

Can Amazon persuade enough people to buy fresh food online?

By ANNE D'INNOCENZIO Associated Press
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NEW YORK — Can Amazon, the company that persuaded people to buy ever more items online, win enough of them over to having their fresh groceries arrive in an Amazon box?

Going full throttle into groceries by announcing a \$13.7 billion deal for Whole Foods on Friday, Amazon gets the advantage of using the stores as mini-distribution hubs to deliver items to customers. But online delivery of groceries has been tough to pull off.

Some shoppers worry about the quality of their produce and say they're rather pick their pears themselves. Amazon, though its Prime benefits program has created strong loyalty, has a long way to go before it's a default choice in groceries as it often is for books and electronics. And shoppers may be skittish about having Amazon take over one more element of their shopping experience.

"It's funny. I was just ordering something on Amazon," said Nick Yeziarski, a hotel manager who was eating breakfast outside the Whole Foods flagship store in Austin, Texas. "But I don't really buy any home items on Amazon, not anything I put in my body."

Peter Belanger of Newington, Connecticut, who was shopping at a Whole Foods in West Hartford, said he didn't think he'd be interested in groceries online. "Most of us like to see what we're buying, and it's a good store, but we just wouldn't buy online," he said. "That's something that doesn't seem to right to me, actually."

In Jackson, Mississippi, 59-year-old Deborah Sullivan says she does order some items online, but when it comes to clothes and food, she prefers to touch and feel the items. Her daughter Bethany Capels agrees and says she likes Whole Foods for the organic fruits she can serve her kids.

"Consumers want to know what they're getting and putting in their bodies," said Madeline Hurley, a senior analyst at market research firm IBISWorld. "Books are lot more homogenous," she said, noting that a hardcover Harry Potter book is the same at Amazon — though Amazon can sell it at a lower price.

But shoppers could start to grow more comfortable buying, and Amazon sees the grocery business as a hot market because shoppers buy weekly or even more often for items they run out of. Walmart, which has the largest share of the U.S. grocery market, is ramping up its grocery services as a way to fuel online sales.

Online grocery sales are expected to increase from \$71 billion this year to \$177 billion in 2022, according to John Blackledge, an analyst at Cowen & Co. So there's lots of room to grow.

Amazon has been dipping its toes in groceries since it launched its Amazon Fresh delivery service a decade ago in Seattle, and expanded it to California, New York, and the Philadelphia area.

It took a different path from online competitors like Shipt, Instacart and Peapod, which use existing retailers to deliver groceries and avoid holding inventory. Amazon invested in refrigerated distribution centers to hold items. But it has been struggling to find a profitable model. Amazon also just launched two grocery pickups kiosks in Seattle that allow its Amazon Prime customers to buy online and pick things up in as little as 15 minutes instead of having them delivered.

And grocery may take a middle path, says Kimberly Scott, a portfolio manager at the Ivy Mid Cap Growth Fund, which counts Whole Foods stock as one of its biggest investments. She's skeptical that groceries will go purely online and thinks it'll be more of a hybrid model, where people use a mix of online ordering, restaurants and traditional grocery stores.

"Think about human nature and how most people deal with dinner," she said. "People don't know what they're having for dinner when they leave the office at the end of the day and don't have it in the refrigerator."

How quickly items get delivered "is going to have to be improved considerably" for customers to order something online instead of going to the prepared-foods counter at the supermarket, she said.

That was feeling of Taylor Malooly, 19, a University of Texas student at Whole Foods in Austin, who said a Whole Foods delivery service would have to be fast if he were to try it. "If there ever was a time crunch, I'd consider it," he said.

Shoppers have plenty of options. The top 10 grocery retailers plus Amazon control less than half of the market, Blackledge says, and a patchwork of several hundred grocery chains, convenience stores, dollars stores as well as mom and pop stores make up the remainder. Based on his forecasts, Amazon will likely rank as the ninth largest U.S. grocery retailer this year — though he expects it to assume third place by 2021, behind only Walmart and Kroger.

And shoppers are a picky bunch, saying they would be looking for the best prices, good quality and convenience when it comes to online food delivery.

Adrienne Anderson, at a Whole Foods in Savannah, Georgia, says she shops at Whole Foods almost exclusively for meat and fresh produce "because of the quality and selection" and because fruits and vegetables are locally sourced. The 35-year-old Army aviator, who's stationed at nearby Hunter Army Airfield, said for non-persishable items — and for other products when she's busy — she relies on the mobile app Shipt, which for \$100 per year allows her to schedule

home delivery of groceries from the local Publix. She thinks it's a more reasonably priced service than Amazon provides.

"It would absolutely have to come down until it's included in a Prime membership," Anderson said. "Whole Foods is expensive enough." She also praised the way Shipt allows customers to schedule delivery times to make sure they'll be home when groceries arrive.

"I don't like the thought of my fresh groceries sitting on my doorstep while I'm at work," Anderson said.