

Top Answers to your Top Questions

Tom Gardner and John Mackey take your questions

TOM GARDNER:

We're here in Austin, Texas. One of the great things about traveling to visit companies, as we are right now, is I'm not doing it as a journalist; I'm doing it as an investor, and really, stopping by and visiting with some of my favorite companies and my favorite leaders. And it's great to be here in Austin, Texas with John Mackey, the founder and co-CEO of Whole Foods. John, thanks for spending a little bit of time with The Motley Fool.

JOHN MACKEY:

My pleasure.

TOM GARDNER:

So we've got member questions here and nothing fancy, no teleprompter; I'm just going to read them right off the page as I did in Miami with Jim Sinegal.

So I want to start with just an explanation from you about what the philosophy of conscious capitalism, the core of that philosophy for anyone who's never heard of it before, what it means to you and how you express that in your work at Whole Foods.

JOHN MACKEY:

Well, the simplest way to explain conscious capitalism is in terms of the four tenets or the four cardinal, core principles of it, which is, one, the business has the potential to have a higher purpose beyond merely making money. Not that that's not a good thing, but that it's not limited to that. It can be more than that.

Secondly, that business should be managed on behalf of wider stakeholder groups, not just investors, so that includes customers, employees, suppliers, larger community, and all done with environmental integrity.

And third, that you manage the business in a different way, you lead it to what we call "conscious leadership", which involves; the leaders are not there primarily to line their own pockets; they are there because they align with the mission. They're trying to fulfill the purpose of the business and they serve the stakeholders, so it's a different attitude towards leadership.

And fourth, you have to create a culture that supports the purpose, the stakeholders, and the leadership. So you have to do that and design that culture in a conscious way, so it's those four principles.

TOM GARDNER:

What organization or development in history, if you don't want to name one presently, do you think presents a great violation to the principles of conscious capitalism?

JOHN MACKEY:

Do you mean like; well, there are numerous examples. The most famous ones are companies like Enron or WorldCom or when the corruption was there, or Bernie Madoff. Anytime you've got companies where the leadership is basically engaged in some type of fraud, you have the most obvious violations of the principles of conscious capitalism because they're cheating people just to line their own pockets, which isn't really what business is about.

Business, capitalism, is about creating value for other people. And conscious capitalism, in a sense, is becoming very conscious of the principles that lead to creating that value. Creating value not just for investors; you create value for the customers. You create value for the employees. You create value for the suppliers. You create value for the investors. You create value for the large community, and it's all done voluntarily. No one's forced to trade with the business. They do so because it's in their best interest to do so.

So the narrative that conscious capitalism is trying to explain to the world is that business is about value creation. It's not about selfishness or greed. Business people are heroes because we're creating value for other people. We're creating prosperity in this world. We're helping humanity to advance, and that's a narrative that's true, yet seldom told.

TOM GARDNER:

So you've not studied all 7,000 companies that are listed in the U.S.?

JOHN MACKEY:

No, but you have.

TOM GARDNER:

I have studied a few hundred of them, but if you were to guess, what percentage of those companies would you say meet the principles of conscious capitalism? Is it half of all companies we should look at and say, They're doing right? They're creating permanent value. They're really thinking through all their stakeholders.

JOHN MACKEY:

I think most companies follow; it's on a continuum. Consciousness is on a continuum. It's not like you one day wake up and you're fully conscious of everything. It's a journey. I'm more conscious today. I'm a more conscious leader today than I was five years ago, and hopefully I'll be even more conscious five years from now than I am today. I look back and say, I didn't know anything back there in 2012. But most businesses are creating value, and they may not be conscious of their purpose and they may not be conscious of stakeholders, but they intuitively understand that if they're going to have a successful enterprise, they need to have happy customers and to have happy customers, the employees generally need to make them happy, which means they need to be somewhat fulfilled as well. You have to trade with a supplier network who's doing so voluntarily, so generally you have to have fair terms of trade. So most businesses are following the principles of conscious capitalism...

TOM GARDNER:

To a degree.

JOHN MACKEY:

To a degree, but they're not conscious of it. So once you become conscious of it, you can do it in a way strategically, that accelerates your, I think it's success of your enterprise because these principles do lead to business success.

TOM GARDNER:

It becomes more intentional and deliberate. So a few investment questions. One of them, from somebody looking at companies to invest in,

What one or two ingredients do you think are most important in creating a successful corporate culture? As an outside shareholder, how might I, writes Marie, be able to recognize those in businesses I'm studying for investment?

JOHN MACKEY:

Right now we do have some organizations like 100 Best Companies to Work For. The Great Places to Work Institute is one filter that sifts through companies that obviously have great cultures. And interestingly enough, they publish how their portfolio has done over the last 15 years since they started that list. It's handily outperformed the S&P 500, and if you were to rebalance every year, meaning get rid of; if you just bought the original list and held it for 15 years, you'd have doubled the performance of the S&P 500, but if every year you take off the ones that drop out and you add the new ones that have come on, you rebalance so to speak. It's a significant outperformance; I don't have the figure right handy, but if you check it, I think it's more like three to four times the outperformance.

So culture does matter, and the companies that have good cultures, they are great places to work. Generally, not always. It's not a magical formula, but it's a good indicator they're well managed, and it does tend to lead to outperformance. It's a good way to select stocks, in my opinion.

TOM GARDNER:

I've said I think if you followed just one metric, if you had to blind yourself to everything else in companies and you were only able to follow the turnover rate of employees relative to competition in their category, because it's not fair to compare a fast-food restaurant to a software company.

JOHN MACKEY:

Right.

TOM GARDNER:

But within their category, whichever organization is maintaining a great workplace, a place that people don't want to leave. There's a fine book entitled, *The Loyalty Effect* by Fred Reichheld, and he really pretty convincingly presents that, but it's not something that most investors, and certainly not what most brokers or folks on Wall Street are looking at when they're evaluating a business for investment.

JOHN MACKEY:

Well they're not oftentimes thinking long term when they're doing those evaluations either. Another good indicator is there's a list of ethical companies, and it turns out the companies that tend to be the most ethical and score well also outperform the indices as well. So that's another good indicator. Companies that really concentrate on making sure that they're ethical and create cultures that are also great places to work, and it kind of all links together. If you strive for excellence in the workplace, chances are good you're striving for excellence in other aspects of your business as well.

TOM GARDNER:

My brother, Dave, is very excited that you're a Supernova member. How do you invest?

JOHN MACKEY:

I do whatever *Supernova* tells me to do.

TOM GARDNER:

(Laughing.) Are there factors you look for? Like if you were looking for a company to invest, or when you make an acquisition, what are some of the qualities that you're looking for in a business? You've named two. Do they have a great culture and a great place to work and that they're ethical?

JOHN MACKEY:

Those are different kinds of questions. One is what I might

do for personal investing and the other one is what is Whole Foods doing when we try to acquire companies. Do you want me to answer both of those, or...?

TOM GARDNER:

Why don't you take a shot at both, yeah.

JOHN MACKEY:

Okay, let's separate them so; from a personal investing standpoint, I would say that a good percentage, obviously most of my net worth is tied up in Whole Foods markets. I'm the ultimate buy-and-hold investor, since I got most of my stock for pennies 34 years ago, and I've held on to most of it. Through the years I've sold off, and every time I've sold, of course, I was happy at the time, but today we hit an all-time high, so...

TOM GARDNER:

I'm happy about all of them today.

JOHN MACKEY:

Exactly. As I was joking with a friend, my wife never wants me to sell any shares of stock because she's convinced that someday it's going to go to a million.

TOM GARDNER:

Okay, I love that. You know what? That's the type of support we all need in our lives.

JOHN MACKEY:

So for my own personal investments though, I am looking for companies that, because I really believe the best time to sell a stock is never, so I really want to hold companies that I do believe that you're buying a business, not buying a stock. So you're buying a business that you; hopefully you're buying it at a good price, but one thing I've learned from The Motley Fool is that if a company is a great business and you hold it long enough and it's a great franchise, it's always going to seem overvalued. There's never going to be that, unless you have a big market washout like we did in 2008. Very seldom are you going to see these great franchises selling for pennies on what they're worth. If it did occur, it might be a once-in-a-lifetime event that occurred, but that's a great time to be buying if you had the cash to do so.

But I'm looking for companies that I think are going to be leaders in their field 10, 15, 20, 30 years from now. Honestly, I count on a service like Motley Fool to help identify those and make the case for it, so I do own stocks like Apple and Google and Amazon and companies like that. Intuitive Surgical...

TOM GARDNER:

Is it important to you that the founder is involved in the company, or is that a factor to you? that is a factor in my approach, so when I see you at Whole Food or Jeff

Bezos at Amazon, when I find somebody who's giving their professional life, tying their reputation all over their assets. One of Buffet's lines that has had an impact on me is that he likes to find companies where the management is running that company like it's the only family asset for the next hundred years. Does that play into your thinking when you...?

JOHN MACKEY:

It should because the founder is like the father or mother of the business, and no one's ever going to; and the business is like their kids. No one's ever going to love that business like the founder or the people, the entrepreneurs who create it. They love it, and I know no one loves Whole Food as much as I do, and no one watches after it like I do. And so as long as that founder is there, you're going to have somebody who wants their children to flourish in the world and they're looking out for them.

Once the founder goes, too many often the companies get taken over by the financial people who can get earnings up on a quarterly basis for a while, but oftentimes then they erode the competitive advantages and differentiation for short-term gains. It will be interesting to see now that Steve Jobs has passed on whether Tim Cook will be able to lead that company in such a way that it will continue to create long-term value or whether it will just have a little bit better iPod and a little bit better iPhone going forward, but won't have these types of breakthrough products that built Apple.

So I think the founder question is a very good one, and I am counting, again, on Motley Fool to help guide me in such ways, but I think it's a very valid question. And honestly, I think we've got a great culture at Whole Foods and I think Whole Foods will continue to be a great company after I pass from the scene, but it won't be loved in the same way, and so it is a fair question.

TOM GARDNER:

Let's skip the Whole Foods acquisition question, because I just want to know it was like to be you or to be your leadership team 2006-2008. Many, many people that are members of The Motley Fool are entrepreneurs. We skew wildly toward business executives, small business founders, so what was it like to be here? This is a company that has gone up 20% per year in value since going public in 1992, and then to see nearly 90% of that, of the valuation of the business evaporate over a two-year period.

JOHN MACKEY:

It was a nightmare, and it was; metaphors that come up for me are it was a like an earthquake in slow motion. It just seemed to go on and on and on, or it was like being in a riptide, and you're being pulled out to sea and you know you need to swim parallel to it, so you can begin to get out, but we just

couldn't seem to get, escape from the riptide. It was very unpleasant. It was by far the most unpleasant period in my business career. I think fundamentally the company was the same company, and we did see our same-store sales erode, but we did watch our stock price just fall apart until we got down to where we were trading at the most unbelievable rate of just two times our actual cash flow. It was the greatest bargain. I just didn't have any cash or I'd have been buying stock. One of the disadvantages of not taking a salary and when we suspended dividends, I was like...

TOM GARDNER:

Illiquid.

JOHN MACKEY:

I was illiquid and I needed to have some cash to live on, so to speak, so I had to sell some other assets, also at unfavorable prices, I might add. Big learning for me on that is don't ever be in that situation again. My father told me before he passed on...

TOM GARDNER:

Your father was an accountant.

JOHN MACKEY:

He was an accounting professor at Rice for 19 years, but he ended up running a public company, a hospital management company called Life Mark before that was merged out of existence in 1984. But he told me that he would have made a lot more money in his life, just towards the end of his life. He said, "You know, John, I never forgot about the Depression." "Dad, there's never going to be another Depression." Because he always was very conservative, always kept a lot of money and cash and he just never wanted to be caught in some kind of liquidity crisis, and I always poked fun at him. I said, "That's never going to happen again. You've just let go of amazing upside and you could have made so much more money." I can tell you though, when that happened in 2008, when our stock got down to seven or eight dollars, my dad's words were ringing in my head, which was, Oh my God, he was right.

We should learn our lessons. Whole Foods has \$1.3 billion in cash right now, and I got asked, what are you going to do about extra cash? Part of my answer was, I'm going to pile it up.

TOM GARDNER:

Right, exactly. Take a look at Apple's balance sheet. When they give you a good answer, I'll give you a good answer.

JOHN MACKEY:

That would be a good, smartass reply to make to the analysts. I may borrow that one.

TOM GARDNER:

It's funny, our mother passed away five years ago, but when I was talking to her at the end of her life about our company and the market was beginning to fall apart at that point; this is a little bit more than four years ago, and she said, "Well your investors that you're talking about buying out," because we bought out all of our investors, "you know, that's just debt. That's what that is. If you have a schedule that you have to make payments on."

For some reason I had in the back of my mind the feeling that venture capital; there was always an out. That's kind of the feeling you have if you raise venture capital, particularly at the time period we did in the late 1990s. It's like you can always raise more. There's always an opportunity. And Mom's words rang in my ears over the next couple of years, and stick with me now, that you need to recognize that if you don't have \$1.3 billion in cash on the balance sheet, if you don't have savings, you're putting yourself in a potentially risky place. Even if you have a great viable business from one quarter, one year to the next, if your balance sheet isn't sturdy enough, tough times can brutalize you.

JOHN MACKEY:

And you can lose it. It can go out from under you. Your mom was very astute there because venture capital or private equity, it may say it's equity on the balance sheet, but they have their exit strategy. They've got to; I came up with this metaphor a long time ago when we took venture capital, and which I think is kind of funny and I'll repeat it here, Venture capitalist are; they're like hitchhikers with credit cards. They get in the car, and as long as you get them to where they want to go to, they'll help pay for the gas, but if you get a little bit lost, they have a tendency to hijack the car and toss you on the side of the road and get a new driver. So it is a type of debt capital in the sense that you've got to pay it back one way or another. It's not permanent capital.

TOM GARDNER:

Who holds the strings in the end?

JOHN MACKEY:

That's right.

TOM GARDNER:

A few questions about Whole Foods:

"My daughter," writes Stephanie, "My daughter, Rachel, and I love Whole Foods because of the people who work there. How does Whole Foods pick its great employees and how do you keep your great employees?"

JOHN MACKEY:

Once you have a very, a strong culture, it tends to attract its own kind to it, so they pick us. We don't really go out and

recruit. We have so many more applications than we can hire for. When we do hire people at Whole Foods, not everybody works out, but the culture tends to; people have to fit in in that culture, or the culture has its own immune system that kicks them out. For example, to work at Whole Foods requires you to be voted in by two-thirds of your team. Every store's organized into self-managing work teams that are rewarded based on their success and their productivity. Very sense of psychological ownership occurs on those teams, so when somebody gets hired, if they; you can fool the team leader sometimes. It's very hard to fool the rest of the team. They see you and they work with you every day, and if you don't get that two-thirds vote somewhere between 30 and 90 days, then you're only provisionally hired. You'll have to leave. So the teams tend to take that very seriously, and people who have a bad attitude or if they're not real customer service oriented or they don't work hard. If they just don't get along with the team for whatever reason, then they may be selected out.

So it's almost like it's an immune system that makes sure that it's not infected with negative energy and negative viruses. But once you establish that culture, it does tend to self-perpetuate itself.

TOM GARDNER:

Does somebody who comes to work at Whole Foods and is working as a cashier have a path to other roles in the store?

JOHN MACKEY:

Well we post like 99% of our promotions come from within the company, and we post them all. So there are definitely career paths for people that want to stay with the company. I've heard this story a hundred times, hundreds of times really, which is, I never thought I was going to stay at Whole Foods. It was just going to be a job I did for a year or two, and here I am, 15 years later I'm still doing it.

Something I like to do whenever I'm talking to a group of Whole Foods team members is I ask the question, how many people in this room have been promoted at least once? Of course everybody raises their hand, because they've all been promoted from somewhere. And then how many have been promoted twice? And hands stay up. Most of the time, the team members that are in leadership positions have been promoted multiple times.

So now, a career path for a cashier could be that they end up becoming the front-end, assistant front-end team leader, and then become the team leader of the front-end. And maybe they become an assistant store team leader in the store, and maybe they become the store team leader, and then maybe they become a regional person, since we're organized in 12 regions, and they could go all the way into an executive position.

Or, what oftentimes happens if you're a cashier is, unless

you're totally in love with that, that's almost like a gateway job. You come in, you work as a; but you find another team that you're more; have a greater affinity to, maybe grocery. Maybe a whole body team, or maybe bakery or prepared foods or some other team, so there's many different paths.

We have lots of training. We have lots of leadership training and if people want to move up, if they work hard with a good attitude and they take responsibility, there are not enough people like that in the world. So if you're like that, then your path at Whole Foods is almost assured because you're going to get promoted.

TOM GARDNER:

I'm guessing that if you had to hypothetically set the rule at the board level on succession at Whole Foods, and the rule was: We will only hire CEOs externally or internally for the rest of the life of this company, you would be picking internally. Not that you would ever want to lock that in, but of those two...

JOHN MACKEY:

You should always pick internally, provided that the basic strategy of the business is still sound. The reason a board might have to go outside is if the world has radically changed, and so the strategy and the culture, the innovator's dilemma, as Clayton Christensen said. If you get locked in, you might need to bring somebody in from the outside who can see it differently.

When that's happened, a lot of great companies just kind of; we've seen that happen with Home Depot, when Bob Nardelli took it over. We also saw it in...

TOM GARDNER:

Starbucks.

JOHN MACKEY:

Starbucks when Howard Schultz stepped aside and Jim Donald was there. Hewlett-Packard...

TOM GARDNER:

Tragic.

JOHN MACKEY:

Tragic stories, really, and that culture seems to have lost its way. And I don't know why they needed to do that, and I'm not sure Home Depot needed to do it, and I certainly don't know why Starbucks did it. It didn't make any sense at all, but they surely had their reasons.

So the answer to your question is we'd want to promote our CEO from within. If I could stamp that into the bylaws or the articles of incorporation I would, unless it was an emergency and you just had to make some kind of radical change because the organization wasn't going to survive if you didn't.

TOM GARDNER:

What did you disrupt in the world of supermarkets and groceries? What was wrong that needed to be fixed?

JOHN MACKEY:

Our disruption came from a number of different directions in a way. The way the supermarket industry had evolved, it had evolved primarily in the, if you think about it, in the fifties and sixties where we had the three television stations, where you had basically mass advertising. The way people ate in America went through big shifts in the forties, fifties and sixties towards a mass consumer society with mostly processed foods that had been heavily advertised on television, and then supermarkets were selling the same brands and so it was all about who could do it cheaper. And so it was all about productivity and logistics, of which Wal-Mart ended up being the best at that game.

But as we began to eat that diet, we moved away. We were disruptive because we came out of it and looked at it differently and said, the food these people are selling in these regular supermarkets, it isn't even really food. It's puff this and sugar that, and it was crap, it was junk. The food system itself had been so altered, and not just processed foods, but what we do with our produce and our meat, it had all been about getting food cheap. And the quality of the American diet really began to descend.

So part of our disruption was getting back to natural, whole foods, that is the core of our business. Organic, natural, whole, foods that really nourish our bodies and make people healthy. We started out really small because that was just a little counterculture part of the society, but it turned out that there's a sizable segment of American population, and perhaps based on our market capitalization at this point, I would say perhaps this is the way America is going to eat collectively...

TOM GARDNER:

How about the world?

JOHN MACKEY:

Collectively, and the world. They have to maybe go through their American phase, since a lot of the developing worlds are going in the opposite direction, towards the cheap, highly processed, industrialized food. That's one form of disruption.

The second form of disruption was supermarkets, because they wanted to be as efficient as possible, generally give terrible service, and their stores are ugly. So you've just built these sterile, white stores that they did as cheaply as possible, and had minimal labor, so you didn't have to give any service because that provided; it was a factory-type of model. If you surveyed people, and we did. We found that most people going grocery shopping for a lot of people is like a chore, like taking out the garbage or doing the laundry, just something that they didn't look forward to doing. Think about that, what

a weird answer that is, when you think about how fun eating is. Over our lifetimes, you can make a very strong argument that the most pleasure, if you could quantify all the pleasure you've had in life, food, perhaps more than even sex, would end up being quantitatively the thing in our lives that we enjoy the most.

TOM GARDNER:

And if you can combine those two things...

JOHN MACKEY:

That's a different story that we can talk about off-camera here. But we wanted to make shopping fun and eating fun, and to create environments where people really wanted to come be in. Third place is I think how Howard Schultz referred to Starbucks, referred to Starbucks as a third place. Whole Foods is definitely a third place, because people can meet their friends, their family, and their neighbors there. People enjoy; that's one reason I don't think the Internet's going to disremediate the food retailing for many reasons.

One of the main reasons is is that people actually really do enjoy coming to our stores. It's fun. Food is so sensual, you want to taste it, you want to touch it, you want to; we try to make the shopping experience so engaging for people and so pleasurable that they want to, they look forward to coming to our stores, and indeed many, many, many of our customers do. So that's a disruption; that's different than the supermarket model.

TOM GARDNER:

I read an article on Apple. I wonder if you see an analogy to Whole Foods? The article asserted that one of the great reasons for the great success at Apple was that they went for the more affluent buyer, and that buyer then ended up with a single device on which they purchase many different services, apps, etc. Then they bought the upgraded device, devices for members of their family. By not going for the cheaper, sort of like the Kindle discounted tablet, they weren't left with buyers who weren't going to spend.

So if Whole Foods is carving out the more affluent buyer in your category, are there other services that you think you can sell to your most loyal and buyers who may have more capital to spend at Whole Foods?

JOHN MACKEY:

Well first, I'm going to answer that question, but I'm going to take a detour first, which is I sort of reject the premise of that question. We don't think of our customers; we don't categorize our customers in terms of income. It's really not what we look at. It's largely a myth, and the reason it's a myth is because if you look at the history of food purchasing in America, if you go back a hundred years ago, we spent almost 50% of our income on food. Fifty years ago, we were

still spending almost 25% of our income on food. Today in America, we spend about 8% of our income on food. We spend less and less money on food. We're getting fatter and fatter and sicker and sicker. We're spending more and more money on healthcare, and the quality has deteriorated.

So people can afford to eat healthier. In fact, we also know that you can eat the healthiest diet in the world and buy it from Whole Foods, and you wouldn't need to spend more than about five dollars a day per person, so that's not expensive, but that requires you to be able to cook and you're buying whole foods, whole grains, beans and produce and if it's in season and be an intelligent shopper. But we haven't really segmented or target affluent customers.

What we've looked for are well-educated customers because for people to change their dietary patterns, they generally have to be better informed. So that's been; and so we've been very successful in say, college towns, which may not be that affluent at all, but have a high degree of well-educated people, who just choose to spend a higher percentage of their disposable income on food because they value that more. And now that is; what we're finding is that it's rippled out to a much bigger marketplace where more and more people, despite whatever income level they're at or what their education levels are at, want to eat healthier, better tasting, high quality food.

TOM GARDNER:

Does that cause you to think that Whole Foods has the potential for more and more stores than you thought five years ago?

JOHN MACKEY:

Yes, absolutely, absolutely. We've put out we think we can open a thousand stores in America.

TOM GARDNER:

Yeah, and you're at now at...?

JOHN MACKEY:

Three-hundred and some odd, in America, in the United States. In terms of can we sell more to our existing customers? I think the answer to that is to a certain extent we can, but I don't think our brand is; we don't want to sell. We want to stay focused on the kind of food and health. We don't want to be putting a bunch of non-related things that don't enhance our reputation or our brand just because we potentially could sell them.

But some things we might experiment around with; well first of all, we're operating some of the highest volume restaurants in the United States. When we started out, we didn't even have prepared foods at Whole Foods. We just didn't exist. And now we're operating stores that do just an amazing amount of sales in prepared foods. If you go down to our

store down below, I'm pretty sure we're operating the highest volume restaurant in Austin, probably in Texas right now below our feet, if you add it all up.

TOM GARDNER:

How do you all pick foods that show up in Whole Foods? Different products, your suppliers, and how much push-back do you provide to them and say, You know, gosh, this frozen dinner now, if you look at it versus the other frozen dinners here in our section, has way to much salt in it, or this product has some refined flour in it or has too much sugar.

JOHN MACKEY:

One thing we're going to come out with; the answer is our buyers, we have quality standards. As long as the product meets quality standards, the buyers are free to pick up those products and see if the customer will vote for them, and whether the customers want them or not.

We are going to be introducing in 2013 a Health Starts Here Rating System for our foods. We're going to rate them one to five. Some foods will not actually get to a one rating, and they just won't have a rating. We're not going to call it out; we're not going to put a skull and crossbones there, but it won't be at a Health Starts Here level. And then we're going to have this Health Starts Here membership club where people who join the club, they will receive discounts on all the healthiest foods that we sell. So that's something we're looking forward to.

We need to educate people better. I mean Whole Foods, we have this incredibly great reputation, and people really feel good shopping in our stores, but you still have to shop intelligently, even when you come into our stores. If you buy an organic potato chip at Whole Foods Market, it's really not as good as a whole potato that's non-organic, such as a baked russet potato. Making it organic doesn't necessarily make it good for you if it's still a highly processed food like a potato chip is. So people still have to be discerning and have to be educated, and we feel a responsibility to do that.

I want to circle back. We spend 80% of our money on diseases no one should get, and Whole Foods does feel as part of our purpose, our heroic purpose in the world, to try to educate people. Because if we can help people to eat a healthier diet, you can help them live longer. They're going to have so much more vitality. They're going to be thin. They're not going to get these diseases.

We know what to do, so now it's being able to persuade people, but the way we eat is highly addictive. We're very conscious of alcohol being addictive or tobacco being addictive...

TOM GARDNER:

Sugar.

JOHN MACKEY:

Well, we're addicted to a lot of the things, and it's very hard for people to change their diets, and oftentimes information's not enough. First of all, they don't want to believe it, and people believe that all pleasure will go from their life if they were to eat this healthy diet, that they're not willing to pay that price.

For example, my brother-in-law's type-2 diabetic, and I gave him some books to read to try to get him to change his diet, and he just flat out refused to do it. He said, "I'm not going to change my diet. I've talked to my doctor and he says we can manage this disease." I said why would you want to manage this disease when you can cure it? Type-2 diabetes is a curable disease, by diet, usually within 30 to 90 days. It does require you to make a dietary lifestyle change. He would really rather have diabetes, apparently, rather than change his diet. And the doctors reinforce that, and take these drugs and we can manage the disease.

So we have these amazing solutions to a lot of our healthcare, and it has to do with diet and it has to do with lifestyle. And if Whole Foods doesn't tell the world, who's going to tell them?

TOM GARDNER:

Can you just name one, any company, any industry, that you think has purpose flowing through it to the degree that Whole Foods does? I mean, I imagine that there's some internal inspiration, motivation for the people who work at Whole Foods to eat healthy and to understand, to be educated about what they're consuming. It obviously flows through to your members. You've taken a super long perspective with your company. It's been in business since 1980, and you've been here working for 30+ years, so is there another company that comes to mind for you?

JOHN MACKEY:

What's a little bit tricky about that, Tom, is of course I don't know for sure, because you can only know if you were within the company. I can only look at it from the outside and speculate. I can't know, so I go out on a limb, but I can tell you the companies I most admire, that I think have this sense of purpose and are really trying to make a difference. I think Google falls into that category. The Container Store does.

I think; no company is perfect. I mean Whole Foods isn't perfect. There are many problems any company has, and again, on the consciousness, things are on a continuum. But I think a company like Amazon and Apple, these are companies that definitely, they're hearing the beat of a different drummer, and they're making the world a better place. And that's really what purpose comes down to, a sense that our company is here to make a difference in the world. We're making peoples' lives better. So those are some of the first ones that come to mind.

TOM GARDNER:

Final few questions, because we've definitely overstayed our welcome.

JOHN MACKEY:

You're going to do some good editing.

TOM GARDNER:

You know what? I can't think of anything that I want to edit out of this conversation. I think Keith writes in and asks:

Do you believe a sovereign bubble exists in America? If so, when do you see it bursting? Would you think there's an inflation bubble, and how does that affect any of your thinking about how you're running Whole Foods?

JOHN MACKEY:

I'm not sure what you mean by "sovereign bubble". What do you mean by that?

TOM GARDNER:

Well, let's go with, do you think that there's a fundamental risk to the solvency of America?

JOHN MACKEY:

Oh, absolutely. I'm very concerned about America's future at this point. Unless something changes, we are going to go bankrupt. I mean the writing's on the wall, and we are in sort of a political paralysis. The government is spending money and I guess there'll be a strong movement to try to put in like a value-added tax so the government will have more money to spend, but you can see how that's working out for Europe. It's not working out that well for Europe, but I'm very concerned about our; the deficits are clearly not sustainable and the debts that we're piling up. Greece is just a few years away for our country at this point, and it's amazing that more people don't see it. I'm very concerned about that.

TOM GARDNER:

If that happens, what happens to a company like Whole Foods? Have you studied what happens when countries go, financially fall apart?

JOHN MACKEY:

They do different things. I think probably what our country would do would be they would choose rather than deflation and depression, which is the thing they're most scared about; they'll end up with a lot of inflation, to inflate away the debts. The United States can do what Europe can't do.

TOM GARDNER:

Print.

JOHN MACKEY:

We can print, and we are doing that. I would argue possibly that as our stock, it's an all-time new high today, that there's a bit of a bubble in the stock market. You can't earn any interest. They've been putting liquidity, and liquidity and liquidity in for the last few years. Where's it going? It's not showing up yet and consumer prices haven't gone up that much, so you don't have the inflation working its way through the real economy yet, except for oil perhaps, or gold, and those types of commodities have gone way up. It's not going back into real estate. I'd say a lot of it's right now going into the stock market. It may not look like a runaway bubble. Bubbles never appear to be bubbles really until afterwards, when they pop. Then it's like, what was I thinking? What would Whole Foods do?

TOM GARDNER:

That would impact, yeah, what would Whole Foods do in that scenario, maybe something short of hyperinflation.

JOHN MACKEY:

Well again, we're piling up a lot of cash, so we want to make sure that we have plenty of reserves to weather whatever whitewater comes our way in the future. We want to be as prepared as we can be, and I mean unless you're just a total doom and gloom survivalist, and you're going to stock food at home, which we would be happy to sell to you, by the way, and guns in your basement or whatnot, we think we'll probably try to muddle through.

What else can you do? I'm not getting citizenship in another country preparing to move away. This is my home and my country. I have in some sense; I'm an entrepreneur, so I'm ultimately an optimist. Entrepreneurs tend to be optimistic. I'm still hopeful we'll get the right type of political leadership. I mean, you have a civil war and you get an Abraham Lincoln. Oftentimes America's had the right leaders when we've needed them, political leaders. I don't think we have that right now, but we could. And when things get really bad, maybe we will.

TOM GARDNER:

You maintain your stance as a long-term optimist?

JOHN MACKEY:

I'm a long term, yes, because I fundamentally believe in capitalism, and I believe in science, and I believe in progress, and we're just making some economic and political mistakes that are still correctable, and I'm hopeful we will correct them.

TOM GARDNER:

Let's imagine that; the closing questions are personal ones. Let's imagine that you're a historical figure, and a hundred

years from now they're talking about what you created.

JOHN MACKEY:

Am I supposed to be dead?

TOM GARDNER:

You're gone, you're gone. You may be frozen; you're frozen, so there's still hope.

JOHN MACKEY:

Whole Foods is not going to keep me alive until I'm...

TOM GARDNER:

You're actually in a freezer at Whole Foods, central, just down below us.

A hundred years from now, in the digital history books, will you be known as a great merchant, a great medicine man or a great philosopher?

JOHN MACKEY:

I'm not sure I'll be known for anything particularly great.

TOM GARDNER:

But we're imagining in this scenario, what would you like to be known as?

JOHN MACKEY:

You were a philosophy major in college. You view Whole Foods on a mission towards preventing preventable lifestyle diseases, so there's a medicinal side to that. And you're obviously one of; I know you disclaim this, but you were listed as one of the top ten entrepreneurs of our time.

JOHN MACKEY:

Staggering. I feel like such a pretender. Well, I guess if I'd like to be known in all of those areas, if I've; if I can have my magic wand there, but because I am very purpose driven, I would like to think that the book that my coauthor and I, Arraj Sosoti, are finishing up on conscious capitalism. I am hoping that's going to make a difference in the world.

I really do think capitalism and business are so extraordinary. They've lifted humanity out of poverty. We were: just 200 years ago, 85% of the people alive lived on less than a dollar a day, and they didn't live very long. The average lifespan was only 30 and we've come so far, and that's been business and capitalism, and doesn't get the credit it deserves. . I hope that our book and businesses like Whole Foods and some of these other ones are going to get people to rethink business' role in the world. And it will be seen for the force of good that it really is, and people'd be more conscious of. So I guess first the philosopher part. I'm back to that part of me that's always been there,

TOM GARDNER:

Sophomore year.

JOHN MACKEY:

That part of me that's always been there, yeah. I've always been a thinker and philosopher.

And secondly, I would like to think a hundred years from now, people will look back and they'll say, "America had a big wake-up call. It got so fat, 67, 68% percent overweight; 35% obese now. And in the second decade of the 21st century, people began to realize that a difference food could make, and lifestyle could make for their healthy, well being and longevity. And Whole Foods, and maybe even myself, will get a little bit of credit for that. To think that you could help so many people live longer and flourish and be more vital. What a wonderful legacy that would be to know that you contributed something to that.

TOM GARDNER:

So would you say that you are satisfied with what Whole Foods has achieved, and would you say that you're satisfied with what you've achieved.

JOHN MACKEY:

The answer to that simply is no. One of the questions I frequently get asked by journalists is did you ever think it would get this big? And, "But you must be so proud." The best answer to that is, I think, the way an artist would answer is; the artist is on to their next song or their next painting or their next movie. It's the creation of it that's fun. That's what's so rewarding and fulfilling. It's not looking back on what you've already done because that's already in the past; that's done. It's the journey itself that's rewarding. It's the creation of self that is rewarding.

Maybe someday when I'm really, really, really old and I'll look back and with pride, but I'm too busy having fun creating things now, to spend too much time on that. So I'm not satisfied because I'm still highly alive and vital and creative, so I always feel like the best is still ahead. It's the projects that I'm working on right now that most excite me, and the projects that I want to be working on in a few years.

That's what makes life so incredibly and amazingly interesting, is we get to be here and we get to live and we get to create things. Or at least I've been very fortunate. I've been able to do that, so that's what it's all about for me, is the creation of goodness and beauty and truth in the world. It's the higher part of our being that becomes self actualized, as we move up Maslow's Hierarchy of Needs.

I've had so much fun. People do not understand how much fun building a business is. You understand. It's challenging and lots of problems occur, but it's so much fun to watch something grow and develop and know that you're making

a difference in people's lives. Know the people that are working for you are learning and growing and making more money and raising families, knowing your customers love your products and are flourishing. Know that suppliers; I've watched all these little mom and pop businesses, like Honest Tea, start selling out of the back of their trucks and then becoming worth tens of millions of dollars through part of their association with Whole Foods. Creating great shareholder value from nothing, to I guess we're like at \$17 or \$18 billion now for our market capitalization. That's pretty astounding.

And then knowing that you're making a difference in your society, making it better. I mean, it's so rewarding to be an entrepreneur. It's so rewarding to build a business and know that you're doing good. Know that you're creating value for other people. If I could do it all over again, I would go back and do it all over again. I've had so much fun.

TOM GARDNER:

Well, I'm sure you're going to be saying that 40 years from now as well.

JOHN MACKEY:

I'm going to be saying it a hundred years from now. You've got me dead and buried, frozen down there.

TOM GARDNER:

I'm sorry to do that to you. I killed you in this interview. I'll just say it's a company that's generated 20% annualized returns, so as shareholders, I'm building a portfolio now where I'm requiring myself; I am restricted from selling any stock that I purchase with our real money at the company, and I'm investing all of my own capital into this portfolio. And I'm restricted from selling any stock within five years. Minimum holding period of five years.

JOHN MACKEY:

I should have waited for that. Why am I in the *Supernova*?

TOM GARDNER:

Dave's going to do just fine for you, he's going to do just fine for you, but the spirit of it is to find companies like Whole Foods, where you have continuity of principles for decades, a successful business model and a lot of people that want to be associated with that company, either as buyers, as employees are as shareholders, or just is the community, the stores operating. I've read those articles about what happens to real estate in the area where a new Whole Foods store shows up. The real estate value around it, I'm thinking maybe you guys should just be landowners and buy everything around, before you open a store.

JOHN MACKEY:

Well not before, because then you'd probably get into; well, Aubrey McClendon-type problems, but maybe afterwards...

Do you know what I think I'm going to do? I think I'm going to, when you get your new thing launched, I'm going to set up another portfolio that's going to be based on that, and then not get Dave's portfolio, and then I can basically give you guys hell about who's outperforming whom.

TOM GARDNER:

In my ideal world, there's never enough competition between Dave and Me (laughter.)

JOHN MACKEY:

I'll be the beneficiary of that competition. That sounds good.

TOM GARDNER:

Do you have siblings, by the way, John?

JOHN MACKEY:

I have a brother and a sister, yeah.

TOM GARDNER:

And you're where in the order?

JOHN MACKEY:

I'm the middle.

TOM GARDNER:

You're in the middle. Same with me. Pleasure talking.

JOHN MACKEY:

Yes, the middle have most of the advantages.

TOM GARDNER:

Right, we're the glue. We are the glue out here!

JOHN MACKEY:

Exactly, we hold the family together.