

# THE BIG STORY

## The day Amazon changed retail

The US eetail titan has struck a deal to buy Whole Foods Market, in a move that could potentially shake up not just grocery, but the retail industry as we know it

In an audacious push into bricks-and-mortar retail, Amazon is to buy specialist grocer Whole Foods Market.

Amazon will pay \$13.7bn (£10.7bn) for Whole Foods, including its debt, and the pair have struck a “definitive merger agreement” on the all-cash deal.

Amazon founder and chief executive Jeff Bezos said: “Millions of people love Whole Foods Market because they offer the best natural and organic foods, and they make it fun to eat healthy.

“Whole Foods Market has been satisfying, delighting and nourishing customers for nearly four decades – they’re doing an amazing job and we want that to continue.”

Whole Foods co-founder and chief executive John Mackey said: “This partnership presents

an opportunity to maximise value for Whole Foods Market’s shareholders, while at the same time extending our mission and bringing the highest quality, experience, convenience and innovation to our customers.”

Mackey will stay on as chief executive of Whole Foods, which has around 450 stores including several in the UK.

The deal is expected to complete in the second half of this year.

Amazon has made a concerted play for grocery spend through ventures such as Fresh, which launched in the UK a year ago.

It has also shown an increasing interest in marrying its online power with ownership of stores. After opening its first bookshop in Seattle in 2015, it has built a seven-strong books chain.



## What the experts say

“How will any other retailer match Amazon’s fulfilment service without damaging its own economics?”

“A more subtle message from this deal is around physical shopping and the often-asked question: does the store have a future? Well clearly Amazon thinks so. A vote of confidence from what might have been thought the most unlikely source.”

*Richard Hyman, RAH Advisory*

“The power of a physical presence on the high street to grow a brand’s reputation and credibility is particularly important in grocery, where consumers want to be able to see the quality of the items they’re buying first-hand.

“Whole Foods is perfectly positioned to give Amazon a crash course in how food retailing really works on the ground.”

*Fraser McKeivitt, Kantar Worldpanel*

“Amazon will acquire 400-plus prime location distribution hubs in the US, which will enable it to expand its online food offering at pace.

“Amazon is likely to be considering that its Go and Pantry offering, coupled with Whole Foods’ USP of fresh, healthy food, will allow it to be the leading grocery retailer for convenience and health, which is the way the grocery market is moving.”

*Andy Brian, Gordons*

“Amazon is now very loudly expanding its offering beyond retail to own every single instance of the customer experience – this feeds into ‘interface imperialism’, where brands diversify and expand their offering into entirely new services.”

*Hugh Fletcher, Salmon*

“Once Amazon wins the high-frequency purchase, they are likely to win other purchases due to convenience buying. The market should take note that this is just the beginning for Amazon – it’s the first innings of a game that has a long way to go.”

*Brendan Witcher, Forrester*

“Shopping is now becoming seamless: it’s about obtaining goods whether online or offline, through clicks or bricks, via multi- or omnichannel. It is now simply ‘commerce’. The deal marks a step up from recent announcements such as the Morrisons fulfilment deal, and could set a precedent for other similar deals across the grocery sector.”

*Tim Vallance, JLL*

“It is widely known that Amazon has been scouting for prime central London locations as part of its move into grocery retail in the UK. Exactly 12 months since the launch of Amazon Fresh in the UK, and in one fell swoop, the online giant will now have nine supermarkets in the UK – seven of which are London-based. Whole Foods’ proposition also has an excellent fit with the typical London-based Amazon Prime Customer. The UK grocers have downplayed Amazon’s impact on their sector to date, but this latest move should have them genuinely looking over their shoulder.”

*Harsha Wickremasinghe, Livingstone*



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## From America: What Amazon's deal means for grocers



Neil Saunders,  
Managing director  
GlobalData Retail

Retail 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 (£10.7bn) 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.

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 trajectory.

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.

Now, that has 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.

However, at a time when grocers are facing margin compression from the expansion of discounters such as Lidl, the prospect of having

to spend to keep up is highly unattractive. And 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.

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 the in-store experience, Amazon will apply innovative thinking to both streamlining operations and improving the 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 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 it 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. Scale-wise, Whole Foods is big enough to make a difference to Amazon, but not too big to digest.

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

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

“Amazon's announcement that it has agreed to acquire Whole Foods Market for around \$14bn is a transformative transaction.

“Implications ripple far beyond the food segment, where dominant players like Walmart, Kroger, Costco and Target now have to look over their shoulders at the Amazon train.”

Charlie O'Shea, Moody's

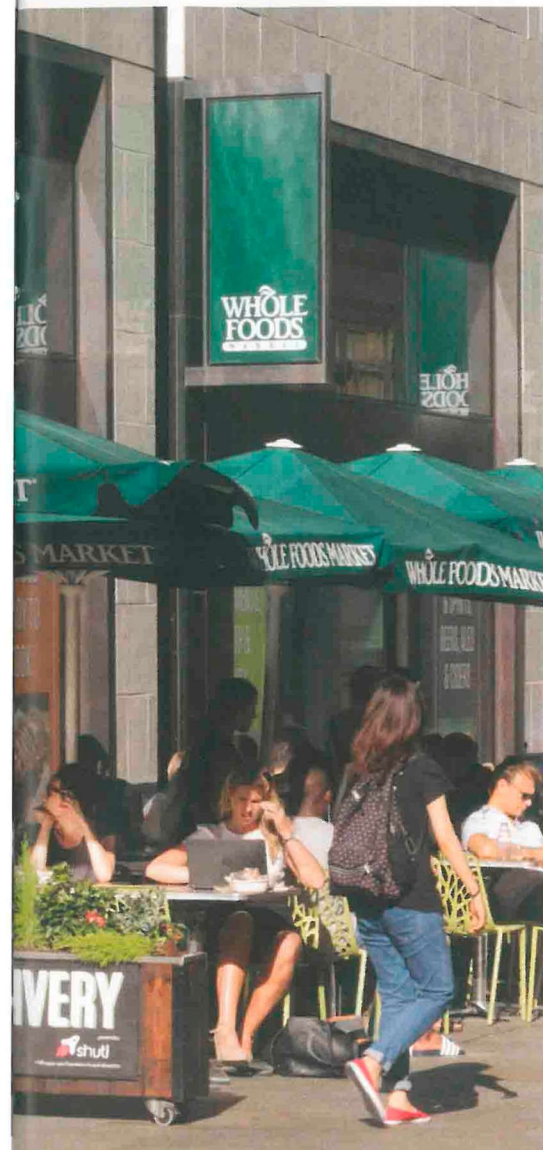
“This deal provides the opportunity for significant buying synergies and to expand the Amazon Fresh model.

“There is also a great opportunity for Whole Foods Market to optimise Amazon's technology, particularly the work it has started around developing a checkout-free store environment, and its focus on creating a frictionless customer experience.”

Stewart Samuel, IGD

“It will be interesting to see how Amazon drives growth from a relatively niche and premium brand such as Whole Foods.”

Jason Juden, TLT



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