

## **Analysis of the Strategy of Whole Foods Market in Australia**



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Whole Foods Market's (WFM) present competitive position is the culmination of industry conditions and internal company environment. The competitiveness of the retail grocery industry will be portrayed using Porter's Five Forces: intensity of rivalry among competitors, threat of new entrants, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers. The company's internal environment will be characterized using a SWOT (strengths, weaknesses, opportunities and threats) analysis.

### **Porter's Five Forces Analysis**

In the retail grocery industry, competition among competitors is high. Because of the organic and natural specialization of WFM within the grocery industry, this part of the industry tends to rely heavily on conveyance of quality, education of its customer base about the health benefits of its products, and focusing store location based on the affluence and education level of the population (Harasta & Hoffman, 2005). Regular grocery chains rely more on advertising and pricing to draw in customers. Chains like Kroger and Safeway are beginning to offer organic foods as well, increasing the competition in the market. There has been a rapid increase in global market growth for organic and natural products, and due to the small number of fully organic/natural grocers in the market, profit potential as related the force of competitive rivalry in this industry is attractive.

Threat of new entrants into the organic grocery industry is high because the pool of candidates for entry into this industry is extremely large, consisting of existing grocery stores, supermarkets and big box superstores. In addition, low barriers to entry and rapid industry growth also increase the threat of entry. As a result, with a high threat of entry into the industry, the profit potential from this force is unattractive.

Since the product sold by organic grocery retailers is a commodity, and required to sustain life (food), there is only one real threat of substitution for the organic grocery industry - non-organic products provided by existing grocery retailers. The threat of substitutes in this industry is high, as non-organics are lower priced, great in number

and variety and often more readily available than organic products. Therefore, profit potential from this force is unattractive.

Suppliers to the organic grocery industry include organic farmers and ranchers, animal friendly cosmetic and toiletry companies and organic bakeries to name a few. The bargaining power of suppliers in the organic grocery industry is moderate because the products being supplied are commodities, but there are few suppliers that meet the standards of the organic grocery industry. Profit potential for this force can be attractive in this industry for a company that exercises good supply chain management and communication with its suppliers.

The bargaining power of buyers in the organic grocery industry is fairly weak, as buyers tend to make smaller purchases due to the perishable nature of organic products. In addition, a buyer's motivation for purchasing organic products is driven more by health-consciousness and the quality of the products, and price is not the main influence. Due to the nature of the buyer-seller relationship in the organic grocery industry, profit potential is attractive because buyers are willing to pay a premium to satisfy health concerns and obtain a better quality product.

An overall analysis of Porter's Five Forces shows that profit potential in the organic grocery industry is attractive. However, the organic market cannot be looked at in a complete vacuum, as traditional grocery chains are expanding their organic offerings and offer competition in this market. Whole Foods Market's current market position compared to other organic only retailers is in the number one spot. However, both the external forces and internal environment will contribute to future profitability and success. A SWOT analysis can be used to determine the company's internal environment.

#### SWOT Analysis of Whole Foods Market

Whole Foods Market's strengths include a strong market position, high profit margins, team member satisfaction, a non-unionized staff and a unique store environment. Additionally, the company has a clear mission and values, as well, which

has not changed since its inception in 1980. WFM takes care of its team members, and has strong loyalty from its employees. The company's strengths, as well as the uniqueness of their product offering, keep customers coming back. However, the company does have some weaknesses. Due to the perishable nature of the products Whole Foods sells, as well as the expense customers have to pay for these products, many customers only buy a few items when visiting the store. With the company's ever-expanding aspirations, and growing store sizes, the average customer purchase would need to increase in either quantity or amount in order to sustain that kind of growth. Therefore a potential weakness for the company is that it is expanding too fast and making its stores too big to maintain profitability. Another weakness of the store is that because it targets customers that typically are more progressive (and therefore pro-union), the negative press that it has received in recent years could negatively impact the store's bottom line in years to come.

There are opportunities available to WFM in order to remain profitable and sustain growth. There are other developed countries, such as Australia, where there is not only demand for organic products, but also an abundance of supply, which WFM has not yet explored. WFM currently works off a decentralized business model, allowing stores in each region to source goods locally in order to best meet regional customer needs. However, there are opportunities to fuse this model into a more global approach, where core competencies can be handled where it best makes sense to handle them, while still working the company together as a whole.

The more the company expands, the more threats it will face in the market, such as decreasing expansion potential, increasing competition from supermarket chains, increasing pressure from unions, and decreasing supply of organic products. WFM will need to find ways to meet these threats head on in order to maintain its market position in the future. WFM's current position in the market is strong. However, to maintain this position, it will need to analyze the trends in the market and formulate a strategy to counteract the unattractive forces in the industry and address the threats it faces.

### **Major Trends in the Grocery Industry**

Increasing commodity prices and inflation will continue to impact the grocery industry. According to Hoffman's case study, "any significant disruption in the supply of quality organic products" would negatively impact prices (Hoffman, 2005). WFM in particular will have to deal with the growing scarcity of organic produce and the increasing pressure of union organizers. The increase in demand for organic and health conscious products will also continue to impact the industry, which will add to the rivalry in the grocery industry. In addition, the trend of grocery chains continuing to add to their organic sections will not only impact the supply chain for the organic grocery industry, but also increase competition for business in the organic market.

### **Strategy Recommendations**

Whole Foods Market currently operates under general business strategies of specialization (organic and natural products) and superior product quality and customer experience. WFM's corporate global strategy is multi-domestic, where it allows each region to locally supply products and customize stores based on local culture. WFM needs to pursue a more transnational strategy in order to strengthen its position in the industry. A transnational strategy will allow the company to continue to focus on local culture, while maintaining the corporate identity of the company. This would maintain the bottom-up approach that the company has used to remain innovative, but also centralize core competencies to be distributed throughout the company.

A transnational strategy will allow WFM to pursue its ambitious vision of \$10 billion in annual sales in the next few years (BusinessWeek) by forcing it to take a look at the big picture for the company, including its supply chain. While each individual store may see the needs of its local culture, company collaboration as a whole can identify characteristics that each region has in common and formulate tactics to address these commonalities.

WFM can begin implementation of a transnational strategy by consideration of broad line global competition, taking advantage of the economies of scale of the company. The company can do this by working to source non-perishable products that

can be distributed globally. It can also look into backwards integration of its supply chain where it comes to perishable products, especially organic produce, in order to ensure that it has some control over the supply of these much desired commodities.

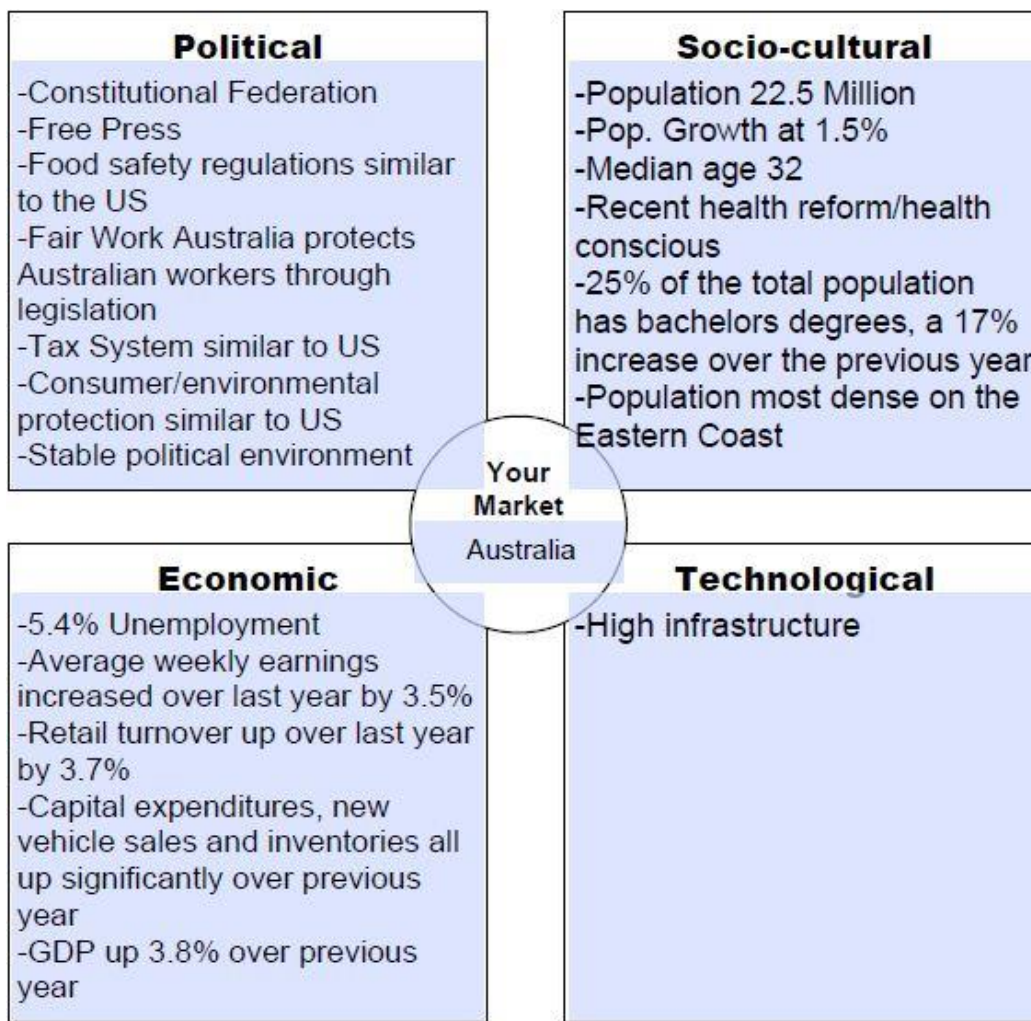
Whole Foods Market needs to concentrate on further developing its team members and keeping them at the engagement level and loyalty level they are currently in order to thwart attempts by unions to overtake their individual stores and cut into their profits. Where the company has succeeded in the past surveying its team members on benefits packages, it should also do for other aspects of the team member's work life, such as work-life balance considerations and individual incentives. The company also should focus on development of its team members from a corporate viewpoint instead of a regional viewpoint. Training should be developed and driven from the corporate level, then implemented at the regional level. As the company expands into more foreign countries, benefits packages that might be attractive to team members in one country may not be attractive to those in another, so the company needs to take culture into consideration when it comes to its human resources.

In addition to its expansion efforts further into Europe (beyond Great Britain), Whole Foods Market needs to consider setting up operations in the urban areas of Australia, where people already have an appreciation for natural and organic food. A PEST analysis of this country proves favorable to expansion for an organic grocer, as Australia has a free trade agreement with the United States, allowing for easy expansion into this country. Australia has a stable political climate with a constitutional federation and the median age of the country is 32 (<http://www.abs.gov.au>). With a full quarter of its population meeting WFM's standard for college degrees, as well as the health consciousness of the population, an expansion onto the east coast of Australia would be an important next step for the company. Australia already has the infrastructure in place for organic retailers, with a cheerleader of the organic industry – the Organic Federation of Australia having already been established. Whole Foods Market would be competing with only one other certified organic food retailer in the Australian market – Singleton Organics (<http://www.ofa.org.au>).

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## Appendix A – PEST Analysis



Sources: <http://www.abs.gov.au> and <http://www.australia.gov.au>