

The Amazon Effect and What it Could Mean to Our Industry



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Last month I wrote about a dangerous precedent that has been set by one of the industry's buying groups: allowing end users to enjoy the benefits of an E&S buying group by creating an entity that qualifies for membership. This month I am writing about another move that could have a big impact on each of our businesses and the distribution side of our industry as a whole. In this instance, the threat is from the online world and one of the largest, most aggressive and overall best performers when it comes to selection and customer service.

The impending move of Amazon toward our industry is one of the hottest topics of discussion these days and was talked about at length at the most recent FEDA Convention in Tucson. Amazon has approached several of the top manufacturers in our industry to buy a "significant" amount of inventory for it to sell on its new industrial supply website, Amazon Supply. If you haven't visited it, they are currently selling more than 500,000 scientific, industrial and business supplies. They offer lines of credit, free second-day shipping on orders over \$50, the execution of Amazon's distribution network and they even take phone calls.

Currently, it looks like Amazon is positioning itself to be a competitor to Grainger. If this is the case, they will gain some sales in our traditional categories but at prices that are typically higher than most fullservice dealers sell at and, therefore, the impact to our traditional channels of distribution may be limited.

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However, Amazon can be a heavy-weight player in any industry it chooses to compete in. It has the size to leverage its per order costs lower than any of us, potentially the largest product offering anywhere, speed to market, the ability to shift as changes in the marketplace demand, and the wherewithal to execute at a near flawless level. Others have

tried to come into our industry with limited success. Some may have the size and low-cost model but not the variety; others have the cost model and variety but not the execution. Amazon might be the whole package and if you remember Newton's second law, force equals mass times acceleration, then Amazon has the potential to be a truly disruptive force.

As of now, our industry's manufacturers have not jumped into selling Amazon on a direct basis and I applaud them for that. If this should change, the reverberations through our industry could have a permanent impact. In a worst case scenario, many established E&S dealers could go out of business. For those that do survive, margins would be driven lower, customer service devalued and order fulfillment costs would be driven higher by the expectations set by Amazon.

For our industry's manufacturers, as tempting as selling direct to Amazon may be with lots of initial volume and the promise of growth for many years to come, it would come at a price. Margin

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erosion, exceptionally high service demands, lack of knowledgeable sales support driving costs back upstream to manufacturers, and lack of a full breadth of line support (by the volume-added dealer network) are just a few of the possible ramifications to manufacturers selling through Amazon. It will be interesting to see if any of our E&S manufacturers do decide to sell to Amazon and if they do, how that will play out over time.

The Greek philosopher Heraclitus said, "The only constant is change." Depending on your perspective, you might find recent industry developments to be good or bad changes. Either way, they have the potential to impact each of our businesses. While the degree to which we can influence these changes is debatable, it is important to be aware of them and understand them as much as possible. □

Doing Business continued

changes to the ordinary course of business defense:

- In defending against a preference claim, the seller now needs to prove either (1) the payment was made in the ordinary course of business of the seller and customer, or (2) the payment was made according to ordinary business terms in the industry, generally. Under prior law, the seller had to meet both tests.
- Under the new law, the trustee may not recover preferential transfers to a seller aggregating less than \$5,000.
- Under prior law, the trustee typically filed, or threatened to file, a suit (called an adversary proceeding) against a seller in a distant bankruptcy court to recover a small preference payment. The seller would often elect to settle rather than incur defense costs. Under the new law, with some limited exceptions, these suits seeking to recover less than \$10,000 may be filed only in the federal district court where the seller is located.

A Helpful Resource

Potential problem accounts need to be monitored carefully by the credit executive. One public source of information is PACER, or Public Access to Court Electronic Records. PACER is an Internet-based free government service that provides a database of information on cases filed in many federal courts, including the Bankruptcy Courts. The database may be searched using the name of a company or individual and searches may be limited to all Bankruptcy Courts listed on PACER. Users must first register at <http://pacer.psc.uscourts.gov/>.

The foregoing discussion of rights and remedies available to a company is not all-inclusive. Because the complicated nature of the debtor-creditor laws, especially the bankruptcy law, assistance of counsel is recommended to assure that proper action is taken under the particular circumstances in each case. □

About the Author

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