

How Amazon Plans To Drive A Stake Through The Heart Of Retail U.S.A.

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Veruca Salt: I wanted to be the first to find a Golden Ticket, Daddy!

Mr. Salt: I know, angel. We're doing the best we can. I've got every girl in the place to start hunting for you.

Veruca Salt: All right, where is it? Why haven't they found it?

Mr. Salt: Veruca, sweetheart, I'm not a magician! Give me time!

Veruca Salt: I want it now! What's the matter with those twerps down there?

Mr. Salt: For five days now, the entire flipping factory's been on the job. They haven't shelled a peanut in there since Monday. They've been shelling flaming chocolate bars from dawn till dusk!

Veruca Salt: Make them work nights!

~Willy Wonka & the Chocolate Factory, 1971

First Wal-Mart ([WMT](#)) killed the small town mom and pop stores. Then the Internet sucked the life out of window shopping. Then the Great Recession emptied customers' pocket books. Now Amazon ([AMZN](#)) is about to pound the final stake through the heart of Retail U.S.A.

Amazon's product lines have rapidly expanded over the last decade from dog eared, leftover paperbacks to clothing, DVDs, laptops, tablets, garden supplies, tools, automotive, industrial and scientific supplies -- even groceries. Its delivery system is second-to-none. Orders arrive so promptly, it's unbelievable that Amazon could somehow use the same understaffed, underfunded postal service as the rest of us.

Now Amazon has spent billions of dollars erecting warehouses all over America, and it plans to spend billions more on time-shaving robots and workers to fill them in an effort to fulfill that lifelong e-commerce dream -- Same Day Delivery.

Capital Punishment: The Sales Tax

Taxes make for strange bedfellows. Amazon's tax-free status put it directly at odds with Wal-Mart, who is now put in the awkward position of [proposing legislation](#) shoulder to shoulder with the mom and pop stores its success has helped to destroy over the last 50 years. Eighteen U.S. states have attempted to tax Amazon, along with France, Japan, Germany, China, Luxembourg and the United Kingdom.

Amazon has fought taxation for so long it has [a tax named after it](#), and for the last decade or so, the online giant has given better than it got on the subject in Court. Now, Amazon has suddenly changed its mind. Kiva Systems and Same Day Delivery are the reasons why.

Kiva: The Rise Of The Machines

The first made the second possible: Kiva Systems is an order fulfillment company that specializes in automated warehousing. Its customers included Walgreens, GAP, Toys "R" Us, Staples, and yes, Amazon. So why did Amazon decide to buy Kiva Systems for \$775 million dollars instead of simply remaining a key client? The answer is robots.

[Lots of robots.](#)

Amazon pickers with Kiva robots [as co-workers](#) are up to three times more efficient than Joe six-pack at filling real-time orders. That makes Same Day Delivery -- a goal Amazon has been chasing since 2009 -- a viable reality. Even better, from Amazon's perspective, is that Kiva robots don't [call in sick](#), request time off, get pregnant, join unions or hire lawyers. That's why Amazon wants more of them. Thousands of them.

Army of robots or no, Same Day delivery is not without its unique challenges. It's a logistical problem: You need private fleets, couriers, and drop boxes. Inventory optimization, warehouse point-to-point transportation, and network design are essential. Buying Kiva Systems solves all of that for Amazon. Moreover, the ROI window is very fast -- the robots pay for themselves in less than two years.

And then there's the tax breaks. Amazon bowed to New Jersey Governor [Chris Christie's](#) demand for a sales tax. In exchange, Christie gave them a year to implement it. Amazon also plans to build a \$130 billion dollar distribution center somewhere in New Jersey, although where will depend on what kind of tax incentives the locals can come up with. No doubt, a five or even a 10 year write-off is in the works. That puts Amazon right next door to New York city. (Amazon has had a [toehold in Manhattan since 2009](#).)

Amazon's Warehouse Boom

Amazon is building other warehouses in the back yards of dense population centers all over the U.S. -- spending \$150 million to service Indianapolis and middle America; and \$150 million in central Tennessee, giving it access to Nashville, as well as Memphis' centuries-old distribution network (which is why the FedEx ([FDX](#)) Hub is located there), It has also spent \$120+ million in southeastern Virginia, and over \$500 million in California, with two new 1-million square ft. Fulfillment Centers being built just outside of San Francisco and Los Angeles, under a joint venture called [Golden State FC LLC](#). The San Francisco center will be open in 2013, according to the site developer and landlord USAA Real Estate. Amazon plans to build five to 10 more Fulfillment Centers in California over the next three years.

That's a near term investment of around \$3 billion dollars *in California alone*.

Now, Amazon's bound to lose a few bargain hunters once it starts collecting sales tax. However, as any retailer will tell you, bargain hunters are the least profitable customers, and with outlets like Wal-Mart significantly raising their prices, it's not certain who will benefit from Amazon's loss. Already, Wal-Mart has steadily seen its customer base erode in recent years, largely because of Amazon. However, the expansion of Amazon's distribution network allows it to compete head to head with Wal-Mart and Kroger ([KR](#)) in the food-industry sector.

Addicted To Speed

As you can see [here](#), broadband internet connections have made us even more addicted to speed.

- Acceptable download speeds (remember when 28.8 kbps over a dial-up was *fast*?) have been pared down to fractions of a second.
- If a web page won't load *right this instant*, it's not worth waiting for. Period. It could be Breaking News, it could be something I've been meaning to buy all week. Doesn't matter.
- Half of today's consumers can't be bothered to wait in line to see a movie.
- Falling in love the old fashioned way takes too long. Speed dating is where it's at.
- If my coffee isn't here in two minutes, then woe unto you, IHOP!

And you thought some things were worth waiting for.

Why do we have to have it *now*? It has to do with something called *hyperbolic discounting*.

For Tomorrow We May Die

Hyperbolic discounting means that human beings tend to be a bit near-sighted when it comes to the future. In alcoholic parlance, a drink in the hand is worth two in the bottle. When offered a choice between receiving \$1,000 today or \$3,000 three years from now, most people want the money now. That's why lottery winners would rather take the lump sum payout, even at a 40% discount, than wait for the full payout spread over thirty years. (I realize that a rational argument could be made for taking the money right away due to dollar devaluation, but your average Joe isn't taking the money because he wants to hedge against inflation. He's taking the money because he doesn't want to wait 30 years.) Big Box retailers like Wal-Mart are fully aware of this phenomena. Their profits are derived from a) geographical convenience and b) instant gratification.

The Economics Of Instant Gratification

It's been said that marketing isn't about selling people your product, it's about selling people the fear of living without your product. In academic-speak, this is known as *delay discounting*. Consumers purchase a product because they can't bear the thought of living without it. It's like watching the long hand on the wall clock at five minutes until recess. It takes that thing takes *years* to move.

There's more. It turns out that consumers [are willing to sacrifice privacy](#) considerations, such as giving their credit card information to an online retailer, in exchange for convenience and immediate gratification.

Americans are projected to spend \$226 billion dollars online in 2012 -- [a 12% increase over 2011](#). In addition, more than **\$1.1 trillion** in retail sales could be attributed to "web-influenced" purchases (offline retail sales influenced by online research.) Web-influenced purchases are why Amazon is willing to invest billions of dollars in Same Day Delivery. It won't get all of it, but with a pie that large, even a slice will do. What is state sales tax and the loss of a few customers compared to a *proven* trillion dollar prize? It's also the reason why Wal-Mart is so desperate to ["deepen" its relationship with Facebook](#).

If only they wouldn't take so *long*...