

# KIM: Casualties mount on Amazon's relentless march

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INVESTING

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Amazon's fans know it as the customer-friendly, highly-efficient "Everything Store," able to have goods miraculously appear on your doorstep with its patented "1-Click" shopping. Don't let the stylized "smile" on Amazon's logo fool you. *Fortune* described Amazon as a "brass-knuckled battler for every penny of competitive advantage."

Indeed, Amazon acts much more like its "alter ego" **Relentless**, the other name CEO/Founder Jeff Bezos considered (the URL [www.relentless.com](http://www.relentless.com) still links to Amazon's website).

Amazon forever changed the way America shops, to the detriment of traditional "bricks and mortar" retailers. Locally, you can find Amazon's "fingerprints" on at least two recent failures, H.H. Gregg (consumer electronics) and Gander Mountain (outdoors). There will be many more. In fact, Bespoke Investment Group created its "Death by Amazon" index in 2012 to track the stocks of 54 retailers it viewed as most vulnerable.

The \$800 billion U.S. grocery business is uber-competitive. Families no longer head to the neighborhood supermarket for the weekly, one-stop shopping trip. Consumers have a plethora of options outside of traditional supermarkets, which are being attacked from both the deep discounters on the low end, like European chains Lidl (will operate 100 stores by mid-2018) and Aldi (will invest \$5 billion by 2022 to open 900 new stores and remodel hundreds more) and specialized stores on the upper end (like Whole Foods, online grocer Peapod and meal-kit provider Blue Apron).

Walmart is America's largest grocer (20% market share) and groceries account for more than 50% of revenue. In 2015 Walmart signaled its intent to defend its turf at all costs with a three-year plan to slash prices. This has damaged profit margins and pummeled stock prices for #2 Kroger (9% share) and the entire segment. Restaurants have also been hurt, as the cost differential between cooking at home vs. dining out has widened.

Amazon was on the competitive radar because of its longtime online sales of grocery products and more recent initiatives with grocery pick-up/delivery (Amazon Fresh) and physical stores (Amazon Go), but achieving scale was proving difficult.

That all changed on June 16 when Amazon announced it was buying Whole Foods (which is also facing margin pressure in its core stores and was compelled to launch a "value store" format, "365 by Whole Foods Market") for \$13.4 billion. Amazon gets access to Whole Foods' affluent customer base and data and immediate scale with 460 stores. The stores can become a potent link between online and bricks-and-mortar retailing and serve as a sales/pick-up/delivery platform for everything Amazon sells.

In explaining what *The New York Times* described as Amazon's "prodigious tolerance for risk," Bezos said "if you're going to take bold bets, they're going to be experiments. And if they're experiments, you don't know ahead of time if they're going to work. Experiments are by their very nature prone to failure. But a few big successes compensate for dozens and dozens of things that don't work." Regarding competition, he said "your margin is my opportunity."

Amazon wasn't in cloud computing 10 years ago, but Amazon Web Services is now a rapidly growing \$12 **billion** revenue business. Amazon Prime Video both delivers popular and creates original content, like the Academy Award winning "Manchester by the Sea." Enjoy the lower prices, but know Amazon wants to eat your margin, too.

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