

Reimagining Retail: What's next for Amazon Fresh and lessons on how best to compete with Walmart

Audio

On today's episode podcast, in our "Retail Me This, Retail Me That" segment, we discuss why Amazon is struggling to get Amazon Fresh off the ground, what it has going for it, and what would happen if Amazon broke out a separate subscription for grocery. Then for "Pop-Up Rankings," we rank the other players that could offer lessons on how Amazon Fresh could compete with Walmart. Join our analyst Sara Lebow as she hosts analyst Blake Driesch and director of content Becky Schilling.

Subscribe to the "Behind the Numbers: Reimagining Retail" podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), Podbean, or wherever you listen to podcasts. [Follow us on Instagram](#).



Episode Transcript:

Sara Lebow:

Insider Intelligence is the leading research firm that is committed to providing unbiased data and insights. Our trusted reports, forecasts, and benchmarks are backed by proprietary data

and a rigorous contextualization process that ensures our clients make better decisions for their businesses. Join more than a hundred thousand subscribers and learn what Insider Intelligence can do for you. Hello, listeners. Today is Wednesday, October 11th. Welcome to Behind the Numbers: Reimagining Retail, an e-Marketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is Amazon Fresh. First, let's meet today's guests. Joining me for this episode, we have senior analyst, Blake Droesch. Hey, Blake.

Blake Droesch:

Hey, Sara.

Sara Lebow:

Also with Blake and I is senior director of content on our media team, Becky Schilling. Hey, Becky.

Becky Schilling:

Hey, Sara.

Sara Lebow:

Okay, let's get started with free sample, our Did You Know segment where I share a fun fact tidbit or question. Today I have another quiz. What was Amazon's first physical retail store and when did it open?

Becky Schilling:

Do we get multiple choice answers?

Sara Lebow:

No.

Blake Droesch:

No?

Sara Lebow:

There's not really options. You just have to sort of come up with what you think it might be.

Blake Droesch:

I'm going to say it's a bookstore that opened let's just say Seattle because I think that's the safest guess. And then I'm going to throw out a random aughts year and say it was in 2005.

Sara Lebow:

Becky, any guess from you?

Becky Schilling:

I feel like bookstore is probably right and I'm going to say '98.

Sara Lebow:

Okay, so we're right on with bookstore. We're way off with year. So good work. Amazon Books, which opened in Seattle in 2015. Amazon did have some locations that you might call brick and mortars before that, but they were all sort of for ordering and picking up packages, so I'm not calling them stores. A quote from a 2015 article in The Verge reads, "Amazon says that it won't entirely be doing things like a traditional store, however, it will be relying on amazon.com data including customer ratings, sales totals, and Goodreads popularity to decide which books to stock." Amazon closed all of its brick and mortar bookstores last year according to an AP article that includes this bookstore. I know what you are both wondering, what is in the location of that first Amazon Books now? As far as I can tell from checking on Google Maps, it's a showroom for electric vehicle company Rivian. So ashes to ashes, tech companies to tech companies.

Blake Droesch:

And so the way it goes in Seattle.

Sara Lebow:

Yes, I'm sure it will soon be some new startup. Now it's time for our next segment. Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is Amazon Fresh. Amazon opened its first Amazon Fresh grocery store in 2020, a year where new tech like Amazon's Dash Cart and just walkout payment technology would appeal to COVID conscious consumers. Nearly 20% of US grocery shoppers have used Amazon Fresh in the past year. That's according to Blake's digital grocery platform survey report. Compare that

number to 60% of people who have shopped with Walmart for groceries and 50% who have used amazon.com. Blake, what's the latest with Amazon Fresh?

Blake Droesch:

It's been a pretty rough year for Amazon Fresh, particularly in the headlines they've had to cut costs, which has led to layoffs and they've halted their plans for opening many of the new stores that they've announced over the last year or so. They've even tried to sublease some of the space that they've already rented out for proposed Amazon Fresh stores. On the digital end, they've increased their cost for free delivery. The minimum threshold is now \$150 per order, even if you have a Prime membership, which is pretty far above the industry standard, which is about \$35 for their competitors in order to qualify for free delivery. And there's also just been a lot of talk about how Amazon Fresh stores are cold and uninviting and have an overall bad selection that's not conducive to everyday grocery shopping. That's basically where we're at. Just strictly in terms of what's been in the news about Amazon Fresh this calendar year.

Sara Lebow:

I haven't been in a Fresh store, but just going off of images, I mean they sort of look like that Rivian showroom. They're a space that could be anything and opted to be like a tech company turned grocery store. So Becky going to you with this question, why can't Amazon make Amazon Fresh happen?

Becky Schilling:

It's interesting, right? Go back to your quiz and you said that Amazon opened its first brick and mortar in 2015 and CEO, Andy Jassy, admitted in February that they can't quite get their brick and mortar platforms correct. He said we are still searching, quote, for a "format" that we think resonates with our customers. That's a pretty big acknowledgement that what they're trying to put out there in a brick and mortar footprint is just not working. And speaking of footprint, they just don't have a large enough footprint to be able to compete. Consumers don't want to have to drive to go to a grocery store, especially a grocery store that is not an easy to shop in place or has the availability.

So that's been a big problem for them. They do have Whole Foods, but Whole Foods is a completely different beast. It's a chain that they purchased that had been widely accepted and acknowledged into consumer's behaviors, completely different consumer footprint, but

Whole Foods really had their business figured out before Amazon purchased them. And they haven't been able to translate the success of what Whole Foods can do in a brick and mortar situation into Amazon Fresh.

Blake Droesch:

And I would just add too, that Whole Foods has about 500 stores compared to Walmart, which has about 5,000 stores in the US. And not that Amazon doesn't want Whole Foods to become Walmart, they're happy with it as a brand. That's why they have Amazon Fresh. They're growing it to be the sort of everyday grocery brand that competes with the likes of Target and Kroger and Walmart, but it's going to cost billions of dollars for them to open up enough stores to basically even have a shot of competing with these behemoths in the physical grocery space.

Sara Lebow:

And Amazon Fresh definitely doesn't feel like a Walmart. Not that I have been in one because there is no Amazon Fresh in New York City, although there's also no Walmart in New York City. So I'll give them both that sort of desert. But it doesn't seem like a Walmart. It seems like maybe a little more upscale than a Walmart. Definitely less upscale than a Whole Foods. It's sort of unclear on how they can compete with Walmart when they aren't Walmart.

Blake Droesch:

I think to give them, I guess, the credit they have acknowledged, as Becky alluded to, that they are trying to make changes to make it more of an everyday grocery store. They've made some renovations to a couple of their existing locations outside Chicago where they're trying to increase the selection of national brands. They've put in a Krispy Kreme station because I guess who doesn't love donuts? And they're trying to just, I think, foster more of a warmer and overall more human vibe with less of an emphasis on sort of the just walkout technology that they've been pioneering on the space and more of a store that's based around selection and convenience as the way that grocery should be. But as Becky pointed out, grocery is about convenience. And if there's not a store nearby, then that's not very convenient no matter how great the selection is.

Becky Schilling:

Because there will be five other stores that are right there for you. And Andy Jassy admitted that, he said they have to find a way to differentiate this platform of Amazon Fresh, but in an economic value that Amazon can see for this grocery product.

Sara Lebow:

That's such a great point about footprint. I mean, I absolutely despise my local grocery store. Things tend to be expired. They tend to be expensive, but it's the only grocery store that's really close by. So I keep going there. I mean, footprint is so important with grocery. So we've given Amazon Fresh a little bit of credit. Let's give it some more credit. What does Amazon Fresh have going for it?

Blake Droesch:

So the report that I wrote, which focuses exclusively on their digital customers did find that yes, it has a much smaller audience than Walmart in particular, and even people who buy CPG grocery products from the core amazon.com site and have it shipped to home. That's sort of the delineation that we should probably mark here is that amazon.com is very different. Plenty of people order their coffee, household items, things that would be considered grocery products and have it shipped to their home. Amazon Fresh is strictly getting the delivery from an Amazon Fresh warehouse, which can include things like perishables and also CPGs as well as an element of click and collect where there are brick and mortar locations, of which there are very few.

So that a big piece, but the findings that were interesting from the survey that we did is that the Amazon Fresh audience is small, but potentially very valuable particular to digital advertisers in the space because they shop online for groceries more often than Walmart customers from other competitors. And they also self-report, at least, being willing to try new products, new grocery and CPG products when shopping online. So I think that as much as there might be an existential question around the Amazon Fresh brand, it's not necessarily something that advertisers should completely dismiss if when they're thinking about allocating dollars into the retail media space and they're looking to reach high quality online grocery customers.

Sara Lebow:

Well, I think that's Amazon's goal in building out a grocery business. Grocery has slim margins. They don't necessarily want to build up revenues from actually selling grocery products. They

want to build up this retail media network. And I think at the end of the day, Amazon Fresh has the advantage of that they're Amazon, even if Fresh isn't doing amazing, they still have this trillion-dollar business behind it. I mean, all of grocery in retail in the US is like 1.3 trillion according to our forecast. And so Amazon is worth all of grocery. They have the money to continue investing. Do they have the money to build up that brick and mortar footprint they need? That I'm not as sure about.

Becky Schilling:

And Andy Jassy admitted that, right? In the earnings call for the second quarter, he said exactly what you just said, Sara, was that they think that grocery is really important and strategic for them. He said that it's a strategic area for us, and he said, quote, "It's a very large market segment and there's lots of frequency and how consumers shop for grocery. And we believe that over time grocery is going to be omnichannel." And he mentioned things like click and collect and kiosks, and Amazon has the power behind it and the distribution know-how and the logistics know-how, they just have to figure out how to take those things and make them work in a grocery brick and mortar because you have to have that brick and mortar footprint to make this really kind of jive and sing and grow for them. But they want to do it and they're trying to figure out exactly what that means for them and what the value proposition for Amazon Fresh would be.

Sara Lebow:

So in order to succeed in grocery, Amazon needs to start treating grocery like a different business than selling books or everything else that Amazon sells. Is there a world where Amazon would break out that grocery subscription to be totally separate?

Blake Drosch:

I mean there have definitely been, at least very recently, there have been reports in the news about Amazon potentially spinning off its Prime membership to have exclusive grocery and I believe maybe another pharmaceutical or some sort of healthcare subscription product. And I'm sort of going to reserve my judgment until I see exactly what that looks like because it could just be a way of basically taking away benefits from the core Prime membership in order to keep that cost down and not a way to really benefit the people who are frequently buying groceries from the platform because they're just going to be served another

membership fee on top of the fact that they already have Prime and probably still need to use Prime because they're going to be Amazon customers like everybody else.

But the fact that Amazon has struggled to keep the cost of its delivery down is also another huge potentially existential question to the viability of its grocery business, which right now is pretty much exclusively dependent on delivery as a fulfillment method. And if they keep jacking up the price of that free delivery threshold and increasing the price of Prime, then how are they going to be able to scale it? And that spells out big problems when they're so dependent on delivery.

Sara Lebow:

Okay. So when you said you were going to reserve your judgment, you meant you were going to tell us all of it right now?

Blake Droesch:

And I was just saying that I reserved to say even more once I learned more of the details.

Sara Lebow:

That'll be our next Amazon Fresh episode. Let's keep moving. Now it's time for Pop-up Rankings where we take a look at specific examples and we rank them. So Amazon Fresh, as we discussed in the first half, sees itself as a competitor with Walmart, although it doesn't have nearly the same footprint or the same consumer base. So today Becky and Blake will be ranking other players that could offer lessons on how Amazon Fresh could compete with Walmart. Becky, why don't you kick us off with another player that has lessons for Amazon Fresh?

Becky Schilling:

Sure. I'm going to lead with H-E-B. It's a grocery chain based in Texas. It has about 350, a little bit more than 350 stores. What H-E-B does really well is it caters to its audience who are Texans and Texans are very proud of their state and very proud of the products that they produce there and H-E-B is a masterful at showcasing that. Merchandising of these products, offering samples. They give you the things that you don't know that you need and then they become the cult item that you have to keep going back and you keep sharing with your friends and your family. The other thing that they do really well is that they have friendly and knowledgeable associates at their store, and so they kind of embody that southern hospitality

and they make it really easy for you to go into a store that is a big footprint, lots of products, and find the little hidden treasures that you wouldn't be able to necessarily find and that are also very locally produced and handcrafted in Texas. H-E-B has a lot of lessons I think that other grocers can learn from.

Sara Lebow:

You can take the retail expert out of Texas, but you can't get them to stop bringing up H-E-B on the pod.

Becky Schilling:

Love it. Love H-E-B.

Sara Lebow:

I've been to H-E-B. It's great. One thing they have is space because that's something they have in Texas and I mean that's definitely something Amazon lacks right now. Blake, what's another retailer that Amazon Fresh could learn some lessons from?

Blake Droesch:

Well, I'm going to answer your question, but I will just preface it by saying that Amazon Fresh should really just learn from Amazon because people love Amazon because it's fast and convenient and it's cheap online. Amazon Fresh is only going to be successful if they apply these practices to physical stores or at least learn how to do it. I would say that pick up another pretty large regional chain and say that Wegmans is a good example of a full service grocery store that really draws people in on their reputation for pre-made foods. But you stay for the selection, which is vast, and the private label brand, which their customers are always lauding as being that perfect balance between fair price and really good quality. Obviously branding is very powerful and I don't think there are many people that are going to want to eat a meatball sub with the Amazon logo slapped on it. I always find that's kind of weird anyways. But that's I guess why they're bringing in Krispy Kreme.

But I think Amazon needs to focus more on their selection of national brands. As I mentioned before, they could also work on building up their private label brands for both food and non-food grocery products. If there was a Walmart sized superstore of all the Amazon private label products, I think a lot of people would shop there. They make a lot of stuff.

Sara Lebow:

I mean the Amazon logo on a sandwich is one thing, a smile logo or some sort of other private label that doesn't look as much like Amazon could be way more successful. And I'm a fan of Wegmans. I used to eat lunch there every single day when I was working in Philadelphia, so can confirm, a fan of their prepared foods. Becky, what is another retailer Amazon Fresh can learn from?

Becky Schilling:

My other one is Aldi, which is a German discounter that entered the US and they have more than 2300 stores in the US. They have a very vast footprint, and they really went through a huge expansion project. In 2017, they set about a \$5 billion expansion program in the US to get to past 2200 stores by 2022, and they succeeded. Now, \$5 billion is not small pennies, but when you're talking about trying to amass the footprint that you need to do to be able to be competitive in the brick and mortar grocery space, Aldi is the one that you can look to. They've got competitive prices, they're compact in terms of spaces, they're easy to shop, lots of private labels. They have a lot of things that appeal to a consumer that I could see that a Amazon Fresh shopper might also be looking for. So I think there's a lot of lessons they can learn in Aldi.

Sara Lebow:

\$5 billion, that's about a sixth of Amazon's projected ad revenues for this year. They could afford it. Blake, what is the final player that Amazon Fresh could learn from?

Blake Droesch:

I think, as I mentioned, a lot of people have criticized Amazon Fresh for being cold and robotic, and people don't like that in a grocery store, but Costco is a pretty cold place at times too. I mean, I know they do delight people with free samples and hot dogs, but people don't really care about the fact that there isn't a lot of promotional material and you're kind of just shopping in a warehouse because they understand that removing all the bells and whistles keeps the prices down. They walk into an Amazon Fresh store on the other hand, and they see all of the technology, and it feels like it's only bells and whistles that nobody even really wants. So I don't really think that Amazon is capable of making sort of a warm and cozy grocery environment. I just don't think that's in their brand DNA.

So I think they need to think of other ways that they could come up with a competitive advantage in the way that Costco has. And it really, I think, is that omnichannel experience of getting everything you want whenever you need it, whether you're online or in store. Obviously this all comes back to sort of the elephant in the room, which is their lack of store footprint. But there are only so many different ways that grocery stores can appeal to customers and scale. And Costco and other big box retailers have been successful in their very simple but very effective framework, and Amazon Fresh really needs to find that.

Sara Lebow:

So to you, the Costco hot dog of Amazon Fresh is a seamless omnichannel experience?

Blake Droesch:

Or Krispy Kreme.

Sara Lebow:

Or Krispy Kreme, either works.

Blake Droesch:

Take your pick.

Sara Lebow:

Okay, that is all we have time for today, so thank you for joining me, Blake.

Blake Droesch:

Thanks for having me.

Sara Lebow:

And thank you, Becky.

Becky Schilling:

Enjoyed it. Thanks.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at @behindthenumbers_podcast. Thank you to our listeners and to Victoria who edits the podcast and always keeps it fresh. We'll be back next Wednesday with another episode of Reimagining Retail, an e-Marketer podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily.