Amazon's appetite for disruption

By Sylvain Charlebois

8 Sep 2017

Amazon is not wasting time in its acquisition of Whole Foods. Speed of execution, after all, is at the essence of the tech giant's business model.

As soon as American regulators approved its acquisition of Whole Foods, Amazon said it would aggressively reduce the price of several organic staples in all of the 431 Whole Foods stores in the United States and Canada. They began doing so last week. Amazon’s playbook is about low margins and high-volume sales – for anything, including avocados, baby kale and grass-fed ground beef.

Technically, Whole Foods was in a free fall before its acquisition. Store traffic was shrinking, sales were sluggish and the company was having difficulty convincing shareholders that organic food sales are immune to economic cycles and pose a bright future for the company.

In fact, Whole Foods reinforced the notion that organics are, for the most part, exclusive and for the elite. Its nickname in the U.S., after all, has long been Whole Paycheck.

Organic groceries are more expensive, costing consumers almost twice as much as conventional food products. Margins are also a sweet deal for grocers, as they can be as much as five times what they would be for non-organic foodstuffs.

Amazon obviously knows all this and intends to make organics more affordable and more democratic. At the same time, it also expects to make a statement as a change agent in the grocery business, putting all the players in the industry on notice. Slumping stock prices for the major U.S. grocery chains show Amazon certainly has the market's attention.

Walmart biggest seller of organics in U.S.

It's not the first time a giant retailer has attempted to make its mark in organics.

Through its mastery of supply chain management, Walmart has made organics more affordable over the last decade or so, although with mixed results. When it committed to organics, Walmart wanted to offer more than 140 different organic products to its customers, but failed miserably.

Walmart soon discovered that the realities of organic farming make accessibility more challenging. Over the years, it adjusted expectations by offering fewer but cheaper products. Today, Walmart is now the largest seller of organic food products in America.

But Amazon now has Whole Foods, the mecca of organic food, which gives it a huge advantage over Walmart. With its newfound access to an incredible organics ecosystem that encompasses well-established farms, suppliers and wholesalers, Amazon can execute its strategy almost instantaneously in ways that Walmart could not.

And so it begins, but it remains unclear how all this will affect the Canadian organic market.

Unlike the U.S., food prices in Canada have started to rise again in recent months.

If anything, Canadians could see organics go up in price too due to Amazon's determination to introduce more Americans to organic products. With higher demand south of us, procurement could become more challenging for Canada's major grocery chains even if our currency remains strong against the greenback. But over time, as Amazon increases its footprint in Canada, all this could change.

The American food distribution landscape is much different, especially today. With German-based Lidl and Aldi also expanding into the U.S., Americans may witness a continued food price war.

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Food prices dropping in U.S.

Except for July, food prices in the United States have dropped for 18 months in a row, the longest stretch since the 1950s. Pricing always has a very direct, short-term impact on profitability. Over time, though, the survivors absorb the shocks coming from the competition and from lower prices.

Since Amazon has never played the high-profit, high-dividend game, this is a non-issue for the company. But in terms of organics, the Amazon/Whole Foods story will only make matters worse for Kroger, Safeway and other competitors.

Why?

Convenience rather than prices is the primary factor in organics. And so organic retailing coupled with online selling can only leverage Amazon's position in the marketplace. The distribution power driving Amazon's move on Whole Foods makes the online giant almost immune to any procurement challenges, a common issue in organics.

Meal kits next?

Amazon's next move could involve meal kits.

For years, grocers have treated food services like meal kits as an afterthought. But given that some analysts are projecting the online food service market is likely to increase 15 times faster than the rest of the restaurant business by 2027, some are starting the move.

The first out of the gates in Canada was Metro. Metro's brilliant move of purchasing the ready-to-cook meal delivery company MissFresh this summer is evidence that grocers are starting to see the potential, but it has been slow.

Amazon, however, does not move slowly.

Blue Apron, a U.S. meal kit provider, just announced it was reducing its sales force to better calibrate sales with capacity. Several meal kit start-ups have emerged and have done well, but no one has proven they can be sustainable for the long term.

Many have to spend an outrageous amount on marketing, and set very high price points for their products. It's easy to see how Amazon could get into the meal kit business by using its massive data-driven strategies. Will Amazon bulldoze into Blue Apron's territory?

Amazon is essentially about merchandising convenience for all. Organics, meal kits – it's all about convenience.

For years, Walmart mastered the concept of simplicity and one-stop shopping at a big box store. But Amazon is, quite frankly, betting on the indolent nature of mankind. And it's winning.

ABOUT THE AUTHOR

[[https://theconversation.com/profiles/sylvain-charlebois-380983 Sylvain Charlebois]] is a Professor in Food Distribution and Policy at Dalhousie University.