

TECHNOLOGY

Amazon's Living Lab: Reimagining Retail on Seattle Streets

By NICK WINGFIELD FEB. 12, 2017

SEATTLE — On a busy stretch of road in this city's Ballard neighborhood, a curious new grocery store is taking shape — and so begins another effort by Amazon to use the residents of its hometown as guinea pigs.

Workers are finishing up a driveway with a series of parking stalls, protected from the rain by a soaring steel canopy. When the store opens, customers will buy their items online, schedule a time slot to pick them up and pull into the stalls, where employees will whisk orders to their cars, according to documents filed with the city's planning department.

Across town in the SoDo neighborhood, another Amazon drive-up grocery store is under construction. Late last year, Amazon began testing a new convenience-store concept in Seattle, Amazon Go, that uses sensors and other technology so shoppers can check out without having to visit a cashier. And in late 2015, it opened its first physical bookstore in a shopping mall in north Seattle, before expanding to more than a half-dozen other locations around the country.

Amazon's success in online commerce has transformed Seattle by bringing jobs, wealth and an almost insatiable appetite for office space — along with grumbling about how expensive the city is getting. At the same time, the company is putting its stamp on the city by using it as a lab for its expanding array of unconventional experiments in bricks-and-mortar retailing.

While Amazon has never articulated the grand strategy behind its expansion into physical stores, analysts and tech executives believe its goal is to capture a bigger share of some forms of shopping — food being the biggest — that may never move entirely online.

Amazon isn't alone in using Seattle, home to Starbucks and other major retail brands, as a proving ground for new ideas in stores. But it is the main attraction among people focused on innovation in the category.

"I look at Seattle as the center of the retail universe," said Herb Sorensen, a researcher and consultant to brands on shopping behavior, referring to Amazon's activities in the city.

Amazon declines to talk about the drive-up grocery stores it is building here. The most obvious reason the company tries out new ideas in its own backyard is that it makes life easier for corporate leadership to see them in action without having to get on planes. Executives closely scrutinize how customers use new stores and tweak them as they gather data.

"Amazon is a frugal company," said John Rossman, a former executive with the company who is a managing director with Alvarez & Marsal, a business consulting firm. "They don't want to be flying teams around a lot to have them be hands-on with their beta operations and experiences."

Amazon's own technologically demanding employees are an important part of the feedback process. More than 25,000 of them work for the company in Seattle, and many serve as the first test cases for new concepts.

The company opened its first Amazon Go store on the ground floor of one of its office buildings, where employees can buy prepared meals, drinks and snacks. Customers enter the store through a gate with a smartphone app and simply walk out with their goods when they're done.

"Seattle is Amazon's hometown, and experimenting close to our customers helps us innovate and learn faster in the early stages," said Sarah Gelman, an Amazon spokeswoman.

Almost a decade ago, the company conducted one of its biggest local experiments when it started a grocery home delivery service, tinkering for almost five years before expanding the concept to a new city. Early on, Amazon allowed employees and their friends to use the service, which helped provide unvarnished feedback, said Ian Clarkson, then the general manager of the service, AmazonFresh.

Mr. Clarkson recalls a friend telling him that AmazonFresh didn't stock a brand of orange juice her daughter liked. As a result, she said, she wouldn't shop through AmazonFresh since she would still need to go to a supermarket for the juice.

Mr. Clarkson, now the chief operating officer at Varsity Tutors, an online tutoring service, said the comment was an eye-opener. "We've got to be a lot better at that," he thought at the time. "You're losing a basket as opposed to a unit."

Seattle has long been receptive to new ideas in retail. REI, Costco Wholesale and Nordstrom are among the store chains that got their start here. Starbucks opened its first coffee house in the Pike Place Market in 1971.

Like Amazon, Starbucks tests projects locally before exporting them elsewhere. It opened its first Roastery, a high-end coffee bar, in an old Packard car dealership in the city, and plans to open up to 30 more in places as far-flung as Shanghai, New York and Tokyo.

Several years ago, it came up with a new idea for building drive-through Starbucks stores out of recycled shipping containers to promote sustainability, trying out the design just south of Seattle before opening others across the country.

"It's very much a community of early adopters," said Leonard Garfield, executive director of the Museum of History and Industry in Seattle.

One of Amazon's more puzzling retail experiments in Seattle is the Treasure Truck, a roaming delivery truck retrofitted with carnival-style lights and signs, from which customers can pick up items offered during flash sales through the Amazon mobile app. The truck, which seems like the offspring of a billboard and an ice cream truck, has sold wild mahi-mahi steaks, paddle boards and Nintendo game consoles.

Adam Croft, an audio producer for Microsoft, described the Treasure Truck as a "party bus" and said he had bought a drone and a "Star Wars" BB-8 droid toy from it. He has also patronized Amazon's bookstore in Seattle and thought it was clever of the company to require customers to scan bar codes on books with their phones to get prices, which can fluctuate.

"Seattleites will say they hate Amazon taking over downtown, but at the same time when Amazon rolls out something special, after everyone complains about it, the first thing people want to do is go check it out," said Mr. Croft, who says his employment with another technology company doesn't color his views of Amazon.

Not everyone agrees. "I don't use any Amazon services," Sherman Alexie, the novelist and poet, who lives in Seattle, wrote in an email.

Mr. Alexie, who has an office in the South Lake Union neighborhood, where many of Amazon's office buildings are found, believes the company's goal is to replace human workers with as much automation as possible. Amazon has created hundreds of thousands of jobs, but by some estimates has not made up for the positions eliminated by the crumbling of bricks-and-mortar retailers.

The company's growth has contributed to a booming economy in its hometown, where the median single-family home price jumped to \$548,000 last year from \$340,000 five years ago, according to the Northwest Multiple Listing Service.

As much as Seattle residents like technology, some say the population is more representative of the rest of the country than shoppers in other cities.

"San Francisco is ludicrously tech-forward," said Dan Shapiro, the chief executive of a start-up, called Glowforge, that makes a laser cutting device. "What's interesting to me about Seattle is it's about as tech-friendly and prosperous as you can go without being completely off the rails."

James Adams, a principal at 5ive Creative, a design firm in Seattle, put it differently: "We're the most Midwest West Coast city there is. I don't mean that negatively. We're not so coastal. We're not L.A."

Some Seattle retailers are looking at Amazon's local experiments with more bafflement than fear. As owner of one of Seattle's most prominent bookstores, the Elliott Bay Book Company, Peter Aaron should, by all accounts, be terrified of Amazon's bookstore.

But Elliott Bay had record sales last year, and he can't figure out why Amazon, with its size, would bother with the relatively low sales volumes of physical bookstores. Amazon's global book sales are estimated to be in the billions of dollars, which would dwarf the proceeds from an independent shop.

"I know these are very smart people," Mr. Aaron said. "I assume there's some kind of design or plan that makes sense. I can't figure out why they're doing it."

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