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3 comms challenges for retailers created by the Amazon-Whole Foods deal

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Amid an urgent, high-pressure gauntlet of investor, media, and employee concerns, the battle for perceptions among food retailers has grown more difficult. Here are three reasons why.

Amazon's announcement that it has reached an agreement to acquire Whole Foods sent shockwaves through the retail sector.

> "For anyone in the business of selling, supplying, or hauling groceries, things just got real,"
>
> – Reporter Zlati Meyer, USA Today

While transformational change for the industry may be years away, a new set of expectations has arrived and, with it, a fundamentally changed reputation environment. Amid an urgent, high-pressure gauntlet of investor, media, and employee concerns, the battle for perceptions among food retailers has grown more difficult. Here are three reasons why.

Tomorrow's expectations are here today

Radical disruption has been hovering over the industry for years. However, with Amazon's announcement, the expectation of disruption is no longer viewed as hypothetical; it is seen as imminent. This has dramatically changed the context for the discussion, especially as observers wonder whether Amazon will accomplish with retail the kind of transformational change it achieved with book publishing. Regardless of the status of their business strategies, retailers and their executives are going to be pressed to explain credibly how they intend to compete against Amazon and its commitment to frictionless retail and unrelenting innovation. Amazon's extraordinarily deep pockets and willingness to invest in long-term growth instead of near-term profits are also vital for companies to consider for their own competitive narratives.

These rising expectations will be a particular issue as food retailers report their quarterly earnings this month. Of course, this is something that is already affecting stock prices with top retailers down significantly since Amazon's announcement. In this climate, dips in performance or revenue are going to be judged in a harsher – and potentially activist – light, especially by the financial community. While this could pose big challenges for retailers, opportunities exist for companies that can draw an effective contrast with Amazon, that underscore how they are working to take care of their customers, and that are able to maintain a compelling focus on the strength and resiliency of their own long-term plans.

The call for consolidation is likely to grow louder

The Amazon deal is setting off a wave of speculation about further consolidation in the retail sector, particularly in the U.S. Some of the most successful names in the industry have been mentioned as ripe targets in either friendly or hostile M&A scenarios, as potential acquirers, or both, amid concerns that major companies will need even greater size and scale to compete successfully with the larger players.

With several retailers able to tap into their own significant cash reserves and major private equity firms potentially sensing a profitable opportunity, expect to see this chatter and, ultimately, pressure for mega-mergers increase, particularly if share prices for certain retailers stay below expected levels. (Reports over the past few weeks indicated that two leading retailers and four private equity firms were among the bidders for Whole Foods before the company reached a deal with Amazon). Importantly, the regulatory environment in the Trump administration, while still somewhat untested, is expected to lend itself to further industry consolidation. Great intelligence gathering and risk assessment will be important, and companies will need to have well-thought-through strategies and messages for a range of scenarios.

Perceptions can create real distractions for employees

Over the past few years, several of the largest food retailers have spent considerable time carefully repositioning their operations to compete more effectively. The Amazon announcement has effectively moved the goalposts, creating an enormous potential distraction for employees and their front-line managers. Motivation, recruitment, and retention could become even greater challenges. Questions about the impact that a proposed combination could have on jobs are also likely to make negotiations with unions and works councils more difficult, particularly given the potentially transformational impact of automation and artificial intelligence technologies. To navigate this environment successfully, companies will need to move from the speculative and sometimes emotional to a more fact-based and practical but still inspirational place.

With one big announcement, Amazon has seized the business world’s imagination and thrown down a challenge that put the rest of the retail industry on notice. What it will mean in the long run is anyone’s guess, but the proposal has sparked an urgent reassessment of business fundamentals and expectations that is creating a significant communications challenge for some of the sector’s major players. Certainly, there is risk on the horizon, but with careful attention, clear strategies, and compelling messages in place, there are powerful opportunities for companies to set themselves apart and ahead.

Three tips for retail leaders

1 **Nail your narrative:** Make sure it is credible and compelling given changing expectations;

2 **Prepare for all potential scenarios,** both opportunistic and defensive;

3 **Bring your employees along with you:** keep them engaged and inspired.

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