Amazon deal seen as disruptor of grocery business

NEW YORK, US - Amazon's deal to buy Whole Foods Market injects even greater pressure into the food and grocery sectors at a time when e-commerce is already roiling retailers.



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The tech giant's $13.7 billion acquisition of the upscale, niche grocery chain was described as a seismic event by industry analysts, despite Whole Foods' relatively small size. The deal prompted jokes and semi-serious posts on Twitter about a space-age shopping era with Amazon's artificial intelligence program Alexa replacing cashiers and ordering drone deliveries of kale.

Joking aside, the purchase will mean a serious disruption: rather than a brick-and-mortar store getting into e-commerce, in this deal an online behemoth will be moving onto Main Street, and in one fell swoop acquiring more than 450 stores in the US, Canada and Britain. It also is expected to hasten existing efforts by grocers to make shopping more smartphone-ready, sell more private label and speciality foods and overcome the hurdles of home delivery of groceries.

Amazon's strong record of keeping prices low adds pressure on supermarket chains that may be forced to consolidate to cut costs in a bid to keep up. That could in turn spur mergers among large food manufacturers that feel compelled to negotiate with heftier clients.

"It's a big deal because of Amazon and what Amazon can bring to the game," said Joe Agnese, analyst at CFRA Research.

"Amazon is thought to bring change and an acceleration of change, and so having the presence of Amazon there may lead to a faster-moving push into food delivery and lower prices."

Analysts generally praised the deal as a smart buy for Amazon, but not everybody was applauding. "Government antitrust enforcers should block this merger," said Barry C. Lynn, director of the Open Markets Program at New America, a Washington think tank.

He warned that Amazon already exerts dangerous influence "over America's markets for books and music, and is fast consolidating control over other key flows of information and ideas". "This private corporation already dominates every corner of online commerce, and uses its power to set terms and prices for many of the most important products Americans buy or sell to one another," Lynn said. "Now Amazon is exploiting that advantage to take over physical retail."



Amazon opens first brick and mortar New York bookshop

26 May 2017

Whole Foods accounts for just 1.2% of the US food and grocery market share, while Amazon has just 0.2%, according to research firm GlobalData Retail. The biggest player in the fragmented market is Wal-Mart with 14.5%, with Kroger second with 7.2%.

The deal further cements Amazon's remarkable rise from an online bookseller of the 1990s to a seller of broad-based goods with mastery over supply chains and logistics, a dedicated group of subscribers through its Prime program and an increasingly honoured creator of original entertainment.

Amazon's revenues have grown from $34 billion in 2010 to $136 billion in 2016. Amazon did not elaborate on the strategic rationale for buying a grocery chain, but analysts said the acquisition has the potential to strengthen its ties to consumers through its Prime program.

Amazon already does some grocery deliveries through Prime and some other programs, but has the chance to boost home deliveries of Whole Foods' "365 Everyday Value" products and potentially "transform the physical retail experience" through checkout-free shopping, according to JP Morgan Chase.

That push also will reverberate through the broader industry. Companies like Wal-Mart Stores and Target have had success with "click and collect" programmes, where customers order goods on their cellphone and pick them up curbside.



New program has Wal-Mart workers making home deliveries

6 Jun 2017

But home delivery of goods has proven to be a big hurdle due to costs and the difficulty of selling meats and other perishables. "The thinking is it's a very complex area that everybody's been testing and trying to make something work, but they haven't been able to figure it out and that Amazon, now they're here, they can make it work," Agnese said. "That's the fear that Amazon is going to beat everybody and do it better than everybody."

Wal-Mart, Kroger and others already have seen profits pinched by stepped-up investment in e-commerce, store remodelling, higher wages and low prices, as they try to win customer allegiance and keep shoppers coming back.

New competition from Amazon will "exert margin pressure on everybody else and force everybody to be innovative and consolidate", Agnese said.

Source: AFP

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