Whole Foods' Battle for the Organic Shopper

Upscale Grocer Aims to Shed Pricey Reputation With More Discounts and Lower-Priced Items

By Julie Jargon

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[Whole Foods Market](http://quotes.wsj.com/WFM) Inc. [WFM -1.37%](http://quotes.wsj.com/WFM) [**WFM**](http://quotes.wsj.com/WFM) **in** Your Value Your Change Short position wants to shed its "whole paycheck" reputation.

The upscale grocer, known for its pricey organic products, is increasingly emulating the discount tactics used by traditional supermarkets. It is also moving beyond the realm of grass-fed beef with more lower-priced items like frozen meatballs and vacuum-packed fish fillets.

The new strategy comes as Whole Foods fends off a growing swarm of rivals competing for customers who have become more careful with their pocketbooks.

"The recession was a wake-up call for us," said co-Chief Executive Walter Robb in an interview.

One of the chain's latest initiatives: nationwide "flash" sales on specific items promoted on Twitter and [Facebook](http://quotes.wsj.com/FB) [FB -0.28%](http://quotes.wsj.com/FB) [**FB**](http://quotes.wsj.com/FB) **in** Your Value Your Change Short position that run for just a few hours, like a five-hour buy-one-get-one-free deal on ice cream last month. The chain also is increasing one-day sales on items like salmon, blueberries and organic chicken to 17 this fiscal year, from 14 last year.

Whole Foods long avoided such supermarket tactics, thriving instead on a pricey mix of products that appealed to clientele in upscale neighborhoods of large cities where most of its approximately 350 stores are located. High prices on everything from meat to vegetables led critics to quip that shopping at Whole Foods would eat up a middle class earner's whole paycheck.

The chain has increasingly been opening new stores in smaller markets, suburbs and lower-income urban areas such as Detroit, where Whole Foods has added more conventional fruits and vegetables at lower prices than the organic offerings, and New Orleans, where it plans to open a store later this year.

Meanwhile, competition has ramped up from other natural grocers as well as traditional supermarkets that are expanding their selection of natural and organic products. Kroger Co., the country's largest traditional grocery chain, has been trying to attract a more affluent clientele in certain markets with items like dry-aged beef, fancy cheese and a larger vitamin section. Kroger last month agreed to acquire upscale grocer Harris Teeter Supermarkets Inc. to deepen its reach into the high-end segment. More direct rivals such as The Fresh Market Inc. and Sprouts Farmers Market Inc., which became a publicly traded company earlier this month, have been opening more stores.

Whole Foods' emphasis on affordable options has helped it emerge from a recessionary slump when its stock traded for as low as $4.27 in late 2008. Its shares recently reached a new split-adjusted all-time high of $56.83. Still, its shares have underperformed those of some rivals recently, rising 15.3% so far this year to $52.20 each, compared with a year-to-date increase of 44% for Kroger.

Whole Foods has long offered tips to customers to cut down on expenses: In 2008, it started publishing a bimonthly booklet called the "Whole Deal" containing coupons, budget-friendly recipes and money-saving tips. It promoted "value gurus" on its website who help shoppers find the best deals in each department—a recent installment tells shoppers who don't want to buy a whole melon that they can ask any store employee to cut one in half.

Whole Foods began offering one-day sales on certain items in 2010, and has ramped up the deals this year using Facebook and Twitter to promote them. On June 21, the company offered sockeye salmon fillets for $11.99 per pound, down from the regular price of $19.99 per pound. The company in April held a one-day sale on mangos, offering 10 for $5, representing 60% off the regular retail price in most locations.

The discounts so far have had little effect on profit margins. Whole Foods last month reported that fiscal third quarter profit rose 21% to $142 million, while sales rose 12% to $3 billion. Its gross profit margin in the quarter widened to 36.6% from 36% a year earlier.

But Mr. Robb last month told investors the chain is going to engage in "more aggressive price matching against select competitors," and said price reductions and promotions could start "nipping gross margins a little bit."

The strategy carries other risks. Jim Hertel, managing partner at Willard Bishop, a food retail consulting firm, said grocers who rely on short-term gains from discounts can feel compelled to "up the dosage of deals" to keep sales growing. "When you do that you suddenly start to promote so much that you take sales out of the store because everything is on discount," he said. "Customers get trained not to buy on full price."

Deals also can attract new customers who don't buy more than the item on sale and don't necessarily return, defeating the purpose—a phenomenon Mr. Hertel calls "rent a customer."

Mr. Robb said Whole Foods customers who have been buying discounted items mostly have ended up also purchasing other items, but he acknowledged the company must be careful not to overdo the sales. And many consumers still aren't convinced Whole Foods is a good deal. "People are stuck in the past about what Whole Foods is in the marketplace," Mr. Robb said.

"If you just go in and buy products that are not on sale, their everyday prices are really high. But if you shop strategically and buy based on what Whole Foods has on sale, you can do very well," said Rachel Singer Gordon, a 43-year-old who lives in Lombard, Ill., and blogs about how to find supermarket deals.

She recently stocked up on dairy-free milk for her son, who is allergic to dairy, when Whole Foods had a dollar-off sale on Dream milk priced at $2 per carton. She matched their offer with the manufacturer's own dollar-off coupon, which she found online, making her purchase free.

Ms. Singer Gordon said she usually ends up buying other items beyond just what's on sale. But she doesn't make the 25-minute car trip to the Whole Foods nearest her house unless there is a sale.

**Corrections & Amplifications**
The price of a box of Annie's Organic Macaroni & Cheese was $2.79 at a Sprouts Farmers Market in Denver on Aug. 21. A graphic that accompanied this article incorrectly stated the price as $1.15.

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