

# What Does the Amazon / Whole Foods Deal Mean for B2B Creditors?

By Kerri Byron of Cortera

Earlier this year, Amazon announced that it will make its largest acquisition to date by purchasing Whole Foods for \$14 billion. The acquisition, likely to trigger a major technological breakthrough for the food industry, sent grocery stocks plummeting. Consumers quickly took to social media and digital news outlets to learn more about what it might mean for them as far as prices, accessibility and potential deliverability. The consumer reaction proved that Amazon's purchase of Whole Foods won't just change the grocery industry, it will change the entire consumer shopping experience.

The acquisition is beneficial for both parties, as Amazon has openly been attempting to break into the grocery industry and Whole Foods has proven to be widely successful in various markets across the country. Whole Foods' stock price and revenue have consistently declined since 2012, and Cortera's data showed a drop in three major spend categories over the past three years, signaling that the business could use support and fresh ideas with innovation and marketing.



When a business stops spending money in the areas shown above, it is a leading indication of financial struggle. While a business may continue to pay its bills on time every month, if they are not making purchases, they are not moving product. Whole Foods pioneered organic, fresh food and was quite successful for many years. Unfortunately, convenience has become a priority for consumers, and digital grocery options have put pressure on brick-and-mortar style stores.

## Food Delivery Service

Now more than ever, shoppers value their time. The days of spending hours at the mall or in major retail stores appear to be coming to an end. The recent growth of meal delivery services, such as HelloFresh and Blue Apron, has expanded the menu for food delivery far beyond typical pizza and Chinese joints. These options have proven to be highly attractive to customers mirroring today's on-the-go lifestyle. As exciting as the buyout announcement was, this won't be Amazon's first attempt to break into the grocery game.

AmazonFresh was Amazon's first attempt to break into the digital grocery game. Not being as successful as intended, Amazon took to Plan B: buy out an already established grocer in order to create new benefits for customers that are not available elsewhere. Upon the announcement, officials clarified that Whole Foods will continue operating under its own name, but there will be many changes, including attractive benefits that will be available to customers with Amazon Prime subscriptions.

But consumers aren't the only ones reaping the benefits. Through the acquisition, Whole Foods gains the ability to deliver directly to consumers, while Amazon gains physical real estate in major markets. This is a win for both Amazon and Whole Foods. Amazon didn't just acquire Whole Foods, it acquired 431 "upper-income, prime location distribution nodes" as stated by Denis Berman, Financial Editor at WSJ.

The technology being explored by Amazon, which could increase their market penetration, allows busy, working individuals to access meals that are nearly non-perishable. This innovation was first created for the U.S. military. The concept behind the service allows consumers to access meals on a regular basis, without the need for refrigeration or freezer storage. Benefits include efficiency and savings, as the price tags run significantly below an average restaurant bill. If Amazon is effective in bringing the concept to life, the company takes leaps towards disrupting the market.

## **Implications for Competitors**

The effects on grocery stores will of course trickle down to the producers and distributors of their products. As consumers gravitate towards the convenience and accessibility of online grocery shopping and delivery, competitors will be forced to slash prices in order to stay afloat, in turn cutting the profits significantly for distributors.

Blue Apron has already been hit with multiple class-action lawsuits, accusing the company of withholding information about Amazon's plans to enter the meal delivery market before making its IPO. Blue Apron went public in June, right after Amazon announced its Whole Foods buyout, sending the stock price plummeting down to nearly half of the \$10 share price originally projected.

Amazon, known for disrupting nearly every single consumer market, doesn't just stop at being competitive; they bring an entirely new concept to the table. The dishes will reportedly have a year-long shelf life, meaning they can be stored for months at a time before being delivered to customers; a perfect strategy for the internet giant, which anticipates needing to quickly fill orders in high demand. A process known as MATS technology, which seals packages of food and places them in pressurized water before they are heated to be enjoyed, is what makes it all possible.

## **Amazon's Unique Advantage**

Amazon holds a unique advantage over many of its competitors in that it can survive a dip in earnings in one particular industry for what may seem like a long stretch of time, because it will continue thriving in other industries, keeping the entire business afloat. So, while Amazon may not immediately dominate the grocery industry, it can continue to operate, selling inexpensive food items, by bringing in revenue from other areas such as books and entertainment.

Since the initial announcement of the \$14 billion purchase of Whole Foods, it's been reported that Amazon will fork over \$16 billion in total funding costs. While it seems like a hefty price tag, it's a small price to pay in order for Amazon to position itself in the \$750 billion grocery market. Amazon is extremely strategic in its approach and has been able to collect customer data for decades, without disrupting the consumer's shopping experience. The combination of data gathered in the digital marketplace and the data that will be gathered at physical Whole Foods stores creates

a massive database that will be even more powerful than ever before.

## **What the Partnership Means for B2B Creditors**

Creditors within the food & beverage industry will need to proceed with caution as they choose which grocery stores with which to do business. If sales at a particular company are dipping, DBT (Days Beyond Terms) will likely increase while the average trade value and sale amount will decrease. This would create a gap in profits and time between orders being made. Creditors considering working with Whole Foods competitors such as Target, Natural Grocers, Sprouts Farmers Market and others will need to review credit limits regularly and adjust where necessary.

To Amazon's advantage, Whole Foods has an already established network of producers and distributors. These relationships can be easily built upon as Amazon takes over the financial side of the business, allowing for more seamless, rapid growth. This would indicate that producers and distributors will see an increase in order volume and frequency, thus leading to increased profits and lower DBT.

In addition to the established relationships, there is an established workforce at Whole Foods with a proven track record of brand knowledge and a focus in customer delight for Amazon to lean on. Although this asset does not affect creditors directly, a company must function properly in all departments in order to remain healthy. It's unlikely for a business to increase their spend on business operations if they're not increasing their spend in materials and shipping as well. In other words, the powerful staff at Whole Foods is somewhat of an unspoken benefit.

## **An Industry Overtake?**

AntiTrust does come into question here as The Federal Trade Commission (FTC) enforces a variety of consumer protection laws, seeking to maintain a competitive and fair economy. The Amazon / Whole Foods acquisition poses potential threat to communities throughout the country currently suffering from a lack of affordable, healthy food options. Amazon's revenue in 2016 was \$136 billion, but their profit was only \$2.4 billion. Amazon spends a majority of its money by cutting costs on profits and increasing the number of businesses selling on their site, thus stealing the competition from elsewhere. Amazon has prevailed digitally, but in order for them to overtake physical locations, they'll need to adjust to the brick-and-mortar

ways of business. Time will tell how this partnership saves Whole Foods from financial downfall, while aiding in Amazon's seemingly unstoppable growth.

Creditors to competitors of Whole Foods will ultimately need to keep a close eye on the Amazon / Whole Foods deal. Contingent upon whether or not the FTC approves the buyout in whole or with modifications, suppliers to Whole Foods competitors must be prepared for the implications that will ensue. A word to the wise is to expand current customer bases in anticipation of any potential loss of sales that Amazon / Whole Foods may cause.

#### **About the Author:**



**Kerri Byron** is the Marketing Manager at Boca Raton, FL-based Cortera. Kerri oversees various marketing, advertising and public relations campaigns at Cortera and is a graduate of Florida Gulf Coast University with a Bachelor of Arts and Sciences in Communication degree.

*Cortera provides information-centric solutions that power business-to-business interaction's. Cortera's information and technologies deliver behavioral intelligence on millions of businesses. Their wide range of applications include credit decisioning, sales & marketing intelligence, supply chain insights and other risk management needs.*