

Costa and Amazon: the retailing revolution

"If you wanted to divert a mighty river into a different course, and all you had was a single pebble, you could do it, as long as you put the pebble in the right place to send the first trickle of water that way instead of this."

Philip Pullman, The Amber Spyglass

The news that Amazon now has over one hundred million Prime customers is an astonishing demonstration of this quotation in operation. From an Initial Public Offering (IPO) in 1997 it has grown to become a massive disruptor of high streets across the world with its highly effective online delivery service.

Notwithstanding that success, there remains a basic human need for face-to-face relationships that social media just can't reach, and Costa seems to have hit that spot so effectively that Whitbread plans to extract its higher value by flotation. Will its IPO herald the same promise as Amazon? However it could be quite the reverse for the Sainsbury's-ASDA merger announced today ..

The announcement by Whitbread last Wednesday that Costa Coffee is to be de-merged from the Group is not just a significant move for Whitbread: it is also a recognition that Costa, which is the UK's market leader and second-largest globally in its sector, not only has considerable latent value but is also meeting a real human need for service.

This latter point is very significant, since it bucks the trend of retail decline over the past few months. We have seen a litany of departures from the High Street, including Toys R Us and Maplin, and the first quarter growth figures last week confirmed the pressure on retail. So why is Costa succeeding where so many others are failing?

Over recent decades, retail businesses have understandably concentrated on sales and revenue. But in the search for retail consumption many of them have overlooked service. Service, and providing an environment for relationships to flourish, is a basic human need, and the care and respect for others that we can share in these places cannot be replicated online. This is because it answers our need for relationship and association.

Two weeks ago this commentary dwelt on the [yearning for a sense of belonging](#) following publication of the ONS report on Loneliness. It was widely covered in the media, with particular focus on the rise in loneliness for young people. The front page headline article in the Times on Wednesday 11 April was 'Bring back youth clubs to help lonely millennials, experts say', and reported that the trade union Unison had said that 603 youth clubs have closed in Britain during 2012-16.

The success of Costa reflects exactly this need, and it shows that there can be a future for high streets under pressure.

However there is another side of the coin, because what we are experiencing is the separation of the two retail roles of service and execution. The announcement from Amazon that it now has over one hundred million Prime customers, eight million of whom are thought to be in the United Kingdom (based on a recent ONS survey), shows that execution belongs with online delivery.

However much we might deplore the pressure on the high street, it is a fact that shop front retailers are increasingly just providing a showcase which people may or may not visit before buying online. There is no point in crying crocodile tears over the demise of the high street while we are at the same time awaiting our next delivery from Amazon.

Instead we should salute Amazon's immense achievement over the past twenty years, reaching a 33% household penetration rate in the United Kingdom. In September 2016, PricewaterhouseCoopers' survey of 'e-commerce using' UK adults confirmed that for 77% of respondents, Amazon had affected their shopping behaviour. That's an impressive hold on the market, and it's deeper still in the United States.

So our focus should be on aligning this great retailing venture with the people that it supplies, not just as consumers but also as shareholders, just as I hope that Whitbread will ensure that there is a public flotation of Costa shares to its customers when the time comes.

Customer share ownership not only builds relationships with existing customers and welcomes new people, but it also helps build a balanced approach to calls for more regulation and taxation. Therefore it both enhances commercial prospects and defends against potential threats.

And in so doing, it helps to embed the free market economy so that it does work for the benefit of all.

It is high time that corporate financiers realise the benefits that genuine share-owning democracy can bring. Too many still regard individual share ownership as an irrelevance and an expense, a distraction which can be bypassed so that the real conversation can go on behind closed doors.

But economic stability relies on stable political environment, and it is people who drive politics: so whether it's the health of high street, a benign approach to online giants, or serving the financial and investment needs of the people, we should enable them to share in equity ownership.

Does the proposed merger between Sainsbury's and ASDA touch the spot? At first sight it looks like a defensive move using sheer size to force down prices and take out some costs. It will certainly hurt suppliers more than consumers, but does it indicate any change in business model to differentiate these two separate needs of relationship service and online delivery? It's hard to detect this from the early statements of Chief Executive Mike Coupe. The challenge from Aldi and Lidl may be acute, but price reduction generally points to a sector in trouble rather than one on the rise: there's not much indication of price reductions from either Costa or Amazon.

But from the equity perspective, at least the merged entity will remain British and listed on the UK market, even if Walmart will own 40%.

plus ça change, plus c'est la même chose ..

Gavin Oldham

Share Radio