Negotiation: Acquisition of Whole Foods by Amazon

Name

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Introduction

Over the years, Amazon has been known as a company the holds a remarkable reputation as a hardball negotiator. This kind of negotiation reputation is seen in its acquisition of the Whole Foods. In the $13.7 billion acquisition agreement, Amazon established various components of negotiation that enabled it to outdo other bidders. The first meeting between Whole Foods CEO John Mackey and Amazon's Jeff Bezos marked the beginning of the negotiations (Anderson, 2017). This emerged as a deal that would place the two companies at benefiting edge. The deal-making process involved a series of stakeholders. The focus of this kind of partnership was based on mutual benefits, which involves a comprehensive analysis of possible options and compromise. This essay focuses on understanding the components of negotiations between Whole Foods and Amazon that led to their signing of an agreement. Similarly, it also explains the strategies that Amazon used to outdo other firms that had interest in forming a partnership with the Whole Foods.

How negotiations ensued to bring out a win-win situation for both entities

The negotiations between the Whole Foods and Amazon on the acquisition of the supermarket company began on May 23. Amazon's initial written offer was $41 per share. According to Amazon, this offer was a representation of the "compelling" value for shareholders (Business Insider, 2017). It further viewed the proposed transaction as a "strategic investment" for Amazon. Meanwhile, the grocery chain was in the process of fielding other potential deals. Four private equity firms, as well as two unnamed companies, approached Whole Foods for the same deals. One of the unnamed companies is believed to be the U.S. supermarket chain Albertsons. Whole Foods was not satisfied with Amazon's initial offer and this forced the two firms to get into a new set of negotiations. In the end, Amazon offered $42 per share, a value that was more than what Amazon was willing to pay.

From the above context, it is noticeable that Amazon used its deep pockets and brand as leverage in convincing Whole Foods to accept a sale process. This prevented any incident of a bidding war. Upon announcement of Amazon's $42-per-share deal price, Whole Food shares traded at above that amount with an expectation of attracting a higher bid (Baskin & Olszyk, 2018). As time elapsed, the grocery chain traded slightly below the price leading to dampened hopes for further bids. Amazon used the strategy of regulatory filing to block any further chances of the auction process. However, Whole Foods still had expressions of interest from four private equity firms and two other companies.

The first company, referred to as Company X by the filing, made a proposal of a merger of equals that valued Whole Foods at between $35 and $40 per share. Pursuance of this process failed as Austin, Texas-based Whole Foods declined to engage in any of such processes (O'Donnell & Hirsch, 2017). Furthermore, Texas-based Whole Foods' Austin refused to solicit for additional bids arguing that Amazon made a very sensitive remark with respect to confidentiality and was not willing to participate in a broader sale process (Baskin & Olszyk, 2018). Having offered the best deal and giving conditions not to participate in a broader sale process, Amazon made a restriction to ensure that it tabled the best offer for the grocery chain. This context shows that the company used both their power of having immense amounts of money as well as the positioned-based power to gain acquisition of the Whole Foods.

In another instance, the other company listed as company Y expressed an interest to explore a commercial relationship with Whole Foods. Some of these commercial relationships included supply arrangement. This negotiation did not involve any aspect of merger or acquisition. O'Donnell and Hirsch (2017) opine that the grocery chain through a pressure from activist hedge fund Jana Partners LLC made a decision not to pursue the course of soliciting for proposals from the four private equity firms since Amazon had made a proposal that was likely higher than the amount a private equity buyer could be willing to pay based on the filing. The bidding price of Amazon, therefore, limited further negotiations for the exploring additional sale of the company.

Seven suitors were vying for buying Whole Foods. The process involved tough negotiations to an extent that the e-commerce behemoth nearly walked away from the deal. Even though Amazon may have been the most preferred deal partner, the negotiation took an unusual fashion. In April 2017, the management of Whole Foods made a new story of the interest of the tech giant in acquiring the grocery chain and the grocery chain's ultimate decision against it (Morrell, 2017). Based on the strategic brand positioning of Amazon, it was considered as the most appropriate partner that would improve Whole Foods' disappointing stock price since 2016. Therefore, the decision to partner with Amazon was not as a result of its immense amount of money, but rather a strategic positioning that would help Whole Foods gain its stability in stock price as well profit. Amazon's financial stability was just but an added advantage.

Amazon's influence tactics during the deal

Amazon used both its power of influence, the power of having immense amounts of money and position-based power to find a common ground with Whole Foods for its acquisition. From the previous section, it is noticeable that Amazon offered the highest bid of initial $41 per share. This valued the company at $13.1 billion. However, Whole Foods declined to this offer. This led to further discussions with six other suitors. These suitors, which include two companies and four private entities did not offer share that could match that of Amazon. In a negotiation, Amazon raised the bidding amount to $42 per share, which was an amount that no any other bidder could meet. This perspective shows that Amazon used its power of having immense amounts of money in finding a common ground with Whole Foods.

The power of influence is also a vital component that Amazon applied in to find a common ground with Whole Foods. Amazon established a system of discussion in which reports or details of the negotiations could not be heard outside the negotiation platforms. From the first time that Amazon showed interest in buying in May, the information on the finer details of negotiations remained undisclosed until the Whole Foods consultant Jay Carney looked into the possibility of the tech giant showing interest in pursuing the grocer (Deloitte, 2017). Even though Amazon was open for a meeting and discussing the way forward in buying the company, Amazon's management used its power of influence to keep the information confidential until the entire deal was complete.

Amazon's power of influence is evident just from the time it made the first written offer of buying Whole Foods for $41 per share. According to the tech giant, the bid was very competitive and using its power of influence it demanded secrecy during the transactions. Amazon used its powers in the global market to threaten Whole Foods that it would terminate the discussions in case of any leak of a rumor of the deal (Anderson, 2017). Amazon's power of influence is further noticed when Goldman Sachs, who represented the company in the transaction, in a separate instance called up Whole Foods' banker at Evercore and echoed for a second time that confidentiality was crucial to a deal. To a greater, Amazon maintained that they would not take part in any multiparty bidding war.

In the negotiation and establishment of a favorable ground for both the two firms, Amazon's position-based power strategy is also evident in this case. First, Amazon positioned itself as the highest bidder limiting the possibility of any other buyout shops to top its price. This led to Whole Foods opting to pursue a deal with Amazon at the expense of other bidders. However, Whole Foods made a counteroffer of $45 per share, valuing the grocery chain to $14.4 billion. Having made an initial very strong bid, Amazon showed their disappointment of the price specified in the grocer’s counterproposal (Morrell, 2017). Using position-based power, Amazon established two opportunities, either replying to the counterproposal or walking away. Amazon used this strategy to offer $42 per share, demanded a swift response and warned against other bidders meddling the process. Amazon used this strategy to make it clear that it would disengage from its efforts of acquiring the company. Whole Foods left with no other option adhered to Amazon’s demands and quietly performed due diligence on the deal for two weeks before the final approval of a merger.

How Amazon’s competitors sized up

The bid to buy Whole Foods attracted various bidders other than Amazon. Two of these bidders were unknown companies, listed at Company X and Company Y. According to Reuters, Company X was believed to be grocer chain operator Albertsons LLC. On May 18, Company X made it clear that its bid would likely range between $35 to $40 per share. In addition, the company expressed that any deal would require “substantial borrowing” (Morrell, 2017). This company was sized up when Amazon made its first bid at $41 per share. This was the highest bid. Whole Foods wanted to sell the company at $45 per share. This value was higher than what Company X was offering and, therefore, this locked it out of the negotiation process.

Company Y’s strategy was to discuss potential supply relationships with Whole Foods. This company was not interest in forming merger. On Whole Foods’ board assessing its competitive position, and historical and projected performance, they found out the company could not continue as an independent public company. Therefore, any relationship other than merging would not be effective in sustaining the company. Morrell (2017) posits that this assessment also involved analysis of the nature of the grocery industry, potential changes and developments in the industry as well attendant risks involved if has to continue as a public independent company. Based on these factors, the management of Whole Foods eliminated Company Y from the list of bidders. The intensifying challenges that the industry participants faced could not be handled by a supply relationship deal.

The four private equity firms also showed interest in Whole Foods. Interestingly, Whole Foods did not engage these firms in negotiations. They had a similar interest in a leveraged buyout of the grocer. The Whole Foods board failed to engage these firms for the fear that there was a high possibility that the talks leak with the involvement of these firms in negotiations (Anderson, 2017). This was against the demands of Amazon, which was at that time the highest bidder. Secondly, the board held an assumption, based on filing, that these private equity firms could not provide any better offer as compared Amazon's offer. Based on these two perspectives, Whole Foods did not engage them in any discussion.

Amazon's negotiation strategy and emotional influence on Whole Foods

One of the most interesting negotiation strategies that Amazon used is showing interest in acquiring Whole Foods but ultimately deciding against it. The management of Whole Foods had been involved in an active discussion on the strategies to improve the grocer's disappointing stock price and profit. This was encompassed by heightened pressure from the activist hedge fund Jana Partners, which had acquired a 9% stake in the company's shareholders. During this struggle to stabilize the company, a media report of Amazon entertaining an interest to buy the company reached Whole Foods' management and an external consultant (Baskin &

Olszyk, 2018). When the Whole Foods consultant made an inquiry call to Amazon's vice president of corporate affairs, Jay Carney, he informed the consultant that he was open for a meeting. Initially, Amazon placed of $41 per share. On a counter-proposal, Whole Foods needed $45 per share. Amazon, in turn, raised the amount to $42 per share and marked that as its highest and final amount. Amazon further threatened to disengage in further negotiations on the same. This negotiation strategy emerges as an emotional influence on Whole Foods to accept the offer as it was the highest bid.

The second negotiation strategy that Amazon applied is the protection of the secrecy of the "highly sensitive" negotiations. It maintained this aggressiveness throughout the negotiation and transaction period. According to Goldman Sachs, Amazon's representative in the deal, confidentiality was a vital component of the deal and the company was not ready to engage in any kind of multiparty bidding war (Business Insider, 2017). This strategy worked effectively for Amazon as it avoided making known to the public the deal until every detail was finalized and the deal signed. Additionally, the use of this strategy limited the potential rise in the number of firms that would show interest and as a result raise the bid.

A vivid aspect of emotional influence is also evident as the negotiations between Amazon and Whole Foods begin. Wholesale Foods CEO John Mackey describes the deal as a blind date and a love at first sight experience. He further narrates that it was a like mutual friend set up on a blind date. The talk took only two and half hours rather than the expected ten hours. According to Mackey, Amazon was an amazing, smart and authentic company that expressed their offer without incredibility. This first perception that Amazon created established an emotional influence that kept Whole Foods management foreseeing a merger with Amazon. The CEO presents the exemplary innovation of Amazon and shows a willingness to merge with it as a way of improving Whole Foods' performance. This emotional influence acts as the backbone of the whole negotiation process.

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