

White Paper

By: Isaac Romero, Retail Specialist

It's Not Just Amazon's Fault, by: Vitaliy Katsenelson

An article review by: Isaac Romero

"It's Not Just Amazon's Fault" is an article written by Vitaliy Katsenelson, CFA and CEO at Investment Management Associates, Inc. The author speaks about the shift in spending habits resulting in lacking retail sales. As a retail leasing specialist, I take a look at this idea and provide additional perspective.

Review of Article

Early on, the author identifies online sales account for only 8.5 percent of total retail sales and Amazon isn't to be blamed completely for reduced retail sales. In aggregate, I agree; however, what is not discussed are the categories making up the 8.5 percent. In recent years, some categories were more affected than others while online retail grew in popularity including such businesses like Blockbuster, Sports Authority, GameStop, among others. Although the death spiral of these companies is likely a function of the business' failure to innovate and adapt to changing consumer habits and do so quickly enough.

I appreciate his observation and thesis on shifting consumer spending, which is often overlooked, though clearly apparent. The main idea is, given the same income, consumer spending is voluntarily shifting to technology and phone services, meaning a conscious choice by the consumer, and involuntarily to healthcare, a forced expense increase. I'm not sure where inflation on consumer expenditures comes in versus income growth and it may or may not be relevant to the conversation but possibly worth more exploring.

The author's thought noting Millennials don't really care about clothes as much as times past, I see as generally accurate. I certainly believe there are some companies where it is completely acceptable to wear a hoodie and flip-flop. It just depends on the type of work. In our business, I don't believe that attire will work, unless you are the highest producer in the state and have the charisma to back it up. I believe it is possible to dress comfortably while still making a professional impression, without suiting up, and do so affordably.

Consumer spending on the newest phone, accessories, and phone plans is derived more so from FOMO (Fear of Missing Out). Most people buy the latest smart phone to be included with the "in" group. Yet, arguably, most consumers of these products don't spend the time to learn the functionality of the new device, and use it simply to text, email, check Instagram, and make occasional phone calls. Most of those activities can be accomplished with a "dumb" phone. The point here is most people with smartphones don't maximize the device capabilities and could save by switching back to a flip-phone.

Also discussed is how consumers are paying off debt more commonly, which doesn't go far enough here. Today's consumers seem to be taking on less debt by renting more frequently than borrowing to buy a home. Though there is likely an increase in credit card spending.

Additionally, at least anecdotally, the younger generation's value spending on experiences more than products including travelling, food, music festivals, and others.

Before finishing the article and understanding the author's context, my thoughts gravitated to, the author is observing the shift in dollars, or attention, and those are profitable investments to make. Following attention or getting ahead of where attention will be is always profitable.