



EXCERPTS OF RECENT MEDIA COVERAGE

CONSUMER BUSINESS PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2017

WALL STREET JOURNAL FOR AMAZON, NOW COMES THE HARD PART

By Julie Jargon, Annie Gasparro,
Heather Haddon

With Amazon.com Inc. wheeling sharply into the grocery aisle, the business of selling food may never be the same...

Amazon's agreement to buy Whole Foods Inc. could add to the saturated market as it puts more of its own groceries into the distribution system, while putting new pressure on grocers to figure out how to sell fresh food online lest the web giant beat them...

Amazon and Whole Foods combined still have a small fraction of Wal-Mart's share of groceries. And Amazon faces a "last mile" logistics problem of getting fresh food to doorsteps that it doesn't with other goods...

The days of shoppers filling carts during a big weekly trip to their neighborhood supermarket appear over for now...

Grocery sales last year barely budged from 2015 levels, after rising a bit more than 2% in each of the previous three years, according to market-research firm Nielsen...



Consumers want "convenience, selection and the right price and they want it now," said **Natalie Kotlyar, head of the consumer business practice at consulting firm BDO USA.** "Everyone is trying to meld those concepts to create the perfect shopping experience."

E-commerce has been tough to crack for the more-than-\$700 billion grocery sector because selling food online is inherently complex. Last year, online shopping accounted for 2% of the sector's sales, according to consulting firm Kantar Retail...

Now, the more-than-460 Whole Foods stores across the country give Amazon access to the kind of refrigerated distribution system its regular fulfillment network lacks, all while tapping into the upmarket natural and organic foods market that it has barely touched...

Fresh-food logistics

While Amazon could put pressure on others to step up their e-commerce game, it has struggled for years with a logistical challenge in fresh food that it doesn't in books and electronics...

There were more than 262,800 stores selling groceries in 2015, up 17% from a decade earlier, according to an analysis by



BDO has been a valued business advisor to consumer business companies for more than 100 years. BDO's dedicated, partner-led teams provide a comprehensive range of assurance, tax, and advisory services to Fortune 500 companies and entrepreneurial businesses alike, both domestically and overseas.

the Willard Bishop grocery consultancy. "There are so many places to food shop and there's not an infinite number of consumers," BDO's Ms. Kotlyar said. "All of these different stores are just splitting up the shoppers among themselves."

Recent commodities deflation has forced grocery stores to slash prices on such staples as milk, beef and eggs. Labor costs have risen, applying further pressure to profit margins...

Amazon, which first entered the food sector several years ago with dry groceries via its website, has slowly built its Fresh grocery-delivery business over years by targeting cities where it already owns large warehouses in part to avoid the need for refrigerated trucks. Still, Amazon has faced the same problem others have: Many consumers have been slow to buy produce and fresh items online.

Amazon has tiptoed into the brick-and-mortar grocery-store business this year, opening two Fresh Pickup stores

in its hometown of Seattle and has explored various ideas for other types of grocery stores.

But Amazon's deal to buy Whole Foods for \$13.7 billion, including debt, may help close a gap in its offerings...

Amazon's 'last mile'

The migration online for at least a portion of grocery purchases, led by Amazon, almost certainly means a further shakeout in the industry. The online grocery industry could grow into a \$100 billion business over the next decade, according to Nielsen and the Food Marketing Institute...

Chains that don't adapt quickly to the changes in consumer behavior and business dynamics won't survive, say analysts, who, along with some supermarket executives, expect more consolidation in the coming years and predict more grocery stores will close.

BI INTELLIGENCE

LEGACY RETAILERS ARE PAYING BIG FOR E-COMMERCE PUREPLAYS

By Stephanie Pandolph

Legacy retailers have been struggling to maintain sales amid falling foot traffic and a shift to online shopping. In an effort to remain relevant in this digital landscape, many of these companies have been purchasing e-commerce pureplays to boost their online presence.

While the number of M&A deals for e-commerce startups dipped in 2016, the total capital spent on these acquisitions increased by approximately \$6 billion. In a recent conversation with BI Intelligence,



Lee Duran, national leader for BDO's Private Equity and Venture Capital Practice, and Natalie Kotlyar, leader of BDO's Consumer Business Practice,



attributed this trend to the growing number of legacy retailers that are using acquisitions to gain an edge in e-commerce.

Interest from strategic buyers like Unilever and Walmart is driving up M&A prices and resulting in more megadeals (valued at over \$1 billion).

- ▶ Unilever acquired Dollar Shave Club for \$1 billion in June 2016, bringing on a high-growth company with a knack for direct-to-consumer marketing.
- ▶ Walmart purchased Jet.com at an almost \$2 billion premium over its valuation of \$1.35 billion last September. This afforded the company not only a hefty online player with a millennial customer base, but also access to Jet.com's tech-savvy staff. In



fact, the retailer brought on Jet.com's CEO, Marc Lore, as head of e-commerce. Moreover, Walmart has had a string of strategic acquisitions in 2017, helping it to grow online sales 63% year-over-year (YoY) in Q1 2017.

This trend is expected to continue through 2017 as legacy retailers seek to expand tech capabilities through e-commerce acquisitions. In a separate report by AT Kearney, 67% of more than 100 global C-suite executives surveyed said they expect M&A to accelerate. Moreover, there's approximately \$200 billion in pending retail M&A transactions still leftover from 2016 and several megadeals, including Petsmart's acquisition of Chewy.com for \$3.35 billion, have already been announced this year.

RETAIL DIVE

AMAZON OUTSHINES EXPECTATIONS WITH EIGHTH STRAIGHT QUARTERLY PROFIT

By Daphne Howland

... Amazon has been setting many investors' minds at ease in recent quarters, all thanks to the steady profits contained in its reports. After reporting earnings, Amazon stock jumped nearly 4% in after-hours trading.

In Q1, Amazon seems to have mitigated its shipping cost problem, which dragged down results in the third quarter last year. That's thanks to growth in Prime memberships (and their attendant fees), particularly in North America...

Of graver concern is that Amazon is increasingly feeling the pinch of competition from a newly ambitious Wal-Mart's e-commerce play as well as other traditional retailers boosting their e-commerce sales, Saunders said...

The first quarter already indicates a slower pace of growth for Amazon, according to Saunders. That will continue to challenge Amazon in North America, and it puts more pressure on the company to address its weaknesses.

Much of Amazon's strength will be found abroad, **Natalie Kotlyar, consultancy BDO's consumer business practice chief**, told Retail Dive. "Obviously they're looking to grow their international sector because the real way to grow is internationally. There's certainly a lot of investment going into India, and they're focused there given the sheer size of India and the number of people there. Amazon seems to fully invest in a venture that they feel will be profitable, and given the potential in India, they're going in full force."...

But Amazon is in something of a catch-22: The e-commerce giant may need international expansion to balance slowing demand at home, but it needs strength at home to cover the expenses of investments abroad. Amazon's Echo devices — its Alexa voice assistant and

new "Echo Look" video technology — will enable such efforts, Saunders said....

When it comes to grocery — into which the company appears to moving full steam ahead with pilot brick-and-mortar stores — Amazon is entering more of a quagmire, a difficult retail sector beset by thin margins and complicated operations.

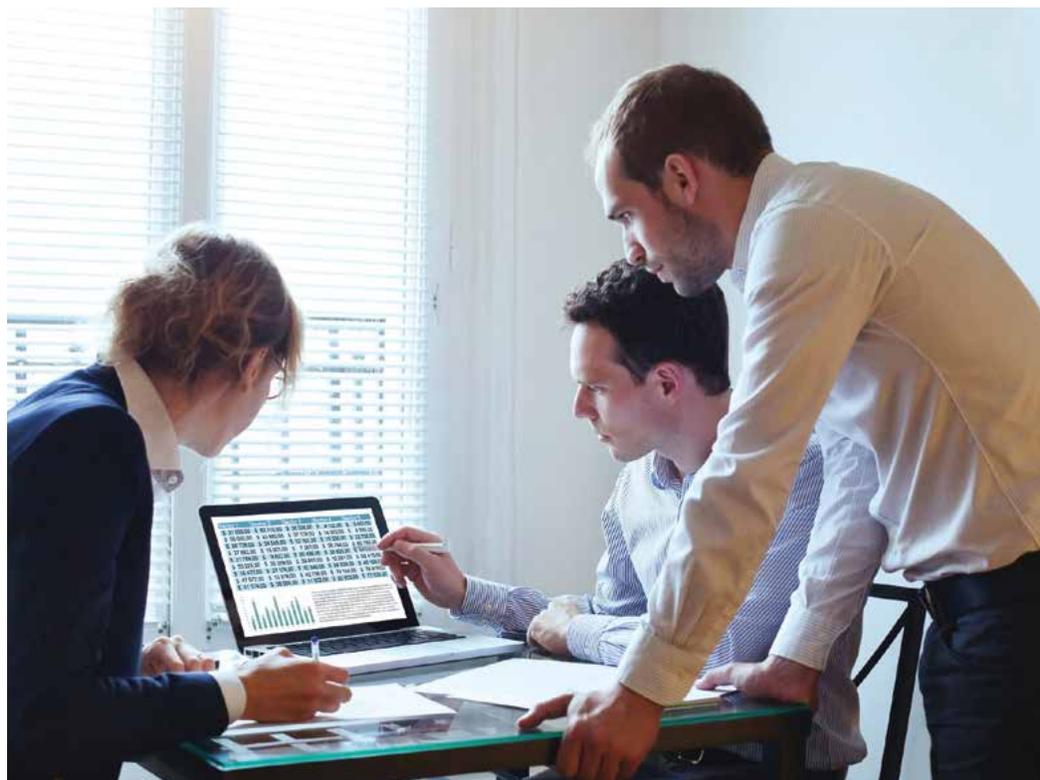
FRANCHISE TIMES

FOR EVERY QUERY, BIG DATA HAS THE ANSWER

By Beth Mattson-Tieg

Big data, analytics and the Internet of Things are creeping into all aspects of business operations these days from staffing and inventory management to real estate and social media strategy. Many franchisors are finding it is time to jump on the trend or risk getting left behind...

Companies are increasingly harnessing the power of big data and analytics to improve operating efficiencies, cut



costs, boost sales and drive strategic decision-making...

For example, if a restaurant is testing a new menu item, the POS can help to capture sales data to track how customer patterns are shifting. What items are customers shifting away from to buy that new item? How does that new menu item impact sales? Does the average check change?...

People have been talking about "big data" for the better part of a decade as metrics have continued to play a bigger role in strategic decision-making. However, there has been a seismic shift in the past five years with massive amounts of very rich data that is now more accessible than ever.

For example, companies are capturing more data from POS systems, customer cell phones and equipment sensors that can track everything from energy use to customer purchasing patterns.

At the same time, the analytics piece is becoming more powerful to help transform that data into something that is more meaningful and actionable...

Where to start?

Franchisors are at different stages of the learning curve when it comes to embracing and adopting big data and analytics. One of the stumbling blocks for franchisors and businesses is figuring out where to start.



Kirstie Tiernan recommends a niche "starter project," so that operators "are not trying to grab everything." Tiernan, a director

in BDO Consulting's Chicago office who specializes in data analysis and IT consulting, adds starting out very focused allows businesses to dip a toe in the water or have a starting point they can build on over time.

Another big challenge once a company makes the decision to add a new system or new software, is figuring out how to utilize it to its full potential...

A few barriers

Some businesses may be handcuffed by a whole host of things... For example, the franchise system might be built on a legacy model that doesn't allow for any machine-to-machine communication and it could be incapable of integrating with any tools. Some systems go as far as only allowing PDF reports to come out of their POS system. It also can be difficult to get buy-in from people within the company to embrace technology and a new way of doing things...

Other important advice is to avoid using data to simply generate a multitude of reports that people don't have the time or inclination to read. That means making sure "the result is not just a set of 15 reports that needs to be reviewed daily. It is a very targeted answer to the question that was posed," says Tiernan.

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