



Harry Blazer: Reflections On The Proposed Whole Foods Purchase By Amazon

Harry Blazer founded Harry's Farmers Market in the Atlanta area in 1987, opening in Alpharetta. Two others later opened in metro counties Cobb and Gwinnett. Whole Food Market purchased the three Harry's megastores in October 2001 as well as a distribution center, commissary kitchen, bakehouse and office facilities. Today, Blazer is a consultant (<https://www.blazerconsulting.net/>) (harry@blazerconsulting.net (<mailto:harry@blazerconsulting.net>)). Here are his thoughts about the \$13.7 billion purchase of Whole Foods by Amazon that was announced June 16 (<http://www.theshelbyreport.com/2017/06/16/amazon-buying-whole-foods-market/>).

How does this help Whole Foods Market and John Mackey?

- a) Immediate stock appreciation.
- b) Pressure regarding its performance (negative store comps and negative trending sales per square foot) and lagging stock price from private equity and other shareholders and market disappears.
- c) John Mackey remains as CEO (for now).
- d) The only national retailer of organic, natural and specialty (and arguably most well-known and respected brand) just joined forces with the most innovative, disruptive and respected international brand in online retailing—and arguably retailing in general—not to mention one of the preeminent providers of web services and masters of fulfillment.
- e) Whole Foods now can operate under the consolidated statement of Amazon (if Amazon chooses to do so) rather than having to report as a separate company and thus escape scrutiny from market and competitors regarding financial performance and strategy.
- f) Expansion of market share overnight by plugging into the Amazon Fresh customer base.
- g) Ability to leverage Amazon expertise as the leader in logistics and fulfillment and one of the most significant players in data services, analytics, online technology and customer interface.



Harry Blazer

How does this help Amazon?

- a) Early on, I had conversations with Tesco North American leadership regarding their Fresh & Easy concept, which was having trouble almost from the get-go. They made a number of critical mistakes (which I tried to point out), with one of the major ones being that they tried to introduce a new retail brand and launch a new concept at the same time in a fairly big way—a concept that, to make matters worse, was not perceived as either “Fresh” or “Easy” by the consumer. They would have been much better off to have acquired a conventional chain with a respected brand and an established and viable store base, learned about the differences in doing the supermarket business in the U.S. vs. other places in the world and about the U.S. consumer while leveraging their experience and prominence as conventional supermarket operators, and *then* used that base from which to develop and launch a new, fresh-convenience concept.

Amazon has been in the beginning stages of developing its grocery business after a number of years of prototyping. That development has moved slower than it would have liked. Amazon came to understand that the fastest way to become a major player in the food business was through partnerships and acquisitions, not by building that business internally and incrementally. Amazon has the ability to dominate entire retailing segments by leveraging its brand and IT, customer interface, data analytics and logistics infrastructure. Speed pays dividends, as reflected in its stock price after the Whole Foods acquisition...it created a larger increase in its valuation than the price it paid for Whole Foods. This shows how the market views the power and potential of this alliance and the leverage it will now bring to Amazon. Conversely, the rest of the industry lost about \$40 billion in market valuation. Equally telling.

- b) Walmart became the largest grocer in North America within a decade of when it made the decision to get involved in groceries. Why did it go after groceries? Because food represents increased shopping frequency over hard and soft goods. It doubled the frequency of shop at its supercenters when it added food. Aldi showed meteoric growth in the U.K.

market when it added fresh and specialty food to its stores. Costco recently surpassed Whole Foods to become the largest purveyor of organic groceries in North America.

Amazon believed that by being able to offer food to its customers that it could increase frequency as well. But just as importantly, food is a critical component in its drive to become the primary shop and first “stop” for every household—for everything!!! It now will enhance its ability to become Walmart before Walmart can become Amazon.

c) Amazon has been prototyping various approaches in its drive to develop its own food retailing channel, predominantly under the “Amazon Fresh” subsidiary, which has gone through several iterations as well. It now has the opportunity to develop a more coherent and comprehensive strategy, offering and branding around food, and unify, clarify and synchronize the food retailing initiatives represented by Amazon Fresh, Go, Pickup, Pantry, Prime and Prime Now.

d) When I was working with Morrisons in the U.K., I tried to convince them not to try to develop their own home delivery infrastructure to compete with the offerings of Tesco and Sainsbury that were well established, but to partner with Amazon, who was just entering the non-grocery retail market and was also looking for a quick pathway into groceries. After spending substantial time and money trying to develop a home delivery IT and logistics capability themselves, Morrisons decided to partner with Ocado, which also was supplying delivery services for a competitor (Waitrose). Morrisons paid big money for the privilege as well and missed, at the time, what was a natural partnership that could have made Morrisons money from the get-go with Amazon in charge of home delivery fulfillment and Morrisons as Amazon’s grocery and fresh food supplier. Especially since Morrisons, unlike other U.K. retailers, had an extensive, proprietary food manufacturing and processing infrastructure of its own, which it maintains today. Several years later, Amazon has become the major force in retailing in the country, and a major factor in food retailing, with Morrisons as a primary supplier. In North America, with the acquisition of Whole Foods, that primary supply partnership has been defined for the future. Perhaps in the U.K. as well.

e) Whole Foods has about 464 locations (about 5 percent of which were outside the U.S., in Canada and the U.K.) with some 90 in development (one-tenth of Wal-Mart’s store base). It also has 11 distribution facilities; three seafood processing and distribution facilities; and one facility dedicated to specialty coffee. Amazon has more than 60 distribution centers, undoubtedly more effective than those operated by Whole Foods for the distribution of non-perishables by the piece. Amazon is paying just under \$30 million per store, most of which are leased, by the way, and about 17 times Whole Foods’ free cash flow. Not unreasonable just as an acquisition price per se, without the strategic considerations.

f) Amazon generates about what it is paying for Whole Foods in free cash each year. If it pays cash, it will use about 50 percent of the value of its current cash, cash equivalents and marketable securities for the purchase. So this represents a significant investment. They are serious about becoming a major player in the food business, fast!

g) Amazon will get an insider’s view of UNFI (United Natural Foods Inc.) and Instacart, with whom Whole Foods currently has strategic and contractual partnerships. It is interesting to contemplate the effect on the industry if Amazon also acquired these organizations.

h) I have often told retailers I have worked with that Google, Facebook and Amazon have much more comprehensive data about their customers than they do. What these players don’t have is the in-store POS transaction data to close the loop. I have suggested to a number of retailers that they would be much better off partnering with these players than trying to develop their own card-based loyalty program. These players would be anxious, I believe, for a look at their transaction data if nothing else. We are about to see what happens when one of the premier players in the virtual and data world gets transparency of the transactional data of one of the premier players in the retail food brick-and-mortar world.

i) The WF shopper demographic is highly skewed to urban, higher income and higher education—naturally synergistic with Amazon’s Prime and Prime variants’ present and aspiring customer base.

j) Amazon just added 460-plus pickup locations overnight.

k) As reported by Becky Shilling regarding the recent United Fresh convention in Chicago: “The future of fresh isn’t Amazon. That was the overwhelming sentiment during a panel of Gen Z Chicagoans at United Fresh’s Fresh MKT...The idea of ordering fresh grocery food from Amazon did not appeal to these customers, who said they felt food ordered from Amazon Fresh would be ‘too handled,’ ‘not ripe,’ ‘not the best quality’ or ‘might be damaged.’”

The key factor to building a vibrant fresh business is building trust. Few organizations are regarded more highly by customers than Amazon, but this is mainly around selection, speed and accuracy of delivery, and price. Fresh is a different story. So, as much as customers trust Amazon to provide what they want, when, how and where they want it at a price they can afford (often the best in the marketplace), that doesn’t mean they will trust them to be their merchants for fresh.

Whole Foods has had challenges over time with trust factors and vendor relations as well. But if you can merge the value and fulfillment proposition offered by Amazon with the food credentials of Whole Foods, and make yourself worthy of people’s trust around fresh (customers and vendors), you can dominate the world of food retailing. And I think that is

