

## Companies/Industries

### Retailing

## Amazon Goes After The Walmart Shopper

► **The online giant will accept food stamps for its groceries**

► **“There are very few retailers who can serve the high and low end”**

For years, **Amazon.com** has targeted shoppers who can easily afford a \$99 annual Prime subscription to gain faster free shipping of its merchandise or spend hundreds more on other timesaving services such as Amazon Restaurants, which provides quick takeout delivery from eateries in hipster havens like Brooklyn, Seattle, and San Francisco. The company's latest expansion move goes after a less free-spending group: Starting this summer, Amazon will deliver groceries to food stamp recipients.

It's one of seven online retailers chosen to join the U.S. Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP), which last year provided more than \$66 billion of help to 44.2 million needy Americans. Among the other newcomers to the two-year pilot program will be **Fresh Direct** and the online operations of supermarket chains **Safeway** and **ShopRite**. This will be the first time SNAP has accepted online payment for groceries.

Low-income shoppers are an intriguing target for Amazon, which has been trying with mixed success to disrupt the \$800 billion grocery market. More than 80 percent of food stamp recipients live in or near big cities where Amazon

◀ already has a network of nearby warehouses. So a truck delivering gluten-free chia seed bars and organic soy creamer to Manhattan's Upper West Side can also cart a box of cereal, bread, and baby food to low-income housing projects in Harlem.

“There are very few retailers who can serve the high and low end of the income spectrum,” says Kirthi Kalyanam, director of the Retail Management Institute at Santa Clara University. “**Costco** customers are mostly affluent, and **Walmart** customers are mostly low-income. No one retailer has been able to bridge the gap. Amazon is uniquely positioned to go all the way to the top and all the way to the bottom of the customer spectrum.”

Its competition for urban food stamp recipients includes convenience stores with limited inventory and high markups, providing it an opportunity to stand out with its vast selection and lower prices. The delivery program also lets food stamp recipients use the benefit more discreetly than in a crowded store, where other shoppers can see how they're paying for their groceries. For now, it's unclear if Amazon plans to deliver the groceries to doorsteps or require pickup from central locations.

So far, Amazon's push into groceries has taken a page from big-box competitors such as Walmart that sell food at or below cost to get people into the store with hopes they'll also buy higher-margin items like clothing and electronics. People purchase groceries frequently, putting a seller in regular contact with the shopper. This generates order volume that can help a retailer such as Amazon achieve

economies of scale that are crucial to make e-commerce profitable. Annual online grocery spending in the U.S. will more than double from last year, to \$70 billion, by 2021, estimates Cowen Group.

“For Amazon, this continues to drive logistics and transportation costs per unit lower as these routes are combined with current routes to create more efficient transportation costs,” says Neil Ackerman, a former Amazon executive who runs e-commerce initiatives at Mondelēz International. “While this program is focused on groceries, it also allows for customers to buy in other categories that Amazon can deliver, like fashion and electronics.”

The USDA, which administers SNAP, sees access to online groceries as a benefit to urban and rural residents with limited shopping options. The pilot program will let the agency work out any payment and security issues before allowing online food stamp purchases nationally.

Serving food stamp recipients would put Amazon on the front lines of eliminating “food deserts,” urban and rural areas where healthy, affordable food-shopping options are scarce for those without cars. It will also provide a public-relations boost for a company better known for delivering a bottle of laundry detergent within an hour to a time-strapped shopper willing to pay up to \$8 extra to skip a trip to the store. Amazon took heat last year after a Bloomberg investigation showed that some predominantly minority neighborhoods in Boston, New York, Chicago, Dallas, and Washington were excluded from Amazon's same-day delivery service. The retailer has since expanded the service and filled in the gaps.

“We are committed to making food accessible through online grocery shopping, offering all customers the lowest prices possible,” Amazon said in an e-mailed statement. “Amazon's selection and competitive pricing can improve the grocery shopping experience for SNAP participants while helping them extend their benefits further.”

The push is potentially bad news for Walmart, which gets more than half its \$298 billion in annual U.S.

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revenue from grocery sales. The world's biggest brick-and-mortar retailer is already battling German-owned chain **Aldi** and other discount grocers for low-income shop-

pers in the U.S. Now the world's biggest online retailer is chasing those shoppers, too. “It's a whole new demographic and market for Amazon to tap,” says Edward Jones analyst Brian Yarbrough.

This isn't Amazon's first attempt to woo less affluent shoppers. In April it introduced a \$10.99-a-month payment plan for Prime, making it more appealing to those who can't afford to pay the full \$99 fee for yearly membership when they sign up. That helped it boost membership among those earning less. In 2014, 6 percent of Prime members earned less than \$25,000 a year; by the end of 2016, that number rose to 11 percent, says Michael Levin of Consumer Intelligence Research Partners in Chicago, which surveys Amazon shoppers. “Some of these customers use food stamps,” he says. “So Amazon would naturally want to accept them.”

—*Spencer Soper and Craig Giammona*

**The bottom line** The U.S. food stamp program provides \$66 billion in food aid annually to poor families. Amazon wants a piece of that business.

### Where Food Stamps Are Spent



\$1.2b is spent at other locations including farmers markets, military commissaries, and senior centers

FISCAL YEAR 2016. DATA: USDA