

## ANALYSIS

Amazon has thrown down the gauntlet to supermarkets by launching Fresh to tap into the £9bn online grocery market. **Luke Tugby** does a SWOT analysis

# Grocers come und

**A**mazon has unveiled Fresh in 69 postcodes across east and central London and pledged to focus on “low prices, vast selection, fast delivery options and customer experience”.

*Retail Week* runs the rule over the USetail giant's new service by assessing its strengths, weaknesses, opportunities and threats.

## Strengths

### Depth and variety of range

With an initial range of 130,000 SKUs, Amazon Fresh has already attracted some of the biggest brands in grocery including Coca-Cola, Kellogg's and Danone, while it also stocks products from artisanal producers including C Lidgate, FishWorks and Paxton & Whitfield.

### SKUs counting?

Analysts have previously suggested that online grocer Ocado could suffer most from the arrival of Amazon – and it will no doubt be concerned by the initial range the US giant has introduced on British shores.

To put it into perspective, Ocado's SKU-count stood at 47,000 in 2015, according to its annual report – just 36% of the range Amazon can boast – while market-leader Tesco has streamlined its range of 90,000 lines to about 70,000.

The average Asda and Sainsbury's superstores carry about 40,000 and 30,000 SKUs respectively, while Morrisons has rationalised its range to fewer than 22,000 products.

### Price points

Amazon used a familiar phrase when it briefed the media on the impending launch of Fresh last week: “Everyday low prices.”

Following the rapid growth of discount duo Aldi and Lidl, the big four have been forced to invest heavily in price in order to narrow the gap to their German rivals, and Amazon has followed that trend.

Although it doesn't claim to be cheaper across the board, it has maintained the low-price reputation it has established in general merchandise and entertainment by offering baked beans at 33p, packs of three peppers for 85p and iceberg lettuces for 43p.

Branded lines including Blue Dragon dipping sauces at £1.99 and Lurpak butter at £1.60 are all broadly in line with the big four's price points.

### Speedy delivery

One of Amazon Fresh's undoubted USPs is its delivery proposition. Allowing consumers to select one-hour delivery slots is nothing out of

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the ordinary, but the prospect of same-day deliveries on all orders placed before 1pm is a potential game-changer that its rivals may not be able to compete with, unless they increase the cost to the customer.

### Website functionality

Perhaps not as pretty as the ecommerce platforms built by retailers such as Ocado and Sainsbury's, what Amazon Fresh lacks in bells and whistles it makes up for in ease of use.

Product categories and sub-categories are displayed down the left-hand side of the page, with search functionality allowing shoppers to jump straight to lists of specific products they are looking for.

The basket of goods selected is listed down the right-hand side, meaning users can easily scroll through their list to review and delete items before checking out.

### Customer experience

While online rival Ocado can boast a minuscule substitution rate, Amazon aims to blow that metric out of the water as a unique selling point to shoppers with its own substitution policy.

If any item is replaced for a similar product – substituting pork steaks for out-of-stock pork medallions, for example – then the customer will not only receive a refund on the goods they initially ordered but will also receive the substitute product free of charge.

In addition, Amazon Fresh will deliver goods in colour-coded paper bags that are clearly labelled ‘fridge’, ‘freezer’ and ‘cupboard’ to make the unpacking experience easier for customers.

## Weaknesses

### The price of being Fresh

At £6.99 a month for unlimited deliveries of more than £40, and the £79 annual Amazon Prime subscription – which is required in order to access Fresh – the annual cost to a grocery shopper is £162.88.

Amazon will point to the extensive package that comes with a Prime membership including Amazon Music, Amazon Video and unlimited same-day deliveries on its general merchandise range. But to the non-Prime shopper thinking of switching to Amazon solely to purchase groceries, the three-figure sum to cover them for a year may prove off putting.

Compare it, for instance, with a 12-month anytime delivery pass at Sainsbury's at just £60 a year and some customers may struggle to see the value in jumping ship.

### Margins

Like all online grocery operators in the UK, Amazon Fresh will be operating on wafer-thin margins.

Some analysts have suggested that the big four's online businesses are actually loss-making, but Amazon insists that its aim is to ensure profitability in all of its divisions – including Fresh – through a high-volume, low-price model.

Amazon has form when it comes to making that strategy work. But the margins in grocery are smaller than in some of its other categories, meaning it will need to sell particularly high volumes of product to reap rewards.

### Lack of pedigree

To all intents and purposes, Amazon is entering the UK grocery market from a standing start, having hitherto sold only a limited number of fresh and ambient products through Prime Now and Pantry.

Competing against grocers such as Tesco, Asda, Sainsbury's and Morrisons is no easy task for any retailer, let alone a company that is entering the market with none of the history or pedigree of which the big four can boast.

Furthermore, Amazon has hardly set the world alight in the US with its Fresh offer, according to analysts.

## Opportunities

### Geography

An obvious opportunity for Amazon is to extend its reach beyond east and central London – something it is almost certain to do in time.

Theetail giant has smartly started in the capital, where it has a high concentration of Prime members, but the opportunities to move into other busy cities populated by time-pressed shoppers are vast.

Amazon Fresh boss Ajay Kavan said it will take a “very methodical and considered” approach to how it rolls out the service to other parts of the UK, but after expanding its



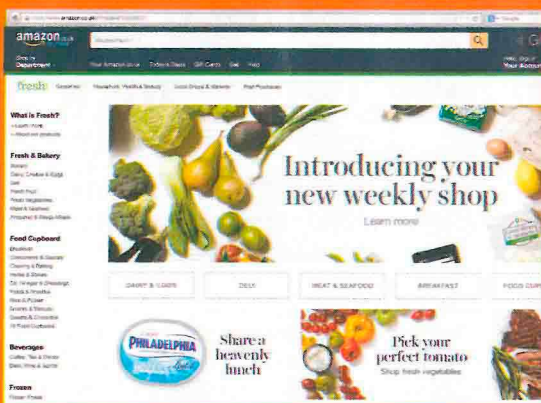
For more analysis, go to  
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# er Fresh pressure



ATOMIC TACO



**Above: Amazon Fresh is offering same-day delivery in London**  
**Left: branded products on the Fresh site are priced largely in line with the big four grocers**  
**Below: the retailer is maintaining low prices to compete with the big four**

Prime Now service to locations including Manchester, Birmingham, Leeds and Newcastle at pace, it is likely it will harbour similar ambitions for Fresh.

## Range

As it moves into other parts of the UK, Amazon will open up the opportunity to work with more local food producers across the country.

Having started in London, it is working with a host of local businesses including artisan bakeries and chocolate-makers in popular areas such as Notting Hill.

Expansion into other cities and counties will give Amazon the opportunity to invite more local food experts to work with it.

## Threats

### Competitors improving fulfilment

Amazon Fresh's same-day delivery offer will no doubt catch the eye of grocery shoppers, but its UK rivals are constantly making gains in fulfilment and could soon be operating on a similar level.

Sainsbury's, for instance, is in the process of acquiring Argos, and JS boss Mike Coupe has already spoken of how the supermarket could harness the retailer's delivery network to boost its non-food business, allowing shoppers to collect general merchandise goods from their local Sainsbury's store four hours after ordering them online.

If Sainsbury's can transfer such fulfilment capabilities to its core grocery business, it will immediately have eliminated a key point of difference with Amazon.

### Improving stores

While the convenience of online has drawn more and more customers turn to ecommerce to purchase their groceries, the established players are fighting back with their bricks-and-mortar propositions.

All of the big four supermarkets are allocating more space to their general merchandise and fashion offers in order to build a more rounded proposition in their larger sheds, while their partnerships with other brands and retailers have provided more reasons for consumers to physically visit them.

For instance, Tesco is testing concessions with Arcadia, Sainsbury's is working with Argos and Jessops, Asda is piloting Decathlon shop-in-shops and Morrisons has drafted in Timpson to offer dry-cleaning and shoe repairs to its customers.

If those concerted efforts from the grocers can succeed in enticing customers back into stores, Amazon may need to lower its prices even further to keep shoppers online.

