

Amazon Go(es) Grocery

SPRING 2020

Following the acquisition of Whole Foods in 2017, Amazon is once again expanding its reach into the \$800 billion U.S. supermarket industry, with an aim to enhance the customer experience.

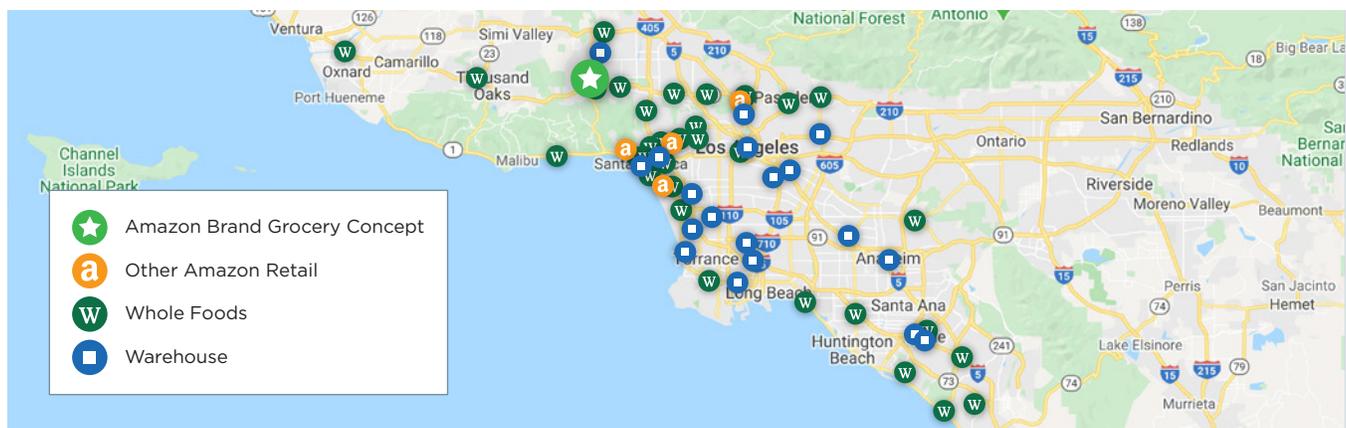
On February 25, the e-retail giant launched its first Amazon brand grocery store in Seattle’s Capitol Hill Neighborhood, and the store’s futuristic aspects made media headlines across the nation.

The most eye-catching feature of the new 10,400 square foot store is the lack of cashiers. Shoppers scan their membership identification upon entering the store and then are charged by sensors and cameras as they select items off the shelf. While this idea is not entirely new (Amazon has tested a similar concept in Amazon Go convenience stores over the last two years), the Seattle store opening marks the first time that Amazon has created

a technologically enabled store specifically within the grocery sector.¹ In addition to cutting costs by reducing staffing requirements, Amazon ex-manager Brian Walker highlighted that this model leverages the digital channel alongside data and AI to further drive down costs while also personalizing the grocery experience.²

Amazon is also experimenting with other grocery innovations. The company has secured over a dozen leases across Los Angeles, which could transform the retail market into a new testing ground for grocery innovations (see Figure 1).³ These leases are concentrated in dense, suburban markets including Irvine and Studio City. One 33,000 square foot store under development in Woodland Hills, CA, has a built-in micro-fulfillment center that allows it to take advantage of omni-channel fulfillment capabilities⁴ (see Longpoint Winter 2019 commentary “Micro-Fulfillment Transforms Supermarkets into Logistics Nodes”). This store reportedly includes a 7,200 square foot area in which Dematic robots will pick and assemble items for pick-up and delivery orders.⁵ If all goes well, Amazon will likely roll out this concept to other

FIG. 1 AMAZON LOS ANGELES STORE AND WAREHOUSE NETWORK



U.S. metro areas, and could also implement similar micro-fulfillment operations at Whole Foods locations.⁶

As Amazon presses forward to innovate in the supermarket sector, it is not alone. Major grocery retail chains such as Walmart, Kroger, and Meijer are investing in a range of in-store technological platforms in addition to initiatives that better integrate their online and offline shopping and delivery platforms (see Figure 2). Specifically, Walmart, Kroger, and Meijer have expanded their curb-side pickup offerings, which are increasingly expected by American grocery shoppers. Dematic, the company supporting Amazon’s grocery concept, has also partnered with Meijer to support robotic picking, which aids in the fulfillment of online orders in at least one store in Michigan. U.S. grocery retailers are even moving into membership programs similar to Amazon Prime; for example, with the “Walmart+” program, a \$98 yearly membership provides access to same-day grocery deliveries from nearly 2,000 stores.⁷ The February 2020 appointment of key Sam’s Club executive Jamie Iannone to lead U.S. e-commerce operations signals Walmart’s continued focus on developing its omni-channel grocery offerings.⁸

As competition and innovation in the grocery space heats up, Amazon has the potential to add greater convenience

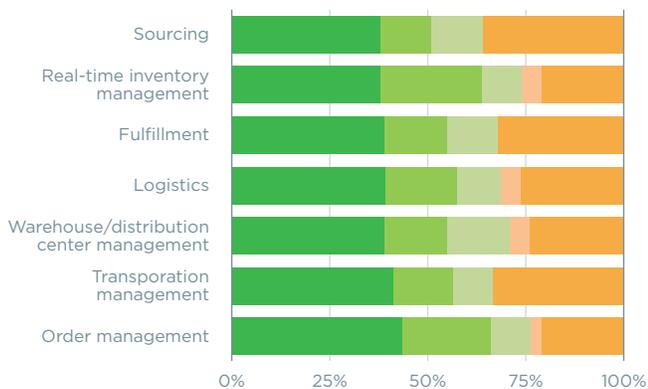
and personalization to the in-store shopping experience through its piloted store and supply-chain technology suite. The grocery sector’s razor-thin profit margins have made it a high-revenue, low-profit industry for decades. Amazon has the potential to change this by offering a differentiated, uniquely “Amazon” shopping experience that features better selection, convenience, and targeted advertising. Amazon is charting unexplored territory in the physical retail space, and its proprietary store technology suite could differentiate its grocery value proposition to consumers in a hotly contested and rapidly changing industry.

Reference Notes

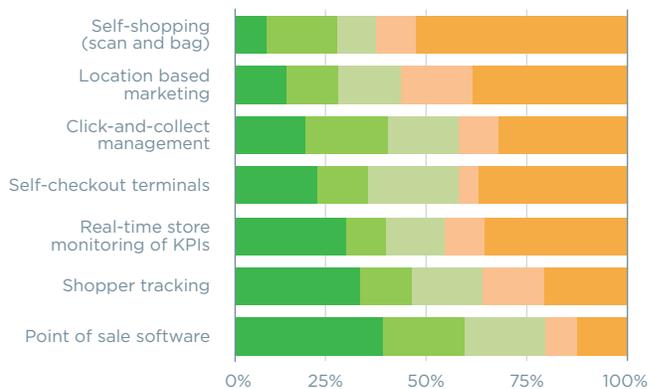
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7. D'Innocenzio, Anne. The Washington Post, *Walmart Confirms It Will Launch a Rival to Amazon's Prime* (February 27, 2020).
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FIG. 2 SUPERMARKET CHAIN TECHNOLOGICAL ADOPTION

Supply Chain Technologies



In-Store Technologies



■ Up to date
 ■ Started major upgrade
 ■ Will start upgrade within 12 months
 ■ Will start upgrade within 12-24 months
 ■ No plans



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