



Quick Take: Amazon Buying Whole Foods Raises A Red Flag For All Retailers

Playing Defense Will Just Prolong Your Demise

by [Brendan Miller](#), [Brendan Witcher](#), and [Fiona Swerdlow](#)
with [Stephen Powers](#), [Michael O'Grady](#), and Sam Wolken

June 20, 2017

Why Read This Report

On June 16, 2017, Amazon announced that it's buying Whole Foods for \$42 a share, in a deal valued at \$13.7 billion. In this report, we analyze why Amazon is significantly upping its game from Amazon Fresh to premium brick-and-mortar grocery retailing. This quick take outlines what the acquisition means for retail digital business professionals.

Warning To All Retailers: Amazon Wants To Win Everywhere

Friday's announcement that Amazon is buying Whole Foods is a reminder to all retailers: Amazon's go-to-market strategy is a total retail strategy, not just competing in specific categories like books, media, and apparel.¹ Amazon's acquisition of Whole Foods intensifies the already frantic level of investment in the grocery market. Just a week ago, Aldi announced it would invest \$3.4 billion to grow its brick-and-mortar footprint to 2,500 locations by the end of 2022, up from 1,600 today.² In May 2017, European grocery store chain Lidl announced plans to open 100 US stores by the end of 2018.³ Amazon already competes for fridge share through Amazon Fresh, but acquiring Whole Foods will transform Amazon into a significant player in the \$850 billion grocery market. Whole Foods will effectively supplement Amazon's grocery ambitions because:

- › **Consumers have been slow to move their grocery spending online.** Twelve percent of US online adults buy groceries online for delivery, and 11% order groceries online and pick them up at a store.⁴ Further, online grocery shoppers order just 41% of their groceries online, on average, highlighting the limitations on online grocery due to consumer preferences.⁵

Quick Take: Amazon Buying Whole Foods Raises A Red Flag For All Retailers

Playing Defense Will Just Prolong Your Demise

- › **Where online grocery sputters, Whole Foods excels.** It's no surprise that packaged goods and shelf-stable foods and beverages are the top grocery items that consumers order online, with 59% of online grocery shoppers regularly purchasing each on the web.⁶ Consumers are less eager to order perishables online: Less than half of online grocery shoppers regularly buy produce (47%) or fresh food or beverages requiring refrigeration (41%) online.⁷ With Whole Foods, Amazon acquires 450 stores where shoppers can pick out their produce by hand at a store synonymous with healthy, fresh food.

Amazon Will Get Much More Than Just A Low-Margin Business

In 2016, the US grocery market totaled \$833 billion, or 25% of total US retail sales of \$3.4 trillion.⁸ Grocery is a notoriously low-margin business. So why the move into brick-and-mortar grocery? By acquiring Whole Foods, Amazon gets:

- › **High-frequency shoppers it can tap for more.** Whole Foods' local brick-and-mortar locations, which consumers visit with high frequency, give Amazon a new platform for deeper consumer engagement across all its selling categories. Once you win a customer's grocery purchase, you have the opportunity to sell them something else, from blenders to lamps to shirts. Customers pay a premium at Whole Foods for fresh, high-quality food, and shoppers have to frequently restock items with a short shelf life, like produce, milk, and meat.
- › **A chance to learn how to do retail theater right.** The idea of "retail theater" still thrives at Whole Foods locations — and Amazon is now getting private lessons from the master. Consumers go there to shop for groceries but also to discover new foods, attend wine tastings, enjoy healthy prepared foods, and pick up a freshly made cup of organic gourmet coffee. Whole Foods can take a share of credit for turning America on to arugula, almond milk, and probiotics. In this day and age, the idea of retail theater and discovery is badly missing in most brick-and-mortar retail shopping experiences.
- › **An instant brick-and-mortar presence across the country.** Whole Foods' 450 locations in 42 states are a valuable addition to Amazon's already colossal supply chain. Amazon can now lock in its national distribution and logistics mastery with a local "place" in a way that competitors won't be able to easily replicate. Amazon will evolve these stores into fulfillment centers that feature the best of both worlds: a pleasant atmosphere where consumers enjoy shopping and a convenient location for them to stop by and pick up online orders.
- › **Local stores to which it can push traffic using digital.** While consumers bought just 2.2% (\$18.2 billion) of total US grocery sales directly online last year, digital is increasingly important to grocery.⁹ Digital touchpoints influenced 23% of total US grocery sales last year.¹⁰ Over the long haul, expect Amazon to inject much-needed digital chops into Whole Foods' fledgling digital business. Amazon gives Whole Foods the talent and technology to win and retain customers who research their grocery purchases online.

Quick Take: Amazon Buying Whole Foods Raises A Red Flag For All Retailers

Playing Defense Will Just Prolong Your Demise

- › **Rich data and insights to learn even more about customers.** To date, Amazon's exposure to weekly grocery shopping patterns has been limited to its Amazon Fresh service — where that's available. Whole Foods immediately gives Amazon a treasure trove of customer data that reveals deep insights about shopping patterns across the US. In turn, Amazon can match up its existing data with that from Whole Foods to get a more holistic and 365-degree view of the customer.

Amazon Becomes An Engagement Platform

The combination of Whole Foods and Amazon conjures up visions of shopping — and customer relationships — that go far beyond groceries. Amazon is quickly becoming a bona fide engagement platform via touchpoints like Alexa, so this deal will increasingly lock in both digital and, now, physical store customers. Amazon's increasingly tight and ubiquitous relationship with customers creates a massive barrier between retailers and their customers, especially for those whose customers buy from them much less frequently. Retailers and brands will find themselves increasingly reaching their customers via Amazon rather than directly.

Retailers Must Differentiate Themselves Via Superb Customer Experience

Amazon will use this new store-based sandbox to test, learn about, and entirely reshape the store of the future. Amazon's mindset around innovation, woven into great Whole Foods customer service and retail theater, could make the grocery shopping journey faster, easier, and more enjoyable. Whole Foods' digital offerings have been anemic at best, only quite recently partnering with Instacart for same-day delivery, so watch for Amazon Fresh pickup and delivery services fulfilled by Whole Foods to vastly expand the markets for this service. What's a retailer to do? Digital retail professionals should expect the Amazon/Whole Foods deal to raise customer expectations even higher, and they must keep up with those expectations to truly transform the customer experience. Specifically, they must:

- › **Obsess about their customer rather than waiting for Amazon to raise the bar.** We still hear retailers saying, "We want to do X" — rather than "Our customer wants X." Forrester has found that 76% of sites have inefficient task flows, forcing customers to create workarounds to accomplish their tasks.¹¹ It's hardly surprising that 61% of consumers don't return to a site that fails to provide a satisfactory customer experience.¹² Customers know what a great experience looks like, and they expect you to deliver.
- › **Delve more strategically into their own analytics for deeper customer insights.** Forrester's customer-obsessed operating model exhorts digital business leaders to turn big data into business insights.¹³ Connect all that data you're sitting on — and collecting more of every day — to your customers to determine what they need and expect.
- › **Abolish organizational fiefdoms to refocus on competing with Amazon.** Siloed organizations are particularly vulnerable to the laser-focused competition that Amazon presents. It's up to CEOs and their C-suite lieutenants to tear down siloes and institute strong connections, both internally and extending through their four walls to gather resources and know-how from trusted partners.

Quick Take: Amazon Buying Whole Foods Raises A Red Flag For All Retailers

Playing Defense Will Just Prolong Your Demise

Supplemental Material

Forrester Data Consumer Technographics North American Retail And Travel Survey, Q4 2016 (US), was fielded in October 2016. This online survey included 4,585 respondents in the US between the ages of 18 and 88. For results based on a randomly chosen sample of this size, there is 95% confidence that the results have a statistical precision of plus or minus 1.5% of what they would be if the entire population of US online adults (defined as those online weekly or more often) had been surveyed.

Forrester weighted the data by age, gender, region, income, and broadband adoption to demographically represent the US online adult population. The survey sample size, when weighted, was 4,585. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Lightspeed GMI fielded this survey on behalf of Forrester.

Endnotes

- ¹ Source: "Amazon to Acquire Whole Foods Market," Amazon press release, June 16, 2017 (<http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2281414>).
- ² Source: Jon Springer, "Aldi to invest \$3.4B in further expansion," Supermarket News, June 12, 2017 (<http://www.supermarketnews.com/retail-financial/aldi-invest-34b-further-expansion>).
- ³ Source: Hayley Peterson, "A German grocery chain with the power to cripple Aldi, Whole Foods, and Trader Joe's is about to invade America," Business Insider, May 17, 2017 (<http://www.businessinsider.com/lidl-is-opening-stores-in-the-us-2017-5>).
- ⁴ Base: 4,585 US online adults. Source: Forrester Data Consumer Technographics® North American Retail And Travel Survey, Q4 2016 (US).
- ⁵ Base: 808 US online adults who order groceries online. Source: Forrester Data Consumer Technographics North American Retail And Travel Survey, Q4 2016 (US).
- ⁶ Base: 808 US online adults who order groceries online. Source: Forrester Data Consumer Technographics North American Retail And Travel Survey, Q4 2016 (US).
- ⁷ Source: 808 US online adults who order groceries online. Source: Forrester Data Consumer Technographics North American Retail And Travel Survey, Q4 2016 (US).
- ⁸ This number is a Forrester estimate. Source: Forrester Data: Online Retail Forecast, 2016 To 2021 (US), Q4 2016 Update.
- ⁹ Source: Forrester Data: Online Retail Forecast, 2016 To 2021 (US), Q4 2016 Update.
- ¹⁰ Source: Forrester Data: Web-Influenced Retail Sales Forecast, 2016 To 2021 (US).
- ¹¹ See the Forrester report "[Bridge The Gap From CX Strategy To Digital CX.](#)"
Source: 1,153 Website User Experience Reviews, versions 2 to 8, November 1999 to March 2015.
- ¹² Base: 4,513 US online adults. Source: Forrester Data Consumer Technographics North American Retail And Travel Customer Life Cycle Survey, Q1 2017 (US).
- ¹³ Customer-driven change is remaking every industry. We've entered an era of destabilizing and erratic supply-and-demand imbalances across the global economy. Empowered by technology, customers have more leverage than ever before. See the Forrester report "[Winning In The Age Of The Customer.](#)"

We work with business and technology leaders to develop customer-obsessed strategies that drive growth.

Engage With An Analyst

Gain greater confidence in your decisions by working with Forrester thought leaders to apply our research to your specific business and technology initiatives.

Analyst Inquiry

To help you put research into practice, connect with an analyst to discuss your questions in a 30-minute phone session — or opt for a response via email.

[Learn more.](#)

Analyst Advisory

Translate research into action by working with an analyst on a specific engagement in the form of custom strategy sessions, workshops, or speeches.

[Learn more.](#)

Webinar

Join our online sessions on the latest research affecting your business. Each call includes analyst Q&A and slides and is available on-demand.

[Learn more.](#)



Forrester's research apps for iPhone[®] and iPad[®]

Stay ahead of your competition no matter where you are.

Client support

For information on hard-copy or electronic reprints, please contact Client Support at +1 866-367-7378, +1 617-613-5730, or clientsupport@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research, Inc., 60 Acorn Park Drive, Cambridge, MA 02140 USA
+1 617-613-6000 | Fax: +1 617-613-5000 | forrester.com

Forrester Research (Nasdaq: FORR) is one of the most influential research and advisory firms in the world. We work with business and technology leaders to develop customer-obsessed strategies that drive growth. Through proprietary research, data, custom consulting, exclusive executive peer groups, and events, the Forrester experience is about a singular and powerful purpose: to challenge the thinking of our clients to help them lead change in their organizations. For more information, visit forrester.com.