

Evaluating Amazon's impact on brick and mortar

Investment analysts have homed in on the food price competition that may result from Amazon's acquisition.



The acquisition of Whole Foods will put added pressure on the food and beverage supply chain

down prices in the aggregate and change this perception in ways that would make Whole Foods a lot more competitive."

Investment analysts also have homed in on the intensifying food price competition that may result from Amazon's acquisition of Whole Foods.

With food companies already reengineering their supply chains and packaging to fit into Amazon's system, the on-line giant's leverage with the companies may increase still further, said Rob Moskow, an analyst with Credit Suisse, New York.

"Both Amazon and Whole Foods have a reputation for being tough customers and are likely to exert significant power over their suppliers," he said.

Heightened food price competition was implicit in significant declines sustained in the share prices of food companies and food retailers after the transaction was announced, said Brett Hundley, an analyst with the Vertical Group, Richmond, Va.

"The deal has the potential to significantly alter the retail food landscape and, by extension, the packaged food space," he said. "We are not surprised then, by initial stock weakness for many U.S. food retailers and producers on Friday (June 16)."

Mr. Hundley said Amazon ownership could result in lower prices at Whole



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brand and source from established vendors and partners around the world, the company said. The transaction is expected to close during the second half of 2017 and is subject to approval by Whole Foods Market shareholders, regulatory approvals and other customary closing conditions.

Gregg S. Lipman, managing partner of CBX Group, said on-line retailers like Amazon and China's Alibaba Holding Group Ltd. have depended and continue to depend on highly competitive pricing to sustain growth.

"The pressure they exert on suppliers is stifling," Mr. Lipman said.

Amazon dominates numerous retail categories and now has its eye squarely targeting food, he said.

"At what point do they own the entire food chain, whether in equity or buying power?" he said. "Remember, Amazon is willing to lose money to win market share and kill off competitors. This should be a concern, not only for food retailers, but also for food brands."

Perhaps fortunately for its competitors, Amazon's private brands have struggled in some categories, like clothing, Mr. Lipman said.

"We'll see what happens now that Amazon will have Whole Foods shelf space

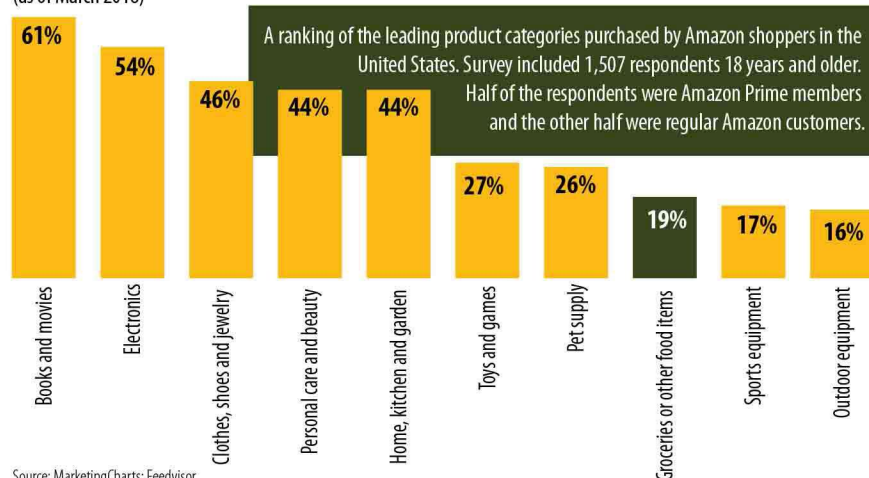
to experiment with I.R.L. (in real life)."

Todd Maute, a partner at CBX, said Amazon always can be counted on to disrupt.

"The possible effects on Whole Foods alone are interesting to contemplate," Mr. Maute said. "For example, the consumer perception of Whole Foods is that it is overpriced. But given its massive buying power, Amazon could actually leverage its economies of scale to bring

Top 10 product categories purchased by Amazon shoppers in the United States

(as of March 2016)

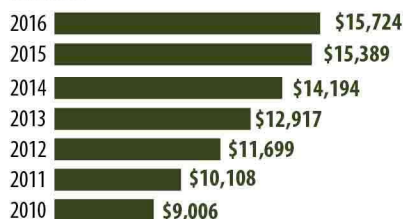


Source: MarketingCharts; Feedvisor

Foods two ways — with Amazon altering the business model to one with greater efficiency or operating with tighter profit margins than Whole Foods. He said it is important to consider the transaction

Worldwide net sales, Whole Foods Market

in millions



Source: Whole Foods Market

through the lens of other major changes in the retail marketplace.

“We’ve known that growth plans by Lidl and Aldi in the United States were set to put volume and pricing pressure

Beyond a brief statement, Jeffrey P. Bezos, Amazon’s c.e.o., has not commented much on his company’s plans for Whole Foods. Perspectives on what the acquisition might mean for Whole Foods were shared by John Mackey, c.e.o. of the retail chain, at a town hall meeting with employees June 16 in Austin. Fundamentally, the new owner of Whole Foods will have a different time horizon for success than Whole Foods experienced, particularly in recent years when growth slowed, he said.

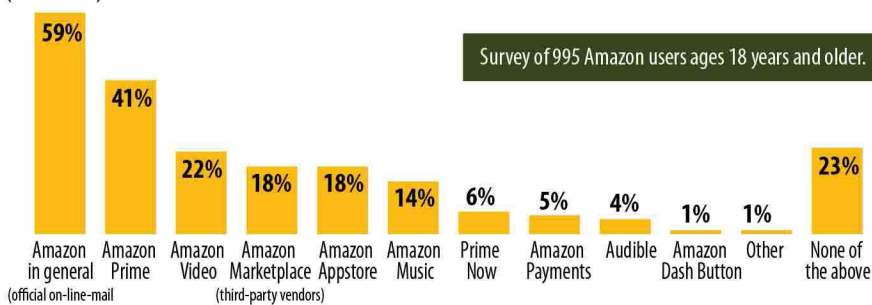
“I can’t tell you all the amazing things that will happen over time, but one thing I absolutely love, love so much about Amazon is they think long term,” he said. “They have had the courage that almost no other public company has had the courage to, basically, resist the drumbeat of short-term, quarterly earnings that have had us trapped here for a couple of years, as our same-store sales — came down.”

A bit more specifically, Mr. Mackey said Amazon ownership is likely to bring considerable innovations into Whole Foods stores.

“And I think we’re gonna see a lotta

U.S. consumer usage of Amazon services and products

(March 2017)



Source: Statista Survey

on conventional food providers,” he said. “We’ve known that the fight over e-commerce between Wal-Mart and Amazon was set to pressure pricing further.”

Nicholas S. Fereday, a senior analyst with Rabobank, New York, said Amazon’s designs on the food market extend beyond the affluent Whole Foods customer base.

“If Amazon steers Whole Foods away from its ‘whole-paycheck’ image (the company recently offered up a discounted Prime subscription for the 40 million-plus adults on food stamps) and/or successfully sells Whole Foods products on-line, then Big Food faces the threat of losing even more market share.”

technology,” he said.

Mr. Mackey expressed confidence Amazon will not lower Whole Foods’ quality standards.

“We’ve got a lot invested in our brand, and these guys are really smart people,” he said. “They’re not stupid enough to go change that.”

That said, Mr. Mackey told his Whole Foods colleagues to expect significant change from a corporate perspective.

“When this deal closes, we’re all Amazon people,” he said. “We’re not Whole Foods people and Amazon people. We’re all Amazon people. We’re one large tribe, one large family.” **FBN**



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