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No Trump Bump for Retail

The retail sector has been the recipient of bad news since the year's start and not even a new president with plans to expand the U.S. economy has changed it. *The Motley Fool* recently explained the economics of a losing battle against the Internet. It pegged the problem as one involving inventory levels: "The goal is to buy enough product so that shelves are stocked and move quickly, but not so much that a retailer has to carry inventory for a long time, or even resorts to discounting." *https://www.fool.com/investing/2017/03/17/retailers-need-to-get-their-act-together*. The same article credits Walmart with the best assessment of inventory needs. Despite that skill and experience, Walmart has seen its inventory turnover stats drop 9% over the past seven years.

Inventory management options are not ideal:

• reduce inventory and run the risk of an out-of-stock situation
• reduce variety of stock on hand and maintain or increase the volume of items in stock
• boost buy-online-pickup-in-store to use space for retail and ecommerce inventory maintenance
• push suppliers to provide fulfillment and risk their inability to meet demand

No one wants excess inventory or too little inventory because of the effects on discounts, returns, inventory write-downs, reduced investment in new products, and missed sales. As *The Motley Fool* says: "The perfect balance is almost impossible to attain."

The shrinking footprint of many retail stores exacerbates a supply chain problem that assists ecommerce businesses. Shoppers use the retail stores as showrooms, are unable to take home what they want, and turn to online businesses that can deliver in two or fewer days. Each missed sale in retail means a net loss in traffic and success. The losses are tallying up.

Jobs Decline

The retail sector lost 30,000 jobs in March per the Bureau of Labor Statistics' report. General merchandise stores declined by 35,000 in March and are down 89,000 jobs since October 2016.

March was not an outlier. February and March together were the worst two-month decline since 2009, according to *Bloomberg*. Job declines make losses in some other industries seem minor. *The Atlantic* reports that: "[D]epartment stores have lost 18 times more workers than coal mining since 2001." *https://www.theatlantic.com/business/archive/2017/04/the-silent-crisis-of-retail-employment/523428/*.

The contrast between the reactions to a loss of coal mining jobs and retail jobs has been notable. Candidates in the last election promised relief for those unemployed due to lost jobs in the mining industry. They said nothing about lost retail jobs.

The Atlantic article explains the difference by pointing to the demographics:

• Geographic Concentration: "Sixty percent of coal-mining jobs are in just four states: West Virginia, Kentucky, Pennsylvania, and Wyoming." In contrast, there is no such thing as a "mall town" that will fall apart when a department store closes or a mall accumulates vacancies.
• Gender and Racial Composition: *Slate* Chief Political Correspondent Jamelle Bouie tweeted that the demographics of the two industries explain the difference in attention given to job losses. "Coal mining is still 95 percent white and 95 percent male. Department store workers are 40 percent minority and just 40 percent male. The emphasis on work that is white, male, and burly may represent an implicit bias against the working class of the modern service economy, which is more diverse and female."
• Breadwinner Potential: Despite their physical risk factors, mining and manufacturing jobs represent higher wages, union benefits, and a middle class income for individuals unlikely to have the education or training to command better jobs, pay, or benefits. In contrast, retail jobs may be taken by people with similar backgrounds, but for minimum wages and bare-bones benefits.

Economist Michael Mandel estimates that for every job lost in a physical retail store, since the Great Recession began, the ecommerce sector has created at least seven new jobs, principally in large fulfillment centers in warehouses. These new jobs appear to offer better incomes. Of course, even if this is the case and ware-

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Short Takes

Wal-Mart Stores Inc. has a new twist on delivery of items ordered online. If customers buy online and pick items up in the store, Wal-Mart will discount items' prices. The discount will apply to 10,000 online-only products. President and CEO of U.S. ecommerce, Marc Lore, recently blogged that 1 million products could be eligible for the new "Pickup Discount" by June. He offers an appealing pitch for the company's latest "low price" program. Wal-Mart creates efficiencies in its business so it can share the savings with its customers.

Internet Retailer likens the new Wal-Mart offer to variations in online sales terms tested by other companies, including Wal-Mart's new online marketplace acquisition. "The pricing model is similar to Jet.com's Smart Card option, which gives shoppers lower prices if they buy more products or forgo the ability to make returns."

As the company tweeted to customers: "It costs less for us to ship to stores." It is an axiom of delivery metrics that home delivery is expensive. "We can remove the last mile delivery costs (that represent the lion's share of the costs to ship products to customers' homes) . . . ." Lore did not specify the amount of those savings, but Wal-Mart's willingness to share them produces a trade-off some will find very attractive. *https://www.digitalcommerce360.com/2017/04/11/walmart-will-offer-online-shoppers-discounts*.

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FedEx Corporation reports that lower profit margins on home deliveries as compared with office deliveries have depressed company profit margins. The reason is that an office delivery often involves delivery of multiple items while home deliveries are often of a single package.

The USPS, in contrast, will make multiple deliveries to a residential address on a daily basis. The "last mile" remains a trek only the USPS does daily.

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Williams-Sonoma, Inc. recently announced release of its first Tango Augmented Reality (AR) application, as well as 3d room design and product visualization tools for use by Pottery Barn. Operable using a smartphone, the new AR app is powered by Tango technology from Google. The app will work with Lenovo's Phab 2 Pro and Asus Zenphone AR, among others. As the rollout begins, customers will be able to visualize a Pottery Barn-inspired living room. Additional rooms will become accessible as the roll-out continues.

Customers can integrate Pottery Barn items into their existing décor or empty the room and begin anew. Furniture, rugs, lamps, upholstery, and pillows are just some of the products to be viewed. Angles, close-ups and other effects can be adjusted, too.

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Prospects for avoiding a government shutdown will be evaluated this week as Congress returns from recess and uses the week to make progress on funding the government. Its failure to repeal and/or replace Obamacare, some strong turn-outs for Democratic candidates in early congressional races, and continued anger directed at GOP representatives at meetings with constituents may signal fissures in the relationships between the GOP-controlled White House, Senate, and House.

POLITICO's Morning Money newsletter of Apr. 7 reported that shutdown could be averted because, "The conservative House Freedom Caucus has so much leverage with the Trump administration that they won't likely force a government shutdown over disagreements to a proposed spending bill, the Freedom Caucus chairman said . . . ." That was two weeks after the legislation to repeal Obamacare failed to curry enough GOP votes to pass. All need to watch to see how the party unites to avoid what would be an intensely negative split on spending.

The White House announced last week that it would provide federal agencies with guidance that details contingency plans in the event of a government shutdown if Congress fails to pass a spending bill ahead of the Apr. 28 deadline, *The Washington Times*.

This guidance is expected to resemble guidance given by the Obama administration back in July 2016. House and Senate legislators began negotiations some time ago, but several provisions remain unsettled such as President Trump's proposed U.S. border wall with Mexico, multi-billion dollar increase in defense spending, and payments under Obamacare. *http://www.executivegov.com/2017/04/report-white-house-prepares-for-possible-govt-shutdown-with-contingency-plan-guidance/*.

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houses wages exceed retail wages, that does not ensure that those who lose a job then acquire one.

Another article from *The Atlantic* attributes some of the reduction in jobs to changes in minimum wage laws and a tight labor market in other fields. *https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/*.

Bankruptcies Rise

A number of retail companies are in bankruptcy or contemplating it. Sports Authority stores are gone. In bankruptcy are: American Apparel, BCBG Max Azaria, Gander Mountain Co., Gordman's Stores Inc., HHGregg Inc., The Limited, and Wet Seal. In the first week of April, Payless filed for chapter 11 bankruptcy and began closing stores. RadioShack recently filed for bankruptcy relief for the second time in two years. As of mid-April, appliance retailer HHGregg was liquidating online and retail inventories, per *Internet Retailer*. Some predict teen fashion store Rue 21 could be the next to seek protection in the bankruptcy courts. *http://www.digitalcommerce360.com/2017/04/07/the-march-of-the-store-closings-goes-on/*. Another business experiencing cash flow stress is Gymboree Corp. *https://thestreet.com/story/14049565/1/is-the-once-mighty-shopping-mall-vanishing*. American Eagle, Lululemon, Ralph Lauren, and Urban Outfitters all have reported lows in recent months. *https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/*. Restructuring without the relief afforded by federal bankruptcy law are: Kmart, Macy's, Office Depot, Ralph Lauren, Sears, and Staples.

Jeff Gennette, CEO of Macy's, recently gave an interview to *The Robin Report* in which he predicted that retail department stores would have to rethink what makes them successful. This includes right-sizing stores, closing stores, and repurposing what now is retail square footage. In his view, the retail square footage per capita in the U.S. is three times what it is in other developed nations. *Business Insider* reports the U.S. has 23.5 square feet of retail space per person while Canadians have 16.4, Australians have 11.1, and other developed nations come in behind them. *http://www.businessinsider.com/the-retail-apocalypse-has-officially-descended-on-america/*. *Internet Retailer* states that U.S. retail square footage is six times the square footage per capita in Japan or Europe. *https://www.digitalcommerce360.com/2017/04/07/the=march-of-store-closings-goes-on*. Customers no longer want to walk that real estate when they can scan it on screen from their offices and living room couches. Real estate research firm Cushman & Wakefield says retail visits have been declining –falling 50% from 2010 to 2013 alone.

Gennette sees a need for correction to stop retail defection. Personalizing the shopper's experience through omnichannel marketing is key to winning and keeping customers. This requires the store to optimize the number of choices offered to shoppers so they can make a fair assessment of the options without going home to think them over. Stores need to curate entertainment experiences and shopping experiences better, too. Gennette says, "We need a much better and healthier mix of what a store offers besides clothes." In his view, department stores need to become what malls are now. If they offer a multitude of activities under one roof, then they will capture and hold shoppers' attention. "The department store will be the new mall, Gennette says. *http://www.therobinreport.com/the-future-of-department-stores/*.

Others seem to agree with Gennette that consumers are steering their attentions and wallets toward experiences that create memories rather than mall purchases. Apparel and accessory sales are down while spending on restaurants, travel, and technology are up. *http://www.businessinsider.com/the-retail-apocalypse-has-officially-descended-on-america/*. Oliver Chen, an analyst at Cowen & Co. recently told *Internet Retailer* that, "Retailers should 'refocus on customers.'" In Chen's opinion, "Management needs to be fixated on speed of delivery, speed of supply chain, and ability to test, read and react to new and emerging trends." *https://www.digitalcommerce360.com/2017/04/07/the-march-of-store-closings-goes-on*.

Some of Gennette's advice is as important for ecommerce as for bricks and mortar businesses. For example, he sees returns as an issue that should be addressed by developing technology. He points to an 18% return rate for retail and higher than 40% rate for ecommerce and asks: "How much of that is related to not having standard sizing among brands? We can solve that. For example, we could apply technology to let shoppers virtually ID their body, and then show them exactly what product is right for them." *http://www.therobinreport.com/the-future-of-department-stores/*.

In an industry that generally prides itself on offering customers a dressing room for trying on what they want to wear, augmented reality tools might seem a move in a wrong direction, but Gennette and Macy's seem prepared to replace some of their physical footprint with a virtual one.

Stores Closing

In language ordinarily used by meteorologists tracking a winter storm system, *Business Insider* reports that retail faces an “apocalypse” in which “[t]housands of mall-based stores are shutting down in what’s fast becoming one of the biggest waves of retail closures in decades.”It predicts 3500 stores will close in coming months. While closures are expected for a number of businesses, including Abercrombie & Fitch, BCBG, Crocs, Guess, J.C. Penney, Kmart, Macy’s, and Sears, some businesses plan to move mostly or entirely online (Bebe and Kenneth Cole Productions) while others will go out of business altogether (Payless Shoes and The Limited).

Internet Retailer cites a much larger number of store closings by year’s end. It states that Credit Suisse Group AG analyst Christian Buss forecasts that, based on comparisons of closings in 2016 and 2017, 8640 stores might close in the current year. *https://www.digitalcommerce360.com/2017/04/07/the-march-of-the-store-closings-goes-on.* This statistic reflects the fact that 60% of closures occur close to year’s end.

When the largest of these stores close, their departures often trigger changes in rents and other terms for smaller stores in the same mall for as long as the mall lacks an anchor store. *http://www.businessinsider.com/the-retail-apocalypse-has-officially-descended-on-america/.* This spurs mall closures.

Malls Shut Down

Retail Dive reports that “[l]ast year, retail analyst Jan Kniffen noted that a third of malls will close in coming years as over-expanded retailers shutter some doors and e-commerce takes market share.” *http://www.retaildive.com/news/retailers-cut-30K-jobs-in-march/440123/.* Cowen & Co. pegs the number of anticipated mall closings lower—about 20% over the next decade. *http://www.cnbc.com/2017/04/06/heres-how-many-stores-these-retailers-need-to-close.* The mall industry’s C- and D- rated malls are likely to be the first casualties. Many of them are unsuited for transition from empty malls to apartment complexes or other projects. *http://www.businessinsider.com/the-retail-apocalypse-has-officially-descended-on-america/.*

Commercial real estate research firm CoStar Group recently reported that the nation’s store space needed to shrink by roughly 1 billion square feet or shrink rents. Despite such predictions, *CNBC.com* reports that Fifth Avenue commercial real estate rents are rising despite signs that demand has fallen off. “Asking rents along Manhattan’s upper Fifth Avenue edged higher in the first quarter, ending a three-quarter streak of year-over-year declines, according to Cushman & Wakefield’s research arm. *http://www.cnbc.com/2017/04/07/fifth-avenue-rents-creep-higher-even-as-more-stores-sit-empty.* That increase in asking rates was 2.9% higher in the first quarter despite a 4.4% increase in available space. Deals in such situations often involve relief from rent during build-out or dollars for build-out. These are one-time hits for the landlords whereas reduced rental rates would reduce income for the term of the lease.

The pressure on such real estate markets shows that demand for luxury goods has fallen at the same time as demand for many other goods. As an example, Ralph Lauren Corp. says it will close its Fifth Avenue store—the company’s flagship store—because luxury items no longer appeal to youthful shoppers seeking trendy apparel and home furnishings. The Manhattan market also has seen some shrinkage in response to ecommerce growth and opening of some competing shopping areas in Manhattan.

Real rent relief is likely not in the cards for Fifth Avenue stores. Despite the store closings and impact of online competitors, the steady foot traffic to the area keeps the floors from falling for retail.

CNBC.com’s report blames the glut of retail space on mall overbuilding. It says: “The number of U.S. malls has roughly quadrupled to 1220 since 1970, while, the country’s population has grown by less than half that amount over a comparable period. And as parts of that population flee towns with high unemployment or other economic or social shifts, the lowest-tier malls have become less relevant.” *http://www.cnbc.com/2017/04/06/heres-how-many-stores-these-retailers-need-to-close.*

Hope on the Horizon

Real estate firm Reis, as cited by Calculated Risk, believes a moratorium on building new shopping centers could do much to correct the current glut of retail property. It will keep the vacancy rate relatively flat. Those least equipped to survive will resort to liquidation to stem losses. Successful properties will seek new synergies with retail tenants and pin hopes on new companies with fresh products and approaches to attracting customers. htt*p://www.retaildive.com/news/report-mall-vacancy-rates-mostly-flat-in-q1.* *The Street* also warns investors against buying into apocalyptic predictions. It says that simultaneously, malls are dying, being reborn in new markets, and “going gangbusters on a Saturday afternoon.” *https://thestreet.com/story/14049565/1/is-the-once-mighty-*

shopping-mall-vanishing.

Some think that the market release of self-driving cars will end up putting more drivers on the road and make mall shopping attractive again. *https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017*. New prospects are weathering the downturn well. Warby Parker, Bonobos, Casper Mattress, H&M, and Sephora are growing their real estate footprints. Amazon.com, Inc. also seeks to open new stores in the coming months. Some market stalwarts remain in a growth stage, including Dollar General. It plans to open 1000 new stores in 2017. What most needs addressing, according to industry participants is a reassessment of how much of the nation's retail space can be occupied by apparel stores. It sounds like shoppers are not the only persons who need to check out their sizes before buying more. Apparel companies need to find their right size as well.

Pitney Bowes Opens Doors

Pitney Bowes Inc. recently launched Complete Marketplace, a program for retailers to access leading marketplaces around the world. For retailers seeking to expand their global sales, the complexities of setting up shop in foreign locales can be a deal-breaker. Pitney Bowes seeks to make market entry easier for businesses of various sizes, no matter the region. Services include localization, site optimization, payments, compliance, and legal. Local teams and partners facilitate an efficient ramp-up of activity.

Critical to success in some expanding markets is participation in a marketplace. Pitney Bowes'2016 Global Online Shopping Study found 65% of online shoppers in China use a marketplace for the majority of their online purchases and 83% use a marketplace to identify new products.

The prospects for successful entry into multiple new marketplaces is facilitated by the Pitney Bowes single platform solution. Learn more at *www.pitneybowes.com*.

Amazon Growth Record

Amazon.com, Inc. accounted for 53% of growth last year with the rest of the industry together providing ecommerce 47% of its growth, per Slice Intelligence's data on email receipts of online orders. Amazon online sales also accounted for 43% of all online retail sales. *http://www.businessinsider.com/amazon-accounts-for-43-of-us-online-retail-sales-2017-2?r=UK&IR=T*. That growth translates into a growing share of several key subsections of the retail market.

Research from One Click Retail (OCR), ecommerce data measurement, sales analytics, and search optimization for global brand manufacturers analyst, released a series of reports showing how Amazon.com Inc. has gained a significantly larger share-of-wallet for everyday household items. This is demonstrated by a combined average year-over-year growth (YoY) rate of 38% on Amazon, compared to the total retail market's combined growth average of 6%, for U.S. housewares, health and personal care, and beauty industries.

As is the case across most traditional retail product groups, Amazon is on track to cause serious disruption to the U.S. superstore, grocery, and drug store channels. According to OCR's "The Amazon Effect" industry reports, which break down specific product groups and compares Amazon's category sales performance to the total retail market's, Amazon far outpaces total retail growth (YoY) in American household purchases. This can be credited to millennials who are spending more than twice as much as other demographics when purchasing household items online.

Housewares

OCR data shows that Amazon's growth rate in Housewares is three and a half times that of the total U.S. domestic market. The Housewares product group proved to be one of the main drivers of Amazon's 2016 success, accounting for 15% of the company's YoY sales growth in 2016. Housewares, including Home and Kitchen, generated almost $7 billion in sales for Amazon in 2016, a significant increase over 2015's $5 billion plus.

Health & Personal Care

Health & Personal Care sales on Amazon are growing close to five times faster YoY than the total domestic market, with significant increases in Nutrition & Wellness (+ 40%), Baby Care (+ 30%), Household Consumables (+ 55%), and Health Care (+ 45% YoY growth). Amazon Prime Pantry's immense growth this year illustrates the success of subscription-based ecommerce initiatives. Items that historically struggled online can now be packed alongside other Pantry items and shipped in a single box, bringing shipping costs down.

Beauty

Despite the fact that total retail market growth of beauty and cosmetics sales in the U.S. is a stagnant 2%, Amazon sales have skyrocketed by 47% YoY. Skincare products and men's products are the drivers behind Amazon's Beauty product group growth. OCR's findings suggest that Amazon's success in this product group is driven by the sale of a very large volume of small, inexpensive items.

The future success of drug stores and supercenters will depend on whether they consider selling on Amazon, introducing their own online sales strategy or choosing to do nothing at all.

"What we're currently witnessing is ecommerce finally beginning to disrupt everyday household products, with Amazon leading the pack," said Spencer Millerberg, OCR's CEO. "Consumers benefit from buying these items in bulk, and having them delivered right to their doorsteps. Our numbers continue to demonstrate just how significant these everyday items are in helping to drive Amazon's exponential YoY growth."

Methodology

OCR uses a combination of website indexing, machine learning, and proprietary software to estimate weekly online sales figures at the SKU level on Amazon. *http://www.prnewswire.com/news-releases/amazon-outpaces-total-market-growth-in-us-sales-of-household-items-300436048.html.*

New Technologies Reduce Costs of Misloading

United Parcel Service, Inc. (UPS) has a new plan for avoiding the misloading of packages with its new UPS EDGE (Enhanced Dynamic Global Execution) program. The program uses data and new technology to enhance operations inside the company's facilities and on delivery routes. The UPS EDGE program's first project is called Preload Smart Scan and will produce error-proof package processing operations to ensure timely delivery and customer satisfaction.

This project will use beacon technology that can work aboard different trucks in the same loading location without interference between the trucks. Preload Smart Scan uses Bluetooth-enabled beacons that communicate with package-scanning devices worn by UPS employees loading packages onto vehicles. The scanners, which read package labels, are programed to know where a package belongs in a specific vehicle. The beacons, meanwhile, send signals that are unique to certain vehicles and their position within the vehicle. The scanners detect those signals. If a package enters the wrong vehicle, the scanner will notify the loader of the error. "This is an important step toward improving accuracy in our operation," said John Dodero, UPS vice president of industrial engineering. "It raises the level of service we provide to our customers. It also makes us more efficient and generates valuable cost savings." And if the solution really can reduce the occurrence of misloaded packages by 70%, those customized beacons will validate the UPS EDGE program.

Misloaded packages waste time and money and can cause UPS to miss its service commitments. Drivers with misloaded packages on board often have to travel miles out of their way to correct the mistakes. But, in locations where the beacons are installed, UPS already is avoiding miles driven to re-route misloaded packages.

UPS's beacon application in a package delivery vehicle required a customized high-tech solution. Off-the-shelf beacons were inadequate due to their broad signal range and the close proximity of UPS package cars during morning loading. Beacon signals bled through the sides of package cars, yielding inaccurate information.

To solve this technical challenge, UPS worked with a vendor to customize beacons for use on delivery vehicles that are parked very close together. The beacons now have a tighter range, rugged design, longer battery life and can be configured to match the exact dimensions of the package car.

Preload Smart Scan relies on a robust set of telematics solutions that UPS continues to deploy across its global network. The customized beacon technology builds on UPS's innovations in big data and the internet of things. In this case, the data UPS collects on each package helps ensure accurate delivery time estimates.

UPS has applied for a patent on the use of beacons in this way. Other companies that pack delivery vehicles in close proximity to one another also may see the benefits of the technology, as might businesses in different industries that need precise location-based services.

UPS beacons will be in 301 U.S. locations this year, reaching a total of 28% of U.S. facilities and 47% of U.S. package cars. UPS also plans to expand the initiative to facilities internationally. *https://pressroom.ups.com/pressroom/ContentDetailsViewer.page?ConceptType=PressReleases&id=1492430555080-811.*

Retail Cheaper than Ecommerce

The repurposing of mall space as a fulfillment warehouse for ecommerce deliveries minimizes the losses resulting from excess retail square footage, but it is not the mose financially beneficial use of the property. *(See BMR 04/24/2017, p. 1.) CNBC.com* recently reported that this repurposing is "typically the most expensive option."

As the news site explains: "Retail consultancy AlixPartners built models for CNBC to illustrate an approximation of the financial differences an apparel retailer might see when selling $100 worth of goods in-store and the same $100 worth of goods online."

What the consultants found was the cost of running physical stores saves money because "the cost of running stores," which are called "'legacy' costs' have long before been built into the cost of goods sold while ecommerce sales involve costs incurred today—such as "'picking, packing, shipping.'" Thus the hypothetical $100 outfit has associated operating costs, like rent, overhead and labor of about $28. In the analysis by AlixPartners, an outfit sold by a retail store for $100 had a $40 cost of the goods, minus the $28 operating costs associated with that unit of clothing. This sale produced a profit margin of 32%.

The profit margin drops if the sale is made online with delivery provided free. Operating costs rise from $28 to $30. These estimates may understate the difference between in-store and online sales. As *CNBC.com* explained, "The higher operating costs in this model result from distribution costs that can be four times higher, and overhead and infrastructure costs that can be three times more than an in-store model." Ownership vs. rental of a fulfillment center/warehouse alters the equation. So does the "'cost for certain corporate functions, associated with running distribution centers like IT and marketing, [which] can be in the tens of millions of dollars in terms of investment.'" Some of the costs not captured include: building and managing "websites, apps, distribution centers, and establish shipping networks or partnerships to fulfill those orders." Software is needed for "order management and tracking, and to show them where inventory may be available (i.e., online only, or available in certain stores)." It costs money to handle supply chain matters such as "online, logistics and IT coordination with shipping vendors like FedEx and UPS, and increased marketing spending for search engine optimization to drive shoppers to their websites."

When the two models are merged for buy-online-pickup-in-store (BOPIS), the seller must absorb cots of two systems—retail and etail. AlixPartners estimates that "same $100 outfit that cost the retailer $40 to buy, now comes with associated operating costs of $37 dollars spread over both the store and web operations, leaving an operating a profit margin of 23 percent."

The analysis rejected several theories offered for treating BOPIS as a way to produce more profits. As the article explains: "It's true that in many cases, stores are considerably closer, geographically, to shoppers than distribution centers, which are often located in less populated areas. But, using stores as distribution centers is the least profitable model. The main reason for the compressed profitability is the cost of double-shipping merchandise. But the retailer would do this if it means keeping a shopper happy by getting that shopper merchandise faster."

As many analysts have noted, picking, packing, and shipping for that last mile to a consumer the "last mile" of the delivery journey costs the most. In the case of the $100 outfit, one must deduct a $40 cost, associated operating costs of $48 when ordered online but shipped from a store, leaving a profit margin of 12%, a full twenty percentage points lower than an in-store sale.

Returns of clothing bought online also are expensive. Returns are three times more likely when items are bought online. Online returns may be six times more expensive than in-store returns. Stores can recapture some of that lost profit by pushing consumers to make an exchange or be reselling items promptly. *http://www.cnbc.com/2017/04/19/think-running-retail-stores-is-more-expensive-than-selling-online-think-again.html.*

What sometimes obscures the economics of repurposing retail space for BOPIS or fulfillment service center operations is that it costs less to form a new ecommerce business than to create a new retail business.

As noted above, many of the costs of operating a retail business are "legacy costs" already absorbed and reflected in retail operating costs. As *Chron* recently noted, "opening a business as an online store is much cheaper than a retail storefront. Unlike a retail storefront, there is no rent to pay or other utility bills directly related to the store, except for web hosting and technical support. You do not have to decorate the inside of the store, purchase inside and outside signage or display units." *http://smallbusiness.chron.com/pros-cons-retail-store-vs-online-store-40789.html.* Once these start-up costs are absorbed, they cease to favor etail.

Briefs

Marketing Dive warns local delivery businesses that drone deliveries may be a hot topic, but the technology is not yet ready for takeoff. While it is true that analysts have gone from scoffing at to scouting Amazon's every move toward drone deliveries of everyday items, the majority of piloting is done in developing pilot programs and not on piloting unmanned drones to customers' homes.

The latest assessment of the technology is that piloting to date has been a series of "publicity stunts" and not a "showcase" of accomplishment. It warns that market usage is at least three years down the road. Regulatory reforms and testing under market conditions will need time to develop. "Operational, technical and logistical details . . . need to be sorted out." *http://www.marketingdive.com/news/why-drone-delivery-still-has-a-long-way-to-go-before-take-off*.

Self-driving cars are an attractive option for millennials who seek cost-effective handling of mobility needs. *BI Intelligence* recently surveyed its readers and learned that a majority of its readers are young and open to the possibilities of using the vehicles. They are willing to buy such innovative technology. "In fact, over half said they would pay more for a self-driving car, and most would be willing to pay up to $4000 extra, " per an Apr. 12, 2017 email to readers.

SiriusXM Radio subscribers know about how Harry's shave club bought a 100-year-old razor factory outside Frankfurt, Germany. *http://www.adweek.com/creativity/harrys-shaving-brand-tells-its-whole-unlikely-story-fun-long-form-ad-175335/*. The co-founders sell their razors directly via an online site to lower costs for subscribers. *BI Intelligence Daily* for Apr. 7 recently reported that Harry's and another ecommerce contender, Dollar Shave Club (now owned by Unilever) have market stalwart Gillette "bleeding." Gillette's market share has fallen from 70% to 54% while the new razors on the block have taken their share from 7% to 12%.

Adweek explains the success of Harry's pitch: "Harry's, headquartered in SoHo, has amassed some 3 million customers, growing twice as fast as the e-commerce shaving category overall, with estimated revenue of $200 million in 2016. It was dubbed 'the Warby Parker of shaving' by *Inc* magazine, an obvious nod to Raider's role in that disruptive, hugely successful eyewear seller."

Retail Dive offers an intriguing introduction to the concept of showrooming by retailers. "Like automotive, mattress and furniture showrooms, the concept stores offer shoppers the ability to test, try and touch the merchandise, then opt for home delivery instead of carry-out. It's an appealing idea for stores looking for a way to reduce square footage, certainly. But not all stores can make the idea work—and not all customers are ready to change the way they shop." *http://www.retaildive.com/news/why-retailers-are-trying-on-showrooms/439990/*.

Think of showrooming for apparel shoppers as similar to shopping by brides on cable TV's *Say Yes to the Dress*. You and your friends meet at something like Kleinfeld Bridal in Manhattan to view the latest fashions and see what suits you (and your posse) for your upcoming dinner at the boss' house. Love it or leave it behind, but enjoy the feeling that the store at which you shop cares whether this will be the first or the latest little black dress you buy. Pressures to "showroom" are strong. *(See BMR 04/24/2017, p. 1.)*

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Cheryl Kettler, Editor 773-580-4165
Kathy Thorne, Publisher 301-528-7777
Website: www.businessmailersreview.com
Editorial email: support@pnmsi.com
Editorial address: PO Box 335
Boyds, MD 20841-0335

POSTMASTER: Send address changes to ***BUSINESS MAILERS REVIEW***, PO Box 335, Boyds, MD 20841.