)
Accumulated other comprehensive income	422	15,722
Retained earnings	439,422	410,198
Total shareholders' equity	1,506,024	1,458,804
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 3,380,736	\$ 3,213,128

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

Appendix 4

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

(In thousands, except per share amounts)

Fiscal years ended September 28, 2008, September 30, 2007 and September 24, 2006

	2008	2007	2006
Sales	\$ 7,953,912	\$ 6,591,773	\$ 5,607,376
Cost of goods sold and occupancy costs	5,247,207	4,295,170	3,647,734
Gross profit	2,706,705	2,296,603	1,959,642
Direct store expenses	2,107,940	1,711,229	1,421,968
General and administrative expenses	270,428	217,743	181,244
Pre-opening expenses	55,554	59,319	32,058
Relocation, store closure and lease termination costs	36,545	10,861	5,363
Operating income	236,238	297,451	319,009
Interest expense	(36,416)	(4,208)	(32)
Investment and other income	6,697	11,324	20,736
Income before income taxes	206,519	304,567	339,713
Provision for income taxes	91,995	121,827	135,885
Net income	\$ 114,524	\$ 182,740	\$ 203,828
Basic earnings per share	\$ 0.82	\$ 1.30	\$ 1.46
Weighted average shares outstanding	139,886	140,088	139,328
Diluted earnings per share	\$ 0.82	\$ 1.29	\$ 1.41
Weighted average shares outstanding, diluted basis	140,011	141,836	145,082
Dividends declared per share	\$ 0.60	\$ 0.87	\$ 2.45

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

Appendix 5

Whole Foods Market, Inc.**Consolidated Statements of Cash Flows**

(In thousands)

Fiscal years ended September 28, 2008, September 30, 2007 and September 24, 2006

	2008	2007	2006
Cash flows from operating activities			
Net income	\$ 114,524	\$ 182,740	\$ 203,828
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	249,213	186,390	156,223
Loss on disposal of fixed assets	12,949	5,654	6,291
Share-based payments expense	10,505	13,175	9,432
Deferred income tax benefit	(9,980)	(27,203)	(15,521)
Excess tax benefit related to exercise of team member stock options	(5,686)	(12,839)	(52,008)
Deferred lease liabilities	43,906	27,681	26,607
Other	11,603	8,169	1,942
Net change in current assets and liabilities:			
Accounts receivable	(10,188)	(5,179)	(17,720)
Merchandise inventories	(52,023)	(51,055)	(32,200)
Prepaid expenses and other current assets	(35,467)	1,345	(7,849)
Accounts payable	(45,950)	42,064	18,509
Accrued payroll, bonus and other benefits due team members	14,253	1,845	26,033
Other current liabilities	13,860	18,002	125,605
Net change in other long-term liabilities	14,241	8,515	3,492
Net cash provided by operating activities	325,760	399,304	452,664
Cash flows from investing activities			
Development costs of new store locations	(357,511)	(389,349)	(208,588)
Other property, plant and equipment expenditures	(164,522)	(140,333)	(131,614)
Proceeds from hurricane insurance	1,500	-	3,308
Acquisition of intangible assets	(1,402)	(25,160)	(16,332)
Purchase of available-for-sale securities	(194,316)	(277,283)	(555,095)
Sale of available-for-sale securities	194,316	475,625	362,209
Decrease (increase) in restricted cash	1,693	57,755	(23,143)
Payment for purchase of acquired entities, net of cash acquired	(5,480)	(596,236)	-
Proceeds from divestiture, net	163,913	-	-
Other investing activities	(3,245)	(701)	-
Net cash used in investing activities	(365,054)	(895,682)	(569,255)
Cash flows from financing activities			
Dividends paid	(109,072)	(96,742)	(358,075)
Issuance of common stock	18,019	54,383	222,030
Purchase of treasury stock	-	(99,997)	(99,964)
Excess tax benefit related to exercise of team member stock options	5,686	12,839	52,008
Proceeds from long-term borrowings	317,000	717,000	-
Payments on long-term debt and capital lease obligations	(161,153)	(93,357)	(5,680)
Other financing activities	(652)	-	-
Net cash provided by (used in) financing activities	69,828	494,126	(189,681)
Net change in cash and cash equivalents	30,534	(2,252)	(306,272)
Cash and cash equivalents at beginning of year	-	2,252	308,524
Cash and cash equivalents at end of year	\$ 30,534	\$ -	\$ 2,252
Supplemental disclosures of cash flow information:			
Interest paid	\$ 36,155	\$ 4,561	\$ 607
Federal and state income taxes paid	\$ 118,366	\$ 152,626	\$ 70,220
Non-cash transactions:			
Increase in proceeds receivable for divestiture	\$ -	\$ 165,054	\$ -
Conversion of convertible debentures into common stock, net of fees	\$ 154	\$ 5,686	\$ 4,922