
Amazon Turns Over the Grocery Cart

Online retail giant **Amazon** (NASDAQ: AMZN) has announced an agreement to buy one of America's most successful grocery retailers **Whole Foods Market** (NASDAQ: WFM). The acquisition signals Amazon's latest move as it searches for the optimal business model to compete against its biggest rival, **Wal-Mart** (NYSE: WMT). Amazon had recently begun to inch into physical retail, but this move represents a giant leap.

Much of the speculation over the tie-up has focused on the potential fallout from the combination. How will competitors fare and who stands to win or lose? Consensus suggests peers in the grocery industry will be in for a fight. Broadline retailers like **Target** (NYSE: TGT) and **Costco Wholesale** (NASDAQ: COST) will face pressure as well.

The big food companies like **Unilever** (LSE: ULVR) and **Nestle** (SWX: NESN) will likely get pinched as Amazon and Wal-Mart battle to lower prices for customers. And poor **Blue Apron** (NYSE: APRN), the leader in the nascent meal kit space could not have timed its IPO more poorly on the heels of the Amazon news. Surely Amazon will figure out a way to utilize Whole Foods' supply chain to deliver a cheaper, better, meal delivery service? Blue Apron's stock price has fallen 26% in the two weeks since its debut.

The networks of United Natural Foods

One threat I have not seen discussed much involves the distributor, **United Natural Foods, Inc.** (NASDAQ: UNFI). The company distributes a broad range of organic food and related products and has been a primary distributor to Whole Foods for more than eighteen years.

As a distributor, UNFI connects buyers and sellers. Companies that produce organic soups, salad dressings, snacks, baby food and the like do not own distribution centers, trucks or planes. They know little of logistics or supply chain management. Typically, if they employ a sales force (most do not), it is small and lacks the reach to target the universe of potential customers. Instead, they focus on their specialty: manufacturing and their brand.

UNFI adds value by owning and running a network of distribution centers and vehicles which it uses to manage the delivery of product from manufacturer to retailer. It specialises in logistics. The food makers supply their products to UNFI which turns around and sells them to thousands of retail locations throughout the U.S.

Whole Foods contributes over a third of UNFI's sales. But its importance extends far beyond the numbers. Every organic food producer in the U.S. wants to sell to Whole Foods. Getting your product into the national chain will make your business. The easiest path to achieve that is through UNFI. Convince UNFI to carry your product and you are as good as in.

Amazon does networks too

The Whole Foods relationship has enabled UNFI to attract a large number of food suppliers, and it now carries the broadest assortment of organic products in the industry. This assortment, in turn, has made the distributor an attractive supply partner for most other retailers like traditional grocery stores and small organic markets competing with Whole Foods.

What might happen to UNFI if it lost Whole Foods as a customer? Would its suppliers be as keen to remain on board without that pot of Whole Foods' gold at the end of the rainbow?

You know who else connects buyers and sellers and specializes in logistics? That's right, Amazon. UNFI's current agreement with Whole Foods runs until 2025, so nothing will happen in the immediate future. But you would be hard pressed to convince me that by 2025 Amazon will not have figured out a way to bring all of those suppliers into its fold. And given that its scale and distribution muscle dwarf that of UNFI, it will likely achieve it at a fraction of the cost.

Personally, I am excited to see how Amazon utilizes Whole Foods. The online grocery market in the US has never found traction. Amazon's efforts to date have underwhelmed. Given that I spend more money on an annual basis at the two retailers than just about every other company, I hope they figure it out.