

Amazon Looks for Expanded Warehouse Network To Speed Grocery, Medicine Delivery

CEO Envisions Fulfillment Facilities as Drone Bases To Deliver Perishable Items in Minutes

By Randy Drummer

Online retailer Amazon could use its growing network of regional fulfillment centers to expand its grocery and pharmacy business, potentially using the warehouses as drone bases to deliver medicine and perishable items like eggs and milk by air in less than an hour.

The Seattle-based company has 58 of its same-day delivery warehouses in the biggest U.S. cities and plans to double that number in an effort to reduce costs and leverage its warehouse system as a "core building block" for increasing its grocery and pharmacy business, CEO Andy Jassy said in his annual letter to shareholders.

"We've been working hard on building a mass, physical store offering (Amazon Fresh) that offers a great perishable experience," Jassy wrote. "However, what if we used our same-day facilities to enable customers to easily add milk, eggs, or other perishable items to any Amazon order and get them the same day? It might change how people think of splitting up their weekly grocery shopping, and make perishable shopping as convenient as non-perishable shopping already is."

Jassy highlighted the potential of Amazon's Prime Air drone delivery service to offer rapid delivery of packages within an hour, transforming the way perishable food and pharmacy items are ordered and received. The new initiative adds to the company's goal of becoming more competitive within the low-margin grocery industry and to boost its foothold in the pharmacy business.

The company has used drones for drug deliveries in such places as College Station, Texas. Amazon has expanded same-day deliveries of prescription drugs to New York City and Los Angeles, with plans to add another dozen cities by the end of the year.

Brick-And-Mortar Setbacks

Amazon's plans to build out businesses such as its physical stores and healthcare have run into challenges as it looks to build its next pillar of growth following the profitable online Marketplace, Prime subscription service and Amazon Web Services cloud computing business.

The company has announced more than 27,000 job cuts and scaled back its office leases around the country over the past two years.

Last year, the company said that it was shutting some Amazon Fresh supermarkets and redesigning others as it retooled its brick-and-mortar grocery footprint.

Amazon recently said it is removing sensor-based shelf technologies that allowed customers to pay for items without going through a checkout stand at its Fresh stores. The company says that it will also not include the cashierless systems in the new Fresh locations slated to open this year.

Recently, Amazon also shut down its two Amazon Style apparel stores, and it has shuttered dozens of other physical locations, including Amazon Books and Amazon Go convenience stores, over the past two years.

However, the company has looked to increase its presence in the competitive grocery industry by rolling out plans to expand delivery to potential customers who are not members of its Prime membership program.

Property Expansion

The company's Austin, Texas-based Whole Foods Market grocery chain plans to open small-format stores across the country to compete with other retailers that are going small, starting with the launch of its first "quick-shop" location on Manhattan's Upper East Side later this year.

In his third shareholder letter since assuming the CEO post from founder Jeff Bezos in 2021, Jassy doubled down on Amazon's plan announced last summer to ramp up the number of regional same-day fulfillment centers it as looks to build on its initial success in trying to get packages to customers faster and more efficiently.

The company's 58 regional delivery centers in the largest U.S. cities have allowed warehouse workers to pick, pack and prepare items for shipment in as few as 11 minutes, Jassy said.

The shift to a regional shipping network from a national hub-and-spoke warehouse model helped the company decrease transportation miles and lower annual shipping and fulfillment costs last year for the first time since 2018.

"The regionalization of our U.S. fulfillment network led to our fastest-ever delivery speeds for Prime members," Jassy told investors during the company's fourth-quarter and year-end earnings presentation.

Amazon's profit surged to \$10.6 billion in the fourth quarter, which the company said is its busiest and more profitable time of year, from just \$278 million in the same quarter the previous year. Revenue rose 14% to \$170 billion for the same time in 2022.