

# KING OF THE JUNGLE

Amazon doesn't just want to be a player in grocery, it wants to rule the retail world – with private brands playing a major role

With its acquisition of Whole Foods Market for \$13.7 billion in cash last summer, it's evident that Amazon is hungry for a slice of the \$668 billion grocery market.

But just how big of a bite does Amazon want to take of the market? And how much of a stake will Amazon, already a major player in several non-food private-branded categories, seek in the burgeoning consumer packaged goods store brands segment, which is reinventing itself with innovative and exclusive offerings every day?

Amazon representatives would not comment on the company's goals in grocery and private brands for this story, but several industry pundits predicted after Amazon's purchase of Whole Foods that it was just a matter of time before Amazon ruled the grocery industry. But former Amazon decision maker Brittain Ladd, who left the company recently after working there for two years where he helped develop strategies to expand Amazon Fresh and Amazon Pantry, says that while Amazon has the potential to surpass Walmart and become the nation's top grocer, he is not so certain the Seattle-based company will attempt to do so.

BY LAWRENCE AYLWARD

Through its 460 brick-and-mortar stores received in the Whole Foods deal and its online dominance, Amazon wants to become a one-stop shop for many retail things, from grocery to electronics to books to apparel and to furniture, Ladd says, with private brands playing a key role across the board.

"As Amazon convinces more of its customers to turn to it for grocery, its value proposition increases dramatically as does the company's competitive position," says Ladd, now a Seattle-based consultant who specializes in private brands and other retail segments.

Amazon and Whole Foods together own about 1.4 percent of U.S. grocery market share, with Walmart leading at 14.46 percent, according to GlobalData Retail.

Private brand consultant Todd Maute, a partner with New York-based brand agency CBX, says his "gut feeling" tells him that Amazon doesn't want to rule the grocery world. But ruling the retail world is another matter.

"As Amazon continues to expand into more and more categories ... that is where I think Amazon will rule the world," he adds. "I think Amazon is just going to continue to go after one segment of business after another."

Amazon Founder and CEO Jeff Bezos realized that just selling groceries online will not allow the company to capture much grocery market share, which is why Amazon purchased Whole Foods. So now Amazon has gone to market in grocery with a powerful one-two punch. And as creative as Amazon has been in the past to

attract new customers, consumers can expect even more retail ingenuity as Amazon synchronizes the synergies of getting consumers to come to its physical stores while continuing to shop online.

"Amazon is obsessively interested in getting its customers to buy more," says Bill Bishop, co-founder of Brick Meets Click, a Barrington, Ill.-based consulting firm. "Amazon wants to invent a brand new distribution system. But they just don't want to invent it, Amazon wants to own it."

Ladd expects Amazon's market share to grow in grocery, but not through an all-out onslaught. Amazon is already the nation's largest online grocer, even though e-commerce grocery sales currently account for less than 3 percent of grocery and consumable sales. But through its online subscription services, such as its offering of free streaming video and music with a Prime membership, Ladd says Amazon will continue to secure more grocery customers online. At the store level, Ladd believes Amazon will offer exclusive products that can't be purchased online to get more customers into stores.

Amazon is also straightening out the technical hiccups it had with Amazon Go, its Seattle-based brick-and-mortar store that allows shoppers to check in via a mobile app, take the products they want and automatically pay upon leaving, all without scanning barcodes or waiting in checkout lines. Amazon may even deploy the technology at its Whole Foods stores.

**SO WHAT DOES Amazon's grocery business mean for private brands in general?**

A boon, perhaps.

Amazon introduced its first own brands for food and household items in the second half of 2016. The lines include Wickedly Prime, Happy Bear, Presto! and Mama Bear. Wickedly Prime features more premium items, such as soup, nuts, herbal tea, popcorn, chips and snacks. Happy Bear includes more mainstream items such as water, coffee and seasonings. Presto! features household items like paper towels, toilet paper and detergent. The Mama Bear line offers baby food and snacks and other items for infants.

The all-important own-brand exclusive factor is evident, especially in Wickedly Prime items such as organic roasted seaweed snacks, plantain chips and ginger snap-flavored cookie spread. Presto! features many bio-based cleaners, which are innovative and attractive to millennials.

Before entering grocery — and recognizing that own brands lead to better margins, which result in higher earnings — Amazon had already introduced a slew of private brands in electronics, fashion and other categories. In total, Amazon offers more than 30 private brands.

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# U.S. GROCERY MARKET SHARE IN 2016



SOURCE: GLOBALDATA RETAIL

Maute believes Amazon is approaching private brands in much the same way that traditional grocers do to drive incremental margins.

“Amazon is saying it has a captive audience that is coming to it for convenience, value and variety, and it will create [grocery] brands that people will love because they love Amazon,” he states.

With Whole Foods, Amazon acquired the retailer’s popular 365 Everyday Value, Whole Foods Market and Whole Paws private brands, which Amazon is also selling online. Those private brands added \$700 million in sales to Amazon’s own-brand lines, which are expected to generate about \$4.3 billion in sales, according to analyst Youssef Squali of SunTrust Robinson Humphrey, in a CNBC news report. By 2022, Amazon should get about \$20 billion in revenue from its private-branded products, accounting for about 5 percent of total sales, Squali says.

Ladd says private brands will continue to pose a “gigantic opportunity” for Amazon. Ladd expects Amazon will begin selling its own brands, such as Wickedly Prime, in Whole Foods stores.

“You will see Amazon put as much of their private label products into those stores as possible because the margins are better, and it’s a good way to differentiate yourself from the competition,” he adds.

Ladd also expects Amazon to continue innovating in grocery private brands.

“When Amazon enters a category, it does so with an absolute and sincere desire to create high-quality products for customers,” he adds. “Amazon will look for opportunities to enter into even more product lines as long as it can maintain high standards, add value and differentiate its offerings from other private label products on shelves from other retailers.”

An advantage that Amazon has online is that it knows its customers well through its extensive data so it can build recommender systems that suggest products to people who visit its website. “Amazon has evolved and improved its recommender engine and today they master this to perfection,” according to Datafloq, a European firm that offers information, insights, knowledge and opportunities to drive innovation through data.

Diana Sheehan, director of Kantar Retail’s grocery channel research team, says she also expects Amazon will continue to add more food and beverage items to its private brands.

“But will Amazon do it in new products or will it capitalize on Whole Foods’ established 365 brand? I think that is the big question,” Sheehan adds.

If Amazon is going to compete in grocery, “it means competing effectively with a unique and innovative private label offering,” Sheehan notes.

“As such, I do believe they will continue to invest. They are investing in private brands across the board, and grocery should not be any different,” she adds.

Bishop says store brands in general are “building a head of

steam toward the next generation of private label.” He expects Amazon to be part of that next generation.

“I can’t imagine that Amazon is not going to do something similar as Whole Foods 365 and skip ahead to a highly differentiated aspirational private label line, [which is] just as good but at a lower price,” he says.

AMAZON IMMEDIATELY lowered prices on many Whole Foods’ products on the first day it officially owned the retailer, obviously trying to shed the “Whole Paycheck” label stamped on Whole Foods for its high prices. But what does the future hold for Whole Foods besides Amazon just lowering prices?



## AMAZON'S WICKEDLY PRIME OWN BRAND FEATURES INNOVATIVE PRODUCTS SUCH AS PLANTAIN CHIPS.

Ladd expects Amazon to change the name of Whole Foods in the future to something akin to Amazon Prime Grocery. He also says Amazon needs to change the assortment at Whole Foods stores

to make them resemble other major grocers like H-E-B, Albertsons and The Kroger Co.

“I say that because Whole Foods was a failing retailer when Amazon bought it,” Ladd adds, pointing to Whole Foods’ several consecutive quarters of lost growth before Amazon purchased it.

Amazon will add more brick-and-mortar stores, but Ladd predicts they will have a different look and format than Whole Foods.

“It’s in Amazon’s best interest to reimagine the grocery experience in the store as well as reimaging the experience online,” he says.

To differentiate itself and bring in more customers, Ladd expects Amazon to create stores that are more in its image, which could mean the stores will also sell Amazon’s private-branded brand electronics and apparel.

“There is nothing preventing Amazon from building a few hundred more or 1,000 more stores,” he adds.

Ladd also expects that Whole Foods CEO and Founder John Mackey will soon be gone for the business.

“I think it’s in Amazon’s best interest and the best interest of Mackey if that relationship ends sooner rather than later,” Ladd says. “It’s probably painful for Mackey to watch all the changes that Amazon is going to make and has already made.”

Sheehan calls Amazon “the world’s ultimate catalyst in retail.” But Sheehan also says the industry has seen this before.

“Every few decades a retailer comes in and changes the game,” Sheehan says. “Twenty-five years ago we were talking about Walmart the same way. Amazon may be the trigger, but technology as a whole is forcing change in retail. This is just about the natural evolution of grocery. Amazon is the player this time, and Walmart was the player 25 years ago. In 25 years there will be another player that shakes things up.” **SB**

## AMAZON BY THE NUMBERS

ONLINE SALES OF AMAZON'S PRIVATE BRANDS  
FOR THE FIRST HALF OF 2017

AmazonBasics	\$210M
Echo	\$120M
Fire TV	\$110M
Kindle	\$75M
Amazon Elements	\$9.5M
Pinzon	\$6.6M
Happy Belly	\$2.1M
Lark & Ro	\$1.9M
Buttoned Down	\$950K
Amazon Essentials	\$870K

SOURCE: TECHCRUNCH

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