

# Episode 36: What a Whole Foods Acquisition Would Mean for Tech, Retail & Grocery

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**Keith Anderson:** Hello, and welcome to a special edition of the Profitero Podcast. I'm Keith Anderson of Profitero. Today's topic is Amazon's attempted acquisition of Whole Foods. It's been about a week since the acquisition offer was announced. By now, all of the basic facts and details have been widely published and I'm sure read by most of our audience.

I invited Jason Del Rey of Re/code to join me for a discussion about what it means to Amazon, what it means to Whole Foods, what it means to the grocery industry, and the future of retail. Jason, if you don't know him, is a journalist at Re/code, one of the sharpest reporters covering the retail beat. He's often breaking news. As importantly, I think he's got a great lens for interpreting what it means. Let's dive in to a discussion about Amazon and Whole Foods. I'm joined today by Jason Del Rey of Re/code. Jason, welcome.

**Jason Del Rey:** Thanks for having me.

**Keith Anderson:** I think both of us saw, it's been just under a week since this big Amazon-Whole Foods announcement. Everybody else raced to put their hot take out there. At least I've somewhat resisted the rush. Now that we've got a little bit of hindsight and we've had a chance to digest everybody else's, I'm sure we're going to dive in and cover what it all means today. If you don't mind, I think many of our listeners probably know of you or saw you at Shoptalk, you just introduce what Re/code is and what you do?

**Jason Del Rey:** Sure. I'll try to give you the elevator pitch. Re/code is a technology news site that focuses on the intersection of technology and innovation and different industries, traditional industries. We used to be called All Things Digital. We were founded by the well-known tech journalist, Kara Swisher and Walt Mossberg who famous product reviewer.

**Keith Anderson:** Walt just retired, right?

**Jason Del Rey:** Walt, I think his official last day is in a week or two, but yeah, Walt has a long storied career, about 25 years doing this. Before that, he covered State Department and other more important things than-

**Keith Anderson:** Equally innovative organizations and institutions.

**Jason Del Rey:** Yes. We became known as much for our reporting and analysis over the years as our events. We now have the code conference, which used to be called the D Conference. Famous one that a lot of people may have seen was an interview we had with ... the only interview that Steve Jobs and Bill Gates did together back in the day, and over the years, Jeff Bezos, Elon Musk, this year, Hillary Clinton, have appeared at our events where we practice what we call live journalism on stage.

I write a lot about eCommerce, Amazon and the future of retail. I also dabble in the payments world, which coverage of how tech companies are trying to get into our financial lives, Apple Pay, Square and that like. I'm also starting to produce my own events called Code Commerce. I've done some in partnership at Shoptalk over the last year and in September we're expanding into a day and a half long event in New York City that Shoptalk is helping to sponsor. That was probably longer than an elevator pitch, but that's who I am and a little bit about what Re/code is.

**Keith Anderson:** Actually, while I think of it, I saw the announcement yesterday about the Grocery Talk, I think that's what it's called, not spinoff, but grocery and CPG focused track at Shoptalk next year. Are you involved in that at all?

**Jason Del Rey:** I saw that as well, and have not discussed it with them yet, but we have a good relationship so I won't say no. I don't know at this point.

**Keith Anderson:** Just curious. Let's dive right in. What do you make of this Amazon-Whole Foods deal?

**Jason Del Rey:** On a selfish level, I was very angry about it because I was off. I was supposed to be off on Friday. I was in traffic at the Holland Tunnel.

**Keith Anderson:** I think I saw a tweet about it was your day off and then that news broke.

**Jason Del Rey:** I had a lot to get done that day for my daughter's first birthday party. Not all of that happened. Listen, I think this has been talked about a bit. It was not a

complete surprise. The way I've thought about Amazon and M&A over time was that eventually ... They have this history of build themselves and very few acquisitions that even get up into the hundreds of millions of dollars, let alone anything over a billion.

I'm kicking myself because eventually you knew a deal of this size was going to happen when it was in a market that was big enough that Amazon felt like they had to play a big role in, and also a market that for a variety of reasons had significant barriers to entry that would be tough to overcome on their own. As we all know, they've been going at grocery in different ways for about 10 years. A lot of different attempts with different models, different pricing. Looking back, this seems like an obvious big bet if they were going to do one. Up until Friday, it just felt like a stretch that they would spend 12, 13, \$14 billion on a traditional retailer, but here we are.

**Keith Anderson:** I think anybody that knows me and what we talk about, we felt that, to your point, for a decade, maybe a little longer at this point, consumables and even perishable grocery has been strategic for all the same reasons that it is to a lot of other traditional retailers. You get the frequency of everyday household essentials, which gives you the opportunity in a traditional retail model to sell a lot of higher margin discretionary goods.

In the Amazon model, with their display media business, every set of eyeballs looking at any screen on their site, in their app, is another opportunity to make money from the ads. Any delivery to the home is an opportunity for more efficient logistics or who knows what other services they might bolt on.

Anyway, groceries obviously made sense. I think there's a couple things that are really, maybe not surprising, but really intriguing about this deal. One, they outright bought a traditional brick and mortar retailer. I think there's all kinds of implications but questions too that that sets up. Are there other traditional brick and mortar retailers that Amazon might have in their sights? Is this a signal that online grocery, either in a general sense or in Amazon's specific attempts, has failed or just has some limitations? What does some of the parts look like in a year or a couple of years?

I'm curious to get your thoughts on if you look at some of the previous acquisitions, Zappos or Quidsi which operated soap and diapers, those were obviously a lot more directly competitive with the Amazon model. The pattern was Amazon tried to build their own competing site or business and when they didn't get the results they wanted quickly enough, they acquired.

In this case, they didn't go out and buy FreshDirect or ACADO or Peapod. They went to a traditional brick and mortar player. What do you think that means for online grocery? What do you think it means for Whole Foods in short-term and long-term?

**Jason Del Rey:**

There's a lot there. I'll try to pick off some different threads. One is, I think, this may be obvious, they saw in Whole Foods perhaps more so than some of the pure play, a real premium brand, despite the troubles over the last, let's call it, two years and the competitive pressures all around them, a real premium brand where with strong loyalty and one in which I think they feel they could probably layer their loyalty on top.

What that ultimately looks like, there's tons of speculation around what Prime plus Whole Foods means. I would think loyalty and adding more value both to Amazon shopper and the Whole Foods shopper, if they're not already the same person, will be a key component here.

I think it for sure raises the question for some of the delivery only players or I would think it would from people I've spoken to this week of how sustainable is this long-term without real physical presence and an integration there where one plays off of the other, especially for a lot of these businesses in the pure play world that have been hovering around break even or maybe a little worse than that for a long time. Thinking of, in my home town, FreshDirect.

I think one thing we know about Amazon is they don't mind when different parts of their business compete against each other. I'm interested to see, especially maybe early on after the acquisition, what the dynamics are between Fresh and this and the Whole Foods and whether they're going to let those two sides play against each other more than together.

Those are some of the things I'm thinking about. I think it's absolutely some recognition of the fact that they haven't gotten as far as they would have liked over the last decade. I think we saw that in some of the pricing changes. I think the switch to the monthly fee was smart. Amazon tends to give limited information, period, on their earnings call. I think they talked about that having a positive effect on subscription.

Again, this is something that now seems like it makes a lot of sense. I guess it's easy to say that now, but I think the different components, loyalty, competition for their own business, and also just I think the recognition that it's taken longer than they would like to get any notable share, all led to consideration of this deal, plus hopefully to being in a spot where the price was something that was more doable than it was, let's say, two years ago because of their current competitive pressures.

**Keith Anderson:**

You did a great job with the seven part question that I lobbed your way, latching on to some good stuff to focus on. It'll be interesting, to your point, how competitive or not the two services are in the short term. I was digging in to Whole Foods's business. Two-thirds of what they sell is perishable. There's not a lot of overlap with the mainstream national brands that you would find in the Amazon Fresh selection necessarily in the Whole Foods assortment.

I think just from conversations I've had with former Amazon Fresh produce merchants, I get the sense that maintaining a perishable supply chain was building and maintaining one at the taste level of the shopper that Amazon wanted to win with-

**Jason Del Rey:** Huge challenge.

**Keith Anderson:** ... was very, very challenging. That's one thing that just immediately strikes me. Now Amazon, with the flip of a switch, has credibility on the side of the grocery business that's really, really challenging. I think Whole Foods is one of, if not the, best perishable merchants in the country. Wegmans is right up there too. That's pretty compelling.

**Jason Del Rey:** Is that solely your result of who their suppliers are or is it deeper than that?

**Keith Anderson:** I think it is deeper than that. Who their suppliers are has a lot to do with sourcing locally and having really, really sophisticated, just high standards for quality and freshness and even the presentation of the product in the store. It's the complete picture. I think that has been challenging for most retailers, but especially for Amazon to crack. If anything, it has felt to me as an observer for a long time, like they actually deteriorated a little bit on that front as they expanded from Seattle to other metros.

**Jason Del Rey:** I've heard that from customers as well who are even in a same market over time.

**Keith Anderson:** I think it also ... this may or may not be on base, but there are parallels, it seems to me, in the way that they started with the Kindle device family being available exclusively from Amazon. I remember in the first year or two, that their eReaders were available, none of the other retailers would carry the Kindle. They started asking early adopters of the Kindle to come to coffee shops and let prospective Kindle buyers try one. It was one of those relatively new device categories that people may not be willing to try sight unseen, purely on the basis of a product detail page on Amazon.

There was this sensory element to the decision-making process that they realized they needed to overcome. Now in retrospect, you've got Kindle devices in widespread distribution at other brick and mortar chains with fancy displays so people can see and try them.

Then there, of course, are the book stores, which it's just stunning. After having decimated the original category specialist brick and mortar book retailers, now Amazon is keeping the elements that are unique to a physical store and re-engineering or reinventing the aspects that are obsolete, introducing more dynamic pricing and more dynamic merchandising and promotions and rationalizing the supply chain or the stock levels in the store and all those things.

**Jason Del Rey:** Exactly.

**Keith Anderson:** You look at what they're doing, or at least what they could do with grocery. The one thing anybody that's done online grocery, including some of these players that have been at it for decades, will tell you is it's very, very hard to build that trust and that credibility, especially the first time. A lot of people still really want to pick their own produce, they want to pick their own meat.

**Jason Del Rey:** Even though I cover this space pretty closely, we are a family, because I defer to my wife on this, many things, but this specifically, pick out produce in person. We're still a brick and mortar grocery family for the most part. Sorry. Carry on.

**Keith Anderson:** No, I think it's worth sharing because a lot of people, even if they do cover the space or if they like to shop online for groceries, there are some of these really key categories that you just either don't buy or you're really picky about. It gets interesting to think about what this might do for the credibility of Amazon's non-store grocery business. Suddenly, you might have people a little bit more trusting if they're already happy Whole Foods customers.

**Jason Del Rey:** Absolutely.

**Keith Anderson:** You were hinting at what the interplay might be between online and offline. It could be click and collect. I think that's probably something we'll see. What are some of the other potential interactions or integrations you can imagine?

**Jason Del Rey:** There's the whole, maybe this is overblown already, but there's the whole question about delivery, local delivery, and the role that Instacart currently plays in many markets for Whole Foods and whether or not that deal could go away, a five-year deal. I think we're in number two. Some people are saying there's no way they could get out of that deal. I don't necessarily believe that. I think there's almost always a way. I think obviously that's something we have to at least consider. I know publicly Instacart's talking like business as usual. I've seen some notes they've sent out to their in-store workers and contractors essentially saying business as usual. That's something I plan to stay on top of a ton. I don't necessarily believe that long-term or maybe even near-term. That's another one.

The other obvious interplay, and I know I hinted at this already, and maybe it's obvious, is what if parts of shopping at Whole Food are built into Prime in some way, do the Prime store cards and new Prime reload debit wallets and discounts extend into Whole Foods. I don't know right now the likelihood of that, but I think there's a lot of different things to consider. You touched on a few and those are a couple other ones I'm thinking about.

**Keith Anderson:** I think, at least among my constituency, a lot of people are chattering about apparently there's already been statements to suggest the Amazon deal may help Whole Foods lower its prices and perhaps shed the whole paycheck positioning, which I think is plausible. There might be some interesting

efficiencies that Amazon could bring to bear for Whole Foods that would enable that.

I also think everybody has been following the Amazon Go food store experiment in Seattle that uses a lot of technology to pretty fundamentally transform the experience of buying groceries. It's obviously a pretty different store format. You can imagine-

**Jason Del Rey:** It's also delayed and ... You have to think long-term if we're thinking about that technology playing a role. What we've seen, they're obviously not where they want to be with that technology right now.

**Keith Anderson:** Fair enough. I agree. I don't think any of this stuff necessarily hits overnight. Honestly, nothing that Amazon has done that eventually proved to be high impact happens particularly quickly, but they are relentless at grinding it out. It does make you start to wonder if through automation and some of the supply chain efficiencies that Amazon brings to bear and if they eventually do get their in-store experience tech right and eliminate some of that friction, you can imagine that the stores ... I think the big question everybody in the industry has is did Amazon just pay 13 billion for these 450 store locations so they can convert them into picking centers or pick-up points. To me, the answer is no way.

**Jason Del Rey:** Hell no. Let me add a caveat. Hell no, but I and probably some others, did write that a side benefit of this deal and the brand is there are potentially interesting things you can do with some of the locations should you feel that either there's extra space to carve off for other purposes of your business or I expect to see experimentation, but ... Sorry. I'll let you finish your thought.

**Keith Anderson:** No, that basically was the thought. I just think there's got to be a thesis underlying this acquisition. I can't imagine that it's we need to pay that kind of a premium purely for the brand, that kind of a premium purely for the locations. We've seen people say it's actually the data that Whole Foods offers or it's actually any one of these things.

I think over the long-term, call it five years, 10 years, whatever it is, it's been clear for a long time, there are context where delivery is what people prefer, but not all context. Stores are not going to go away. If Amazon can reinvent a store for a certain context and capture that occasion or that shopper and have a compelling option to pick up an online order or have that order delivered, it just seems they have a much more complete toolkit, if not a complete offering in the short-term once they've got the Whole Foods capability in-house.

**Jason Del Rey:** I think that's right. It makes me think a few months ago, I was talking to someone familiar what their plans for their grocery pick-up locations. I guess right now there are two open in Seattle. This person was telling me that the initial plans were, by this point, to have about a dozen of them in important markets. I haven't yet gotten to the bottom of why that was scaled back. I do wonder

whether they had in their mind they would do something like this. Once we've attested to those two locations for now, while we're going to have a lot more to play with eventually.

The other point I just wanted to make, we talked about prices and whether we'll see some efficiencies that help drive them down a bit to consumers, I don't know if you happened to read there was an SEC filing that was a transcript of the Whole Foods, John Mackey's presentation and Q and A with Whole Foods employees about the deal and also Jeff Wilke, CEO of Amazon's consumer retail business, was there as well. Did you happen to read any of that or see a coverage of that?

**Keith Anderson:** Yeah, I scanned it. What jumped out at you?

**Jason Del Rey:** One piece jumped out at me was a line where John had said something along the lines of, "I think for a long time we've maybe focused a little too much on our employees and not enough on our ... We've focused too much internally and not enough on basically making our consumers happy." I may have just done a terrible job paraphrasing, but that was very high level. What I took that to mean was, I took that as perhaps our prices got out of hand because we treat our people internally too well or we're spending in the wrong places. It could have meant other things. There was not a reporter in the room so there were no follow-up questions. That stuck out to me for sure.

The second thing that stuck out to me was Mackey saying that he's been reminded several times that one of the core values or core pieces of Amazon leadership principles is frugality. How that manifests itself, I link those two together. It may not have been what I would have wanted to hear as an employee but-

**Keith Anderson:** I was going to say, this all came from a speech to employees about what the deal means.

**Jason Del Rey:** And a Q and A. I think those both may have come as part of answers to questions asked by employees. Anyway, I think those are at least interesting tidbits to note.

**Keith Anderson:** Absolutely. I hadn't picked up on that, but it's definitely interesting. Going back to the Instacart deal, not so much the specifics of that deal but for anybody that didn't read the Ben Thompson of Stratechery piece on Whole Foods effectively being potentially the first customer for Amazon in the sense of Amazon, not exclusively operating Whole Foods or Amazon Fresh as a captive retail business alone, but as with Amazon web services, as with its third party marketplace, conceivably what the Whole Foods acquisition gives Amazon-

**Jason Del Rey:** As with their very early signs of some of what they're trying to do with the Alexa voice platform as well, I think.



**Keith Anderson:** To be honest, in the industry, I don't see a lot of discussion or speculation about whether that's probable and what it would mean if it happened, but I think that ... It's not unlike, on some level, what Amazon and Morrison's are doing over in the UK where they're tied up with traditional grocers, including grocers that have their own online business and they compete with them, but also find a rational way to cooperate. I think that notion of Amazon as a service layer in the grocery industry is something that people are not really processing as they're going to have to.

**Jason Del Rey:** I go back and forth on the likelihood of it. I guess what we're essentially saying is, just to take one step back, with their AWS business, many people probably know, that business came out of the fact that Amazon was essentially AWS's first customer, and so saw how valuable it was internally and the efficiencies they could get with having other people essentially lease that computer power. You, to use industry jargon, externalize that. Obviously, similar thing with Marketplace. Here, just the idea being that, Whole Foods just is the first of many customers of something, I don't know, Ben may have called it Amazon grocery services or food services or something like that.

I think anyone in this industry who is affected by this deal, has to be thinking that that's a likelihood and trying to think ahead on what the implications of that is. It's very possible that they feel they can make a big enough dent over the next few years operating, just as you put it, a retailer in this space and first wanting to see how much share they can take. They think, jargon in the tech world, but Amazon really thinks about their big pillar businesses as platforms. I think Ben was ahead with that analysis. I think until proven otherwise, I think you should be thinking that that's part of the plan.

**Keith Anderson:** Jason, it's obviously early days. There's a lot that's still unknown and speculative. Any other thoughts on the deal or what it means?

**Jason Del Rey:** I know not to rule out any giant Amazon rumors involving deals bigger than a billion dollars now. The other thing is Whole Foods stock is performing right now like a lot of people believe this will not be the only bid. I've spent some time over the last week reaching out to people inside companies that I think might have some interest. Perhaps not surprisingly, people are even quieter than normal about a big deal like this.

I'm talking to as many people as possible because I think there's room for Amazon to go up in price if we do see other bids. I think there's also a point at which Amazon's not going to do this deal at any price. That's something a lot of us are writing or reporting on it like the deal is done. I think it could be a very interesting couple of weeks and we may see some action over the next month. That's one thought that's occupying me specifically because it's my job to report this out.

**Keith Anderson:** Fair enough. If people want to get in touch with you and tip you with what's really going to happen, where should they find you? I know you're on Twitter.

**Jason Del Rey:** Del Rey, my last name Del Rey, two Es, no As, so D-E-L-R-E-Y. You have to be able to withstand some sports talk, specifically NBA draft days, so maybe it's a bad day to follow me. I'm a sad Knicks fan. Email is [jason@recode.net](mailto:jason@recode.net). We're bringing back the dot net from the '90s, making it cool again. People should look up Code Commerce, which is eCommerce, a future of retail event. It's not grocery specific but we'll have definitely conversations around CPG and Direct to Consumer and representation from some of the big retailers in the space. That's in New York City in September.

**Keith Anderson:** By then we should know if this deal is for real.

**Jason Del Rey:** Then you'll have me back on, right Keith?

**Keith Anderson:** We'll have to see what the feedback is.

**Jason Del Rey:** Appreciate it.

**Keith Anderson:** Jason, thanks for joining me.

**Jason Del Rey:** Take care, thanks.