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Whole Foods expanding presence

By Michele Chandler
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Whole Foods Market, the natural foods grocer that's expanding nationally amid growing consumer taste for healthy foods, is about to boost its presence in the Bay Area.

The Texas-based company -- which already operates 16 Bay Area stores -- plans to open six new local outlets over the next two years.

The chain plans to open its first store in San Jose in 2007 in a 44,000-square-foot space on the corner of The Alameda and Stockton Avenue on the outskirts of downtown San Jose.

Downtown is "underserved" by supermarkets, said Anthony Gilmore, president of Whole Foods' Northern California region.

However, the area is undergoing a redevelopment that's bringing in new housing, nightclubs, restaurants and stores. Gilmore said the area is now home to residents who match "our target audience -- an educated consumer who has the desire for quality food."

But past efforts to bring upscale groceries to downtown San Jose have not always succeeded. Independent grocer Zanotto's, which owns one market in downtown San Jose and another in the city's thriving Rose Garden area, closed its struggling 6-year-old downtown San Jose market in 2003 because of sluggish sales. It reopened the downtown market the following year in the same location on South Second Street, counting on a trimmer size and steady supply of new residents from the surrounding area's growing number of condominium complexes.

The proposed Whole Foods Market isn't far from either of the chain's locations. "It will impact us, I imagine," Zanotto's co-owner, Troy Tibbles, said of the prospect of having a Whole Foods nearby. "We'll have to do what we do even better. But if Whole Foods is willing to invest that close to our markets, it means things in 2007 should be better than they are in 2005 and is probably good for the economy in general in this area."

Expanding in Cupertino

Under the expansion plan, an existing Whole Foods in Cupertino will become the chain's largest in California after relocating to an updated and larger space across the street, at Stevens Creek Boulevard and Stelling Road. That 63,018-square-foot store, also scheduled to open in 2007, will feature a Salud! Cooking & Lifestyle school, dine-in eateries and patio seating.

Several other new stores are in the works for the Bay Area next year, including locations in Mountain View near the San Antonio Shopping Center, Oakland and Novato. The grocer is scheduled to open in San Francisco's Potrero Hill community in 2007, which would be the chain's third store in San Francisco.

California, historically a natural foods stronghold, is already Whole Foods' top market, with 38 stores across the state. By 2010, the expansion will boost the number of the chain's groceries in the Bay Area to 37. The chain currently runs more than 170 stores in the United States, Canada and the United Kingdom.

Today, customers will find a variety of goods at Whole Foods -- tree-ripened nectarines, certified organic bananas, grain-fed Angus beef and even fish heads to make soup stock. There's also a supply of yoga mats, Taoist wall calendars and a "Meditation for Beginners" CD.

The chain's popularity has led to strong profits. Whole Foods Market, founded in 1980 in Texas, reported net income of \$132.6 million last year, up 32 percent from 2003. For the same period, sales reached \$3.8 billion, up from \$3.1 billion the prior year. Its stock price has marched steadily upward for years.

“Whole Foods is giving people food to take out that they feel good about,” said Eugene Muscat, senior associate dean at the University of San Francisco's business school.

Whole Foods' growth is accompanying an explosion of interest -- and spending -- on organic and natural foods. Numerous small grocers as well as national supermarket chains carry organic and natural foods, as do specialty companies such as Monrovia-based Trader Joe's and Boulder, Colo.-based Wild Oats.

Sales of organic food and beverages -- produced without long-lasting and toxic chemical pesticides or fertilizers -- reached nearly \$11 billion last year, up 18 percent from 2003, according to Natural Marketing Institute. Sales of natural foods and beverages -- which don't contain artificial ingredients -- were \$11.3 billion in 2004, up about 5 percent from the year before.

The rising interest in healthy foods has enticed many food makers to offer organic and natural products, said Todd Hultquist, spokesman for the Food Marketing Institute. “I see them everywhere. Even Frito Lay has rolled out organic products in the last two or three years,” he said.

Reacting to trend

Conventional grocers also are responding.

Safeway has boosted its offerings of organic food and other items “seven- to tenfold in the last three or four years,” said company spokeswoman Teena Massingill. The chain launched its own line of organic bread, shredded cheese, coffee, olive oil and other items under its own “O Organics” brand name, she said.

All Albertsons stores nationwide introduced an all-natural ground beef last summer. The chain began opening special “Wild Harvest” sections last year that feature organic or natural cereals, snacks and other items. The first Wild Harvest section in the Bay Area opened last month at an Albertsons on West Capitol Expressway in San Jose, with more stores preparing to do so next year.

Despite these efforts, shoppers like Diana Setser keep coming back to Whole Foods.

As she navigated the busy aisles at a Whole Foods in Cupertino on a recent afternoon, she was filling her cart with organic frozen green beans, Omega-3 fortified eggs, and organic apples. The Sunnyvale homemaker said she shops at Whole Foods several times a month. “I was impressed with the store's size and its selection. I like their unscented shampoos and the fact they are not tested on animals. I lean toward those things,” she said.

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