

Bezos and the Brick

Amazon is on a quest to perfect the 'last mile.' Will its brick-and-mortar ambitions turn retailing on its head?

By [CSP Staff](#)



In an interview with TV talk-show host Charlie Rose, Jeff Bezos looked prepared for the inevitable question: “Are you headed to brick and mortar?”

- [Click here to view a slideshow of Amazon's milestones.](#)

Pausing long enough to take only a single breath, Bezos spoke confidently to one of the few reporters with whom he has gone on the record in recent years.

“We would love to, but only if we can have a truly differentiated idea,” he said. “One of the things that we don’t do very well at Amazon is do a ‘me-too’ product offering.

“The question we would always ask before we would embark on such a thing is: What’s the idea? What would we do that would be different? How would it be better? “We don’t want to do things because we can do them. ... We don’t want to be redundant.”

That was Nov. 16, 2012. Today, the reigning king of online retailing is ready to turn his clicks into bricks.

More than a year after opening the first physical Amazon bookstore in his company’s hometown of Seattle, Bezos is returning to the very playbook he created two decades ago when he launched the country’s first online bookstore. First books. Then ... who knows what?

Well, now we’re beginning to get an idea.

Just days before Halloween, Amazon spooked countless retailers with a rumored pilot of 2,000 click-and-collect stores. And though a company spokesperson emphatically debunked that figure—“Not even close,” she said—the digital dynamo stunned analysts with the late-fall debut of its incipient c-store Amazon Go.

A [video launched on YouTube](#) shows customers walking in and out of an 1,800-square-foot store outfitted with subway tiles, wood trim and sleek black shelves. It's stocked with packaged goods and prepared foods made fresh daily by chefs and favorite local purveyors. Using technology similar to that of self-driving cars, the customers' smartphone tracks everything they pull from the shelves, eliminating the need for a checkout. It brings new meaning to the term “grab-and-go.”

On what all this means for Amazon's future retail strategy, the company is characteristically mum. “I can't comment on any rumors or speculations there might be,” said Brian Olsavsky, senior vice president and CFO of Amazon.com Inc., following a question about grocery gossip during the company's most recent earnings call.

Rumors? Speculations?

The dot-com bubble of the late 1990s boomed with audacity, brashness and, perhaps, even some justified overreaching. Absurd startups pocketed millions from a Wall Street awash with money. But soon after the balloon took off, it popped. Loudly.

Still, some businesses anchored in the web remained afloat. And one would change the world of retail.

Quarter after quarter, Amazon lost millions of dollars. It didn't turn a profit for nearly a decade. Yet investors, thinking long term, rewarded it with greater interest.

Spearheaded by wunderkind Bezos, the Seattle-based company opened its digital doors in 1994. The online bookstore eventually outdid venerable behemoths Borders and Barnes & Noble. In a decade's time, Borders shuttered; Barnes & Noble greatly reduced its presence.

Amazon expanded into DVDs, CDs, Blu-rays, apparel, housewares, video streaming, audiobooks, electronics and more. And while its virtual shelves proliferated, the company's foray into the physical—AmazonFresh, Amazon Locker, drones, jumbo jets, postal carriers out on Sundays—began to take form. It seemed scattered and incongruent, yet all moves were directed with the same

goal: how to perfect the last mile, the final leg in a product's journey to the consumer, with speed, efficiency and customer satisfaction.

"You can't just look at any one thing Amazon does; you have to look at Amazon from 30,000 feet above," says veteran retail and design consultant Gerald Lewis. "They're not confined to online. Rather, online was the way for them to create a convenience channel for customers to buy things at lower prices and in more convenient ways."

Keeping true to its reputation, Amazon officials did not respond to requests for an interview for this feature.

"Everything they do—from technology to logistics to their retail platforms—is all about finding the best way to get products into your home," Lewis says. "So when you look at the brick and mortar they are planning, you have to view this as another laboratory for them to find out how they can ... create a more unique, convenient experience for the consumer."

Virtual Ceilings

CSP's interviews with more than a dozen retail experts, analysts and authors who have spent years seeking to understand Amazon's culture of audacious aspirations and Iron Curtain secrecy uncover a common thread: Amazon's incursion into the arena of brick and mortar underscores a heightened realization.

"Amazon has ... hit a virtual wall," says retail expert Bill Bishop. "A wall of virtual growth. They're only going to be able to push through and push beyond by having some physical presence."

Remember when dot-com haters predicted the demise of brick and mortar? Well, they weren't altogether wrong. Companies such as Kodak, Kmart, Blockbuster, Sears and Blackberry failed to adapt and have shuttered or are a shell of their former selves.

But some brick-and-mortar companies—most recently Best Buy and Kohl's—have adapted to the digital world and, collectively, are 26% more profitable than their industry peers as a result, according to MIT Sloan research. Wal-Mart Corp., Bentonville, Ark., has mirrored Amazon in its mission to wed digital and physical for last-mile perfection, launching a grocery pickup service that covers more than 100 markets.

And that's not all. This mainstay of old-world retail has opened a new store prototype: Wal-Mart Pickup With Fuel.

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n 4,000 square feet, Wal-Mart Pickup With Fuel allows customers to fill up their cars, grab a coffee, snack or other convenience item, and retrieve their online grocery order—filled online and fulfilled at a nearby Wal-Mart Supercenter.

Both Wal-Mart and Amazon closed 2016 with flashy small-format store openings, creating a battleground for the world's two biggest retailers, fought on c-stores' turf, with the convenience industry stuck between the crosshairs of these two giant competitors as they set their sights on the other.

Bishop, chief architect of Brick Meets Click, Barrington, Ill., believes Wal-Mart has laser focus on its digital foe, "but it's not true the other way."

Richard L. Brandt, author of "One Click: Jeff Bezos and the Rise of Amazon.com," doesn't fully agree. He believes the trespass of Wal-Mart and others into the digital space has unnerved Amazon and shaken the world's largest e-commerce company from its perch.

"I am surprised that Jeff Bezos is doing this," Brandt says. "Certainly he wants to deal with the threat from Wal-Mart, and they're going in this direction."

Former Amazon executive John Rossman is much more optimistic than Brandt, convinced that Amazon will do what it does best: pioneer, test, analyze, incubate and scale.

"Grocery retailing is something I think Amazon will excel in, by creating a scalable experience based on store by store, region by region that reflects what the customer in each market and demographic wants," says Rossman, author of "The Amazon Way" and managing director of Alvarez & Marsal, New York.

During a late-fall interview with *CSP*, Rossman played soothsayer when he predicted Amazon would launch an urban retail footprint aimed at a more affluent population and engineered by cutting-edge payment and fulfillment technologies.

He envisioned a store in which customers not only buy what's in front of them, but also can order items from AmazonFresh and Amazon.com via phone and in-store touchscreens and have items delivered to their homes, an Amazon Locker or another nearby Amazon store.

"Amazon will have different platforms to reach customers than most retailers don't have. They have multiple touchpoints that are integrated," he says. "They will have all of their fulfillment capabilities at their disposal, and they will be patient until they have something that they believe is scalable."
"I think they will be successful."

And if action is any indication of success, Rossman is right. Days after *CSP's* [exclusive interview](#) with the author, Amazon revealed its latest physical store iteration with

the opening of tech-focused and convenience-heavy Amazon Go.

When Rossman heard about Amazon Go and how closely he'd hit the mark on Amazon's retail strategy, he said his "jaw hit the floor." What most surprised him hints at what has been conventional retailing's differentiator all along: the physical shopping experience.

"I'm not surprised because this is just what Amazon does: They leverage the best of computer and data science, tie it to a great customer experience and challenge traditional business practices," he says. "My jaw hit the floor because it appears to be such a great customer experience and offers Amazon a competitive advantage. "It will be interesting to see if and how they find a way to allow other companies to leverage this type of capability," he says. "Will this, over time, be a solution they allow others to take advantage of?"

Grocery Game

But can Amazon really disrupt with touchable tech experiences when it still falls short on key brick-and-mortar fundamentals? A look at its grocery game offers insights.

In the summer of 2007, Amazon started selling something it never had before: groceries. It was a radical departure from its shelf-stable empire. It was also a natural extension for a retailer that would eventually come to be known as "the everything store."

While some conventional grocers were already delivering directly to homes, Amazon sought to entice digital users to transfer their daily brick-and-mortar routine completely online, targeting metropolitan markets and partnering with specialty stores on local items.

AmazonFresh began delivering to the Seattle area, and after more than five years of testing, it expanded into major population centers. Perhaps reflecting a milestone of scale, Amazon last October changed its pricing for Amazon Prime members to use AmazonFresh delivery, from \$299 to \$180 annually.

But while Amazon's market value has climbed to about \$300 billion, many analysts say AmazonFresh continues to disappoint. While some predicted Fresh would kill the grocery industry, today Amazon holds less than 1% of total U.S. grocery sales. Critics say Amazon's original annual fee scared away many potential customers and violated Bezos' famous statement on Amazon's price advantage: "Your margin is my opportunity."

And there's another impediment.

"People like to 'squeeze the Charmin,' so to speak," says Joe Bona, a veteran retail

designer and co-founder of MosleyBona, Franklin, Mass. “When it comes to fruits and vegetables, they want to pick their own tomatoes and sift through the broccoli. “They’re not known for fresh,” he continues. “Why would someone order fresh from Amazon when they can go to their local supermarket or Whole Foods or Trader Joe’s and get fresh meat, fresh fish and fresh produce?”

“It’s one thing to trust Amazon for toiletries, detergent, canned foods and toothpaste. It’s another to trust them for your dinner and your arugula salad,” says retail expert and forecaster Thom Blischok, visionary global strategist for the Dialogic Group LLC, Phoenix.