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BUSINESS NEWS

Amazon just upped the ante in the race for free holiday shipping



Packages move along a conveyor belt at the Amazon.com Inc. fulfillment center in Robbinsville, New Jersey on June 7. [Bloomberg photo by Bess Adler]

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Washington

Post

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The battle for the hottest prices this holiday season is spilling into a new arena: the fight over free shipping.

As Walmart, Target and Amazon launch a price war for merchandise in the weeks before Thanksgiving, they are now wooing customers with the promise of fast, efficient, no-cost shipping. On Monday, Amazon upped the ante by expanding free shipping to all customers through the holidays, with no minimum purchase required. The retail and tech giant is also offering Prime Members free same-day delivery on more than three million items. Prime members, who pay \$119 a year for the service, already receive free two-day shipping with no minimum purchase necessary.

It's a move, analysts say, that Amazon hopes will edge out its brick-and-mortar competitors and maybe even lock in new Prime subscribers going into 2019.

But with grand promises come high risks: fall short on getting customers their presents in time, and those shoppers go elsewhere.

(Amazon's founder, Jeff Bezos, owns The Washington Post.)

"This is going to boil down to: 'How do I want to shop? Who's the cheapest in price. And who do I trust the most?'" said Mark Cohen, director of retail studies at Columbia Business School.

To be sure, Target and Walmart are playing ball. Last month, Target announced that from Nov. 1 to Dec. 22, it will offer free two-day shipping with no minimum purchase or membership required. In March, Target said shoppers who spent at least \$35 or used a company credit card could get free two-day shipping. In previous holiday seasons, Target offered free standard shipping.

Walmart will continue to offer free two-day shipping in the United States on purchases of \$35 or more. It is also expanding its free two-day shipping to third-party marketplace sellers.

"Amazon took out a potential challenge to its supremacy," Cohen said. "'Free' is a very addictive drug."

Cohen said Amazon has "a chokehold on competitors" largely because of the revenue generated through Prime memberships, which Bezos most recently put at more than 100 million worldwide in his annual shareholder letter. But dominating e-commerce is particularly crucial for the tech giant.

Charlie O'Shea, lead retail analyst for Moody's, noted that Amazon isn't selling the majority of its products in physical stores, as is the case with Walmart and Target. O'Shea estimated that brick-and-mortar stores with comparatively strong online presences, like Best Buy, don't even incur 20 percent of revenue through e-commerce.

While free shipping is one of the easiest promotions a retailer can offer, O'Shea said it comes at a steep price. Amazon's shipping costs for fiscal year 2017 totaled nearly \$22 billion, O'Shea said, with about \$7.4 billion in the fourth quarter. The retailer posted just more than \$3 billion in profit in 2017.

Still, the promise of free shipping doesn't guarantee shoppers will get their goods on time. Retailers of all sizes often grapple with a surge of holiday orders carried by FedEx, UPS, the Postal Service and other third-party shippers that must contend with a huge spike in demand.

Paula Rosenblum, co-founder and managing partner of retail systems research, said Amazon's pledge will be tested through its third-party Prime operators that sell and ship their products through Amazon's website. While those third-party shippers generate profit for Amazon, they "could be a thorn in [Amazon's] side" if they leave customers hanging, Rosenblum said.

An Amazon spokesperson said the offer applies to all items eligible for free shipping, including items from millions of third-party sellers.

As Target and Walmart signal to Amazon that they "are not going to roll over," Rosenblum said Amazon's move is just the latest in the "race to the bottom."

"As far as I can tell, price parity has been achieved," Rosenblum said. "Once you can achieve shipping cost parity, then it becomes very interesting."

O'Shea put it another way.

"I call it a limbo contest," he said. "How low can you go?"

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