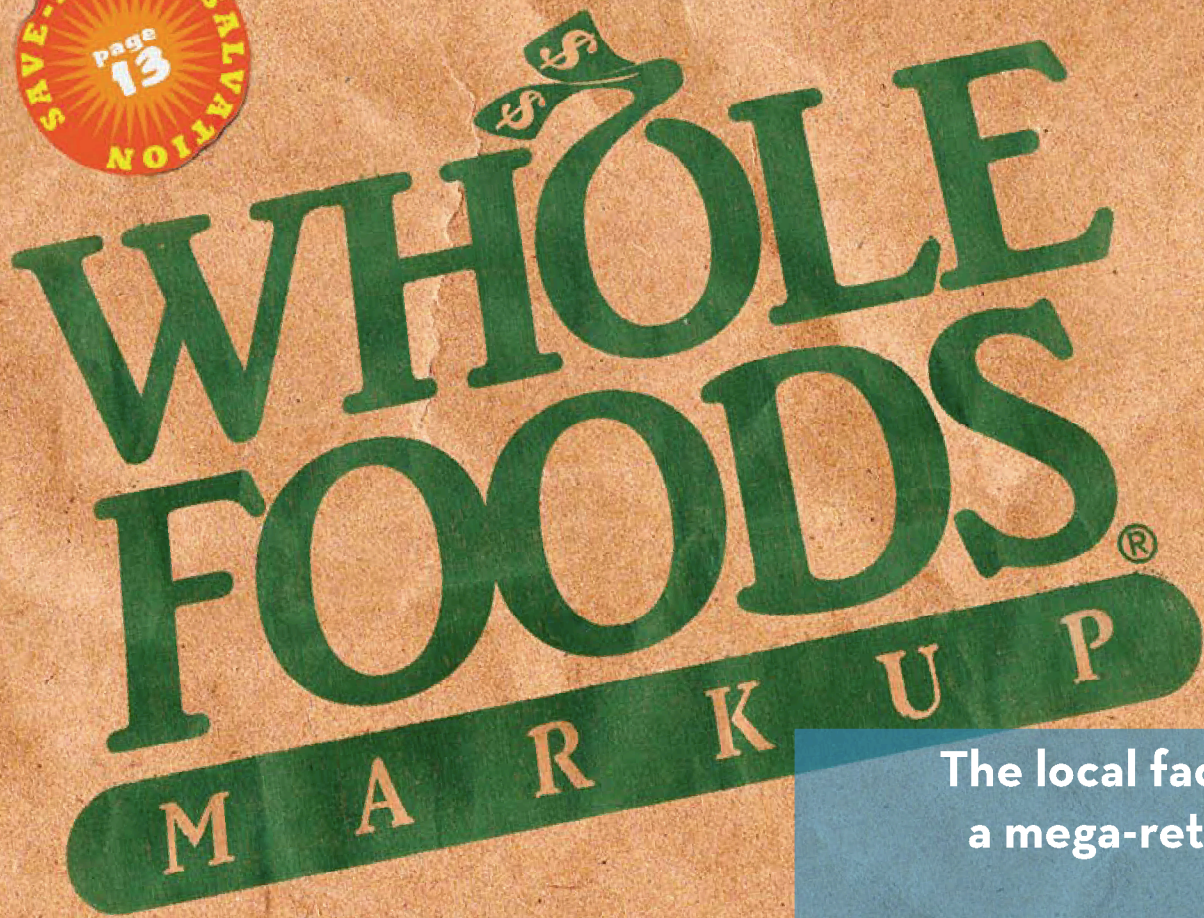


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WHOLE FOODS MARKUP

by Stacy Mitchell

photos by
Mich Ouellette

The local face of a mega-retailer

LAST FEBRUARY, WHOLE FOODS MARKET, THE WORLD'S LARGEST NATURAL FOODS CHAIN, established its first beachhead in Maine, opening a store in Portland's Bayside neighborhood.

Whole Foods has cultivated a reputation as a kind of grocery Shangri-La: a place where shoppers revel in rich sensory experiences amid shelves brimming with culinary treasures, many organic and locally produced.

No shopper can miss the emphasis Whole Foods places on local food. When the new store opened, signs at the entrance touted the presence of hundreds of locally grown or produced items. Over the checkout lines hung glossy pinups of beloved Maine farmers. Common Ground Fair posters still line the wall beyond the checkout.

Of course, Whole Foods itself is far from local. Although the Portland location attempts to link its lineage to The Whole Grocer's debut on Munjoy Hill over 20 years ago—"Serving Greater Portland since 1984," reads a sign in the produce section—the Austin, Texas-based multi-national corporation bought



and closed the homegrown grocer when it came to town last winter.

Whole Foods' nearly 200 outlets scanned in sales totaling \$5.6 billion last year. It's been expanding at a furious pace—in the past four years, Whole Foods has doubled its gross revenue and added more than 60 locations. Plus, the stores themselves are getting bigger: at 56,000 square feet (including storage and office space), the Portland store is 65 percent larger than the average Whole Foods outlet. In June, the company opened its biggest store yet: a 99,000-square-foot supermarket in London.

Whole Foods contends that its success can spur a rebirth of family farms and local food production. In other words, to revive small, we have to go big.

Six months after opening, Whole Foods' tally of local products stands at more than 500, according to Barbara Gulino, the Portland store's spokeswoman. Locally produced options are available in nearly every section of the store.

But interviews with 18 local suppliers—who produce everything from fresh vegetables, dairy products and meat, to prepared and processed foods—raise serious questions about the company's commitment to promoting local food.

While some farmers and vendors reported a positive experience, and almost all gave high marks to the buyers at the Portland store, many have encountered corporate policies that impede, and even undermine, their success.

The big markup

Local food is “the foundation of [Whole Foods’] image, but it’s this lip service. They get the local products in, but they have no motivation to try to sell them,” said one vendor, who, like others interviewed for this article, spoke on condition of anonymity given her ongoing business relationship with Whole Foods.

Her product adds to the store’s “local” image, but very little of it actually sells. The problem? Whole Foods has priced it almost 50 percent higher than other area retailers do. Customers are more inclined to choose the Whole Foods store-brand version, which has more prominent shelf space and a significantly lower price.

“They put much more effort into promoting their own products,” the vendor said. “It’s not an account we see a big future with.”

“I had a terrific relationship with Whole Grocer. I was hoping I would have the same success with Whole Foods,” said another vendor. Sales of her company’s products, however, are far below what they were at the much smaller market. Whole Foods is giving her product short shrift as part of a corporate mandate to promote its own brand, she said. “That’s what they are going to try to push, because of the higher margin.”

“We’re not moving a lot of product at Whole Foods, and I think it’s price-related,” said yet another vendor. Whole Foods is charging almost 40 percent

more than the suggested retail price. Not surprisingly, while this vendor does a brisk business at other stores, his product is languishing at Whole Foods. “I think we’re going to have to pull it,” he added.

“They are gaining so much benefit from these local producers. It’s a huge marketing strategy for them. They set them all up and then they jack the price up,” said a fourth vendor, who is selling about half as much product per day as he sold at Whole Grocer. When he asked his buyer at Whole Foods why his product was priced so high—significantly higher than the store brand, and about 50 percent more than it sells for elsewhere—the vendor said he was told that pricing is a corporate decision outside the Portland store’s control.

Expanding sales of store-brand products (also called house or private-label brands) is a major part of Whole Foods’ strategy. “We have doubled the resources on our private label team and expect private label to grow to a much higher percentage of our sales over time,” wrote CEO John Mackey in the company’s 2006 annual report to stockholders.

In 2003, Whole Foods sold 460 private-label items. Today, it sells nearly 1,900. Many of these products are sold under the 365 label. Some 365 products are organic, others conventional. The chain also sells store-brand items under labels like Whole Pantry and Whole Kids, and it produces a host of prepared foods, including baked goods—some of which are baked on site, others trucked in from one of seven “Regional Bake-houses” across the country.

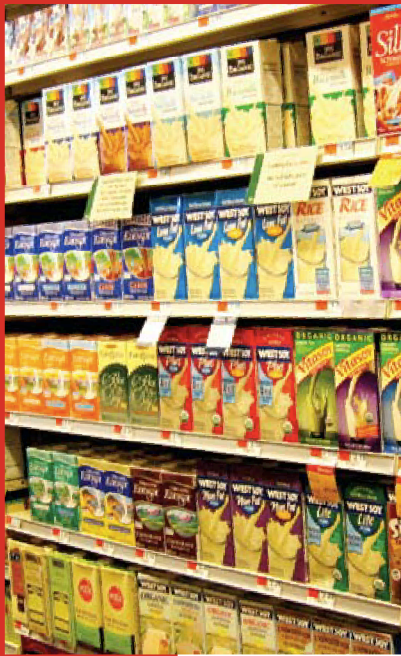
“With 365, we can offer a very good value, because we’re buying in volume nationally,” said Gulino. The idea, she said, is to offer a range of choices, from the cheaper store brand to the pricier gourmet options. “The shopper can make that decision on their own.”

True, but Whole Foods influences that decision, both by inflating the price gap between local and store brands and devoting much of the best real estate in its stores to its own products. In nearly every category, from peanut butter to bottled drinks, 365-brand items occupy extensive, eye-level shelf space.

The strategy seems to be paying off for Whole Foods. Since 2004, sales of store-brand products have expanded

“They are gaining so much benefit from these local producers. It’s a huge marketing strategy for them. They set them all up and then they jack the price up.”
—local Whole Foods supplier





nearly 30 percent, and now account for almost one-fifth of center-store sales (sales of the non-perishable items that occupy the broad middle of the store).

Expanding private-label sales is at odds with nurturing local food production. Not only do local foods end up losing the battle for favorable shelf space and pricing, but, at its core, the effort to make our food system more localized—as well

as more sustainable and humane—is about transparency. It's about knowing where and how your food was produced, and by whom.

Private-label products are deliberately anonymous. Pick up a block of 365 cheese or a can of 365 beans and all you'll discover is the country in which it was produced and the omnipresent phrase: "Distributed by Whole Foods in Austin, Texas."

Uncovering the pedigree of these items is virtually impossible. Generally speaking, most store-brand products are made either by leading national-brand companies or other large manufacturers. In either case, their production is neither small-scale nor local.

While the story Whole Foods tells about itself is one of wholesome foods produced by recognizable people in identifiable places, a fast-growing stream of what the company actually sells consists of these mystery foods. Indeed, it's not uncommon to be standing in line behind someone whose cart is filled with nothing but 365 products.

The homegrown advantage

Local vendors who do not compete with a store brand have generally had a better experience than those who do. "Fortunately, no one wants to drink 365 beer," said one local brewer, who has been pleased with how Whole Foods had displayed and priced his products.

Nor has Whole Foods developed fresh 365-brand zucchini—yet. This summer, one of the first things customers saw when they entered the store was a display of locally grown squash, tomatoes, and other vegetables. "We try to make local foods a presentation, so they are identifiable and people can find them," said Gulino, noting that the store has made it easy for customers to spot locally grown vegetables by giving them green price signs.

Whole Foods has given prominent placement to local produce, but some shoppers have expressed disappointment over how little of what's on sale in this section is locally grown (or, for that matter, organic). "What we're doing now is only going to expand," Gulino promised.

"The hardest part for local farmers is that there wasn't a transition period, where they could walk up the ladder in terms of volume," said Russ Libby,

executive director of the Maine Organic Farmers and Gardeners Association.

Though the company announced it was opening the Portland store in the spring of 2005, meetings with Maine farmers did not get underway until earlier this year. "It wasn't until sometime in March that we got to talk face-to-face with the buyer in Portland. By then, you have planted," said one farmer. He added that the store's PR people had been in touch much earlier to ask if they could take pictures of his farm to hang at the store's grand opening.

Ramping up production to meet the volume Whole Foods demands will take time. "The proof in the pudding would be: Talk to me next year," said another farmer. "We're dealing with a big entity. We're all on a learning curve, but I'm optimistic."

Other farmers were turned off at the start by corporate policies they perceived to be ill-suited for the scale of agriculture they practice. For example, Whole Foods initially told farmers they would need to have \$5 million in liability insurance. The company also set very limited delivery hours and refused to let farmers recycle boxes, which added \$1.50 to the cost of supplying a case of vegetables.

Whole Foods has since revised those policies. "Each time I've approached them with an issue, they have responded in a positive way," one farmer said.

But other policies are proving to be more stubborn barriers for local growers. One has to do with the profit margins the corporation expects to reap from its produce departments. Produce grown on small farms in Maine is often more expensive at the wholesale level than what Whole Foods can have trucked in from its regional warehouses.

Mother Oven multigrain loaf	\$5.99	\$3.89	Whole Foods loaf
Ricetta's marinara sauce	\$8.49	\$1.99	365-brand marinara
Pemberton's Maple BBQ sauce	\$5.99	\$2.49	365-brand BBQ sauce
Oakhurst gallon whole milk	\$4.09	\$3.69	365-brand gallon whole milk
State of Maine Katahdin Cheddar	\$3.69	\$2.69	365-brand cheddar cheese

One supplier described offering the Portland store several hundred pounds of a spring vegetable, but the wholesale price was higher than that of a California-grown product, and would have cut the store's gross margin from about \$3 to \$2 per pound. The buyer declined.

"The control is not at the local level. The produce buyer can't decide, 'I'll live with a lower margin,'" this farmer said. "If someone in Texas sees his numbers, they are going to say, 'You better hire a new produce buyer.'"

Another barrier for local farmers involves the various certification requirements Whole Foods imposes on some producers. One is HACCP, which stands for Hazard Analysis and Critical Control Point, a set of industry-developed food-handling rules intended to prevent contamination from pathogens like E. coli.

HACCP certification, which Whole Foods requires for leafy greens, "provides a level of comfort for our customers," Gulino said. "That's what we do. We have very high quality standards."

Complying with HACCP is no problem, said a local farmer who grows leafy greens for salad mixes. But paying to have his farm inspected and certified as compliant by a third-party costs \$10,000, more than he can afford. The farmer supplied The Whole Grocer for more than two decades, but has been locked out of Whole Foods because the chain requires HACCP certification.

When he talked to Whole Foods about this, they suggested he ship his greens to New York, where they could be washed at a certified facility and trucked back to Maine. Not only would that eliminate his profit, said the farmer, but, "how does that relate to being local?"

What Whole Foods sells here instead are salad mixes produced by Earthbound Farm, a massive "industrial organic" operation in central California. The need for HACCP is readily evident in central California, where fields of leafy greens grow not far from large animal feedlots with their lagoons of pathogen-filled waste.

"The whole E. coli problem comes from feedlot-raised animals," said the Maine farmer. "We don't have that problem to begin with."

The biggest fish

In 2005, when Whole Foods announced it was coming to Portland, there were three outlets for local and organic groceries in the Bayside neighborhood alone: The Portland Public Market, The Whole Grocer, and Wild Oats.

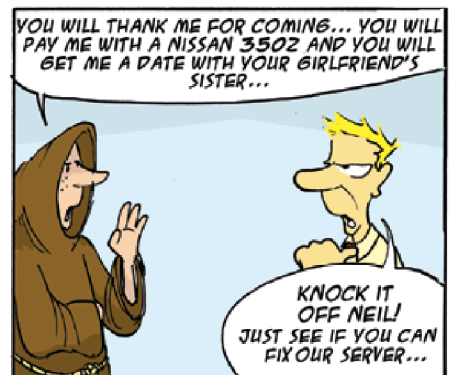
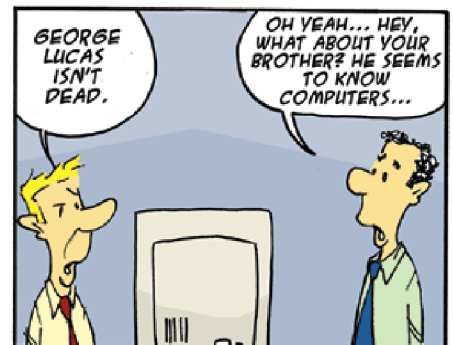
By next year, it's expected there'll be just one: Whole Foods.

Whole Foods swallowed the small, independent Whole Grocer, and is in the process of acquiring Wild Oats, heretofore its closest competitor, with over 100 outlets in the U.S. and Canada. (The Federal Trade Commission attempted to block the merger this summer on grounds it would unfairly limit competition and lead to higher prices for natural and organic foods in cities like Portland. Whole Foods prevailed in court, and is expected to close the nearby Wild Oats on Marginal Way in coming months.)

Whole Foods didn't have to try to buy the Portland Public Market. The Libra Foundation, which built and owned the glass-and-timber-framed community space, offered it to Whole Foods when the company expressed interest in coming to town over two years ago. "We had approached Whole Foods about actually putting their store in the Public Market, and it didn't fit into their plans," said Libra president Owen Wells. "It wasn't big enough."

Asked if Whole Foods' decision to open elsewhere in Bayside was a factor in Libra's decision to close and sell the market last year, Wells said, "It was a consideration, certainly."

Many observers say Whole Foods deserves credit for prompting conventional supermarket chains to take a greater interest in local food. Indeed, Hannaford and Shaw's have both stepped up their labeling and promotion of local items since Whole Foods arrived in Maine. Even Wal-Mart has given local growers



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a token nod with its “Salute to America’s Farmers” displays.

Still, the amount of local food available at these chains is minuscule. As one local supplier, echoing the statements of many of those interviewed, said, “They’re not doing nearly enough.”

The very nature of these mega-markets—with their centralized decision-making and chain-wide policies—often puts small-scale growers and producers at a disadvantage. The chains’ operations mesh more easily with those of mega-growers like Earthbound Farm and Cal-Organic, agribusiness behemoths that supply the bulk of Whole Foods’ produce under guidelines that stretch the definition of “organic” to the breaking point.

When author Michael Pollan took Whole Foods to task for this in his 2006 book *The Omnivore’s Dilemma*, Whole Foods CEO Mackey responded with a forceful defense of the chain’s buying practices and support for small-scale growers. But Mackey also acknowledged that his corporation has to do a better job working with local farmers, and pledged to make improvements.

One thing Mackey makes no apologies for is Whole Foods’ aggressive merger and expansion strategy, by which it grew from one tiny, struggling natural foods store in Austin in 1978 to the dominant force in the fastest-growing sector of the global supermarket business today.

As homegrown, independent retailers continue to get bought out or squeezed out by giants like Whole Foods, small-scale farmers and food producers stand to lose more than they’ve gained.

“That’s one of the long-term risks in this situation,” said one vendor. “If Lois’s [Natural Marketplace] and the other small markets go away, that will

create a situation that will be very dangerous to local producers.”

Selling through small, local retailers has some distinct advantages over doing business with Whole Foods, according to most of the suppliers interviewed for this story. Here their products don’t compete against a store brand, and are often priced lower than they are at Whole Foods.

“Our product is prominent in their stores. I think they consider it a really valuable item in their lineup,” said one vendor who sells to Micucci Grocery Co. and Aurora Provisions in Portland, and Lois’ Natural Marketplace in Scarborough, in addition to Whole Foods.

Some vendors said small, local retailers will often put less of a markup on local foods than other items they sell.

“We are willing to make a lower margin [because] we feel like [local foods] are a great identification point for our store,” said John Naylor, owner of Rosemont Market and Bakery in Portland.

“With Rosemont, I can call and say, ‘I’ve got a couple hundred pounds of tomatoes,’ and John will put me on hold and ask the kitchen if they can use them,” another vendor said. “They can make that transaction in 30 seconds. Whole Foods can’t do that.”

It’s crucial to have a diversity of buyers, local food producers stressed. Becoming dependent on one big buyer like Whole Foods is risky. “They can turn it off like a light bulb,” one vendor remarked.

How amenable are executives at Whole Foods’ Austin headquarters to requests that it carry more local foods and price them more reasonably in Portland? That’s an open question, but Gulino did say the store is eager to “engage customers and find out: Are we doing a good job?”

One surefire way for consumers here to keep Whole Foods on its toes is to be the kind of customer the chain purports to attract: the conscientious shopper who cares not only about price and selection, but about the quality and origin of their food, and how their spending decisions impact the community and the environment. If you reflect and act on those values, you may very well find yourself shopping elsewhere, which in turn would only improve Whole Foods.

That’s because one thing this chain and its shareholders certainly appreciate is the bottom line. The more vigorous the competition, the more responsive Whole Foods will need to be to farmers and other food producers, and customers. ■

Stacy Mitchell lives in Portland. She is a senior researcher at the Institute for Local Self-Reliance and author of Big-Box Swindle: The True Cost of Mega-Retailers and the Fight for America’s Independent Businesses.

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