

FOCUS:

amazon.com



On Dec. 5, Amazon introduced a physical store format called Amazon Go that sells a mix of grocery essentials and ready-made meals. The key selling point: no checkout lines. The first store, located in Seattle, is testing with only Amazon employees participating.

CPG marketers and retailers need to pay close attention in 2017 as Amazon evolves with grocery, physical locations, private labels, etc.

By Dawn Klingensmith

Amazon.com is expanding its empire. The e-commerce hegemon is colonizing brick-and-mortar retail and seems intent on planting its flag in a realm once thought to lie beyond its dominion – the grocery sector. “I think the big headline for Amazon in 2017 is its push to be a major seller of grocery products, including CPG brands,” says Bill Bishop, chief architect of **Brick Meets Click**, a Barrington, Illinois-based firm that helps grocers integrate online and offline retailing strategies.

For CPG companies and traditional grocers, the push presents opportunities as well as challenges. On one hand, Amazon’s investment in physical locations – including Seattle’s newly opened, checkout-free Amazon Go store – means the traditional retail model is still viable. On the other hand, Amazon’s grocery realm raid is forcing CPGs and retailers into an evolve-or-perish situation, even if they are slow to recognize it. Online grocery purchases make up a scant 2% of U.S. grocery sales, but forward-looking CPGs and retailers are nevertheless keeping a watchful eye on e-commerce in general and Amazon in particular, investing in ways to either partner with or compete against the goliath – or both.

Amazon Gets Physical

From a retailer perspective, Amazon has come out swinging in the new year. Amazon Go was just the first jab. In a move that

would threaten them but provide CPGs with a new channel, Amazon plans to build physical locations where shoppers can buy perishables such as produce, milk and meat with the option of ordering unstocked pantry items for same-day home delivery using mobile phones or in-store touchscreens. Drive-in locations where online grocery orders will be brought to the car are also said to be in the works.

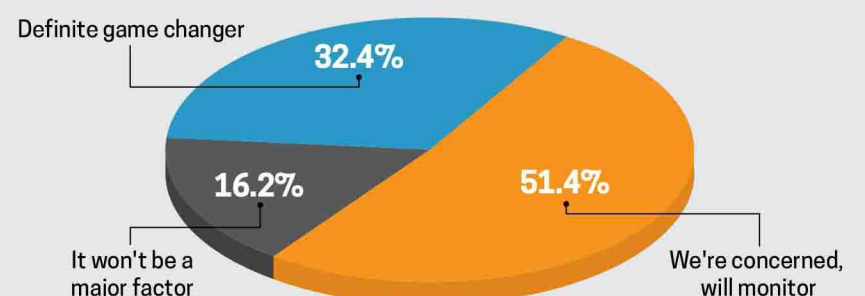
It’s unclear whether all new stores will be equipped with the technology that enables Amazon Go’s scan-and-leave customer experience, which eliminates long lines,

barcode scanning and other hassles retailers have long tried to address. Should this concept succeed where self-checkout, mobile pay and even Amazon’s branded Dash buttons have fallen short or failed, the technology could be licensed to other grocers, which may be Amazon’s long-term aim.

Amazon’s brick-and-mortar initiative builds on the steady rollout of Amazon’s Fresh, Pantry and Prime Now services, respectively offering same-day or next-day delivery of fresh and packaged groceries; mail-order delivery of household essentials; and two-hour delivery of items span-

TRENDS 2017

What impact will Amazon.com's private labels have in the CPG space?



Source: Path to Purchase Institute/Shopper Marketing magazine
Note: For complete Trends 2017 coverage, see page 16.

ning 25 categories including household goods and groceries.

While these are all potential positives for CPGs, Amazon's expansion of private-label brands is cause for concern. Amazon is already in the business of making product recommendations based on consumers' browsing and purchase behavior, and the development of private labels leverages that capability. "With all its data, Amazon does not have to guess what works. It understands what customers want and can convert them," says Rich Tarrant, CEO of **MyWebGrocer**, a Winooski, Vermont-based digital experience platform provider for CPGs and retailers.

Clearly not just a channel but a competitor to CPGs, Amazon has already taken market share from established brands in key categories including baby wipes and batteries, according to the New York-based data analytics company **1010data**.

Way Beyond Retail

Coexisting with Amazon entails understanding what it is and what it will become. With some notable exceptions including **Procter & Gamble** and **Unilever**, established CPG manufacturers "generally lack knowledge of Amazon and e-commerce on their teams," says Melissa Burdick, a 10-year Amazon veteran who managed more than 300 brands there before joining **The Mars Agency**, a global shopper marketing firm based in Southfield, Michigan.

With Amazon poised to become a major player in the grocery sector, "CPGs need dedicated resources for this key account and someone who understands how Amazon works," Burdick says.

Besides underinvesting in e-commerce and Amazon, CPG companies tend to be "too narrowly focused on Amazon as just a retailer, says Esteban Gamboa, who worked at P&G and Jack Link's before joining Seattle-based e-commerce analytics firm **Stackline** as director of business development. "Amazon is so much more. Retail is just one pillar."

Spurred by its "customer-obsessed drive to get closer and closer to consumers," Amazon has become the fastest-growing media platform in the U.S., Gamboa says.

The platform provides new touchpoints and opportunities for brands to "get ingrained" in Amazon media, says Gamboa, pointing out that P&G once had an entertainment arm and that soap manufacturers' radio and TV series sponsorships gave soap operas their name.

Modernizing that concept for digital media on Amazon could help CPGs shorten the path to purchase, Gamboa says. "Whereas people consume media on sites like Facebook when they're in social mode, people consuming media on Amazon are in shopper mode."

SEO and Big Data

Amazon has also evolved into a default product search engine, often providing people's first online experience with a brand. Since brands have the power to improve their ranking and visibility by mastering Amazon's self-service Seller Central product listing and merchandising dashboard, "Job No. 1 is providing thor-

ough, up-to-date product data [product title, description, images, SEO keywords and metatags, and optional content such as recipes and video demos] and recognizing it's a worthwhile investment in the future even if it doesn't affect the next quarter," Bishop says.

The immediate return on investment is the analytics that Seller Central compiles, provided CPGs know how to glean shopper insights from the data.

Effective use of Seller Central requires SEO knowledge, including the specific search terms consumers use. Too often, manufacturers get caught up in their own nomenclature. For example, in the shave category, manufacturers experienced disappointing sales of razor "cartridges" online before realizing that "not a lot of consumers were typing that into the search bar," Gamboa says. Sales took off when they retitled them as "blades" and "replacement heads," the terms favored by consumers.

Breaking Down Barriers

Amazon Echo, a voice-activated speaker connected to Amazon's Alexa Voice Service, brings Amazon out of the computer and onto the countertop. Consumers tell "Alexa" to send them a product, and she recommends a particular brand and pack variation if none are specified.

This home invasion can be a boon to CPGs, but from a retailer point of view, these compact, columnar "home speakers" are a formidable threat because they "literally put Amazon in the kitchen, the bedroom and the living room," says Danny Silverman, head of product strategy at **Clavis Insight**, a Boston-based global e-commerce analytics firm.

ages – and includes the Amazon.com star rating, customer reviews and additional reading recommendations, Nicholas Carr writes in *Technology Review*. His verdict: The physical store delivers uniformity but comes across as a website "annex" devoid of warmth.

Supply Chain Efficiency

The convenience aspect is another matter. At Amazon Go, shoppers simply tap a turnstile to log into an app, and the system tracks them through the store, logging their selections as they go along. The system uses camera surveillance and RFID scanning as well as sensor fusion (combining the camera's imaging with other data such as an item's weight) and learning algorithms that add a shopper's past behavior and purchases to help ensure item-identification accuracy. The data gathered would obviously be useful to CPGs and, if licensing is in the works, to retailers.

Across retail channels, Amazon is forcing advancements not only in technology but also in supply chain logistics. To sell on Amazon.com, vendors must comply with "very detailed instructions" pertaining to pallet shipments, product labeling and other requirements unique to Amazon, Gamboa says.

Then, there's the

Embracing Outside Sellers

"Supply chain is the key enabler of e-commerce and the key to competitiveness as opposed to marketing," which CPGs tend to overemphasize, says former Amazon manager Neil Ackerman. He is now global director of integrated supply chain, e-commerce and tech innovation at **Mondelez International**, which owns such powerhouse brands as Nabisco, Oreo and Trident.

Another promising opportunity for push-back is through third-party sellers. Following Amazon's lead, **Walmart**, **Macy's** and **Crate & Barrel** have opened their e-commerce sites to third-party sellers as a way to offer a wider assortment without handling or shipping the additional items, *The Wall Street Journal* reported in November.

Amazon's third-party marketplace accounts for half of its assortment and as much as a fifth of its U.S. revenue, according to



Amazon's smaller, puck-like Echo Dot speakers come in multipacks so consumers will place them in every room. "It's the biggest Trojan horse you can imagine," Silverman says.

To compete in this emerging, Amazon-dominated digital world, CPG brands and retailers must integrate their online and offline strategies and provide a seamless customer experience across all touchpoints. The savviest are already engaging in omnichannel initiatives including endless aisle, ship-from-store and click-and-collect.

As part of that experience, traditional retailers can gain an edge by playing up the "touchy-feely" aspect of brick-and-mortar, which Amazon has yet to master, judging by its physical bookstores. Modeled on Amazon.com, Amazon Books faces all the book covers outward on the shelves – a "visual echo" of the web store's thumbnail im-

challenge of demand volatility and avoiding stock depletion so Amazon Prime can consistently come through with two-day shipping.

Those are just the supply chain improvements required to sell on Amazon. To compete with Amazon, CPGs and retailers must reduce transportation and shipping costs as well as delivery times. Offering fast, free shipping, Walmart's Shipping Pass is the superstore's answer to Amazon Prime. To shorten shipping distances, hundreds of **Target** stores function as mini-fulfillment centers where employees pick, pack and ship Target.com orders from store inventory.

P&G keeps supply chain logistics in mind from the product design phase, overcoming laundry detergent's presumed inability to return a profit for Amazon by developing Tide Pods in a lightweight pouch, Burdick says.

Forrester Research, based in Cambridge, Massachusetts. However, its marketplace is a bit of a Wild West where damaged, expired and counterfeit products keep cropping up, providing CPGs and retailers with an opportunity to try for a purer alternative.

Chew On This

Amazon has quashed would-be competitors by making them "hurdle," or spread resources too thinly across two enterprises. "It's time for serious players to stop hurdling and get in the game," Ackerman says.

Walmart's acquisition of Jet.com for more than \$3 billion in August "is its way of saying, 'We're all in; we're not going to hurdle anymore,'" Ackerman says.

As outlined at Walmart's 2016 Investment Community Meeting covered by *Mobile Commerce Daily*, Walmart is slowing new store openings to focus on mobile and online commerce as its main driver of growth. "Walmart has a good shot at going head to head with Amazon," Ackerman says. "They've done a lot of things right."

Target also announced plans to invest in e-commerce and supply chain improvements.

Perhaps the biggest obstacle to e-commerce success comes from deep-seated misconceptions about what folks are willing to buy online, says Ackerman: "One of the most successful online sellers for Mondelez is Trident despite the fact that everyone said no one would ever buy gum online because it's an impulse buy." **SMI**