



The Blob

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Steve McQueen starred in a 1958 classic sci-fi movie called *The Blob* in which his hometown is engulfed by a gelatinous alien life-form. Were he alive today, he could reprise that role and simply rename it *The Amazon*.

Such is the pervasive fear in Australia about the impending arrival of the giant American online logistics supplier of everything, that the mere mention of its name is sufficient to wipe billions off the value of all manner of companies listed there.

Shareholders are running scared as the gooey blobazon oozes into the collective investment conscious.

First to be consumed, apparently, are the retailers that sell products under 3kg (or thereabouts) that can be easily supplanted by the superior delivery prowess of Amazon. Astute readers will raise an eyebrow whilst noting that size category encompasses ostensibly 90% of products sold in stores.

Almost instantaneously, Australian skies will become darkened by a plague of Amazon drones criss-crossing the metropolises depositing small brown parcels at consumer doorsteps within two hours of a button push on a mobile phone.

That takes care of business such as JB Hi-Fi, Super Retail Group, most of Harvey Norman's business and a plethora of other retailers.

But online grocery delivery is actually much more difficult to accomplish than general products due to a variety of factors. So why would Amazon attempt to tackle the hardest part of the retail chain first, especially considering the ubiquity of the incumbents?

If Amazon Fresh is the first point of entry, then the share prices of Woolworths and Wesfarmers (owner of Coles) should be reflecting the new entrant.

But with Aldi already providing a decent amount of competition to the dominant players in fresh food and groceries, then the challenge for Amazon must surely be considerably more difficult?

The Australian supermarket industry has a 7 million square metre footprint head start on any newcomer. Is the market ripe for a different approach to fresh food retailing? How will the suppliers react to approaches from a new buyer that will be seeking large volumes of top quality produce but presumably at very modest prices? Will we see milk at 50 cents a litre instead of \$1?

The windows on the Australian retail industry have been well and truly flung open in recent years. It has taken a very long time for international retailers such as H&M, Zara, Uniqlo, Sephora et al to take the plunge and establish a foothold in this market. While retail profits have bobbed up and down according to economic conditions, margins have often been fat and juicy.

It has taken an age for the internet pricing mechanism to first equalise Australian retail prices with international prices and then to attract the physical presence of some of the big entities to Australian shores. Others like Lidl and Debenhams are still thinking it through.

According to a recent report from Macquarie, the Australian retail market in 2025 could reach sales of around \$450 billion of which online might account for 12.5% or approximately \$50 billion. If Amazon, in whichever form it takes, can snatch 25% of the online retail sales that would represent a nearly \$15 billion bite out of the total pie.

Online penetration of retailers in Australia sits around 7% according to an NAB survey with a wide variation amongst those with a genuine online effort. JB Hi-Fi is one of the few that reveals its actual dollar sales from online at around \$300 million or 5.4% of group sales. Many others laud their online growth rates but give no detail suggesting the amounts are small.

Other invaders like Netflix, Ikea, Google and Facebook have spawned into Australia with reasonable success so it would be foolhardy to imagine that Amazon could not replicate that.

Australians have complained long and loud about the duopoly of Woolworths and Coles dominating the supermarket industry. With Aldi on the scene providing a different service there is more choice in terms of where to shop.

But the online delivery of groceries has so far failed to materialise. Perhaps Amazon will change that and give Australian consumers what they want.