

SN

SUPERMARKET NEWS

Amazon Lends Its Strengths to New 'Fresh' Division

By ELLIOT ZWIEBACH

SEATTLE — Strong brand recognition and a vast customer base could help Amazon.com here make home delivery of perishables work on a more widespread basis, although it faces considerable challenges, several industry analysts and observers told SN last week.

Amazon is testing perishables deliveries, on an invitation-only basis, to residents of Mercer Island, Wash., an upscale community east of here, from a new, dedicated warehouse in Bellevue, Wash., Amazon spokesman Craig Berman told SN.

In addition to home delivery, he said the new service, called Amazon Fresh, plans to add centralized pick-up locations in Bellevue and Kirkland, Wash., where customers will be able to load their pre-ordered groceries into their own vehicles.

Perishables merchandise — encompassing organic and non-organic fresh produce, meat, fish, ice cream and other dairy products — is being procured from “best-in-breed wholesalers,” Berman said, and from farmers in the area,

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though he declined to be more specific. He also declined to indicate how many SKUs of perishables are being offered.

Amazon is waiving a service fee for deliveries on orders over \$50 and charging \$9.95 for daytime deliveries on orders under \$50, Berman said. It is also waiving the fee for pre-dawn deliveries totaling \$25 and charging \$9.95 for pre-dawn deliveries under \$25, he indicated.

One of Amazon's major advantages is its name recognition, Gary Giblen, executive vice president of Goldsmith & Harris, New York, pointed out. “It’s a brand that already exists, and one that’s certainly expandable, as it’s gone from books to CDs to DVDs to apparel to grocery, so perishables is just an add-on business.”

“There aren’t many categories where Amazon has not been successful, and it won’t cost them much to get into perishables because they already have distribution centers, so it appears they have a good shot at success.”

Mike Spindler, a co-founder of MyWebGrocer.com, expressed similar confidence. “Amazon has a decent chance of pulling it off,” he told SN.

Spindler — chief executive officer of Gladson Interactive, Lisle, Ill., a provider of product information to supermarkets that operate online grocery programs — said he’s basing his optimism on the success Amazon has had moving beyond books into other categories, “plus the fact it does three things better than Webvan did, which should make it successful:

It has a brand name, with established relationships with its customers; it has an existing infrastructure, including distribution centers, that is paid for; and it will offer pick-up stations as an alternative to deliveries.

“Webvan had to introduce itself in every market it entered, but everyone already knows Amazon. Adding perishables to its exist-

ing warehouse operations may be more difficult, but the backstage systems are already paid for, so perishables represents an opportunity for an extra sale.”

Mark Husson, New York-based managing director and global head of consumer research for HSBC Secu-

delivery work from a warehouse.”

Amazon's interest in food arose, Husson said, “because food retailing is bigger than books, and Amazon wants to be in a very large market.”

Jonathan Ziegler, a Santa Barbara, Calif.-based analyst with Dutton Associates, El Dorado Hills, Calif., noted that “Amazon brings real credibility to the home delivery space.”

Chuck Cerankosky, an analyst with Midwest Financial, Cleveland, told SN, said the market for home delivery of groceries “is very selective.”

“Home delivery is a very volume-sensitive, quality-sensitive business, and Webvan, which had supposedly cracked the code with the right people and the right systems, still went broke doing it,” he said, “so it’s a very tough business model. The key is whether or not you can cover your costs to handle the level of volume.”

Andrew Wolf, an analyst with BB&T Capital Markets, Richmond, Va., offered a similar assessment.

“Delivering food has proved to be most applicable in an urban setting,” he said, “but you’ve got to get scale. That’s the essence of home delivery, from the Sears catalog to Webvan — the more scale you get, the better-positioned you’ll be to provide economical grocery distribution.”

“But if demand is not there, then your capacity is underutilized and you’ll go broke, as Webvan did.”

Patience will be a factor that helps determine whether Amazon succeeds, Wolf pointed out. “To achieve a break-even model, Amazon will have to scale up the business very slowly. It’s certainly still a work in progress as to how it hopes to maximize the model.”

“But the whole supply chain is costly in terms of procurement, distribution and productivity, and without knowing the ultimate scale, it could be hard to manage.”



rities, London, said he’s also optimistic about Amazon’s potential for success. “If anyone can make it work, it ought to be Amazon,” he told SN.

On the downside, Husson said Amazon will be working without a store base, utilizing distribution from a warehouse instead of a store-picking model, “and no one has made home