

RetailWeek

Opinion: What Amazon's Whole Foods deal means for grocers

16 June, 2017 Neil Saunders



The retail sector is used to change, but every so often an event occurs that shakes the industry to its core.

[Amazon's](#) acquisition of Whole Foods is one of those.

On the surface, the purchase – which comes with a \$13.7bn (£12bn) price tag – is surprising. However, there is an inherent logic in the move which brings benefits to both businesses.

For Amazon, Whole Foods fulfils, at a stroke, its ambition to be a serious player in the grocery market.

While Amazon could have built up its presence organically, it would have been both costly and time-consuming to bring the business to scale.

In our view, an online-only operation would also have suffered from perilously low margins and would have damaged Amazon's profitability as it scaled up.

Business sense

Whole Foods changes that dynamic. While it won't alter Amazon's ambitions in digital or put a stop to innovative experiments such as Amazon Go, it puts the food business on a different and steeper growth trajectory.

“Longer term, Whole Foods also provides Amazon with a well-balanced and nicely distributed physical presence”

In essence, it gives Amazon an established business that it can transform through its technology and supply chain expertise.

It also gives Amazon a well-known and well-regarded brand that can, ultimately, be sold across Amazon platforms.

Longer term, Whole Foods also provides Amazon with a well-balanced and nicely distributed physical presence that allows it to offer click and collect and other services that are linked to the rest of its business.

And there can be little doubt that Amazon will develop a proper online presence for Whole Foods which, at the moment, relies on third parties such as Instacart for online ordering.

Threat to grocers

For other grocers, the deal is potentially terrifying. Although Amazon has been a looming threat to the grocery industry, the shadow it has cast has been pale and distant.

Today that changed: Amazon has moved squarely onto the turf of traditional supermarkets and poses a much more significant threat.

The only mitigation is that the more niche appeal of Whole Foods will, at least for the time being, limit the threat to other players.

However, at a time when grocers are facing margin compression from the expansion of discounters such as [Lidl](#), the prospect of having to spend more on in-store technology and digital platforms to keep up with the Amazon behemoth is highly unattractive.

Impact on the UK

Although the acquisition will have less of an impact on the UK, it will still make British grocers sit up and take notice.

It means there is now a forward threat of Amazon using Whole Foods to penetrate the UK grocery market further and faster than it would have done otherwise.

It also raises the admittedly distant prospect of Amazon looking to acquire smaller UK players.

But perhaps the most serious threat is that the acquisition gives Amazon a comprehensive private label offering that it can use across all channels.

Ultimately this could increase the attractiveness of the online offer, making it a much more serious threat to players such as Ocado.

Saving Whole Foods

For Whole Foods, the deal will come as a relief.

The once well-regarded grocery chain has been under pressure for a couple of years and has struggled with sales, margins, and profits.

Amazon is effectively a white knight that has come to its rescue.

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In areas such as supply chain, where Whole Foods needs to improve efficiency, Amazon will be able to use its expertise to reduce costs.

For things such as in-store experience, Amazon will apply innovative thinking to both streamline operations and improve customer experience.

On the sales front, putting Whole Foods into the Amazon ecosystem will be helpful for revenues.

All of these benefits are things that Whole Foods would have struggled with alone.

That said, a big problem for Whole Foods is that the brand is not delivering in areas such as taste and food innovation. These are not Amazon's core areas of expertise, so the acquisition will not automatically remedy the issues.

If Whole Foods is to be successful over the longer term, Amazon will need to get to grips with something Whole Foods itself has been unable, or unwilling, to fix.

Why Whole Foods?

As much as there is a logic for both parties, there is a question about why Amazon picked Whole Foods rather than another target.

It comes down to scale, brand and potential. Regarding scale, Whole Foods is big enough to make a difference to Amazon, but not too big to digest and be unaffordable.

In terms of brand, Whole Foods is well-regarded and gives Amazon a unique and differentiated offer it can work with.

Potential is the most significant reason, however. In Whole Foods, Amazon likely sees a good business that needs help to reach its full potential.

Amazon feels it can provide that help, and in so doing establish itself as a force to be reckoned with in grocery.

Neil Saunders is managing director of GlobalData Retail