BUSINESS **MAILERS** REVIEW

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USPS 3Q/FY2017 Financial Results

The USPS reported its 3Q/FY2017 (Apr. 1, 2017 - June 30, 2017) financial results Thursday. The key takeaways are that revenues of $16.7 billion were essentially flat compared to the third quarter last year, after excluding an estimate of the effects of the prior year's change in accounting. As has been the case for the past several years, the USPS cited an urgent need for postal reform legislation and regulatory relief in addition to continuing management initiatives

Service Category	Revenue 2017	Revenue 2016
First-Class Mail	$6,057	$6,479
Marketing Mail	$3,919	$4,069
Shipping & Packages	$4,656	$4,183
International	$657	$618
Periodicals	$347	$370
Other	$1,029	$918
Total	$16,665	$16,637
Change in Accounting Estimate	-	$1,061
Total Operating Revenue	$16,665	$17,698

**Revenue in $ millions*

Revenues Flat

Revenue for the quarter was essentially unchanged compared to the same quarter last year, excluding the effect of a $1.1 billion non-cash change in accounting estimate recognized during the 3Q/FY2016.

Revenue from First-Class Mail and Marketing Mail decreased $422 million and $150 million, respectively, over the same period last year (SPLY), due largely to lower volumes. These declines in revenue for these products were nearly offset by continued growth in the lower-margin Shipping and Packages business, with third quarter revenue increasing $473 million, or 11.3%, over the SPLY in that part of the Postal Service's business.

Volume Trending Down

In the third quarter, letter mail volumes declined by approximately 1.4 billion pieces, or approximately 4%, while package volumes grew by 133 million pieces, or approximately 11%, continuing a multi-year trend of declining letter mail volumes and increasing package volume. Year-to-date, despite growth in package volume, overall volume has declined by more than 3 billion pieces.

"The volume declines in mail are expected to continue due to the ongoing migration from mail toward electronic communication and transaction alternatives," said Chief Financial Officer and Executive Vice President, Joseph Corbett. "To address this trend, we have focused on innovations, including mobile and digital strategies, to improve the value of mail. We must also continue to focus on reducing expenses and improving efficiencies, including adjusting employee staffing and scheduling to match the changing workload."

Expenses

Operating expenses for the quarter were $18.8 billion, a decrease of $461 million, or 2.4%, compared to the SPLY. Expenses for retiree health benefits and workers compensation declined by $869 million and $1.0 billion, respectively, but were partially offset by $1.2 billion in higher retirement expenses largely driven by changes in Office of Personnel Management actuarial assumptions and interest rates.

Net Loss

The Postal Service reported a net loss for the quarter of $2.1 billion, an increase in net loss of $573 million, compared to the SPLY. Controllable loss for the quarter was $587 million, an increase in controllable loss of $35 million, driven by higher transportation costs.

Call for Reform

"The growth in our lower-margin package business is not sufficient to make up for the accelerating mail volume declines," said Postmaster General and CEO Megan J. Brennan. "Our financial situation is serious, but solvable. The continuation of aggressive management actions, and legislative and regulatory reform, will return us to financial stability and enable the Postal Service to

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Short Takes

Office Depot Inc. will offer same-day delivery by early next month in Atlanta, Los Angeles, and the Miami/Fort Lauderdale area, with more cities to be added before the end of the year. This positions the office supply company to compete more effectively with Staples. In June 2016, Staples began offering its Staples Rush service in Boston, Chicago, Dallas, and New York. Staples plans to extend Staples Rush "soon" to Houston, Los Angeles, San Francisco, and Seattle. Staples Rush charges $9.99 and promises orders will be delivered by 7 p.m.

Amazon.com Inc. already offers free same-day shipping to members of its Amazon Prime program in "5,000 cities and towns" on more than 1 million items. Among them are more than 80,000 SKUs in the office supplies category. Amazon offers free two-hour delivery through its Prime Now service on a more limited selection of items for orders over $35. Prime Now is available in thirty-three areas. Prime members pay $99 per year (or $10.99 per month) for the program that includes, besides free shipping, free streaming video, and other perks.

Providing the same-day delivery service for Office Depot will be Deliv, which handles deliveries for some 4000 clients.

"Adding same-day delivery capabilities to our growing in-store pickup and ship-from-store programs allows us to better leverage our retail locations as distribution hubs, and serve our customers faster and more efficiently," says Kevin Moffitt, senior vice president and chief digital officer at Office Depot.

Available delivery windows at Office Depot will be: 8-11 a.m., 11 a.m.-2 p.m., 2-5 p.m. or 5-8 p.m. The store will waive the delivery fee for the time being but has not stated how long that will be the case or what the fee will be when it is charged.

A proposed merger between Staples and Office Depot was dropped in 2016 after the government raised various antitrust objections. https://www.digitalcommerce360.com/2017/08/07/office-depot-same-day-delivery-three-markets/.

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POLITICO's August 7 Influence newsletter reports that: "FedEx has hired Mehlman Castagnetti Rosen & Thomas to lobby on transportation appropriations and "issues related to supply chain management," per a disclosure filing. The shipping giant spent $2.5 million lobbying Washington in the second quarter and also retains Bockorny Group; Brownstein Hyatt Farber Schreck; Capitol Legislative Strategies; Capitol Tax Partners; Empire Consulting Group; Harbinger Strategies; Ogilvy Government Relations; Prime Policy Group; Signal Group Consulting; Squire Patton Boggs; theGROUP; and Van Scoyoc Associates."

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An in-store robot now combs the aisles of three St. Louis, MO, Schnucks Markets, collecting shelf data for further analysis by the stores' managers, *Progressive Grocer* reports. The robots scan store aisles three times a day to see that products are stocked and placed properly. It has been suggested that Amazon might use such a system in its stores *(See BMR 07/31/2017, p. 5)*, and now the technology is in testing by another grocer. Read more at *http://www.progressivegrocer.com/departments/technology/schnucks-tests-robots-handle-out-stocks.*

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Chinese consumers and businesses are ordering more online, producing a 30.7% increase from a year ago, according to the agency the Chinese postal authority. An overwhelming majority of them (98%) originated in China, but 360 million international parcels were delivered in the first half of the year, a 29.2% increase over the same period in the prior year. *https://www.digitalcommerce360.com/2017/08/03/e-commerce-drives-31-increase-package-deliveries-china/.*

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United Parcel Service, Inc. (UPS) will pay $1.7 million to settle a lawsuit alleging that its twelve-month leave policy violates the Americans with Disabilities Act (ADA). The policy allowed workers to take a year of unpaid medical leave without risking the loss their jobs. Once an employee exhausted that leave, the company terminated them. The case, *Equal Employment Opportunity Commission v. United Parcel Service, Inc.*, No. 1:09-cv-05291, was decided by the U.S. District Court for the Northern District of Illinois.

The EEOC challenged the policy for its failure to provide reasonable accommodation to workers dealing with disabilities. While the company defended its policy as being more generous than the Family Medical Leave Act's twelve weeks of unpaid leave, it nevertheless, did not accommodate disability as contemplated by the ADA.

USPS 3Q/FY2017 Financial Results... ***(cont. from page 1)***

maintain the long-term affordability of mail, invest in America's mailing and shipping industry, and best serve the American public."

The Postal Service continues to engage with stakeholders to advance H.R. 756, the Postal Service Reform Act of 2017, through the legislative process in the 115th Congress. The Postal Service's long-term financial stability also depends on the Postal Regulatory Commission (PRC) establishing a new pricing system that enables the organization to generate sufficient revenues to cover its costs.

The PRC currently is engaged in evaluating the USPS postal rate system. Under current rules, the inflation-based price cap or annual rate limitation for most mail services is required by the Postal Enhancement and Accountability Act of 2006 (PAEA), which provides for regular and predictable rate changes for Market-Dominant types of mail. The PAEA specifies that the maximum annual percent rate increase be based on the change in inflation of the prior twelve months, unadjusted for seasonal variation.

As recently explained by Michael J. Ravnitzky in a paper entitled *Postal Price Cap Regulation: United States Experience Since 2006*, "The price cap limits average price increases to the rate of inflation. It is designed to simulate the benefits of competition regulated companies (including traditional monopoly services) operating in a noncompetitive environment but one that may be changing. The effect is to incent efficiency and share the cost savings with ratepayers while maintaining a relatively 'market-based' price structure, with less litigation, regulatory lag, or political interference. It is typically intended to operate for a period of time, typically on the order of 4 - 5 years, before being reviewed for changes consistent with the changing business environment." Such a periodic evaluation is underway now.

Earlier this year, *Federal News Radio* reported that the PRC might raise postal rates to address, in whole or in part, the loss of revenues the USPS experienced when a court in January required the expiration of an exigent price increase in the price of a First-Class Mail stamp. *https://federalnewsradio.com/agency-oversight/2017/05/postal-regulatory-agency-to-conclude-postage-review-this-fall/.* The price of a First-Class Mail stamp rose from 47 cents to 49 cents in January of this year—an increase insufficient to help the USPS meet its obligations. According to the same news report: "During the public comment period of the ongoing rate review, General Counsel David Trissell said that the PRC received more than 70 comments, some of which were received from postal unions like the National Association of Letter Carriers and the American Postal Workers Union."

Back in February, former Congressman Jason Chaffetz (R-Utah) and chairman of the House committee charged with USPS oversight, supported a proposal that Congress enact a 1 cent price increase to address exigencies that the PRC has not. Mr. Chaffetz resigned his position June 30, 2017, leaving in doubt the question of whether postal reform would remain a priority for 2017. The USPS has not given up hope.

Happier Returns at UPS

United Parcel Service, Inc. (UPS) is launching a free online tool called UPS Returns Manager that allows ecommerce businesses to customize return shipments consistent with their policies. The new tool rolls out first in the U.S. and on Aug. 28 in forty-three more countries. Consumers can print return shipping labels directly from *ups.com* tracking (website and mobile) and from e-mail alerts. Consumers have the option of printing return labels at The UPS Store locations at no additional cost.

The new tool eases the burdens on ecommerce businesses, too. Businesses can manage return shipments without having to integrate new technology into their own IT systems. They can use the tool to administer authorized return shipments, set their service level, request a reason for return, and see reports on their shipments. Merchants can even pre-authorize returns shipments for specified accounts. *https://pressroom.ups.com/pressroom/ContentDetailsViewer.page?ConceptType=PressReleases&id=1502194352644-370.*

Outbound and return packages are linked in tracking, allowing for easy association of the two shipments.

The role returns policies play in initial placement of orders is substantial. About 30% of ecommerce orders produce a return, a rate higher than the rate by which bricks-and-mortar purchases are returned. Invesp reports that 67% of shoppers checked the business' returns policy before placing an order; 92% of consumers it surveyed would buy again if the product return process was easy. Only 79% of consumers wanted free return shipping and 67% of businesses already offered that. *https://www.invespcro.com/blog/ecommerce-product-return-rate-statistics/.* Improving the returns process seems helpful both for spurring more sales and holding down costs when returns are required.

Malls' Apocalypse-No

Mall landlords have had it with news that malls are facing an apocalypse because of ecommerce's trouncing of retail. They warn those who would count them out that the best is yet to come. Retailers may be declaring bankruptcy "at a record pace," but *Bloomberg* reports that real estate developers continue to pour funds into the building and makeover of malls. *https://www.bloomberg.com/news/articles/2017-08-08/if-retail-is-dying-why-is-money-pouring-into-malls*.

Financial Wounds

Many of the nation's largest malls are owned by real estate investment trusts (REITs) and they have seen profits decline as the news stories of retailers' demise pile up. Indeed, the latest financial results for some of the largest retailers show continued weakness in that sector. As an example, "Macy's Inc.'s earnings exceeded analyst estimates for the second quarter of 2017 despite sales falling for the 10th straight quarter." The same article went on to explain that the declines resulted from store closings as the company phased out underperforming stores: "The company attributes the decline in sales to the closing of 68 store locations completed earlier this year. That's part of a plan to close 100 stores that are either underperforming or worth more as real estate than they are as operating businesses. The remaining 30 or so locations will close as their leases expire." *https://www.bizjournals.com/cincinnati/news/2017/08/10/macys-earnings-beat-analyst-estimates-sales-fall.html*.

For the same period, Kohl's reported mixed results: "Kohl's Corp. sales fell again in the second quarter, but the decline was the lowest in a year and a half, and traffic in the retailer's stores rose in July." The same report contrasted Kohl's approach to falling revenues with the approaches taken by competitors like Macy's: "Like other department store retailers, Kohl's has struggled amid rising competition from online and discount merchants. While some competitors are responding by aggressively closing stores, though, Kohl's is staking its future on a strategy of maintaining its brick-and-mortar fleet and using its physical stores to help boost online business." *http://www.jsonline.com/story/money/business/retail/2017/08/10/kohls-revenue-falls-second-quarter/555095001/*. Instead of closing stores, Kohl's has pursued a strategy of spiffing up its stores, a strategy that mall operators are interested in, too. "'One of the risks of Kohl's strategy of having more brands was that it could have made stores cluttered and crowded with a jumble of stock,' Global Data Retail analyst Anthony Riva told *Retail Dive*. "'However, the company has done much work around optimizing product mix across its portfolio, including tailoring ranges according to location. The net impact is clearer store presentation, more effective allocation of inventory and a range that is more relevant to local customers. This has elevated the shopping experience, reduced markdowns and improved profitability.'" *http://www.retaildive.com/news/analyst-an-improving-kohls-might-be-poised-to-expand/449061/*.

Because mall owners share that optimism, mall makeovers are underway according to *Bloomberg.* It reports: "Across the country, construction spending on shopping centers topped $1.6 billion in June, the largest amount since 2008 and the Great Recession. Builders have been especially busy working on malls, spending $404 million in April. In nominal terms, that's the second highest monthly total ever according to Census data, coming in behind July 2008."

Turning the Tide

The REITs have strategies for revitalizing malls despite the challenges. As stated by CNBC: "On recent earnings conference calls, many retail REIT CEOs discussed new opportunities being presented by e-commerce players, like thredUP, UNTUCKit, Warby Parker, Bonobos and Fabletics. 'I think it is fair to say that the debate surrounding the death of physical retail is over,' Kimco CEO Conor Flynn said."

Among the strategies being pursued by mall landlords, CNBC says, is a shift from apparel retailers "to food services and lifestyle brands to reduce its risk."

Another strategy CNBC identified is to attract ecommerce businesses to retail. "Companies like UNTUCKit, Warby Parker, Bonobos, Fabletics and thredUP, which all got their start online, are now signing deals with Simon, among other REITs. 'They have all realized that having a well-positioned fleet of stores is certainly necessary and optimal for them to grow their business,' Simon COO Richard Sokolov said on last week's earnings conference call. 'It's going to be a process.'"

Pop-up stores are another strategy for drawing in new retailers concerned about the risks associated with long leases. Short-term leases can make malls incubators for new attractions.

Waves of the Future

Mall operators point to deals between ecommerce and retail businesses as a sign that their fortunes can rebound. Conor Flynn is one of the optimistic executives. "'I think it is fair to say that the debate surrounding the death of physical retail is over,' Flynn said in a call with analysts and investors. 'The Amazon-Whole Foods transaction, Alibaba's growing grocery concept in China, Wal-Mart's click-and-collect . . . program integrated with *Jet.com*, and Target's flex format Express, all point to a vibrant, albeit different-looking retail real estate world.'" He sees malls as offering ecommerce businesses a showroom and a hub within miles of customers' homes. *https://www.cnbc.com/2017/08/07/mall-shopping-center-landlords-are-tired-of-industry-chatter.html*.

Perspective

Bloomberg's take on the threats to retailers and infusion of capital to malls is that this is an old dynamic at work. There is overbuilding and then a pause, followed by some retooling. "For the last two decades, retail development has outpaced population growth in most big metropolitan areas. That's partly due to over-exuberance, and partly in response to evolving consumer demand and competition. Category-killing big box stores like Best Buy Co. or Bed Bath & Beyond Inc. anchored so-called power centers, increasing retail's physical footprint while simultaneously siphoning off customers who would have bought their linens and big screen televisions from traditional department stores."

In this phase of rebuilding, the focus is on offering mall visitors experiential entertainment. "'The major consideration is investment in renovation and renewal of existing assets rather than new ground-up development,' said Sam Chandan, president of Chandan Economics, in an email. 'The experiential aspects of retailing and the provision of services that cannot be replicated through online sales, e.g. a dinner out, are driving investment in mall repositioning.'" *Bloomberg* adds that there also is some relocation of investment. There are areas in which the demand for retail has tapered off, but some communities are growing and their need for malls has grown, too. The mall operators mean to be in those communities, drumming up foot traffic.

Walmart's Designs on Birchbox

Birchbox may be on the market and is reported to be speaking with several parties, including with Walmart, according to unnamed sources of *Re/Code*. *https://www.recode.net/2017/8/9/16111176/birchbox-walmart-acquisition-talks-beauty-subscription-retail-online*. A Birchbox spokesperson declined a request for comment on this "speculation" when contacted by *Retail Dive*. Walmart told *Retail Dive*: "'We are often asked to speculate on possible acquisitions, and we simply don't comment on those types of questions.'"

The prospect of another Walmart acquisition raises eyebrows as the retail giant appears to be making a concerted effort to grow its ecommerce business by acquisition. As *Retail Dive* notes, acquisitions to date include *Jet.com*, ShoeBuy, Modcloth, Moosejaw, and Bonobos.

Retail Dive has a theory as to why Walmart seems in search of something these companies can offer—it needs a brand identity that means something other than big box, parking lots, and grocery carts. "Walmart would also gain the talent and expertise found at Birchbox, which, despite its struggles, innovated the beauty box subscription model and is seeing improvements with a leaner staff. 'The deal makes sense because Walmart desperately needs an operating unit that understands how to build and merchandise a subscription box program,' Fosina said. 'Birchbox is a leader whose understanding both from a marketing and operational standpoint would provide Walmart a 'new brand' and the 'chops' to execute very quickly.'" *http://www.retaildive.com/news/walmart-reportedly-in-talks-to-buy-birchbox/449053/*.

No Corner on Pay and Go

Walmart is introducing a Scan & Go service in several stores that allows shoppers to use a mobile app to scan barcodes of items they want to buy, pay for them using an app with one touch, and show the in-app receipt to an employee as they leave the store—all without waiting in checkout lines and inserting their debit or credit cards at physical payment terminals, *Business Insider* reports.

The new service arguably beats Amazon.com Inc. to the roll-out of a cashier-less store model and will be at more than a dozen stores in Arkansas, Florida, Georgia, South Dakota, and Texas. Customers need to first download Walmart's Scan & Go app to their smartphones.

For shoppers without smartphones, the stores will offer hand-held scanners provided by Walmart. Any customer reluctant to save credit card info in the app also will have the option of visiting a self-checkout register in-store to pay. *http://www.businessinsider.com/walmart-lets-shoppers-check-out-without-cashiers-or-registers-2017-8*.

Amazon Patents another Drone Mechanism

Retail Dive reports that Amazon.com Inc. has filed for another drone delivery-related patent. "Intermodal vehicles" would connect to trains, trucks, or ships to provide loading, launching storage, repairs, and similar functions for fleets of delivery drones, according to a *Business Insider* report. *http://www.businessinsider.com/amazon-patents-mobile-drone-stations-on-trains-vans-boats-2017-8; http://www.retaildive.com/news/amazons-latest-patent-imagines-roving-drone-infrastructure/448815/.* Amazon filed the patent application back on March 16 and describes in it how the trains, trucks, and other vehicles could load and launch drones while such vehicles themselves are in motion.

Toyota-Mazda Focus on Driverless Engineering

Toyota Motors will buy a 5% stake in Mazda and the firms will collaborate to build a $1.6 billion factory by 2021 in the U.S., according to *Bloomberg. https://www.bloomberg.com/news/articles/2017-08-04/toyota-joins-honda-in-raising-profit-forecasts-on-weaker-yen*.

The plan is to have the new U.S. factory produce up to 300,000 manually driven and self-driving cars annually for both companies. The cars will not be the only exercise of robot technology. The factory will be powered by advanced connected machinery, robotics, and other industrial IoT technologies.

As planned, both firms will advance their self-driving car programs and reduce their operating costs in the long run. Replacement of workers with robotics means substantial reductions in operating costs.

Business Insider predicts that "the firms might be able to out-produce competitors and grab a large share of the 2.1 million fully autonomous cars that will be on the roads in 2025." *http://www.businessinsider.com/toyota-mazda-deal-could-provide-self-driving-boost-2017-8*.

It's the News, Dude

Measuring the public's reaction to the self-driving car before self-driving cars are authorized to travel a state's roads takes ingenuity. Washington, DC's NBC affiliate unmasked such a test last week when one of its reporters followed a car that appeared to operate without a driver.

A driverless Ford Transit van was seen around Arlington, Virginia with no human beings in either the driver's seat or the passenger seat. The reporter who observed it also failed to see any lidar sensors mounted on its roof. Lidar is a 3D sensing technology that companies like Google and Apple say is key to autonomous vehicles.

Virginia's state government would welcome development of driverless cars in its state, but a call to its Department of Transportation (VDOT) revealed it did not control and was not aware of the car in question. *http://www.businessinsider.com/driverless-minivan-spotted-dc-area-video-2017-8*.

Adam Tuss, the newsman who followed the car, eventually came up alongside it and observed that the driver was a human disguised as a car seat. He asked: "Brother, who are you? What are you doing? I'm with the news, dude," Tuss said. "Dude, can you pull over and we can talk for a second?"

The anonymous driver sped through a red light to evade Tuss's questions. Tuss did not give up. His report continues: "After multiple inquiries by News4, the Virginia Tech Transportation Institute said Monday afternoon that the van and van driver are part of a study they are conducting on driverless cars. The worker was wearing the uniform he was supposed to wear." *http://www.nbcwashington.com/news/local/Driver-Dressed-Like-a-Seat-Spotted-Inside-Driverless-Van-439041863.html?dfkdsfzhh*r

Back-to-School Bingeing

Retailers are ready for an anticipated $54.1 billion in sales to college bound students—a majority of the $83.6 billion total back-to-school sales expected this year. Back-to-school is the second largest sales event of the year. Channel Advisor offers a primer for ecommerce businesses seeking tips for courting college-bound students and their younger siblings. *The Retailer's Guide to Back-to-School E-Commerce* does the math and offers the language arts needed to make a broad appeal to this growing audience. The report can be downloaded at *www.channeladvisor.com.*

Back-to-college spending, could increase by 11.5% over last year, according to the National Retail Federation (NRF). Target, Walmart, and J.C. Penney know the high stakes and already have a physical presence on many campuses. This puts them in an ideal position for one-stop shopping.

Gen Z students are well-versed in shopping using mobile devices and ready to stretch their dollars as they stock their dorm rooms for the good life. In fact, Gen Z (people born after 1995) have never known a world that was not online. According to *Retail Dive*, the watch words for appealing to this market are "hyperlocalization; instantaneous and innovative delivery; and social media and mobile."

Gen Z may begin making purchases two months out (more than 30%) but also may wait until they get on campus before returning what does not work in their dorms and with the belongings of their dorm roommates.

The NRF has a handle on how much these students have to spend and how they will spend it. According to *Retail Dive*, "College students and their families plan to spend an average of $969.88 on back-to-college items this year, up from $888.72 last year . . . . Most of that will be spent on apparel and electronics. Households will spend about $229 on electronics, $143 on clothing, $134 on food, $106 on dorm or apartment furnishings, $81 on shoes, $81 on personal care items, $70 on school supplies, $69 on gift cards and $57 on college-branded gear, according to the NRF."

The bulk will spend heavily with stores like Target, Walmart, and J.C. Penney, but ecommerce sites, college bookstores, and apparel businesses also do well with Gen Z. The major retailers know how to "hyperlocalize" by offering goods from pop-up shops on campus or close by. Creative delivery methods take into account students' lack of transportation for goods and the constraints some college mailrooms have imposed on receipts of packages delivered by the USPS, UPS, FedEx, or other shippers. The emphasis is not only on innovation but speed. Same-day delivery is critical to some college-bound students.

The other key to marketing to this audience is social media and mobile communication. Students rely on Facebook, Youtube, Instagram, Snapchat, similar sites, and old-fashioned word-of-mouth to gauge their needs and weigh their choices. *http://www.retaildive.com/news/gen-z-goes-to-college-how-to-win-this-back-to-school-shopper/448489/.*

Many of these college-bound students learned their skills from their parents, who also spread their shopping over a number of retailers and e-tailers. Nevertheless, mobile will be important in college-bound students' stocking up for the school year. *Retail Dive* reports that: "According to the NRF's annual back-to-school survey, 43% of consumers plan to use their smartphones during back-to-school shopping — a 10% increase from five years ago." *http://www.retaildive.com/news/how-mobile-is-changing-back-to-school/448267/.*

Despite their tech savvy training—or because of it—research shows that many Gen Z shoppers are reluctant to download apps and rely on them for making purchases. Slow loading is a turn-off according to new data reported by *Retail Dive*. "The majority of Gen Z (60%), the most mobile-friendly generation, will not use an app or website that is too slow to load and 62% won't use an app that's dfficult to navigate, a study by ContentSquare found."

Shopping Methods

When it comes to back-to-school shopping, consumers (including but not limited to Gen Z college-bound students) will search a retailer's website even if they are more likely to shop for general merchandise on the *Amazon.com* website. Back-to-school shopping is one seasonal crush for which no one business rules.

An exclusive *Internet Retailer* and Bizrate Insights survey of 1090 U.S. consumers conducted in July confirms the fact that consumers will spread the wealth this season: "Among those 1090 consumers, 292, or 26.8%, say they plan to buy back-to-school items this year. Of this group, 37.0% say they will begin their online search for back-to-school items on *Amazon.com*, 32.2% say they'll start on *Google.com* and 24.6% say they'll go to a specific retailer's website. The remaining respondents answered 'other.'"

In contrast, an *Internet Retailer* survey of 515 U.S. adult online shoppers in December 2016 found that "52.5% of shoppers start their online product search on Amazon, 38.8% go to Google and a paltry 3.9% start on a specific retailers' website. The remaining respondents started their shopping quest in other places."

This means that the seasonal school supply and other product bingeing is spread over multiple stores rather than locked up by the leading site—Amazon. *https://www.digitalcommerce360.com/2017/07/31/non-amazon-retailers-can-win-back-school-shopper/*

. Amazon is ready for students. In the first weeks of the season, Amazon's back-to-school sales grew 35% over last year, surpassing its 9% jump during the same period last year, according to data from ecommerce research firm One Click Retail. *http://www.prnewswire.com/news-releases/amazon-2017-back-to-school-sales-jump-35-in-first-two-weeks-300500871.html.* That is what happens when businesses hit the books hard and early. They excel.

Briefs

Some bricks-and-mortar retail businesses may be facing tough times *(See BMR 08/14/2017, p. 4)*, but billionaire investor Warren Buffett in Berkshire Hathaway Inc.'s retail businesses has been bucking the trend. *The Street* reports that: "The Omaha, Neb.-based conglomerate reported, on Friday, Aug. 4, revenue from its retail business in the second quarter fell only slightly, by 1%, truly a feat. Berkshire reported earnings from retail increased 27% in the three months through June. David Silverman, senior director of corporate research and retail analyst at Fitch Ratings, told *The Street* on Monday, Aug. 7, that Berkshire's retail sector is managing to buck the trend because of its furniture and home-related businesses." Read more at *https://www.thestreet.com/story/14259027/1/warren-buffett-s-berkshire-retail-businesses-strike-gold.html.*

Some retailers are fed up with their competitor—*Amazon.com*—and are blaming it, and not the entire ecommerce industry, for their woes. *Business Insider* reports that Amazon has replaced Walmart as the bane of many stores' existence. It reports one New York store has posted a sign denouncing Amazon in rude language while others have taken their ire to larger audiences. As an example, *Business Insider* reported: "In July, Birkenstock CEO David Kahan sent sellers of the brand's shoes a brutal five-page email that accused Amazon of launching an 'assault on decency.' Birkenstock had encountered issues with the ecommerce giant selling counterfeit shoes, *The Washington Post* reported. 'This is a middle finger to all brands, not just Birkenstock,'" Kahan told *The Washington Post* in an interview.

Customers, too, have protested Amazon's sale of Trump merchandise and its treatment of employees. "Basically, Amazon's reputation is taking hits from all sides," says the article. It may even be stealing ire from the anti-Walmart contingent. Read more at *http://www.businessinsider.com/amazon-is-the-new-walmart-2017-8*.

As noted earlier in this issue, apparel retailers are facing tough times and a number have sought protection from the bankruptcy courts. *(See BMR 08/14/2017, p. 4.)* Meanwhile, Amazon has seen its apparel sales grow as it focuses on developments like outfit advice and addition of new activewear lines. *Retail Dive* says, "lower-priced basics and men's continue to dominate sales there, according to a report from brand intelligence firm L2 emailed to *Retail Dive*."

In June, 62% of activewear best sellers were for men, 32% were for women (up from 24% in March), and 6% percent were unisex items, according to the report. Socks, underwear and brand name products from Under Armour and Nike are seeing growth.

However, most activewear apparel growth at Amazon comes from lower-priced items averaging $13.60 per item per L2. Amazon has yet to move on higher-priced items in the activewear lines.

While some activewear sellers direct their highest priced items to their own brand name stores, others have seen resurgence under the Amazon banner. The key for some apparel companies is to negotiate with Amazon for caps on third-party sellers of its goods.

"Still, Amazon's strong and getting-stronger apparel operations spill over into this market, according to report author Cooper Smith. 'With an intensified focus on the activewear segment and a new distribution partnership with Nike, Amazon continues to muscle into the apparel and accessories space,' he said in an email to *Retail Dive*. 'As the e-tailer gears up to launch its own private label activewear brand, it is more crucial than ever for established players to understand the Amazon ecosystem and fortify their distribution strategies and positioning on the platform.'"*http://www.retaildive.com/news/report-amazon-grows-activewear-sales-amid-athleisure-boom/448869/*.

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