

Amazon, Whole Foods Market in Year One

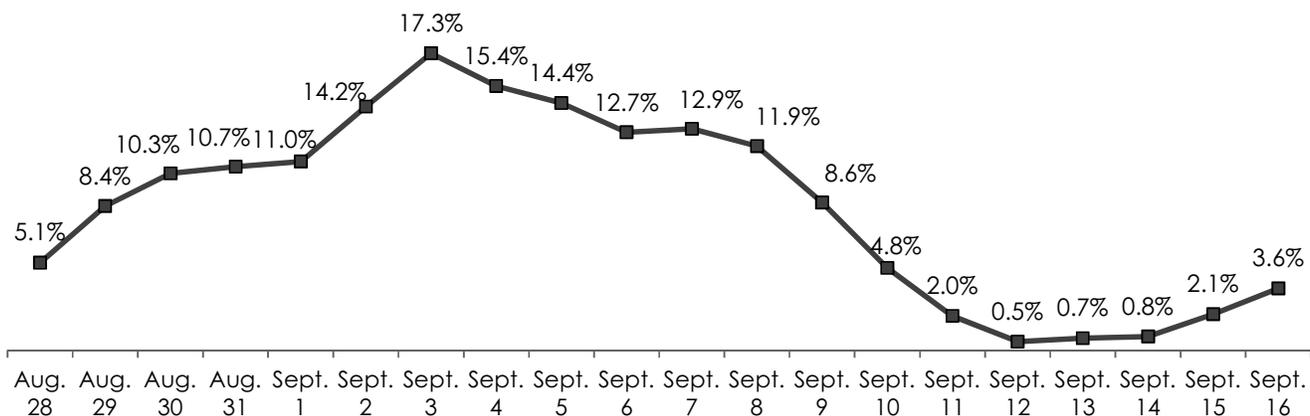
Whole Foods Market's overall prices were reduced by an average of 1.2% in the first month after the chain was acquired by **Amazon**, according to an analysis of prices at a Princeton, NJ, store by research firm **Gordon Haskett**, reported *The Washington Post* (Oct. 2, 2017). The changes resulted in a significant short-term traffic bump that settled to a modest increase over the following weeks, according to **Thasos Group**.

The places where Amazon focused on price cuts tended to be everyday products that are the most noticeable to shoppers. Extra-large brown eggs were down to \$3.19 from \$3.49, while organic apples were \$1.99 a pound instead of \$2.99 and Haas avocados \$1.49 each instead of \$2.

As the year went along, Whole Foods Market narrowed its price gap with **Kroger**, according to a report from **Barclays**. The price gap of fresh products at Whole Foods relative to Kroger tightened to 18% in February 2018, versus 29% in March 2017 and 37% in October 2016. Whole Foods Market's prices remain higher than Kroger and **Sprouts Farmers Market**, according to a **Morgan Stanley** study, reported *Austin American-Statesman* (April 3). Whole Foods pricing is 5.8% higher than the conventional grocery store, with packaged foods seeing the smallest premium. However, the firm found a 5.3% year-over-year decrease in Whole Foods' prices, and its basket cost was the lowest recorded by Morgan Stanley since it began price checking in 2014. For grocery delivery, Whole Foods' two-hour delivery is priced at a discount to Kroger/**Instacart**, ranging from 2%–7% for baskets \$35–\$50.

Whole Foods Market Year-Over-Year Traffic Growth, 2017

(Source: Thasos Group)

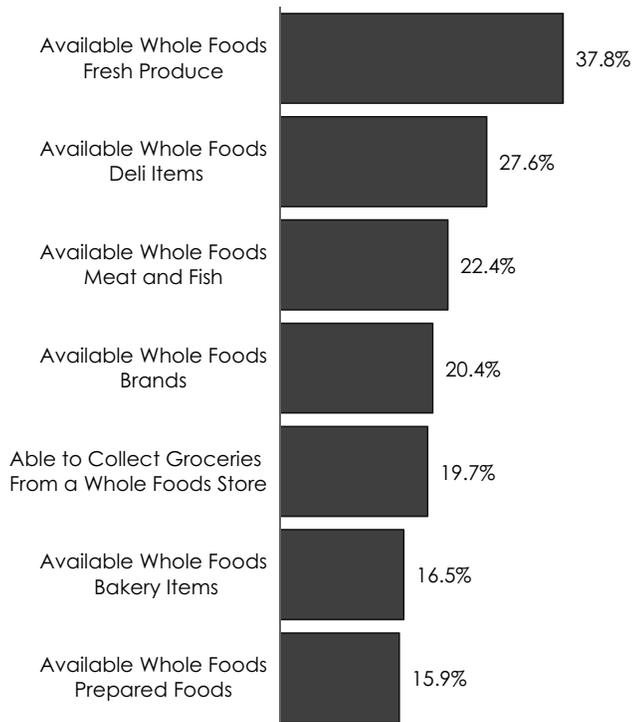


Amazon opened its checkout-free grocery store, **Go**, reported *Reuters* (Jan. 21). The concept uses cameras and sensors to track what shoppers remove from or put back on shelves, and automatically bills them for items removed from the store. Customers must scan an Amazon Go smartphone app to enter. The best-selling item at the Amazon Go store was chicken sandwiches, followed by meal kits and fresh fruit, according to the VP of Amazon Go, reported *CBS News* (May 19). One of the biggest challenges of the technology is computers discerning products that look similar, like a sugar-free drink versus the regular version. Amazon opened two more locations in Seattle later in the year with plans to open as many as six more Amazon Go stores in 2018, including in Los Angeles, CA, according to sources, reported *Recode* (Feb. 22).

Amazon expanded Prime member savings to an 121 Whole Foods Market stores across 12 states, as well as all Whole Foods Market 365 stores nationwide on May 30. In addition, customers will receive the discounts when ordering groceries from Whole Foods Market stores via Prime Now. Roughly 75% of Whole Foods shoppers are Amazon Prime members, but less than 20% of Amazon Prime members are Whole Foods shoppers.

Why Occasional Grocery Shoppers Would Spend More on Amazon Groceries

(Source: GlobalData)



Amazon exceeded 100 million paid Prime members globally, according to its annual letter to shareholders. The company began the technical work needed to recognize Prime members at the point of sale at Whole Foods Market stores and will offer more Prime benefits to Whole Foods shoppers once that is completed. Amazon raised the price of its annual Prime membership by 20% to \$119 a year due to an increase in shipping fees and other program costs. The new membership went into effect May 11 for new Prime members in the U.S., and June 16 for renewals of existing memberships.

Amazon rolled out its secure package delivery system to all Whole Foods Market locations, reported *Idaho Statesman* (March 9). Amazon customers can add the Amazon Locker location to their online address book and have their purchases sent there instead of their homes. Shoppers made more quick trips to Whole Foods stores that have the lockers, according to data advertising firm **inMarket**, reported *Reuters* (March 26). Short “micro” visits, defined as three to five minutes in length, were up 11% at stores with lockers since Amazon closed its purchase of Whole Foods,

compared to a 7% gain at stores in the same cities that do not have the banks of lockers.

Amazon is searching for bigger Whole Foods Market locations that can serve as grocery stores and distribution centers for online orders, according to a person familiar with the matter, reported *Bloomberg* (March 22). The company wants to convert parking lot areas into stalls for Amazon delivery contractors to load orders and has reportedly asked one of its landlords to create the stalls at some stores.

Amazon’s online food and beverage sales are forecasted increase to \$2.3 billion in 2017, giving the company a 19% share of the online market, according to **Packaged Facts**. As the company leverages its Whole Foods acquisition into a multi-channel opportunity, sales could grow 70% during 2018 and 2019. Average growth during 2021 and 2025 could increase Amazon’s food and beverage sales past \$30 billion.

Whole Foods Market changed the way it handles requests for companies to sell and market products in its stores, making the process more centralized, reported *The Wall Street Journal* (Sept. 21, 2017). The changes for Whole Foods, effective April 2018, no longer allowed representatives of specific brands to check or make sure their products are stocked and displayed properly. The company centralized much of the decision-making process behind what products it carries, and instead of making pitches to individual stores or regions, the company’s executives will approve a higher percentage of the inventory.

Overlap Between Amazon and Whole Foods Market Shoppers

(Source: GlobalData)

	Shop on Amazon	Prime Member	Do Not Shop on Amazon
Whole Foods (All Shoppers)	71.5%	58.4%	28.5%
Whole Foods (Main Shoppers Only)	84.2%	70.3%	15.8%
	Shop at Whole Foods	Mainly Shop at Whole Foods	Do Not Shop at Whole Foods
Amazon (All Shoppers)	6.5%	1.8%	93.5%
Amazon (Prime Members Only)	8.8%	2.5%	91.2%

Specialty Grocers Face Increased Competition

Trader Joe's and **Sprouts Farmers Market** were hit hardest by customer defections after **Amazon** cut prices at **Whole Foods Market**, according to **Thasos Group**. Ten percent of Trader Joe's customers and 8% of Sprouts customers shopped at Whole Foods during the first week of price reductions. Trader Joe's was ranked as the grocer with the highest retailer preference index score, according to **dunnhumby's Retailer Preference Index** study. The study found price and quality were the most important preference drivers.

Sprouts Farmers Market planned to open 30 stores in 2018, with six slated to open in second quarter 2018, reported *Phoenix Business Journal* (Jan. 4). Among the openings will be a store in Simpsonville, SC, marking the grocer's sixteenth state. Other locations include Augusta, GA, Charlotte, NC, Lincoln, NE, and San Diego and Sparks, NV. The company entered the mid-Atlantic starting with its first Maryland stores in March as well as first locations in South Carolina, Pennsylvania and Washington, DC. Sprouts expanded its fresh department private label offerings under the *Sprouts Market Corner Deli*, *The Butcher Shop at Sprouts* and *Sprouts Fish Market* brands. Additionally, it plans to expand home delivery and add features to its new website and mobile app.

Largest Defection of Customers to Whole Foods

(Source: Thasos Group)

Chain	% Customers Defected
Trader Joe's	10%
Sprouts	8%
Target	3%

Sources of Whole Foods' New Customers

(Source: Thasos Group)

Chain	% of New Customers
Walmart	24%
Kroger Co.	16%
Costco	15%

Fresh Thyme Farmers Market focused on delivery, e-commerce and technology in 2018, reported *Supermarket News* (Jan. 3). The company aims to ensure its 320,000-sq. ft. distribution center in Bolingbrook, IL, is fully operational, and able to support 125 to 150 stores by 2023. The company may accelerate its new store opening pace in 2019 with 15 or more locations, and remains on track to hit the 100-store mark in 2020.

The Fresh Market pulled back on all of its planned new store openings for 2018 to concentrate on existing operations, reported *Winsight Grocery Business* (Jan. 23). The decision affected at least one store under construction and due to open in Cape Coral, FL. The retreat is due to the company not being able to drive increased traffic through pricing investments, resulting in same-store sales declining, according to **Moody's Investors Service**, reported *Supermarket News* (Oct. 17, 2017).

Publix Super Markets developed a smaller-format store in Longwood, FL, focused on delivery, reported *Orlando Sentinel* (Jan. 29). The less than 30,000-sq. ft. store specialized in pick-up area for delivery services, and borrows elements from the chain's organic and natural **GreenWise** banner. The company received the top customer satisfaction score in 2017, increasing 2% from the previous year, followed by Trader Joe's, **Aldi** and **Wegmans**, according to *The American Customer Satisfaction Index Retail Report 2017*.

Meijer is undergoing a major IT restructuring as the company looks to streamline its technology, reported *MLive.com* (Oct. 5, 2017). The grocery chain signed a deal with **IBM** to handle its cloud-based computing. The company expand its Shop & Scan checkout technology program to its 235-store that decreases checkout times by allowing customers to scan bar codes as they shop.

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Associated Grocers of New England (AGNE) agreed to acquire five supermarkets in Vermont operated by **MAC Corner Market**, reported *Supermarket News* (Jan. 2). The five-store group is a member of the AGNE cooperative, and will be operated as a separate corporate-store division of AGNE going forward. **Raley's** purchased six stores from **Scolari's Food and Drug** in northern Nevada. Under the terms of the agreement, Raley's will purchase five Scolari's Food and Drug locations and one Sak 'N Save, all to operate under Raley's banner.

New Seasons Market CEO Wendy Collie stepped down as the company retreated from its expansion plans in California, reported *The Oregonian* (Feb. 6). The company closed a Sunnyvale, CA, store and discontinued plans to open locations in Carmel, Emeryville and San Francisco. The company plans to continue operations at its four **New Leaf Community Markets** in the Santa Cruz area. Meanwhile, **PCC** changed its name to **PCC Community Markets** to emphasize its community ownership and that its products and supply chain are largely local, reported *Seattle Times* (Sept. 13, 2017). PCC added products as well, including a private label yogurt brand, ready-to-cook meal kit components and a “chop shop” where employees cut fruits and vegetables to order.

SpartanNash expanded its Fast Lane online grocery program to offer home delivery in Grand Rapids, MI. Fast Lane delivery orders will be fulfilled through five stores, with each store servicing the surrounding communities. The program features digital coupons that allows customers to maximize their savings when ordering online.

United Natural Foods to Acquire Supervalu

United Natural Foods Inc. (UNFI) entered into a definitive agreement to acquire **Supervalu Inc.** for approximately \$2.9 billion on July 26.

“This transaction accelerates UNFI’s “Build out the Store” growth strategy by immediately enhancing our product range, equipping us to bring an attractive, comprehensive product portfolio to an expanded universe of customers,” said Steve Spinner, UNFI’s CEO and Chairman.

UNFI, the primary supplier for **Amazon Whole Foods Market**, will work toward exiting Supervalu’s retail business, which includes 114 stores. In March, *CNBC* reported Amazon Whole Foods took on \$22 billion in obligated future purchases “almost entirely tied” to UNFI.

“We’re not going to be in the retail business, it’s just not what we do,” he said.

Prior to the acquisition, Supervalu was shopping its grocery banners, including **Shop ‘N Save**, **Cub Foods**, **Hornbacher’s** and **Shoppers**. Supervalu, after facing pressure from shareholder **Blackwells Capital LLC** to split its retail and wholesale units, announced in June that it planned to reorganize the company by separating its wholesale and retail operations. The investment firm, which held a 4.3% stake in Supervalu, pressed the company to consider dividing into retail-focused and wholesale-focused businesses, then sell the wholesale unit, reported *Minneapolis/St. Paul Business Journal* (Feb. 7).

Supervalu Inc. sold 21 of its 38 **Farm Fresh Food & Pharmacy** locations for about \$43 million via three separate definitive agreements on March 14. **Harris Teeter**, **Kroger’s** mid-Atlantic Division and **Food Lion** were named as the buyers.

A timeline on when UNFI would like to be completely out of the retail business was not provided. Mike Zechmeister, UNFI CFO, said the company would work on developing a plan and share details of that plan in due course.

Analysts and industry experts have said a buyer could be hard to come by as **Schnucks** and **Dierbergs**, the two most obvious potential buyers, have stores near most Shop ‘n Save locations, and large grocers like Kroger seem hesitant to break into the market.

UNFI cited benefits of the deal include its ability to deliver comprehensive and expanded offerings, including the addition of high-growth perimeter categories such as meat and produce to UNFI’s natural and organic products, expanded market reach and scale and the ability to leverage scalable systems to streamline its processes.