

Companies/Industries

◀ standard formula is expected next year when the giant e-tailer will invite shoppers inside its own grocery stores to smell the oranges, squeeze the tomatoes, and tap the watermelons.

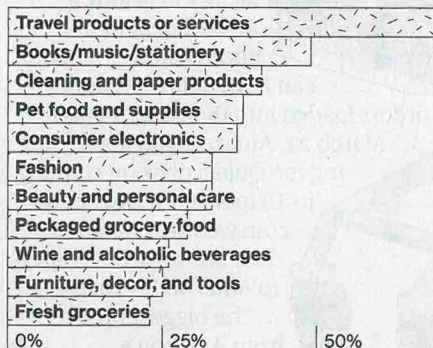
Amazon is testing three brick-and-mortar grocery formats in Seattle: convenience stores called Amazon Go, the AmazonFresh drive-in grocery kiosks, and a hybrid supermarket that mixes online and in-store shopping features. The company may eventually open as many as 2,000 stores, according to internal documents.

An Amazon spokeswoman declined interview requests for this story. And so far, details of Amazon's game plan are few, save for a video about Amazon Go's no-checkout format that has racked up more than 8.7 million views on YouTube and a March 28 announcement that two grocery pickup kiosks are being tested in Seattle. But one thing that's certain is Amazon's current offerings of groceries online can be confusing. AmazonFresh is available in about 20 U.S. cities for \$14.99 a month. Prime Pantry lets shoppers buy crackers, cookies, coffee, and other nonperishables for a delivery fee of \$5.99 per shipping box. Amazon's speedy drop-off service, Prime Now, offers items from local grocers in some cities. Its stick-on **Amazon Dash Buttons** let people wirelessly order many household products—including some groceries, but not fresh food—by linking to their Amazon account with a finger tap. And Subscribe & Save offers discounts to customers who sign up for periodic delivery of laundry detergent, toothpaste, diapers, and other items frequently purchased in supermarkets.

One problem dogging AmazonFresh

What Sells Online

Share of all online purchasers who've bought items in these categories



is the high cost of food going bad. For conventional grocery sellers, chicken breasts nearing their expiration dates can be marked down. At AmazonFresh, such items aren't discounted but discarded, lest they be returned by frustrated customers, according to a person familiar with the matter. AmazonFresh has lost money from spoilage at more than double the rate for a typical supermarket, said the person, who asked not to be identified discussing internal operations.

"Grocery is the most alluring and treacherous category," says Nadia Shouraboura, a former Amazon executive whose company, Hointer Inc., is developing technology to improve in-store grocery shopping. "It lures inventors and retailers with shopping volume and frequency, and then sinks them with low margin."

To compete with supermarket giants such as **Wal-Mart Stores Inc.** and **Kroger Co.** and counter customer apprehension about buying fresh food online, Amazon executives decided last year to explore building grocery stores closer in size to a **Trader Joe's** than a Walmart to offer easy access to milk, eggs, and produce. Other items like paper towels and canned goods would be stocked on-site in a warehouse where they could be easily delivered to shoppers before they head home, according to documents reviewed by Bloomberg. The stores would also serve as a delivery hub for online orders. Site selection for the concept's first store is under way in Seattle, says a person familiar with the plan.

Amazon Go, unveiled in December, is open only to employees while the systems are tested. Cameras and sensors monitor shoppers who scan their smartphones on entering, allowing them to grab items such as sandwiches, drinks, and snacks and automatically pay for them without a checkout kiosk. Products are embedded with tracking devices that pair with customers' phones to charge their accounts. Weight-sensitive shelves tell Amazon when to restock.

Although Amazon had hoped to open the site to the public in early 2017, the technology has been crashing in tests

when a store is too crowded, requiring workers to watch videos to ensure customers are charged for the right things, says a person familiar with the plan. The *Wall Street Journal* on March 27 reported the launch has been delayed.

Even if it solves its technical problems, Amazon will still face a broader industry challenge. "Online grocery is failing," says Kurt Jetta, CEO of TABS Analytics, a consumer-products research firm. Only 4.5 percent of shoppers made frequent online grocery purchases in 2016, up just slightly from 4.2 percent four years earlier, despite big investments from companies such as Amazon, according to TABS's annual surveys. "The whole premise is that you're saving people a trip to the store," says Jetta. "But people actually like going to the store to buy groceries."

The retailer seems undeterred by such concerns. "Amazon wants to be the first thing any consumer thinks of when they need to buy anything," says Jim Hertel, a senior vice president at marketing tech company Inmar Inc. "Food is the largest retail category. They can't do what they want to do without grocery, and they're definitely not going to give up." —*Spencer Soper and Olivia Zaleski*

The bottom line Amazon is trying new approaches to conquer the \$800 billion grocery industry. Tech problems have plagued a new store.