

## TECHNOMIC'S TAKE

# Five Important Questions About the Future of Amazon and Whole Foods

**T**he consumer is bound to be the inevitable winner in Amazon's recently announced deal to acquire Whole Foods. More importantly, integrating the two operations will not be easy at the outset. This new union also tells a tale of colliding missions. Amazon's long-stated mission is to "build a place where people can come to find and discover anything they might want to buy online." Whole Foods, on the other hand, has promised to "offer a place for you to shop where value is inseparable from values."

Amazon and Whole Foods will have an impact on the ways that consumers source food in the future. Five key questions and ideas about how these questions will be answered in the coming months and years follow.

### **1 How will the Amazon-Whole Foods deal impact fresh-prepared food delivery and emerging channels like meal kits?**

With Amazon's delivery platform, consumers will be able to more easily obtain fresh-prepared meals from Whole Foods. The supermarket



However, most of these items are currently picked up by consumers in-store. With Amazon, delivery of fresh-prepared meals will add a new level of convenience for consumers.

The Amazon-Whole Foods deal will have an impact on other food-sourcing channels

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**Without a doubt, the combination of Amazon and Whole Foods will have an impact on the ways that consumers source food in the future.**

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Putting aside differences in ethos, both companies do share a common value that places the customer on a pedestal. Without a doubt, the combination of

foodservice segment is the leading retail source for fresh-prepared meals and accounts for more than \$32 billion in consumer spending.

as well. Early stage direct-to-consumer platforms like meal-kit delivery services are also at play. Companies like Blue Apron have relied heavily on

couriers like FedEx to deliver meal kits and other at-home meal offerings to consumers over the last several years. The partnership of Amazon opens up doors for Whole Foods to compete against players in the direct-to-consumer delivery space. Impact of the acquisition on this market is already evident. The day before Blue Apron's June initial public offering, the firm cut its target share price range by a third, and most analysts regarded this as a response to the Amazon deal.

## 2 What packaged food is at play?

While Whole Foods and Instacart have carved out a small delivery business over the last two years, layering Amazon's logistics and delivery capabilities changes the game in a major way—making the existing relationship with Instacart much less relevant. Among Whole Foods 30,000+ SKUs that are stocked in most of its stores, we are bound to see many of them become available online. New opportunities for consumers to order Whole Foods products through Amazon will add a new competitive dynamic to the grocery business—particularly as these products have traditionally been priced at a premium in-store at Whole Foods, but will be more



competitively priced for the mass-market consumer under the Amazon model.

## 3 What new standards will emerge?

Both online and brick-and-mortar retailers now face a more intense competitive environment that revolves around omnichannel sourcing by consumers—a concept which leaves many in the industry questioning about how they can adapt to survive. As of now, Amazon accounts for more than two-fifths of online retail sales (across categories). Walmart is a distant second online. This provides us with a road map of what to expect in terms of

Amazon's growth plan within the food sector. It also signals that our traditional definitions of "online" or "brick-and-mortar" don't mean as much today as they did in the past. Amazon is clearly setting a new bar for what it means to operate in an omnichannel competitive environment.

## 4 What Whole Foods private-label brands will end up online through Amazon?

Over the last several years, Amazon has been building private-label brands across numerous categories, with many of these products falling under the Amazon Basics brand. Last year, the company took Wickedly Prime (a new food line) out of stealth mode and introduced it to the market—around the same time Amazon Go was taking the stage. Whole Foods offers private-label

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items under the 365 Everyday Value and Whole Foods Market brands in-store. Amazon will certainly leverage these brands online and, potentially, in-store at Whole Foods. Future opportunities to partner with Amazon to create private-label offerings will emerge as a result.

## **5** How will the Whole Foods consumer change?

The net impact of the acquisition will be most beneficial to the existing Amazon customer, providing more access points to products sourced through Amazon and greater availability of existing Whole Foods products online. Whole Foods customers will also benefit by having new sourcing options available through Amazon online.

### **What's next...**

Simply put, food sourcing for American consumers will change in the long term as a

result of the Amazon deal to acquire Whole Foods.

The Whole Foods acquisition provides a strong signal about where Amazon is headed. It is safe to assume that the acquisition is one piece of a larger puzzle and future growth-oriented investments in food will follow in the near and long term, particularly as many sectors within the food business are ripe for disruption. To fuel such growth, Amazon has historically employed an expansion strategy of funding internal R&D initiatives and by expanding through investments in strategic acquisitions. As the leading online retailer globally, Amazon has gained significant expertise in this combined R&D and acquisition approach.

With the company's R&D efforts, Amazon has proven to be good at developing new methods internally to reach and serve its customers, and is one of the top firms in the world in terms of R&D spending. Last

year alone, the company was granted 1,662 patents and is among the top 15 companies with the most patents overall. In step with the Whole Foods acquisition, we can expect additional levels of features and services to be developed internally by Amazon. We will wait to see what future acquisitions help supplement the Amazon-Whole Foods business.

While Whole Foods looks like an outlier among dozens of tech and online platforms acquired by Amazon, it is easy to see that the Whole Foods brand and supply-chain infrastructure will serve as a meaningful vehicle for Amazon to grow its role in the food business. This is a big move for Amazon and indicates that food is a pivotal element of the company's future growth.

*—Erik Thoresen,  
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