

The Amazon-Whole Foods merger: Natural and organic competition in the evolving grocery industry [Amazon-Whole Foods Symposium]

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The submissions in this symposium thus far highlight, in different ways, what must be considered the key lesson of the Amazon/Whole Foods merger: It has brought about immense and largely unforeseen (in its particulars, at least) competition — and that competition has been remarkably successful in driving innovations that will likely bring immense benefits to consumers and the economy as a whole.

Both before and after the merger was announced, claims of the coming [retail apocalypse](#) — the [demise of brick-and-mortar retail](#) at Amazon's hands — were [legion](#). Grocery stores were just the next notch on Amazon's belt, and a stepping stone to world domination.

What actually happened in the year following the merger is nearly the opposite: Competition among grocery stores has been more fierce than ever. "Offline" retailers are expanding — and innovating — to meet Amazon's challenge, and many of them are booming. Disruption is never neat and tidy, but, in addition to saving Whole Foods from [potential oblivion](#), the merger seems to have lit a fire under the rest of the industry.

This result should not be surprising to anyone who understands the nature of the competitive process. But it does highlight an important lesson: competition often comes from unexpected quarters and evolves in unpredictable ways, emerging precisely out of the kinds of adversity opponents of the merger bemoaned. Even when critics were right about some of the potential effects of the merger (lower prices, for example), they were absolutely wrong about the allegedly disastrous consequences they claimed would result.

Of course, one must always be careful drawing lessons from limited data, and a year is not very long in the scheme of things — and certainly not in the grand ([and fascinating](#)) history of the grocery store. But the signs thus far are remarkably telling.

**Change is the rule in the retail grocery industry (as in**

## every other competitive market)

The ultimate consequences of the Amazon/Whole Foods merger won't be known for quite some time. Nor will it follow the exact same patterns as previous retail disruptions. Yet there will undoubtedly be some commonality, as there has been in the past. Among other things, the history of the grocery business is intimately tied up with the history of A&P, as William Ruhlman recounts in his fascinating book, [Grocery](#), and as Tim Muris and Jon Nuechterlein discuss, focusing on the antitrust angle, in their article, [Antitrust in the Internet Era: The Legacy of United States v. A&P](#). The main takeaway from that saga is, as Muris & Nuechterlein write, that:

Increasingly integrated and efficient retailers — first A&P, then “big box” brick-and-mortar stores, and now online retailers — have challenged traditional retail models by offering consumers lower prices and greater convenience. For decades, critics on the right and left have reacted to such disruption by urging Congress, the courts, and the enforcement agencies to stop these American success stories by revising antitrust doctrine to protect small businesses rather than the interests of consumers. Using antitrust law to punish pro-competitive behavior makes no more sense today than it did when the government attacked A&P for cutting consumers too good a deal on groceries.

Just as Amazon is feared today, and Walmart was reviled in the 90s and 2000s, A&P was loathed in the first half of the twentieth century for its role in decimating small business. A&P grew to the size it did — at one point the largest retailer in the world — by driving down both costs and prices. That is to say, just as Walmart and Amazon do, A&P discovered the waste in the distribution and retailing system and found ways to better deliver goods and services to consumers on their own terms.

For all the hand wringing (and, of course, antitrust action) surrounding grocery stores in the past (including the [misguided](#) FTC action challenging the Whole Foods/Wild Oats merger in 2007), history has demonstrated that the grocery industry is constantly evolving toward better methods of distribution that meet customers' idiosyncratic — and likewise evolving — preferences. Frequently, this has led to well-established methods of retailing being abandoned, as when the model of having separate vendors for meat, baked goods, dry goods, etc., [gave way](#) to the first centralized supermarkets.

What we are witnessing now — and what Amazon/Whole Foods is *really* emblematic of — is yet another growth spurt in the industry, one where consumer demand for both a high degree of convenience (e.g., same-day delivery) is coupled with the ability to provision fresh, unique goods (e.g., organic, locally-sourced, etc).

## But... is *this* time different — because, you know, Amazon?

Notwithstanding some advocates' preference for treating digital and analog retailing as distinct "markets," what's really happening in the brick-and-mortar world is that retailers understand that, in terms of reaching customers, there is only one "retail" market.

Traditionally offline retailers, like Walmart and Target, as well as supermarkets like Kroger and Giant, were among the [landrush](#) to integrate tech-startup, on-demand technologies following the close of the merger. At the same time, online stalwarts have emerged as surprise players in the once staid grocery market. Google, most important among them, has been [establishing partnerships](#) with offline retailers in order to provide the digital interfaces to facilitate the online marketing and on-demand delivery needs of the traditionally offline companies.

All of this activity may have been spurred on by the merger, but it is part and parcel of the age-old competitive process — efforts by industry to try to anticipate how consumers, competitors, and... everyone else will behave going forward, and to capture more of the market when they do.

Moreover, it is exemplary of the nature of the grocery industry's particular evolution, and, although, again, the merger may have served as a proximate trigger for the flurry of activity, the integration of offline and online retailing was basically an inevitability given the development of commerce and technology over the last two decades.

Whatever the very long-term consequences of the merger (and Steve Horwitz, among others, has suggested one plausible consequence: the "[hollowing out](#)" of the traditional supermarket, leaving fresh and prepared foods behind in stores and moving dry goods and housewares online), the short-term consequences seem extremely telling.

In short, the death of brick-and-mortar retail is, as Dirk Auer put it (beating us to the punch), [greatly exaggerated](#).

For all the talk of retail dying, the stores that are *actually* dying are the ones that fail to cater to their customers, not the ones that happen to be offline. In fact, [as one article puts it](#):

**Right now, there are at least a dozen new companies in the midst of opening hundreds of new retail stores. And why are they doing this? Because the stores they currently have are making money hand over fist.**

You've probably heard some of the names: Allbirds, Casper, Birchbox, Boll & Branch. According to real-estate data company CoStar Group, these online-first stores have increased their retail space tenfold over the last five years. Warby

Parker is averaging \$3,000 per square foot of retail space, which is almost as good as Tiffany's (!). (Emphasis added)

For every failing Sears store (the chain [closed](#) some 250 Sears and Kmart stores in 2017), there are several other retail outlets opening: [Last year](#) some 4,000 more retail stores *opened* than *closed*.

The same thing is happening in grocery, as well. It's not that all brick-and-mortar groceries are shuttering; it's that the un-dynamic, *unsuccessful* ones are. That's not a cause for concern; it's a cause for celebration. As the author of a [February 2018 industry analysis](#) notes:

**“Retailers die but retail does not,”** Cook said about the ongoing evolution in the grocery space. “There’s just churn as retailers are either disrupted by new business models, or they go out of fashion.”

\* \* \*

The most successful grocers today have well-known private labels, fresh food at affordable prices and digital platforms that allow for shopping online, Cook said.

“We’ve got two types of classes in grocery right now: One is about offering the best goods at the lowest prices — it’s a price play that’s targeted at the families in America shopping on a budget, so someone like Aldi is a part of that,” he said. “Another avenue of success is offering a great shopping experience to shoppers who aren’t as price sensitive — those leaders are Whole Foods and Wegmans.” (Emphasis added)

## **Competition through innovation — and not just online, and not just by Amazon**

To be sure, the rise of e-commerce has put pressure on offline retail's old business models, and it has required it to stake out its comparative advantage, offering services and “experiences” that online retailers can't easily match.

But the fundamental market reality brought on by the Internet, the emergence of e-commerce, and the blossoming of Amazon in particular is expanded competition. Lackluster retail outlets, particularly in small or remote towns — the ones that [some](#) neo-Brandeisians want to preserve at all costs — could, at one time, coast on the protection afforded by geographic isolation (a protection that has, of course, long been under assault by Walmart). But e-commerce can reach everywhere a delivery service can reach, which is to say *everywhere* — and you don't even have to drive the 20 miles to Walmart.

Not only that, e-commerce promises not just the local food market's few thousand products, or even Walmart's [hundreds of thousands](#), but virtually *every* product sold virtually *anywhere* in the world. Amazon — which [directly sells only about 30% of the products sold through its platform](#), and, as a platform, accounts for less than half of e-commerce — has about [500 million products](#) listed.

The point is this: Amazon's biggest effect on retail isn't that it's overpowering its closest brick-and-mortar rivals, decimating the last vestiges of competition, and moving all sales online (after all, e-commerce is still only some [10% of retail sales](#)); it's that the company is bringing competition to places that haven't seen very much of it, and picking off the weak and complacent competitors — much to everyone's benefit.

Those retailers that do survive the alleged “retail apocalypse” will be those that figure out how to offer something [better or different than Amazon](#), with or without Whole Foods:

**The truth is that the bigger Amazon gets, the more opportunity it creates for fresh, local alternatives.** The more Amazon pushes robot-powered efficiency, the more space there is for warm and individualized service. The more that people interact with Amazon through its AI-based assistant Alexa, the more they will crave the insight and personal connection of fellow humans.

**“The idea that everybody needs to be terrified of Amazon is completely wrong,”** says Brian Spaly, who co-founded two e-commerce-centric startups, Bonobos (menswear) and Trunk Club (a wardrobe-in-a-box service), which sold to Walmart and Nordstrom, respectively, for nine-figure sums. **“Everybody needs to figure out what makes them special and use those weapons to compete.”** (Emphasis added)

To put it into an antitrust context, [“post-merger product repositioning,”](#) although perpetually (and wrongfully) disregarded by proponents of stronger merger enforcement, is the nature of the beast. Competition need not — indeed, rarely does — replicate the status quo; it evolves beyond it. Amazon combined with Whole Foods isn't offering exactly what the companies separately offered pre-merger — and their competitors aren't doing so, either. That's a good thing, and it creates new opportunities and new mechanisms for fulfilling consumer preferences.

Some of that means further shifting the mix of retail sales that take place in physical stores and online — and even blurring the lines between them, such that online purchases may be picked up at a physical store, or product samples may be browsed, handled, and sized in a retail store and then ordered online and shipped.

But whatever the extent of the slow transition to online services, where grocery retailers think they can still compete *offline* (which is to say, everywhere), their investments have increased — substantially — since the merger. [Take Aldi, for example:](#)

Discounters like Aldi, known for its no-frills stores and highly coveted private label, have put pressure on traditional grocers, which are also trying to prepare for an e-commerce future likely to be remade by Amazon and its acquisition of Whole Foods.

\* \* \*

**Aldi, with currently some 1,600 U.S. stores, has said it will invest \$3.4 billion in order to up its U.S. store count to 2,500 by 2022.** The additional stores would make Aldi the third-biggest seller of food in the U.S. behind Walmart and Kroger. (Emphasis added)

The country's biggest grocery chains, Walmart and Kroger — each of them substantially larger than even Amazon and Whole Foods combined — are likewise expanding, not contracting, in the face of the new competition the merger has brought. And this is happening not just online, but in physical stores, as well. [Take Walmart](#), for example:

Walmart is making headway in its pitched battle against Amazon, with online sales soaring in the most recent quarter.

Those sales leaped 40 percent in the U.S., a sign that Walmart's aggressive moves to bolster its e-commerce business by ramping up fashion, adding thousands of new choices, and scooping up other, niche sites, is paying off.

Physical stores held their own as well during the company's latest quarter, which spanned May through July. **Sales at locations open at least a year rose 4.5 percent, the biggest uptick in more than a decade, as shoppers flocked to their local Walmart to pick up groceries, clothing and seasonal items.**

Not only did more customers head to their stores, increasing foot traffic 2.2 percent, they spent more money while they were there. (Emphasis added)

These stores aren't just maintaining the status quo despite the merger; they are also improving their services to reflect the actual and expected increase in competition.

And this positive effect is reflected in the retail labor landscape as well. Despite the bold, [Chicken-Little assertions](#) by some critics, Amazon's effect on retail labor — and the effect of the Whole Foods merger on grocery store labor in particular — [hasn't been to decimate the market](#). Instead, employment has expanded significantly in 2018, "largely due to a resurgence in two categories that had been contracting, retail and manufacturing. [In fact,] retailers added an average of 12,000 [workers] each month this year."

## But really. Are we just missing an unstoppable monopoly in its incipiency?

All of the foregoing good news notwithstanding, it could be the case that we are complacently snoozing while an unstoppable future monopoly is in its incipiency. Perhaps Amazon is using its already incredible online power to build a path to success that none will be able to rival. Lina Khan, for one, [would have you believe that](#).

But the evidence we have does not suggest that this is at all a realistic concern.

In the first place, in the one area where you could conceivably cite to Amazon's supremacy — online retail — it doesn't even remotely behave like a monopolist. Aside from the obvious fact that it has consistently worked to deliver more output and lower prices (which the Fed Chairman [has speculated](#) may be contributing to low inflation), Amazon has (to outward appearances, at the very least) worked very hard to deliver a superior customer experience. It vets and monitors merchants in order to prevent fraud, and when it happens Amazon [eats the cost](#) of fraud-related losses. And Amazon is [well known](#) for its generous return policy. These are not the practices of a complacent monopolist selling to customers with no, or even few, other purchasing alternatives.

But more importantly, there is nothing that Amazon can do that competitors cannot also do, despite the bare assertions of critics.

Last year, for example, Marshall Steinbaum [asserted](#) that, with respect to the Whole Foods merger, and the potential for Instacart and Wegman's to compete with Amazon for grocery delivery,

Instacart has nowhere near the existing infrastructure or access to capital to make that viable... There's increasingly no plausible way around Amazon. Wegmans is not going to front an all-out assault on Amazon in e-commerce. Walmart is only now doing it, and only just. Amazon is already dominant and already anticompetitive. There's also, dare I say it, the threat of antitrust... I think it's fair to say the agencies have been favorable to Amazon in the past and would-be competitors might assume they will be going forward.

This account is hard to take seriously, particularly since it's predicated on the idea that there are monopoly profits to be earned in the grocery delivery space. Why exactly *wouldn't* Wegman's (or someone else) partner with Instacart in order to realize some portion of those profits — to innovate to offer enhanced services (over and above its already uniquely pleasant grocery-shopping experience)?

And just one year later, it appears that Amazon's competitors do indeed intend an "all-out assault on Amazon" in precisely this fashion.

German discount giant [Aldi has stepped up](#) to bolster Instacart's deal with Wegman's and is using the company's services to help it succeed in its massive push into the US market.

And meanwhile, [on the direct investment front](#), Instacart has managed to raise \$200M in new funding to help it expand its operations, boosting its valuation to a whopping \$4.2 billion. This is a "vote of confidence from the venture capital community" and "a far cry from the uncertainty swirling around the grocery startup after the Amazon-Whole Foods deal last year."

Thus just a single year's worth of investment and expanded activity — especially coming as it has in the immediate aftermath of the Amazon/Whole Foods merger — fully rebuts Steinbaum's absurd claim (echoed by [others](#)) that "[t]here's increasingly no plausible way around Amazon."

And the reason for Instacart's success is (or should be, to anyone paying attention) entirely predictable, and tied to the reason that the Amazon/Whole Foods merger should continue to be welcomed rather than reviled: competition. Instacart's success is tied to that of Kroger and Aldi and every other grocer and retailer threatened by competition from Amazon. For now, at least, these stores see same-day delivery of fresh produce and other perishables as key to their ability to take on and even best the combined Amazon/Whole Foods. [And it's been working](#):

The first and most obvious impact was the pressure that supermarkets like Kroger felt when Amazon began lowering prices at Whole Foods. However, after having its shares rattled by Amazon, **Kroger was able to regain investor confidence by partnering with Instacart and several other grocery delivery services, allowing it to outpace Amazon over the past three months.** (Emphasis added)

Where exactly the next challenge from Amazon will arise, and from whence exactly the competitive response will emerge, is uncertain. But what we've seen thus far should reassure us that both the challenge and the response *will* happen. Before we pronounce the [death of retail](#), the [end of living wages](#), and the [destruction of democracy](#) at Amazon's hands — and seek out the antitrust laws to thwart every social ill critics can conjure — we should review the tape every so often. And, so far, it seems to suggest that the alarms are dramatically premature.

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