NEW REPORT

AMAZON FRESH PRIME NOW 2018

ResearchFARM

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JUNE 2018

INTRODUCTION

It's a perfect time to take stock, as it has been exactly one year since Amazon has bought Whole Foods. To almost everyone's surprise, not that much has happened…yet. Or has it?

The AmazonFresh rollout both in the US and the EU has been completely overhyped. The press raised expectations that the company simply could not meet, especially as Amazon is rolling out the service in a very careful and considerate manner. In any geography, the company targets a tightly bound geographic footprint first. This means that initial sales volumes cannot be of an order that would cause significant market share shifts. **But on the other hand it's still early days, one should not be dismissive just yet.**

The rollout of the full AmazonFresh/PrimeNow offer has shaken up the consensus about online grocery business models. Over the years, online grocery picking has moved from in-store to semi-automated distribution centres and in the case of Ocado to fully automated robot operated warehouses. However due to space requirements, robot-operated warehouses need to be in vast out-of-town locations. This creates a problem for rapid, one hour or two hour deliveries. These out of town sheds are simply too far away from the city centre to fulfil the one or two hour promise. Hence we are seeing a return to the pick in store (Instacart/PrimeNow) model – even though there are clear economic challenges. (The Whole Foods acquisition obviously provides a real growth fillip to PrimeNow with many great central store locations)

Amazon has also challenged the consensus about average online basket sizes. Just two years ago it was still a common view that online grocery orders needed to have an average baskets size of at least £100 (US$150 or €130 or so) for companies to be able to realise a profit. And yet, the shift towards one/two hour deliveries has caused basket sizes to decline considerably.

AmazonFresh has never managed to get its average basket size to the same level as the more successful multichannel grocers. AmazonFresh's average baskets sizes have always tracked considerably lower. (The PrimeNow baskets are even lower and do not have the additional Fresh subscription fees to offset costs.) To us it looks like Amazon is trying to turn this weakness into a strength.

This, we believe, shows two things. First, it shows how committed Amazon are to cracking online grocery. Second, to us at least, it suggests that the company is going to be in for a long, hard slog. Amazon will not be able to crack online groceries in the same way as the company dominates other categories such as books, music and video, consumer electronics or clothing any time soon.

KEY QUESTIONS ANSWERED

- Right now the Amazon approach to online grocery seems to be try out new models and see which stick. The various business units often get in the way of each other, but then again Bezos disrupts his businesses and is very innovative. Will Amazon keep all grocery options going in future? Or will Fresh get folded into PrimeNow? Or will it be the other way round?
- We believe it's clear that food will move online as the experience of the UK, South Korea, France demonstrate. But will Amazon emerge as the winner?
- How influential will voice (and Alexa) be in online grocery?
- Will there actually be a split between ranges that get replenished automatically in future (dishwasher tablets, washing powder, nappies etc) and the fresh food ranges, as Amazon predicts?
- Will the US market evolve into a click & collect model (pushed by Walmart) or a centralised delivery model (Kroger/Ocado). Why is Amazon in a perfect position for both outcomes?
- Is the Whole Foods deal actually transformational? How will it help Amazon?
- Do online grocery players need a combination of stores and online? Does Amazon care about the channel of delivery?
- Do online grocers need a physical presence (in store pick up, lockers, and also pick in store)? Or is the pure play Ocado model better?
- How relevant is Amazon Go? It cannot be retrofitted into the Whole Foods store estate due to the IT requirements. Also, Amazon Go is about self-service and plastic wrapping, whereas Whole Foods is not.
- How will online grocery business models evolve in future?
- Will AmazonFresh be rolled out to other markets where Amazon has a presence?
- So what should FMCG players do? Should they partner with Amazon? If so, as a seller or a vendor?
- What about the private label threat where Amazon will copy the best selling product of third-party partners and launch under a private label umbrella?
- How profitable does online grocery need to be?
- What should retailers do?

FEATURES

- Amazon grocery sales figures, Amazon Fresh figures and proprietary data
- Includes data points on Amazon Fresh basket sizes, spend, number of items ordered
- Strategy insights and recommendations to the FMCG industry, retailers and suppliers over a ten year horizon, based on face to face conversations with AF executives, fresh food suppliers, 3P traders and logistics providers

BENEFITS

- Learn about unique challenges and opportunities that AmazonFresh will face, understand how AmazonFresh will perform, what will change and why Fresh is so vital for Amazon
- Detailed recommendation for FMCG and retail players how to cooperate or compete
- Actionable insights and recommendations for FMCG, retailers and suppliers, understand where you should play

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