

# WHOLE FOODS, whole people

**W**hole Foods Market is the largest natural food retailer in the world with more than 360 stores and approximately \$12 billion in annual sales. With operations located primarily in the United States and also in Canada and the United Kingdom, Whole Foods sells natural and organic food products that include produce, meat, poultry, seafood, grocery products, baked and prepared goods, many drinks such as beer and wine, cheese, floral products, and pet products. The origin of the company dates to 1978 when John Mackey and his girlfriend used \$45,000 in borrowed funds to start a small natural food store then named SaferWay. The store was located in Austin, Texas. John and his girlfriend lived in the space over the store (without a shower) because they were "kicked out" of their apartment for storing food products in it.

In 1980, Mackey developed a partnership with Craig Weller and Mark Skiles, merging SaferWay with Weller's and Skiles's Clarksville Natural Grocer to create the Whole Foods Market. Its first store opened in 1980 with 12,500 square feet and

19 employees. This was a very large health food store relative to others at that time. There was a devastating flood in Austin within a year of its opening and the store was heavily damaged.

Much of its inventory was ruined and its equipment was damaged. The total losses were approximately \$400,000, and the company had no insurance. Interestingly, customers and neighbors helped the staff of the store to repair and clean up the damage. Creditors, vendors, and investors all partnered to help the store reopen only 28 days after the flood. With their assistance, Whole Foods survived this devastating natural disaster.

Whole Foods started to expand in 1984 when it opened its first store outside of Austin. The new store was located in Houston, followed by another store in Dallas and one in New Orleans. It also began acquiring other companies that sold natural foods, which helped to increase its expansion into new areas of the United States. In 2007, it expanded into international markets by opening its first Whole Foods branded store in London, England. (In 2004, it acquired a small natural foods company in the United Kingdom, Fresh & Wild, but did not

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use the Whole Foods brand until opening its new store in London.) It also acquired one of its major U.S. competitors, Wild Oats, in 2007. And, it is currently planning on expanding its footprint in Canada from 9 stores (all in British Columbia) to 49 stores moving into other Canadian markets such as Montreal. It now has approximately 67,000 employees with about 7 percent growth in the employee base annually. Thus, Whole Foods has become a major business enterprise and the most successful natural and organic food retailer in the world.

### MANAGING HUMAN CAPITAL

Whole Foods Market has done a number of things right, thereby achieving considerable success. Yet, many people believe that one of the best things it has done is to implement an effective people-management system. Each Whole Foods store employs approximately 40 to as many as 650 associates. All of the associates are organized into self-directed teams; associates are referred to as team members. Each of the teams is responsible for a specific product or service area (e.g., prepared foods, meats and poultry, customer service). Team members report to a team leader, who then works with store management, referred to as store team leaders. The team members are a critically important part of the Whole Foods operation. Individuals are carefully selected and trained to be highly knowledgeable in their product areas, to offer friendly service, and to make critical decisions related to the types and quality of products offered to the public. Thus, they operate much differently than most "employees" in retail grocery outlets. These team members work with their team leader to make a number of joint decisions with regard to their specific areas, and they contribute to store level decisions as well. Some observers have referred to this approach

as "workplace democracy." In fact, many of the team members are attracted to Whole Foods because of the discretion they have in making decisions regarding product lines and so on. Of course, there are other attractions such as the compensation. For example, the company's stock option program involves employees at all levels. In fact, 94 percent of the stock options offered by the company have been presented to nonexecutive members, including front-line team members. The company pays competitive wages and pays 100 percent of the health insurance premium for all associates working at least 30 hours per week, which includes 89 percent of its workforce. Although the annual deductible is high (\$2,500), each associate receives a grant of up to \$1,800 annually in a Personal Wellness Account to be used for health care out-of-pocket costs. All of the benefit options are voted on by the associates in the company. Current programs include options for dental, vision, disability, and life insurance in addition to the full medical coverage for full-time associates.

Whole Foods follows a democratic model in the selection of new associates. For example, potential new team members can apply for any one of the 13 teams that operate in most Whole Foods Markets. Current team members participate in the interview process and actually vote on whether to offer a job to prospective colleagues. A candidate is generally given a four-week trial period to determine whether he or she has potential. At the end of that trial period, team members vote on whether to offer a permanent job to the candidate. The candidate must receive a two-thirds majority positive vote from the unit team members in order to be hired.

Teams also receive bonuses if they perform exceptionally well. They set goals relative to prior performance and must achieve those goals to attain a bonus. Exceptionally

high-performing teams may earn up to \$2 an hour more than their current wage base.

The top management of Whole Foods believes that the best philosophy is to build a shared identity with all team members. They do so by involving them in decisions and encouraging their participation at all levels in the business. They empower employees to make decisions and even allow them to participate in the decision regarding the benefit options, as noted above. All team members have access to full information on the company. It is referred to as Whole Foods' open-book policy. In this open-book policy, team members have access to the firm's financial records, which include compensation information for all associates and even the top management team and the CEO. Therefore, the firm operates with full transparency regarding its associates. This approach emphasizes the company's core values of collaboration and decentralization. The company attracts people who share those core values and tries to reward a highly engaged and productive workforce.

The company also limits the pay of top executives to no more than 19 times the lowest paid associate in the firm. While this amount has been increased over time in order to maintain competitive compensation for managers, it is still well below industry averages for top management team members. And, John Mackey, the former CEO and now co-CEO, only receives \$1 annually in salary and no stock options.

The outcomes of this unique system for managing human capital have been impressive. For example, Whole Foods' voluntary turnover is much lower than the industry average. The industry average is almost 90 percent annually, but Whole Foods' data show that it has a voluntary turnover rate of only 7 percent (in 2012). In addition, Whole