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## FOOD & BEVERAGE UPDATE:

# Amazon and Whole Foods -- Changing the Beer and Wine Distribution World

By Edward H. Brown

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June 16, 2017, Amazon announced that it was acquiring Whole Foods Markets and its approximate 440 stores just in the United States. It has been no secret that Amazon has been interested in entering into the grocery business, including the sale of beer and wine. In March 2017, Amazon began delivering beer and wine in Cincinnati and Columbus, Ohio through its "Prime Now" program with plans to expand this service to additional markets. The instant delivery business, though, requires a fulfillment center reasonably close to the consumer, and, combined with state by state restrictions on shipping beer across state lines, it has been unclear how they would be able to effectively compete on a nationwide basis.

The acquisition of Whole Foods will change the game. By acquiring Whole Foods, Amazon immediately becomes a major beer and wine retailer. Whole Foods had previously announced long-term plans to expand to 1,200 stores in the United States, and it would not be surprising for Amazon to follow through with this plan. By combining the Prime Now program with one thousand or more retail locations, Amazon has solved the both the problem of how to ship across state lines as well as the proximity to the consumer challenge.

Amazon's ability to deliver the product at a highly-competitive price through retail locations near the consumer will have a direct impact upon retailers throughout the country who have yet to deal with competition from Amazon. While retailers have long competed against Wal-Mart, Costco and other big box retailers, the Amazon/Whole Foods combination creates a substantial new challenge by combining price and delivery services (where permitted by state law).

While many states have been relaxing the regulatory restrictions on the sale and delivery of beer to benefit local suppliers and retailers, will states start to fight back to protect their retailers from this new form of competition? What impact will this change in the retail market have on the three-tier system? These are questions that will be answered over the coming years.

It is doubtful that beer distribution was the driving force behind the acquisition of Whole Foods, but it will have a material impact on the industry and the relationship between the three tiers.

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