



Why Amazon.com, Inc. Entering the Grocery Market Changes Everything

Description

Occasionally, we see a completely unexpected, yet masterstroke deal that completely redefines how one sector of the economy evolves to meet the changing tastes of consumers.

One example of this is retail. Most retailers have been stuck somewhere between the large brick-and-mortar store model of the past and the scalable online store model of the future. Retailers that can adapt to the new retail model norm will see significant upside, while others that are set on the older business model, which is reliant on large showrooms, are destined to fail.

Whole Foods's acquisition by **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) was finalized this week, and as the internet commerce behemoth takes control of the grocery store chain, there are signs of major changes to the grocery store business model, which has remained largely immune from the e-commerce explosion of the past decade.

Amazon's entry into the grocery market

Interestingly, industry experts see Amazon's entry into the grocery sector as being more about bringing customers into Amazon's already massive ecosystem rather than the company seeking out additional profits.

To illustrate this motive, while Amazon has already lowered prices across a growing number of products in Whole Foods stores, the more interesting development is both the addition of Echo devices onto store shelves and talk of Amazon Prime becoming the de facto rewards program across Whole Foods locations.

Both of those developments play directly into Amazon's core storefront and could change the way consumers order groceries forever.

The challenge with online ordering and delivery of grocery items stems primarily from the delicate nature of food items and the problems that come from delivering them safely without bruising or spoiling them.

Some retailers have shied away from online deliveries for this reason, and others that have attempted to do this require special, more expensive packaging with that added cost being passed down to the consumer.

There's also an added bias against buying groceries online, as food shopping remains one of the last bastions of shopping that consumers still want to see, smell, and touch in person before purchasing.

Amazon already offers a grocery-delivery service known as AmazonFresh, which is being tested across multiple markets in the U.S.

What are grocery companies doing?

The impending invasion by Amazon into the grocery sector will no doubt send shockwaves across the industry. Long-established grocery companies will need to innovate or be left behind.

Loblaw Companies Ltd. ([TSX:L](#)) has been slowly adopting online ordering, but it has yet to venture towards delivery, preferring to offer a "click and collect" service. Customers order and pay for their groceries online, and then head to their local Loblaw to pick up their groceries.

The company still only offers a fraction of products online and is still reliant on store inventory levels to fulfill orders rather than use a large distribution centre like Amazon does.

Still, the move from Canada's largest grocer is popular with customers; it's seen as a bridge to adopting a completely online model, with the Shoppers Drug Mart pharmacy arm likely the first target segment to see an end-to-end online model.

Metro, Inc. ([TSX:MRU](#)) appears set to tackle the online grocery model from a different perspective. Metro recently announced the acquisition of Montreal-based MissFresh Inc., which specializes in the online sale of ready-to-make meals.

The move by Metro eliminates the fragile nature of grocery delivery from the equation and caters to the changing needs of consumers, who are turning to ready-made meals as a time-saving solution for family meals.

Where does this leave the grocery sector?

More competition in the marketplace is ultimately good for consumers, as it will spur innovation and price competition. The move by Amazon could also have a massive long-term impact on prices of goods, particularly in the hard-to-reach areas of the north of the country. Amazon has already undergone tests of delivery by drone, so this move could prove more revolutionary than most think over time.

For the incumbents in the market, Amazon may force their hand to innovate, much like Amazon has for other areas of commerce, which will be great to watch as both an investor and consumer.

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dafxentiou

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