



Online Retail Giant Amazon Buys a Grocery Chain for US\$13.7 Billion

Online retail giant Amazon is making a bold expansion into physical stores with a US\$13.7 billion deal to buy Whole Foods Market, setting the stage for radical retail experiments that could revolutionise how people buy groceries and everything else. Amazon will be able to use automation and data analysis to draw more customers to stores while helping Whole Foods cut costs and perhaps prices and better tailor its offerings to customers. Amazon, meanwhile, will be able to use hundreds of Whole Foods stores as distribution hubs not just for delivering groceries but as pickup centres for what customers order online. "The conventional grocery store should feel threatened and incapable of responding," Wedbush Securities analyst Michael Pachter said. Moody's lead retail analyst Charlie O'Shea said the deal could be "transformative, not just for food retail, but for retail in general."

Amazon already offers grocery-delivery services in five markets, but analysts say expansion is tough because its current distribution centres are set up for dried goods, not perishables. Just two years ago, Whole Foods CEO John Mackey predicted that Amazon's foray into grocery delivery would be "Amazon's Waterloo." But it was Whole Foods that fell behind as shoppers found "good enough" alternatives to the organic and natural foods it helped popularise.

Founded in 1978, Whole Foods has seen its sales slump and in February said it no longer saw the potential for expanding its flagship chain to 1,200 locations, up from about 460 in the United States, Canada and the United Kingdom. It also had announced a board shake-up and cost-cutting plan amid pressure from activist investor Jana Partners. Groceries are already a fiercely competitive business, with low-cost rivals like Aldi putting pressure on traditional supermarket chains and another discounter, Lidl, opening its first US stores just this week. Whole Foods itself had launched an offshoot chain named after its "365" private label brand in a nod to the popularity of no-frills chains.

The Amazon-Whole Foods combination could put even more pressure on those chains and other big grocery sellers. Walmart, which has the largest share of the US food market, has been working on lowering prices, while Target has been struggling to turn around its grocery business. Amazon could have built up its groceries business without acquisitions, but that would have been costly and time-consuming, said Neil Saunders, managing director of GlobalData Retail.

With Whole Foods, Amazon gets an established business that it can transform through its technology and supply network expertise. And it should be able to bring cost-cutting technologies, such as robots to move

inventory around, while the company gets a better picture of customers by marrying data from Amazon and Whole Foods' loyalty programmes. That, in turn, could help Amazon do better with pricing and promotions, branding and the overall store experience, said Robert Hetu, a retail analyst at Gartner.

Amazon also has been testing automation technology at a Seattle convenience store that's currently open only to Amazon employees. The store uses sensors to track items as shoppers put them into baskets or return them to the shelf. The shopper's Amazon account gets automatically charged. Whole Foods has had a reputation of high prices and has been derided sometimes as "Whole Paycheck." That could change if Amazon not only cuts operational costs but passes those savings onto customers. "As Amazon has more resources, they might be able to streamline some efficiencies for Whole Foods, allowing the retailer to offer its organic and more sustainable products at more affordable prices," said Lauren Beitelspacher, a marketing professor at Babson College. "I think that this might be an opportunity for consumers who have felt that Whole Foods is inaccessible." "Dominant players like Walmart, Kroger, Costco, and Target now have to look over their shoulders at the Amazon train coming down the tracks," O'Shea said.

Online delivery of groceries so far has been tough for any company to pull off because of customers' concerns

about the quality of meat and produce, Wedbush Securities analyst Michael Pachter said. But if customers know that what they are getting is the same as what they'd get at the local store, they are more likely to try it out. Pachter said that even if Amazon gets 20 million members of its Prime loyalty programme to pay US\$15 a month extra for AmazonFresh grocery-delivery service, that's 20 million not going to traditional supermarkets. He added that these are likely the higher-income households who tend to buy more expensive brands and cuts of meat. And because customers can buy foods and bulk items like toilet paper from a single retailer, discount retailers such as Costco, Target and Walmart should feel threatened, too. Walmart has been trying to address some of those online threats, pushing harder into online to build on its strength in its stores and groceries. It announced Friday that it's buying online men's clothing retailer Bonobos for US\$310 million in cash, following a string of online acquisitions including ModCloth and Moosejaw.

Whole Foods, which will keep operating stores under its name, said in an email to customers, that it will maintain the same standards under Amazon, including bans on artificial flavours and colours and antibiotics in hens producing its eggs. Mackey will stay as CEO, and the headquarters will stay in Austin, Texas. The deal is expected to close later this year.

By Redaction Asia

