What the Amazon

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Amazon's foray into the grocery space has been ongoing for a decade. However, the e-commerce giant's early expansion into the sector was stealthy and relatively unrecognized by the majority of Americans. It was not until their purchase of Whole Foods—a major investment into brick and mortar retail—that consumers began to notice Amazon's presence in food. On the other hand, the grocery industry has watched services like Amazon Fresh, Subscribe and Save, Go, and Prime since the beginning, yet the industry has done little to combat the e-commerce monolith's efforts to attack their margins. Amazon's formula for success has been to demonstrate outsized growth in developing verticals such as cloud computing, books, and streaming in exchange for relatively cheap Wall Street financing. Given that traditional grocers have failed to develop new methods to serve their consumers and mitigate the loss of center of store sales to the online marketplace, there is no riper an industry for convenience-forward Amazon to disrupt.

In 2013, when I was at Fresh & Easy, we partnered with a legend in the convenience industry to remake the convenience store experience. We purchased a small-footprint retail food chain with the goal of building a healthier and more technology-forward concept that could meld the features of a restaurant and convenience store into one experience. We envisioned a drive-up delivery system allowing customers to pull up to our stores and receive their groceries without leaving their cars. If shoppers wanted to browse the aisles, they should be able to come inside and checkout using smartphone self-scan technology that would improve efficiency of the in-store experience. Shoppers that know exactly what they want would be able to choose to have their purchases delivered directly to the home or workplace. It was clear to the team that the future of grocery was convenience.

At the time, Amazon was trying to get into the quick-delivery grocery business. Their first step was to establish distribution centers throughout the greater Los Angeles area to power a full-blown grocery delivery experience. Rather than build new warehouses, Amazon partnered with local grocery chains to bootstrap this distribution network. Because these retailers included a robust offering of produce and other perishables, Amazon could pick from our stores for delivery directly to their customers' homes.

Beyond food, Amazon planned to stock our back rooms with items that we would not otherwise carry so that they could hit their Prime Now delivery windows for consumer electronics and other product categories using the same distribution infrastructure they were leveraging for grocery. Although we considered Amazon to be in direct competition with us, we felt that Amazon was going to take this step with us or without us, so we opted to learn alongside them. Amazon used this experiment to shape their view of how many points of distribution they really needed.

Ultimately, Amazon went on to buy Whole Foods and disintermediated any partnering retailers in the process. In doing so, they acquired already-profitable distribution centers—Whole Foods grocery stores—in every major market and further gained access to an established clientele of early adopters. Not only does this allow Amazon to utilize the back rooms for distribution now, but they will likely iterate on new technologies at a greater rate to get further ahead of the field in the future.

As Amazon has gained market share in brick-and-mortar grocery and reduced competitors' margins, most industry leaders have started to make their way into the online realm. The impetus for the migration into e-commerce is dually influenced by grocers' desire to alleviate the inconvenience of the store trip and to retain their customer's loyalty.

Unfortunately, building technology does not come naturally to individual grocery chains. Individual chains, regardless of size, are ill-equipped to write an efficient, robust online ordering and delivery app. There is a lack of economies of scale to enable any individual grocer to build these engines; they naturally have less-qualified teams than their digitally native competitors. Developing this kind of e-commerce experience requires teams of engineers from industry-leading technology firms. Without a heritage of innovation, it is nearly impossible for even large-scale grocers to recruit the type of talent needed. It would require an industry wide approach to build these systems; however, because grocers view each other as competition, they lack the foresight necessary to unite against e-commerce superpowers like Amazon.

Consumers will continue to have an affinity for an in-store visit as long as that visit results in a unique customer experience. Hand selecting your own perishables continues to rank high in consumer experiences. Trader Joe's creates a treasure hunt motif in their stores and offers branded products that cannot be found anywhere else. TJ Maxx and Ross Stores are similar, as their offerings cannot be found anywhere but in the store. Amazon reshaped the retail continuum by providing more convenience to its customers than anyone could have previously imagined possible. This change has had an even greater impact on today's consumer than the shopping mall, department store and urban center did decades ago insofar as each enabled customers to solve more problems in less time. Brick and mortar retailers need to start providing more convenience and selection in their stores the same way Amazon does online.

Consider price-comparing as an example. When my wife goes grocery shopping at Target and other retailers, she keeps her Amazon app open and price compares as she picks out her items. Because she is a Prime member and shipping is "free", she will order items from Amazon instead of buying them off the shelf whenever there's an opportunity to save. Historically brick and mortar players did not facilitate price comparisons because their customers were unable to conduct such intense assessments of their spend. As it becomes more convenient for consumers to compare prices, grocers continually fail to facilitate price-comparisons, even when their in-store prices are lower than online players. This is because retailer's IT teams cannot create solutions that give them a seat at the table as the comparison opportunity occurs. When consumers shop on Amazon, they receive an alert if something in their cart changes price prior to checkout. In contrast, supermarkets have no way to notify shoppers when the price of an item changes or their prices beat Amazon. A technology like Swiftly solves this problem.

Swiftly enables grocers to alert customers who have a particular item on their list that the price has changed in-store. If there are many shoppers interested in one particular item at a given time, the grocer may lower the price to entice people to come into the store. If a particular product, say a specialty produce item, is overstocked, moving slowly, or being discontinued, the store can send a coupon for that particular item to every shopper with or without that item on their list to entice them to visit the store sooner. A promotion like this can reduce shrink and drive greater store visits resulting in increased sales. This could benefit retailers in every market segment—even the highest-priced retailer in the world could use this tool to demonstrate the value shoppers are getting for their money.

Modern retailers require digital tools like Swiftly to empower their customers to scan items both inside and outside of the store in order to compare prices within an ecosystem the retailer controls. In this way, the retailer can compete in real time against both their digital and analog rivals. Using this digital communication channel with its consumers, retailers can offer subscription ordering like Amazon's, enabling the retailer to maintain customer loyalty and market share on drop-shipped goods. Should traditional retailers choose not to expand their ability to service the customer beyond the footprint of their stores, these retailers will continue to be disintermediated by Amazon's offerings.

Amazon's subscription services are able to solve a consumer's need for recurring shipments; however, conventional retailers do not offer this service and cannot hope to capture the customer's ecommerce dollars. Because consumers value efficiency and time, they often find it cumbersome to manage multiple platforms with multiple subscriptions. Whoever builds the most flexible and user-friendly subscription hub will win the most market share. With an engine like Swiftly, consumers will one day have the power to walk into the grocery store, purchase a subscription to protein bars, vitamins and water and cash in on discounts on non-food items like apparel or sporting goods. Similarly, if the consumer can indicate to the platform what type of car they have, they should be able to see offers or subscription services for wiper blades, air fresheners and motor oil as well. The merger between endless aisle offerings and subscription shopping will enable brick and mortar retailers to reduce their footprint while increasing their offerings.

Just as Amazon uses its Whole Foods footprint to facilitate its distribution networks, traditional retailers would be able to use their knowledge of their customer to turn their stores into virtual department stores. Swiftly's endless aisles and subscription-based innovations will enable retailers to thrive by providing personalized experiences in smaller footprints with lower operating costs. However, if they do not evolve with the times, conventional retailers will eventually crumble away under the weight of e-commerce's consumer-convenient heel.