# AMAZON, KILLER OF THE UK HIGH STREET?

A BUSINESS AND FINANCIAL REVIEW OF AN ARGUABLY ***UNREAL*** COMPANY BY UK STANDARDS, PIONEERING THE ***VERY REAL*** DEATH OF THE UK HIGH STREET. IS AMAZON THAT UNIQUE CAPITALIST COMPANY THAT'S ***NOT FOR PROFIT***?




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A REPORT BY MIKE PHILLIPS, CHAIR, RETAIL MARKETING GROUP, CHARTERED INSTITUTE OF MARKETING

# EXECUTIVE SUMMARY

## BACKGROUND

Amazon is criticised by *many* for killing the UK High Street. But are those *many* right? Amazon may have arguably quickened the pace of death but the collapse would have happened anyway.

Shopping is becoming increasingly polarised, between consumers who think it a leisure activity and those, *time poor,* who think it a chore and want to shop online. But the leisure-minded locals who go into towns like Oldham, Huddersfield and Margate tend to be people with less money, many 'unbanked' without retail bank accounts. The more wealthy customers of major brands have since migrated in large numbers to the shopping malls and/or the Internet. So for major fashion chains especially, town centres are now not viable.

To make matters far worse, Amazon, widely acknowledged as being brilliant e-tailers, does not behave like a typical company; one that is driven by the need for increasing profits commensurate with increasing sales.

A close examination of Amazon financials show that despite 18 years of stellar sales, the company has hardly made any profit at all. This has prompted DigitalPublishingAustralia magazine in June 2012 and more recently Andy Street, managing director of John Lewis Partnership, to both question whether Amazon is really a *not for profit* company.

## WHAT MAKES AMAZON DIFFERENT

There are several aspects of Amazon's business, financial and operational profile that make this company different from most American and all UK companies

### Jeff Bezos

Make no mistake, Jeff Bezos is no mere mortal. Highly unconventional, he has a Zen-like attitude to business, because in stark contrast to every other entrepreneur worldwide, he is plainly not bothered about profit. He trusts his intuition rather than be a disciple of retail dogma.

An extract from the Amazon Company Values Statement gives clues to his thinking about money. "Frugality: We spend money on things that really matter and believe that frugality breeds resourcefulness, self-sufficiency, and invention!" And what he means by that is that staff costs, dividends, and taxes of any kind are not on his radar.

### Financial Strategy

Taxes, what taxes? Bezos's legendary frugality has meant paying taxes of any description is not on his list of priorities. From the start, taking advantage of loopholes has been aggressively managed in order to undercut rivals on price.

Amazon is especially good at avoiding UK corporation tax. In 2012 Amazon paid no corporation tax despite UK sales of £4.3bn, and controversially, received £2.5m in Government grants. Similarly, Amazon has never paid dividends - not unique, but certainly unusual even amongst the US giants and very rare in the UK.

Profit isn't that important to him either. From 1996 to 2002, Amazon only made yearly losses. Since that time, they have remained profitable, but only just.

Amazon routinely uses stock options as a remuneration tool. In 2012, stock based remuneration for General and Administrative people was $434m or 9.5% of salaries.

**Business Strategy**
Despite 16 years of abysmal profits, Wall Street still treats Amazon as a strange, *nirvana-like* proposition with start-up style economics and pricing. With Bezos as the *Buddha* figure, Amazon is perpetually bringing new ideas to the market as to how it can dominate the world of online retailing, cloud computing, and now TV shows and virtual currency. In essence, Amazon's business strategy is based around five core objectives.

1. To be the world's most customer centric company
2. Think long term, be highly innovative
3. Optimised operational costs and efficiency
4. Ignore outside *noise* and be brave.
5. Work the staff hard, allow no unions

**Little Attention to Corporate Governance**
Bezos's behaviour has often prompted corporate governance questions - a Bloomberg post on 03.04.2001 highlighted mounting criticism of the Amazon board for apparently never having questioned Bezos on strategy, judgment, or financial matters. The article suggested that Amazon sceptics thought the board too small, too clubby, and lacking the necessary independence to make serious judgment or interventions in Amazon affairs.

## AMAZON'S NEGATIVE IMPACT ON THE UK HIGH STREET

***Showrooming***
A hugely destructive phenomenon caused by the inability of *bricks and mortar* stores, with large overheads, to sell at the same price as Amazon and others.

Recently bankrupted Jessops Cameras have been a prime loser to showrooming as prospective camera purchasers would go into Jessops stores, pick the brains of the knowledgeable sales assistant and then casually walk out and buy on Amazon at a noticeable saving.

***The Retail Infrastructure is Unbalanced Too Quickly***
If everyone is reduced to buying from Amazon at the lowest possible price, it unbalances the structure of shops and shopping. That's because online retailers can build up sales very rapidly as word and reputation spread over cyberspace.

*Bricks and mortar* retailers, though, cannot react quickly enough. Many UK shops are tied into ridiculously onerous full repairing and refurbishing 25 year leases - where rents only ever go upwards.

***Amazon is a Ruthless Data Miner***
Many consider that Amazon is really a ruthless data miner that happens to sell products. Its primary interest is in knowing what you buy, what you think about; the company wants to control, predict and personalise your shopping habits. On the High Street, only Tesco Clubcard can remotely compete.

## CAN THE HIGH STREEET FIGHT BACK?

The evidence so far is that too many *bricks and mortar* retailers and town councils are completely clueless as to how to fight Amazon and their ilk. Increasing town centre dereliction and shop closures are happening apace with no one grasping the *nettle*. So exactly what options and strategies are available for *bricks and mortar* retailers to achieve any sensible objective of profitability and sustainability?

***A Compelling Consumer Offer***.
If Amazon is hurting the John Lewis Partnership it is not obvious. Their business mantra *of never being knowingly undersold* is clever. The company has a massive appeal to the majority of *Middle England,* based on four tenets; the biggest range of products in the UK; unerring high quality; great staff and stores; unparalleled longer warranties as standard.

***Omni Channel Retailing***
Omni-channel retailing is very similar to and an evolution of multi-channel retailing, but is concentrated more on a seamless approach to the consumer experience through all the available shopping channels.

***Vertical Integration***
With paper thin profit margins, Amazon would be hugely vulnerable to a protracted price war. But only a certain business model, based on vertical integration, would work.

***Motivate the Unions***
Bezos is fiercely anti trade union. He likes to really sweat his staff assets hard as his lowest price model relies heavily on low labour costs. With major staff issues in three countries, UK, Germany and the USA, the British trade unions should set about lobbying the Government to ensure that Bezos stops bad work practices.

***Government Action on Tax***
Both Amazon and the UK Government employ Ernst and Young. Throughout business history, *Chinese walls* have never been a proven enemy against collusion. The UK Treasury should not employ those that enable and encourage avoidance of British taxes with such gusto.

UK tax laws are arcane and need rewriting from scratch. So-called country-by-country reporting is essential. It has already been imposed on mining and oil extraction groups by the US and is shortly to be extended to banks by the EU. No allowances whatsoever for transactions through Dublin, HQ in Luxembourg, servers in Mumbai, India, or transfer costs on brand usage.

***More Events and Street Theatre***
One positive retail characteristic that Amazon cannot replicate is a street event. For example, good street markets can be hugely complimentary to town centres, although unlikely to revive any particular town just on their own.

Similarly, major events like the Edinburgh Fringe festival bring millions into the local retail economy confirmed by the key findings of the 2011 *Edinburgh Festivals Impact Study.* The research suggested that the Festivals generated £245m for Edinburgh, the Fringe alone contributing £142 million of this figure.

***New Format Stores to Fit Town Size***
Where towns face massive competition from an out of town retail park such as the Trafford Centre, new town stores must fit both the size of the local market and consumer demographics and use multi-mode technology

***Restructure Industrial and Failing Towns***
The centres of many of the UK's best known towns and cities are completely beyond any rejuvenation or revitalisation in their present form. The Portas report marks a step forward in failure recognition but is largely *toothless*. We urgently need Compulsory Purchase Orders to create pension funded developments

80% of the buildings in Bolton's town centre (and similar elsewhere) are not capable of refurbishment - organisationally, structurally or architecturally. For future prosperity, we need, inter alia,

People living back in town to create a new living vibrancy: new stores and services such as convenience shops, more bistros serving coffee, beer and food; crèche facilities, doctors and dentists. Indoor markets will get a boost and sell different artisan products, mainly fresh bread and produce. More importantly it creates a quality 16 hour culture not based on yob drinking

With people back in town, there will be less $CO_2$ emissions as people will be able to walk to work, less need for cars. Similarly, people in towns reduces pressure on *Greenfield* sites, which in turn, allow high intensity farming of crops currently imported from Kenya and Peru for example

Real apprenticeships can be created - motorway widening only enhances the prospects of migrant workers at Murphy's or Bovis. There are similar opportunities for new high-tech, edge of town smart mills e.g. contract clothing factories serving main UK clothing retailers

**THIS PICTURE CANNOT BE ALLOWED TO BE THE FUTURE BRITISH HIGH STREET**

**If there is a culprit for the UK's rapidly failing High Streets, it is definitely not Jeff Bezos and Amazon. He may be ruthless and opportunistic, an incredibly mean genius with massive vision and innovative talents. His tax lawyers may be brilliant at spotting loopholes and avoiding payments of UK corporation tax. But none of these things are illegal – Amazon is merely the catalyst**

**Margaret Hodge MP might be praised for railing against such business tactics, but she is merely voicing the country's universal frustration, that's all. The real culprits of failing town centres lie elsewhere.**

**Firstly, The UK Treasury for employing civil servants with no vision – tax avoidance possibilities should have been obvious from the early 1990s. Why has nothing been resolved even yet, and why are the Ernst and Young's of this world being employed as Government tax advisers when known to be working for Amazon as well - surely a huge conflict of interest?**

**Secondly, greedy landlords with their upwards-only rent reviews and crippling 25 year lease have allowed no flexibility in the market to react quickly to online retailing.**

**Finally, building all the massive out of town retail parks such as Bluewater and the Trafford centre without thinking of the consequences was totally irresponsible planning**

**However, there are credible solutions to reverse our failing High Streets.**

**But those solutions need a meeting of *joined-up minds* to work. And those same solutions need to be quick too as latest figures show an increase in town centre shop vacancies now at a whopping 11.9% on average in April 2013, up 1% from just the month before.** (Source: British Retail Consortium)

- **The Government needs to rewrite the appropriate tax legislation from scratch to create *a level playing field* for all retailers**
- **Developers and architects need to redesign and build our new town centres along European lines**
- **Town councils need to implement large scale Compulsory Purchase Orders (CPOs)**
- **UK Pension funds need to spend *our money on our future***
- **Councils / private enterprises need to organise more events to bring the *middle classes* into our town centres**

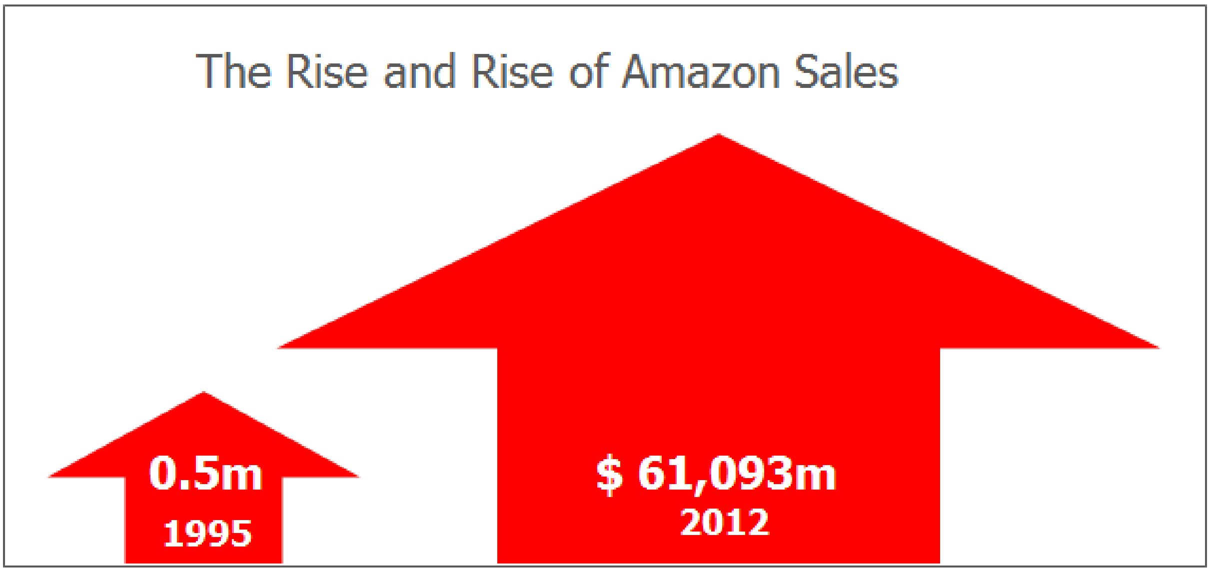
**And above all, people need to repopulate our industrial and failing towns and cities to, inter alia,**

- **Slightly reduce the overall number of shops**
- **Change the retail mix, reduce the number of charity shops**
- **Stop *the massacre of the Greenbelt***
- **Rescue and enhance the night time economy from yob culture**
- **Reduce $CO_2$ emissions and introduce other eco benefits**
- **Reintroduce *smart mills* to edge of town locations**
- **Create meaningful apprenticeships**

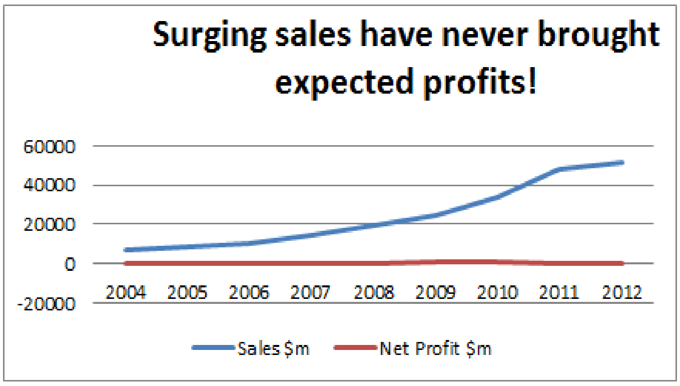
 

## STELLAR SALES BUT NO PROFIT

Amazon, incorporated in 1994 in Washington State, began retailing online from July 1995 and floated on NASDAQ, the New York Stock Market on May 15, 1997. The company did not make a profit until the fourth quarter of 2001; $5 million or 1¢ per share on revenues of a $1bn plus.




On close examination of their sales margins and financial results, you might be forgiven in thinking that Amazon is a *not-for-profit* company, a question posed by the DigitalPublishingAustralia magazine in Mid-2012 and more recently diplomatically paraphrased by Andy Street, managing director of John Lewis Partnership.




The John Lewis chain, by dint of its partnership scheme, inter alia, is considered a byword for morality and decency in UK retailing. So when the John Lewis boss says there is a danger that the online giant, which is controversially registered offshore, will drive UK-based retailers out of business unless the Government forces it to pay a fair rate of tax, people listen.

Importantly, Andy Street's comments convey the implied notion that even our smartest city centres could become shuttered ghost towns. He was responding to revelations that the UK's biggest internet vendor paid no corporation tax in Britain despite generating UK sales of more than £4.3bn in 2012. Its UK operations avoid tax as the ownership of the main Amazon.co.uk business was transferred to a Luxembourg company in 2006.

"There is less money to invest if you are giving 27 per cent of your profits to the [British] Exchequer"

## WHAT MAKES AMAZON DIFFERENT

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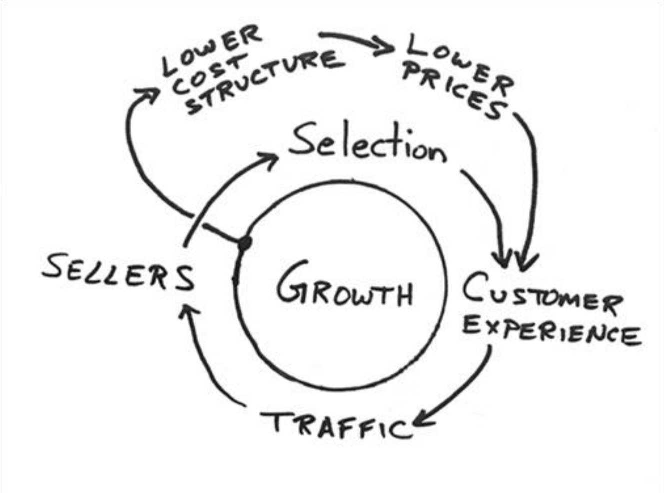
**Jeff Bezos**

Make no mistake, Jeff Bezos is no mere mortal. In 1999, for example, he was Voted Person of the Year by Time Magazine in recognition of Amazon's success in popularising Internet shopping.



A 2001 Sketch by Jeff Bezos of Amazon's Virtuous Circles

He has a highly unconventional, Zen-like attitude to business, because in stark contrast to every other entrepreneur worldwide, he is plainly not bothered about profit. Indeed his business plan for the company IPO indicated no profits for the first 5 years at least. Try that tactic on the greedy, short-termist venture capitalists in the UK and they would laugh at you

An extract from the Amazon Company Values Statement gives further clues to his thinking about money. "Frugality: We spend money on things that really matter and believe that frugality breeds resourcefulness, self-sufficiency, and invention!"

And what he means by that is that staff costs, dividends, and taxes of any kind are not on his radar. Even salaries for many Amazon managers are often composites of money and share options, normally the esoteric preserve of senior management and directors only. In 2012, stock based remuneration for General and Administrative people was $434m or 9.5% of salaries. The stock options are not classed as real money in the accounts as they are then deducted from operating costs to provide a lower net figure.

His self- confessed frugality is really cranked up over tax payments. It is reported that when contemplating where to set up his business, he even considered using an indigenous US Indian reservation near San Francisco which had peculiar tax advantages.

The final part of his frugality jigsaw is making sure his fulfilment centre staff work harder than most. He has had serious issues over labour management in at least three of his largest markets; USA, UK and Germany

**Little Attention to Corporate Governance**

Research by the University of Wisconsin suggests that in the US, 84% of all CEOs last less than 10 years and only 7% go beyond tenure of 16 years. As the biggest shareholder, Bezos clearly has in-built longevity, but this has often prompted corporate governance questions.

For example, a Bloomberg post on 03.04.2001 highlighted mounting criticism of the Amazon board for apparently never having questioned Bezos on strategy, judgment, or financial matters. The article suggested that Amazon sceptics thought the board too small, too clubby, and lacking the necessary independence to make serious judgment or interventions in Amazon affairs. Furthermore, they added that the board was too heavy with venture capitalists who were looking to *cash out* rather than build long-term shareholder value. And they decry the lack of retail experience on the board.

Of course with no dividend payments, *cashing out* is the only mechanism to crystallise share price rises.

**Business Strategy**
"It's like the opposite of Winston Churchill's Battle of Britain quote: Never were so many products sold for so much money by such a huge company for so little profit" VB News, US Digital Tech Magazine

And of course it's true. Because despite 16 years of abysmal profits, Wall Street still treats Amazon as a strange, *nirvana-like* proposition with start-up style economics and pricing.  With Bezos as the *Buddha* figure, Amazon is perpetually bringing new ideas to the market as to how it can dominate the world of online retailing, cloud computing and now TV shows.

Bezos's latest wheeze, a film and video business, Amazon Studios, will offer television streaming and a programme making department.

"Amazon Studios is working on a new way to green light TV shows. The pilots are out in the open where everyone can have a say ..I have my personal picks and so do members of the Amazon Studios team, but the exciting thing about our approach is that our opinions don't matter. Our customers will determine what goes into full-season production. We hope Amazon Originals can become yet another way for us to create value for Prime members." Jeff Bezos

In essence, Amazon's business strategy is based around five core objectives.

1. To be the world's most customer centric company by

   Charging the lowest possible price
   Knowing more about a customer's buying habits than they themselves
   Fulfil in one day if possible
   One click easy online purchase

2. Think long term, be highly innovative
3. Minimum payments and optimised efficiency (see financial strategy below)
4. Ignore outside *noise* and be brave.
5. Work the staff hard, allow no unions

***Customer Centric***
Unlike Ryanair, another low price strategy company, Amazon's customer satisfaction ratings are truly brilliant – the *gold standard* in fact! And usually, high customer service levels correlates to high prices, for example Harrods. So how is it possible for Amazon.com, similar to Ryanair, to offer their products and services at such low prices? Prices, often so low in fact, that they are often selling below wholesale price.

"Will we give you a refund on a nonrefundable ticket because your granny died unexpectedly? No! Go away. We're not interested in your sob stories! What part of 'no refund' do you not understand?"

Michael O'Leary, CEO Ryanair

In terms of book selling, Amazon have benefited greatly from the dysfunctional nature of the industry and the complete lack of large online competitors. So whilst many retailers like Borders and Barnes and Noble were *hanging on for grim death* to their physical stores, Bezos was building up his online behemoth. Both book chains could have killed Amazon right at the start, but neither knew how to handle the discrepancy between online and terrestrial prices. Bezos exploited and profited greatly from this dithering

So as sales grew, Amazon beat up all the publishers for better prices and used smaller wholesalers as third party fulfilment centres. Because the whole book industry was becoming strapped for cash, they went along with this suicidal strategy that eventually cut their own throat.

Another clever tactic used by Bezos was to start selling second hand books. The 20% commission rate allowed him to cross subsidise and thereby slash the cost of new books. Physical book stores had no retaliatory ideas, and thousands of independent book shops have gone to the wall. Even Borders threw in the towel on the 18th July 2011.

Knowing far more about your customer's buying habits than anyone else on Earth is also a central philosophy. It's also one that has brought them breach of privacy claims too. A good example is the patent Amazon has been awarded for software that aims to track the information about people that their users have bought presents for. This has created serious concerns whether it would track information about children.

Central to Amazon's fulfilment strategies is one or same day delivery. This is why the company are building even more distribution centres to bring the delivery distance in metropolitan areas down to small numbers.

The final aspect of Amazon's customer centric focus is its very easy one click product select and pay system. Again, a process patented very early on by Amazon, it is a major Unique Selling Point (USP) in its bid to maintain high customer service levels.

***Think Long Term, Be Highly Innovative***

From the first day the company started trading in 1995, long term thinking has dominated Bezos's objective strategies. As mentioned earlier, producing a business plan for venture capitalist review that indicates no profits for 5 years plus requires great courage and belief


And with regard to innovation, there are lots and lots of examples from the company's move into cloud computing; a recent foray into television programme making; trialling fresh food sales around Seattle. The list is long.

And just announced on Monday 13th May 2013 was Amazon's new virtual web currency for buying games and apps. This new product has possibly three objectives. One is a highly proactive strike against *Bitcoins*, another web currency gaining momentum in the US. Secondly, because of discounts available for quantity, it's another tactic for lowering prices. And thirdly, they could be construed as a zero per cent interest loan to the company.

***Ignore Outside Noise and Be Brave***

It is probable that Bezos has never worried about what Wall Street thinks because the analysts bestowed *Messiah like* status on him. They believe he has a larger vision, a vision which suggests that the Internet is still in its nascent stages, and that what matters most is grabbing as much market share as possible whilst sucking all the air out of the room so that your competitors suffocate and, some day, you are the biggest retail, media, cloud company on the planet.

As for being brave, he has no betters. Taking on the book stores was relatively easy – they were unsophisticated and myopic. Taking on Walmart and Target in the US white goods and packaged sectors is a totally different scenario.


Walmart is now actively defending against Amazon's increasingly aggressive moves into packaged and white electrical goods. This pits the globe's largest retailer and the globe's largest online retailer on a major collision course.

Because whilst Walmart may be 10 times Amazon's size in overall sales, it has only about a tenth as much in online sales, making Walmart a distant web also-ran.

So perhaps a little like the book stores before them, Walmart have been really slow at reacting to the brazen courage Amazon have shown. But whilst Walmart is now forced to take action, it is deeply troubled about competing with Amazon's low operating margins.

**Financial Strategy**

***Taxes, What taxes***

Referring back to comments about Bezos's legendary frugality, paying taxes is not on his list of priorities. Right from day one, taking advantage of loopholes has been aggressively managed in order to undercut rivals on price.

Currently, Amazon collect sales tax from just 5 US States, exploiting a 1992 court ruling that says US businesses without a physical presence, such as a High Street store or distribution centre, need not collect the state sales tax.

This ruling, however, looks like unravelling very soon as Reuters reported on the 28$^{th}$ March 2013 that Amazon and other out-of-state online retailers lost an appeal with the New York State Court of Appeals by a vote of 4-1. They must now collect state tax on New York State customers.

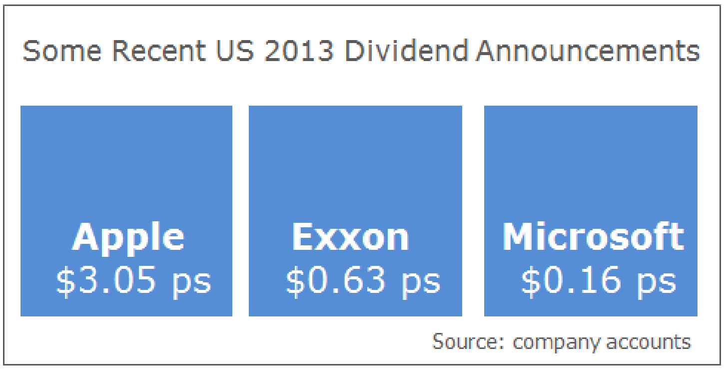
This event could set the stage for a showdown in the U.S. Supreme Court over other states who differ from New York. And on a similar tack, US Congress started considering a Marketplace Fairness Act on the 6$^{th}$ May 2013 that probably will mark the beginning of the end to tax free shopping for electronics and clothing. Interestingly, however, digital books and music are to be spared as they are deemed not physical enough to trade second hand.

But when it comes to UK corporation tax, Amazon is in a league of its own. At least Starbucks and Google pay a little. In 2012 Amazon UK paid no tax despite UK sales of £4.3bn. In a highly complex transaction Amazon.co.uk was transferred in February 2006 to Amazon Europe Holding Technologies SCSA for just one day. The following day, Amazon Europe sold the company to Amazon EU SARL for £52m.

As the Guardian newspaper has pointed out, it reduces the UK business to just a distribution service - graphically illustrated by the following facts - In 2010 Amazon EU SARL employed 134 staff turning over €7.5bn, whereas Amazon UK, employing 2,265 staff, turned over just £147m that same year

***No Dividends***
Amazon has never paid dividends. Not uncommon, but certainly unusual even amongst the US giants and very rare in the UK.




Some fund managers such as Stuart Rhodes of the £6bn M&G Global Dividend Fund suggests that "Excellent businesses are those that that make their dividend decisions at the start of the year…companies that pay dividends from whatever they have left over after capital spending are almost certain to have made some bad decisions"

The Bezos frugality means no worries on that score, just don't ever pay any. The unfortunate by-product of a no dividends policy, however, is the encouragement of short-termism. Patently, the only way you can crystallise owning shares in Amazon is to sell them.

***Profit Isn't that Important Either***
Historically, it is extremely rare for any commercial company to be tremendously successful and innovative over a prolonged period of time without being hugely profitable in parallel.

| | Ryanair | | Tesco | |
|---|---|---|---|---|
| | **Sales €M** | **Net Profit €M** | **Sales £M** | **Net Profit £M** |
| | | | | |
| **2008** | 2713 | 480 | 51773 | 2130 |
| **2009** | 2942 | 105 | 59426 | 2138 |
| **2010** | 2988 | 318 | 62537 | 2336 |
| **2011** | 3629 | 400 | 67074 | 2671 |
| **2012** | 4325 | 503 | 72035 | 2814 |

Source: company accounts

From 1996 to 2002, Amazon only made losses. These ranged from -51% in 2000 (the darkest days of the dot-com-bust), to -3.8% in 2002. Their first modest yearly profit of 0.7% occurred in 2003. Since that time, they have remained profitable, but only just. For the period 2004-2011 their average profit margin has only been 3.7%. And whilst their revenues grew exponentially during that same period -from $6.92 billion to $48.08 billion - their profits just flat lined .

To put in perspective just how modest Amazon's profits are, we only need to compare their results to some of their high-tech rivals. Rightly or wrongly, Amazon is often mentioned in the same breath as other tech-titans such as Google, Microsoft or Apple – but when it comes to the profitability stakes, Amazon is not even in the same game. This is highlighted in the table below, which summarises the financial results of all four companies for Q1, 2012.

| **Company** | **Revenue (billions)** | **Profit (billions)** | **Profit Margin** |
|---|---|---|---|
| Amazon.com | $ 13.18 | $ 0.13 | 1.0% |
| Google | $ 10.65 | $ 2.89 | 27.1% |
| Microsoft | $ 17.41 | $ 5.11 | 29.3% |
| Apple | $ 39.19 | $ 11.62 | 29.7% |
| | | | Source: DigitalPublishingAustralia. |

It seems pretty clear that whilst Amazon can hold its head up high in the revenue stakes, when it comes to actually making money they are underperforming by a significant margin. Some analysts argue that Amazon are currently in a transition phase and are evolving from being a big-box retailer, to a more sophisticated digital content tech company. It is assumed that when this transition is complete, their profit margins will increase accordingly. But the sceptics are less convinced, thinking that Amazon's strategy has always been the same, capture market share at all costs – even if it means you violate the core tenet of any commercial firm, actually making money.

***Strategic Use of Stock Options***

Amazon routinely uses stock options as a remuneration tool. As mentioned previously, in 2012, stock based remuneration for General and Administrative people was $434m or 9.5% of salaries. The stock options are not classed as real money in the accounts as they are then deducted from operating costs to provide a lower net figure.

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If everyone is reduced to buying from Amazon at the lowest possible price, it unbalances the structure of shops and shopping. That's because online retailers can build up sales very rapidly as word and their reputation spread.

Unfortunately, bricks and mortar retailers cannot react quickly enough. Many UK shops are tied into ridiculously onerous full repairing and refurbishing 25 year leases - where rents only ever go upwards.

Mike Ashley, combative CEO of Sports Direct, was reported in the Sunday Times (12.05.2013) as telling the 45 landlords of his Republic fashion chain that they must put rents down otherwise he will *pull the plug* completely. If he gets his way, many high street retailers will undoubtedly follow suit.

There are no quick fixes either. Mary Portas is no *fairy godmother* and councils' can draw up all the grand zoning plans for revival they want because the town centres many grew up in are now completely dead in Northern and other predominantly industrial towns. These non-tourist towns need complete restructuring along continental lines - we don't need more shops – we need less, and we need new shop formats incorporating modern technology such as automatic sizing body scanners and full size interactive screens. Tourist and rural market towns, however, such as Shrewsbury, Harrogate and Marlowe will survive and continue to prosper.

***Showrooming***

A hugely destructive phenomenon caused by the inability of *bricks and mortar* stores, with large overheads, to sell at the same price as Amazon and other e-tailers.

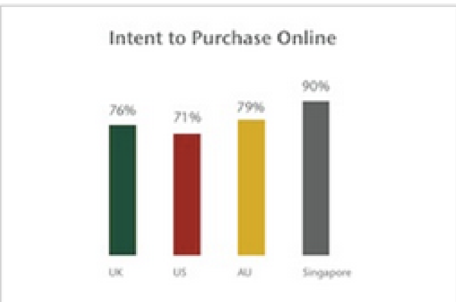

Recently bankrupted Jessops Cameras have been a prime loser to showrooming as prospective camera purchasers would go into Jessops stores, pick the brains of the knowledgeable sales assistant and then casually walk out and buy on Amazon at a noticeable saving.

Recently published research by design agency Foolproof, suggest that at Christmas 2012, 24% of all shoppers admitted to showrooming activity and that 40% took their business elsewhere. The worst affected sectors appear to be gadget stores, books and cosmetics

# 62% of Shoppers Use a Mobile Device in Stores to Check Prices

by Ayaz Nanji | May 28, 2013 | 171 views

Comments 1




The majority of shoppers (62%) use use a mobile device at a brand's physical location to compare products and prices, according to a recent survey of global consumers conducted by SDL.

Moreover, 77% percent of respondents said that they "showroom", which is to visit a brand's physical location to evaluate products knowing they will buy online at another time. This trend varies by geography, with respondents from the US (71%) a bit less likely to "showroom" and those from Singapore (90%) more likely to do so.

Source:MarketingProfs

**Retail Failures since 2007**

| | Companies failing | Stores Affected | Employees Affected |
|---|---|---|---|
| 2013 (to 6 March) | 16 | 1,676 | 17,334 |
| 2012 (12 months) | 54 | 3,951 | 48,142 |
| 2011 (12 months) | 31 | 2,469 | 24,025 |
| 2010 (12 months) | 26 | 944 | 10,930 |
| 2009 (12 months) | 37 | 6,536 | 26,688 |
| 2008 (12 months) | 54 | 5,793 | 74,539 |
| 2007 (12 months) | 25 | 2,600 | 14,083 |

Source: Centre for Retail Research

***Easy Access to Money***

Bezos, the *Wall Street Messiah*, can raise money very easily despite not making any profits. This means in a depressed marketplace, he can buy other companies without much difficulty and grow market share instantly.

And over the years Amazon has made many acquisitions that impact negatively on the UK High Street

***Amazon is a Ruthless Data Miner***

Many consider that Amazon is really a ruthless data miner that happens to sell products. Its primary interest is in knowing what you buy, what you think about; the company wants to control, predict and personalise your shopping habits.

For example, in only five years *Goodreads* in the US had grown into the largest outlet for armchair reviewers and readers to share their opinions, as well as a safe space for author-reader interactions. Most members saw *Goodreads* as an unbiased haven for books, a place where they could profess their bookish love free from the ugly noise of commerce. Then on Thursday 28th March 2013 *Goodreads* was taken over by Amazon.

The vast majority, 10-1 of the 16 million *Goodreads* members felt betrayed and posted lots of comments with massive venom. One member wrote "You screwed us over. Take your money and run. You know the site you worked so hard on will be corrupted by Amazon." Did Goodreads' members ever stop to think that a book-lover's paradise was actually a fantastically valuable chunk of pure data just ripe for the mining?

The acquisition assumption was that no one else was willing to compete - Amazon was ready to spend whatever was unreasonable for so much wonderfully pure data.

Unfortunately, the High Street, even with the advent of *Big Data Analytics* cannot compete on data mining. Of all British retailers, only Tesco with their 16 million active Clubcard holders in the UK (compared to 11.7 million people who have a Barclaycard, the UK's largest supplier) can compete head to head with Amazon.

## CAN THE HIGH STREEET FIGHT BACK?

The Goodreads acquisition in March 2013 is highly instructive as it highlights that the *middle layers of publishing are* exactly what Amazon is trying to eliminate. It is not hard to view the company mission as the eradication of all competition because they will be left as the sole producer, distributor, and even reviewer of what we once called books.

The point to take here is that Bezos is brilliant at spotting opportunities, but importantly also, unbelievably brilliant too at exploiting inherent weaknesses in the processes of any business sector

And sadly, the evidence so far with town centres is exactly the same; far too many *bricks and mortar* retailers and town councils are completely clueless as to how to fight off Amazon and their ilk. Increasing town centre dereliction and shop closures are happening apace with no one grasping the *nettle*.

So exactly what options and strategies are available for *bricks and mortar* retailers to achieve any sensible objective of profitability and sustainability?

***A Compelling Consumer Offer***.
If Amazon is hurting the John Lewis Partnership it is not obvious. Their business mantra *of never being knowingly undersold* is clever, though arguably a little bit subdued of late. A recent re-clarification has been made to ensure that only explicit like for like comparisons are made – in other words, warranties and any delivery costs are taken into account.


A company that pre dates even Marks and Spencer by 30 years, The John Lewis Partnership has a massive appeal to the majority of *Middle England.* The company, a true department store chain, has the biggest range of products in the UK (350,000 SKUs) and products are unerringly excellent in quality.

The company staff share ownership produces a significant public resonance regarding loyalty and not being part of the retail rat race. By comparison, other retail companies are regularly bought and sold to venture capitalists who just load up the debt, pay themselves their initial costs and sell on sometime in the future having done nothing to increase the brand value or proposition.

***Omni Channel Retailing***
This emerging retail strategy is again highlighted by the John Lewis Partnership. Omni-channel retailing is very similar to and an evolution of multi-channel retailing, but is concentrated more on a seamless approach to the consumer experience through all the available shopping channels.

Responsive company websites, for example, work and look identical on mobile telephones, tablets, and PCs. Branding and purchase processes are the same throughout Internet devices, bricks and mortar stores, catalogues and television.

***Vertical Integration***
Is Amazon vulnerable? With such paper thin profit margins, yes Amazon would be hugely vulnerable to a protracted price war, but only if three business strategies are applied.

Each market sector, for example books, has to be vertically integrated just like the oil industry. BP and

Exxon Mobil explore, drill, refine, ship and sell all their own oil. The book publishing industry must become more like the oil companies or risk being slowly taken apart.

Publishers should consider adopting a franchise model whereby they own a significant percentage of the downstream or retail outlets. This will allow them to sell to their own shops at a price that undercuts the price that they sell to Amazon. This strategy will kill *showrooming* instantly. The consumer will no longer want or need to walk out the bookstore to buy cheaper online.  They will get the *holy grail* of shopping – instant gratification at the lowest price

Secondly, the franchise model will only pass the Monopoly and Mergers Board if a number of franchises are set up, just like the current UK convenience store market.  Spar, Mace, Co-Op and three of the main four supermarket chains all vie for that local, last minute purchase.

Thirdly and finally, the online aspect of the franchises, PC, mobile and tablet, must have brilliant customer service for both physical books and e-books just like Amazon. Without this key ingredient, consumers will not migrate across.

***Motivate the Unions***

Bezos is fiercely anti trade union- and for good reason – he likes to really sweat the assets hard and that includes the staff. His lowest price model relies heavily on low labour costs.

With major staff issues in three countries, UK, Germany and the USA, the British trade unions should really set about lobbying the Government to ensure that Bezos pulls back from the worst of his many questionable work practices.

For example, in Germany, an Amazon sub-contractor named HESS Security, has utilised neo-Nazi ‘security guards’ wearing black uniforms, boots and with military haircuts to regularly search the kitchens and bedrooms of foreign migrant workers.

Being forced to use all local, indigenous staff, would probably increase his labour costs and reduce margins even more

***Government Action on Tax***

The UK Government employs Ernst and Young on its tax advisory panel - the very same *big four* accountancy company who advises Amazon.  Throughout business history, *Chinese walls* have never been a proven enemy against collusion. The UK Treasury should not employ those that enable and encourage evasion of British taxes with such gusto.

UK tax laws are arcane at best. And successive Governments, of whatever political persuasion have allowed the current tax debacles to happen - Ed Balls is just as guilty as the current Chancellor of the Exchequer.

Tax laws could be massively simplified if rewritten completely. Just like the US, tax should be payable on all UK earnings. No allowances should be made for offshore headquarters such as Luxembourg, nor the pernicious practice of charging large, whatever they feel like, sums for using the brand name.

Justin King, CEO of Sainsbury’s was right to criticise the Government on Friday 10th May 2013 when he said “ For every £1 we have benefited from the reduction in corporation tax we have incurred more than £2 of other taxes, in particular business rates and employers' national insurance….business rates are costing the retail industry more than £7bn a year and increased by an inflation-linked £175m in April…..and are giving high-street retailers a higher burden compared with online retailers with little property, such as Amazon." Source: Daily Telegraph

***More Events and Street Theatre***
One positive retail characteristic that Amazon cannot replicate is a street event. For example, good street markets can be hugely complimentary to town centres, although unlikely to revive any particular town just on their own.

Liverpool Daily Post 4th April 2013

A street market that really works for the local High Street is Wilmslow in Cheshire. Managed by Denise Valenta and Vicky Jackson of Artisan Markets, the stall holders make a huge effort to compliment the local traders, not compete.

Typically, they would not normally include a butcher if the local High Street had such a retailer. If they were to include one, they would be purveyors of buffalo meat or venison, meats not usually found in the average meat shop.


Awarded a major accolade recently by the Action for Market Towns Group, Artisan Markets focus is very much on high quality provenance based products, food and manufactured goods, not normally found in a supermarket or town centre shop.

Massive events like the Edinburgh Fringe festival bring millions into the local retail economy confirmed by the key findings of the 2011 *Edinburgh Festivals Impact Study.* The research suggested that the Festivals generated £245m for Edinburgh, the Fringe alone contributing £142 million of this figure.

***New Format Stores to Fit Town Size***
Where towns face massive competition from an out of town retail park such as the Trafford Centre, stores must fit both the size of the local market and consumer demographics.

An example of what a future-facing omni channel retail proposition store might look like is the newly opened (16.04.2013) Marks and Spencer concept store at 226 Kalverstraat, Amsterdam. This 500 M2 E-boutique includes cutting edge retail technology, for example, 2 virtual rails which seamlessly integrate with physical rails of clothing samples - made of three stacked 46” screens and three physical rails each with 50 clothing samples, each trend updated every six weeks

3 dedicated style advisors equipped with iPads enable customers to ‘*shop to go*’ that day. The store offers a specially chosen edit of the latest womenswear trends, selected with the style loving, fashion focussed Amsterdam customer

***Restructure Industrial and Failing Towns***
The dual attack of retail behemoths like Westfield or BlueWater and the Internet means that the centres of many of the UK’s best known towns and cities are completely beyond any rejuvenation or revitalisation in their present form. The Portas report marks a step forward in failure recognition but is largely *toothless* in solution building. We urgently need Compulsory Purchase Orders to create pension funded developments

80% of the buildings in Bolton’s town centre (and similar elsewhere) are not capable of refurbishment - organisationally, structurally or architecturally. For future prosperity, we need, inter alia,


People living back in town to create a new living vibrancy - new stores and services such as convenience shops, more bistros serving coffee, beer and food, crèche facilities, doctors and dentists. Indoor markets will get a boost if selling different artisan products, mainly fresh bread and produce. More importantly it creates a quality 16 hour culture not based on yob drinking

Laredo in Northern Spain, pictured left, is similar in features to many continental towns and cities where a large proportion of the population live in and around the town centre. It is typical of what a future UK town might look like.

With people back in town, there will be less $CO_2$ emissions as people will be able to walk to work, less need for cars. Similarly, people in towns reduces pressure on *Greenfield* sites, which in turn, allow high intensity farming of crops currently imported from Kenya and Peru for example

Real apprenticeships can be created - motorway widening only enhances the prospects of migrant workers at Murphy’s or Bovis. There are similar opportunities for new high-tech, edge of town smart mills e.g. contract clothing factories serving main UK clothing retailers

**THIS PICTURE CANNOT BE ALLOWED TO BE THE FUTURE BRITISH HIGH STREET**

**If there is a culprit for the UK's rapidly failing High Streets, it is definitely not Jeff Bezos and Amazon. He may be ruthless and opportunistic, an incredibly mean genius with massive vision and innovative talents.**

**His tax lawyers may be brilliant at spotting loopholes and avoiding payments of UK corporation tax. But none of these things are illegal – Amazon is merely the catalyst of change**

**Margaret Hodge MP, Commons PAC chair, might be praised for railing against Amazon's questionable business tactics, but she is merely voicing the country's universal frustration, that's all. The real culprits of increasing town centre dereliction lie elsewhere.**

**Firstly, The UK Treasury for employing civil servants with no vision – tax avoidance possibilities should have been obvious from the early 1990s. Why has nothing been resolved even yet, and why are the Ernst and Young's of this world being employed as Government tax advisers when known to be working for Amazon as well - surely a huge conflict of interest?**

**Secondly, greedy landlords with their upwards-only rent reviews and crippling 25 year lease have allowed no flexibility in the market to react quickly to online retailing.**

**Finally, building all the massive out of town retail parks such as Bluewater and the Trafford centre without thinking of the consequences was totally irresponsible planning**

**However, there are credible solutions to reverse our failing High Streets.**

**But those solutions desperately need a meeting of *joined-up minds* to work. And those same solutions need to be quick too as latest figures show an increase in town centre shop vacancies now at a whopping 11.9% on average in April 2013, up 1% from just the month before.** (Source: British Retail Consortium)

- **The Government needs to rewrite the appropriate tax legislation from scratch to create *a level playing field* for all retailers**
- **Developers and architects need to redesign and build our new town centres along European lines**
- **Town councils need to implement large scale Compulsory Purchase Orders (CPOs)**
- **UK Pension funds need to spend *our money on our future***
- **Councils / private enterprises need to organise more events to bring the *middle classes* into our town centres**

**And above all, people need to repopulate our industrial and failing towns and cities to, inter alia,**

- **Slightly reduce the overall number of shops**
- **Change the retail mix, reduce the number of charity shops**
- **Stop *the massacre of the Greenbelt***
- **Rescue and enhance the night time economy from yob culture**
- **Reduce CO2 emissions and introduce other eco benefits**
- **Reintroduce *smart mills* to edge of town locations**
- **Create meaningful apprenticeships**

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