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February 24, 2007

Whole Foods/Wild Oats Merger Implications

*** This is a long post (1,250+ words). You've been warned. ***

Before I express my thoughts on implications resulting from the [Whole Foods/Wild Oats merger](#), I need to clearly express my position on the merger. As a former marketer at Whole Foods Market (WFM) and current shareholder ... I'm supportive of their merger with Wild Oats.

I believe it's a smart move for WFM to acquire real estate locations in existing and new markets which can be turned over quicker and cheaper than if they were to build those stores from scratch. I also believe WFM can use its in-store operational excellence to improve the current \$459 sales per sq. ft. at Wild Oats locations to somewhere closer to the \$919 per sq. ft. current WFM locations generate.

Yes, this is an aggressive and risky move for WFM. They saw a competitor in disarray with no long-term leadership in place and its troops spread way too thin to not make an aggressive move. John Mackey, WFM's CEO, is a fierce competitor who couldn't pass up this opportunity to acquire some Wild Oats locations in [this risky game of business](#).

It's important to note throughout WFM's history, they have grown by acquiring competitors. Since 1980, they have acquired 18 regional competitors. Of WFM's current 191 locations in its store base, probably 25% of them are from acquisitions. But this takeover of 100+ locations is by far the biggest percentage increase acquisition WFM has had to wrestle with.

Many times companies that are struggling to squeeze growth from existing operations will find growth through acquisitions. The thinking here is if a business cannot earn growth from within, they will need to look outside at acquisitions to grow. (Think HP & Compaq.)

But WFM isn't struggling to find growth. Comp store sales are in the upper single-digits after years of double-digit comps. That's very impressive, especially for a grocer. WFM is a healthy business today and because the company is healthy, it's growing naturally.

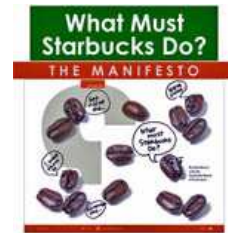
In talking with business-minded folks, I usually refer to WFM as a business that's in its late stages of puberty. (*Stay with me here, I have a point.*) The company was born in 1980. When it turned 12 years old in 1992, the company went public. At that moment it entered the adolescent phase of its life. Strange things began to happen. The company underwent a massive growth spurt. Pimples started to appear as the company made lots of little mistakes. Its brand voice began to change from only appealing to the granola crowd to now also appealing to the foodie crowd. People's expectations of WFM were also changing. Whole Foods became a smart and respected teenager with tremendous promise. No longer was this company an ignorant and innocent child, it was maturing into a knowledgeable and trusted adult.

This merger with Wild Oats signals the final phase in WFM's pubescent period. In two years when it fully emerges from this major acquisition, we will know if WFM can fulfill its tremendous promise. I have all the confidence Whole Foods Market will be able to fulfill its promise to be an endearing and

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enduring company that will change the world.

But before WFM fulfills its promise, there are a few implications I see from the merger.

Corporate G&A Expenses

One of the selling points with any merger, as was mentioned on the WFM conference call announcement with analysts, is the reduction in corporate G&A expenses. Merged companies simply do not need two CEOs, two procurement VPs, two human resources VPs, etc. However, given the unique decentralized organizational structure at Whole Foods, the company might not realize significant reductions in corporate G&A expenses.

The organizational culture within WFM has strong Libertarian leanings. Meaning, the company believes in maximum freedom and minimum governance. WFM decentralizes nearly every business function to its 12 regions.

These 12 regions are essentially separate business units operating under the umbrella Whole Foods Market brand name. Headquarters controls very little. Instead, that control is pushed to the regions. Real Estate, Legal, and parts of Procurement and IT are controlled by WFM headquarters in Austin, TX. Nearly everything else is the responsibility of the regions to handle. This includes Marketing, Human Resources, Training, etc.

What I am getting at is WFM might not realize significant reductions in corporate G&A spend with this merger. Sure, some corporate G&A expenses at headquarters will be reduced with this merger but WFM's 12 regions will need to beef up its corporate staff to handle the influx of new stores. WFM runs very lean at the corporate and regional levels with everyone behind-the-scenes working at full capacity. Many new regional corporate team members will be needed to make this merger work.

Team Member Bench Strength

The good news is WFM has lots of bench strength within its team member (employee) base. From my work experience at WFM, I know there are two types of WFM team members—those that stay for 12 months and those that stay for 12 years. Because WFM treats its employees fabulously well, as evidence by its current ranking as the 5th best company to work for in America (Fortune Magazine), team members stay longer. And because team members stay longer, they are more knowledgeable, more competent, and more heavily-steeped in the culture/purpose/vision of the company. Filling the new positions created by this merger with knowledgeable, competent, passionate, and long-time team members will be easy to do for WFM.

Access to New Markets

Wild Oats operates over 100 locations in the US and Canada. About 70% of Wild Oats locations are branded Wild Oats. They also operate 29 locations in California as Henry's Farmers Market, 8 locations as Sun Harvest in Texas, and 3 locations as Capers in Vancouver, BC.

Because of the acquisition, Whole Foods will now be able to enter many new markets in states where they currently do not have stores. Such states include: Utah, Tennessee, Indiana, and Arkansas. Plus, there are states where WFM has weak store penetration that will be bolstered by this merger. States where WFM will benefit with new in-fill locations include: Oregon, Arizona, Florida, New Mexico, and Ohio.

Potential Redundancies in Store Locations

On the conference call with analysts, WFM was upfront in saying they expect to close and or relocate a number of existing Wild Oats locations. There

[Whole Foods Aggressive Move](#)

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[FTC to Challenge the Whole Foods/Wild Oats Merger](#)

seems to be significant redundancies in the California market. Wild Oats operates 34 locations in California with 29 of those locations branded as Henry's Farmer Market. Whole Foods operates 21 locations in California. I'm thinking many of the Henry's locations will be closed or relocated because these stores are smaller in size and do not fit the size specs of WFM locations.

Colorado is another state where we will probably see some closures and certainly relocations of Wild Oats locations. WFM currently operates 7 locations in Colorado compared to 13 locations for Wild Oats. Colorado is a very prime market for Whole Foods. It's stores in Colorado do very well that I'm certain the smart addition of choice Wild Oats locations will only serve to benefit WFM.

I'm thinking the Sun Harvest locations in Texas are not going to survive. These locations are sub-prime real estate and small in square footage. However, I hope WFM looks to experiment with some of these Sun Harvest locations. Maybe WFM could development a small store concept and use the Sun Harvest locations to pilot that experiment.

Those are just a few implications I see from a marketer's perspective. Financial and investment types no doubt have more intricate implications. I'm just a sclhub marketer with a few HMOs—hot marketing opinions.

Posted by [johnmoore](#) (from Brand Autopsy) at 04:45 PM in [Whole Foods Market-related](#) | [Permalink](#)

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Nice review of the marketing implications! Living in the Phoenix area, I'm excited that we might experience the benefits of the merger.

For what its worth, Wild Oats closed their small number of Henry's Farmers' Markets in Arizona in December. A few months previous, Henry's had revamped their concept, removing fresh seafood, boosting their organic selections, adding a salad bar, etc. It seemed bizarre to launch a vast initiative in September, only to shutter the operation one quarter later.

Posted by: [Jon Gabriel](#) | [February 24, 2007 at 06:56 PM](#)

When John and the team go viewing some of those Henry's store, I only hope they can see potential. We live in a farm town, that has grown to a commuter haven. We're two hours from everywhere in SoCal. We have a Henry's. While I relish going in to purchase "green and whole" foods, the deco makes me shudder. Black floors, tippy shelving and tired, tired, tired, produce sections creep me out.

It would do WF well to scrutinize the locations severely and not just write off remote locales such as ours. Its parking lot is filled all day everyday and has a loyal customer base which would only improve with a few minor renovations.

However, less than 19 miles away is a brand new not yet opened Henry's coming online soon. I hope they don't expect us to expend more fossil fuels just for the opportunity to shop with them.

(oh and that's henry's not harry's in your 2nd to last paragraph, I'm sure)

Posted by: [chronicler](#) | [February 25, 2007 at 08:00 PM](#)

Doh! Henry's not Harry's. (Forgive me. One of the regional grocers WFM acquired was Harry's Farmer Market in the Atlanta area.) I've made the change.

The folks at WFM are smart businesspeople. They're able to recognize money-making opportunities.

Posted by: [johnmoore \(from Brand Autopsy\)](#) | [February 25, 2007 at 08:28 PM](#)

and not only that.. I'm amazed at how adept they are with adapting to changing scenarios... they recently also launched a podcast network, which for a grocery store, I think is super cool!

I liked how you drew an analogy to WF being a teenager, growing into an adult now. It makes perfect sense.

Posted by: [Jinal Shah](#) | [February 26, 2007 at 03:15 PM](#)

Jinal ... something else cool WFM is doing is customers at the "flagship" Austin location can check-out iPods to receive a guided tour of the store ... just like an audio-guided museum tour. Pretty cool.

Posted by: [johnmoore \(from Brand Autopsy\)](#) | [February 26, 2007 at 04:18 PM](#)

I have some Wild Oats stock- what happens to it during the merger process and later? WO has offered to buy this stock back, but won't it become WFM stock- how does that work?

On a diferent note, I shop at both WO & WFM and like them both for their similarities and diferences. I hope they keep the WO in Pasadena, Ca.

Posted by: [Patrick](#) | [March 15, 2007 at 01:54 PM](#)

When I first heard about this merger, I wasnt sure about the number of overlap of wild oats and WFM real estate locations. I thought, since they are competitors, they might have stores closer to each other.

Considering the competition from stores like Trader Joe's (low cost compared to WFM), I thought WFM might maintain the Wild Oats brand name and place them as a direct competitor to Trader Joe's and others by keeping their price lower. At the same time they can have their higher priced WFM stores.

Is this worth it from a Marketing perspective or Am i smoking too much these days??

Thank you

Posted by: [Muthu](#) | [April 21, 2007 at 08:18 PM](#)

Muthu ... I don't think it would be wise for Whole Foods Market (WFM) to keep the Wild Oats (WO) name. WO doesn't have the same positive brand juju that WFM enjoys. Plus, it would be very expensive and highly cost-inefficient for WFM to create marketing materials and such for two distinct brands. So I think you might be smokin' a little too much whatever it is that you're smokin'.

Posted by: [johnmoore \(from Brand Autopsy\)](#) | [April 21, 2007 at 08:34 PM](#)

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