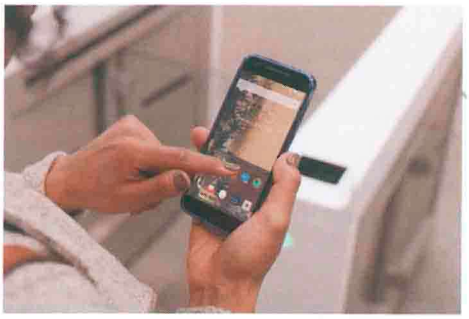
AMAZON

The prospect of Amazon Go stores arriving in the UK might put the grocery sector on edge but, as **Ben Cooper** reports, they could enliven the high street in the process

Ready, steady, GO?



Someone once wrote the lyrics "Anything you can do, I can do better". Amazon, it seems, has taken those words to heart. Not content with dominating the global book trade, DVD sales, electronics and countless other markets, the etailer has now turned its keen sights on the one sector that seemed safe – grocery – and is also taking the competition to physical stores.

After a trial store opening in Seattle last year, the etail giant is gearing up for an international launch of the Amazon Go format. However, the project has not been without its teething


Amazon is said to be considering central London for its first UK store

Where might Amazon set up shop?

Cards are being kept close to chests at the moment, but the rumours are that a central London location seems likely for the first opening, with more in the capital to follow.

David Jinks, head of consumer research at courier firm ParcelHero, says this makes perfect sense logistically.

"London is well positioned for opening a number of Go stores because it has a large Amazon fulfilment centre in Hemel Hempstead, and a further new centre opening up this year in Tilbury," he says.

"In addition, Morrisons' distribution centre in Sittingbourne in Kent isn't a million miles away and Amazon has a wide-ranging distribution tie-in with Morrisons."

problems. It was reported last month that the technology had trouble keeping track of more than 20 people at a time and struggled to track items once moved on the shelves.

Once these issues are ironed out, though, Amazon has – true to form – picked the UK to kick things off properly.

For a business that's thrived partly because it hasn't had to bear the cost of physical space, it might seem counter-intuitive. Indeed, the etailer already sells some groceries online via Amazon Pantry and, thanks in part to a tie-in with Morrisons, already sells fresh goods to UK shoppers via Amazon Fresh.

So why is it opening stores now after years of etail growth? And what does it mean for the UK retail property scene to have an etail giant on the hunt for stores?

Tim Reay, head of grocery at ecommerce consultancy Salmon, isn't mincing his words. Amazon's arrival on the property scene, he says, is a "wake-up call" for retailers.

"It means that nowhere is safe from Amazon," he says. "They can hit any sector and now also any channel. But it also says that there is a future in bricks-and-mortar retail."

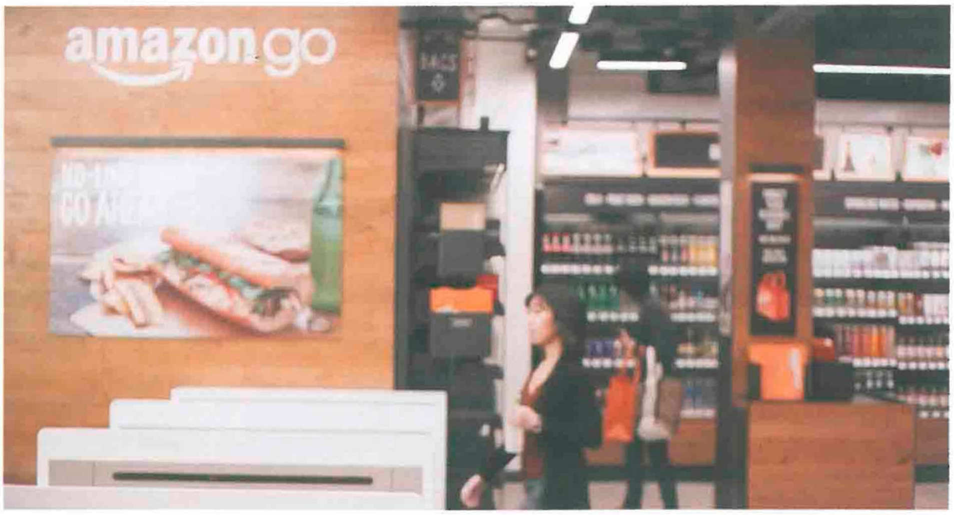
Judging by the reaction to the news that Amazon was actively looking for stores in London, Reay's comments are bang on the money. A new entrant into the grocery sector, which has seen so much new competition and change, might be the last thing the big players need right now. But, there's a silver lining: talk of the demise of bricks-and-mortar stores might have to be put on hold, if even the world's largest etailer sees the value in the traditional store.

But why now? And why move into retail stores when it's already selling groceries online? Paul Souber, head of London retail agency at Colliers, says there's a very good reason.

"Physical channel shopping still accounts for the vast majority of food sales, and with the rapid growth of online stealing the headlines it is easy to forget that in many categories in-store remains the dominant channel," he says.

"In other key categories for Amazon, online is now the dominant channel; for example, 48% of the total UK electricals market is now online and 58% of the books market; but in grocery the equivalent figure is 7.3%.

"If Amazon wants a part of this market, they have no choice but to occupy physical stores."



Tech questions

With such a huge supply chain already in place, it's easy to see how the deal works logistically. The real question is: will people want to shop in a store that's almost entirely

"Amazon's arrival on the property scene is a wake-up call for retailers"

Threat to big four

Should the UK's established grocers be worried about the prospect of Amazon's bricks-and-mortar arrival?

Professor Heiner Evanschitzky, director of the Aston Centre for Retail Insights at Aston Business School, says yes. But he also cautions grocery retailers to look for the opportunities, not just the threat.

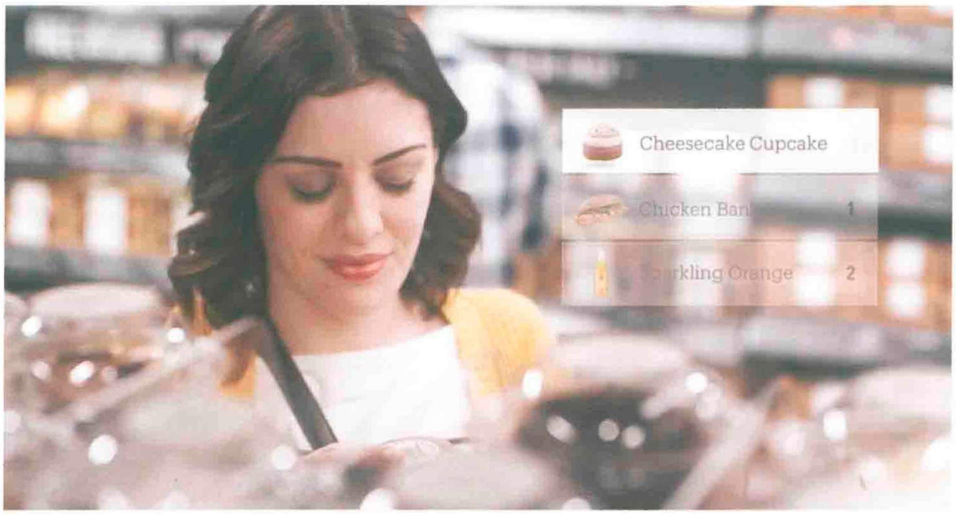
The big four can differentiate themselves by heightening their focus on customer service, rather than trying to mimic the etailer's use of technology, he believes.

"Checkout-free grocery stores take the next logical step in customer convenience – from self-checkout to 'Just Walk Out' – which many will welcome," Evanschitzky says.

"But the development does not have to signal the death of the cashier. Instead of trying to mimic the 'humanless' format or compete on price – where the likes of Aldi and Lidl will always come out on top – the big four should play to their strengths and focus on their most important asset: shop staff.

"One of the effects could be that Amazon can charge consumers less through lower prices, so that is a very real, longer-term threat to the grocers.

"Despite the trend towards automation, many customers still want guidance and advice, as well as simple human interaction."



self-service when there's so much convenience – and value – elsewhere?

Lunson Mitchenall director Nick Hartwell says that with so much competition in the sector already, Amazon might struggle.

He adds: "The addition of Amazon, with its established distribution network, will no doubt cause some concern among the traditional players where market share is king. Similarly, if Amazon is not able to compete on price with some of the more mass-market c-store offers, it will need to work hard to differentiate its product and store design, so it does not look like rows of very hi-tech vending machines."

Amazon won't need to be told how much retailers have struggled to get self-checkout to take off in a big way. It is a gift for retailers, but shoppers are still hesitant. And while there's no doubt this is changing, Simon Campbell, managing director of fit-out specialist Portview, says basing a store entirely around the self-service format might take some time.

He says: "While 'Just Walk Out' technology makes sense for the FMCG industry, where convenience is key, the same can't necessarily be said for other sectors where emotional values take priority. To succeed, retailers need to understand the unique desires and expectations of their target audience and integrate online and offline solutions to meet with them."

Not to mention how much investment will need to go into stores to get that tech in place – which is why Reay believes there may be a limit to how many Amazon will be able to deliver, at least in the short term.

"I wonder, is it possible to roll out over 1,000 stores?" he asks. "I struggle to see that they would roll this out in big numbers because of the cost of the technology. Margins are so small in grocery anyway, if you add massive overheads on top it's hard. In the short term, I'd be surprised that they can make this pay."

Whether Amazon plans to dominate the British grocery market, or open stores modestly, mainly in large urban areas, only time will tell. Either way, it can't be denied that the etailer is a master at one of the most important arts in the business: branding. Its name has become synonymous with ecommerce and has made its way into the consciousness of shoppers globally.

Brand values

Arguably then, it's a win-win for Amazon. A small Go portfolio still gets the name out there, in the physical world for a change; a huge roll-out and grocery will be changed for good.

As Souber says: "The first Amazon Go store is as much about showcasing their technological innovations in computer vision, sensor fusion and deep learning as it is about selling groceries. This is an extension of a trend that we have seen over the past couple of years towards brands seeing physical space as an opportunity to communicate brand values, rather than solely as a space from which to sell goods."

And for landlords – the ones which can find the right home for Amazon Go – it's also good news. As Jinks says, even if stores are little more than showcases, "they give a further reason for shoppers to continue to visit the high street". With footfall figures remaining sluggish, this can only be a good thing.

In the 2000s Amazon changed the retail world with its meteoric ascendancy, inviting bricks-and-mortar retailers to compete in its online domain. Now, the tables have turned and the etailer is on the high street. This will be the year for Amazon to make its mark in the physical world and play the retailers on their turf.

FOCUS ON: Amazon Go in Seattle

The store is currently only open to the online retailer's employees and allows shoppers to pick up items and leave the store without queuing at a checkout to pay.

It was due to open to the public in spring, but the reported technical issues have put this date on hold.

The outlet uses sensors that link to the shopper's corresponding mobile app to automatically charge them for items they have left the store with. At roughly 1,800 sq ft, the store is, according to Amazon, "conveniently compact so busy customers can get in and out fast".

It stocks ready-to-eat breakfast, lunch, dinner and snack options, made fresh every day by on-site chefs and local kitchens and bakeries. Its selection of grocery essentials ranges from staples like bread and milk to artisan cheeses and locally made chocolates.

Along with offering well-known brands, it also stocks chef-designed Amazon Meal Kits, with all the ingredients customers need to make a meal for two in about 30 minutes.