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Stock Market Investing Tips, Techniques, and Resources



Which Supermarkets Will Survive?

Amazon.com shocked the investing world by acquiring the high end grocer Whole Foods Market. Which supermarkets will survive as Amazon enters the \$800 billion a year grocery market? *CNN* thinks the move will not work and purchasing Whole Foods will be **Amazon's Waterloo**.

The one sector of the retail market Amazon does not have a significant toe-hold in is the gigantic \$800 billion a year grocery market. That is until now. With the deal to buy Whole Foods, the online retailer now has a small slice of the grocery market (about 1.2%), which is dominated by a handful of firms like Walmart (14.2%) and Kroger (7.2%).

Clearly the large players are worried. The shares of the biggest supermarket chains fell by about 6% when the deal was announced.

So far, the deal has been great for Amazon. Usually acquisitions lose money for big companies. But Amazon immediately gained over \$14 billion on its market capitalization when the deal was announced – that is more than the \$13.6 billion the Seattle based company plans to pay for Whole Foods.

Years ago they taught at Harvard Business School that if you could manage one kind of business you could manage any business. It was that kind of thinking that led Xerox to buy an insurance company and then lose billions of dollars when a hurricane hit the Gulf Coast. Amazon accounts for 42% of all online sales. They have caused the unrelenting demise of bricks and mortar businesses. How will this work out? Which supermarkets will survive the head to head competition between Amazon and the likes of Walmart? And will any smaller operations survive? Interestingly it was the founder of Whole Food, John Mackay, who said that the grocery market will be Amazon's Waterloo.

Are There Good Investments in This Scenario?

Knowing where Amazon's boss, Jeff Bezos, is going to take this project is difficult because what Bezos does is experiment until he finds out what works and then he does more of that while continuing to experiment. It may be that every Whole Foods store will be an Amazon distribution point. The eternal problem for those wanting to develop an online grocery business is the perishability of produce, the fickleness of customers and the labor intensive nature of the business. There will certainly be losers as Amazon takes on Walmart but knowing who and what right is difficult. *The New York Times* sees Whole Foods as **sustainably sourced guinea pig**.

Amazon almost certainly doesn't know yet how exactly Whole Foods will fit into its long-term plans. You can expect it to make few dramatic changes to Whole Foods in the near future. Instead, Mr. Bezos and his team will most likely spend years meticulously analyzing and tinkering with how Whole Foods works. They will begin lots of experiments. When something works, they will do more of that, then more, and then even more. They may take over the world all the same – and, in the process, probably usher in big changes to large swaths of the economy, affecting everything from labor to urban planning – but they'll do it in ways we won't be able to predict now.

What we do know from past history is that Jeff Bezos tends to succeed over time. The stock market saw this when all major grocery chains took a price hit on news of the Whole Foods takeover. Perhaps the ones who should worry are the big stores where Amazon's automation experience will make inroads. And perhaps the smaller, neighborhood-based chains will do just fine as economy of scale will not apply to their businesses so much as proximity and service.

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