

CNET tech sites: [Price Comparisons](#) | [Product Reviews](#) | [Tech News](#) | [Downloads](#) | [Site map](#)



[Front Page](#) [Enterprise](#) [E-Business](#) [Communications](#) [Media](#) [Personal Technology](#) [Investor](#)

Whole Foods bites into Web commerce

By [Kora McNaughton](#)

Staff Writer, CNET News.com

February 22, 1999, 1:15 PM PT

Whole Foods' new e-commerce subsidiary will launch an e-commerce site with more than 6,000 products for sale next month, as the grocer takes a plunge most other chain stores have shied away from.

The upscale natural-foods retailer says the move is inevitable as e-commerce grows and also hopes it will expand [Whole Foods'](#) customer base beyond the 88 stores in 21 states it operates now. But Internet grocery shopping--unlike book buying--has yet to take off, leaving the handful of ventures attacking the space searching for a successful business model.

Supermarket chains have done little on the Web beyond creating corporate identity sites and have watched as Internet startups like [NetGrocer](#), [Peapod](#), and [HomeGrocer](#) have struggled to bring grocery shoppers online. The challenge? Perishable items require a sophisticated delivery infrastructure and consumers are reluctant to buy other goods on the Web if they have to go to a physical store for perishables, according to Nicole Vanderbilt, e-commerce analyst at [Jupiter Communications](#).

Whole Foods.com isn't going to sell perishable goods, at least not in the beginning, although it is considering a plan to ship seafood directly to customers from its Massachusetts processing plant. E-commerce success, the company's executives say, lies in Whole Foods' "very unique" product mix and product information that can't be found at the local [Safeway](#) or [Albertson's](#). "Whole Foods is not a normal grocery store," said Carl Morris, president of Wholefoods.com, a subsidiary of the parent company.

But Whole Foods' competitors extend beyond the chain supermarkets. Vitamins and supplements, a \$17 billion market, represent a "big part" of store sales, according to John Fischer, Whole Foods' marketing director. That market has attracted dozens of vitamin purveyors who are already operating on the Internet, from [GreenTree Nutrition](#) to brick-and-mortar chain [General Nutrition Companies](#), not to mention online pharmacies.



Search

 News.com

Latest Headlines

[display on desktop](#)

[Homestore reports wider 2000 loss](#)

[Dissident HP director speaks out](#)

[Mira device gains new supporters](#)

[House panel approves Net gambling ban](#)

[Group backs ISP in online gaming dispute](#)

[Feds: PayPal not a bank](#)

[Intel: Emerging markets to drive growth](#)

[AOL slowly adds members](#)

[Compaq's Singapore supercomputer plan](#)

[IBM up as analysts say no "smoking gun"](#)

[WebMD narrows loss, beats Street](#)

[Earnings warnings deflate tech stocks](#)

[Merger review overhaul stirs Senator](#)

[WorldCom stock sinks on SEC inquiry](#)

[A taste of CeBit](#)

[Ballmer: Microsoft wants to be trustworthy](#)

[Verizon Wireless sees](#)

Whole Foods has another weapon in its e-commerce arsenal: lower prices. The goods it sells online will be cheaper than those in stores, as the company passes savings from the business model on to customers, said Fischer. In the physical world, real estate and labor represent high fixed costs for the company, which emphasizes customer service and whose stores are usually located in high-rent areas. The company is also saving money because it's already got a shipping infrastructure in place, Fischer added.

Creating that infrastructure is what has hobbled Peapod, the only online grocer to go public. Over the past year, Peapod has switched from simply partnering with local grocery chains to a direct-fulfillment model. It now has a centralized distribution warehouse in Chicago, as well as "warerooms" in Long Island and Boston, where it stocks thousands of perishable and non-perishable items that are in high demand.

But Wall Street hasn't bought into Peapod's new model. In a market bullish on e-commerce, the stock has been swimming between a 52-week low of just over 2 and a high of 13.50, and recently it hasn't been able to top 10. The company is set to report fourth-quarter earnings after market close tomorrow.

Whole Foods' stock has also been on a downward trend of late, and the company may be hoping to get a boost from its e-commerce plans. Company executives claim not to be concerned about losing store sales to the online subsidiary, at least for the next few years.

To allay concerns about falling sales among its 14,000 store employees, Whole Foods is offering monetary bonuses to workers who refer customers to the Web site. All employees now have cards with ID numbers to give out to customers. When those customers register at the site, they can include the ID number of the worker who referred them. But customers won't need the ID cards to register, and Jupiter's Vanderbilt is skeptical they'll be used at all.

"That's a lot to ask of consumers," she said. "You don't want to provide any roadblocks to them purchasing online."

Whole Foods says it is setting reasonable goals in the short term, and that if it can just get 1.5 percent of its total customer base--the company's stores average 1.5 million transactions a week--to spend \$100 per year, it will reach its revenue goal for the first year.

The site will go live on March 22, with more than 6,000 products available at launch. The company said it will eventually offer more than 10,000 items.

[retail sales dip](#)

[AOL searches for copy-protection leader](#)

[High-end camera's low cost reflects trend](#)

[Memory market shows signs of recovery](#)

[This week's headlines](#)

News Tools

[Get news by PDA](#)

[Get news by mobile](#)

[Listen live to CNET Radio](#)

CNET News.com Newsletters

Stay on top of the latest tech news.

☒ News.com Daily Dispatch

☐ News.context (weekly)

☐ Investor Daily Dispatch

Your e-mail here

Sign me up!

[More Newsletters](#)

[E-mail story](#)

[Print story](#)

[Send us news tips](#)

Related News

- [NetGrocer cuts staff, CEO](#) October 30, 1998
- [Get this story's "Big Picture"](#)

Also from CNET Networks

- [Builder.com, the most comprehensive new software development site](#)
- [Try Computer Shopper Magazine Free, click here](#)

- [Search the newest job listings right now](#)
- [ZDNet Tech Update: Cut telecom costs in half](#)
- [Palm makes a colorful entrance with two new PDAs](#)

[Send us news tips](#) | [Contact Us](#) | [Corrections](#) | [Privacy Policy](#)



Featured services: [Tax software](#) | [Computer Shopper magazine](#) | [Tech jobs](#) | [Free newsletters](#) | [Popular products](#)

CNET Networks: [Builder](#) | [CNET](#) | [GameSpot](#) | [mySimon](#) | [TechRepublic](#) | [ZDNet](#)

[About CNET](#)

[Copyright](#) ©1995-2002 CNET Networks, Inc. All rights reserved.

[CNET Jobs](#)