Whole Foods calls meeting with key vendors as tensions flare

- Tensions between Whole Foods Market and some of the most important brands it sells in its stores will come to head on March 19.
- The grocer notified certain vendors about the meeting last Saturday.
- A key issue discussed will be Whole Foods' efforts to centralize its merchandising.

Lauren Hirsch
Published 9:12 PM ET Sun, 11 March 2018 | Updated 13 Hours Ago

Tensions between Whole Foods Market and some of the most important brands it sells in its stores will come to a head on March 19, when they will congregate for a recently announced summit, sources familiar with the situation tell CNBC.

The grocer notified certain vendors about the meeting by email last Saturday. It is set to reassure the brands of relations after Whole Foods' sale to Amazon. It comes after a rocky few months for the grocer, which has been trying to shift from a local orientation to a national one, without sacrificing the selection and relations that set it apart from larger peers like Kroger and Albertsons.

Some of those efforts, like its move to centralize purchases, preceded its sale to Amazon. However, any change the grocer makes is drawing more scrutiny amid the uncertainty following Amazon's acquisition.

Meantime, Whole Foods' limited communication about the status of these changes has been a point of frustration, according to multiple vendors that spoke to CNBC.

A major point of debate for its larger vendors is the new servicing fee, proposed in the last few months, which will charge vendors for Whole Foods' efforts to centralize its merchandising, sources said. Still, some of the sources noted their reliance on Whole Foods as a customer gives them little power with which to bargain.

Traditionally, with both Whole Foods and most grocers, food companies could pay brokers to help manage everything that happens from the grocery stock room to the shelves. The distance from the back room to shelves has been called some of the most expensive mileage on the planet.

These brokers fulfill a number of functions, but their key role is to make sure products are displayed well and taken care of. That could mean anything from making sure there are more granola bars on the shelf when those bars are on sale, keeping the freshest yogurt on the top of rack, or strategically hiding under-stocked goods. Brokers can also use the relationships they wield to make their case for more shelf-space.

Now, Whole Foods wants to control that process, and will charge some companies roughly 3 to 5 percent of sales for the service. The shift was first reported by the Washington Post.

Vendors are not happy. Some say that fee is too high. Others note that being forced to use Whole Foods' systems hurts their relationship with their personal brokers, on whom they rely for the rest of their grocery business. By paying Whole Foods to do the merchandising, vendors have less money and less product to give their brokers that manage relations with other retailers.

Whole Foods hasn't disclosed its reason for shifting to this model, but one key advantage that it could give them is data. Brokers represent multiple brands and work with multiple retailers. Cutting them out of the process means Whole Foods limits the number of people that know what goes on in its stores and who can share that information with others.

Whole Food's parent, Amazon, of course, is a master — and fiercely protective of — its data management.

Whole Foods confirmed it's holding a supplier meeting the week of the 19th, adding that it has nothing more to share at this time.

Broader Changes

The changes come as both Whole Foods and the industry it helped launch undergoes transformation.

Organic products are now available in nearly 20,000 natural food stores and nearly 3 out of 4 conventional grocery stores, according to the U.S. Department of Agriculture. That means Whole Foods is competing in one of the fiercest competitive retail environments; the act of simply selling "organic" is no longer sufficient on its own to bring customers into its store.

Many of these brands congregated at the industry's annual largest convention, Expo West, this past week in Anaheim, California. Amid the revelry and morning yoga classes, was a fight for investment, attention and shelf space.

Under that competitive backdrop, few brands said frustrations with Whole Foods were sufficient enough to drive them away from the Austin grocer towards competitors like Kroger, Albertsons and Aldi. The retail environment is too tough and the number of similar rivals too vast.

Meantime, the grocer last Tuesday emailed employees its refreshed core values, a document that CEO John Mackey spent weeks putting together, alongside senior leadership, according to an internal memo obtained by CNBC. Its "statement of interdependence" had last been updated in 1997, according to the document, before that, 1992 and 1988.

The decision to make updates, which referenced Amazon as the company's owner, was driven by Mackey and not Amazon, sources told CNBC.