

MarketLine Case Study

Amazon Fresh

UK Online Food & Grocery industry
to be disrupted following Amazon
entry

Reference Code: ML00022-052

Publication Date: October 2016

WWW.MARKETLINE.COM

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OVERVIEW

Catalyst

Towards the end of 2007, Jeff Bezos of Amazon began experimenting with the idea of online fresh food delivery to customers in set regions of the United States. Nine years on and the online retailing giant has now launched the service in 128 postcodes within the UK, beginning its entry into the UK food market in June 2016. Quite brutally, this is Amazon's last mile quest for total retail domination when observing the number of sectors they now supply products in. The strategy has created instant worry for the large players dominating the industry with the likes of Tesco and Sainsbury's reviewing their own online food options, pricing and technicalities as they fight to maintain market share. Amazon's move into the online food segment is still in the early stages; however, any retailer should be apprehensive by what Amazon invests its capital and infrastructure in, as the company is not short of quick successes in industries that are new to them.

Summary

The online food and grocery industry within the UK is growing at a much faster rate than that of the offline market. Amazon being a tech giant that aims to sell a diverse range of products and most recently food, it has noticed this potential and understood it to be an attractive market. With a number of dominating players already well established in the market, Amazon causes trouble as rivalry is set to increase. With big players such as Tesco, Sainsbury's and the rest of the big four owning substantial share in what is known to be a concentrated market, they must prepare and fight to maintain share as Amazon attempts to attain share of the market by undercutting prices and informing customers of their brand and presence upon arrival.

While there has been some bad press surrounding the recent launch in June 2016, most feedback has generally been positive and the company aims for it to only improve on what it was renowned for regarding some early logistical mistakes. With Prime subscriptions growing at a very fast rate, it is a reflection that more shoppers are aware of the benefit it holds in granting them access to Amazon Fresh and its services. With a partnership of suppliers including the likes of Morrisons, the company will not be light on quantities and will supply households with brands in conjunction with localized farm fresh food produce, which may be preferred by many.

With the ability to keep feeding unique features to shoppers that only Amazon can currently handle, such as its one hour delivery service, this will put it ahead of the competition if it can live up to their service guarantee. The experience Amazon brings with it is second to none when it comes to online selling, this will become more apparent as the service quickly rolls out to other areas in the UK.

Predictions the company is forecasting may be on the optimistic side of the plate, however it has been accurate in such forecasts in its past. With the UK market differing heavily from that of the US industry due to it being more competitive and concentrated. While it is likely Amazon Fresh will have its share in the years to come, the ride will not be smooth and must prepare for UK customer loyalties that are already well present.

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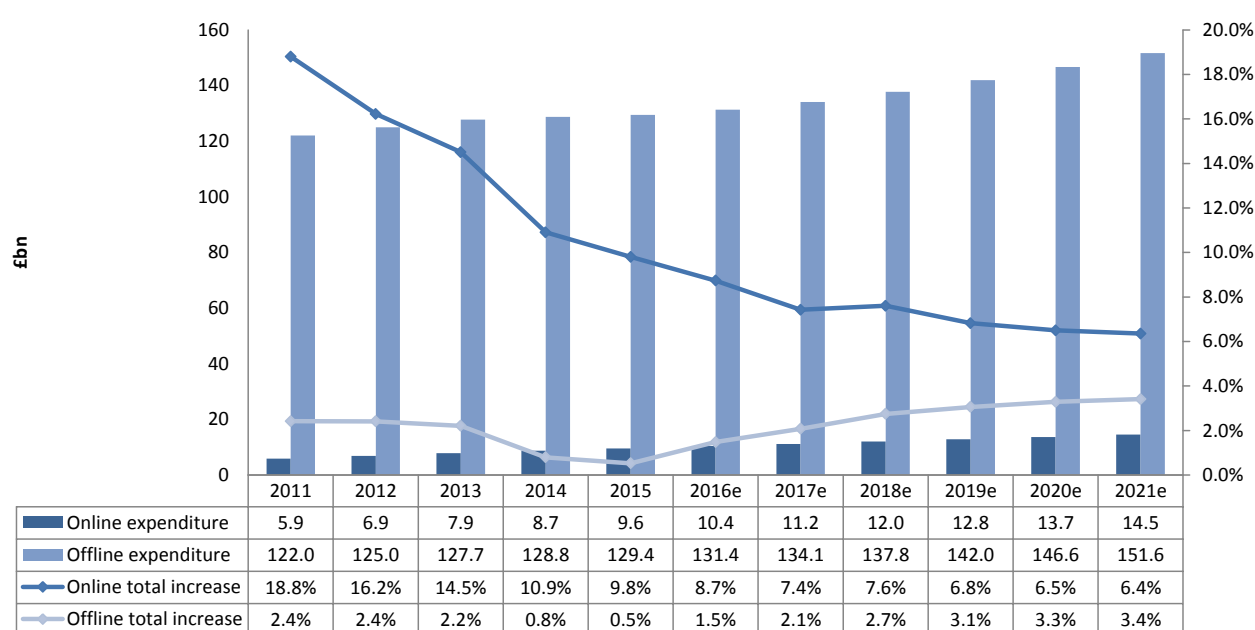
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UK ONLINE FOOD INDUSTRY SHOWS POTENTIAL, APPEALS TO AMAZON WHOSE ENTRY INCREASES RIVALRY

With Amazon breaking into the UK online fresh food market, it will have seen something special that has led it in to expand into the territory. A survey reported a staggering 27% of British shoppers go online to shop for their groceries. With building awareness surrounding online shopping capabilities and clear technological developments, Amazon's breakthrough into the food category was inevitable. While this has only recently taken place, it will have been in research for a long period of time enabling Amazon to establish a connection with the UK food & grocery industry, allowing it to collect the resources and 'know how' to be able to execute this launch to its best possible efforts.

Current market performance is strong with further growth forecast

Figure 1: Online and Offline segment market value (£bn)



SOURCE: Conlumino

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By the end of 2016, the online food and grocery market is estimated to reach a total of £10.4bn (\$13.39bn) up 8.7% from 2015. Sales are forecast to grow a further 28.5% by 2021 reaching an estimated £14.5bn (\$18.02bn). While it is evident how much larger the offline retail expenditure is in comparison to online sales, this is understandable. Before the birth of the internet, there was no other way of shopping for goods, especially food. Supermarkets and small convenience stores have always been the main method of shopping and in many cases, they still are. Year on year increases can naturally be related to a number of factors such as the average household disposable income being on the rise over recent years. Total population growth of 3.0% in 2016–21e, especially among those aged 65+ which is expected to grow 9.2%, will increase the sector shopping base and also add some volume uplift.

Offline is larger but online growth is faster

It is worthy to note here that the online sector is growing at a much faster rate while offline is still growing but it is continuing to slow down year on year.

With the above chart, both online and offline are growing at different rates with the online market expected to maintain growth in the future while the offline sector has somewhat reached a phase of maturity.

This continuous growth can be down to reasons that make online shopping more convenient for shoppers with the increase in shopping channels, delivery options and providing customers with further flexibility to shop from their own homes. Not only the flexibility, but the ability to budget accordingly becomes easier online with a shopping basket constantly updating the total price. Consequently, research has shown that some shoppers have stopped shopping for food online as the lack of control of selecting fresh produce restricts their level of choice. Although major players offer a freshness guarantee, it remains difficult for them to fulfil expectations and reach ultimate customer satisfaction because their volume of orders is usually at very high quantities. Alongside the fact that online expenditure is growing faster than offline, it has still slowed down in recent years and is forecast to keep slowing. Although it is growing at a faster rate than offline, the difference can be seen as marginal in the future which may beg the question on whether Amazon has entered too late. Seeing the growth of online food & grocery shopping surge however, gives Amazon a perfect enough reason to enter the market and bombard the industry with its expertise.

It is an attractive market for Amazon indeed

With the online retail and media giant establishing contact with the UK food industry, it is clear that it has a plan on how it wishes to reach out and expand their Amazon Fresh customer base. Granting that a predominant amount of the company's revenue is from sales in the United States, the UK market is certainly not foreign territory. Amazon as a whole made £84.2bn (\$108.39bn) in sales in 2015 and £6.31bn (\$8.12bn) of that total came from UK sales, up 8% from the previous year. Britain is Amazon's third largest market after the United States and Germany. In contrast to other tech giants such as Google, Facebook and Apple that process their sales off shore, Amazon makes little profit by running at close to break-even. This is largely due to the fact that corporation tax is paid on profits, not sales.

They might make little profit but this does not mean they are not spending to achieve further established results in the UK. Following the plans to launch Amazon Fresh in the UK, the company increased its UK ad spend significantly in 2015 by an astonishing 40%. By the end of 2015, the company had spent £2.93bn (\$3.77bn) on advertising and promotional costs within the region. Verdict Retail research shows that 41.6% of online shoppers in the region are aged 25-34 which fits in line with Amazon's current subscriber demographic. This further allows the company to transfer users that are both familiar with Amazon and online grocery shopping to one port of call web platform, in effect merging the two services. With Amazon already well familiar with the market in the UK, reaching out to them with their new service should not be a problem in the long and short term alike.

Rivalry set to increase

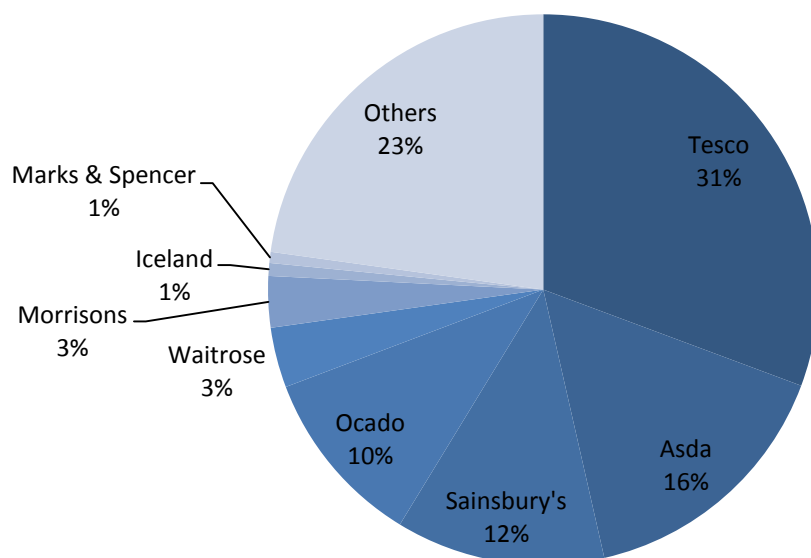
With Amazon Fresh in its early days in the UK, it is still yet to win the trust of many customers with good service and quality of foods delivered. It is one thing delivering a textbook on-time and un-damaged, however, six eggs on route may need some further logistical thought and ultimately customer satisfaction will be dependent on the freshness of the product. With the giant's arrival, the 'Big Four' namely Sainsbury's, Tesco, Morrisons and Asda will not be as welcoming with the severity of rivalry already present, and now more so with Amazon's entry. The structure of the UK grocery market has been steady in the decade since Morrisons bought up rival Safeway to become one of the "big four" national chains. But with Tesco, Sainsbury's and Morrisons all now losing market share and profitability their share prices have fallen to 11-year lows.

For now any merger between the big players is almost certain to be blocked by regulators, who want a minimum of four major chains; but in time, with the rise of the discounters and upmarket grocer Waitrose, the new Competition and Markets authority might reconsider. Asda's owner Walmart, the enormous US chain, could be seen as a potential buyer but snapping up any one of its major rivals in the UK would be a very complex deal forcing an industry investigation.

Walmart's focus on the UK may seem more apparent in the coming years now that Amazon (that currently rivals Walmart in a direct manner) is aiming to establish itself in the UK. However, if a major player collapsed, its stores' share could be shared out between the remaining chains – including discounters Aldi, Lidl and now Amazon. The arrival of Amazon's grocery business in the UK could have a radical impact.

The change in buying patterns has already led to the opening of "dark stores" – mini distribution centers where online orders are processed to relieve the pressure on high street outlets in London.

Figure 2: UK online food retail market share 2015 (% of total value)



SOURCE: Conlumino

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'The Giant has arrived... Save us!'

With the talk of Amazon entering the market and major players currently fighting to maintain or gain market share, the figure above may look very different in the future. Tesco is quite clearly the dominating force at 31% with Asda in second place. The rivalry between Amazon and Walmart will continue as Asda goes up directly with the company once Amazon establishes itself in the market. The key area to highlight is that the percentage of 'Others' equates to 23% and this can be made up of many other smaller websites and most certainly the likes of 'Lidl and Aldi', which make up a predominant amount of the 'Others' value. The leftover value represents a large segment that Amazon can make use out of, as well as stealing some of the Big Four's share, which is dropping. In 2014 Tesco reported online sales were around the figure of £2.5bn (\$3.22bn). This remains the largest over its competitors and with Amazon's total UK sales figure making almost triple this, the launch of Amazon Fresh should severely boost its UK sales figure.

Amazon Fresh's focus on London and its upmarket bias could mean Sainsbury's is hit the most out of the Big Four due to its online share in London being the highest over its competitors. Tesco and Ocado are also exposed as they have the largest share of London-based online food sales. There was, however, little impact on stock prices following the Amazon Fresh launch. In April, Sainsbury's agreed a £1.4bn (\$1.8bn) takeover of Argos, a move which was seen as a defensive play against Amazon. One food retail executive from one of the big four players said Amazon would only significantly disrupt the market if it could successfully target the 60% of store sales that are just small baskets.

While the Big Four grocers have worked hard to accelerate their click & collect offer to rationalize online fulfilment costs, home delivery continues to dominate the online market, as 87.3% of UK online food & grocery shoppers prefer this method according to Verdict Retail's March 2016 survey of 10,000 online consumers. Therefore, offering same-day deliveries for orders placed before 1pm as Amazon Fresh is doing consists of a potential game-changer that grocers would struggle to compete with unless they charged higher delivery fees.

Amazon should not look forward to an easy ride. In the US, where it has been offering its Fresh service for more than eight years, the company accounts for less than 1% of grocery spending, according to Conlumino.

Amazon Fresh has steadily expanded

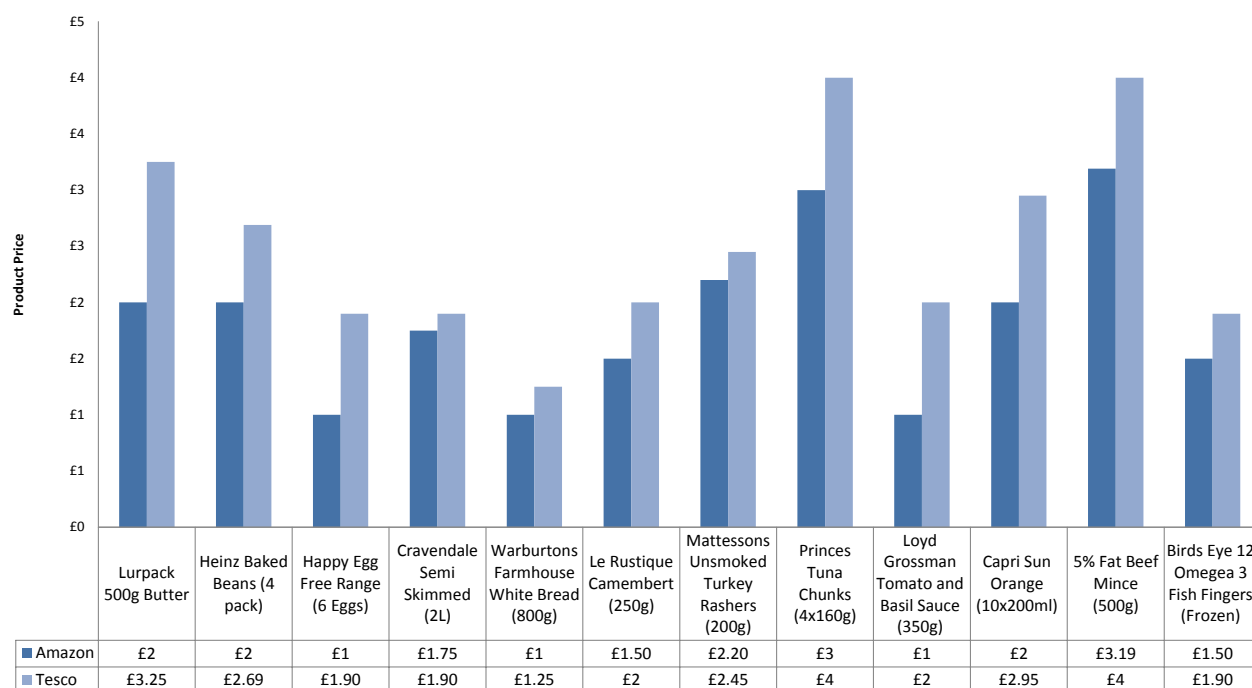
Upon entering the UK market, Amazon still has a lot more to achieve with the current status of it only being present in certain regions of the country. Seeing as Amazon Fresh first began distributing in the UK since June 10, 2016, it has reached out to offer its food delivery services to 128 postcodes in the UK. This figure is expanding weekly due to the logistical movements Amazon is undertaking to make it possible to soon supply nationally. While there have been mixed reviews from customers who have tried the company's fresh food service, it is certain that no customer is complaining about the prices!

Amazon tested Fresh in Seattle for six years before expanding it to new cities, adding Los Angeles first in 2013. Today, it is available in Seattle, Southern and Northern California, New York, Philadelphia and now most recently the UK. By contrast, Prime Now, the one-hour delivery service that Amazon launched in December 2014 is now available in dozens of cities across the United States and will soon reach the UK.

Amazon Fresh beats competitors on price

While same-day delivery may appeal to some, Amazon's deliveries will not be the cheapest. Those wishing to use Amazon Fresh must be signed up to Amazon Prime at a cost of £79 (\$101) a year, and then pay £6.99 (\$9) a month for unlimited deliveries of orders worth more than £40 (\$51.50). That would take the annual cost of getting the groceries to £162 (\$208.53). That compares to a 12-month anytime delivery pass costing just £60 (\$77) a year at Sainsburys and Tesco. As most online grocery shoppers choose to stick with the brand whose physical store they already visit, the prospect of a three-figure fee may be another hurdle in the way of changing habits. The monthly cost suggests that Amazon Fresh is competing with 'delivery passes' offered by other supermarkets, where you can pay a fee in exchange for reduced delivery charges and other benefits. Like Amazon Fresh, all three services offer free delivery on orders over £40 (\$51.49).

Figure 3: Amazon and Tesco price comparison



SOURCE: Amazon & Tesco websites

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While delivery prices are higher than its competitors alongside the purpose of owning a prime membership to use the service, it all certainly adds to the total price of using Amazon Fresh. However, excluding those factors, it is obvious how much cheaper Amazon is when assessing individual product prices.

Figure 3 is not a representation of products that all shoppers tend to shop for, however these are brands that are popular with the average shopper and represents how some of these prices differ to the point where we are not just specifying pennies. The chart shows that shopping at Amazon for the above goods would produce a saving of £8.15 (\$10.49). If we minus the prime subscription cost, this is still a saving of £1.16 (\$1.49). Granted, this sum does not equate toward much of a large amount, however if we were to purchase these products at larger volume then we would observe a more significant amount saved.

Lower prices you scream? Let's shop from there!

The overall result of Amazon charging lower product prices on produce and branded goods is a clear marketing tactic to drive customers from one competitor grocer on to Amazon. However, it is extremely clever the way it has approached this and seemingly should end up working out for the company. Lower prices are often the determining factor when one is choosing between the same good. With this on note, it is a method of Amazon attempting to gain or buy market share from its already established competitors. Entering the market as a loss leader will surely allow Amazon a chance to provide their service to customers who would otherwise be using the likes of Tesco or Sainsbury's to do their weekly shop. The lower price also factors in the prime membership subscription which will essentially have an upsell on prime memberships and furthermore being a member of prime provides benefits to other Amazon services. It ties in well with the overall brand which Amazon is attempting to throw at their customers – with prime users receiving free delivery on Amazon goods; the company should witness a surge in sales because they decided to charge a lower price on their food products from the beginning.

This has ultimately always been the case with Amazon. With price bots in place constantly recording competitor pricing using technical algorithms the company has created, Amazon is been able to consistently undercut prices its competitors charge.

Not only does it have price bots in place, it is able to use large sets of data it has collected/bought to build 'price perceptions' which essentially highlights what customers deem to be a good price for a product hence leading them to buy at the right price. The result of these lower prices will not leave much room for large margins on the goods. Conversely, this has been the case with most Amazon products, the lower prices leads to higher volumes of sales all round and it is evident the company is adopting the same strategy with Amazon Fresh. This has been summed up in the previous years of profitless annual sales reports with the company turning over humongous amounts but little or no profit to show for it.

Not all praise for Amazon Fresh since launch day

Since the launch of Amazon Fresh in the UK, there has not been a great deal of feedback being that it is a new service and has not been tested by the true depths nationwide in Great Britain. With it only being offered to 128 postcodes currently, there have already been some bad signs for the retail giant largely due to logistical errors and problems with food customers have been receiving.

Fresh is in the name, but early signs say otherwise

At this time, 40% of reviews on the Amazon Fresh website gave the service a five-star rating, while 22% gave it just one star. One user, Rebecca, complained of "under ripe fruits, moldy potatoes, wilted lettuce" and branded the service as "awful". "After a strong start, Amazon Fresh now gets my orders wrong every single time," she added.

Turning up at customers door steps when nobody is home

It has been reported that their delivery vans have turned up at the wrong times proving to be a huge inconvenience both for Amazon and the customer alike. Fresh produce can go to waste if not returned to the distribution center in good time and the customer has to go through the hassle of re-arranging another appropriate delivery time. Other food delivery chains allow customers to change their delivery slot or cancel their order up to midnight on the day before delivery.

Unfortunately for Amazon however, Amazon Fresh tells customers who need to change their delivery time that they must scrap their entire order and start again.

Buyers have also discovered that some products can be bought at the same price or less elsewhere on the website, without the need for the extra £6.99 (\$9) a month subscription fee. A crate of beer was found to be almost three times more expensive on Amazon Fresh than on Amazon.co.uk.

ESTABLISHED BRAND PROVIDES OPPORTUNITIES TO BUILD SUPPLIER BASE & OFFER UNIQUE PROPOSITIONS

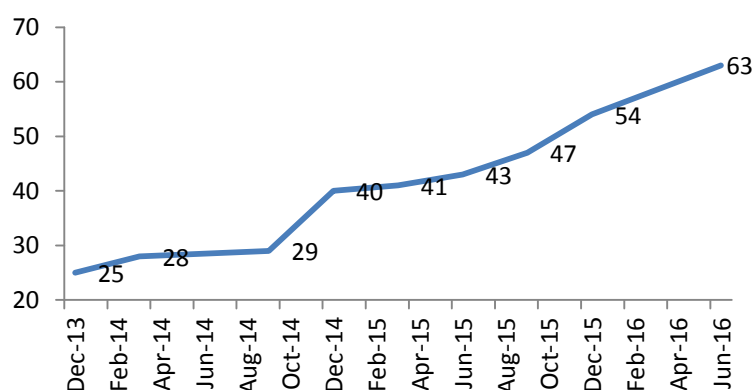
Since July 1994, Jeff Bezos and his employees have grafted to make the Amazon brand what it is today. From a bookstore expanding its product supply year on year alongside further exploration into new categories; today, Amazon employs a total of 154,000 people and is turning over in excess of \$88.9bn. The UK alone is a prime focus point for the company as earlier mentioned, with around 369 million different products being marketed to the region – Amazon Fresh is just another category for the giant offering a further 130,000 food and grocery names to the inventory. This figure is marginal in comparison to the total amount of product on database, while fresh chicken breast is very different to a TV for example, years of experience in online marketplace selling should really prevent failure in this extra category and furthermore its success in the UK reduces this risk further. Consequently, the current reputation of Amazon leads to high expectations for it to deliver at a set standard and if not, it can severely damage Amazon Fresh in the UK with competitor brands already serving the online fresh food shopper market.

Amazon brand shows signs of growing subscriptions as it continues strategic moves

Amazon is widely considered to be the leader in e-commerce, and for a long list of good reasons, too. This behemoth marketplace brings together merchants and sellers, creating a unique synergy that results in one of the greatest e-retail concepts ever contrived, and that delivers a menagerie of shopping, services and more that are truly a one-of-a-kind creation. During its tenure, Amazon has set benchmark after benchmark, often reinvesting its sole revenue to help spur company growth – which generally results in few profits being posted or quarterly losses. While the reserved movement from investors has been consequential, the results of this interesting operational protocol have culminated in what has become one of the most desired shopping portals online today.

Fast growing Prime subscription is a must for Amazon Fresh

Figure 4: Amazon Worldwide Prime subscription memberships in millions (Dec-13 – Jun-16)



SOURCE: Data from CIRP

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In order for users to take part in Amazon Fresh's service, they must be a member of the subscription package they have on offer, Amazon Prime is enormous. Amazon has figured out a way to make subscription shopping a trendsetter using a formula that is impossible to replicate. Sellers agree to a very stringent set of terms that include offering free or low cost, two-day shipping with hassle-free returns and competitive pricing. It is this fortuitous model that has helped cement Prime as the go-to shopping source for millions of people. But just how successful is this ecommerce model? According to Business Insider, immensely.

At \$99 per year (£79 a year for UK subscribers), you would think that consumers would be hesitant to sign-up. But with 63 million members and counting, a 53% increase since 2015, people cannot seem sign-up fast enough.

The reason the assessment of prime memberships are so important is due to the form of measurement it represents.

The fact that any user using Amazon Fresh must be subscribed to the service has to be a member of Prime tells us that these Prime statistics are likely going to increase substantially in the years to come. Take the years 2014-2016 as a 'prime' example of this in effect. Over this period, subscriptions doubled. Of course this is a worldwide statistic. However the roll out of Amazon Fresh across America is likely to be one key reason for this increase alongside other Amazon Prime benefits. By the end of 2017, the establishment of Amazon Fresh should have an overall positive impact on the Prime subscription memberships, especially in the UK.

Just another Amazon category

When the announcement of Fresh was made all those years ago, many will have been shocked surrounding the expansion into the food sector being that Amazon is directly competing with food retailers who are already well established in the market. The same goes for the UK, as previously stated, there are already dominating players in the market such as Tesco, who own a significant amount of market share. Others will understand that this is just what Amazon does; it expands into a broad range of categories often in industries that are performing at a good standard with continuous room for improvement and further potential to exploit. While Amazon has not always been recognized for its ability to supply fresh food it has consequently been renowned to distribute a wide range of products that differ from an array of categories and for now, food is their latest addition to this selection.

Good supplier network is vital

Customers that order food online, expect the food to arrive at a certain level of quality, especially when ordering fresh food. With the level of choice restricted when ordering online, customers are at risk of receiving damaged packaged or limited expiry dated products being that orders are made in high volume and 'Food pickers' who are employed by the company to pick the food for the online orders do not distinguish orders by any form of favorability. This is the reason it was argued some online shoppers preferred ordering directly at a supermarket to limit the problem of un-favored food product. With that said, the online industry is growing at a very fast rate

With Amazon breaking into the UK food industry, it is up to the company to source its food from hygienic, rated and local suppliers to ensure produce remains of a good standard. With an immediate disadvantage being that it does not produce its own foods (with the likes of Tesco value/finest brands, M&S choice etc. proving to be vital sellers in the market) it is forced to pick out suppliers and represent its produce rather their own simply because they does not produce its own. With the retailer offering 130,000 different products all sourced from a various amount of suppliers – it is imperative that they maintain quality throughout and can employ the expertise to single out foods which do not qualify to sell. One thing is for sure however, with the reputation and the name Amazon holds, it is a well-known worldwide brand that is able to successfully make sales on their website. They bring a high volume of traffic onto their site which is appealing for any brand / seller wanting to market their product to a customer base. Suppliers or more localized smaller businesses that have the opportunity to sell fresh produce through Amazon will be jumping out of their farms to grab this opportunity.

All perishable products have a guaranteed minimum shelf-life. Amazon's Freshness Guarantee means that customers would receive a refund if they were unhappy with the freshness of the products. If an ordered item was not available on delivery, customers would not be charged and would receive a free substitute product in its place. Through Amazon's Prime Now service, there is an array of fresh, chilled and frozen items that are now available at 'One hour deliveries' or a choice of two same day delivery slots.

Branded products alongside local fresh produce

The majority of its items will be branded goods, such as Flora margarine, Cornetto ice creams or Yeo Valley yoghurts, for which Amazon has said it will benchmark prices against Tesco, Sainsbury's, Asda, Morrisons and Waitrose.

As well as household names, Amazon Fresh is also starting a delivery service for 50 independent food retailers, such as Borough Market confectioner Konditor & Cook, London bakers Gail's, and Soho's Pizza Pilgrims, which will mean artisan grocery orders placed before 8am can be delivered the same day, and orders before 5pm the next day.

Morrisons grabs a second chance with Amazon Fresh

With Morrisons being one of the Big Four, it would appear it also would be threatened just like the rest of its competitors. However, it may actually benefit from the arrival of Amazon Fresh. In February, Morrisons revealed it was teaming up with Amazon to bolster the e-tailor's supply chain. Amazon Fresh has been able to launch in the region offering a wide range of Morrisons ambient, fresh and frozen products. This move has not come as a great surprise, with the rest of the big four (namely Tesco, Asda, Sainsbury's) holding a significant market share in the online sector (see Figure 2) – Morrisons failed to break through this market. The result of its online penetration strategy arrived very late for the supermarket and had detrimental impact to their online sales. With Amazon being a considerable threat to the existing online food industry, such collaboration could really benefit Morrisons and give it a chance to catch up with the more established competitors.

A major problem that has constrained Morrisons online has been the fact that it is restricted from delivering to the entire country. The retailer has a 25-year agreement with Ocado to run an online delivery service, and it also announced it is in discussions with Ocado to expand the reach of its online operation. Although this agreement is not final, Morrisons is due to take space in Ocado's new customer fulfilment center in Erith. A Senior Analyst at Verdict Retail said both the talks with Ocado and the Amazon deal are signs that CEO David Potts is "sowing the seeds for a convincing recovery". Potts, who became CEO almost a year ago, recently sold off the retailer's M-Local convenience estate, while shifting the focus back to traditional mid-sized supermarket – a different move to its grocery competitors.

Other suppliers have recently started supplying Amazon

As well as quality fresh food from Morrisons and big household brands, Amazon Fresh announced it is also offering customers local food from London producers and shops in locations including Borough Market and Notting Hill. 50 artisan London producers have partnered with Amazon Fresh on launch, including Gail's Artisan Bakery, C.Lidgate, FishWorks, Paxton & Whitfield, Konditor & Cook, Bad Brownie, Daylesford, Chegworth Valley and Turnips. It is inevitable that more names will add to this list as Fresh rolls out in the UK and local suppliers get

Fresh brings faster delivery, lower overheads and more experience

With Amazon Fresh providing major threat opportunities to food grocers within the UK, there will be reasons why they as an e-commerce giant is going to be able to compete so well. With unique technologies and logistical strategic strategies in place, Amazon's team and experience in online selling is far more practiced than that of any food grocer. This will give it the upper hand on how they can market online, technically achieve a website with few website bugs and logistically provide good service all around. However, Amazon is a small player in the grocery world, and does not have the buying skills of the big four supermarkets. What the Morrisons tie-up allows is for Amazon to finally compete head-to-head with the UK grocers whether shoppers want their goods via Prime Now or Amazon Fresh.

'One hour delivery' gives Amazon a head start

Members who subscribe to Amazon 'Prime Now' will be able to receive their food order within an hour of pressing order. This is a game changer in the industry. Humans strive off convenience in today's generation which is witnessed in technological advancements and further developments which makes life that little bit more easy and efficient. With most supermarkets offering a variety of delivery slots that fit in time with their schedules – members who select the 'Prime Now' option will have their order with them within the hour. Of course this comes at an extra cost of £6.99 (\$9) per order; however the option is there in case one was in a hurry to receive an order. This is quicker than getting in a car, driving to the supermarket, shopping for your goods, paying for them and then driving home. While it is still in early practice in the UK and operational only in certain locations, it will be contributing thought into competitors' minds about their own logistical delivery process.

Figure 5: Amazon Fresh delivery drivers in preparation for deliveries



SOURCE: CNBC

MARKETLINE

With same day delivery becoming an increasingly popular concept amongst grocers in the UK, it must carefully be planned amongst logistical teams in order to achieve what they are setting out to do and deliver orders on time. With customers paying a premium to receive their shopping within the same day of clicking order, grocers must be able to meet expectation. With the arrival of Amazon Fresh, Sainsbury's have also announced that they are trialing same-day delivery in set regions within London and will be available in 30 stores by the coming Christmas. The firm has created 900 new jobs at its online warehouse in Bromley-by-Bow, east London. It must be noted that Amazon Fresh's delivery service is also located in the same area. With the proclamations surrounding Sainsbury's £1.4bn (\$1.8bn) take-over concerning Argos, this strategically fits in line with the same-day delivery service with Argos's experience in the service. The take-over will soon put company in 1st position for the UK's largest click & collect firm. According to a report from Business Insider's BI Intelligence research service the US same-day delivery market could grow from \$100 million in 2014 to \$4.03 billion in 2018, at a compounded annual growth rate of 150%. Growth rates at these increases can suitably be applied to the UK market perhaps on a smaller scale however.

Experience is more valuable than anything else

It goes without saying that the experience and team behind Amazon is second to none when it comes to creating a marketplace of goods and being able to deliver them on time to its customers. Since this process has been the backbone of Amazon's core business since 1994 - that is around 22 years of distribution experience. The online shopping sector in the food and grocery market in the UK began at a much later stage when the online retail sector began its boom and buying online became a norm to many. With the experience behind Amazon, it is sure to dominate in providing exceptional service and exceed expectation when assessing other competitors in the market. However, as earlier covered, with little experience in the food and grocer market, their launch into the industry will not be as smooth or as quick as I am typing right now. Logistically however, their expertise and teams working around Amazon Fresh will surely have a game plan in mind and will have worked in many environments and industries where competition is at large; they will attempt to find a way around them just like they always have done.

More flexibility and lower overheads

Unlike the competition in this market, Amazon's Food sector is not splitting its focus on in-house supermarket trade and its online vocation, Amazon Fresh can focus its efforts purely on its online operation. This gives the company a hefty advantage due to the lower costs involved and the fact that fewer issues tend to arise in the trade (supermarket maintenance, staffing, in house customer service, left over stock).

According to Tesco's annual report, stock left over for re-sale amounted to a staggering £2.8bn (\$3.6bn). While it is inevitable Amazon will also have some left over stock, due to the fact that it does not have to hold stock in store, much of its fresh supply is shipped directly from its suppliers and therefore Amazon has the luxury of ordering quantity that is guaranteed to sell rather than buy in bulk and hold on to it in the hope they can sell it. This as an overall business model is much simpler to execute for Amazon's team. To them, this is simply another category to their online powerhouse adding food supply to their further 200million other product sales.

With supermarkets and many of the dominating players in the UK still coming to terms with technological advancements, it is clear that Amazon's team is ahead in understanding consumer journeys through the internet. With more flexibility to sell any product they wish to, they will not be held down to contractual agreements between suppliers, certainly not to the effect that other players will be. A marketplace of brands is always how they have been able to market themselves, and this will carry through into their food sector. With a number of suppliers already partnered up with the company, the need for more is all they will be focusing on and they will surely be receiving the offers. Players such as Tesco and Sainsbury's will be pushed to sell their own branded products in many cases to save on their own costs and increase their margins. With Amazon, it seems like it can throw any brand in front of the customer and let them the customer decide amongst themselves what to buy, possibly further enhancing the consumers freedom of choice.

Future of Amazon Fresh looks bright but it must prepare for a rocky road

While for any company attempting to forecast future results becomes widely difficult due to increased uncertainty in the market and dependent on competitor actions, for Amazon Fresh, it becomes more challenging due to the nature of the food industry and especially being a new contender to gain market share. There are however, certain predictions the firm can make based on their success in the US, alongside general market trends that aim to communicate the journey customers will one day be making. It is up to Amazon to get ahead of the competitors in these technological explorations and use the findings to its advantage.

Predictions that are based on US performance will strongly differ in the UK

Amazon Fresh launched in 2007 in the US, starting small it has been able to expand into other areas within the country. Presently, it has now reached a suitable point when observing the US grocery market. Amazon has managed to attain 6.1% share in the online grocery in New York. It is unlikely the company will be able to achieve such a share in the UK, at least in the short term. This is mainly because the UK market is more competitive than the US. Alongside this the competitiveness, consumers are loyal to supermarkets own label products, thus making it increasingly difficult for the US giant to take market share.

Upon Amazon's announcement, it said that it hopes to take 3% of the UK online market. Our research partners Conluminio have claimed that this market share prediction is 'overblown'. Amazon Fresh has been only moderately successful in the US grocery market when observing its most established market – Seattle. In this region, the service only has a 1.2% share in grocery spend. Unlike the US, the UK market is already concentrated and a general trend is one of fragmentation, this can only play well for Amazon in the future. Consequently, as a more developed online market than that of the US, the UK consumers will be more experimental with the willingness to try out new propositions. As much as Amazon Fresh may struggle to build a high level of market share, it is believed that it still has the potential to be highly disruptive and to damage the profitability of some players which, because of low margins, is very sensitive to even small shifts in volumes. Amazon has helped raised the bar in the US where, subject to availability, same day delivery is now fairly common. Over the medium term Amazon Fresh will also raise this bar in the UK and other grocers will become more competitive on delivery – something that may not be helpful to margins.

CONCLUSIONS

Amazon Fresh is due to cause disruption but that is as far as it may go

With the online sector growing at a much quicker rate than that of the offline sector, it is clear that growth in the offline market has somewhat matured while online will continue to grow in the years to come. Amazon always seems to establish successful results in markets it has not traded in before. With the growth of the UK online food industry proving to be performing at faster rates year on year, it makes sense for Amazon to enter and throw their expertise at the industry with its experience and new logistical procedures it can introduce.

The entry will surely disrupt the market and the players swimming around within, perhaps not immediately but certainly in due time. With low margins in the industry, every sale counts and Amazon will surely aim to take away market share from those dominating players who have been holding on to their control for a set number of years. Strategies Amazon adopts may be replicated by these superstores knowing that Amazon will have thoroughly researched the market for them to play a certain card. The giant has already made presence by undercutting competitor prices on certain branded products which will surely be warning signs for the likes of Tesco online and Walmart's subsidiary firm – Asda. While these low prices might be early signs of Amazon entering as a loss leader, its future pricing is uncertain until it is evident that shoppers have switched over to the Amazon Fresh service as opposed to other grocers' online platforms.

Amazon does not only carry the new inventory of food with it in its arrival, it carries its name too. This is likely to be recognized by many, not only the customers but the suppliers too that wish to sell via Amazon Fresh. With Morrisons jumping on the bandwagon, others will most definitely follow, with the opportunity to compete within Amazon Fresh just like the current Amazon marketplace where you witness third party sellers competing with one another.

It is clear that Amazon carries a reputation with it and will aim to continue their efforts in service and logistical movements as well as their ability to create a smooth running website that converses to the user just as much as the user connects to the interface. Amazon's strategy to link Amazon Fresh with its overall business is evident. With users taking part in the fresh food delivery service and with it being a mandate for users to own an Amazon Prime membership, it is clear the company wants users to subsequently purchase other items off the website as well as food which in turn may have better margins too. The surge in Prime memberships explains this movement that the company aims to keep upselling the benefits of Prime. This being core to their business, it can only explain why the company is incorporating it with Amazon Fresh.

APPENDIX

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