Amazon acquisition of Whole Foods Market

A watershed moment?
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The surprise announcement on Friday that Amazon is to acquire the leading US food retailer Whole Foods Market could have significant implications for food retailing, food suppliers and the supply chain. Leatherhead Food Research assesses five areas that may have significance to Leatherhead members.

1. Disruption is real

“An transformative transaction, not just for food retail, but for retail in general,” is how Moody’s ratings’ agency has described the deal. News of the transaction sent share prices in traditional supermarkets into a tailspin: Walmart, the world’s largest retailer, fell by 5.4 per cent, with similar falls experienced by both the UK’s biggest chain Tesco and Germany’s Metro.

Amazon, of course, is famous for completely disrupting markets, from initially book retailing through online channels to much of non-grocery retailing and then onto cloud computing services. The launch of Amazon Echo following on from the Kindle has taken it into consumer electronics positioning itself for the “smart” home. This concept of a non-traditional company walking into a market space with incumbents is of course part of a wider trend – Uber upsetting the taxi and minicab market, Netflix disrupting broadcasting and Airbnb disrupting the hotel industry.

2. Clicks to bricks – the dotcom bubble reverses?

It seems an irony that the mother of all online retailers, Amazon, should have acquired a traditional bricks and mortar brand. Whole Foods Market has about 460 stores – 9 in the UK.

Food has been on Amazon’s agenda for a long time as demonstrated by the launch of Amazon Fresh a decade ago. Food is a really attractive sector for an organisation such as Amazon because it is a high frequency purchase which drives efficiency in logistics and thus reduces cost – a key strength of Amazon in the past. But food has been a tough nut to crack with market commentators noting that customers have complained about Amazon’s poor range of offerings and lack of availability. Fresh produce has been an especially big challenge, with its limited shelf life, putting unique pressure on the logistics of any organisation.

Though all the sexy talk recently has been about drone delivery, distributing a relatively low value item to the
customer’s home is a unique economic challenge. In contrast, distributing to nodal points such as those provided by the 460 retail outlets is a whole different ball game. People already have and like “pick up and go” retail models, and perhaps food in general and fresh produce in particular may evolve this way in preference to direct-to-the-customer-home. While you are picking up your food you can also pick up the books/clothes/gifts/etc. you ordered!

3. Premiumisation

It is interesting that Amazon has chosen to buy a premium food & beverage retailer. Whole Foods Market is nicknamed “whole pay check” in the US because of its high prices. On the one hand, the fact that the products command higher prices and therefore have greater margins, means that if you are going to play in food & beverage this might be the space. On the other hand, Amazon is about value (historically, focussing on low prices), speed and convenience, without the compromise on quality of the product delivered.

This could, however, be more of a stepping stone acquisition. Whole Foods Market customers spend money and will pay a premium, allowing Amazon to build equity and trust. Amazon’s Prime customers tend to be its more affluent customers and it may be that there is good overlap between these customer bases. But it seems likely that Amazon will look to play in the mass market – perhaps enabled by acquisitions of trusted regional players with bricks.

4. The health trend

The health trend in food and beverage continues to grow. This is no great surprise but perhaps its recognition by mainstream retailer Amazon is definitive in its move from niche to mainstream. Whole Foods Market has been instrumental in bringing organic and health foods into consumer consciousness and making them fun and relevant not dull and “worthy”. With its educated customer base, Amazon could potentially democratise/commoditise organic, wholesome nutrition to the mass market where other food & beverage retailers have struggled.

5. Technology, innovation and power to the customer

The importance of the customer has been key to Amazon’s growth. They have focused relentlessly on the consumer experience in the buying process, the products themselves and the delivery models. This move into physical retailing reflects the fact that different people want to buy in different ways at different times.
In 2016, Leatherhead undertook research in our member base about attitudes to innovation. One head of innovation at a food manufacturer noted: “... everything is so instantaneous and consequently we have more freedom of choice than we’ve ever had. The days of doing a weekly shop for the whole family are long gone – people switch around different retailers, they buy online or off their phone, everything is there at the consumer’s fingertips.”

Amazon has already started to play with novel retail models – not least their yet-to-launch pick-up-and-go store in Seattle. Amazon Echo allows verbal orders and commands allowing people to purchase as and when they want. They also have the ‘dash’ button for right-now ordering.

The Whole Foods Market retail space could provide a physical “laboratory” to deploy new technology for new customer experiences. High-tech, artificial intelligence in store could help Amazon learn how consumers select food and this could be a benefit to them in the next generation of automated food selection and delivery. Understanding why and how consumers make food purchases; connecting in-store and online purchasing; and innovating the in-store experience are all places we may expect change.

Summary

The Amazon announcement took the food retailing market by surprise and had an immediate impact on shares in many traditional organisations as investors worried about the impact on existing players in the market. At present, Amazon’s plans are unclear and food retailing has repeatedly demonstrated its high barriers to entry and even higher challenges to be successful. But Amazon has very deep pockets and a determination to succeed. If Amazon history repeats itself, the food retailing market may never be the same again and innovation will be the key to future success for food retailers and suppliers.

About Leatherhead Food Research

Leatherhead Food Research provides expertise and support to the global food and drinks sector with practical solutions that cover all stages of a product’s life cycle from consumer insight, ingredient innovation and sensory testing to food safety consultancy and global regulatory advice. Leatherhead operates a membership programme which represents a who’s who of the global food and drinks industry. Supporting all members and clients, large or small, Leatherhead provides consultancy and advice, as well as training, market news, published reports and bespoke projects. Alongside member support and project work, our world-renowned experts deliver cutting-edge research in areas that drive long-term commercial benefit for the food and drinks industry.

Leatherhead Food Research is a trading name of Leatherhead Research Ltd, a Science Group (AIM:SAG) company. Science Group provides independent advisory and leading-edge product development services focused on the Group’s in-depth science and technology capability. It has seven offices globally, two dedicated UK-based R&D innovation centres and more than 350 employees. Other Science Group companies include Oakland Innovation, OTM Consulting and Sagentia.

1 Serving up solutions for a changing consumer (2017) Leatherhead Food Research. Leatherhead surveyed 1,000 consumers in each of China, Brazil, US and France and 2,000 in the UK.
2 Poised for an age of innovation (2016) Leatherhead Food Research. Leatherhead interviewed 28 representatives in the food & beverage industry about their attitudes to innovation. Research is free to all Leatherhead members. https://www.leatherheadfood.com/publication/poised-for-an-age-of-innovation/