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Can Rivals Take Advantage of Amazon's Pandemic Woes? It Isn't Easy

Surge in online ordering overwhelmed Thrive Market; 'It felt like a pick-your-poison moment'

By Sebastian Herrera Follow
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When coronavirus lockdowns sent Americans into a frenzy of panic buying, the bad news came almost as quickly as the good for online organic grocer Thrive Market.

In March, the company that aims to compete with Amazon.com Inc. in the health-food sector suddenly found customers flocking to its site as its giant rival struggled to handle its own pandemic business surge. Thrive notched record sales and membership sign-ups.

Then it buckled. Orders ballooned to five times what Thrive could handle. Delivery times for some customers reached two weeks. About 30% of items were out of stock on some days. To keep delivery times from slipping further, Thrive made the previously unimaginable decision to throttle demand by limiting shopping hours.

"It was excruciating," recalled co-founder and Chief Executive Nick Green. "It felt like a pick-your-poison moment."

Thrive Market, based in Los Angeles, is one of a host of retailers that have spent years trying to compete against the Amazon retail juggernaut. The coronavirus pandemic provided a fleeting window of opportunity. Amazon, overwhelmed by a wave of orders, temporarily reoriented its business toward essential items, leading consumers to begin looking elsewhere.

But capturing that opportunity—and trying to ensure it is more than a temporary blip—brought extraordinary challenges for Thrive and others, demonstrating the difficulty of competing with even a weakened Amazon.

"This truly has been one of the most intense, challenging and dynamic periods I've ever been through," Mr. Green told customers in an April video.

Thrive Market co-founder and Chief Executive Nick Green, right, with co-founder and Chief Technology Officer Sasha Siddhartha at company headquarters in Los Angeles. PHOTO: ALLISON ZAUCHA FOR THE WALL STREET JOURNAL

The pandemic has accelerated the shift to online shopping and devastated traditional retailers, including Neiman Marcus Group Inc. and J.Crew Group Inc., which have filed for bankruptcy protection. Financial-services firm UBS Group AG recently predicted the percentage of groceries sold online will rise from 3% this year to 15% by 2025.

Mr. Green, who is 35 years old, launched Thrive in 2014 with three partners. Its goal is to offer consumers the kind of natural and organic food products sold by Amazon and its Whole Foods Market unit at what Thrive says are wholesale prices. The Costco-like membership-based company takes orders online and promises delivery within two to three business days for most orders. Suppliers send goods to warehouses in Indiana and Nevada, where they are sorted and packed by Thrive employees and delivered throughout the contiguous U.S. by FedEx Corp. and regional delivery firms.

Mr. Green calls Thrive the "un-Amazon" because, he says, it offers a curated selection of merchandise. Early on, many reluctant investors had the same question: How would it compete with Amazon or Whole Foods Market?

Mr. Green was betting that consumers would try it out for its carefully selected inventory and competitive prices and stick around because they feel good about shopping there. He also billed the company as socially conscious by adhering to such practices as not offering genetically modified products.

Thrive, which is privately held, eventually raised more than $160 million. It now has more than 800,000 members who pay $60 a year. Although Thrive doesn't disclose sales, Mr. Green said they were in the hundreds of millions of dollars annually.

On March 11, Mr. Green was preparing to leave work when he glanced at a computer monitor showing the company's financial metrics. That day's revenue line shot up like the handle of a hockey stick.

He messaged an executive to make sure there wasn't a bug in the system. There wasn't. Checking CNN's website, he learned the World Health Organization had declared the coronavirus a pandemic. People were buying in a panic.

He kept refreshing the numbers until late that night. They kept climbing.

Thrive, launched in 2014, offers consumers natural and organic food products at what it says are wholesale prices.
PHOTO: LUKE SHARRETT FOR THE WALL STREET JOURNAL

Thrive already had been ordering more from its suppliers, but it wouldn't be enough. "It felt like an alternate reality," he said. "We thought we were preparing for a 10-year flood. Instead, a 100-year flood was staring us in the face."

Days later, the country shifted into lockdown mode. Within a week, Amazon was struggling to meet orders promptly. On March 17, it said it was prioritizing the shipments of medical supplies, household staples and other high-demand products. Toilet paper and many cleaning supplies became unavailable, and shipping was taking weeks for some products. Amazon retooled its website to encourage shoppers to buy fewer items.

A survey by investment bank Jefferies Group LLC showed that almost one-third of respondents said they turned to non-Amazon sites during the pandemic because of delivery and inventory problems.

At Thrive, new paid membership sign-ups in March and April were up threefold from the prior year. But the same problems that plagued Amazon ravaged Thrive. Customers rushed to buy cleaning supplies, canned food and other essentials. A six-month supply of toilet paper ran out in three days. Mr. Green wasn't sure how quickly the company could address the backlog.

Earlier in March, Chief Financial Officer Karen Cate had asked Thrive's supply-chain director to order five times the usual amount of canned goods and cleaning supplies. She left out toilet paper. "If I could go back, I would change that one," she said.

Chief Merchandising Officer Jeremiah McElwee couldn't find flour anywhere. While Thrive had increased its orders from suppliers, he discovered they couldn't deliver. Pandemic buying, Mr. McElwee said, had far exceeded Thrive's demand forecasts. It had to rebuild projections in real time. "There was uncertainty, there was fear and there was anxiety," he said.

In daily Zoom meetings, about 20 senior executives and managers debated how to decrease demand. Some suggested the company stop accepting new members. Others thought closing the online store for one or two weeks straight could solve the problem. "As the backlog grew, the tension grew," Mr. Green said.

In Zoom meetings, about 20 senior Thrive executives and managers debated how to respond to the surge in demand. PHOTO: ALLISON ZAUCHA FOR THE WALL STREET JOURNAL

To some, limiting online store hours seemed a sensible middle ground. Ms. Cate, the CFO, was skeptical. She said she felt Thrive could gain control of its order backlog without limiting members to ordering during working hours. She worried that members who worked during the day—including her daughter, a nurse at a hospital in Pasadena, Calif.—would be shut out.

She relented after seeing internal metrics that showed delivery times would only increase. "OK, I surrender," she recalled thinking.

On a midnight call, Mr. Green and co-founder and Chief Technology Officer Sasha Siddhartha decided to move forward with limiting the hours. They told other executives the next day and instituted the new policies on March 25.

At first, the company had the same time limits on West Coast customers as it did on East Coast ones, even though items from the West Coast warehouse were more readily available. Thrive tweaked the system so that each region's hours would vary depending on the availability of products within those regions.

The stress mounted for Mr. Green, whose wife had just given birth to their second child. He was getting a handful of hours of sleep per night and didn't shave for a month. He stopped working out. Outside of work hours, his time was consumed by his newborn son and late-night emails and calls with executives.

It was difficult to concentrate from his setup in the family's guest bedroom. He took two monitors and his MacBook Pro and set up an office in his closet, placing the equipment on shelves near his T-shirts and jeans. He scrapped a strategic plan and built a new one, staying up one night until 3 a.m. to finish it. The plan re-examined hiring goals and when the company should expand its fulfillment network, among other things, to ramp up faster.

Mr. Green, working long hours from his home computer, scrapped a strategic plan and built a new one. PHOTO: ALLISON ZAUCHA FOR THE WALL STREET JOURNAL

Holding on to customers became harder as Thrive struggled to handle the order influx. Online, customers were threatening to leave over the delays. Members were frustrated and questioned why Thrive was taking on new customers.

Susan Crowe said Thrive Market extended her membership by three months at no charge after she complained about the limited hours. Ms. Crowe said she understands why Thrive experienced problems, but that the company seemed to recover slower than other grocers.

Mr. Green said the company tried to be upfront with members about the problems. On March 23, Thrive began almost daily blogs on its website explaining the length of shipping delays, percentage of inventory that was unavailable and what the store's hours were for the day. Customers said deliveries of products like canned beans and dried fruit were taking about two weeks.

In early April, when shipments from its Indiana warehouse were delayed two to three days longer than the company had told customers, Mr. Green sent an apologetic email to affected members. He told them safety precautions such as social distancing at its warehouses were adding to the backup.

In an April 13 video blog, he told customers he, too, was waiting for his orders. "We know it's not an ideal experience," he said. In another video, he told members he was donating his remaining salary this year to a Covid-19 relief fund the company started.

Customers have mostly been receptive, he said. The portion of shoppers who have dropped their membership before a one-month free-cancellation window has remained at the typical rate of 30%, he said.

Thrive's food products are sorted, packed and delivered throughout the U.S. from warehouses in Indiana, above, and Nevada. PHOTO: LUKE SHARRETT FOR THE WALL STREET JOURNAL

To solve the problems, the executives agreed, Thrive needed to hire more workers. Mr. Green suggested an ambitious timeline. Some executives and managers doubted the company could hire new workers that fast. "We don't have a choice," Mr. Green told them.

By early April, Thrive Market was hiring as many as 30 warehouse workers a day. Using several recruiting agencies, it hired more than 300 warehouse workers in less than two months, adding to the roughly 500 it had. Labor costs jumped 20%.

The company also removed nonessential items such as water bottles and yoga mats from its website to concentrate on delivering essentials like food and cleaning supplies. It tinkered with its fulfillment processes, processing orders for high-demand products in one section of warehouses. It prioritized orders with the longest delivery times. It stopped selling low-demand items in the back of the warehouses, partly so workers wouldn't have to waste time fetching them.

Gradually, the time to process orders moved in the right direction. In early May, Thrive restored 24-hour ordering to all states. Some products remain out of stock. Mr. Green said it could be months until the inventory is back to full capacity.

Gradually, as Thrive hired more workers, the time to process orders moved in the right direction. PHOTO: LUKE SHARRETT FOR THE WALL STREET JOURNAL

Higher costs have reduced the percentage of profit made on orders, Mr. Green said. And the store has had to dip into its cash reserves to pay for a spike in inventory expenses. But the year's revenue projections have risen, and the company is in a strong cash position, he said, although he declined to provide details.

Thrive's goal to reach profitability by the end of 2022 hasn't changed, he said. "With our growth accelerated," he said, "we expect to get profitable even faster."

The company hopes to add a third warehouse to its delivery network by the end of next year. Doing so, Mr. Green said, would allow it to ship packages in two days or less to almost 100% of members, up from 80% now.

The lessons from the pandemic have changed its fulfillment processes. Mr. Green said the company will hold 20% more inventory and will work with a larger number of suppliers. Its technology team plans to roll out improved recommendation functions on the website for when items are out of stock.

Mr. Green said he is aware of the high stakes as Thrive seeks to hold on to the more than 100,000 new members added during the pandemic. Delivery times have shrunk at Amazon, which has pledged to invest $4 billion in meeting customer needs and potential measures for safety and expansion during the outbreak.

E-commerce is "seeing the future now," said Mr. Green. He is betting, he said, that the online habits made during the pandemic will continue.

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