

Amazon's grocery business experiences growing pains

Article

The news: Despite investing billions of dollars, **Amazon's** foray into grocery has yielded mixed results thus far, **per** a CNBC report.

- While its grocery ecommerce business remains strong, Amazon faces increased competition as retailers such as **Walmart** and **Kroger** ramp up their digital capabilities.

- Amazon has also struggled to fully leverage its brick-and-mortar locations: While **Amazon Fresh** stores have resonated with consumers, **Amazon Go** convenience stores have been less successful.

More on this: Since Amazon's **\$13.7 billion** purchase of **Whole Foods**, the company has made grocery expansion a priority. However, the company has failed to build out a brick-and-mortar presence to rival existing grocery giants, despite its willingness to experiment with retail formats and the vast amounts of cash at its disposal.

- **Combined, amazon.com and Whole Foods account for 2.4% of the grocery market**, equivalent to **Target's** market share, per data from Numerator. This is a relatively strong showing, considering that the number of Whole Foods and Amazon Fresh locations in North America comes to over 500, while Target has nearly 2,000 US locations. But Amazon's grocery share is still significantly below that of market leader Walmart (**18%**).
- In 2021, sales at Amazon's physical stores were lower than in 2018, even as the company added more Whole Foods and Amazon Fresh locations.

How we got here: Amazon's approach to retail seems to be to constantly debut **new retail formats** and see what sticks.

- Upon launch, Amazon Go convenience stores seemed poised to revolutionize the shopping experience; however, their success has been hampered by a slow rollout. Four years after the first Amazon Go store opened in Seattle, there are only **24 locations**, a far cry from the 3,000 the company **once hoped** to have open by 2021.
- Physical retail continues to make up only a small part of Amazon's overall revenues: In Q4 2021, the company's physical stores generated **\$4.69 billion** in sales, compared with **\$66.08 billion** in sales for its online business, **per** Amazon's earnings release.

A digital grocery power player: Digital is becoming an increasingly core component for grocers' growth strategies. Since the pandemic, digital grocery adoption has risen significantly: We **forecast** **grocery ecommerce sales will grow by 20.5% this year to reach \$147.51 billion**.

- A January 2022 study from Acosta **found** that **68% of respondents** currently shop online for groceries at least occasionally, due in part to pandemic-related concerns as well as financial considerations.

While Amazon's strengths in ecommerce enabled it to quickly grab digital grocery market share, the company is **second to Walmart** when it comes to grocery ecommerce sales.

- We expect Amazon's share of grocery ecommerce to remain steady into 2023, even as Walmart, Kroger, **Albertsons**, and Target all grow their pieces of the pie.
- As customers get increasingly savvy about shopping online for groceries, Amazon will have to improve its suite of digital grocery features to avoid losing shoppers. In our inaugural "**US Digital Grocery Features Benchmark**" report, Amazon Fresh ranks fifth and Whole Foods ninth.

Leading US Grocery Ecommerce Retailers, 2018-2023

% of total grocery ecommerce sales

	2018	2019	2020	2021	2022	2023
Walmart Inc.	23.8%	25.5%	28.3%	28.9%	29.1%	29.3%
Amazon	24.8%	23.8%	23.7%	23.8%	23.8%	23.8%
The Kroger Co.	9.5%	9.5%	12.2%	12.3%	12.5%	12.7%
Albertsons Companies	2.0%	2.1%	4.7%	4.9%	5.1%	5.2%
Target	3.1%	3.1%	4.9%	4.9%	5.1%	5.3%

Note: represents the gross value of grocery products sold by each retailer (browser or app), regardless of the method of payment or fulfillment; includes delivery/pickup and sales from third-party delivery services; excludes fuel
Source: eMarketer, Aug 2021

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The big takeaway: Amazon has made its mark on the grocery industry, but the company's dearth of experience with brick-and-mortar has hampered its ability to dominate the market like it hoped it would.