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How Amazon is rethinking the grocery experience

Article

The news: **Amazon** currently operates 23 Amazon Fresh stores, and at least two dozen are in various stages of planning and construction across the US, per Progressive Grocer. The retailer reportedly plans to open dozens more in major markets in the next three years.

- In a sign of its grocery ambitions, Amazon recently hired longtime **Tesco** executive **Tony Hoggett** as its senior vice president of physical stores.

Amazon Fresh's differentiator: The retailer is experimenting with multiple ways to allow shoppers to skip the checkout line.

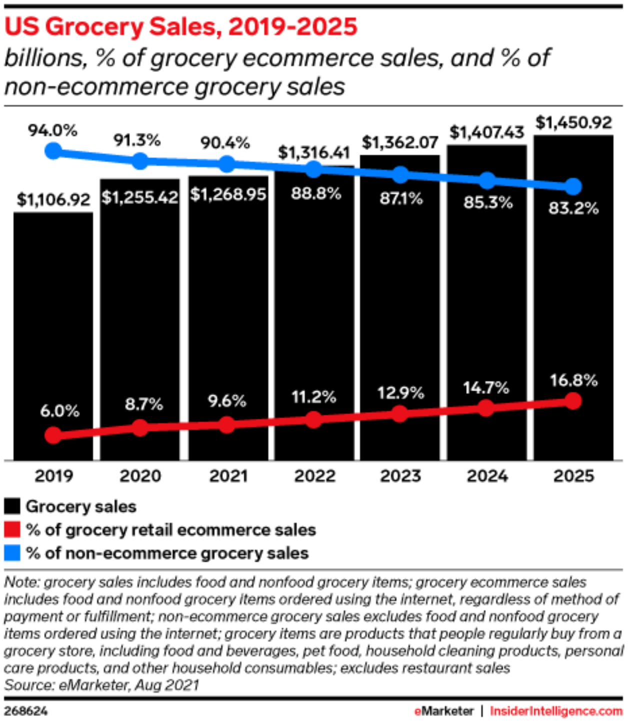
- Some stores feature the Just Walk Out technology that Amazon debuted in its Amazon Go convenience stores.
- Others offer the Amazon Dash Cart that allows shoppers to view their Alexa Shopping List on a screen while also tracking the items that shoppers place in their carts.
- Both options enable Amazon to gather data about shoppers who are not members of the Amazon Prime loyalty program.

Amazon's grocery portfolio: Amazon Fresh is the fastest-growing piece of Amazon's physical store portfolio.

- The retailer operates over 600 physical stores in North America—511 of which are Whole Foods Market stores, per its latest filing.
- Amazon's physical store sales (which also include Amazon Go, Amazon 4-star, Amazon Books, and Amazon Pop Up) grew nearly 17% in Q4 2021, the third straight quarter of double-digit growth, per the company's earnings release. However, those stores generated just $4.69 billion in sales in Q4, a far cry from the $66.08 billion generated from Amazon's first-party online sales.

The opportunity: The pandemic has driven many shoppers to rethink the way that they shop.

- While online food and beverage sales are growing, they remain a small share of overall sales. We estimate just 11.2% of food and beverage sales will take place online this year, which is one reason that Amazon is expanding offline.
- 69 million US households bought groceries online in January, down just 1% compared with January 2021 when the pandemic was raging, per Supermarket Perimeter.
- Amazon maintained its rank as the top grocery retailer in the US for a second straight year, and Amazon Fresh ranked fifth, per dunnhumby's fifth annual Retailer Preference Index (RPI) survey.
- Amazon Fresh grocery stores in California and Illinois are gaining market share from traditional grocers, according to a Placer.ai analysis.
- However, even if Amazon's grocery expansion lures some shoppers away from big-box retailers and grocery stores, its physical presence is a tiny blip compared with its main competitors' physical footprints: **Walmart** has more than 5,000 locations, **Kroger** nearly 2,800, and **Target** over 1,900.



The takeaway: Given that the vast majority of grocery sales occur offline, Amazon Fresh enables Amazon to garner a larger share of those high-frequency sales while also helping it fulfill shoppers' online or pickup orders. At the same time, the stores provide the retailer with a venue where it can experiment and showcase retail technology, which offers a potential revenue stream as a retail service provider.