

Analyze of Amazon's Big Acquisition in the Industry of Retail: Whole Foods Market

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Abstract: There are different types of analyze about the Amazon's acquisition of Whole Foods Market. This report gives an introduction of the two companies, Amzon is one of the bigeest E-commerce platforms in USA, and Whole Foods Market is a supermarket focused on the Natural organic food. Then this report analyzed the reason of the acquisition: Amazon would like to enter into the physical retailing and Whole Foods Market faced the financial problems . After that, this report analyzed the influences of the acquisition to Amazon using the SWOT model and PESTEL model in order to give a comprehensive picture of this picture. Considering that the acquisition happpend in 2017, and it might be uncomprehensive to give analyze or comment for it at earlier time, and it is more persuasive to give an analyze after 6 years. Based on the history data, this acquistiiton formed the win-win for the two companies, but there are still some recommends. For example, they should balance the online selling and the offline selling, solve the conflict between the high quality of the Whole Foods Market and the low cost of the Amazon, they should continue focus on how to be separated from the strong competitors.

Keywords: Amazon, whole foods market, acquisition, retailing

1. Introduction

Before Amazon started acquiring the Whole Foods Makret, there are many E-commerce platforms already started the distribution of the offline market. For example, the Alibaba bought the shares of Suning, the JD bought the shares of Yonghui supermarket and started cooperate with Wal-Mart. After the physical bookstores and the Amazon Go, Amazon announced to acquire the Whole Foods Market in June 2017. The amount of the deal is 13.7 billion with the whole money to finish the deal. For Amazon, the acquisition means that Amazon is going to intensely expand its physical retail business, especially the biggest category of retailing—the Fresh Food. And this time the acquisition is not only the biggest E-commerce acquisition, but also a big step for Amazon to expand the channel of the offline retailing. Considering the good reputation and many physical stores of Whole Foods, this acquisition was expected to increase the strength of Amazon's offline selling [1].

1.1. The Condition of Two companies Before the Acquisition

Amazon was founded in 1995, it started its business by running the book selling online, and its range of selling expanded hugely, providing millions of brand-new and secondary goods. Its market value

ranked in the top five in USA, occupying 43% of the online retailing [2]. Amazon is the earliest and biggest online E-commerce company; it is also the online retailer which has the most categories of goods in the world.

There are some analyzes stated that the reason why Amazon stepped into the physical stores is that there is a recession of the business housing industry and the retailing. The report from the Credit Suisse stated that the speed of the retailers to closing their stores are faster than the financial crisis in 2008, some famous brands closed their stores in the best places in order to reduce the costs.

However, Bezos, the CEO of Amazon used to claim to the media that Amazon won't enter the area of physical stores. Before the acquisition of Whole Food, Amazon usually bought the variety stores or the warehouse with the small scales in order to form the same-day delivery 's distribution net for Fresh Food.

The Whole Foods Market was founded in 1978, it started its business in the Austin, Texas, it developed quickly since it is founded and had over 400 stores. The difference between the Whole Foods Market and Wal-Mart is that the Whole Foods Market focus on the middle class, providing the high-end elite consumption and became the biggest supermarket chain which is famous for the natural and organic food [2]. It is also the top 10 retailers of the world, During 1991 to 2004, Whole Foods Market has created more than 17%'s increase in the sales revenue for continued 5 years. Its shares price has increased 30 times. In 2004, the Financial Times commented as ' the fastest developing big retailers in USA' [3].

1.2. The Details of the Acquisition

The acquisition was finished on 16 June 2017. The amount of the acquisition is 13.7 billion dollars with 42 dollar per share. And the deal was finished by cash entirely.

However, from the document of the SEC, the 42 dollar per share is not the previous quoted price of the acquisition, and Amazon is not the only company which is willing to acquire the Whole Foods Market.

The initial quoted price is 41 dollar per share. The Whole Foods indicated that it received the first written offer which is 41 dollar per share on 23 May 2017[4]. The Whole Foods Market is not satisfied with the offer. After the discussion about the acquisition in 30 May 2017, The Whole Foods Market decided to use the higher price—45 dollar per share to give a counteroffer. The Goldman Sachs, the financial consultant of Amazon is not satisfied at the price either.

According to the SEC document, the representatives of Goldman Sachs indicated that they are disappointed about the counteroffer from Whole Foods. Because they were noticed before that Amazon thought this is a strong competitive bidding. Finally, Amazon agreed to acquire the Whole Foods using 42 dollar per share, and it is the final and best quoted price of Amazon [4].

1.3. Paper Structure

The remaining sections of this paper are organized as follows: section 2 is going to analyze the reason of the acquisition from the aspects of the Amazon and Whole Foods Market; the section 3 and section 4 is going to analyze the influences after the acquisition using the SWOT model and the five forces model; the section 5 and section 6 are the comment and conclusion of the acquisition.

2. The Strategy of Amazon and the Condition of Whole Food

Learning about the strategy of the Amazon and the condition of Whole Food is very important, considering that this aspect may be the reason or the initiative of the acquisition.

2.1. The strategy of Amazon Before the Acquisition

2.1.1.Customer Focus

Amazon's 'mission' is: providing lowest price, most choices and biggest convenience for the users of Amazon. The 'values' of Amazon is : customer first, and one of its competitors Alibaba has the same values of Amazon, that is the key successful factor of the two companies in their main businesses. The 'vision' of the Amazon is: becoming the biggest company which put the customer first in the world. Compared to the Alibaba's 'vision' is letting customers meeting, working, and living in Alibaba. So it is obvious that 'customer first' can be seen through Amazon's mission, values and vision [5].

Amazon focus on the building of customer base, using data collection and analyze them to expand customer base. From the statement of Amazon in 2017, its members are around 98 million. The coverage area of Whole Foods Market is 1000 thousand square kilometers, only 10% of USA. However, its coverage of population is over 230 million, which is 72% of the total population USA-320 million. The wide coverage of the population of Whole Food can help the Amazon to expand its customer base.

2.1.2.Cost Leader

Amazon focus on long-term planning rather than short-term profit. It planned to earn more market shares by using the low cost. For example, shrinking the interests of suppliers and taking advantage of online sales such as the tax breaks to reduce the costs. Considering that Amazon tried to enter the fresh food retailing before and founded the Amazon Fresh delivery service, the storage cost and transport cost were both high. For the business of the same-day delivery of fresh food, Amazon need to invest in many refrigerated warehouses to ensure the storage of the fresh food. Once the customer order fresh food from the Amazon, they should deliver these fresh food from the storage places to the customer's hand. However, during the delivery, the low temperature should continue to be maintained, thus increase the delivery costs too. By acquiring the Whole Foods, it became easier for them to reduce the costs of the warehouses because the supermarkets have enough refrigerated spaces for the storage of the fresh food, and the customers can choose to take their fresh food ordered on the Amazon from the physical stores, and these supermarkets mostly are close to where they live, then the transport costs will be lower too.

2.1.3.Product Development

Amazon expanded their products online from books to electronic products and to the everything people want to buy. They cooperate with different suppliers to make amazon from an online bookstore to online shopping mall. Although the fresh food is a good direction for the product development, Amazon is restricted by the requirement of the storage and the quality of the fresh food. So after the acquisition of the Whole Food, the development on the fresh food can be realize.

2.1.4.Market Development

Amazon expanded their market from the books to the electronic products, the toys, and then everything on the website. They build their own transport system and create their own transport business which do not just service for amazon. However, the Amazon's most customers are the online users. The bigger market for Amazon is the offline business, which means that Amazon need to keep in touch with the customers who are more willing to shop in the physical stores. Considering that

Whole Food has a wide range of coverage in USA, it is excellent for Amazon to expand the offline market.

2.1.5. The Condition of Whole Food Before the Acquisition

Although the Whole Foods Market is famous for its natural and organic products, with the more and more retail stores and supermarkets are going to provide this kind of food, the advantage of the Whole Foods Market was gradually disappeared.

The customers lost caused by the recession of the economic also made the condition of the Whole Foods Market worsened. The target customers of Whole Foods Market are the customers who has the ability to consume high-end goods, some of these customers' consumption ability was affected by the economic recession [6].

Especially in the nearest two years before the acquisitions, the sales condition of Whole Food was worsened. The average week sales revenue decreased from the 722,000 to 682,000. In 2016, the total revenue of Whole Foods is 15.72 billion, the increased speed decreased from 15.8% in 2012 to 2.2%, which is the lowest in the recent 5 years. Whole Foods lack the ability to response to the decrease of the net profit. According to the related analyze, the net profit in 2016 is 507 million, the increased rate is -5.4%. The change of the net profit comes from the competition of other high-end food retailers, as well as the increased costs for Whole Food to invest into expanding its stores. In 2016, the revenue of the Whole Foods is 15.72 billion, but the expenses are 14.78 billion [1]. And it even faced with the risk of breaking up. It is a great opportunity for Whole Food to change the current condition if the Amazon acquire it.

3. SWOT Analysis

3.1. Strengths

After the acquisition, the Amazon can expand its business with the combined of the online and the offline resources. By acquiring the Whole Foods Market, the Amazon can acquire the customers who are willing to buy things in the supermarket and enjoying the organic food very much. 'There are millions of people love Whole Foods Market, because it provides the best natural organic food to let people eating healthier' 'Whole Foods Market has done a great job for the last 40 years, they are doing an amazing job, I hope they can continue in the future.' The CEO of Amazon, Jeff Bezos said in the official news release [7]. Before the acquisition, it is hard for customers of Amazon to acquire the high-quality staffs or enjoy the same-day delivery of natural and organic food.

There are media analyze that this acquisition cannot only making Amazon has the brand of Whole Food Market, more importantly, the supermarket is located in more than 460 prime location transport networks. This will further strengthen the storage stores and retail stores of Amazon, forming a bigger economic of scales, to decrease the logistics costs and hugely increase the space of profit [8].

3.2. Weaknesses

Considering that the sales condition of the Whole Food is not good, the investment of Amazon to the Whole Foods at the beginning can be high, which will increase the costs of Amazon. What's more, the scale of the Whole Foods is large, which means that it is difficult for Amazon to conduct an entire change to the Whole Foods. Besides, the variety and quality of foods provided in Whole Foods not only has a high price, but also has a high cost, which is conflicted with the strategy of the Amazon to be the cost leader.

3.3. Opportunities

Acquiring the Whole Foods can enhance the competitiveness of the Amazon in the industry of the retailing, creating more channels for Amazons to sell their own products.

Considering that the Whole Foods focus on the high-quality foods, it is also an opportunity for Amazon to the transformation to the high-quality goods.

3.4. Threats

The conflict between the cost leader and the high quality of goods may lead the Amazon to lose the Whole food's previous customers but may attracted the customers who prefer the low price, although Amazon do not lack this kind of customers.

Amazon is not the first one to combine the online and offline resources. Its main competitors like the Alibaba and JD already done this kind of action before. So, the Amazon still face the intense competition in the E-commerce industry, what's more, it will also face the threat from other big retailers in physical like the Wal-Mart. During the period of the continuing creation of Amazon, Wal-Mart also forge ahead, strive to catch up. For example, strategic investment to JD in Chinese Market, vigorously developing Sam's Club, starting home service and so on. The result is that Wal-Mart have kept increased sales for over 10 seasons which is rare in the recession of the retailing [9].

Besides, Using the deep price cut will increase the revenue, but at the same time, will decreased the profit margin on sales of whole Foods. Amazon need to seek for more efficient sales strategy to help the Whole Food Market to Enhance consumption stickiness [10].

4. The Influence of the Acquisition to the Outside

4.1. Economic

The competition in the food retailing in USA is intensive high. After Amazon announced to acquire the Whole Foods Market by 42 dollar per share, it brought a huge impact to the supermarket retailing. The share price of Amazon and Whole Foods increased 2% and 29% independently, the other big supermarket chains like Wal-Mart decreased 5%, Kroger decreased 9%. The whole retailing industry lost 50 billion in one day. It is believed that with Amazon entering this area, it will change the image of high price of Whole Foods Maket, which will lead the supermarket retailing to reshuffle [2].

4.2. Social

After the acquisition, Amazon can show their products in the physical stores, this change will increase the shopping experience, because the customers can try and be more familiar with the Amazon's products. It helped Amazon to use its data analyze technology to get the customer's need in special station, specializing and improving the experience in stores. Changing the consuming habits of customers in the food stores. To change the shopping habits of customer though the internet is the thing that Amazon best at. For example, at the beginning of the website of the Amazon is founded, the company keep the track of the customers to record where they clicks more and analyze what is their need to know the customers prefers and then change the organize of the website to attract the customers to consume more. Amazon used the big data to draw a customer portrait in order to push information precisely to increase the conversion rate of sales.

What' more, Amazon also use the data technology to record and analyze the labors in the warehouse of the Amazon to increase their efficiency.

4.3. Environmental

The Whole Foods Market is famous for the natural organic healthy food, acquiring the Whole Foods Market by Amazon will expand the market influence of the natural organic healthy food. For example, Hain Celestial is a group whose main product is organic food, it is one of the suppliers of Whole foods. The CEO of Hain Celestial, Irwin Simon said that although most of the prices of the goods in Whole foods decreased, the sales amount of Hain Celestial showed a huge increase. They have 1500 different products sold in Whole Foods, the increased sale of these products promoted the increased of profit and decreased of the costs. However, half a year before the acquisition, the business condition of the Hain Celestial is not satisfied, From the financial statement of the Hain Celestial in the fourth season of 2017 showed that the net income is 725 million which decreased 2% compared to the last year; The net income in the whole year of 2017 is 2.9 billion which decreased 1.1% compared to the last year. The issue date of the financial statement is the second day of the acquisition, so Hain Celestial added a passage to give the investors some confident that in the past month, the sales amount of the top 500 products sold in Whole Foods increased 5%, and after the strategy of the low price, the Whole Food can attract more customers.

The acquisition can also increase the quality of the consumption, promoting the environmentally friendly society. During 2017 to 2022, Whole Foods Market increased the standard of the food entirely: the amount they rejected about the unhealthy composition of the food they sold increased twice which reach to the over 250 categories. The fish, egg, chicken, and meat's standard are higher than the market supervision standard the meat must be no antibiotics and no hormones.

5. Summary

As mentioned earlier, although the Whole Foods Market hit a bottleneck, its almost 40 years' experience in the food retailing and the business of fresh food still attract the Amazon.

After the acquisition, the Amazon continued its customer first tenet, using the lower price and the abundant food categories to promote the combined of the online and offline selling. After the acquisition, Amazon immediately letting the Whole Foods's own brand hit the shelves and the total sales amount of these goods is 500 thousand dollars.

6. Conclusion

In general, based on the strategy of the Amazon and the running condition of the Whole Foods Market, it is not surprised that Amazon would choose to acquire the Whole Foods Market in 2017.

In this report, analyzing the strategy of the Amazon can help to explain the reason for Amazon to acquire the Whole Foods Market, the acquisition is a step for Amazon to enter the physical stores and develop new channels for sales. This report also explain the reason why Whole Foods Market accepted the acquisition : it was faced the recession of the industry.

This report uses SWOT and PESTEL to analyze the influences after the acquisition, to give a comprehensively picture about the acquisition. Although there are advantages or opportunities for the Amazon like they can expand the market and reduce the operating costs, there are still weaknesses and threats like they may face the higher investment costs at the beginning and the culture differences or other competitions in the industry.

After the analyzes, there are still something for Amazon to think about in the future. For example, they should balance the online selling and the offline selling. Although the two types can combine, the target customers and products of the two types are still different.

What's more, there are conflicts between the high quality of the Whole Foods and the low cost of the Amazon, and there are different types of customers, for example, there are customers who like the higher quality even with the higher prices, there are still some customers who prefer the lower costs

even with the lower quality. How to balance the different culture and customers is also important for the future development.

Last but not least, considering that there are already have some E-commerce platforms started combined the online and offline resources, the Amazon can still face the intense competition after the acquisition, they should continue focused on how to be separated from the strong competitors.

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