**MDW’s 1 - 5 at Whole Foods Market**

Supplementary Chapter to *Amazon: Managing Extraordinary Success in 5D Value*

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**Introduction**

Amazon acquired Whole Foods Market as a step to overcome its weakness in Markets Value Factor 5: multiple distribution channels. In this chapter the MDW’s 1 – 5 at Whole Foods Market including the inherent weaknesses will be reviewed in order to understand what Amazon bought. The benefits to Amazon of acquiring Whole Foods Market will be evaluated in Chapters 11 and 12.

Whole Foods Market was founded in 1980, beginning with one store in Austin, Texas. From the beginning the firm positioned itself as a supermarket format principally for natural, healthy food. In 1984 it opened the first new stores in Houston and Dallas, and in 1988 made the first acquisition, a store in New Orleans. The West Coast was greeted with a store in Palo Alto in 1989. The 1990s then witnessed a period of rapid expansion, both more organic growth plus the acquisition of eight natural foods store chains. In 2002 Whole Foods Market (WFM) entered Canada and in 2004 the United Kingdom. Amazon acquired WFM for $13.7 billion in the summer of 2017. In 2018 WFM operates over 470 stores, almost all of them in the US.

The chain is firmly positioned as the leading retailer of natural and organic foods in the US. Its focus is on perishables, either sold in raw form or worked up into ready-to-eat dishes. Whole Foods Market prides itself on having the highest quality standards in the market, and has gained numerous certifications for its products and processes. WFM is one of only 11 companies to have made the “100 Best Companies to Work for in America” list every year since the award’s inception by FORTUNE magazine in 1999. WFM has been active far beyond the retail market, supporting both the spread of organic standards in sustainable agriculture as well as many NGOs which it regards as contributing to the community. WFM itself has founded and operates three foundations acting to the benefit of the planet, children and cities.

**MDW 1: Value Exchange at Whole Foods**

The value exchange with each party type will be presented in a more complex manner than was the case for Amazon. First, the elements of the offer and the input will be discussed in terms of Degree and Dexterity separately, and then combined into one overall value offer and one overall value input. This approach is adopted because other than at Amazon, the value offers in the different D’s are not distinct in terms of business areas or organizational units. Rather, in the value exchange on the different markets with the different party types, Whole Foods Market manages one combined offer to party types and one combined value input from party types. Second, the value exchange with a given party type will be discussed both in terms specific to the party type as well as generally in terms which reach across party types. For example, the value exchange with customers will be examined concretely regarding the products, the experience in the store, etc., as well as discussed more abstractly regarding the elements of the offer and the input which are the same across party types, i.e. what is the common denominator in all WFM offers and in all WFM inputs. The value exchange with each party type is summarized in Figure 10-1.

**Figure 10-1: MDW 1: Value Exchange at Whole Foods**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Party Type** | **Value Flow** | **Degree** | **Dexterity** | **Combined:Overall Value Elements** |
| **Across party types**  | **Offer** | Best Anywhere | Best Standards | State-of-the-Art |
| **Input** | Asset Stewards  | Core Competences | Edified Stewards |
| **Cus-tomers**  | **Offer** | Elevated living standard | All-round rational application | Positioned by the exclusive fruits of modernity |
| **Input** | Financial means and social status | Revenue and accumulated / applied knowledge | Support the select stakeholder community |
| **Per-sonnel**  | **Offer** | Career development | Employment conditions | Forward-looking corporate life as it should be |
| **Input** | Be like an owner | Incorporate and share knowledge  | Exercise expertise in the interest of team / store / firm |
| **Sup-pliers**  | **Offer** | Market-leading position | Structured knowledge | Rising sales in forward-looking product / market categories |
| **Input** | Fulfill position in Best of Class supply chain | Push and pull knowledge | Keep to forefront of forward-looking product / market categories |
| **Inves-tors**  | **Offer** | Income stock as for passive investors | Industry return as for portfolio investors | Solid return reflecting the dynamic of the healthy food market |
| **Input** | Stock of capital | Flow of capital | Expanding stock of capital in line with the market dynamic |

**Value Exchange with Customers at Whole Foods**

The Whole Foods Market offer to customers was presented in Chapter 2 and thus will be simply summarized here. The offer consists of a combination of primary value in Degree and Dexterity to position the customer in the exclusive fruits of modernity: the customer is placed in the position to benefit from what the modern world knows about healthy eating and about community-building inside and outside the store.

WFM positions its offer above that of other retailers. The high quality food represents the elevated living standard of Degree, and the standards offered by WFM represent the all-round rational application of Dexterity. WFM adds value by selecting the highest quality food for healthy eating as well as in working up the perishables into dishes and meals which the customer can enjoy to the full. Another differentiating and elevating aspect of the offer to customers is the uplifting experience of being in the store. The product range and displays raise the customer into a select world of first-class nourishment, as in Degree. In addition to the upmarket aspect of the Degree offer, WFM also offers the downmarket aspect of Degree value: high-quality products at affordable prices. Furthermore, the store offers the customer a position in a community in which the customer can participate, as in Dexterity. Indeed, WFM offers the community within the store as a new kind of “standard environment” in which the customer can take on a well-defined position. Also, there is a community structure at a WFM store which extends outside the store to the wider community of the location.

In general, then, the WFM store positions the customer in an environment bearing all the accouterments of what is now regarded as modern in the society, i.e. which is state-of-the-art in food retailing.

In return the customers input primary Degree and Dexterity value in the form of supporting the select stakeholder community of the store: the personnel, the other customers, the local organizations, the store management and the WFM firm. Customers participate in the Dexterity community of the store in the first instance by chatting with the personnel, which is greatly appreciated by them. One employee commented on this aspect of the work experience at WFM by enthusing “you have some really cool customers that'll come in and have a great conversation with you too!” (www.glassdoor.com). Customers participate in the community secondly by interacting with other customers, which is part of positioning the store as a “third place”. Thirdly, as will be described in the next chapter in more detail, customers can become involved in the links to NGOs and other voluntary organizations as structured by the store. Customers support store management by applying their knowledge of modern retailing and WFM principles to build a picture of how the store should be in their view. Customers then give both positive and negative feedback on the comment board or directly to personnel regarding the extent to which the store fits to their picture. This feedback to the store management is completely in line with the thinking of WFM leadership. “Every business benefits if its customers care about it and invest in it emotionally. Many such customers become advocates on behalf of the business and have a vision about how the business should be. They care enough to tell the business when it needs to change and evolve, learn and grow” (Mackey & Sisodia 2013, p. 76). Customers support the entire firm with their social status in a passive sense that they are seen in the store, seen carrying the bags and seen consuming the products. In showing their relation to the firm they transmit the message to passers-by and within their circle of acquaintances that they are a customer and thus acting as a reference for the firm. In a more active sense customers support WFM with their social status in that they give positive word-of-mouth recommendations, lending their weight as credible persons to the image of the firm (Mackey & Sisodia 2013, p. 83). Finally, customers input financial wherewithal by paying for goods and services. This wherewithal can be conceptually divided into financial means to build up and support the position of WFM on the market – upmarket and downmarket – as well as revenue to cover operating costs.

Thus, generally speaking, the input of WFM customers is like that of edified stewards, who know how best to materially and immaterially support the stakeholder community centered around the local store.

**Value Exchange with Personnel at Whole Foods**

Whole Foods’ offer to personnel is a combination in primary value of Degree and Dexterity in the form of forward-looking corporate life as it should be. Employees are offered the good(ie)s of Corporate America in terms of both career prospects, as in Degree, and employment conditions, as in Dexterity.

Beginning first with the Dexterity conditions, they form a solid fundament of value on top of which the employee is firmly placed. The benefits are generous, particularly in relation to the retail industry, including:

* Store discount of at least 20%
* After 800 service hours, full-time employees pay health insurance premiums of between $0 and $20 per month, depending on company tenure
* Personal Wellness or Health Savings Accounts that help cover the cost of deductibles and other qualified out-of-pocket health care expenses
* Paid Time Off (PTO) hours which can be rolled over from year to year
* Stock option plan for all part-time and full-time employees, starting after they have accumulated 6,000 service hours, which corresponds roughly to three years of full-time employment
(www.wholefoodsmarket.com; viewed 11 November 2017)
* “tons” of sick time and vacation
* free samples and easy access to products undergoing a promotion
* free “Foodie Thursdays”
* “lots” of raffles and contests
(www.glassdoor.com)

All employees, from the CEO down to entry-level team members, receive the same benefits. The only difference is due to seniority, which adjusts the amount of paid time off, the company contribution toward health-care premiums and company-funded health-care reimbursement accounts. The company is self-insured for health costs of employees, making it “more prudent” about health-care costs. Every three years the employees vote on the benefits they want and their weights, within the total value of benefits as determined by the executive leadership. This way the employees receive what they want, even making choices which the executive leadership did not necessarily approve of. Two programs improve the health of employees. The voluntary Healthy Discount Incentive Program links additional discounts on store items to meeting healthy biometric criteria. Total Health Immersion enables employees at the most risk to attend a one-week medically supervised program in which they receive intensive education about healthy eating and healthy living (Mackey & Sisodia 2013, pp. 94 - 7). Approximately 94% of the equity awards granted under the Company’s stock option plan since its inception in 1992 have been granted to team members who are not executive officers. In addition, WFM offers a stock purchase plan and 401(k) plan to encourage share ownership amongst employees (Whole Foods Market Annual Report 2016). These benefits are clearly highly prized by employees, as attested to by dozens of comments in glassdoor.com which simply state “great benefits” and no need to say more. One employee however added “You will absolutely be hard pressed to find similar benefits anywhere else” (www.glassdoor.com). Furthermore, these material benefits are widespread within the staff, because a high proportion of employees – compared to other retailers – is full-time: 69% in 2016 (Whole Foods Market Annual Report 2016).

In addition to the material employment conditions, the immaterial working conditions are also top-notch. Within the store, many employees regard working with their colleagues as a great benefit. “Lots of fantastic people”, “team members are the best”, “the coworkers are what make my day” and “by far the team members are the biggest asset” are comments giving the flavor of the views expressed by many employees. These special collegial relationships take place within a “friendly and fun work atmosphere”, also described as an “amazing work environment”, such that two employees made reference to the “family” at the workplace, while another felt “valued”. The team feeling colors the entire work circumstances – indeed, all employees at WFM are referred to as “team members” – characterized by one employee as “the store really functions as a team” (www.glassdoor.com).

Indeed, the team is the focal point of the employment experience at WFM. Everyone is hired into a particular team on a probationary basis for thirty to ninety days. It takes a two-thirds positive vote from the entire team to gain full team member status. As noted by one employee, “The store really makes sure that they are hiring desired employees by having new member votes” (www.glassdoor.com). The team also structures the bonus, which are measured and paid out under the principle of “Gainsharing”: Every team is assigned target performance metrics, and actual performance above the target leads to a bonus for the whole team, divided up according to the number of hours worked. The sense of a team extends to other aspects of compensation. There is total transparency on compensation, an “essential part of the culture”. It ensures that compensation is fair, because anything unfair would be taken up with the firm, and changed. Everyone in the executive leadership team – the seven top executives – is paid exactly the same salary, bonus and stock options. The total cash compensation for any one employee cannot exceed nineteen times the average pay of all employees. At other quoted firms this ratio can reach four or five hundred (Mackey & Sisodia 2013, pp. 89 - 93).

Personnel are treated as being far more than just manpower. First, employees are animated to share their ideas and stimulate innovations. Employees have reflected on their time at WFM with comments such as “They welcome feedback from employees on ways to improve things for employees and customers”, “They promote creativity”, and “the culture ... encourages a free flow of ideas that has helped fuel growth and innovation“. Second, in scheduling work hours, WFM has taken account of the whole person to take consideration of what the employee needs to do outside of the WFM job. This consideration is acknowledged in comments such as “schedules are great”, “they work around your personal needs and obligations” and “they worked around my schedule”.

The valued working conditions are more than just the workplace, extending to the products and the values. One employee wrote “I feel good about the products we sell”, a sentiment specifically echoed by two fellow employees (www.glassdoor.com). As noted above, the personnel value the interaction with the customers: “Our customers are regulars and sometimes we learn so much about them whether good or bad” or “Most of the people you work with are generally pretty nice, so are the customers”. Whole Foods believes that it lines up with the personal values of the employees, and that they truly feel that the firm is a place where they can make a difference in the world (Mackey & Sisodia 2013, p. 88). This point is confirmed by an employee who remarked on how the firm has been “selective in hiring people for good fit with company culture” (www.glassdoor.com). Mastery, purpose and autonomy lead to high levels of intrinsic motivation, which is key to creativity, engagement, performance and satisfaction (Mackey & Sisodia 2013, p. 89). One employee agreed by writing “I've also always loved the power each and every Team Member has available to them (if they chose to access it) to have a voice in how the company is run.” Another pointed out “While corporate, it is still a highly decentralized company and there is still opportunity to make a mark on the job you're doing” (www.glassdoor.com).

Each team member can grow as an individual. A number of employees made reference to the high level of formal training which has been available: the firm “invests a lot in their team members in the way of training”, “they provide ongoing training on organics, safety, store policies, individual products, etc.”, “advanced product training available”, “their training program was very detailed and specific to my job”, “lots of trainings and you have the option to learn about a lot of different foods and concepts (organic vs. all natural, sustainable farming, etc.)” and “There is a lot of opportunity for cross-team training”. The learning can also take place on the job: “employees usually coached instead of punished for making mistakes”, “everyone is friendly and helpful”, “ it’s a great place to learn about food”, and “they also pair you with a more experienced team member to be a mentor”. As a general comment, dozens of employees referred to the “opportunities for growth” within the firm (www.glassdoor.com).

Individual growth in the sense of career development, as in Degree, is also key to the offer to employees. The aspects of the career begin with what the firm refers to as “competitive” starting wages (www.wholefoodsmarket.com; viewed 11 November 2017), but judging from the employee comments, the pay should really be seen as above average: “definitely more than average for New York”, “hourly pay was excellent”, “great pay for a part-time job”, and “great hourly rates”. Pay raises can follow regularly: “Good starting pay, raise after 6 months then raise each year after (based on performance, but usually $1/hr raise)”. Pay raises and promotions are there for those who want it: “The company maintains a mostly performance driven environment in terms of positions, pay and other rewards”. More than the pay raises for staying in one position, the comments from the employees repeatedly pointed to the room to move up the ladder, including: “chances to advance to supervisor positions”, “they love to bring up leaders with in the company for hire positions rather than bringing other people into the company”, “different paths to success”, “very easy to move up. Just push yourself and you can be in management within a year”, and “good career advancement opportunities”. Individual anecdotes are presented of moving up: “and yes, while I ended my career as a Senior Team Leader, I started as a part-time team member”, and “Started off as a regular team member, promoted to buyer/supervisor after a few months. Was rewarded with two salary raises within a year and acknowledged as team member of the quarter”. Or more generally, employees can bootstrap themselves up from backgrounds with few qualifications: “Opportunity to make a living without an education. I know people that did not graduate high school or college that have been able to provide for themselves and their families by staying with WFM” (www.glassdoor.com). The firm itself sees this kind of advancement up the career ladder as part of its policy. WFM states that “For new and existing Team Members who want to reach their potential, we offer various forms of assistance. We encourage all qualified Team Members to apply for any open positions in their store or facility, their region or the company as they expand their product knowledge, develop their skills and enhance their value to their teams. In fact, many people who join Whole Foods Market end up creating long-term, successful careers here. There are countless stories of Team Members who are now in leadership positions at Whole Foods Market who started out bagging groceries and stocking shelves in one of our stores or facilities” (www.wholefoodsmarket.com; viewed 11 November 2017).

Indeed, career development at WFM can take place in a very broad manner, including temporary movements downwards in order to find the right way up again. One solution at WFM when leaders are unsuccessful is not to fire them from the organization, but simply to remove them from the job they are currently doing. They then are provided with a “bridge”, a three- to six-month period at full pay during which time they try to find another job within the organization. Some of the most senior leaders at WFM have been through the bridge, during which they learned and grew a great deal (Mackey & Sisodia 2013, pp. 231 - 2).

The offer to personnel is state-of-the-art in that it is made up of the generic fruits found at a modern business, situated in a progressive economy and an advanced society, particularly with regard to food and the environment. Employees are placed in a generous net of Dexterity benefits at an elevated level, and can grow with and within the firm due to the Degree career advancement. Employees are recognized as being an entire person – the Dexterity benefits and working conditions – and are also recognized for their expertise – the Degree salary and advancement. The message to the team member at WFM is: you are valuable, you are worth much, both as a person and as a knowledge worker.

Employees highly appreciate the value offer from WFM, as seen in three indicators. First, voluntary turnover was approximately 18% in 2016, a low proportion in the come-and-go of the retailing branch. Second, none of Whole Foods’ 67,000 employees are unionized. Third, for the past 19 years, WFM team members have helped Whole Foods Market become one of FORTUNE magazine’s “100 Best Companies to Work for in America.” WFM are one of only 11 companies to make the “100 Best” list every year since its inception (Mackey & Sisodia 2013, p. 158; Whole Foods Market Annual Report 2016).

Thus, the offer to employees represents the state-of-the-art for corporate America in the retail branch: the best in career development and working conditions.

In return the personnel input primary value in Degree and Dexterity to WFM in the form of exercising expertise in the interests of the team, the store and the firm. As noted above, part of the offer to personnel is learning on the job from colleagues. Thus, part of the input from personnel is to share with colleagues their knowledge and expertise about the firm, the customers, the market, the display and preparation of the food, the origins of the food and how it is produced, and so on. Employees report that “Colleagues are generally fun, passionate and knowledgeable about their subject areas”; there is a “specialized knowledge of the team member base” and as an employee, one is “surrounded by excellent, knowledgeable, passionate people” (www.glassdoor.com). And of course, this knowledge is gained in order to apply it by incorporating the knowledge into the daily work. Incorporating and sharing knowledge comprises the Dexterity input from personnel.

In addition to this sharing and learning with and from others, there is an element of working at WFM in which the employee builds knowledge and makes an impact on his or her own team. In this sense, the input of the employee is to be like an owner – as in Degree – in working for herself or himself which ultimately is to work to the benefit of the firm. As stated by the firm itself, “We seek to create an empowered learning environment that promotes self-motivation, and we encourage Team Members to take responsibility for their own success” (www.wholefoodsmarket.com; viewed 11 November 2017). Several employees confirm this self-reliance element of working at WFM as follows: “If you can keep with a heavy workload and work autonomously, this is a great way to get culinary experience”, “There is definitely a lot to learn if you want to… however, you will usually be expected to learn it without any help”, “They put an emphasis on self initiation, this really helps build your skill set” and “If you’re willing to absorb the culture, prioritize customer service, work hard and be diplomatic about the way you carry yourself, you’ll thrive”. One employee writes in a straightforward way: “They let you be your own boss” (www.glassdoor.com).

Exercising expertise in the interest of the team, store and firm – the Degree and Dexterity input of employees - is exemplified at WFM by the notion of team members having a “shared fate” with shareholders. In the view of WFM, team members are involved at all levels of the business. The firm strives to create a company-wide consciousness of “shared fate” by uniting the interests of team members as closely as possible with those of the shareholders. One way this is reinforced is through the Gainsharing program (Whole Foods Market Annual Report 2013). The various share ownership plans also contribute to steering the inputs of the team members to be in the interest of the shareholders, i.e. reinforce the shared fate between employees and shareholders.

Overall, then, the personnel are edified stewards for WFM: best informed and positioned to look after the business interests of the firm.

**Value Exchange with Suppliers at Whole Foods**

WFM’s offer to suppliers is primary value in Degree and Dexterity taking the form of rising sales in forward-looking product / market categories. WFM shares knowledge about emerging product / market categories with suppliers, as in Dexterity. The WFM offer includes also that the supplier can gain sales in its product category, thereby raising market share and thus standing in its own part of the food producer / supplier market; as in Degree.

Whole Foods has tens of thousands of suppliers, mostly for food. Each store buys a high quantity of local foods in the community, explaining why there are so many suppliers. A food producer wishing to apply to become a supplier to WFM can do so online, filling out a standardized form with information about the firm, the firm operations – e.g. for a farm, whether it is organic or all-natural or sustainable etc. - and the product(s). The application is channeled to the relevant category buyer who evaluates it and contacts the applicant as appropriate (www.wholefoodsmarket.com; viewed 11 November 2017). Thus from the start a supplier is in contact with a knowledgeable WFM employee to share information and exchange about the product, the conditions under which the product is produced, and the relevant market. For suppliers with a working relation to WFM, two kinds of knowledge are shared. First, Whole Foods gives feedback to suppliers regarding customer preferences which is relevant to their product innovations. Second, WFM has spread the principles of organic and sustainable farming throughout the USA, including working with suppliers to introduce and firmly establish such practices. Thus knowledge is shared which is crucial to product and operational changes at the supplier. In this way, Whole Foods seeks mutually beneficial long-lasting relationships of integrity with suppliers (Mackey & Sisodia 2013, pp. 111 – 4). These Dexterity benefits apply equally to the small local suppliers for individual stores, and to the larger regional or national suppliers serving one of the twelve regions or indeed all stores in the USA. The latter are managed by regional or central purchasing units in the WFM organization.

For many suppliers, Whole Foods is the largest customer and has been the key channel for rising sales, thereby laying the foundation for the supplier to grow from a start-up to a well-established business (Mackey & Sisodia 2013, p. 119). Furthermore, it may be assumed that having WFM as a reference customer helps these suppliers in gaining business from other retailers. These supplier benefits apply both to suppliers who produce their own brand of goods as well as to suppliers who produce WFM’s private label goods, where in fact a number of suppliers do both. Thus, in both a quantitative and qualitative manner, the business relation to WFM boosts the suppliers in attaining a stronger position in the market for their products.

The most important supplier to Whole Foods is United Natural Foods Inc. UNFI accounts for about 30% of Whole Foods’ purchases, and Whole Foods is UNFI’s largest customer, accounting for 36% of its total sales. UNFI also warehouses and distributes much of Whole Foods’ private-label inventory. With regard to a long-lasting relationship to mutual benefit, Whole Foods has a ten-year contract with UNFI, but re-negotiates it every five years (Mackey & Sisodia 2013, p. 116). For UNFI, therefore, the relationship to WFM gives it a stronger market position by significantly raising its sales as well as increasing the throughput in its logistics chain, widening the scope for economies of scale and other synergies.

The overall offer to suppliers is to be state-of-the-art in the business relation, stretching from knowledge about new product categories in an emerging market segment, to operations which are environmentally sound in keeping with the latest requirements, and finally to the mutually beneficial relationship of integrity.

In return the suppliers input primary value in Degree and Dexterity in the form of keeping WFM at the forefront of forward-looking product / market categories. In terms of Degree, the suppliers enable WFM to grow and be successful by keeping up with the WFM’s quantitative and qualitative requirements. In Dexterity, suppliers engage in product innovation to meet the explicit preferences of WFM customers.

In the history of the firm, WFM has experienced rapid growth in sales. This has taken place mostly by expanding its network of stores, but also via growth in sales at individual stores over time. Thus all suppliers – local suppliers to some extent for the single store they serve but more particularly the regional / national suppliers delivering to a growing number of stores - have been required to raise the volume of supply to WFM, which they indeed have accomplished. In addition, over the course of its history WFM has raised the quality standards for the food it sells – more on this below – and therefore the suppliers have also needed to meet these rising qualitative requirements. Finally, suppliers need to operate within the requirements of WFM’s supply chain. For example, private label producers need to establish a working relationship with UNFI as part of the overall relationship to WFM, in that they ship their products to UNFI warehouses. A particular input from UNFI is thus also that it has enabled WFM to grow rapidly without having to own and organize the logistics for its private label products. UNFI has taken on this logistics task, enabling WFM to focus its managerial attention and capital resources on the retail operations of its business.

Upon receiving the feedback from WFM regarding customer preferences, suppliers are highly innovative, continuously improving the quality and selection of products. WFM’s ability to capture customer feedback is translated by the suppliers into product innovations, an area which is not one of WFM’s core competences (Mackey & Sisodia 2013, p. 112).

Thus suppliers are edified stewards, who act on their knowledge to preserve WFM’s position at the forefront of the rapidly developing healthy food market.

**Value Exchange with Owners / Investors at Whole Foods**

WFM’s offer to investors is primary value in Degree and Dexterity in the form of a solid return reflecting the dynamic of the healthy food market. WFM has been on the whole sturdily positioned at the top of the healthy food market which generated a solid return, as in Degree. Additionally WFM has expanded in line with this healthy food market, which for the most part in this century grew rapidly. WFM generated a return which reflected this market development, as in Dexterity.

The solid Degree return has been offered on the one hand by the stability in the dividend. In this decade the quarterly dividend has been basically solid, as displayed in Figure 10-2.

**Figure 10-2: WFM Quarterly Dividend per Fiscal Year 2011 - 2016**

|  |  |
| --- | --- |
| Fiscal year | Quarterly dividend |
| 201120122013201420152016 | $ 0.10$ 0.14$ 0.10 (plus one-time dividend of $1.00)$ 0.12$ 0.13$ 0.135 |

*Source: Annual Reports 2011 - 16*

On the other hand the solid Degree return has been offered by the continuity in the repurchase program, at one point described by the firm as “our commitment to return capital to shareholders” (Whole Foods Market Annual Report 2015). The repurchase program has involved an annual purchase of shares in each year amounting to several hundred million dollars (Whole Foods Market Annual Reports 2011 - 2016).

The Dexterity return reflecting the overall market development for healthy food has been offered in the WFM share price, which may be interpreted as reflecting the prospects for the healthy food market. The IPO was in 1992. The share price on a split-adjusted basis rose from $2.17 to a high of $79 in late 2005. Most of the rise came in this century, reflecting a perception of boom in the healthy food market, which at this time was emerging to gain a substantial foothold in the US retail market. The stock price then fell in the following years, reaching a low of just over $8 in the period 2008 / 9. In these years of slower economic growth, culminating in the crisis years of 2008 /9, investors were aware that the luxury of health food enjoyed a lower priority in the strapped household budgets of American families. Accordingly, the interest on the capital market for an exposure to healthy food slacked off, as seen in the falling share price of WFM. By 2013 the price had risen as high as $95. The healthy food market was revitalized in the eyes of the investment community after the crisis years of 2008 / 9, and the WFM share was in demand. Afterwards the price gradually fell and stabilized around $30 until the summer of 2017, when WFM was acquired by Amazon. In recent years the healthy food market has continued to grow significantly faster than the overall retail market in the USA. Nevertheless it may be suggested that healthy food has been perceived as becoming more mature, losing some of the dynamic of an emerging market (Mackey & Sisodia 2013, pp. 103 – 4; www.finance.google; Whole Foods Market Annual Reports 2011 - 16).

There are four ways in which the Degree and Dexterity elements of the value offer to owner / investors interact. First, throughout its history Whole Foods Market has communicated with long-term shareholders at least every quarter after announcing the earnings results. Investors should understand the evolving purpose, strategy and aims of the firm. Consistent communication with the capital market results in a following of shareholders and other investors who are by and large aligned with the business approach (Mackey & Sisodia 2013, pp. 101 - 3). In this way WFM provides information about market developments and the situation of WFM within the market in keeping with the Dexterity offer that the firm represents an exposure which tracks developments in the market. Inasmuch as this information convinces investors that WFM will remain positioned at the top of the market, the communication with investors confirms them in their investment view that the firm represents a solid return, as in Degree. For example, when the share price fell in the years 2005 – 2009, Whole Foods continued to communicate openly with long-term shareholders. Indeed, some of them were sufficiently convinced regarding the stability of the firm’s position at the top of the market that they raised their holdings during this time period (Mackey & Sisodia 2013, p. 104). The subsequent huge jump in the share price justified their long-term view of WFM on top of the wave of the healthy food market.

Second, WFM’s stock option plan serves as a way to partially finance the running personnel costs of the firm in an amount corresponding to the performance of the firm, just as at Amazon (see Chapter 3). This Dexterity element of the value exchange with investors could endanger the Degree offer, in that the issuing of too many new shares could dilute the earnings distributed to investors. WFM announced that it intends to limit the number of shares granted in any one year so that annual earnings dilution from share-based payment expense will not exceed 10% (Whole Foods Market Annual Report 2016). Thus the Dexterity and Degree elements of the value exchange with investors do not come into conflict.

Third, on November 2, 2015, WFM entered into a $500 million five-year revolving credit facility. The Credit Agreement is scheduled to mature, and the commitments thereunder will terminate, on November 2, 2020. During the first quarter of fiscal year 2016, the firm borrowed and repaid $300 million under the Credit Agreement. In addition, on December 3, 2015, WFM completed its offering of $1.0 billion aggregate principal amount of its 5.2% senior notes due 2025 (Whole Foods Market Annual Report 2016). Thus at the end of 2015 the firm offered to investors two vehicles to gain an exposure to the firm, where the return is based on the interest rate. It was suggested above that the capital market has recently regarded the prospects for the healthy food market as maturing. In a firm and a market which is maturing there is, generally speaking, less scope for share price movements, given the more stable growth prospects. Rather, a mature business tends to generate a more stable cash flow out of its running operations, and there is less need to use the cash flow to finance investments in growth. Given WFM’s solid position in the healthy food market, it may be suggested that investors are convinced that WFM will generate a stable cash flow out of the stable healthy food market. This stable cash flow can be used to finance the interest payments for credits and senior notes. Thus WFM can offer a solid return in the form of interest payments. WFM’s shift from offering a return solely based on shares – share price, dividend and repurchase program – to include a return based on interest rates can be interpreted as an acknowledgement by WFM that the healthy food market is indeed maturing and the share price will no longer be as dynamic as in the past. A solid return in Degree – a long-term stable income flow – and a solid return in Dexterity – a return reflecting the market developments, which in the case of the healthy food market are now more mature - is best offered via interest payments coming out of the more stable cash flow of a more mature business in a more stable market. With this recent shift in the offer to investors, WFM has been able to maintain its paired value offers of Degree and Dexterity to investors.

Fourth, WFM has been economical in the employment of capital regarding its own infrastructure. As of September 25, 2016, WFM owned only 18 stores and 3 distribution facilities. The remaining 438 stores and 8 distribution facilities, as well as all administrative buildings and production centers are leased. Stability in the organization is given in that WFM has options to renew most of the leases in five-year increments (Whole Foods Market Annual Report 2016). Nevertheless by means of leasing, WFM need not build up a large capital base, thus enabling each existing shareholder to enjoy a correspondingly higher share of the equity. This relatively secured position of each shareholder corresponds to a Degree offer of stability. Because of the leasing, WFM has more capital left over to be employed as working capital in the operations, such that it can keep up with market developments. In this way it offers Dexterity value to shareholders in that it generates a return reflecting the fortunes of the industry.

Thus WFM has made a state-of-the-art value offer to investors in the form of a return first based on shares in an emerging market and then more recently including a return based on interest payments, while continuing a high level of communication with investors throughout its history.

The investor input of primary value in Degree and Dexterity to WFM mirrors the value offer to investors. For most of the history of the firm, investors have provided a stock of capital, as in Degree, by purchasing share capital. As the firm grew with the market for healthy food, the stock of capital has grown to finance the expanding operations of the firm. This growing stock of capital has taken on some of the characteristics of a flow of capital to finance running operations, as in Dexterity. In particular, investors have in effect financed the running costs of the bonus program for employees, similar to the case at Amazon (see Chapter 3). That is, investors have absorbed the shares newly coming onto the capital market from WFM’s stock option plan, and the proceeds from their payments have gone to the employees who sold them, i.e. a form of bonus. Thus, a Dexterity input of investors over the years has been to cover the operating costs of personnel compensation at WFM which has varied in line with the business performance of the firm. More recently, the investor input in Degree and Dexterity has included additionally a flowing stock of capital in the form of purchasing senior notes and agreeing to a credit facility.

The input from investors conforms to that of edified stewards in that on an informed basis they have financed the position of WFM at the top of first an emerging and more recently a maturing market in healthy food.

**MDW 2: External Demand Interfaces at Whole Foods**

The five elements of MDW 2 – External Demand Interfaces – at Whole Foods Market can be broken down into the Degree and Dexterity dimensions, as well as the combined overall value elements. The five elements plus the summary / essence will be examined in this section.

Figure 10-3 (overleaf) summarizes the five elements of MDW 2 at Whole Foods Market.

The **Normative Aim** of Whole Foods combines Degree and Dexterity elements into the Aim for the firm to embody the principle of enlightened business practices, which are to be spread around the business world. In the Degree element, Whole Foods Market aims to lead American business enterprise to a new way of doing business under the heading of Conscious Capitalism. In the Dexterity element, WFM practices a set of values which meet the explicit needs and wishes of a progressive market and society.

**Figure 10-3: MDW 2: External Demand Interfaces in the Primary Ds at WFM**

|  |  |  |  |
| --- | --- | --- | --- |
| **Mgmt. Element** | **Degree** | **Dexterity** | **Combined:Overall Value Elements** |
| **Normative Aim** | Firm as Purpose: Leader of Business Enterprise (Mission) | Firm as Function: Meet Explicit Needs of Market and Society (Values) | Firm as Principle: Enlightened Business Practices (Mission to Spread Values in Business World) |
| **Strength** | Build Best of Class in the Organization | Standardized Processes  | Top Quality with a Systematic Human Face |
| **Go-To-Market Model** | Positioned Resources and Activities | Continuous Improve-ment  | Continuously Re-Position to Meet Progressive Market and Societal Needs |
| **Competi-tive Advan-tage** | Size | Standardized Products | Market Penetration via New Standards |
| **Growth** | Extensive | Market Potential | Expand with the Trends |
| **Summary / Essence** | Best of Class in the Organization | Continuous Improve-ment in Standards | Capture and Consolidate the Modernizing Trends |

Consider first Conscious Capitalism. WFM views itself as the latest in a long line of entrepreneurial firms which have used the freedoms and dynamism of capitalism to generate huge leaps in value for all stakeholders. Conscious Capitalism rests on four tenets of doing business, as follows:

* Higher purpose and core values
* Stakeholder integration
* Conscious leadership
* Conscious culture and management
(Mackey & Sisodia 2013, chapters 1 - 2)

A firm’s purpose attracts stakeholders to the firm who share an interest in realizing the purpose, thereby integrating and aligning the firm’s organization with the other stakeholders in order to raise the firm’s impact:

*“A firm’s purpose is the glue that holds the organization together, the amniotic fluid that nourishes the life force of the organization. You can also think of it as a magnet that attracts the right people – the right team members, customers, suppliers, and investors – to the business and aligns them…. A compelling purpose reduces friction within the organization and its ecosystem because it gets everybody pointed in the same direction and moving together in harmony…. The more constituents that you have the more important it is to have a simple and clearly defined purpose that everyone and everything can report up to and a set of Core Values that animates the way people interact with one another…. Purpose must come before formulating a strategy.”*
(Mackey & Sisodia 2013, pp. 46 - 7)

The purpose of Whole Foods Market is “to teach people that what they put into their bodies makes a difference, not only to their health and to that of the people who supply the food, but also to the health of the planet as a whole” (Mackey & Sisodia 2013, p. 48). Furthermore, WFM strives to “promote the vitality and well-being of all individuals by supplying the highest quality, most wholesome foods available” (www.wholefoodsmarket.com; viewed 11 November 2017). The purpose of WFM has evolved and become more detailed over the years. Every three years, approximately eight hundred store team leaders, coordinators, and star performers from throughout the organization come together in a “Tribal Gathering” for a long weekend dedicated to networking, education and inspiration. At the 2011 meeting, the executive leadership articulated several more concrete purposes for the firm: higher livestock welfare, seafood sustainability, improved organic agriculture, public awareness about healthy eating, and microcredit loans to help end poverty. For each of these purposes the firm launched a number of specific initiatives.

Finally, another higher purpose of WFM is to make Conscious Capitalism the dominant approach to business in the USA (Mackey & Sisodia 2013, pp. 64, 143 – 6). As stated by the founder and co-CEO of WFM, John Mackey, “companies need to shift their emphasis from profit maximization to purpose maximization” (Mackey & Sisodia 2013, p. 54). WFM’s mission, as the term mission is used in this book, extends beyond the firm and its stakeholders to include the US business world. Indeed, John Mackey declares that Whole Foods welcomes Walmart’s entry into organic food. WFM sees Walmart’s move as a validation of its own purpose and a considerable boost to attaining Whole Foods’ higher purpose of spreading a new approach to business (Mackey & Sisodia 2013, p. 155).

The other three tenets of Conscious Capitalism are briefly defined here and discussed at greater length further below. First, stakeholder integration explains that businesses will be most successful when explicitly recognizing and acting on the interdependence of stakeholders, i.e. stakeholders create value for each other and thus ultimately share interests in the long-term, rather than having interests in conflict. WFM’s “Declaration of Interdependence” formulates the ways in which stakeholder integration takes place in the firm. Second, conscious leadership is primarily motivated by service to the purpose of the business and its stakeholders. Leadership is involved with change and transformation, and this is to be distinguished from management which is involved with implementation and efficiency (Mackey & Sisodia 2013, pp. 179 - 81). Third, shaping the culture is one of a leader’s most important tasks due to the fundamental impact of culture on a firm’s success. As management thinker Peter Drucker expressed it, “culture eats strategy for breakfast” (Mackey & Sisodia 2013, p. 217).

The positive impacts of Conscious Capitalism, which WFM wants American businesses to adopt, are summed up in Figure 10-4, comparing it to Corporate Social Responsibility.

WFM’s adherence to Conscious Capitalism has gained it recognition on a number of lists, including but not limited to:

* FORTUNE’s “World’s Most Admired Companies,” “100 Best Companies to Work for in America” and “Blue Ribbon Companies” lists;
* Forbes’ “America’s Best Employers” list and its list of “Top 10 Brands With Which U.S. Consumers Have the Most Intimacy” based on reporting by brand consultancy MBLM;
* Business Insider’s list of “24 Brands that Improve the Quality of Everyday Life” based on a survey by polling site Ranker.com;
* “Business Insider 100: The Creators” list; and
* LinkedIn’s “North America’s 2015 Top 100 InDemand Employers” list;
* FORTUNE also named WFM to its “20 Best Workplaces in Retail,” “10 Best Workplaces in the Fortune 500,” and “100 Best Workplaces for Millennials” lists.
(Whole Foods Market Annual Report 2016)

**Figure 10-4: Conscious Capitalism compared to Corporate Social Responsibility**

|  |  |
| --- | --- |
| **Corporate Social Responsibility** | **Conscious Capitalism** |
| Shareholders must sacrifice for societyIndependent of corporate purpose or cultureAdds an ethical burden to business goalsReflects a mechanistic view of businessOften grafted onto traditional business model, usually as a separate department or part of public relationsSees limited overlap between business and society, and between business and the planetEasy to meet as a charitable gesture; often seen as “green-washing”Assumes all good deeds are desirableImplications for business performance unclearCompatible with traditional leadership | Integrates the interests of all stakeholdersIncorporates the higher purpose and a caring cultureReconciles caring and profitability through higher synergiesViews business as a complex, adaptive systemSocial responsibility is at the core of the business through the higher purpose and viewing the community and envirionment as key stakeholdersRecognizes that business is a subset of society and that society is a subset of the planetRequires genuine transformation through commitment to the four tenetsRequires that good deeds also advance the company’s core purpose and create value for the whole systemSignificantly outperforms traditional business model on financial and other criteriaRequires conscious leadership |

Source: Mackey & Sisodia 2013, p. 38

The values which WFM practices are captured in the Declaration of Interdependence. The Declaration of Interdependence was created in 1985, following an internal conflict which led to the departure of one of the founders. The Declaration was created by sixty team members – 10 percent of the workforce then – to consciously define the values by which the business had subconsciously been conducted. It has been updated in subsequent years (Mackey & Sisodia 2013, p. 173). The Declaration of Interdependence is prominently displayed on the corporate website and overlaps with the eight Core Values as follows:

* We Sell the Highest Quality Natural and Organic Products Available
* We Satisfy, Delight and Nourish Our Customers
* We Support Team Member Happiness and Excellence
* We Create Wealth Through Profits and Growth
* We Serve and Support Our Local and Global Communities
* We Practice and Advance Environmental Stewardship
* We Create Ongoing Win-Win Partnerships with our Suppliers
* We Promote the Health of Our Stakeholders Through Healthy Eating Education

 (www.wholefoodsmarket.com; viewed 11 November 2017)

A metaphor for practicing these eight Core Values is that the firm is to be a citizen in its community. As a good citizen, the firm creates value for the community that its customers, team members, suppliers and investors all support and benefit from. This helps the business flourish (Mackey & Sisodia 2013, p. 126).

In its Normative Aim, WFM sees itself as a beacon both for other businesses as well as for its stakeholders. Its enlightened business practices – and the business success and recognition which have come from them – demonstrate to other firms how to conduct business in a new way. And its Core Values generate large and systematic benefits for its stakeholders, day in and day out.

The **Strength** of WFM combines elements of Degree and Dexterity to constitute top quality in the firm which is attained with a human face. The Degree element is to practice Best of Class in the organization, seen at WFM in the treatment of the food as well as the stakeholders. The Dexterity element is to practice standardized processes, which at WFM takes the form of standardized interaction as governed by an organizational culture which shapes and forms the working relations amongst the personnel, and more broadly speaking, between the stakeholders.

The Best of Class in the organization, as in Degree, begins with how the firm sees itself. WFM presents itself as functionally excellent and market leader in quality. For example, it describes itself in such terms on the website and in the latest Annual Report:

*“Whole Foods Market is a dynamic leader in the quality food business. We are a mission-driven company that aims to set the standards of excellence for food retailers. We are building a business in which high standards permeate all aspects of our company. Quality is a state of mind at Whole Foods Market.”*
(www.wholefoodsmarket.com; viewed 11 November 2017)

*“Whole Foods Market is the leading natural and organic foods supermarket, the first national “Certified Organic” grocer, and uniquely positioned as America’s Healthiest Grocery StoreTM. We are a mission-driven company that aims to set the standards of excellence in food retailing.”*(Whole Foods Market Annual Report 2016)

Two employees confirm this view of excellence and quality at WFM:

*“Each store can vary widely but in my time at 2 locations I've always loved the focus on growth and excellence. The company maintains a mostly performance driven environment in terms of positions, pay and other rewards….Team Member excellence seems to be celebrated more than other retailers.”

“Despite competition quickly tapping into our market, I will stand by my belief that Whole Foods is the best in the game.”*(glassdoor.com)

Indeed, WFM actively manages for excellence. The high priority placed on excellence has been referred to in the discussions above of the value exchange in MDW 1 and the Normative Aim of MDW 2. Excellence is highlighted in two of the core values: “We Sell the Highest Quality Natural and Organic Products Available” and “We Support Team Member Happiness and Excellence”. WFM has acquired functionally excellent firms in order to raise the quality in its organization. The best example of this is the acquisition of Allegro in December 1997. Allegro had supplied WFM with specialty and organic coffees, teas and brewing equipment for many years before joining Whole Foods Market. Today, Allegro coffees are widely recognized as the pinnacle of quality in the specialty coffee industry (www.wholefoodsmarket.com; viewed 11 November 2017).

Furthermore, WFM sets itself at the forefront of innovation in the healthy food market. Examples from two areas of the business illustrate how the firm works to maintain this position in the market. First, the exclusive brands and prepared foods, which make up about one-third of sales, are a key differentiator for the firm. In 2015 the firm created a new position, that of Global Vice President of Culinary and Hospitality, to partner with suppliers in deepening WFM’s strength in these areas (Whole Foods Market Annual Report 2015). In 2016 WFM began to leverage this new leadership and expertise to offer a full spectrum of highest quality ready-made meal solutions, in-store or delivered to the customer’s door, including a pilot for curated meal kits (Whole Foods Market Annual Report 2016). Second, in 2015 WFM began a partnership with Instacart for home delivery of online orders. In 2016 Whole Foods and Instacart delivered fresh groceries to more households in the U.S. than anyone else, and customers had the added option of ordering Instacart delivery online at wholefoodsmarket.com. This service will be extended to more cities and to additional zip codes within cities already served (Whole Foods Market Annual Report 2016).

The Dexterity Strength at WFM is not so much standardized processes as rather, more generally speaking, a standardized way in which interaction takes place, whether it be between personnel or more broadly between all stakeholders. This standardized form for interactions in work relations is shaped by an overarching culture, which is explicitly managed by WFM. It was noted above in the examination of the MDW 1 value exchange with personnel that personnel selection and teamwork are oriented to a friendly and helpful work environment. This work environment in turn is an expression of the organizational culture. WFM describes its work culture as “truly special” (www.wholefoodsmarket.com; viewed 11 November 2017). The team members are the “heart and soul” of the firm (Whole Foods Market Annual Report 2015). The culture is one of the reasons that the firm has always appeared amongst Fortune’s “100 Best Companies to Work For” and that the turnover rate is among the lowest in the industry (www.wholefoodsmarket.com; viewed 11 November 2017; Whole Foods Market Annual Report 2015).

Culture as the guiding fundament for “how things are done” at WFM is explained at some length by the co-CEO of WFM, Walter Robb, as follows:

*“At the heart of WFM are our core values which represent true stakes in the ground – deeply held beliefs which we use to guide our decisions. All around the values is our culture, which represents the actual practice of those values over time. This culture is a living thing that weaves in and throughout our company operations, breathes life into the company execution, and leaves team members feeling at a minimum connected, and there full, affirmed, hopeful, and even joyous in the workplace. Culture is no less than ‘how we do things around here.’ Less tangible than other physical assets on a company balance sheet, it is nonetheless the most valuable asset a company has – for it stitches people together in common beliefs, values and purpose and represents the basis for authenticity of experience for both team members and customers”*(Mackey & Sisodia 2013, p. 218)

A concrete example of how culture is managed and the core values are implemented is the simple tool of appreciations. At WFM all meetings end with voluntary appreciations, where an oral appreciation of anyone else in the meeting is spoken out loud. The impact of this tool is described as creating a context to help work out difficulties which extend beyond the meeting into daily work life (Mackey & Sisodia 2013, p. 232).

Thus the Strength of WFM is to attain an excellence in its food and practices, which is not a hard-nosed excellence, but rather the opposite: an excellence with a human face, gained by holding high a work culture of shared beliefs and values.

In its **Go-To-Market** model WFM combines elements of Degree and Dexterity to continuously re-position itself on the market by constantly updating the manner in which it meets the progressive needs of the market and society. The firm positions its organizational resources and activities on the healthy food market as well as in progressive social movements, as in Degree. The firm then continually updates the positioning of the resources to keep up with changes in the explicit needs of the healthy food market and progressive social movements, as in Dexterity.

WFM positions its business resources – its brand name, its stores, the personnel, the food it offers, the services including an online shop and home delivery, etc. – at the top of the healthy food market in the manner described above, as in Degree. The positioning of each resource is supported by the position of the other resources. For example, a new store benefits from the prominent brand image and reputation. The personnel in a new store can immediately offer top-quality food as supplied by the first-class regional and national suppliers. The new store management and personnel also receive support from the other personnel in the regional leadership team in establishing relations with local suppliers as well as establishing the teams in the store. And so on. In turn, each new store enhances the brand image of the firm, heightens its attraction to business partners and on the capital market, demonstrates to another community that it is an appealing employer and member of the community, and so on.

WFM continuously improves its offers on the market in a variety of ways. First, it continually launches a string of new products within its own brand products. Notable product launches in fiscal year 2015 included over 100 new and re-branded dietary supplements; pollinator-friendly almonds and almond butters; a collection of organic barbecue sauces, each with a unique regional flavor; a collection of body care products for babies; and an expanded item assortment for the holiday season. In addition to the exclusive brands, WFM regularly offers more than 550 temporary exclusives, which are branded products that are unique to Whole Foods Market in terms of flavor, size or other attributes (Whole Foods Market Annual Report 2015). This string of new products and temporary exclusives enables WFM to enhance its offers on the market. Second, Whole Foods learns from its competitors’ innovations and has a strong organizational capacity to improve on them and spread them rapidly throughout the organization (Mackey & Sisodia 2013, p. 155). Third, equally WFM has the capability to innovate internally and roll-out the innovation rapidly within the organization. For example, the Northern California region decided to experiment with a bar – the Tap Room – in a newly opened store in Santa Rosa in 2010, located in the middle of the beer and wine section. In less than two years, more than 75 Tap Rooms have been opened in stores around the country. Each new Tap Room is a further opportunity to try out some new variant in the implementation, and then share with the rest of the organization the results (Mackey & Sisodia 2013, pp. 247 - 8). In this way, spreading an innovation within the organization is at the same time the occasion for continuous improvement, because each new implementation can offer a new learning.

Turning away from the business narrowly defined, WFM has taken a strong stance within the environmental movement to improve its own environmental profile. Under the heading of what it terms its Green Mission®, WFM is committed to practicing and advancing environmental stewardship, earning seven Environmental Protection Agency (“EPA”) Green Power awards. Many stores and facilities use or host rooftop solar systems, wind turbines, combined heat and power (CHP) systems, non-HFC refrigeration, and rooftop farms. Dozens of stores have received Leadership in Energy and Environmental Design (“LEED”) certification by the U.S. Green Building Council; earned Green Globes certification from the Green Building Initiative; and received GreenChill Certification awards from the EPA. This includes one store in Dublin, CA that was honored in 2016 with the EPA’s “Best of the Best” GreenChill Award for its state-of-the-art refrigeration system. WFM does not offer disposable plastic grocery bags at the checkouts and offers a refund of at least a nickel per reusable bag. WFM was the first national retailer to provide Forest Stewardship Council certified paper bags originating from 100% post-consumer recycled fiber. Unless located in a community that does not support recycling and composting, all stores are involved in a recycling program, and most participate in a composting program where food waste and compostable paper items are regenerated into compost. Twenty-eight of the stores have been Zero Waste Certified (defined as having a 90% overall diversion rate of waste from landfills) by the U.S. Zero Waste Business Council. In addition, WFM partners with packaging suppliers and vendors to ensure the highest standards for sustainable quality packaging, including the elimination of Styrofoam (Whole Foods Market Annual Report 2016).

WFM also expends considerable resources to establish itself as a fixture in progressive social movements as well as in the local community. Overall, the firm sets as an annual goal to contribute at least 5% of after-tax profits to non-profit organizations, which it has achieved every year recently (Whole Foods Market Annual Reports 2011 – 16). Much of these contributions go to three foundations which WFM has established itself, described as follows:

* Whole Planet Foundation was created in 2005 with the mission to empower the poor through microcredit. It focuses on developing-world communities that supply WFM stores with product. Program grants are funded in part by the sale of products under the WFM’s Whole Trade Guarantee Program, along with support from customers, suppliers and team members.
* Whole Kids Foundation was founded in 2011. It is dedicated to improving children’s nutrition by supporting schools and inspiring families. The foundation provides grants for school gardens and salad bars and offers cooking and nutrition education for teachers and staff. Along with donations from WFM, it is financed through the generosity of Whole Foods Market customers, suppliers and community donors.
* Whole Cities Foundation began in 2014. is an independent nonprofit dedicated to individual and community health through collaborative partnerships, education and broader access to nutritious food in underserved communities. Specifically, Whole Cities Foundation invests in partnerships with grassroots organizations creating innovative solutions to food access and health in their communities. Urban farms that collaborate with nutrition education programs to offer affordable healthy food, cooking classes, and health and wellness information are one example.
(Whole Foods Market Annual Report 2016)

A noteworthy feature of these foundations is that they are supported not only by the WFM firm, but also by other stakeholders. In this way the foundations are more broadly positioned within progressive social movements in that not just a firm but many individuals and other organizations are involved in the support. In this way WFM touches and impacts stakeholders in areas of their lives beyond simply being consumers of food or workers at a firm. The involvement can extend beyond the purely financial. For example, in the context of the Whole Planet Foundation, some employees go for four to six weeks as volunteers to countries where the Foundation is active, a kind of mini-Peace Corps. When they return, these employees are usually motivated to act as informal ambassadors for the Foundation, sharing their enthusiasm with other personnel and customers to increase the support for the Foundation. In the Suppliers Alliance, selected suppliers donate to the Whole Planet Foundation, in return for which they receive special recognition in the stores. Their contribution to the Foundation is explicitly mentioned along with information highlighting the supplier and its products. The result is almost always to drive up the sales of the participating suppliers. These programs have generated great interest and identification with the firm, as well as much publicity; which is also presumably good for shareholders (Mackey & Sisodia 2013, pp. 130 - 3).

Each individual store can also position itself as a progressive force within the local community. Each store is empowered to do three to four “5 percent days” every year, when 5 percent of the gross sales is donated to local nonprofit organizations. The team members and store leadership decide which nonprofit organizations to support. On these days, Whole Foods asks the selected nonprofit organizations to urge their members to shop at Whole Foods on the day, because 5% of what they spend goes to their nonprofit organization (Mackey & Sisodia 2013, p. 126). As with the Foundations, a noteworthy feature of the “5 percent days” is how they touch and mobilize different sets of stakeholders in ways reaching beyond simply business and food consumption. Team members can benefit their communities by deciding who to support; the members of the nonprofit organizations may visit Whole Foods for the first time and decide they like it; the nonprofit organizations may set up a table in the store, allowing customers to find out about them and perhaps discover a group they want to join; and the enhanced sales are good for suppliers and investors (Mackey & Sisodia 2013, p. 130).

The series of Foundations, created in 2005, 2011 and 2014, has enabled WFM to meet new concerns of socially progressive movements as they have arisen over the years. In addition, the individual stores can continuously optimize and fine-tune the organizations involved in their “5 percent days”. In this sense WFM continuously re-positions its resources and activities devoted to non-profit organizations.

WFM enjoys a **Competitive Advantage** of penetrating the market with new product standards. The firm enjoys the advantages of size – market share and functional expertise, as in Degree - to orchestrate / convince / cajole / push / force its parties to accept / support / agree to / embrace its design of products. The firm enjoys the advantages of standardized products – readily repeatable products which are recognized on the market as offering well-established all-rounder benefits, as in Dexterity – to firmly establish its product designs at the core of the healthy food market.

WFM is a large player in the US retail market, and the largest player in natural food retail. WFM is the largest natural and organic foods supermarket in the U.S., the 5th largest public food retailer, and the 10th largest food retailer overall based on 2015 sales rankings from Progressive Grocer (Whole Foods Market Annual Report 2016). WFM assumes a position as a driving force in the market due to its size, as in Degree. The size advantages are presented here in terms of the supply chain. Beginning with suppliers, as noted by the firm itself, the majority of purchasing occurs at the regional and national levels, enabling the firm to negotiate better discounts, innovate categories, and improve the supply chain (Whole Foods Market Annual Report 2016). In the working relationship with the regional and national suppliers, as a large customer WFM is able to gain favorable purchase prices as well as favorable access to product innovations. Regarding the latter, it may be that WFM stimulates the supplier to an innovation, based on its widespread knowledge of customer preferences (see discussion above of value exchange with suppliers); or the supplier approaches WFM with an innovation, due to the consideration that selling to WFM offers the best prospects for sales volume due to WFM’s large market share; or a mixture of both; in any case, due to its size, WFM benefits from the product innovations of regional and national suppliers. The same point holds true for local suppliers as well, for whom typically WFM is the largest customer and where the local store management maintains a close working relationship (see discussion above of value exchange with suppliers). In this regard, WFM notes that its local store management focuses on “local products, and the unique product mix necessary to keep the neighborhood market feel in our stores” (Whole Foods Market Annual Report 2016). Thus the size of WFM enables it to benefit from advantageous prices and innovations in the relation to its suppliers.

In terms of personnel, WFM is large enough to have been able to build-up its own functional expertise and specialized resources. The firm reports on its internal capabilities as follows:

*“Our produce procurement center facilitates the procurement and distribution of the majority of the produce we sell. We also operate 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 to our stores across the U.S., Canada and the U.K. In addition, we have three regional commissary kitchens and four bakehouse facilities, all of which distribute products to our stores. Other products are typically procured through a combination of specialty wholesalers and direct distributors.”*(Whole Foods Market Annual Report 2016)

WFM’s large size enables it to offer specialized food at a high quality in large volumes. In addition, it is not simply the case that the specialized facilities generate high food which is better and better in quality. WFM’s size enables it to effectively market and present these food innovations in hundreds of stores to thousands of customers. That is, the size of the firm enables it to roll-out product innovations coming from the internal facilities in a well-structured manner. Because innovations are rolled-out across many stores, WFM has taken the time and effort to develop specialized procedures and personnel to conduct such roll-outs smoothly and consistently. In this way personnel in the stores are motivated and informed to take on innovations, and thus can display and sell them appropriately to customers. Size is not just a matter of quality in the food, but also quality in presenting and convincing customers about the quality of the food. Finally, because of its size, customers are open to being convinced about the quality of the food and the innovations. In recognition of its size i.e. leading position on the market, customers see WFM as their “editor” and thus are willing to take on the innovations.

Standardized products are key to the competitive advantage of WFM, both in the sense of the standards for the product range as well as products standardized under certain brand names or logos. With regard to the former, WFM reports at great length about the quality of its food, which is expressed in the healthiness, naturalness and tastiness of the products in its shops:

 *“We evaluate quality in terms of nutrition, freshness, appearance and taste. Our search for quality is a never-ending process involving the careful judgment of buyers throughout the Company…. We feature foods that are free of artificial preservatives, colors, flavors, sweeteners, and hydrogenated fats….. We are committed to foods that are fresh, wholesome and safe to eat; We seek out and promote organically grown foods; We provide food and nutritional products that support health and well-being.”*(www.wholefoodsmarket.com; viewed 11 November 2017)

These quality standards distinguish the kinds of products which WFM sells from its rivals. The firm claims that it offers the broadest selection of “high-quality natural and organic products” including a wide variety of non-GMO, vegan, gluten-free, dairy-free and other special diet foods (Whole Foods Market Annual Report 2016). The firm believes that the “groundbreaking” quality standards “differentiate our stores from other supermarkets and enable us to attract and maintain a broad base of loyal customers” (Whole Foods Market Annual Report 2016). The following “highlights” of the quality standards as found in the product range are presented by the firm:

*“We ban more than 120 food ingredients commonly found in other stores.*

*We sell only food with no artificial flavors, colors, preservatives or sweeteners, and no hydrogenated fats or high-fructose corn syrup.*

*All of our fresh meat is from animals that have been assessed for animal welfare and have never been given hormones or antibiotics. No synthetic nitrates are added to our cured meat.*

*All our seafood is sourced from responsibly-managed fish farms and sustainable fisheries.*

*All eggs in our dairy case and used in our kitchens and bakeries are from cage-free hens.*

*We ban 75 ingredients in our body care products due to human health and environmental concerns.”*

(Whole Foods Market Annual Report 2016)

An important aspect of the product standards is transparency regarding the ingredients in food, how the food was produced, and where the food comes from. This standard in transparency links up with WFM’s educational purpose: WFM wants to educate customers about healthy food, and the educated customers then need the corresponding information in order to apply what they have learned. Standards in transparency were a significant concern of the firm already in 2003, when WFM became the first national “Certified Organic” grocer and to this day remains the only national supermarket with all store departments and operations certified (Whole Foods Market Annual Report 2016). Indeed, it is likely that transparency was a concern of the firm even earlier in its history, but in 2003 at least the concern was solidified in the form of a standard certification. WFM describes how it “continued to raise the bar even higher on our standards of transparency”. As of 2013 it was the only American public food retailer to commit to labeling products whose ingredients included gene-manipulated organisms (Whole Foods Market Annual Report 2013), a commitment it is on track to fully realize by September 2018 (Whole Foods Market Annual Report 2016). In 2013 WFM as well introduced a new system to rate fresh products in terms of how they were produced: scores on pest management, farmworker welfare and pollinator protection (Whole Foods Market Annual Report 2013). WFM is certified by California Certified Organic Farmers (“CCOF”) and offers more than 30,000 certified organic items and more than 13,500 “Non-GMO Project Verified” products. The firm is in conformity with the USDA’s National Organic Program and the NSF International’s 305 Standard for Personal Care Products Containing Organic Ingredients. In line with the latter, WFM only sells eco-friendly cleaning products with full ingredient disclosure labeling (Whole Foods Market Annual Report 2016).

Turning to standardized products, WFM owns over 50 trademarks, service marks, stylized logos and brand names. These names and logos are each applied to one or more products, and each name or logo signals to the customer a set of uniform quality and sourcing characteristics of all products with the same name or logo. Thus each name or logo is a sign of standardization. WFM takes the names and logos very seriously: WFM “considers certain of its trademarks to be of material importance”. Indeed, the trademarks, service marks, stylized logos and brand names have been registered in the USA and in many additional countries throughout the world, and the firm actively defends and enforces them. In addition, WFM licenses certain trademarks (Whole Foods Market Annual Report 2016).

These exclusive brands generated aound $2.3 billion in sales in fiscal 2016. They constitute 5,300 SKUs, i.e. store-keeping units or items which need to be listed separately in the inventory; this in relation to the 35,000 SKUs carried by an average store, or up to 55,000 units in the larger stores. Thus in terms of percentage of sales (15%) or percentage of SKUs (15% / 10%) the exclusive brands are far removed from constituting the bulk of WFM’s product offer to customers. Nevertheless, WFM identifies the exclusive brands as “a key component of our value platform and essential to our product innovation and differentiation strategy”. The exclusive brands are regarded as key presumably because customers cannot purchase these products at a rival supermarket – which is not necessarily true of the remainder of WFM’s product range – and thus make up the unique drawing card to attract customers to the shop. Once in the WFM shop, the customers then purchase the other items on their shopping list, which generally speaking make up the majority of their shopping basket. Thus the exclusive brands may be regarded as critical to garnering the entire sales volume.

WFM has explored the establishment of a new standard with the launch of three stores in a new store format in 2016, named “365 by Whole Foods Market”. The “365” stores are designed with a shopper-friendly layout and thoughtful product selection: grocery shopping made simple. The product range and the stores are oriented to affordability, convenience and digital experiences. The innovative format for store design and product range complements the Whole Foods Market line of stores, enabling the firm to reach new customer segments. In addition, the internal operations are new and different for the firm, including smaller store size, centralized product selection and purchasing, and automatic replenishment of inventory. Thus the new format will also provide new knowledge and learnings about retail operations, from which the firm expects to draw benefits in the form of new impulse for the Whole Foods Market operations (Whole Foods Market Annual Report 2016; www.wholefoodsmarket.com; viewed 11 November 2017).

Thus WFM’s very high product standards enable it to draw in customers. It differentiates itself on the market both in its high quality standards across the product range as well as in the exclusiveness of its own standardized brands. This Competitive Advantage in product standards enjoyed by WFM enables it to gain market share from rivals, thereby attaining success in penetrating the market.

WFM’s **Growth** is characterized by a combination of extensive growth, as in Degree, and following the market potential, as in Dexterity. The result is Growth exhibiting expansion in line with the growing trends in and around healthy food.

The “copy-paste” of extensive growth in the terms of the Degree dimension has taken the form of growing the number of stores. That is, WFM found a store format which was successful in penetrating the market in a certain geographical area, and then grew by extending this format to a growing number of geographical areas. On the one hand, raising the number of stores has been accomplished as external growth. A significant source of new stores has been acquisitions, either single stores or a small, localized chain. The stores were already active in healthy, natural food, and thus their customer base was also already oriented to such product offerings. Over a dozen such acquisitions have been transacted, virtually all involving an expansion into a new geographical market (www.wholefoodsmarket.com; viewed 11 November 2017). On the other hand, WFM has grown organically, opening up its own new stores. For example, in 2016 the firm opened three new flagship stores in downtown Los Angeles; Brooklyn, New York; and Santa Clara, California. Averaging close to 50,000 square feet, these larger stores are designed to take advantage of their dense, urban locations and offer extensive prepared foods and unique dining experiences, including wine bars and tap rooms for beer. Indeed, WFM itself states quite clearly that it will expand primarily through new store openings (Whole Foods Market Annual Report 2016).

Nevertheless, within the framework of opening new stores, as in Degree, WFM has also pursued a growth strategy oriented to market potential, as in Dexterity. The clearest example of this approach to growth has been the focus on organic food. When Whole Foods began thirty years ago, organic was less than 5 percent of sales. By 2013 it had risen to more than 30%, as a result of communicating with customers and working with supplier partners (Mackey & Sisodia 2013, p. 78). This share was maintained in 2016, where more than 30% of sales, outside of prepared foods and bakery, were organic (Whole Foods Market Annual Report 2016). WFM correctly identified the market potential of this product category; allocated time, energy and other resources to building it up; and reaped the results in growing sales volumes. More generally, WFM has identified the market potential of healthy food and grown in line with the growth in consumer spending in this product area.

Another example of Growth via market potential is the new store format “365 by Whole Foods Market” discussed immediately above. The store format is oriented to lower income and / or more price sensitive customers. The market potential of this additional customer segment was estimated by WFM to provide the base to expand the number of stores to over 1,200 (Whole Foods Market Annual Report 2015). That is, the potential of this new format was thought to be no less than doubling the number of stores. Although the size and thus sales volume of the “365” stores is less than the average existing store, the new format is a substantial source of growth.

The final example of Growth via market potential has been the move into online retail. WFM began researching the potential of this new distribution channel for the market in 1997, at a time when e-commerce was “viewed as an intriguing yet risky venture”. In March 1999 WFM launched a web shop, and very soon afterwards in October 1999 merged with Amrion to form a new e-commerce subsidiary named WholePeople.com. The effort quickly took on yet a new form, in that in June 2000 WholePeople.com and Gaiam, Inc. merged their internet activities into a newly formed company named Gaiam.com, Inc. The WholePeople.com web site was replaced by the Gaiam.com website. Today the online shop can be accessed via wholefoodsmarket.com and offers side dishes, appetizers and even full heat-and-serve meals. The orders can be picked up at a local store or, since a year or two, delivered in selected US cities in alliance with Instacart (www. wholefoodsmarket.com; viewed 11 November 2017).

In WFM’s Growth path it may be observed that the firm took advantage of the growing trend in the USA for healthy food. Stores which had already built up a customer base oriented to this trend were acquired, and new stores were opened in geographical areas where the trend was considered to be present in a sufficient mass. Within this generalized trend the firm picked out the growing sub-trends of organic food, more price-sensitive customer segments, and online retailing. Thus WFM expanded by riding the wave of growing trends.

The **Essence** of MDW 2 External Demand Interfaces at WFM is **summarized** as capturing and consolidating the modernizing trends in healthy food. Significant segments of society demanded a modern approach to food and food retailing. WFM has captured this demand by organizing the Best of Class within the firm, as in Degree. Furthermore, WFM consolidated this hold on the market with continuous improvement in standards, as in Dexterity.

**MDW 3: Internal Supply Interfaces at Whole Foods Market**

Figure 10-5 (overleaf) breaks down the eight elements of MDW 3 – Internal Supply Interfaces – at Whole Foods Market into the Degree and Dexterity dimensions, as well as the combined overall value elements.. The eight elements plus the summary / essence will be examined in this section.

The **Work Mindset** at WFM is to achieve targets. The targets are on the one hand financial in nature, reflecting the Degree element of the Mindset which is concerned with the allocation of and return to financial resources. The targets also relate to the execution of the work, reflecting the Dexterity element of the Mindset which is concerned with the production of value for customers. At WFM, “production” involves the execution of services for customers, i.e. serving them in the stores, preparing dishes for them, and so forth.

In the Declaration of Interdependence, one of the core values is “We Create Wealth Through Profits and Growth”. The explanation of the core value begins with the importance of making use of financial resources as the source of doing and growing the business: “We earn profits every day through voluntary exchange with our customers. We know that profits are essential to create capital for growth, job security and overall financial success. Profits are the ‘savings’ every business needs in order to change and evolve to meet the future. They are the ‘seed corn’ for next year's crop.” The explanation then proceeds to highlight the importance of generating a return for the financial resources: “We are the stewards of our shareholder's investments and we are committed to increasing long term shareholder value. As a publicly traded company, Whole Foods Market intends to grow” (www.wholefoodsmarket.com). A Degree concern with finance is at the core of the business understanding at WFM.

**Figure 10-5: MDW 3: Internal Supply Interfaces in the Primary Ds at WFM**

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| --- | --- | --- | --- |
| **Mgmt. Element** | **Degree** | **Dexterity** | **Combined:Overall Value Elements** |
| **Work Mindset** | Finance | Production | (Financial and work) Targets |
| **Work Leadership** | Evaluate and Foster | Careful and Quick | Set the work context of values and structures |
| **Work in Team** | Instructions Responsibility | Process (step) owner | Team leader sets balance of guidance / self-reliance |
| **Work Style** | Make something of instructions in your unit  | Build capability in your group | Choose to support development of others: team leader and colleagues |
| **Work Cross- Depart-ment** | Committees: Who | Incorporation: Which | Store / regional hierarchy implements the work context  |
| **Work Result** | Functional Excellence | Take / Make Account Of | Excellence in team |
| **Work Frame-work** | Strategic Business Units | Team / Process | Team / Store |
| **Work Decisions** | Functional Reviews: Accretion of Positions | Unify Knowledge: Emergence of the Way Forward | Relevant functional representatives decide together |
| **Essence / Summary** | Functional Excellence via Instructions | Process Enhancement via Knowledge Sharing | Excellence in team processes |

This concern to use financial resources appropriately and generate an adequate return is expressed in the key role of financial targets. For example, the firm states that “The Company remains focused on the metrics it believes are key to the long-term health of its business” (Whole Foods Market Annaul Report 2016). As stated prominently in the Annual Reports, every year WFM defines for itself a set of financial targets. The financial targets for 2017 are:

* Sales growth of 2.5% to 4.5%
* Diluted EPS of $1.42 or greater, excluding any potential share repurchases
* EBITDA margin of approximately 8.2%
* Capital expenditures of 4% of sales
* ROIC of 11% or greater

The financial targets for the business are not set simply with the shareholders in mind, but are made present in the day-to-day work of the personnel. “Team members are involved at all levels of our business. We strive to create a company-wide consciousness of ‘shared fate’ by uniting the interests of team members as closely as possible with those of our shareholders” (Whole Foods Market Annual Report 2013). The firm itself states that the Gainsharing program is a method to reinforce the “shared fate” of personnel and shareholders. The targets set in the Gainsharing program steer the daily work and are purposefully linked with the financial targets. It can be added that the shareholding programs, including stock options and stock purchasing, also reinforce the shared fate. The shared fate is the background to the daily work and thus shapes the Work Mindset.

The Mindset of targets is also expressed in targets for production, i.e. for the work executed in the firm. The Gainsharing targets are actually expressed in terms of the productivity of the work in teams. And the Gainsharing bonus is paid out to team members in proportion to the individual hours worked, i.e. in proportion to each individual’s contribution to the production executed by the team. Furthermore, the firm sets targets relating to the work of specific employees, e.g. for 2017:

* Comparable store sales growth of -2% to 0%
* Ending square footage growth of approximately 6%, reflecting approximately 30 new stores, including up to six  relocations and four 365 stores

The first target related to comparable store sales is a target set for the employees in the existing stores, whereas the second target relates to the work executed by the central team in the headquarters which is responsible for new stores and relocations. At WFM the concrete execution of the work is also shaped by a Mindset of targets.

The **Work Leadership** at WFM is to set the context in which the work is performed: the values and the structures of the organization. As written by the co-CEO Mackey, “The stores and regions are tied to the whole company through its shared purpose, core values, and certain centralized functions at the global support office” (Mackey & Sisodia 2013, p. 238). These are the aspects of the business with which the Leadership is principally concerned. On the one hand, the Leadership is at pains to evaluate and foster the values and structures which are most suitable for WFM, as in Degree. On the other hand, the Leadership oversees the prolonged internal activity of carefully and widely investigating and discussing issues in order to then be able to quickly decide on and settle them, as in Dexterity.

 As discussed above, via exercises like formulating and updating the Declaration of Interdependence, as well as the ‘Tribal Gathering’ every three years, the Leadership establishes the principles on which WFM does business. These exercises are led by senior management and incorporate a relatively large number of personnel into the effort. The meetings stretch over a number of days, in which many alternative policies are thoroughly weighed up and compared. The exercises themselves are presumably the culmination of an activity lasting months, in which the attendees prepare for the meetings by each discussing the issues with dozens of their colleagues. The results are then formulated and approved by leadership as the updated values, purposes and principles, and propagated within the organization. Thus the Leadership ultimately sets its stamp on formulating and encouraging the principles, as in the evaluation and fostering associated with Degree. Yet hundreds of employees are directly involved, and thousands participate indirectly, in first considering the principles and then implementing them. Thus the Leadership also oversees an activity in which the organization carefully thinks about its principles, such that they can then be quickly implemented after so many people have been sensitized to the issues, as in Dexterity.

A special Leadership activity conducted by co-CEO John Mackey illustrates all four aspects of Leadership in the two primary D’s at WFM. A tiny majority of employees at a store in Wisconsin voted to unionize. For a variety of reasons, in the end, the union never represented the employees. Nevertheless, the vote of the store employees served as a “wake-up call” for the Leadership. John Mackey felt induced to visit every store and speak openly and directly with the team members, to find out what they wanted. A prominent concern was the desire for a better health insurance plan, which led to the current system (Mackey & Sisodia 2013, p. 160). The entire organization was drawn upon, bottom-up, in considering issues, giving the impetus to quickly implement the result. Yet the activity was overseen top-down to ensure that it was in keeping with WFM principles.

Finally, the centrality of values and purpose to Leadership at WFM is underscored by the requirement at the firm, that the personal values of leaders must align with those of the firm. “Companies also must take into account personal alignment with purpose when promoting anyone into a higher leadership position” (Mackey & Sisodia 2013, p. 56).

The **Work in Team** at WFM is shaped by the team leader, who sets the balance in team between guidance from above and self-reliance from below. On the one hand, team leaders to some extent guide the team members in executing their work – giving “instructions” with a light hand – as in Degree. On the other hand, the bulk of employees at WFM are well-versed in their functional area and are thus self-reliant in executing their work, as in Dexterity. The top-down / bottom-up balance is shaped by the team leader and can vary according to the individual – e.g. fresh in the team or a seasoned veteran – or according to the business circumstances – e.g. the routine of switching seasonal products is being performed or a new campaign is being launched.

Work processes at WFM are largely executed within a single team. In the stores, the merchandising – how many of which products to place where on display with what level of prominence - and interaction with customers for a given product category is on the whole entirely covered by a single team. In addition, many of the products to be sold in a given category in a given store are selected by the team itself (Mackey & Sisodia 2013, pp. 91 - 3). There is a mini-value chain stretching from sourcing to serving the customer as executed within a single team. At corporate headquarters, teams are divided into functions, e.g. purchasing, marketing, business development as well as the support functions such as IT, HR and finance. Each of these functional teams is able to conduct their work within the confines of the function. Thus, the bulk of work processes at WFM are self-contained in a single team. The steps in this process are executed entirely within the team; to some extent collectively, to some extent individually. Presumably plans are made in a fairly collective manner, whereas the execution of individual process steps - setting up a food display, assisting a customer, preparing a dish, negotiating with a supplier, or programming a functionality in the IT system - is typically executed by a single person. Each member of a team, then, acts as an owner of the process or process steps which he or she is entirely executing at any point in time.

In executing this process or these process steps, the team member is to some extent under the guidance of the team leader; in this sense executing the instructions from the team leader. These “instructions” can be given in a collegial manner, e.g. a cashier reports “I always found that the team leaders worked right along side their team members” while a team leader generalized that “team leaders are focused on supporting and building their teams” (www.glassdoor.com). The team member is also to some extent self-reliant: in this sense the team member creates his or her own “instructions” for himself or herself. The comments in glassdoor.com presented above in the MDW 1 value exchange with personnel illustrate the role of self-reliance as well as the high level of knowledge possessed by the bulk of personnel at WFM. The team leader is responsible for striking the right balance in the team between guidance from above and self-reliance from below. In both cases, the team member carries the responsibility to execute the instructions appropriately, no matter from whom the instructions originate.

The **Work Style** at WFM is to choose to support the development of others, including both the team leader as well as colleagues, who can be in the same team or in another team. Aligning the execution of the work to the guidance of the team leader is a way to make the most out of instructions / guidance from above in the team, as in Degree. Sharing knowledge with colleagues and in general being helpful builds the capabilities within a group - where the group can be the same team, store or function – as in Dexterity.

Numerous comments in glassdoor.com point to a large number of employees who orient the execution of their work to the personal preferences of the team leader. This alignment to the lead coming from the team leader serves to confirm and reinforce the work of the team leader. In this way, the team leader appears as a “good” team leader, supporting the development of his or her career. In parallel, numerous comments in glassdoor.com refer to the helpful and friendly colleagues from whom very much can be learned. In this manner the knowledge and capabilities of individual employees is raised, thereby supporting their development as a professional in the food retail industry.

The **Work Cross-Department** at WFM involves the store and / or regional leadership implementing the work context within the values and structures established by the senior leaders. In the course of running the business operations, the work conducted between teams in a store or between stores in a region is formally managed by the store or regional leadership. The store and regional leadership teams are made up of a representatives from each team within a store or from each store within a region, who in this sense form a kind of committee, as in Degree. This cross-departmental work typically concerns matters of implementing the WFM policies in the concrete circumstances of a given store or region, in which the store or regional leadership selects which of the WFM values or structures will guide the implementation of a given issue. That is, there is a concrete business issue regarding a product or a campaign or HR policy, etc. to be settled by the store or regional leadership. The resolution of the issue involves incorporating the principles of one or two core values into the solution, or “incorporating” the WFM structure by aligning the local structures to the firm structures. In both cases, the Work Cross-Department involves selecting which core values or organizational structures to incorporate in the implemented solution, as in Dexterity.

The organizational structure of WFM is fairly straightforward. The leaders of each team in a store are members of the store leadership team, and store team leaders are members of the regional leadership team (Mackey & Sisodia 2013, p. 91 - 3). Thus who takes part in settling matters of Work Cross-Department is clear. As noted above in the discussion of Work Leadership, the teams within a store and the stores within a region are tied together by the shared purpose, core values, and certain centralized functions at the global support office. Thus, issues which arise in business operations are settled by selecting the core values or centralized function which are most relevant to the issue, and then formulating the solution by incorporating the values or function into the solution. The incorporation of WFM values into concrete business decisions affecting business performance at the level of the store or the region is described by co-CEO Mackey in the following manner: “Purpose-informed decision making is a critical connection point between clarity of purpose and superior performance, financially and otherwise” (Mackey & Sisodia 2013, p. 49). Core values are incorporated into the resolution without simply applying them blindly.

The **Work Result** at WFM is to exhibit excellence in the team. On the one hand, this excellence is due to the functional excellence of numerous WFM employees, as in Degree. On the other hand, this excellence is grounded in the interaction within the team, as in Dexterity. Each team member both takes account of coordinating knowledge and task execution with other team members – i.e. pulling knowledge from within the team – as well as makes account of the own knowledge and task execution – i.e. pushing knowledge within the team.

Throughout this chapter it has been emphasized that WFM exhibits excellence in many functions of the business – the quality of the ingredients, standards for sourcing organic and natural products, the taste and appeal of both the own brands as well as the prepared dishes, interacting with customers, management of relations to stakeholders, and so on. Furthermore, it was noted above regarding Work in Team that many functional processes are conducted within a single team; indeed, often by a single employee. Thus, the functional excellence exhibited at WFM is largely the excellence of the work conducted by the various teams. This excellence leads to the highest levels of business performance, e.g. the sales per gross square foot of $915 in 2016 was the highest mark in the food retail industry (Whole Foods Market Annual Report 2016). In addition, in the discussions of value exchange with personnel in MDW 1 as well as the parameters of internal supply interfaces in MDW 3 the knowledge sharing and other collective aspects of the team performance have been highlighted. In addition, most of the incentive programs are based on team performance, e.g. Gainsharing, which is evaluated relative to the same functional team in other stores (Mackey & Sisodia 2013, p. 91 - 3). Thus both the organizational culture as well as the incentive programs encourage and support team members to push and pull knowledge and coordinated task execution, in order to raise the performance of the team as a whole. Thus the Work Result of employees at WFM is expressed in the excellence of their team, to which they all contribute.

The **Work Framework** for employees at WFM is in the first instance the team, and for those working in the stores, in the second instance the store. As noted above, work processes are largely self-contained within a team, such that the steering of the process, and the evaluation of each team member’s part in executing the process, takes place within the team, as in Dexterity. For store personnel, each store at WFM sets its own local strategy and tactics to a significant extent, like a separate Strategic Business Unit in Degree. In this way, the steering of the strategy and tactics implemented at each store, and the evaluation of each employee’s part in the strategy and tactics, takes place within the store, i.e. the Strategic Business Unit as in Degree.

The team is the fundamental unit within which an employee’s work is steered and evaluated. This steering and evaluation begins right from the start of the team member’s employment. Everyone is hired into a particular team on a probationary basis for thirty to ninety days. It takes a two-thirds positive vote from the entire team to gain full team member status (Mackey & Sisodia 2013, p. 89). As noted by one team member, this process works well, because team leaders “can’t always see all that goes on in the team” (www.glassdoor.com). Once being voted in by team members, each employee is then steered and evaluated within the team, as discussed throughout this section on MDW 3.

In 2013, WFM had 329 stores divided into twelve regions. Each store is divided into ten or so “self-managing work teams”. Teams have between six and one hundred members; larger teams are subdivided into subteams. At the operating level, the company is highly decentralized, allowing individual stores and teams “great autonomy to experiment about what works and doesn’t work” (Mackey & Sisodia 2013, pp. 91, 238). At the end of fiscal year 2016, Whole Foods Market had 456 stores. The stores each employ between approximately 50 and 600 team members. The store team leader works closely with one or more associate store team leaders, as well as the department team leaders, to operate the store as efficiently and profitably as possible (Whole Foods Market Annual Report 2016, pp. 5 - 6).

The **Work Decisions** at WFM are made in that the relevant functional representatives decide together. As noted above in this section, regional and store leadership is composed of the relevant store and team leaders, who represent their organizational unit or function. The discussions at this level assume the character of an accretion of positions, as in Degree, while the collective decision-making includes the unifying of knowledge within which the way forward emerges, as in Dexterity. Within the teams, different team members can voice their views regarding a decision, drawing on their individual experience and knowledge. Decisions are then taken to a significant extent by unifying these separate views. Thus decision-making within the team also combines elements of Degree and Dexterity decision-making.

The **Essence** of MDW 3 the internal supply interfaces at WFM is **summarized** as excellence in team processes. The excellence is embedded into the top-down guidance and bottom-up self-reliance in executing the work within the team, reinforced by the processes and policies to recruit and evaluate employees as well as share knowledge and coordinate tasks amongst them. The Degree element of functional excellence via instructions and the Dexterity element of process enhancement via knowledge sharing have been interwoven into a highly successful team effort.

**MDW 4: Business Model at Whole Foods Market**

Figure 10-6 breaks down the five elements of MDW 4 – the Business Model – at Whole Foods Market into the Degree and Dexterity dimensions, as well as the combined overall value elements. The five elements plus the summary / essence will be examined in turn in this section.

At WFM the **Business Aim** has been to embody a positive-sum game, “in which it is possible to create a Win for all the stakeholders of the business” (Mackey & Sisodia 2013, p. 70). John Mackey repeatedly points to initiatives and policies at WFM which generate benefits for multiple or even all parties – referred to as stakeholders at WFM - one example being the “five percent days” discussed in MDW 2. WFM takes care of all the stakeholders and treats them as an integrated whole rather than as competing claimants on a fixed pool of value (Mackey & Sisodia 2013, p. 67). Due to the commitment to a long-term perspective and creating value for all stakeholders, the conflicts and trade-offs that supposedly exist between investors and other stakeholders tend to disappear (Mackey & Sisodia 2013, p. 108). Each individual initiative and policy may be regarded as fulfilling the Business Aim of productivity, as in Dexterity, in that the costs and personnel time for each single effort yield benefits for multiple parties. In this sense the ratio of output – the benefits for all parties – to resources is quite high, i.e. represents a high productivity. The positive-sum game in each of numerous initiatives and policies is intended to impact as many parties as possible, corresponding to a Business Aim of raising the market share, as in Degree. Staying with the example of the “five percent days”, the Business Aim of WFM is to be the largest source of donations to the involved non-profit organizations; in this sense having the highest market share for donations to a given non-profit organization. Analogously, in the business area of e.g. processed seafood the Business Aim of WFM is to generate overlapping value for all parties: WFM offers the highest quality seafood, giving customers a healthy and nutritious taste sensation; about which the involved personnel can feel proud such that they build their knowledge and act like an owner in promoting the food; for which the involved suppliers benefit from the higher turnover; which ultimately benefits shareholders in the form of an improved business performance. In the positive-sum game for each initiative, policy or business area, WFM has extended the Win to more parties than any other retailer specifically in healthy food retail, and more than many other retailers generally in food retail.

**Figure 10-6: MDW 4: Business Model in the Primary Ds at WFM**

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| --- | --- | --- | --- |
| **Element** | **Degree** | **Dexterity** | **Combined:Overall Value Elements** |
| **Business Aim** | Market Share | Productivity | Positive-sum game for more parties than any rival |
| **Business Investment** | Centers of Excellence | Knowledge | Spread higher level of expertise throughout the organization |
| **Business Revenue** **Maximization** | Share of Market Spend | Expected Value | High share of market spend via targeting large / growing business areas  |
| **Business Cost Minimization** | Economies of Scale | Opportunity Costs | Synergies in the most important business areas |
| **Business Strategy Process** | Resource Allocation for building the organization | Incrementalism in the product portfolio | (Re-)Positioning resources in line with the market |
| **Summary / Essence** | Market and Cost Leader | Sweet Spots | Leader in generating overlapping value between stakeholders |

The high levels of productivity and market share at WFM have been attained by engaging in **Business Investment** which spreads a higher level of expertise throughout the entire organization. On the one hand, WFM has centralized functional units which produce for the entire organization. WFM operates three regional commissary kitchens and four bakehouse facilities, three seafood-processing facilities, a produce procurement center, and a specialty coffee and tea procurement and roasting operation (Whole Foods Market Annual Report 2016). These production units are each a kind of Center of Excellence, operating at the highest quality standards, as in Degree. Their outputs are distributed and sold in stores nationwide, and thus every store benefits from being able to sell the outputs from the functional experts: the experts give a benefit to each and every store. WFM has invested in these centralized production units in that it has acquired and / or built them up, and ensures that they receive adequate resources to continue to develop themselves to remain at the forefront of the market. On the other hand, WFM conducts one of the highest levels of training in the industry (Mackey & Sisodia 2013, p. 147). This point is echoed by a number of comments from the employees themselves, as discussed above in the value exchange with personnel in MDW 1. The training is conducted at the level of expert knowledge. In addition, many employees take the time to instruct, coach and otherwise support the transfer of knowledge to colleagues. Within WFM the knowledge of many personnel is at the level of being an expert, and thus the knowledge they share involves spreading expertise in the organization. Time is “invested” in training and knowledge transfer to raise the overall level of knowledge within the workforce, as in Dexterity. The level of knowledge can readily be characterized as being at an expert level. In sum, WFM undertakes Business Investment to spread the outputs and knowledge level of expertise throughout every store in the organization.

The result of the Business Investments is a **Business Revenue Maximization** at WFM which has attained a high share of market spend via targeting policies, initiatives and business areas which are large and / or growing. On the one hand, simply by summing up the revenues earned in each of the individual policies, initiatives and business areas where WFM enjoys a high market share – as discussed above in the Degree element of the Business Aim – WFM attains a large share of total market spend. As pointed out in the discussion of MDW 2, WFM indeed has attained the highest share of total market spend in the healthy food market, and even a leading market share of total market spend in food retail in general. On the other hand, WFM targets the policies, initiatives and business areas where the expected value is high because each of the target areas – and the associated target group - are each large and / or growing. For example, WFM has targeted organic food right from the start of its history, and has seen the share of sales in this product category in relation to total sales grow from 5% to more than 30% (Mackey & Sisodia 2013, p. 78; Whole Foods Market Annual Report 2016). Or more broadly speaking, WFM focuses its business on perishables, selling the products as they are, or working them up into prepared dishes (Mackey & Sisodia 2013, p. 158; Whole Foods Market Annual Report 2016). In this way, WFM orients its activities to areas which are expected to generate robust volumes, as in Dexterity. In sum, the Business Revenue Maximization at WFM involves the cumulated sales coming from numerous individual policies, initiatives and business areas which are large and / or growing and in which WFM has attained a high market share.

The **Business Cost Minimization** at WFM has involved gaining synergies in the most important business areas which are trending upwards in the market. On the one hand, due to its large size relative to the market, WFM benefits from economies of scale, as in Degree. It can set up and operate the centralized production units described above, as well as eleven regional distribution centers (Whole Foods Market Annual Report 2016); it enjoys negotiating power vis-à-vis its suppliers to drive down the costs of goods purchased, as discussed above in the value exchange with suppliers in MDW 1; and as a large and appealing employer – e.g. one of only eleven firms selected as one of the 100 Most Attractive Employers since the list began - it presumably need not undertake a large recruiting effort but benefits from many spontaneous applications or referrals from existing employees. On the other hand, due to its focus on business areas with a high expected value, WFM can reduce its opportunity costs in two senses: first, it has not missed a big trend in healthy food retailing – indeed, it itself has set a number of the trends – and second, by putting its resources into the areas which are large and / or growing, an alternative use of the resources would not have brought better returns. Thus the cost-benefit ratio for WFM is very favorable: the costs incurred are reduced due to the synergies, while the benefits which WFM has gained are among the best available in the industry.

The **Business Strategy Process** at WFM has been to position and re-position resources on the market in line with the market, i.e. in taking account of market conditions and market feedback. On the one hand, WFM has built the organization by allocating resources to acquire new stores and operational facilities or to grow them organically. WFM has acquired over a dozen firms – mostly stores but e.g. also the coffee and tea production facility – in building the organization (www.wholefoodsmarket.com). The acquisitions have involved extending the store network into a new geographical area, or developing the capability to produce in-house a focused number of product categories, where the market conditions for healthy food were assessed to be promising. WFM has also regularly opened new stores throughout its history. In building its network of stores organically or via acquisition, it has spread its presence around the country; WFM operates at least one store in almost every state in the US. It has also concentrated its stores where market conditions have been most favorable – in 2016, 85 of 456 stores were located in one state, California (Whole Foods Market Annual Report 2016, p. 14). Alongside this systematic allocation of resources seeking breadth and depth according to market conditions, WFM has reacted to market feedback by continually closing or relocating a small proportion of its stores (Whole Foods Market Annual Reports, 2011 - 16). Thus WFM has recognized the need to re-position some of its resources devoted to stores due to market reactions. The market presence of WFM has been built up by allocating resources to stores and facilities in line with the market: both the market conditions as well as the market feedback.

On the other hand, WFM has practiced a Business Strategy Process of incrementalism in developing the product portfolio, as in Dexterity. At the national level WFM has gradually added to its portfolio of own-branded products, continuously adding an extended series of new brands and new products. For example, as noted above in the discussion of MDW 2, WFM launched roughly 100 new or modified products within its portfolio of own brands in 2015. Each new or modified product is a matter of positioning / re-positioning WFM on the national market, taking account of new market trends as well as the market response to earlier and current products. At the local level, over time each store has been able to adjust and fine-tune its product assortment from local suppliers, again taking account of new local mini-trends and past market reactions.

The **Essence** of the WFM Business Model is **summarized** as being the leader in generating overlapping value between parties. Generating the overlapping value between parties has enabled the firm to grow and become the largest firm in healthy food retail, from which it also gained cost advantages. Thus WFM has been the market and cost leader, as in Degree. At the same time WFM has focused on promising business areas where it could meet the heart of the market segment. In this way it also gained success from sweet spots, as in Dexterity.

Generating overlapping value between parties – the interdependence of stakeholders - has been highlighted by the co-CEO and the firm again and again as the key to success for Whole Foods Market. Mackey points out that the business is more than the sum of the individual stakeholders. It is also the interrelationship, the interconnection, the shared purposes, and the shared values that the various stakeholders of the business “cocreate and coevolve together” (Mackey & Sisodia 2013, p. 168). The firm itself places at the core of its organization this balancing of interests among all parties and stakeholders:

*“Our ‘bottom line’ ultimately depends on our ability to satisfy all of our stakeholders. Our goal is to balance the needs and desires of our customers, team members, shareholders, suppliers, communities and the environment while creating value for all. By growing the collective pie, we create larger slices for all of our stakeholders. Our core values reflect this sense of collective fate and are the soul of our company”*(Whole Foods Market Annual Report 2012)

The special character of WFM in connecting with a wide range of stakeholders was expressed by one employee as follows:

*“Access to the best vendors and people on this planet. Priceless networking opportunities to connect with artisan food makers, incubator kitchens, non profits, schools, local businesses, government agencies and the community.”*(glassdoor.com)

A story from the earliest days of WFM illustrates how the long-term survival of the firm has depended on overlapping value for all parties. The opening of the original Whole Foods Market was celebrated on September 20, 1980. At 10,500 square feet and a staff of 19, this store was quite large in comparison to the standard health food store of the time. Less than a year later, on Memorial Day in 1981, the worst flood in 70 years devastated the city of Austin. Caught in the flood waters, the store's inventory was wiped out and most of the equipment was damaged. The losses were approximately $400,000 and Whole Foods Market had no insurance. Customers and neighbors voluntarily joined the staff to repair and clean up the damage. Creditors, vendors and investors all provided financial breathing room for the store to get back on its feet. WFM re-opened only 28 days after the flood, thanks to the collective efforts of the parties, and has never looked back since (www.wholefoodsmarket.com; viewed 11 November 2017).

In a nutshell, “the best way to maximize long-term profits is to create value for the entire interdependent business system” (Mackey & Sisodia 2013, p. 53).

**MDW 5: Steering Logic at Whole Foods**

Figure 10-7 breaks down the five elements of MDW 5 – the Steering Logic – at Whole Foods Market into the Degree and Dexterity dimensions, as well as the combined overall value elements. The five elements will be examined in turn in this section.

**Figure 10-7: MDW 5: Steering Logic in the Primary Ds at WFM**

|  |  |  |  |
| --- | --- | --- | --- |
| **Element** | **Degree** | **Dexterity** | **Combined:Overall Value Elements** |
| **Market Fit Construct** | Top-Down | Consensus | Centralized standards and decentralized implementation agreed by structured consensus |
| **Efficiency / Effective-ness Construct** | Build and Economize on Positions | Explore and Exploit Standards | A store and an own brand are economical and exploitable positions, built-up / explored via diversity  |
| **Profit-ability Construct** | ROCE | DCF | Earnings Per Share (EPS) |
| **Manage-ment Construct** | Building Blocks | Evolution / Mutation | Uniform organizational culture for all units and their interfaces, mutating nationally and evolving locally |
| **Market Construct** | Product Categories | Market Spaces | Standards defining core product categories within the context of developing the entire market space |

The **Market Fit Construct** at WFM combines elements of top-down steering, as in Degree, with elements of consensus, as in Dexterity. The principles for the quality standards and values found in the offers and inputs have been agreed centrally. Finding the agreement has been steered by leadership to be open to a kind of consensus, in that bottom-up inputs from representatives of the entire organization were welcomed, and there was a need for broad agreement within the personnel taking part in such exercises. The quality standards and values have then been decentrally implemented in the regions and stores in a manner again combining top-down, hierarchical as well as consensus, team-based elements. Regarding the product range, centralized purchasers and product managers for own-branded products have defined a product range reflecting a consensus view in headquarters, which has been imposed top-down on the stores. Yet each store could develop a consensus, team-based view on the local products to be sourced.

In sum, the Market Fit Construct at WFM is centralized standards and decentralized implementation agreed by structured consensus.

The **Efficiency / Effectiveness Construct** at WFM combines elements of building and economizing on positions, as in Degree, with elements of exploring and exploiting standards, as in Dexterity. For WFM, a store is a position in the market and an own branded product is as well a position. Both are built economically in that stores and branded products have been built up on the basis of predecessors, or at least on the basis of an already established context. A first store in a city or region is established; analogously, a product for a new brand is established. The store embodies a standard operation while the branded product embodies the product standards. Furthermore, at WFM establishing a store for the first time in a region often occurred via the acquisition of an existing store or stores. In other words, the position of the store was already established; the position simply had to be transferred to the name of Whole Foods Market. Regarding new brands, they were introduced within the established context of the WFM store. Following the introduction of a first store in a region or a new brand, the position could be economically built up with additional stores in the area or additional products in the new brand. The new stores and the new branded products could leverage the original established position. Indeed, the build-up could add something to the position of the first store or branded product, by enhancing the market presence. For example, when WFM opens a third store in a city, it is not just that the first two stores help the image of the third store; in the other direction, the presence of a third store also raises the profile of the first two stores, giving them a more forceful and convincing presence in the market. Analogous reasoning applies to the build-up of the products under the same own brand. At WFM, building up the stores or the product assortment could involve exploration, investigating a jump to a new kind of values or standard. Particularly in the products, if a new branded product proved to be a failure or a misstep, the misstep was not likely to “infect” or harm the other own branded products. Rather, the negative impact would be limited largely to the products of the single brand, if at all. This limited risk of negative consequences opened up more room for exploration. Similarly, WFM could explore in a new store with much less fear of ruining an established position, i.e. alienating loyal customers. For example, the Tap Room was first tried out in a new store, with not much to lose.

Drawing these points together, the Efficiency / Effectiveness Construct at WFM involves treating a store and an own branded product as an economical and exploitable position, to be built-up and explored by means of diversity in the new stores and new products.

The **Profitability Construct** at WFM is Earnings per Share (EPS). On the one hand, EPS reflects the Degree logic of ROCE, in that the firm is committed to rewarding a block of finance passively placed in a shareholding. On the other hand, EPS reflects the Dexterity logic of DCF, where a flow of income is generated out of running operations. Indeed, EPS is one of the central financial targets defined by WFM (see discussion above of Work Mindset in MDW 3).

The **Management Construct** at WFM combines elements of building blocks, as in Degree, with the evolution / mutation of Dexterity. The WFM organization is managed as building blocks in that each one of the operational units – the stores, their local purchasing, the national purchasing, the production facilities, the distribution facilities, the national support functions – is managed by and large in a decentralized manner, i.e. isolated in its own terms. The specific interfaces between these units are not the subject of great managerial attention. Rather, management attention goes to establishing a uniform organizational culture across all organizational units, where this organizational culture is the basis for all interfaces. At WFM, the shared values, the shared purpose, and so forth create the context in which the managers from the respective units can themselves reach agreement on the interfaces. The approach is that when the managers think the same way and share the same objectives, they will be able to work together in a smooth manner.

The uniform organizational culture mutates at the national level. There have been times in the history of WFM where the culture was substantially re-defined, or at least significantly renewed. The Declaration of Interdependence followed an internal disagreement among management which led to one of the founders leaving, in the wake of which the leadership decided that the principles of the culture needed to be formulated explicitly for the first time. In the course of this first formulation there was presumably to some extent a clarification and thus re-definition of the organizational culture. Another mutation followed the vote for union representation at one store in Wisconsin. John Mackey then visited each store to gather the thoughts and feelings of the personnel, in order to set the ship back on the right course. Plus the recurring “Tribal Gatherings” every three years to confirm / re-define the organizational culture act as a mechanism to mutate the organizational culture. In parallel to these mutations at the national level, the individual encounter with the organizational culture as experienced by each employee is also informed by the evolution of the culture within each organizational unit. Given the decentralization in the WFM organization, each unit develops and practices its own refinements and nuances to the national organizational culture. The localized element of the organizational culture evolves gradually over time, presumably often in a manner which is not always made explicit or intended.

Thus the Management Construct at WFM is a uniform organizational culture, applicable to all units and all interfaces, which mutates at the national level and evolves at the local level.

The **Market Construct** at WFM combines elements of product categories, as in Degree, with elements of market spaces, as in Dexterity. WFM markets clearly defined product categories, dominated by perishables, and within that high-level category, it targets organic food. These product categories are by no means exclusive – e.g. WFM sells food products which it does not regard as healthy (see discussion above of MDW 2) – but perishables and organic food dominate the manner in which WFM works the market, and how the firm is perceived. WFM expends considerable managerial and organizational effort in defining the standards and level of quality for these core product categories. At the same time, WFM sees beyond simply the products themselves to see the market space in which the entire value chain operates. This market space consists mostly of the WFM parties – customers and suppliers – but also includes all participants in the market in order to agree e.g. national standards for labeling organic foods. WFM works this wider market space in order to build up the entire industry, described as follows:

*“By helping to develop markets, customers, distribution networks, and even the national standards for labeling for organic foods, Whole Foods has also promoted the environmental benefits that accompany the increasing number of organic farms, dairies, ranches and sustainable agricultural practices.”*(Mackey & Sisodia 2013, p. 48)

Thus the Market Construct at WFM is standards defining core product categories within the context of developing the entire market space, i.e. the entire value chain for the core products. WFM works the market both in terms of products and in terms of the value chain.

**Inherent Weaknesses at WFM**

The mild form of inherent weaknesses, i.e. more like the “limits to success”, apply to WFM. There is an inherent internal boundary to the success of the firm simply because to a certain extent there is a downside to operating in a given manner. The history of WFM has been overwhelmingly marked by success. The inherent weaknesses at the firm have had only a limited impact.

The mild form of inherent weaknesses at WFM will be presented in this chapter in terms of an overview at a high level. In principle, all parameters in all the Managerial Do Well’s – that is, a total of 23 parameters in MDWs 2 – 5 for the firm, plus 4 parameters in MDW 1 - can be examined for “too much of a good thing” in each of the two primary Ds at WFM – a total of 56 parameters. Rather than such a detailed investigation, for the twinned purposes of simplicity and focusing on the essence, the inherent weaknesses at WFM will be examined in terms of MDW 5 Steering Logic, the MDW which informs and steers all management practices. In this way, the examination is simplified to the five parameters of MDW 5, yet focuses on the essence of the management practices. The overall combined value offer in which Degree and Dexterity are merged will be investigated for inherent weaknesses as exhibited in MDW 5 Steering Logic.

 The inherent weaknesses at Whole Foods Market at the level of MDW 5 Steering Logic are broken down by dimension of value in Figure 10-8 (overleaf).

The **Market Fit Weakness** at WFM may be suggested to be the high number of logos, trademarks etc. each being something like a mini-brand. The corporate center of WFM established the approach to combine Degree and Dexterity into an elevated standard which set the firm’s products apart from the rivals. It may be that the individual product and marketing managers, “decentralized” in their own product and marketing teams, have then gone too far in wanting to differentiate their products and marketing messages. They have perhaps wanted to be too precise / fine-tuned in labeling a small set of products with a fine-grained set of attributes, or addressing a small set of customer preferences with detailed marketing content. Each of the logos, trademarks etc. is trying to send a different standardized message, but the content of the many messages may overlap and confuse the customer, thus losing rather than gaining clarity. In addition, costs are raised in developing and cultivating the high number of logos and trademarks: each requires the expenditures associated with brand management.

 In the sense of a limit to success rather than a weakness, WFM has on the whole been able to constantly raise its revenues at a rapid rate in its history. There is actually no concrete indication that the high number of logos, trademarks, etc. has had a negative impact on customer perceptions or otherwise harmed WFM in any way. Nevertheless, the firm maintains an unusually high number of these kinds of mini-brands and it may be suggested that the cost-benefit-ratio of this market positioning has not ben favorable.

**Figure 10-8: Inherent Weaknesses in the Primary Value Dimensions at WFM**

|  |  |  |  |
| --- | --- | --- | --- |
| **Element** | **Degree****Weakness** | **Dexterity****Weakness** | **Overall Combined Weakness** |
| ***Market Fit Construct*****and the Inherent Weakness**  | *Top-down*Offers are “too” Best of Class | *Consensus*Offers are “too” explicit | *Centralized Standards, De- centralized Implementation*Offers are “too” fine-tuned into mini-standards |
| ***Efficiency / Effectiveness Construct*** **and the Inherent Weakness** | *Build and economize on positions*Turf wars | *Explore and exploit standards*New standards evangelists  | *Exploitable Positions Built-Up/ Explored via Diversity*Multiple organizational cross-currents in conflict |
| ***Profitability Construct*** **and the Inherent Weakness** | *ROCE*Over-estimation of longevity of positioned resources | *DCF*Over-estimation of stability of existing segments | *EPS*Over-estimation of durability of existing brand(s) image(s) |
| ***Management / Market Construct*** **and the Inherent Weakness** | *Building Blocks for Product Categories*Organization overrules Product Categories | *Mutation / Evolution in Market Spaces*Standards overrule Market Spaces | *Uniform Organizational Culture for standardized core product categories*Cultural Managementoverrules Standardization |

The **Efficiency / Effectiveness Weakness** at WFM has been the multiple organizational cross-currents in conflict. There are too many different sources of organizational behavior within the firm. First, there are multiple statements and principles coming from headquarters, e.g. the tenets of Conscious Capitalism, the Declaration of Interdependence, the eight Core Values, the higher purpose, and the results of the “Tribal Gatherings”. It is not clear how these principles should concretely impact behavior. One employee remarked on the “inconsistent execution and dedication to the core values by middle and upper leadership”. Two employees in glassdoor noted,

*“If John and Walter (Author: the two Co-CEOs) are just going to focus on the big picture and have very little contact or knowledge of operations, I think they need stronger leaders below them to ensure the company upholds its standards of ‘conscious leadership’; there's too much ‘do as I say, not as I do’ going on and too many leaders who motivate by fear and control rather than inspiring others.”*

*This all leads to what I think the primary problem at Whole Foods: disconnect from the reality of what goes on day to day at the salesfloor level. The people running the company are so worried about stock prices (which I understand are important especially right now) and the upper working of the company they fail to see how decisions they make on parameters in their world effect each team member in each store. If there were better, HONEST communication with store level dept. leadership, I feel their perspective would offer a true balance on what is best from the company. Too often the "higher ups" rely on store leadership for communication, who can be tempted to encourage them to look the other way, hide problems, or sweep morale issues under the rug to promote their own career. This sort of thing is typical and to be expected to a degree, but Whole Foods is a company to claim such connection and power given to every team member, that those in control need to take getting feedback from the store beyond surveys and store walks with store leadership. The people working in each department have such a more focused, detailed perspective on what goes on in their daily work.”* (glassdoor.com)

Second, other organizational initiatives coming from the center have at least to some extent left confusion and a lack of alignment in their wake. A sample of comments include the following: “No program is handled efficiently, store and regional leadership rarely on the same page resulted in wasted time and double work constantly”, “The fate of marketing becoming painfully apparent with two huge disappointing reorganizations within ONE year”, “There have been so many reactionary changes, and the communication about each and everyone one of them has been AWFUL from global, regional, and store leadership”, “Implementation of rules/changes/expectations are often lacking or unorganized”, “Lots of ambiguity, constant change without support from leadership. Too many things to do and not enough time or support”, “Convoluted programs, no area for creativity, inconsistent upper management, very political, reactive approach to problems as opposed to proactive”, “Company can change direction too often. We can be very reactionary”, and “Very poor communication standards” (glassdoor.com).

Third, it can happen that regional and store management are perceived as leading behaviors in a way which suits their own agenda to some extent, a further contribution to the inefficiency and lack of alignment. Comments appear along the lines of the following: “The decentralized nature of the company also sometimes means a lot of reinventing of the wheel and tends to promote a "sink or swim" mentality”, “Micromanaging does not work. Power tripping and insecure leadership running teams based on fear, retaliation and poor judgment is running rampant”, “There can be some favoritism, store leaders and team leaders can be shortsighted and promise one thing and deliver another”, “Unfortunately, our local management ruins a good job with an apparent lack of concern for our department”, and “Management and communication are a huge mess. Nobody on the team knows what's going on” (glassdoor.com). Two longer entries point to self-serving management which are claimed to hinder business performance:

*“Management is awful. There is no accountability and no teamwork. Be prepared to have a ton of work fall onto you for zero recognition. There is way too much preaching from store management to keep the team members ‘motivated’ but anyone could see through that crap”*

*“Cowardly Store Leadership. They all only care about saving face and looking good to Regional and global. I've seen store Leadership do so shady, questionable things in an effort to look good to the regional or global presidents. Some silly (hiding backstock in weird places so that no one sees it before a visit) and some downright wrong (using scare tactics, fear mongering, and various other techniques to manipulate team members and middle management). It's all a game, and they're all playing it. It's disgusting, and made me lose a lot of respect for people that I had admired or respected for many years.”*(glassdoor.com)

In the sense of a limit to success rather than a weakness, the organizational structure of WFM is deliberately decentralized to encourage diversity in practices and behaviors. Out of this diversity at the levels of the corporate center, the region, the store and the team the firm learns about, improves and updates its behaviors and practices. Given these multiple levels plus the decentralization there is bound to be a certain amount of cross-currents and conflicts arising from different views regarding what are the appropriate management practices serving the good of the firm or even, at times, serving the good of individual managers. The firm has greatly benefited from the decentralization and diversity, which has given the firm many fruitful impulses. These benefits have simply involved certain drawbacks at certain times and in certain places within the organization.

The **Profitability Weakness** at WFM has been to over-estimate the profitability of certain market positions relating to reputation and image. A number of comments from current and past personnel suggest that the “old” values and practices which had formed the fundament for WFM’s success have in recent times been watered down. Examples include the following: “The company has changed significantly lately and little was done to help middle management deal with the challenges of change. You need to show more support”, “Lots of changes at regional and corporate levels are hard to keep up with. Team members are becoming more jaded about the direction of the company”, “Tons of talent, across all teams, regions and the global office started their exodus to fulfill their dreams to work at game-changing and stable companies offering to truly lead”, “The highly prized culture of transparency is sadly not a priority any longer hence the mass exodus”. A number of employees point to tightened budgets as a major source of the problems: “They have eliminated key positions, leaving little opportunities for growth and pay increases, as well as decrease support for staff. Skeleton crew scheduling leads to burned out employees and unhappy customers. Company culture is all but dead, it's not a great place to work now”, “They moved, and are moving all stores, to an all-store labor budget which means that they can hire less employees, forcing the remaining employees to pick up the work-load, and gainsharing will not be available anymore”, “Pressures from regional to get more done with smaller labor pool never stops”, and “Very long shifts, pretty short-staffed lately” (glassdoor.com).

Indeed, the watering down of the values and practices as well as the tightened labor budgets are attributed to the very wish to raise profitability: “Shifting focus toward bottom line thinking rather than building and supporting leaders and team members”, “declining sales, pressure from shareholders, company restructuring due to competition: The slow death of the culture. Wall Street is not happy with WFM and their declining comp trend. Thus, we are cutting corners and back peddling on so many pieces of our culture that made us so great!”, “You only did well because your employees felt compensated and appreciated. Look at the state of your institution now. I know it means little to you all with your golden parachutes but it is a shame to take advantage of so many good hearted and dedicated people”, “They now focus on investors entirely too much now and it is detrimental to their core values”, and “This all turned sour as many money hungry corporate douches joined up to belittle the hardest working most dedicated members” (glassdoor.com). The comments suggest that the heart of the firm has been to some extent hollowed out, seemingly in the expectation that the personnel and customers would nevertheless continue to behave as before. The flow of earnings is drying up as the firm became more oriented to numbers and targets; the heart of the firm could not simply continue without being continually cultivated and re-vitalized.

In the sense of a limit to success rather than a weakness, it is not clear how systematically widespread the relevance of these comments are. WFM continues to perform well and grow. Nevertheless, the voluntary turnover at WFM – employees leaving at their own wish – for full-time employees, making up 75% of the workforce, has been rising lately. The figure stood at less than 10% in 2013, and then rose to 14% in 2014 and 2015, and finally to 18% in 2016 (Mackey & Sisodia 2013, p. 90; Whole Foods Market Stakeholder Reports 2014 – 2016). This rate of voluntary turnover is still relatively low for the retail industry, but has roughly doubled in the past four years.

The **Management / Market Weakness** at WFM has been to think that spreading and deepening the organizational culture was enough to optimally steer the operations for the standardized core product categories, i.e. that culture was more important than standardized IT systems, aligned processes and robust procedures. Some negative comments from personnel have cropped up regarding the IT systems: “invest in better technology for administration at the store level”, “Whole Foods lags behind in technologies and systems”, “Poor technical skill training - invest more in IT and use industry accepted applications” and “Not a lot of technology”. The system and process for ordering came in for special mention twice: “ordering process is arduous and overly complicated” and simply “ordering software sucks”. One employee was rather dismissive of the overall state of the internal operations: “you often times operate like a ‘mom and pop’ compared to your competition” (glassdoor.com).

In the sense of a limit to success rather than a weakness, the strength and the appeal of WFM has been derived from its hands-on, person-based approach to doing business. People – in the first instance customers and personnel, but all the other stakeholders as well – have stood at the forefront of WFM’s way of doing business, including how it has run its operations. Presumably the vast bulk of people associated with WFM have not been too troubled if the IT systems were not always up to the latest standards; it may be assumed that for these people the state of the IT has been a side issue.

**Taking Stock**

The primary value in Degree and Dexterity exhibited by Whole Foods Market has been traced through all five Managerial Do Well’s. The resounding success of the firm can be attributed to the primary value offer in two D’s. The vast majority of firms exhibit “only” one primary D and one secondary D, as shown for Macy’s, Costco and QVC. Two primary D’s is quite rare and thus very advantageous in the business world. In addition, WFM has been very thorough in its implementation of the combined managerial practices of these two D’s within the organization. The thoroughness is to be understood both in the sophistication with which the elements of the two D’s have been unified into viable managerial practices for all the individual parameters of the five MDW’s, as well as the internal consistency with which the individual managerial practices are aligned to, and thus mutually support, each other. The inherent weaknesses in the combined Degree and Dexterity practices identified the limits to the success of the firm.

In summer 2017 the WFM owners chose to sell the firm to Amazon. An observer of the retail branch in the USA recently described Whole Foods Market as a “challenged” retailer (Peterson 2017). Another reported that since “sales slumped” in 2016, WFM had realized it needed to update its operations “in the face of activist investors” (Haddon & Nassauer 2018). Comments from personnel also suggest that the business performance had been waning in the past year or two. This lower level of business results may be part of the explanation why the owners of Whole Foods Market were willing to sell: the own way of doing business was reaching its limits, which in this book is interpreted as the inherent weaknesses coming to the fore. The new ownership could possibly help WFM climb to the next level as a successful organization. Examining the same logic from the point of view of Amazon, the presumed thinking attributed to WFM owners would equally apply to Amazon. Taking on an organization which is still successful but seems to have reached its own limits would be exactly the correct timing to inject a different set of management practices, i.e. Amazon’s management practices. In this book, from the perspective of the WFM organization, the new aspect of Amazon’s management practices can be specified as the Deed practices, which at WFM were practiced only at the basic level. Both WFM and Amazon management / owners may well have considered the matter in a more general manner, in that they would have taken account of the circumstance that Amazon is commonly regarded as the most innovative firm in retail. In this generalized thinking, they may well have come to the conclusion that orienting the future of the WFM organization to the management practices of the firm thought by many to represent the future of retailing may well have seemed to be exactly the correct next stage in the long-term development of the WFM organization.The new practices would enable the WFM organization to develop one stage further, from which Amazon could doubly benefit: firstly as owners of a more successful WFM organization, and secondly in that the Amazon organization would benefit as well from the synergies.