Whole Foods Market (WFM) Earnings Report: Q2 2016 Conference Call Transcript

The following Whole Foods Market conference call took place on May 4, 2016, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Glenda Flanagan; Whole Foods Market, Inc; CFO
- Jason Buechel; Whole Foods Market, Inc; Chief Information Officer
- David Lannon; Whole Foods Market, Inc; EVP of Operations
- AC Gallo; Whole Foods Market, Inc; President & COO
- Walter Robb; Whole Foods Market, Inc; Co-CEO
- John Mackey; Whole Foods Market, Inc; Co-CEO
- Ken Meyer; Whole Foods Market, Inc; EVP of Operations

Other Participants

- Unidentified Participant; Unidentified; Analyst
- Ken Goldman; JPMorgan; Analyst
- Rupesh Parikh; Oppenheimer & Co; Analyst
- Philip Terpolilli; Wedbush Securities; Analyst
- Bill Kirk; RBC Capital Markets; Analyst
- Joe Edelstein; Stephens Inc.; Analyst
- Zach Fadem; Wells Fargo Securities, LLC; Analyst
- Stephen Grambling; Goldman Sachs; Analyst
- Mark Wiltamuth; Jefferies LLC; Analyst
- Robby Ohmes; BoA Merrill Lynch; Analyst
- David Magee; SunTrust Robinson Humphrey; Analyst
- Joseph Feldman; Telsey Advisory Group; Analyst
- Kelly Bania; BMO Capital Markets; Analyst

MANAGEMENT DISCUSSION SECTION

QUESTIONS & ANSWERS

AC Gallo (President & COO):

Hiring category leaders. Really doing all that work.

And we see that we're going to probably be laying the foundation through the rest of this fiscal year, and we're going to be then running a pilot at the beginning of next fiscal year in the fall. And then once we move beyond that pilot, then we'll start to actually roll out category management later next year.

Unidentified Participant (Analyst - Unidentified):

Very helpful. Thanks very much, good luck.

Operator:

Ken Goldman.

Ken Goldman (Analyst - JPMorgan):

Hi, thanks for taking the question. You noted in the press release that the average price per item was down -- I think it was 80 basis points for the quarter? I just wanted to dig into this number a bit if I could.

And forgive me if you answered this already, but trying to really get a sense of how much, in your view, was driven by some deflationary pass-through versus, I guess, what you might consider price investments above and beyond deflation. And I get it; I know these are hard numbers to quantify. But any sense of that would be helpful.

Glenda Flanagan (CFO):

This is Glenda. What we were trying to say was that while average price per item was still up in the quarter, the increase was the lowest increase that we had seen in five years. And the 80 basis points -- it was 80 basis points lower increase and what we saw in Q1.

So does that help clarify? But -- no, we don't have any specific way of -- other than that, pointing that out, of how much of that was inflation versus change in our actual lower prices.

Ken Goldman (Analyst - JPMorgan):

Okay, I'll pass it on, thank you.

Operator:

Rupesh Parikh, Oppenheimer.

Rupesh Parikh (Analyst - Oppenheimer & Co):

Thank you for taking my question, and I appreciate the commentary on digital coupons in your prepared comments. So just overall as you look at the digital coupon initiatives, how have they performed versus your expectations? And at this point, is there any way to look at -- to see whether they're driving better traffic, basket size, or even more units in a transaction?

Jason Buechel (Chief Information Officer):

Yes, this is Jason. We're still in the early innings of this program. But I think as a whole, we're very excited about the results. As you saw, we've significantly increased the number of users for our app. So in addition to both using the coupons, we have a more engaged customer that is now leveraging our app for the other utilities that we're providing.

Our intention at this point is to continue to add features to our app, inclusive of the digital coupons, leading up to our affinity rollout, which -- we'll be piloting our next city up in Dallas and then doing our national rollout following that test.

David Lannon (EVP of Operations):

This is David. I'd also say that our suppliers are really excited about the digital coupons. One of the very first times at Whole Foods that our suppliers will be able to get back data analytics on the performance of their promotionals at Whole Foods. So we're -- again, we are in the early innings, but very exciting.

Rupesh Parikh (Analyst - Oppenheimer & Co):

Okay, great. Thank you.

Operator:

Philip Terpolilli, Wedbush.

Philip Terpolilli (Analyst - Wedbush Securities):

Just wanted to focus on procurement. I think you mentioned a couple of things earlier, talking about category management and sort of the timeline over the next maybe 12 to 24 months. Just kind of curious maybe the feedback you are getting from some of your suppliers as -- coming out of Expo West and sort of going into the balance of the year. How we think some of the things that you're doing right now could help the model overall? Thanks.

AC Gallo (President & COO):

Hi, it's AC again. Suppliers were very excited when -- we talked with about 1,000 of them at Expo West. A lot of them have been waiting for us to do something like this. We've been a very inefficient customer to deal with for a lot of suppliers, because a lot of -- they have to go to 11 different regions, often, and talk to the buyers in each region.

So the idea that they can -- they're going to be able to come to -- just to the global office and talk to the team here, work out their promotions, work out new items, things like that, is something that they've -- we're very excited about and glad to hear.

We know -- in talking with the suppliers, we formed supplier advisory groups, and we've had some meetings with them. We know that there's a lot of opportunities for us on the cost savings side for increased promotions aspect. There's a lot of opportunities there for us to reap, once we can get really rolling with category management. So we see a lot of opportunities.

Philip Terpolilli (Analyst - Wedbush Securities):

Great, thank you.

Operator:

Bill Kirk.

Bill Kirk (Analyst - RBC Capital Markets):

So it looks like there were three more leased locations that initially had been signed for a regular store that are now changed to 365. Can you talk about that decision-making process? And then, I guess, what would need to be done to pull it off?

Jason Buechel (Chief Information Officer):

Yes, well we did announce three conversions to Whole Foods from stores in development in Akron, Toledo, and Bloomington, Indiana. And in looking at those markets and the size of the stores, we felt that they were better suited to be a 365 location, particularly as we looked at the size of stores.

We feel that Whole Foods Market stores going forward should be 45,000-plus square feet, and the stores that we converted were approximately 30,000 square feet. So more value markets and the right size for 365. So that's why we changed those to 365s.

David Lannon (EVP of Operations):

Yes, this is David. We hadn't started the design process on any of those stores. So there's no added expense to change the concept. In fact, the Silver Lake store, which was the very first store, was initially a Whole Foods Market . But we hadn't had that concept decided before we signed that lease. So, again, just changed the design to be more appropriate to 28,000 square feet.

Bill Kirk (Analyst - RBC Capital Markets):

Okay, thank you.

Operator:

Joe Edelstein, Stephens.

Joe Edelstein (Analyst - Stephens Inc.):

Yes, thank you. I was hoping you could speak more to the cadence in the sales trends during the quarter. We've heard others say it's been choppy month-to-month, even week-to-week. So really, if it has bounced around quite a lot, I'm just curious to maybe even drill down even just into some of the three-week trends that you have seen so far into the quarter. Just how true of a trend line is that, if it has been quite volatile? So any comments there would be helpful. Thank you.

Glenda Flanagan (CFO):

Yes, the improvement that we've seen in the three weeks is in the items per basket, which -- you know, it would be nice if that trend would continue, but it is three weeks. It's a very short amount of time, and I would hesitate to draw any conclusions at all from that. Because certainly, things do move around quite a bit from week to week and within a short period of time.

David Lannon (EVP of Operations):

We do think a couple of good things are going to happen later on in this quarter. So as every month passes, the cannibalization impact in Chicago from our 10 new Dominick's stores reopens last fiscal year moderates as we anniversary it. And we're starting to see some positive results there, and that's going to continue the rest of fiscal year. So that's going to be a wind to our backs instead of - it's been a headwind for the last -- over the last year.

Secondly, as we get into the very end of this quarter, we will anniversary the weights and measures audit that happened to us in New York City that went national and definitely took a tremendous amount of sales from Whole Foods Market . So when that happens in week 11 of this quarter, we will begin to compare against that. That's going to be a very positive -- that's going to have a very positive effect on our comps.

AC Gallo (President & COO):

Just want to know that's all settled now, too. It's one that's been settled for a number of months. So it's just looking in the rearview mirror.

And also, I think just as we pick up through -- into the fourth quarter, the comparisons in general just get easier. So, the backdrop is a bit choppy in terms of the macroeconomic environment, but I think -- and we're not calling the bottom, but I think there's lots of things that are very encouraging here in terms of a turning point. But too early to call that.

Joe Edelstein (Analyst - Stephens Inc.):

Appreciate the comments, and good luck.

Operator:

Zach Fadem, Wells Fargo .

Zach Fadem (Analyst - Wells Fargo Securities, LLC):

In terms of your price investments, I know you've lowered prices on quite a few items this year and, you know, there's more to come. I'm curious how you think about the consumer response for price investments versus digital coupons and promo activity. Where do you think that you're getting more bang for your buck so far? And how do you plan to balance the two going forward?

AC Gallo (President & COO):

You know, it's been very interesting doing the price investments; we see different customers react to different things. The digital coupons have been very, very popular, like with our affinity customers in Philadelphia. And the price/item investments we've done -- we're studying the effects, but we're definitely seeing in some markets much more of a response to them than others. We are seeing -- in certain departments, we are seeing a lot more response to them than others.

So it's still really early in our price investments. We purposely designed this to roll out kind of slow and steady, so we could learn from and see what people really respond to. And I think the really exciting thing, though, that we've been doing is that we're really ramping up our marketing behind them.

With the digital coupons, with our national flyer now, it's digital; it's going to be -- we're going to experiment with sending it out to -- in some markets, we're going to be mailing it to people's homes. So that, I think, is really a next big step for us.

Because I think I said earlier, just lowering some prices here and there or doing some promotions -- if people don't really know about them, it's not -- we're not going to get the full effect. And so I'm really excited and we've got now -- we're going to have the marketing muscle behind a lot of what we are doing. We're putting that in place. So as we do more investments going forward, we've got -- people are going to know about them.

David Lannon (EVP of Operations):

This is David. I'd also say, bragging about our team members, we're the best merchandisers in any supermarket in the United States. So our team members know that when we are doing promotions, now that we are inviting more customers in through advertising and digital as well as radio and other mediums, that they know if they really go for it on the merchandising, that the customers are going to come in.

We're adding more customers all the time. So it's kind of a virtuous circle between our team members and our customers.

Walter Robb (Co-CEO):

If I could just -- this is Walter -- if I could just add one comment. I think the idea is here

So I think the fact we are reaching out -- there's reaching out both through the store, through the price changes there -- which we recognize have the longer lag time, so to speak, to return, because it takes a trip to convert that to business; but then also offering the digital offers, offering the customer both of those choices: I think we're kind of working the mix of short-term, medium-term, and long-term in terms of offering our customers a better value.

Zach Fadem (Analyst - Wells Fargo Securities, LLC):

Thanks a lot, guys. Really appreciate that.

Operator:

Stephen Grambling.

Stephen Grambling (Analyst - Goldman Sachs):

I guess, first, can you just elaborate on what exactly is fundamentally changing in the cost structure? And how much of these changes would stay lower if comps were to recover?

Walter Robb (Co-CEO):

Well, we are still in the comp that we laid out before, which is the $300 million over the two years. And those, I think, we talked about primarily in the salaries and benefits area; also in restructuring the organization. So we are on track with that. You can see that reflected in the results here. I'm not sure what more specifics you're looking for with that, Stephen?

John Mackey (Co-CEO):

I mean, we're looking at every aspect of the business. And we're redesigning our back rooms, in cases. We're putting in standard operating procedures across the Company. We are pioneering one central kitchen in our stores, which is leading to labor efficiencies. We are doing all kinds of stuff. Ken and David might have some additional color.

David Lannon (EVP of Operations):

Yes, I would just point out our leader in distribution, Bart Beilman, who's leading our SOP process, that -- we are seeing huge results in our test regions in the Mid-Atlantic and also here in Austin, where we're seeing a much higher percentage of our inventory moving to the sales floor and out of our back rooms.

You know, it's -- we want to talk about it more on the next call, but we really feel that this is going to be a large reduction in excess inventory that's sitting in the back of our house, in addition to a decrease in shrink, and also overall improvement in team member morale, because the back rooms are in much better shape. So early days, but very exciting. And Ken and I are planning on rolling this out as fast as we can across all the stores.

Ken Meyer (EVP of Operations):

And John mentioned, this is Ken here. John mentioned the central kitchen that we just launched in our Wall store. And the power of that is it's simplifying the workflow in our stores, so that we are not -- we don't have the redundancies of production that we once had, that one person, the most expert person, is producing the product that's then distributed to all the other teams in the stores.

We think that that's revolutionary in the way in which we'll operate our stores. We'll have a higher-quality product. We'll have experts producing it. And we'll take a lot of capital out of the stores that we once had to produce product in multiple places in our stores.

Walter Robb (Co-CEO):

And news flash

AC Gallo (President & COO):

And Walter, just to kind of put a big frame on that, I think if we look at our business, we say -- you know, we were the ones that put a lot of energy and time into the customer experience, into the retail experience, and the store experience. And we had such a pretty strong regional structure.

And I think we are, as a result of this crossroads and transformation we're going through, we are looking at all the systems, the supports, the processes on how we do work and how we are structured -- everything from soup to nuts, really looking at everything, in terms of how we can simplify, eliminate redundancies, do work differently, find more savings through just streamlining the organization. And that has just led to some -- at least to a land of opportunity for Whole Foods.

And I think that perhaps other supermarkets have been there and done that. And I think we're just arriving and realizing there's lots there, even as we continue to work hard on stepping up the experience that we're delivering to our customers. So I think that's one big way to think about it.

Stephen Grambling (Analyst - Goldman Sachs):

That's helpful color. And then, I guess as a follow-up to your last comments on -- you're kind of doing a lot of things that the other supermarkets had done. And you also had mentioned price investments, a loyalty program as it relates to the other initiatives. And those also sound pretty similar to what conventional competitors are doing.

So maybe you can provide color on some of the other things or aspects that you're trying to implement that will actually differentiate Whole Foods from the group, rather than moving more closely to them. Thanks.

AC Gallo (President & COO):

Well, we only ever made the case -- we're talking about price relevancy. We're talking about doing the things that we need to do to be relevant in the marketplace that we are now competing in today. We've all seen the changes.

But that's not our -- if you look at our nine-point plan, and now as we continue to talk about it today, we are putting a lot of emphasis on continuing to provide new experiences, different experiences. We are opening up all the digital platforms to be able to reach our customers in new ways, in different ways than we've been able to do previously. So, really, this is about much more than just price investments.

And I recognize many others have done those as well, and that's part of being in the grocery retail business. You're constantly truing up -- not just on these conference calls, but you're truing up every day in the marketplace as markets change.

But hopefully, what you're hearing out of this group is a much broader thought process around how we think we can set ourselves apart, continue to differentiate, and gain some momentum.

And that's -- AC mentioned the promotions, but the marketing around that, which also talks about the quality of the product; the opening up of some of these platforms to offer new content and new options for customers. For example, they can shop for food now through wholefoodsmarket.com. That's a new thing we haven't been able to do before.

And so in all these ways, I think we're trying to -- and the 365 John mentioned is, of course, another growth opportunity for the Company in serving the customers in new ways. So I think you take the whole big picture, and you say, there's a lot going on here to regain momentum.

Ken Meyer (EVP of Operations):

I also want to -- this is Ken here. I also want to share the fact that our commitment around culinary is really what separates us compared to the competition. And so we have the leadership now in the Company to bring that focus and that commitment to really developing new programs.

We added to the friends of Whole Foods Market , which are bringing really great restaurant concepts into our stores. And having these partnerships that create a unique experience from a culinary standpoint -- that really is by far above anything that we are competing against right now. So we really feel like the renewed focus on culinary in our stores is a big, big differentiator for us as a company.

John Mackey (Co-CEO):

Yes, John here. So how are we differentiated? I mean, A, we're going to create a whole new brand -- 365. Stores that you'll have to go see. And we've got 19 of those signed up, and many more in negotiation right now. And we think that's going to be a huge opportunity for us that's going to help set us apart.

And then all of our stores continue to innovate. You go into our new stores -- go into a downtown LA. Take a trip to Southern California; in three weeks we are opening a new brand. Go see our downtown LA store while you're at it.

We are opening great new stores that are doing tremendous sales, tremendous volumes. We continue to innovate from an operations standpoint. Everybody's continuing to try to copy us, because the innovations are still occurring at Whole Foods Market . That's how we're differentiating.

Now, if you mean -- sure, we are copying some of the things that some of our competitors do. We are learning from everybody. And competitors are doing some things better than Whole Foods. We certainly want to -- we're going to learn from that and make our Company better.

But we are not standing still. In fact, I would argue that we are probably undergoing far more evolution in our Company than ever before.

And the final and probably the most important point: nobody, nobody comes close to matching our quality standards. We're the only one -- only supermarket in America that's 100% cage-free eggs; that has an animal welfare system that's top rated in Greenpeace for seafood sustainability. We're doing over $3 billion a year in prepared foods and bakery. We are a large restaurant operator. Our stores are very different than our competitors'.

And we're not standing still. We are continuing to grow, evolve, and differentiate ourselves.

Ken Meyer (EVP of Operations):

And that's why 800 people were standing in line this morning for our Westford store opening, and our 40th store in our North Atlantic region this morning.

John Mackey (Co-CEO):

Yes, congratulations to Laura and the team up there. That's good.

Stephen Grambling (Analyst - Goldman Sachs):

That's great. Thanks so much. Best of luck the rest of the year.

Operator:

Mark Wiltamuth, Jefferies.

Mark Wiltamuth (Analyst - Jefferies LLC):

Hi, it's Mark Wiltamuth. Our surveys are starting to show some Trader Joe's discounting out there. Are you seeing that? And are you reacting to it, or what are your thoughts on what you're seeing in the market right now?

AC Gallo (President & COO):

We noticed last -- I think starting in November -- that Trader Joe's had lowered prices in certain items in certain markets. And it's -- we monitor Trader Joe's and our other competitors very closely. We make sure -- we have certain price bandwidths that we make sure that we are -- you know, that we follow with them. And so in key items that we saw Trader Joe's change pricing on, we changed pricing as well on certain items to make sure we maintained our proper bandwidth to them.

But I don't think that was highly unusual. I think that Trader Joe's and all our other competitors regularly raise and lower prices, depending on -- sometimes it's just based on -- and generally it's based on markets. Like a couple of years ago, last year, olive oil crop in Italy was terrible, and Trader Joe's raised their olive oil prices. And this year olive oil crop is much better in Europe, and everybody is lowering; they lowered their olive oil prices. So that's -- it's just -- it's kind of the way it works. I don't think it's anything unusual or stand apart from what normally happens.

Mark Wiltamuth (Analyst - Jefferies LLC):

Okay. And then following up on the cannibalization question, how is the sequential progress on cannibalization from first quarter into the second quarter?

Glenda Flanagan (CFO):

Well, the cannibalization impact does ease over the course of the year as we anniversary the openings in Florida and Chicago, which were our two hardest-hit markets. So it was a little better in Q2 than in Q1 and will get even better in Q3 and then even better in Q4.

Mark Wiltamuth (Analyst - Jefferies LLC):

Okay, thank you very much.

Operator:

Robby Ohmes, Bank of America Merrill Lynch.

Robby Ohmes (Analyst - BoA Merrill Lynch):

Thanks for taking my question. Just on 365, I was hoping -- could you remind us, you know, 19 stores you're going to be opening. Assuming these go well, and it sounds like they could, can you remind us the expectation, if this goes really well, the kind of profit contribution 365 could have?

Are these expected to be higher-margin stores than the core Whole Foods stores? Just maybe a little bit of a -- and maybe some of the metrics you'll be looking at when you decide how many to open over the next few years. Thanks.

David Lannon (EVP of Operations):

I mean, we have to open them up and see. It's -- you know, you can -- sure, we project things out, but it's just -- you need data. You need actual results.

So we'll be able to answer that question a lot better. I suspect when we come to our fourth-quarter earnings call in November, we'll have some hard data on the first three openings, and we'll be able to give you some much more concrete information as opposed to just sort of speculation. We are expecting them to have very good returns on invested capital and to be very profitable for us. So, yes, we think they're going to be accretive, but we've got to get them up to speed.

Robby Ohmes (Analyst - BoA Merrill Lynch):

And, John, can you remind us -- do they leverage off being close to other Whole Foods stores? Because you're not clustering the concept based on the stores you've announced so far. And does that make it harder for that chain to be profitable?

John Mackey (Co-CEO):

No, no, because all the stores are being -- from an operation -- although the product selection, the pricing, the overall programming is all occurring from our global offices, the actual operations of store is going to be in the regions.

So they get all the advantages of scale that we have in our regions, and scales in purchasing, while we've been able to program the pricing, the products, the strategy, the decor, the design, all of that from Austin. So we think we're getting the best of both worlds there.

Robby Ohmes (Analyst - BoA Merrill Lynch):

Great. Thanks, look forward to seeing that store.

John Mackey (Co-CEO):

So do we.

Operator:

David Magee, SunTrust.

David Magee (Analyst - SunTrust Robinson Humphrey):

My question also has to do with 365. I'm curious how you will market that concept. Maybe you're doing it already, or once it opens up. And are you seeing anything now -- whether it's social media buzz or otherwise -- that gives you confidence that the demand is out there? Thank you.

David Lannon (EVP of Operations):

This is David -- David and Ken. We'll both answer that. We can tell you that everybody is very curious about this. So it's definitely not going to be a secret.

Jeff Turnas, our President of 365, did desk-side interviews with all sorts of folks in New York last week. There was probably close to 100 to 150 stories written about us last week, showing what we're going to be doing in the first couple of stores, showing the way they're going to look. So a lot of stuff.

We're also going to be doing some traditional stuff: advertising with the LA Times as well as lots of social media, working with BuzzFeed, a few other groups. Anything you want to --?

Ken Meyer (EVP of Operations):

And just last week we had a launch event in New York, where we invited all of the press to, and our partners. We had over 200 people there to sort of introduce the concept. And like David said, using BuzzFeed is going to be one of our big vehicles to get out into the social media.

David Lannon (EVP of Operations):

And we are having a two-hour dance party the morning before we open, if you want to show up -- if any of the investors want to show up.

Ken Meyer (EVP of Operations):

Definitely a good thing to start the day with. Daybreaker. The investor shuffle.

Glenda Flanagan (CFO):

No, I love it.

David Magee (Analyst - SunTrust Robinson Humphrey):

Thank you and good luck.

Operator:

Joseph Feldman, Telsey Advisory.

Joseph Feldman (Analyst - Telsey Advisory Group):

Wanted to ask

Walter Robb (Co-CEO):

This is Walter. Yes, we've got a pretty good read on that. I would say really -- you know, very pleased with the core shoppers who continue to stay with us, and staying pretty consistent frequency and also basket.

I mean, where the erosion has happened -- to the extent that it has, and the comeback will happen -- is also what we more broadly call the occasional shoppers, who come in at different frequencies and for different amounts. And that's where, I think, folks maybe perhaps -- be where we have seen a little bit more inconsistency. So that's the answer.

Joseph Feldman (Analyst - Telsey Advisory Group):

Got you, thank you. And then just one quick follow-up. As far as marketing goes, how have you guys been, I guess, measuring the marketing efficacy or the return on the marketing? And is there any thought to go back to -- like, I think it was last year you guys did the national branding, and that seemed to really have an impact to drive some sales for a little while. So I was just curious about how you're viewing that.

AC Gallo (President & COO):

We've got something up our sleeves, but nothing to announce today other than we are working on something, and we're excited about it. I think we're -- want to get the 365 stores launched, get some data on that. Get our national affinity program launched. We want to get some pieces in place.

And as we get those in place, then I think we will launch a more broad-based marketing strategy. So we'll have -- probably, again, we'll have something to talk about in Q4 about that.

Walter Robb (Co-CEO):

I think the investments we're making -- and as AC detailed earlier, it's, I think, the -- obviously the ultimate measure, though, are the sales, is traffic and sales. And we're seeing the first chapter of that, which is kind of the units begin to move a little bit, which then leads from there.

On the digital side, obviously, you can measure things differently. One of the real advantages of affinity for us, and we enjoy that in Philadelphia and soon to be in Dallas, is that we actually create personalized offers and connections with customers.

And so we can actually -- through the tokenized data, we can actually follow what the customer is actually doing over time. And we can also look at the segments, and how we can respond to groups of customers as well. So we're putting in place some really good tools to be able to measure the investments. They are a lot easier to measure there than they are, say, on the promos that we are doing on the perishables right now, because that kind of all comes back just to comps, and sales, and units, and that sort of thing. So that's where we are with those two.

David Lannon (EVP of Operations):

And also -- this in David -- affinity will be in place from day one at 365 as well.

Walter Robb (Co-CEO):

Good point, David. Yes, good point.

Operator:

Kelly Bania, BMO Capital.

Kelly Bania (Analyst - BMO Capital Markets):

Just wanted to go back to the price investments. I think, if I heard you correctly, it sounds like you're getting a good uptick in the units, but not quite enough to offset the magnitude of the price investment.

And I'm just wondering if you're looking at other ways -- maybe just not promotions, but maybe more of the EDLP effort as you kind of broaden some of the price investments to other categories? Or how do you get that -- how do you think you're going to get that elasticity, I guess?

AC Gallo (President & COO):

Well, our price investments are really a combination of promotions and EDLTs. We evaluate each category, each department in the store and kind of have that two-pronged strategy. We have -- last year we probably did a little more on the EDLP. This year, we're kind of doing a combination.

We focused, for instance, in the produce department, where we've taken certain categories and we have moved to regular pricing. We moved the regular pricing down in a few categories. At the same time, we've done some really strong promotions.

Because you really -- you have got to kind of do both in order to -- you know, the promotions might bring people in. But then once they're in the store, they want to see -- you want the prices -- the regular prices they look at are really important for if they're going to buy beyond the promotion. So it's very important to do both.

But I think, ultimately, it's really through the category management program that we are going to be able to determine what is actually the right mix between -- in each department for adjusting everyday pricing, for doing more promotion. We're going to be able to really look and see how not only -- and we're going to be able to do a lot of testing with that, to really understand what is the most effective for our customers?

Because as Walter was saying earlier, answering the question about our kind of more core shoppers than more occasional shoppers, different strategies work for these different customers.

So what we are in the process of doing is really refining our ability and giving ourselves the tools we need to understand how we both price and market to the different customers we have -- which will respond to different promotions and prices.

Kelly Bania (Analyst - BMO Capital Markets):

That's helpful. And just in terms of the comparisons, if I could just ask one more quick one. They get a lot easier as we move forward here. But last year of the big initiatives was also some of the remodels.

I know some of them were minor; some of them were more major. But how should we think about cycling, maybe, some of the remodels and the impact from those last year?

David Lannon (EVP of Operations):

This is David. We are in a -- you know, with 450 stores in our base, we are constantly remodeling and refreshing our stores. So we did the core refresh from a lot of our stores last year, but we are continuing to do that work as well as remodel. So I would say in general, though, we're trying to focus on smaller size remodel that have a bigger sales impact.

Doing a lot of focus on prepared foods, bakery, and also conversion from full-service menus to self-service menus, so we can -- customers are responding well to that. And we are able to get labor reductions at the same time. So we're -- that's kind of where we're focusing our capital spending, not on new stores.

AC Gallo (President & COO):

Okay. I want to thank everybody for listening in today, and we look forward to updating you on our progress on our Q3 earnings call in late July. If you get a chance and you're in LA, check out our Silver Lake store, which opens in three weeks.

Maybe go to our downtown LA store; you can see the contrast right there between what Whole Foods Market is evolving to and what the new 365 format will be.

Okay, everybody. We'll talk you soon. Take care, bye.

Operator:

This does conclude today's conference.