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Amazon's shipping policies leave retailers working to stay competitive

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Online commerce giant Amazon is challenging the rest of the retail world in a new, high-stakes competition - the shipping wars. And New Jersey is a key battleground in that fight.

When Amazon was launched in 1995, the company's plan was to win customers with low prices. Now, shipping has replaced price as the primary way Amazon is putting pressure on other retailers, ranging from small e-commerce businesses and independent store owners, to mass merchants and national chains such as Walmart, Target, Bed Bath & Beyond and Toys "R" Us.

Amazon's Prime memberships, which give members unlimited free - and fast - shipping for a \$99 annual fee, have seen explosive growth over the past year. Amazon doesn't reveal its Prime numbers, but a research firm this year estimated that memberships increased 35 percent in 2015 to 54 million, and that half of all U.S. households have Prime privileges.

North Jersey retailers that compete with Amazon say they have had to develop strategies to survive the shipping wars.

"As independent retailers, we're not rolling over and playing dead," said Gary Fisch, owner of the Gary's Wines and Marketplace store in Wayne, as well as three other Gary's Wines stores in New Jersey. His shops do a large online business and ship orders all over the country. Fisch said he has found ways to stay competitive by seeking the best prices from shipping companies, and offering products and deals not found on Amazon.

"For smaller to midsize retailers, and even for the bigger retailers that may not have large margins on some of their items, shipping is really the new front in the price wars," said Tom Caporaso, chief executive officer of Clarus Commerce, an e-commerce solutions provider that owns the website FreeShipping.com. Amazon, and its emphasis on free and next-day shipping, "is putting tremendous pressure on smaller businesses," he said.

That pressure is expected to be felt by North Jersey supermarkets soon, with Amazon expanding its Amazon



MITSU YASUKAWA/STAFF PHOTOGRAPHER

Gary Fisch of Gary's Wines and Marketplace at the company's Wayne location. Gary's finds ways to stay competitive with Amazon.



BLOOMBERG NEWS

Amazon.com has made shipping costs the way it intends to separate itself from rival retailers, both large and small.

Fresh deliveries of perishable groceries in this part of the state.

According to real estate sources, Amazon has been quietly leasing a 75,000-square-foot warehouse in Moonachie. Last week several Amazon Fresh delivery vans were parked at that building. Amazon is offering fresh produce and meats and other perishables through Amazon Fresh in North Jersey, and recently announced plans to open two more giant distribution centers in the state - in Carteret in Middlesex County and Florence in Burlington County. With the new distribution centers, Amazon will expand its New Jersey workforce to 7,500 from 5,500, making it one of the fastest-growing private employers in the state.

Amazon already has a 1.2-million-square-foot distribution center in Robbinsville, as well as a 1-million-square-foot center in Carteret. Amazon also has locations in the Avenel section of Woodbridge, Middlesex County, and in Logan Township in Gloucester County.

New Jersey is a perfect base for Amazon's same-day delivery campaign in the Northeast because it offers lower-cost rural locations that are close enough to cities to serve Amazon's urban customers. "The whole model is to be in a low-cost area close to big population clusters," said real estate location consultant, John Boyd of the Boyd Co., in Princeton. "Labor and real estate costs in New Jersey can be as much as 20 percent less than in New York City," he said.

"Amazon is really a pioneer in same-day delivery," Boyd said, and "the holy grail" is one-hour delivery. Now, he said, new players are getting into the same-day delivery race, and he predicts Overstock.com, Target, Walmart and QVC will begin promoting same-day delivery. "To be competitive, all the major retailers need to very strategically incorporate same-day delivery," Boyd said.

Flying it themselves

In addition to opening more distribution centers, Amazon is ramping up its investment in shipping superiority by building its own air cargo delivery system, as a quicker and less expensive alternative to third-party shippers such as UPS or FedEx. This year Amazon leased 20 Boeing jets for its own operations, and on Thursday the company announced an agreement with an air cargo company it has an ownership stake in, Atlas Air Worldwide Holdings, for shipping services.

Amazon's emphasis on free shipping, and investments in its distribution infrastructure, have pressured other e-commerce retailers to offer free shipping, but it costs them more to provide that service, said Steven Packles, president of Teaneck-based Peak Advisors, which provides chief financial officer and chief financial adviser services for retail, e-commerce and consumer brands.

"Amazon has the advantage in shipping costs because they can build out these tremendous warehouse and fulfillment operations," said Packles, who has worked for and advised online and traditional retailers. "That allows them to offer the free shipping and not feel the pain as much," he said.

Know true costs

But for other retailers, free shipping comes at a high cost. "Free shipping is going to lead to a shakeout of e-commerce players, as the 10 percent to 15 percent cost to pick/pack/fill/ship is inevitably going to destroy their already slim profits," Packles said. Retailers large and small often aren't fully aware of what shipping is costing them, and "hence don't understand the full impact of offering free shipping," he said.

Fisch is well aware of the cost of free shipping offers, but also knows that consumers expect them. Free shipping "has become the mantra of Internet shipping," he said. "People look for the best deal, so free shipping offers and reduced shipping offers need to be part of whatever we do."

He ties free shipping to purchases of multiple bottles of wine, or purchases totaling a certain dollar amount, and stays competitive by "continuing to push to get better deals from Fed Ex" and other shippers, and packaging companies, as well as on the wines he sells, "so we can offer the deals that will keep us relevant in the marketplace."

One day last week, about a half-dozen employees were busy at the Wayne store, filling online wine orders and placing bottles in protective packaging for shipping. The Wayne store is the primary shipping location for the company. Fisch's shops also

offer local customers the option of buying wines on online and picking them up at the store.

Fisch's edge versus Amazon is having access to vineyards and special vintages that the online giant can't match.

Sell what they won't

Nancy Dreszler, owner of the Glen Rock-based Coolcatgear.com that sells products for cats, also has found her secret to survival is to offer what Amazon can't or won't sell.

"Our biggest seller, and really what sets us apart from a lot of the competition, is the variety of [cat] collars and tags we sell," Dreszler said. "Amazon doesn't lend itself to many varieties of one product," she said. The company also specializes in personalized collars, another area that gives it an edge against Amazon.

Coolcatgear offers free shipping for orders of \$75 or more, but because cat collars and tags are relatively small and light, most orders carry a shipping cost of just a few dollars, which most customers don't balk at. "If you're buying a collar for \$12, you don't want to spend \$8 to ship it, so we're very conscious of offering shipping that is as economical as possible for our customers," Dreszler said.

The free shipping pressure has prompted retailers large and small to band together to gain more leverage on shipping costs.

Emily Dell of Linden operates the business Runaway that sells women's clothing online and in a mobile store in a truck she parks in Hoboken, Jersey City and Manhattan, and drives to fundraising events in North Jersey. She started her business in 2014, and in December joined an e-commerce platform, Shoptiques, that promotes small, online fashion retailers, and provides shipping services and packaging materials to member businesses.

"Shipping can be really costly, I discovered, and being able to offer customers the flexibility in terms of delivery time and free shipping, versus not free shipping, has been very helpful," said Dell. She paid a one-time fee of \$1,000 to join and Shoptiques supplies her with all the packaging materials she needs as well as shipping labels and free return labels. Shoptiques also gets a fee ranging from 20 percent to 25 percent on sales she makes through the Shoptiques platform. "For me, as a solo entrepreneur, this just makes that part of my business that much easier to handle," she said.

Amazon's objective in the shipping wars is to achieve its long-stated goal of being the "everything" store for consumers, the first place they turn to when they need anything, whether it is groceries, clothes, electronics, or cleaning supplies and paper towels.

"Their end game is ultimately to be the first stop for everything online, and they are probably halfway there," said Caporaso of FreeShipping.com. He cited studies that show 50 percent of consumers go to Amazon first when they are searching online for a product to buy.

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