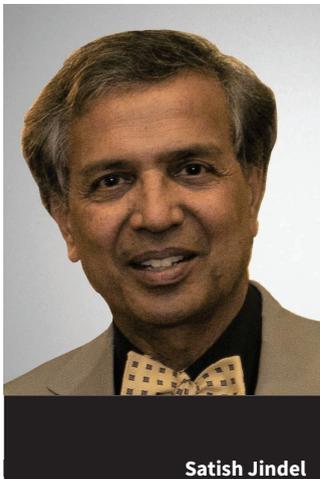


# E-commerce's curse



Satish Jindel

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**E-COMMERCE HAS IMPACTED** not just the transportation and logistics industry but also various other sectors in the economy. Although many factors have contributed to e-commerce's rapid growth, the single most critical one was the offer of free shipping and predictability of two-day delivery.

In the rush to participate in the growth of e-commerce, the parcel delivery industry and small and medium-sized online retailers are only paying attention to its blessing but overlooking its ability to disrupt their business. However, the manufacturers of the products sold to consumers online have failed to understand its curse.

As expected, the impact on the parcel industry has been felt disproportionately at the US Postal Service, UPS, and FedEx. The concentration of e-commerce sales with two major online retailers has resulted in loss of direct relationship with small and medium-sized retailers that have been aggregated by Amazon and Walmart.

While the major parcel carriers seek to regain small businesses, two giant online retailers are building their own last-mile capabilities using models such as those at FedEx Ground or courier companies. And, venture capitalists are investing in last-mile delivery companies with hopes these start-ups can be sold to the online retailers at huge multiples of revenue.

With the new challenges created by millions of parcels being delivered to homes every day, the parcel industry has failed to leverage artificial intelligence and predictive technology to build density for residential deliveries. Instead, the established carriers are investing in building a drop-off network of access points even if it's not the preferred option for the consumer.

To counter online retailers' entry into last-mile delivery, FedEx and UPS introduced a fulfillment service to help small and medium-sized online retailers with distribution and last-mile delivery service, but they lack the advantage held by Amazon and Walmart. For example, if Amazon's marketplace is generating orders, the small retailer feels compelled to use Fulfillment by Amazon for the fulfillment and delivery service.

The irony is that these retailers fail to realize the risk associated with having so many aspects of their business in the hands of one major online marketplace. Their business can evaporate rapidly because the owners of these marketplaces are also competitors and known to mine

the marketplace data to convert success of small retailers by selling competing products directly.

Although the carriers and small online retailers are at least aware of the risk and reward with partnering with Amazon and Walmart, the manufacturers are cursed by growth of e-commerce and have failed to realize it. Amazon founder Jeff Bezos is known to say that others' margin is his opportunity. The huge brand awareness of Amazon and Walmart with the consumer will destroy the famous household brands.

With millions of customers buying more products online, Amazon and Walmart are selling more products under their brand names. That will result in manufacturers' brands losing market share, and give the online retailers huge leverage over the price they pay to the manufacturers.

The most disruptive development in e-commerce likely will come when consumer products companies realize that the internet enables them to put their products directly in the homes of the consumers without the use of retailers. It's much like the passenger airlines did by enabling passengers to ticket and print boarding passes without the travel agents.

Just as mall developers enabled retailers to gain access to consumers, there is an opportunity for an omnichannel version of malls for the manufacturers. These new malls would enable online purchase of goods directly from the producers, while providing opportunity to test the merchandise at physical malls with showrooms that enable online purchase for delivery to the residence. And these showrooms could be used to display how the products are made or assembled today or in future using 3D printing to attract people to the showrooms.

Such a sales channel would offer centralized payment and logistics support for delivery of products to consumers at lower cost with predictability of delivery and thereby a better value proposition than Amazon. Google Express tried to create a marketplace, but it missed the target.

In addition to shrinking the supply chain from manufacturing to getting the products to consumers, this proposed model would reduce the cost of obsolescence and eliminate margins for intermediaries — just what the internet is supposed to do. **JOC**

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