Amazon lines up Fresh threat to food retailers

● Etailer signs deal on former Tesco warehouse ● Ocado 'most exposed' to new rival

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Amazon's Fresh grocery delivery service has already launched in some US cities

Amazon is poised to send shockwaves through the grocery market after it moved a step closer to launching its Fresh proposition in the UK.

Retail-week.com revealed the etail Goliath has agreed a 10-year lease on a former Tesco warehouse after penning a deal with logistics facilities owner Logicor for the 304,751 sq ft building in Weybridge, Surrey.

The premises, which is similar in size to Ocado's first warehouse in Hatfield, is the clearest indication yet that it is gearing up to launch Fresh in the UK.

Analysts warned that supermarket groups and etailer Ocado should "be worried" by Amazon bringing its online grocery delivery service here following its debut in some US cities.

It would add to a perfect storm hitting food retailers, which are already being battered by changing shopping habits, food price deflation, and lower margins.

The online grocery market here is expected to be worth £17.2bn by 2020 compared with £9.57bn now, according to IGD. It remains at present a small proportion of the £149bn UK food retail market.

Kantar Retail vice-president of retail insights Steve Mader believes Ocado would be "most exposed" to Amazon's arrival.

It has been speculated that Amazon will launch Fresh in London next month.

Mader said: "Central London is very well served by four or five of the major grocers already, but is it saturated? Probably not. There is still some space for Amazon to move into.

"There will be some cannibalisation of the market and we think Ocado is probably most exposed. If it begins to lose share from its most highly-populated market, which is London, then it will put profit pressures on them.

"Any retailer that competes in a market where Amazon is investing should be worried"
Steve Mader, Kantar

"But any retailer that competes in a market where Amazon is aggressively investing should be worried."

He believed, however, Amazon would face an "uphill battle" to maintain its price image when competing with the buying power of the big four and that it would have to find new ways to differentiate itself from UK competitors.

One-hour grocery delivery windows are relatively rare in the US, but UK consumers have become accustomed to speedy and convenient fulfilment.

Ocado refused to comment, but a source close to the etailer said: "Anyone who enters the market in online grocery will be a catalyst for more people to try that type of shopping, which is a good thing."

The source said Ocado bosses are very confident in their customer service metrics, on-time delivery record and accurate picking. They believe they will be a beneficiary of a channel shift as more people start to buy groceries online.

Amazon's Weybridge premises, which is one of two sites it is leasing from Logicor, already has some food-handling facilities.

It is thought that Clegg Food Projects, which creates food and drink processing and distribution facilities, is revamping the warehouse.

The second premises Amazon is leasing, in Leicestershire, covers 257,855 sq ft and has permission to be used for grocery distribution.

Amazon declined to comment.

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