The Kroger-Albertsons Deal: Get Ready to Rumble

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Gary Hawkins *has lived his career ahead of the curve, putting him in the right place at the right time to lead the fast moving consumer goods retail industry into the future during a time of exponential technology growth using never-before-available capabilities to innovate the future of shopping.*

His expansive industry view and early insight into disruptive technology makes him a sought-after keynote speaker at conferences in the U.S. and around the world. Hawkins is the author of Building the Customer Specific Retail Enterprise; Customer Intelligence; Retail in the Age of I, and Bionic Retail, along with the Retail Mindsteps Innovation Briefs and White Papers. Hawkins lives in Colorado with his wife Heather, and Remington, their Bernese Mountain Dog..

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Five years ago I wrote about how the Amazon acquisition of Whole Foods would accelerate innovation in grocery retail. And accelerate change it did as Amazon advanced the use of robotic automation in its distribution centers, extended Prime membership benefits to Whole Foods shoppers, expanded the Just Walk Out technology to the company's Go, Fresh, and Whole Foods stores, and more.

More telling, Amazon's takeover of Whole Foods was a wake up call to traditional retailers that their historically slow-moving world was about to be transformed. And while nearly all retailers responded to that call with a flurry of innovation, many have since hit the snooze button.

Kroger's proposed acquisition of Albertsons is destined to be an even louder, 'wake the hell up' alarm to traditional retailers. The merger of the nation's first and second largest traditional supermarket retailers would create a company with over $200b annual revenue in grocery, just behind Walmart. And while Amazon is not close to that in grocery sales, few would argue that the company is not intent upon using its massive resources and technology prowess to transform food retail.

And that's what this is about: *The total transformation of the traditional retail food industry.*

Those three behemoths will be competing for the future and all other retailers will suffer collateral damage. Yes, Kroger, Walmart, and Amazon will continue to focus on leveraging technology into increasing efficiencies and lowering costs across the supply chain. But the real battle will occur in shopper-facing innovation. Each of these companies understands that the exponential growth of computer processing power and big data have fundamentally changed competition. There is a first-mover advantage to companies deploying AI powered capabilities as leaders leverage technology to move up and out the exponential growth curve, creating a growing performance gap vs their slower moving competitors.

Here are four key areas where the troika will concentrate their efforts:

Retail Media Networks: We can expect to see Kroger leverage Albertsons' additional audience into growing retail media revenue fast. The combined company will have an audience of 85 million shoppers across the U.S. and Kroger has unparalleled ability to apply its 84.51° data science to helping advertisers reach their targeted audience, providing full attribution extending from ad viewing to product purchase.

Walmart and Amazon are already heavily focused on diversifying their revenue streams through their respective retail media networks. Amazon, having been at it the longest, already generates an estimated $44b annually through advertising. Walmart Connect, started just a couple years ago, is projected to provide $2.5b in revenue in 2022 and growing fast.

Financial performance: Taking on the $24b acquisition of Albertsons will force Kroger to become even more focused on financial performance, both reducing operational costs as well as growing top line sales.

The application of artificial intelligence and automation to operational capabilities and business processes will power ever-growing cost savings. Gartner has identified that hyperautomation of business processes will help companies lower operational costs by 30%. Lowering operating costs by 30% in a business with 1-2% net margins is game-changing.

Because AI models need to be tuned to the specific application, there is a distinct first-mover advantage. Walmart, Kroger, and Amazon have the resources to apply AI to processes across their enterprises to power ever-growing superior performance.

Many of those AI powered automated processes also generate faster, more effective, decisions especially around marketing and strategic hyper-personalization. New AI, machine learning, expert systems power true strategic marketing personalization at the individual shopper level; something impossible to do with even an army of people. These new capabilities not only make true 1:1 marketing possible, they do so by automating much of the campaign cycle, resulting in faster, more impactful marketing campaigns.

Transforming the shopping experience: Amazon, Walmart, and Kroger have been focused on creating a seamless, comprehensive, cohesive user experience across their digital channels and devices. While some of the larger regional retailers are working to do the same, all other retailers seem to be stuck with trying to integrate and cobble together disparate solutions to try and provide comparable functionality.

An essential part of the shopping experience today is digital, and eCommerce continues to consume retailers' focus and resources. Every retailer is fixated on making eCommerce profitable and that happens by making fulfillment and delivery more efficient.

Walmart is investing heavily in micro fulfillment centers located alongside a growing number of stores, using the store as the fulfillment and delivery hub. Kroger has gone a different route, betting heavily on its partnership with Ocado to build large, automated fulfillment and distribution centers. And Amazon is leveraging its Whole Foods stores and regional grocers like Cardenas to fulfill grocery orders.

Tying together the shopping experience and retail media, Kroger, Walmart, and Amazon are infusing the in-store experience with growing digital touchpoints and capabilities. Digital signage, digital cooler screens, in-store TV, smart cart screens, and more provide additional channels to engage shoppers and display advertising.

Food - Healthcare convergence: Kroger and Walmart each have significant pharmacy operations; Amazon is also a big player in the pharmacy space through its acquisition of Pill Pack. Kroger and Walmart are quickly growing the presence of in-store clinics in their stores. But it is in the digital realm where food and healthcare increasingly converge.

There are myriad companies playing in the nutrition space, from data providers expanding product nutrition attributes to others that recommend foods based on diet, lifestyle, and health concerns. But here again, data and technology are changing the game.

We will see Kroger and Walmart provide guidance to specific foods based upon specific health conditions, prescription drugs, and a person's health attributes; personalized food guidance. Discussions are already happening tying these capabilities to health insurance providers, using improvements in food consumption to lower claim costs and improve outcomes.

So what are retailers to do?

Now more than ever, retailers need to think strategically. Even the largest regional retailer, Ahold Delhaize USA, is but a fraction (~25%) of the size of Kroger-Albertsons or Walmart. While smaller retailers can - at least theoretically - move faster and be more nimble when it comes to reinventing retail, Kroger, Walmart, and Amazon have massive resources. And scale counts when it comes to innovation.

Retailers of any size must understand the competitive landscape they now face: The three retail behemoths, online marketplaces like Instacart, the big drug store chains competing for pharmacy and expanded healthcare offerings, and convenience stores and dollar stores growing their fresh food selections.

But then overlaying the competitive landscape is digital transformation. Where are each of the primary competitors focused? What technologies are they leveraging?

Realizing that no one has the resources of Amazon, Walmart, and Kroger, competing retailers must then think through and develop a strategy and roadmap to focus their own innovation initiatives. And evaluating new capabilities should involve more than just looking at a projected ROI to dictate investments. More and more, retailers need to be driven by fast-changing shopper expectations.

Lastly is developing an innovation process. Having visited and spent time with the innovation teams at Kroger, Walmart, and Amazon, I give great credit to each company for having a disciplined and comprehensive approach to new innovation. In contrast, I see far too many retailers chasing after the latest shiny object or new technologies featured in the trade press.

An innovation process should encompass 1) discovering new capabilities, 2) understanding the benefits and implications of new capabilities, 3) a methodology to quickly test or pilot new innovation, and 4) a process to deploy new innovation as quickly as possible across the organization.

But here's the kicker: Traditional retailers are simply not structured to do this; Innovation - especially ever-faster innovation - is not in their DNA. As I wrote about in my last Retail Mindsteps article, The Retail Culture War, the defining battleground as innovation escalates, is a company's culture. Amazon, as a true digital native, naturally focuses on hiring people with the right mindset (skillsets can be taught), expects everyone across the organization to innovate (not just the CIO), and has a fail-fast philosophy.

Walmart, in part through acquisition of digital companies, has done a commendable job in morphing its traditional culture towards more of a digital native. And Kroger, by bringing in digital native executives, is also moving the right way. Too many traditional retailers though fail to adopt a true digital-first culture.

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The innovation sparring triggered by the Amazon-Whole Foods deal was the warm up. Kroger's acquisition of Albertsons rings the bell to start a bare-knuckles brawl using innovation to create the future of retail.

I'm sure many traditional retailers will sit back, expecting the Kroger-Albertsons merger to be derailed by the government anti-trust reviews. And that may be, but expect to see increased M&A activity across the mid and independent markets as regional and smaller retailers combine to seek scale and efficiencies.

Regardless the outcome of the proposed merger, Kroger's play marks the start of ever deeper and ever broader transformation and disruption of the fast moving consumer goods industry.

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