

OPINION

Why Amazon needs stores to win in European grocery

A behemoth on the non-food retail landscape, Amazon's move into grocery, certainly in the UK, has not been so sure footed. But as **Lisa Byfield-Green** argues, this could be about to change.

Following another jump in second-quarter results and its fourth Prime Day, Amazon continues to demonstrate its retail dominance and strength.

Its success has been mainly a non-food story to date but following the Whole Foods Market acquisition, Amazon generates 8.1% of total revenues from physical stores (\$4.31bn of its \$52.9bn turnover for the quarter) and is firmly on course for a multi-channel future.

Amazon's future

Our forecasts show that Amazon is already set to dominate in retail, both in the US and in Europe, and will grow faster than any other competitor.

But one year on from its Whole Foods acquisition, Amazon's new multi-channel strategy demonstrates how the retailer can double the benefits of its Prime ecosystem to grow loyalty and volume successfully across both brands, leveraging Prime online and offline to make the flywheel go faster.

This is powerful stuff. Prime members enjoy regular discounts on Whole Foods items in-store, and for Prime Day in the US customers received a \$10 Amazon voucher after spending \$10 at Whole Foods.

In the UK – where it operates seven stores all in London – Whole Foods offered Prime Day discounts for the first time this year and installed a pop-up VIP lounge to generate excitement at the branch in Kensington. Amazon's Treasure Truck offered deals on Fitbit fitness trackers for the day, a further venture into offline retail.

Although Amazon's growth is outpacing that of all retail competitors, its dedicated grocery operations outside the US are tiny.

Despite launching Amazon Fresh in the UK and Germany and Prime Now to 16 European cities, the services are taking time to become established and

to generate meaningful volume.

Part of this comes from the difficulty of establishing logistics operations and striking and maintaining agreements with retail partners in each market, but much of it is also due to the fact that Amazon is not seen by customers as a grocery expert. Not yet, at least.

International expansion

This is starting to change as it builds meaningful relationships with leading FMCG suppliers. For Prime Day this year, FMCG products featured heavily as bestsellers, including Finish dishwasher tablets in the UK and Italy.

Looking at successful grocers in mature market such as the UK, it is clear for the majority their success is based on a multichannel strategy. If Amazon is serious about grocery outside the US, we can expect to see more stores internationally too.

UK calling

Our view is that the UK presents the biggest opportunity, particularly in light of recent consolidation among the major



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We can certainly anticipate that the first international Amazon Go store is likely to target London

players. A potential acquisition target for Amazon is often cited as Morrisons and it already partners well through Fresh and Prime Now.

There may be an opportunity here, yet there are also stumbling blocks, not least of which is Morrisons' 10-year agreement with Ocado for online grocery operations, which is set to run until 2024.

Amazon Go is another convenience format that would work well in the UK and we can certainly anticipate that the first international store is more than likely to target London.

Outside the M25

Another option for Amazon might be to expand its Whole Foods operations outside London, either opening new stores or picking up divested (most likely smaller store) locations from Sainsbury's planned merger with supermarket Asda.

Amazon's grocery competitors outside the US are not quaking in their boots yet, but just think what Amazon could do internationally if they had more bricks and mortar stores. **RW**