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AMAZON.COM: CONQUERING GROCERY’S LAST MILE[[1]](#endnote-1)

Ken Mark wrote this case under the supervision of Professor June Cotte solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On February 8, 2018, Amazon.com Inc. (Amazon) announced that all of its Prime members in four U.S. cities—Austin, Cincinnati, Dallas, and Virginia Beach—could now get free, two-hour delivery of groceries from its subsidiary, Whole Foods Market Inc. (Whole Foods). Members who wanted even faster, one-hour delivery could pay an extra US$7.99 per order.[[2]](#endnote-2) The free grocery delivery campaign was just the latest iteration of Amazon’s decade-long attempt to solve the most challenging problem for online grocers: how to design an attractive and profitable service for customers that included the last mile between the store and the customer’s home.

From its start as an online bookstore, Amazon was now the world’s largest online retailer and was valued at over $600 billion.[[3]](#endnote-3) It was a direct seller of general merchandise such as electronics and books, and was a distribution platform for third-party vendors, many of whom used Amazon’s Fulfillment by Amazon (FBA) service to fulfill their orders. It had a network of warehouses located close to densely populated urban centres. Finally, it was able to generate profits from its fast-growing Amazon Web Services (AWS) segment, using the excess cash to fund its retail rollout.

For more than two decades, start-ups and established grocers had been trying to design a viable last-mile service for e-grocery sales. One of the most prominent start-ups of the 1990s, Webvan, raised $800 million in venture funds and another $375 million from an initial public offering (IPO).[[4]](#endnote-4) However, despite spending $1 billion on warehouses and delivery trucks, Webvan went bankrupt after just three years of operation. Seizing on the opportunity, Amazon bought Webvan’s liquidated assets in 2001 and started to build AmazonFresh.[[5]](#endnote-5)

Amazon’s pilot testing of the grocery delivery service seemed to stumble in November 2017, when the company announced that it was shutting down AmazonFresh deliveries in five states—a decision a spokesperson emphasized was unrelated to Amazon’s purchase of the Whole Foods grocery chain.[[6]](#endnote-6) A report indicated that Amazon was blaming the U.S. Postal Service for the shutdown, claiming that deliveries were late or missed.[[7]](#endnote-7)

In early 2018, Amazon was continuing to build out its delivery services, reducing its reliance on shippers such as FedEx and UPS.[[8]](#endnote-8) It was also transforming Whole Foods into a more streamlined business, cutting the amount of excess inventory in its stores.[[9]](#endnote-9) Through its 440 Whole Foods stores, Amazon now had access to the 40 million U.S. households that lived within five miles of a Whole Foods store[[10]](#endnote-10) and to the 80 per cent of the U.S. population that lived within 10 miles.[[11]](#endnote-11) Amazon seemed to have a viable combination of stores that could double as warehouses, a desirable brand name in Whole Foods, last-mile logistics, and a commitment to make e-grocery work.[[12]](#endnote-12) It was a large market—valued at $800 billion[[13]](#endnote-13)—but one that had low net margins: about 2.5 per cent, industry-wide.[[14]](#endnote-14) As Amazon ramped up its e-grocery efforts, whether the venture would be successful or not remained to be seen.Would Amazon successfully overcome the challenge of last-mile grocery delivery? If so, what were the implications for Amazon and other retailers?

**The U.S. Grocery Industry[[15]](#endnote-15)**

The U.S. grocery industry, led by market leaders Wal-Mart, Kroger, and Albertsons, generated revenues of $800 billion in sales. About three-quarters of the product sold in grocery stores was food, with meat accounting for 14 per cent of sales; fresh produce, 10 per cent; dairy, 8 per cent; and frozen foods, 5 per cent. The remainder was a mixture of general merchandise, including health and beauty products.

The average grocery store was 46,000 square feet (4,300 square metres) in size, had 72 employees, carried 50,000 different items, and generated annual sales of about $24.2 million. Most employees were involved in cashiering, restocking, food preparation, and bagging. More than 20 per cent of grocery employees participated in a union—a rate that was higher than the U.S. average of 12 per cent. Labour costs for grocery stores represented about 10 per cent of sales.[[16]](#endnote-16) The typical grocery store served customers within a two-mile radius of the store. As such, location was key to the growth prospects of any new grocery store. Chain stores tended to consider many factors, including costs, demographics, and income levels, before investing in new stores. Customers could usually select from a few competitors from within driving distance of their homes.

Within a store, items were generally grouped together into categories to facilitate shopping and to expose shoppers to higher-margin, impulse items. For example, popular items such as dairy or bread were placed near the back of the store to encourage shoppers to walk past higher-margin items such as packaged food or drinks. The business model of a grocery store rested on the premise that customers were willing to drive to the store on a regular basis and spend time browsing its aisles to pick a basket of items for their household needs. To ensure that customers could pay for their merchandise efficiently—even during popular time periods—the larger grocery stores typically had multiple checkout lines and employees bagging merchandise.

Grocery was a high-volume, low-margin business, and prices were kept competitive. Managing the supply chain for fresh produce, meats, and general merchandise was key to keeping costs low. Large chains bought directly from manufacturers and growers and also from third-party wholesalers. Grocery chains earned additional margin from manufacturers by charging them slotting fees to list and carry products. Slotting fees could cost manufacturers between $2,313 and $21,768 per metropolitan area (city). A food company wanting to list a new item nationwide could end up paying slotting fees of $1–$2 million.[[17]](#endnote-17) Bruce Weitz, the former chief executive officer of Kings Food Markets and Duane Read drugstores, explained how grocery stores saw their product mix:

The “average” supermarket in the United States generates about $15–$20 million in revenues per year, although, depending on store size, focus, competition, and strategy/execution, the annual revenues can be as low as $5 million to over $50 million. Generally, the average supermarket’s “cutout” of total sales breaks down as 50 per cent in grocery (the stuff in the aisles and on displays), 15 per cent in dairy and frozen foods, 10 per cent+ in produce/floral, 10 per cent in meat, 4 per cent in deli and fresh bakery, and the balance in general merchandise/health and beauty care/Rx and wine/liquor and beer (where available by state laws). These are averages and are influenced significantly by the strategy being executed by the store or chain.

For example, Whole Foods and Fairway [Market] have a more significant focus on fresh foods, where price impact chains on the other end of the spectrum (Aldi, Sav-a-lot) have most of the revenues in grocery packaged goods.

Generally speaking, perishables departments have much higher gross margins but also have much higher labor costs, capital expenditures (for refrigerated cases), energy costs, and transportation costs. It is obviously much cheaper to warehouse, ship, and pack out packaged goods versus refrigerated and frozen merchandise. As a rule of thumb: the lower the gross margin percent on an individual item the higher the sales volume because of competitiveness.[[18]](#endnote-18)

According to the Food Marketing Institute, the typical grocery store customer was the female head of a household. Households with children spent considerably more on groceries than childless households. Marketing and promotional vehicles included newspaper, print, and TV advertising; direct mail; and in-store events. Free standing insert (FSI) coupons delivered via newspapers, retail price discounts, and end-aisle displays were common promotions. The average shopping trip took 41 minutes, and there were, on average, 1.5 trips a week.[[19]](#endnote-19)

To a lesser extent, shoppers also enjoyed the ambience within a grocery store, as research by Hays, Keskinocak, and de Lopez indicated:

A majority of consumers still prefer to buy groceries from a retail store. They may like to smell the vegetables and squeeze the fruit, or they may like to unwind from a long day by walking among the fresh breads of the bakery. Consumers also trust the grocery stores they have known for many years, and like to shop where they feel assured the quality is consistent and the price is right.[[20]](#endnote-20)

**Amazon and the Focus on Grocery**

Amazon was incorporated in 1994 by a former Wall Street hedge fund executive, Jeff Bezos, who chose the name “primarily because it began with the first letter of the alphabet and because of its association with the vast South American river. On the basis of research he had conducted, Bezos concluded that books would be the most logical product initially to sell online.”[[21]](#endnote-21)

Amazon survived the dot-com crash of the early 2000s and continued to build its online business, branching out from books to other products. It launched Amazon Web Services (AWS)—an on-demand cloud computing service—in March 2006 and designed and marketed devices such as the Kindle book reader and the Amazon Echo line of smart speakers. As it expanded its retail presence, Amazon’s AWS generated cash flow that was reinvested in the business.

Amazon had $177.9 billion in sales in 2017, up 31 per cent year-over-year. It had operating profit of $4.1 billion and net income of $1.9 billion. AWS had total revenues of $17.46 billion and operating profit of $4.33 billion in 2017. Amazon’s average quarterly operating margins in 2017 were as follows: −5.65 per cent for the international segment, 2.4 per cent for the North American segment, and 24.65 per cent for AWS.[[22]](#endnote-22) Exhibit 1 provides information on the percentage of product sold online, by category. Selected financial information on Amazon can be found in Exhibit 2.

**Whole Foods Market**

Amazon’s $13.7 billion purchase of Whole Foods on June 16, 2017, signalled its serious intention to capture share in the U.S. grocery market. Whole Foods was the world’s leading retailer of natural and organic foods and the United States’ first national certified organic grocer. The company’s website listed the following core values:

* We sell the highest quality natural and organic foods.
* We satisfy and delight our customers.
* We promote team member growth and happiness.
* We practice win-win partnerships with our suppliers.
* We create profits and prosperity.
* We care about our community and the environment.[[23]](#endnote-23)

Whole Foods sourced its food items from local, regional, and national producers. It had three seafood processing and distribution facilities, a specialty coffee and tea procurement and roasting operation, and 11 regional distribution centres that focused primarily on distributing perishables to stores across the United States, Canada, and the United Kingdom. It also had three regional commissary kitchens and four bakery facilities, all of which distributed products to its stores. Other products were typically procured through specialty wholesalers and direct distributors. United Natural Foods Inc. (UNFI), Whole Foods’s single largest third-party supplier, accounted for approximately 32 per cent of its total purchases in 2016. Whole Foods had entered into a long-term relationship with UNFI as its primary supplier of dry grocery and frozen food products through 2025.[[24]](#endnote-24)

All Whole Foods stores employed approximately 50–600 team members, depending on store size and sales volume, and staff members were part of up to 10 self-managed teams per store. The store team leader worked closely with one or more associate store team leaders, as well as department team leaders, to operate the store as efficiently and profitably as possible. Whole Foods had average gross margins of 30 per cent.

Whole Foods Market was one of *Fortune* magazine’s “100 Best Companies to Work for in America.” It was one of only 11 companies to have made the “100 Best” list every year since its inception, and its employees were not unionized.[[25]](#endnote-25)

When Amazon acquired Whole Foods, it was expected to cut prices by an average of 6 per cent across the board, which would make Whole Foods more attractive to customers.[[26]](#endnote-26) There were cross-selling opportunities as well, as Amazon started to sell electronic goods at Whole Foods. In addition, 38 per cent of Whole Foods customers—about five million people out of 13 million—were not yet Amazon Prime members.[[27]](#endnote-27) Amazon Prime memberships cost $99 per year per customer and gave members access to unlimited two-day shipping on 100 million items. Prime members enjoyed other benefits as well, including access to Prime Video, a video streaming service, free online books, and a music streaming service called Prime Music.[[28]](#endnote-28) In about 5,000 cities and towns, Prime offered customers free same-day and one-day deliveries on over one million items. In selected neighbourhoods, it offered two-hour deliveries on tens of thousands of items.[[29]](#endnote-29) Amazon Prime members spent an average of $2,486 a year on Amazon’s website, significantly more than the $544 spent by customers who were not Prime members.[[30]](#endnote-30)

**Amazon—Other Grocery Concepts**

By the time it purchased Whole Foods, Amazon had already been operating AmazonFresh, a grocery delivery service in selected cities in the United States and other major global cities such as London, Tokyo, Berlin, Hamburg, and Munich. Launched in Seattle in 2007, AmazonFresh allowed customers to combine grocery and other shopping into one seamless experience. They could order fresh groceries, prepared meals, and household goods along with other items sold by Amazon and could schedule deliveries for the same day or even place an order in the evening and have the grocery items delivered before breakfast the next day.[[31]](#endnote-31)

In March 2017, the company added two AmazonFresh pickup points in Seattle. AmazonFresh Pickup was a service that allowed customers to order products, including groceries, online and pick them up at designated drive-in locations. There was no option to walk in and buy groceries without first ordering them online (see Exhibit 3).

The company had also launched Amazon Go, an 1,800-square-foot (approximately 167-square-metre) convenience store that stocked upscale food items such as sandwiches, frozen food, and Amazon-branded meal kits.[[32]](#endnote-32) Amazon Go stores were designed to be cashier-less and relied on 6–10 employees per shift: one to stock shelves, one to answer questions, two to staff the drive-thru windows, and another two to oversee the robotic grocery-bagging and conveyor belts that delivered bags to customers.[[33]](#endnote-33) The average grocery store had about 10 checkout stations per store.[[34]](#endnote-34)

**Designing An E-Grocery Product**

Stock analysts at Morgan Stanley examined Amazon’s grocery delivery service. They estimated that Amazon’s average order size for e-grocery orders was $40 and the cost of goods for the average order was $28. It would cost approximately $3.75 for Amazon to pick and pack the order; delivery to the customer, within a two-hour window, would cost $5.67. With delivery wage costs at $3.60 per order and other delivery costs (i.e., fuel and overhead) at $2.07, the gross profit per order was $2.58, or 6.45 per cent.

In his 2016 letter to shareholders, Bezos emphasized that success would come from never losing the focus on the Amazon customer:

“Jeff, what does Day 2 look like?” That’s a question I just got at our most recent all-hands meeting. I’ve been reminding people that it’s Day 1 for a couple of decades. . . .

“Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is *always* Day 1. . . .”

There are many ways to center a business. You can be competitor focused, you can be product focused, you can be technology focused, you can be business model focused, and there are more. But in my view, obsessive customer focus is by far the most protective of Day 1 vitality.

Why? There are many advantages to a customer-centric approach, but here’s the big one: customers are *always* beautifully, wonderfully dissatisfied, even when they report being happy and business is great. Even when they don’t yet know it, customers want something better, and your desire to delight customers will drive you to invent on their behalf. No customer ever asked Amazon to create the Prime membership program, but it sure turns out they wanted it, and I could give you many such examples.

Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight. A customer-obsessed culture best creates the conditions where all of that can happen.[[35]](#endnote-35)

Two decades after the first online groceries came on the scene, e-grocery continued to face challenges. Adoption rates continued to be low for a number of reasons. First, many consumers chose to go to grocery stores without a grocery list in hand, browsing the aisles instead to select items to pick up.

Another reason was that individual customers had widely different preferences for items such as meat or fresh produce, and they liked to select the specific items that matched those preferences. While there were strict specifications for general merchandise products such as electronics—there should be no difference between one Apple iPhone and another of the same model, for example—for grocery items, individual portions of the same stock keeping unit (SKU) could differ significantly. Consider a cut of meat—a striploin steak, for example: individual portions would be different in both weight and appearance (e.g., the hue, the shape, the pattern revealed after it was prepared for packaging). Customer preferences existed for fresh produce as well, and many shoppers preferred to personally inspect and select fruit and vegetables before they bought them.

Third, transporting perishable goods such as produce, meat, and temperature-sensitive items like ice cream meant taking extra care to pick, pack, and transport irregularly shaped and fragile items. Fourth, there were costs involved in the picking, packing, and delivery processes that many customers did not factor into their trips. Many customers continued to focus on an item’s physical price and quality as the key deciding factor. Charging consumers for picking and delivery would only be possible once those consumers had been educated regarding the benefits of such services.

In February 2018, with momentum building and Whole Foods being transformed into a de facto network of grocery shipping points for Amazon, it seemed possible that Amazon would finally resolve the challenge of last-mile grocery delivery (see Exhibit 4). Amazon seemed to be committing to the idea of delivering groceries to homes. On Thursday February 8, 2018, it announced that Prime subscribers in Austin, Cincinnati, Dallas, and Virginia Beach could get deliveries from Whole Foods in under two hours. There would be no charge for the service, and customers could order any stocked product, including fresh food such as meat, seafood, and flowers.[[36]](#endnote-36)

Amazon’s central business thesis seemed to be based in a drive to obtain market share in every imaginable category of product or service that could be delivered to consumers. Was this a case where Amazon had finally built—or bought—the resources and capabilities required to succeed in cracking the challenge of the last mile? Despite having tried for the better part of two decades, neither Amazon nor its competitors had been able to create a desirable e-grocery product—that is, a service that met consumers’ grocery needs and was profitable.

Had Amazon devised a way to generate profits from the last mile? Were its rivals unable to respond because they were encumbered by high cost structures? As Bezos had said, “frugality drives innovation, just like other constraints do. One of the only ways to get out of a tight box is to invent your way out.”[[37]](#endnote-37) Alternatively, it could be argued that Amazon was merely trying to drive its rivals—brick-and-mortar grocery stores—out of business. With market leadership, it could then boost margins at will. “Your margin is my opportunity,” Bezos had said on another occasion.[[38]](#endnote-38)

Observers wondered if Amazon would be the first company to succeed in this market and, if so, what the short- to medium-term implications were to its numbers.

**Exhibit 1: U.S. Online Channel Share by Category (2016)**

|  |  |
| --- | --- |
| Video/DVD | 74.0% |
| Music | 72.7% |
| Books | 63.4% |
| Video Games | 60.6% |
| Computer Software | 86.1% |
| Personal Computers | 73.4% |
| PC Peripherals | 57.8% |
| Small Appliances | 41.3% |
| Consumer Electronics | 33.4% |
| Housewares | 35.6% |
| Office Supplies | 31.1% |
| Flowers | 30.7% |
| Toys | 27.8% |
| Sporting Goods | 21.3% |
| Apparel | 18.5% |
| Shoes | 14.6% |
| Furniture | 7.2% |
| Home Improvement | 2.5% |
| Food and Drink | 2.3% |

Source: Created by the case authors using data from Seth Sigman, Paul Bieber, Kieran McGrath, Lavesh Hemnani, “Home Furnishings Retail,” Credit Suisse, November 8, 2017, 28.

**Exhibit 2: Amazon—Financial Statements**

**(Figures in $ millions, except per share amounts)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Income Statement** | **2016A** | **2017E** | **2018E** |
| Revenue | $135,987 | $177,910 | $227,813 |
| Operating Income | 4,186 | 3,535 | 7,869 |
| % Operating Income Margin | 3.1% | 2.0% | 3.5% |
| Pre-Tax Income | 3,892 | 3,238 | 6,902 |
| Income Tax | −1,425 | −1,223 | −2,485 |
| Net Income | 2,371 | 2,011 | 4,417 |
| Shares Outstanding | 484 | 493 | 502 |
| EPS | $4.90 | $4.08 | $8.79 |
| *%* *Growth* | *290.7%* | *−16.8%* | *115.6%* |
| Adj. EBITDA | $15,278 | $19,002 | $27,244 |
| *%* *EBITDA* *Margin* | *11.2%* | *10.7%* | *12.0%* |
| *%* *Growth* | *43.7%* | *24.4%* | *43.4%* |
|  |  |  |  |
| **Cash Flow Statement** | **2016A** | **2017E** | **2018E** |
| Cash Flow from Operations | 16,442 | 18,444 | 25,992 |
| Cash Flow from Investments | −9,876 | −28,387 | −11,418 |
| Debt | −3,740 | 10,712 | −7,837 |
| Common Stock Dividends | 0 | 0 | 0 |
| Common Equity/Share Buybacks | 0 | 0 | 0 |
| Cash Provided from Financing | −2,911 | 10,712 | −7,837 |
| Currency Effect | −211 | 622 | 0 |
| Ending Cash Balance | 19,334 | 20,725 | 27,461 |
|  |  |  |  |
| **Balance Sheet** | **2016A** | **2017E** | **2018E** |
| Total Current Assets | 45,781 | 59,269 | 72,473 |
| Total Assets | 83,402 | 127,333 | 150,337 |
| Total Current Liabilities | 43,816 | 56,809 | 65,205 |
| Total Liabilities | 64,117 | 100,661 | 113,989 |
| Total Liabilities and Share Equity | 83,402 | 127,333 | 150,337 |
|  |  |  |  |
| **Segment Details** | **2016A** | **2017E** | **2018E** |
| North America Revenue | 79,784 | 106,229 | 136,262 |
| International Revenue | 43,984 | 54,403 | 68,158 |
| AWS Revenue | 12,219 | 17,278 | 23,393 |
| North America Operating Income | 2,361 | 2,248 | 4,101 |
| International Operating Income | −1,284 | −2,977 | −2,234 |
| AWS Operating Income | 3,109 | 4,264 | 6,002 |
| % Paid Unit Growth | 26.8% | 25.5% | 24.0% |
| Seller Units % Paid Units | 49.0% | 50.5% | 52.7% |

Source: Created by the case authors using data from Daniel Salmon, “Amazon.com”, BMO Capital Markets, October 27, 2017, 2.

**Exhibit 3: AmazonFresh Reviews**

**Top Positive Review**

“During my 30 day trial of Amazon Fresh I have made a total of 4 Orders but only 3 out of 4 were successful. . . .”

“So that same weekend of Order 1 I aimed to reserve a delivery for the next following Saturday. That’s where I hit my first road block. There weren’t any delivery dates available for the next 10 days because apparently they have . . . limited delivery availabilities. So I was forced to wait for the next available time, that being Wed [Wednesday] between 10am – 1pm while I was out. As I was expecting more green totes to be on my porch, when I returned home all I found was the totes from my last order I left to be picked up. I called Amazon to find out if they could tell me the [status] of my order. Long story short they refunded me for the entire order. . . .”

“Order 4: In my last and final order of my free trial I thought I would do a repeat of skipping the store and just get everything I needed from Amazon Fresh. Now this was the largest order I’ve made yet in regards to item count. The results were quite similar to last order. This time USPS did pickup all the totes from Order 1 and 3. But however there were a few more casualties this time. As mentioned in Order 3, one tote again was densely packed with all of the delicate items. 2 cans were dented, pudding cups were pierced, and buns were smushed. I did call Amazon and I had probably one of the most pleasant conversations I’ve ever had with an Amazon rep [representative], they immediately refunded the items that were damaged or didn’t arrive in proper condition.”

**Top Critical Review**

“After a strong start they have gotten progressively worse over the last 2 years. The last issue and the ultimate reason I am cancelling is from old totes from previous orders. And this time it was the last straw because instead of just avoiding picking up the old totes, this driver took out each of the liners from them and dumped them into a pile on my front porch?? What’s weird is that Amazon even has writing on the liners that explains that they will take them back? (attached) After a number of calls and waits on hold, they still couldn’t tell why it happened or when/if someone was going to come back to pick them up??? The customer service team is separate from the transportation/logistics team and that team will not deal directly with customers?? I spoke with Shawn and she was really helpful and totally shocked that this would happen. Then I was transferred to Janelle (supervisor) who called the transportation team only to report that they would maybe call me and no firm commitment on picking up the junk they dumped out. I waited so long on hold I finally gave up. This amount of money for a service just isn’t worth it. Janelle told me that MAYBE the transportation team would call to speak with me. MAYBE??? UNREAL. If I didn’t capture it on video I wouldn’t have believed it.”

Source: CreatiVast ARTS, “First 30 Days: It’s Been an Interesting Experience, Could Be Useful in the Future,” Amazon, November 19, 2016, accessed April 19, 2018, https://www.amazon.com/gp/customer-reviews/R38G148LX2B5Z9/ref=cm\_cr\_arp\_d\_viewpnt?ie=UTF8&ASIN=B005DTBAU2#R38G148LX2B5Z9; Swansong34, “Amazon Fresh Driver Dumps Tote Liner Garbage on Porch. (Yes You Read That Right),” Amazon, October 5, 2016, accessed April 19, 2018, https://www.amazon.com/gp/customer-reviews/R213Y7Z3TWUICY/ref=cm\_cr\_arp\_d\_viewpnt?ie=UTF8&ASIN=B005DTBAU2#R213Y7Z3TWUICY.

**Exhibit 4: Whole Foods Market—Income Statement**

**(Figures in $ millions, except per share amounts)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Sept. 25, 2016 | Sept. 27, 2015 | Sept. 28, 2014 |
|  |  |  |  |
| Sales | 15,724 | 15,389 | 14,194 |
| Cost of Goods Sold and Occupancy Costs | 10,313 | 9,973 | 9,150 |
| Gross Profit | 5,411 | 5,416 | 5,044 |
| Selling, General, and Administrative Expenses | 4,477 | 4,472 | 4,032 |
| Pre-Opening Expenses | 64 | 67 | 67 |
| Relocation, Store Closure, and Lease Termination Costs | 13 | 16 | 11 |
| Operating Income | 857 | 861 | 934 |
| Interest Expense | −41 | — | — |
| Investment and Other Income | 11 | 17 | 12 |
| Income before Income Taxes | 827 | 878 | 946 |
| Provision for Income Taxes | 320 | 342 | 367 |
| Net Income | 507 | 536 | 579 |
| Basic Earnings per Share | 1.55 | 1.49 | 1.57 |
| Weighted Average Shares Outstanding | 326.1 | 358.5 | 367.8 |
| Diluted Earnings per Share | 1.55 | 1.48 | 1.56 |
| Weighted Average Shares Outstanding, Diluted Basis | 326.9 | 360.8 | 370.5 |
| Dividends Declared per Common Share | 0.54 | 0.52 | 0.48 |

Source: Created by the case authors using data from Whole Foods Market, Inc., Whole Foods Annual Report 2016, 17, accessed April 5, 2018, www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ\_WFM\_2016.pdf.

**endnotes**

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Amazon.com Inc. or any of its employees. [↑](#endnote-ref-1)
2. All currency amounts in U.S. dollars; Amazon, “Amazon Begins Grocery Delivery from Whole Foods Market with Plans for Expansion in 2018,” News release, February 8, 2018, accessed April 18, 2018, <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2331171>. [↑](#endnote-ref-2)
3. Annie Palmer, “Why Amazon Could Soon Be Headed for a $1 Trillion Market Cap,” The Street, January 10, 2018, accessed April 18, 2018, https://www.thestreet.com/story/14445272/1/amazon-trillion-dollar-market-cap.html. [↑](#endnote-ref-3)
4. Chaitanya Ramalingegowda, “[Famous Failures] The Grocery E-Tailer that Raised over $800 Million and Went Public before Filing for Bankruptcy,” YourStory, September 15, 2014, accessed April 18, 2018, https://yourstory.com/2014/09/webvan-e-tailer/. [↑](#endnote-ref-4)
5. Tim Barry, “Amazon Improves upon Webvan to Create Grocery Business,” US Finance Post, June 16, 2013, accessed April 18, 2018, http://usfinancepost.com/amazon-improves-upon-webvan-to-create-grocery-business-1519.html. [↑](#endnote-ref-5)
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