

# OPINION

## The grocery market is not Amazon's true target

Many grocers took Amazon's purchase of Whole Foods Market in June as an indicator that stores are still a valuable asset for a retailer. But the e-tail giant's foray into food fulfills plenty of other functions

**M**ost commentators have portrayed Amazon's acquisition of Whole Foods as a drawing of the battle lines in the grocery market.

Amazon, it is assumed, wants to become Walmart before Walmart can become Amazon.

Grocery retailers comfort themselves with the indication that if Amazon wants stores, their assets must still have value.

The route to survival, it appears, is to add multichannel capabilities faster than Amazon can add stores.

To think this way misinterprets what Amazon's goal is, and importantly what it is not. Amazon does not want to become a 21st-century Walmart.

It does not even consider itself to be a retailer. It is a bundle.

It is a cluster of product, services, content and convenience which aims to be the go-to place for everything.

The central flywheel is Prime, now with 115 million global members, which draws people to switch more and more of their attention and consumption to Amazon.

Prime members spend at twice the level of non-members. In this bundle, it doesn't matter where the profit is made, or what subsidises what.

### Platforms for profit

On the back of the infrastructure for this bundle, Amazon has its platforms: for vendors selling through Marketplace and providing their logistics through Fulfilled by Amazon; for brands seeking marketing solutions through Amazon Media Group; and for startups hosted on Amazon Web Services.

All of these services are significantly more profitable than retail.

In this vision, Amazon's relevant competitors are not traditional retailers, but the other ecosystem players – Google, Facebook, Tencent and Alibaba. Its biggest strategic concern is becoming dependent for distribution on Apple

or Google Android's devices: hence its launch of Alexa and Echo.

### The attraction of grocery

Where does grocery fit into Amazon's bundle? Like many of its verticals, it is not a particularly profitable market in its own right. But grocery has three big attractions for Amazon.

First, frequency. The once or twice a week purchase frequency of groceries provides the perfect hook for Amazon's general merchandise and other services, and increases traffic for its marketplace sellers. Perhaps most enticingly, regularly replenished groceries are the Trojan horse to put Echo at the centre of the kitchen table.

Second, last mile logistics. In the US, alongside Amazon's 100 fulfilment centres, Whole Foods brings it some 400 local inventory, consolidation and pick-up points. Grocery builds order value and drop density, lowering logistics costs.

Together with health and beauty, food has already proven to be the most demanded category in Amazon's one-



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to-two-hour Prime Now offer. But with only 9 Whole Foods stores in the UK, watch for some alternative future solution here.

And most importantly, data. Unlike any other category except possibly banking, grocery offers the depth and breadth of customer information to improve Amazon's ability to personalise offers and predict needs.

Expect this to start in private label. In the UK, Amazon is using Morrisons' lines to test what works, but will rapidly collate huge data on customer shopping preferences and searches, and then likely use this to develop focused private label.

Before long, grocery data will provide insight into households, which will begin to accelerate all the other elements of the flywheel.

Think of Whole Foods like Amazon Prime Movies. At significant initial outlay but break-even marginal economics, Amazon has added more traffic, improved the value and stickiness of Prime, supported the ability to cross-sell its services and deepened the scale economics of its platform.

That is why grocery retailers should be alarmed. Amazon is not trying to make money in your market. Simply, it might wreak collateral damage on the march towards its bigger goal. **RW**