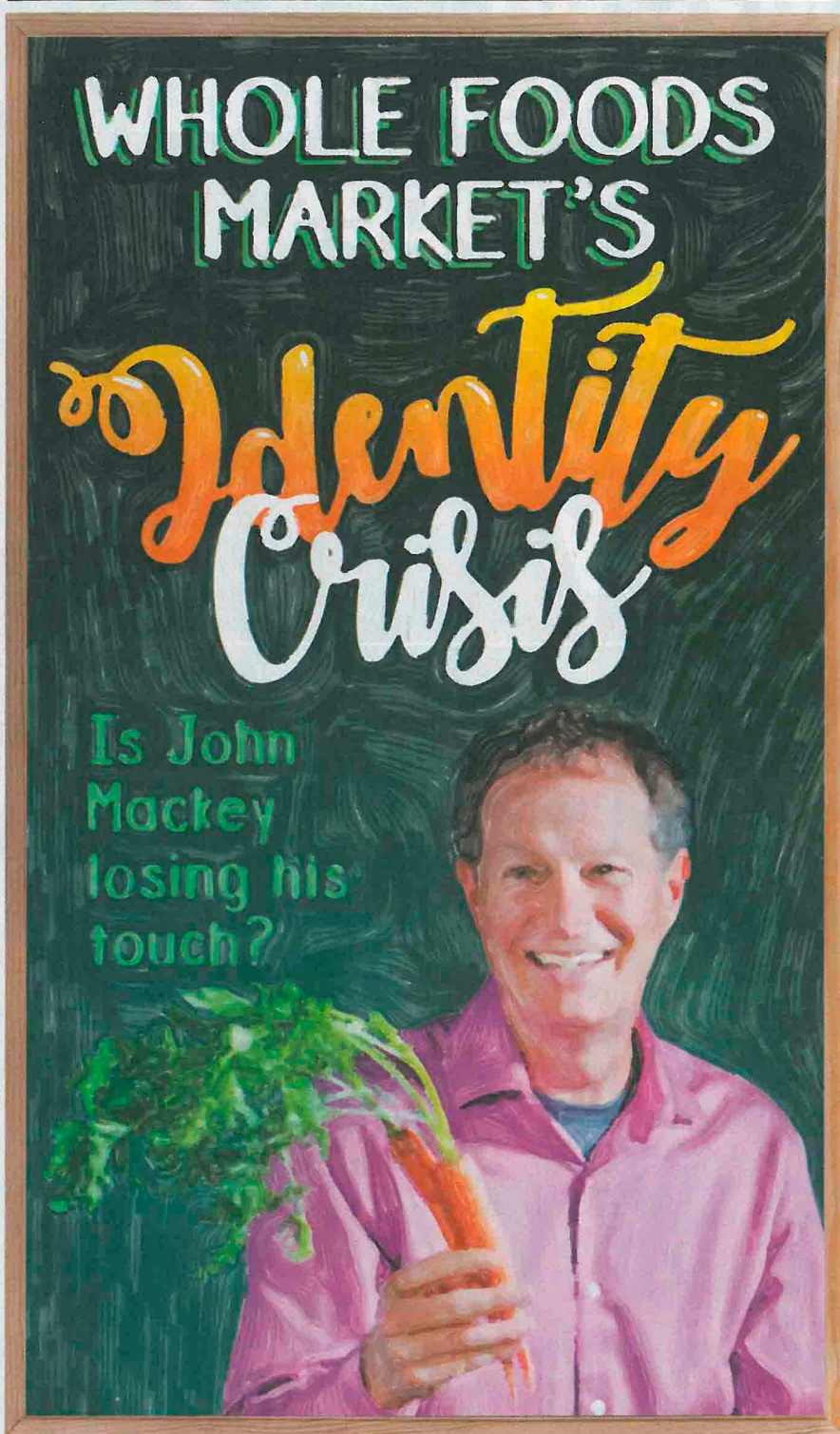


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With the organic grocery chain he built at a crossroads and an activist investor threatening to force its sale, John Mackey was in a Manhattan bookstore on April 13 proselytizing about the benefits of a vegan diet. The eccentric, 63-year-old **Whole Foods Market Inc.** chief executive officer told a small crowd that he was compelled to write his new book, *The Whole Foods Diet*, because the prescription he lays out—consume mostly plants while avoiding meat and processed food—will help fight chronic ailments such as diabetes and obesity. “It’s almost an ethical issue,” Mackey said at a Barnes & Noble store in the Tribeca neighborhood. “I have to say what I know.”

While Mackey lays out a cure for America’s health woes, investors are questioning whether he can fix what’s ailing Whole Foods. The grocery chain that pioneered organic food for the masses in the U.S. has been struggling through a sales slump amid steep competition in a market it once dominated. On April 10, as Mackey prepared to celebrate his book’s publication, news hit that activist investor **Jana Partners LLC** had taken an almost 9 percent stake in the company. The firm, which previously invested in the Safeway grocery chain before that merged with **Albertsons Cos.**, said in a regulatory filing that it may shake up the board of directors, overhaul operations, and possibly push for a sale of the business.

That’s put a spotlight on the leadership of the Austin-based company Mackey co-founded in 1980 and has investors asking if it’s time for some new blood. For most of the last six years, Mackey shared the CEO role with Walter Robb, who oversaw day-to-day operations. But Robb left the company late last year, putting Mackey in sole control—and squarely on the hot seat as the grocery chain tries to figure out how to reignite sales growth.

Whole Foods is facing a question that’s common for successful companies built by strong-willed visionary founders: When is it time to abandon business as usual? It could be hard for Mackey and other loyalists entrenched in the company’s culture to make the changes necessary to emerge from the

► Slumping sales have an activist investor demanding changes

► “They’re becoming blind to some of the challenges”

crisis, says Doug Ehrenkranz, a managing partner with executive search firm Boyden. "The brand gets to a point where the founder doesn't have the perspective to help it grow," he says. "You almost have to replace four floors of people in Austin [because] they'll think they're selling out the culture and abandoning their roots."

Mackey declined to be interviewed for this story. "We are confident in the actions we are taking to position the company for continued success, and we remain open to ideas to create further value for our shareholders and all our stakeholders," the company said in a statement.

Jana's assault comes after Whole Foods' stock lost almost half its value over the past three years. One reason: Average sales at stores open more than a year have slipped for six straight quarters as lower-cost rivals such as **Kroger Co.** and **Wal-Mart Stores Inc.** have moved into the market for natural and organic products. And recent price deflation across the grocery industry has added to the competitive pressure. Earlier this year, Whole Foods said it would shutter nine poorly performing locations, the first time the chain has shrunk its store count since 2008.

In a bid to buck its "Whole Paycheck" image for high prices, Whole Foods has been pushing digital coupons and promotions while working to lower costs. The company also launched a chain last year called 365 by Whole Foods Market that targets budget-conscious shoppers.

The 365 stores, named for the company's private-label brand, are about half the size of a typical Whole Foods and

are cheaper to design, build, and staff. They stock about a third of the items in a standard store. Among the changes to lower labor costs, they don't have a meat counter, offering only prepacked steaks and ground beef instead. The 365 stores also feature more prepared foods to attract younger shoppers.

Three 365 stores opened last year on the West Coast, and leases for 25 others in states including New York, Indiana, and Georgia have been signed. But executives have said little about the results of the venture. And, for the overall business, signs of a comeback have been elusive. Because Whole Foods held its 2017 shareholder meeting in February, Jana can't mount a proxy fight this year. The firm, however, says it's prepared to nominate at least three directors to the company's 12-member panel in 2018.

The average tenure on the board is roughly 14 years, raising alarms at Institutional Shareholder Services Inc., a proxy advisory firm, and CtW Investment Group, a union-backed pension advisory firm. "The longer they stay on the board, the less likely they are to make independent decisions," says Tejal Patel, director for corporate governance at CtW. "It's not surprising they're becoming blind to some of the challenges."

Jana says it's enlisted a team of experienced food and retail managers to help it diagnose and cure the issues at Whole Foods. The three potential board nominees it's named are Glenn Murphy, who previously ran Gap Inc.; Thomas Dickson, the ex-CEO of grocer Harris Teeter who helped sell that chain to Kroger; and Meredith Adler, a former

stock analyst who's now a food consultant. Jana also hired food activist and author Mark Bittman and skin-care executive Diane Dietz as advisers.

Mackey has run the grocery chain since its founding with a single store. Whole Foods now has more than 450 stores and \$15.7 billion in annual sales and may need outsiders with more operational know-how, according to analysts. "I think they're caught in an identity crisis," says Tim Sperry, a consultant who was a Whole Foods executive for 15 years. "They need to bring in some people who are not afraid to shake it up." —*Craig Giammona*

The bottom line CEO John Mackey is under pressure to turn around the organic grocery chain he founded.

Whole Foods Falls Behind

