

Flash Commentary: Food Safety

Food Safety: Is Whole Foods Prepared?



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- **On October 20, the Detroit Health Department announced an investigation into two cases of Hepatitis A potentially linked to Whole Foods' stores.** Whole Foods contacted the Detroit Health Department to report one of the cases, while the second case has not been definitively linked to Whole Foods. While we view the reporting of this incident to health officials as positive, we have concerns about the grocery chain's food safety preparedness given its exposure to prepared/ready-to-eat food and its lack of food safety disclosure.
- **Ready-to-eat food accounts for the highest percentage of recalls in the US and Prepared Foods/Bakery accounted for 19% of Whole Foods sales in 2015.** Prepared foods is a growing area for grocery stores, with consumers citing time and affordability as reasons for this choice. In June 2016, Whole Foods received a warning letter from the Food and Drug Administration citing 'serious violations' of federal regulations during an inspection of the company's food preparation facility in Massachusetts. Whole Foods stated that it would respond to issues raised in the letter, but we have not observed an increase in disclosure.
- **Our review of previous food safety incidents revealed that grocery store sales suffer less than restaurants; however, growth in prepared foods may lead to an increased impact.** In 2008, Kroger experienced a multistate outbreak of *E.coli* linked to ground beef but did not experience a material sales impact. Restaurant chains such as Jack in the Box, Yum Brands and Chipotle experienced multi-quarter same-store sales impact as a result of a food safety incidents. We identified a key factor being the amount of time between purchase and consumption—adulterated or unsafe food is more likely to be consumed at restaurants. However, Whole Foods' prepared foods are consumed quickly, thus creating a possible restaurant-level food safety risk.
- **In our July 2016 report [Food Safety: In a State of Transformation](#), we developed a food safety disclosure assessment tool comprising 11 elements.** Elements included internal food safety systems and independent auditors/standards, board expertise and product traceability. We view disclosure as a proxy for food safety performance as it suggests the company is actively considering the relevant issues and is able to publicly discuss its approach.

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- **Whole Foods currently provides limited disclosure related to food safety, even after the FDA warning.** We could not locate disclosure on an internal safety system or external auditors for its operations including its prepared food facilities. Whole Foods requires mandated food safety plans for high-risk items (e.g. eggs and baby food) but suppliers are not required to comply with a food safety standard accredited under the Global Food Safety Initiative. There is no food safety expertise present on the board or published Key Performance Indicators related to food safety.
 - **Whole Foods recognizes in its 10K that it is held to higher standard on food safety due to its reputation but, given lack of disclosure, we question whether Whole Foods is appropriately considering this risk should further incidents arise.** Increased disclosure would provide investors with greater confidence that the appropriate processes are in place. Disclosure would also provide investors with confidence that issues will be managed quickly and efficiently to avoid significant impact to the business.



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