Cribstone
Strategic Macro

Andy Burnham's proposed warehouse tax to fund lower business rates on pubs, clubs, and independent shops sounds like an easy win to level the playing field between Online retailers and the High street. If structured in a way that avoids a net increase in tax for supermarkets, high street retailers and restaurant chains (most of which use sizeable warehouses to enhance their operational efficiency), it can be both jobs positive and electorally palatable. But that growth will only be cyclical. At its core this measure will make Britain's retail economy less productive. That's not great for structural growth, or the long-term cost of living in Britain.

To both support the high street and to drive long term economic productivity, Burnham and his team should up their game. They are likely targeting warehouses as a crude proxy for big e-commerce businesses while avoiding the perception they are taxing British consumers or US big tech. But the problem of the high street is not the super efficiency of warehouses. Rather it is the disintermediation caused by delivery directly to-door. Instead of deploying a blunt tool of taxing warehouses based on size, they should more surgically focus the tax on the main culprit…to-door delivery.

We all love the convenience of seemingly "free" to-door delivery. But the truth is to-door delivery is a modern take on hiring a servant (occasionally undocumented) to fetch the shopping. The price we pay includes this cost. Yes, route-planning and hand-held tech courier drivers deploy is amazing, but the truth is there is a limit to the number of stops a driver can make in a day. Short of humans (or robots) driving faster, it's a challenge to make this crucial but highly manual last leg of the retail chain more efficient. The response to more demand is simply more vehicles. Unless we want robots crisscrossing our pavements or drones crisscrossing our skies, this means more congestion, more wear and tear on roads, and less safe roads. The manpower and energy per parcel delivered to door will largely stagnate. Over time that is not good for either the cost of living in Britain, or the planet. It is not the government's job to solve the last mile productivity problem, but if government is seeking to "level" the playing field between ecommerce and the high street, why not do so in a way that both more directly targets the threat to the high street, while also motivating improved retail efficiency and societal outcomes? Instead of crudely taxing warehouses, tailor the tax to focus more directly on businesses with high levels of to-door deliveries. Not only will brick and mortar businesses benefit, but so too will online sales when they are click and collect, collect from a neighborhood store, or most efficiently, collect from a locker.

Naturally every parcel picked up in a store will drive footfall to those stores and the high street generally. Lockers, typically placed in high traffic locations, also drive footfall to areas where brick and mortar retailers and service providers can benefit. But more importantly, courier efficiency soars when they deliver large payloads of parcels to stores or lockers. For merchants, this means the price to serve customers falls. As consumers get in the habit of picking up from a store or a locker, the economics of reaching that consumer improve for every merchant. The result of lower delivery charges is lower minimum order sizes which serve to democratize the highly consolidated ecommerce market. The associated efficiencies and competition will drive consumer prices lower longer term while improving choice. By contrast a crude tax on warehouses will likely increase consumer prices over time.

White van manufacturers and weight loss drug producers may be disappointed by the reduction in traffic and more people walking beyond their doorstep, the high street will cheer. This is not just because of their competitive gain and higher footfall, but as the out-of-home pick-up culture takes root, absolute costs per parcel will fall, as will missed or lost deliveries. Over time, more small independent retailers will be able to compete with, rather than depend on, the Amazon Prime's of this world.

Mike Harris, Founder Cribstone Strategic Macro

In Poland, where the vast majority of the population lives within a seven minute walk of a locker, over half of all deliveries are to lockers as consumers have embraced the ease of collection and control of pick-up times. Yet to achieve Polish final mile efficiencies and consumer satisfaction, lockers need to be ubiquitous. If Mr. Burnham and his team are incredibly thoughtful, they can craft their policy in a way that not only boosts the high street, but structurally motivates greater access for out of home online pick-up. In time (perhaps before the next election), it will motivate a shift towards more cost efficient (and environmentally friendly) e-commerce sector. Almost every retailer, and every consumer, will be better off if they do.

Mike Harris is the Founder of Cribstone Strategic Macro and the Director of the London program for the Syracuse University Whitman School of Management. He was formerly one of the highest ranked research analysts in the City of London with 22 number 1 rankings in the Institutional Investor Survey. His expertise on this subject is driven by his role as an IPO advisor and former the Head of Investor Relations for InPost. He has no current or prospective financial interest in InPost or the sector.