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The Lasting Legacy of the Amazon-Whole Foods Merger Will Likely Be the Spread of Grocery Tech [Amazon-Whole Foods Symposium]
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When Amazon and Whole Foods announced they were pursuing a $13.7 billion deal in June of last year, the grocer was struggling. Whole Foods might have been an early leader in organic food, but with that success came competition. Walmart began selling organics in 2014 while Costcost and Safeway revamped product lines for changing consumer preferences. By 2017, same-store sales at Whole Foods had declined for the previous two years and Barclays estimated that the company had lost about 3 percent of their foot traffic between 2015 and 2017. Simply put, Whole Foods wasn't well managed enough to compete.

Those against the merger aligned in opposition to Amazon's expansion into the retail space. In the New York Times, Lina Khan argued that "Buying Whole Foods will enable Amazon to leverage and amplify the extraordinary power it enjoys in online markets and delivery, making an even greater share of commerce part of its fief." Marshall Steinbaum, fellow and research director at the Roosevelt Institute, suggested that "Whole Food's supply chain will enable Amazon to strengthen its online retail monopoly." While Stacy Mitchell, Co-director at the Institute for Local Self-Reliance, charged Amazon with ambitions to "control the underlying infrastructure of the economy."

Yet, it wasn't that Amazon was trying to expand its "retail monopoly" reach or lay the groundwork to "control the underlying infrastructure of the economy." Rather, the company was trying to "invigorate its nearly decadelong push into groceries" and saw Whole Foods as the best way to jump into the market. The lasting legacy of the merger won't be in forceclosing competition in the grocery space but in opening a new front in it.

Consider how the entire market has shifted since the deal was finalized:

- In September 2017, Albertsons Companies, which owns over 2,200 grocery stores, acquired the prepared meal startup Plated.
- On October 3, 2017, Walmart bought Parcel, "a technology based, same-day and last-mile delivery company specializing in perishable and non-perishable delivery to customers in New York City."
- In December of 2017, Target acquired Shipt, a same-day delivery service platform, for $550 million in one of the companies largest deals.

- In mid April of 2018, Walmart announced a deal with Postmates to extend its online delivery to more than 100 metro areas.
- In May, Kroger announced that it had tapped the UK-based Ocado to pack online orders using the Ocado Smart Platform, which is staffed by robots.
- Earlier this month, Walmart announced the launch of Alphabot, an automation system to help fill orders, that it has developed in collaboration with Alert Innovation.
- And just last Tuesday, the online seller of bulk items, Boxed, revealed that it had closed a funding round that totalled $111 million.

These high profiles deals have been coupled with high profile investments as well. InVia Robotics, a startup that provides fulfillment centers with automated robotics technology, raised $20 million in a series B round. French startup Exotec raised $17.7 million after debuting an automated robot called the Skypod to help with e-commerce warehouses. Bossa Nova Robotics closed $29 million to help expand it robots in grocery stores and large retailers. And Albertsons Companies created a fund with venture capital firm Greycroft to invest in the grocery sector.

Did the Amazon deal kick off this M&A activity? Josh Hix, chief executive of Plated, thinks so. As he told the New York Times, "The pace of follow-ups went from "This is interesting, and we'll be in New York again in five months' to 'This is really interesting, and how's tomorrow at 9 a.m. look for another call?'"

Indeed, what could not be predicted, but what seems to have happened, was a grocery tech M&A wave. The Amazon-Whole Foods deal brought with it an expectation of a coming technological shock to the industry. While we are still at the early stages of it, traditional retail outlets took the entry as a sign of Amazon's willingness to invest in technology undergirding grocery stores. It might take a decade or so to be profitable, but retail logistics will soon be powered by robots.

Three broad lessons are worth heeding.

First, few were focusing on the trajectory of the market and the potential for consumers to win, but it could prove the most important echo of this deal. Grocery shopping remains a holdout to online retail and for good reason. Food is perishable, fragile, and heavy. Products require different temperatures and need varying levels of care when handled. The margins at thin but the fixed costs are high. Getting delivery prices low enough and at the right time to match the cost of an in-person grocery experience is just difficult. But if any company is able to crack that nut, then it will be a boon for customers.

Remember, the productivity growth experienced in the US from 1995 to 2000 was largely caused by retail improvements. In a highly cited report on the topic, McKinsey Global Institute singled out the retail sector's logistical advancements for contributing a fourth of that growth. Of that sector, Walmart accounted for a sixth of productivity gains. Jason Furman even wrote in 2005 that, "There is little dispute that Wal-Mart's price reductions have benefited the 120 million American workers employed outside of the retail sector," calling the chain a “progressive success story.” If the Amazon-Whole Foods deal was able to kick off a new wave of innovation, it would be another progressive success story.

Second, the negativity that surrounded the deal at its announcement made Whole Foods seem like an innocent player, but it is important to recall that they were hemorrhaging and were looking to exit. Throughout the 2010s, the company lost its market leading edge as others began to offer the same kinds of services and products. Still, the company was able to sell near the top of its value to Amazon because it was able to court so many suitors. Given all of these features, Whole Foods could have been using the exit as a mechanism to appropriate another firm’s rent.

Finally, this deal reiterates the need for regulatory humility. Almost immediately after the Amazon-Whole Foods merger was closed, prices at the store dropped and competitors struck a flurry of deals. Investments continue and many in the grocery retail space are bracing for a wave of enhancement to take hold. Even some of the most fierce critics of deal will have to admit there is a lot of uncertainty. It is unclear what business model will make the most sense in the long run, how these technologies will ultimately become embedded into production processes, and how consumers will benefit. Combined, these features underscore the difficulty, but the necessity, in implementing dynamic insights into antitrust institutions.

Retrospectives like this symposium offer a chance to understand what the discussion missed at the time and what is needed to better understand innovation and competition in markets. While it might be too soon to close the book on this case, the impact can already be felt in the positions others are taking in response. In the end, the deal probably won’t be remembered for extending Amazon’s dominance into another market because that is a phantom concern. Rather, it will probably be best remembered as the spark that drove traditional retail outlets to modernize their logistics and fulfillment efforts.

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