

Direct Importing by Retailers

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Disclaimer: Any opinions and conclusions expressed herein are those of the author and do not necessarily reflect the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information has been disclosed.



Outline

1. Importance of direct importing in the retail sector
2. Conceptual framework for direct imports
3. Implications for Productivity
4. Available data



Key Takeaways

- Direct imports have made large retailers more competitive
- This activity happens outside of retail establishments
- Not captured in retail statistics



Direct Imports and Retail

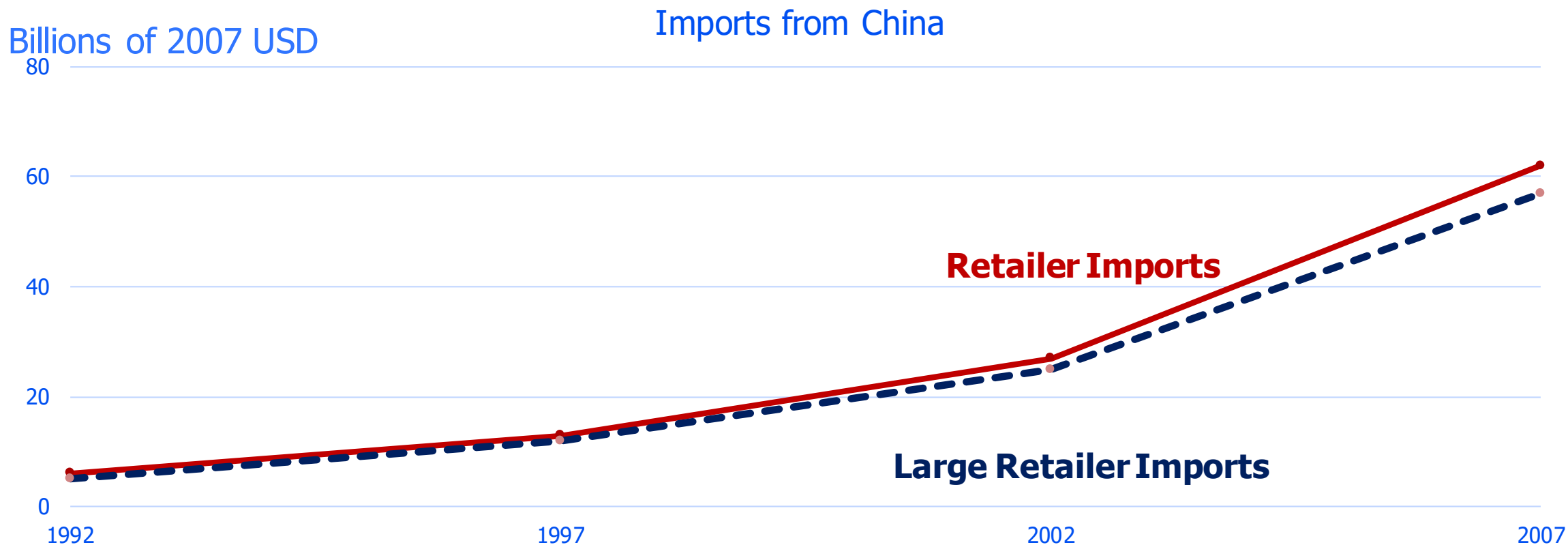


Retailers Directly Import

The big four retail importers --- Walmart, Target, The Home Depot, and Lowe's --
- collectively imported nearly 2.3 million TEU in 2018, accounting for nearly one
out of every 10 US import TEU.

~ [Journal of Commerce May 30, 2019](#)

Only Large Retailers Import



Source: Calculations from the LFTTD. Imports by firms with >50% employment in retail.

Significant Variation Across Products

Product Category	Direct Imports from China / Sales (2007)
Clothing	6.2
Electronics and Appliances	9.2
Furniture	12.6
Groceries	0.0
Health Goods	0.2
Home Goods	2.9
Sporting Goods	5.1
Toys	26.2
Overall	2.9

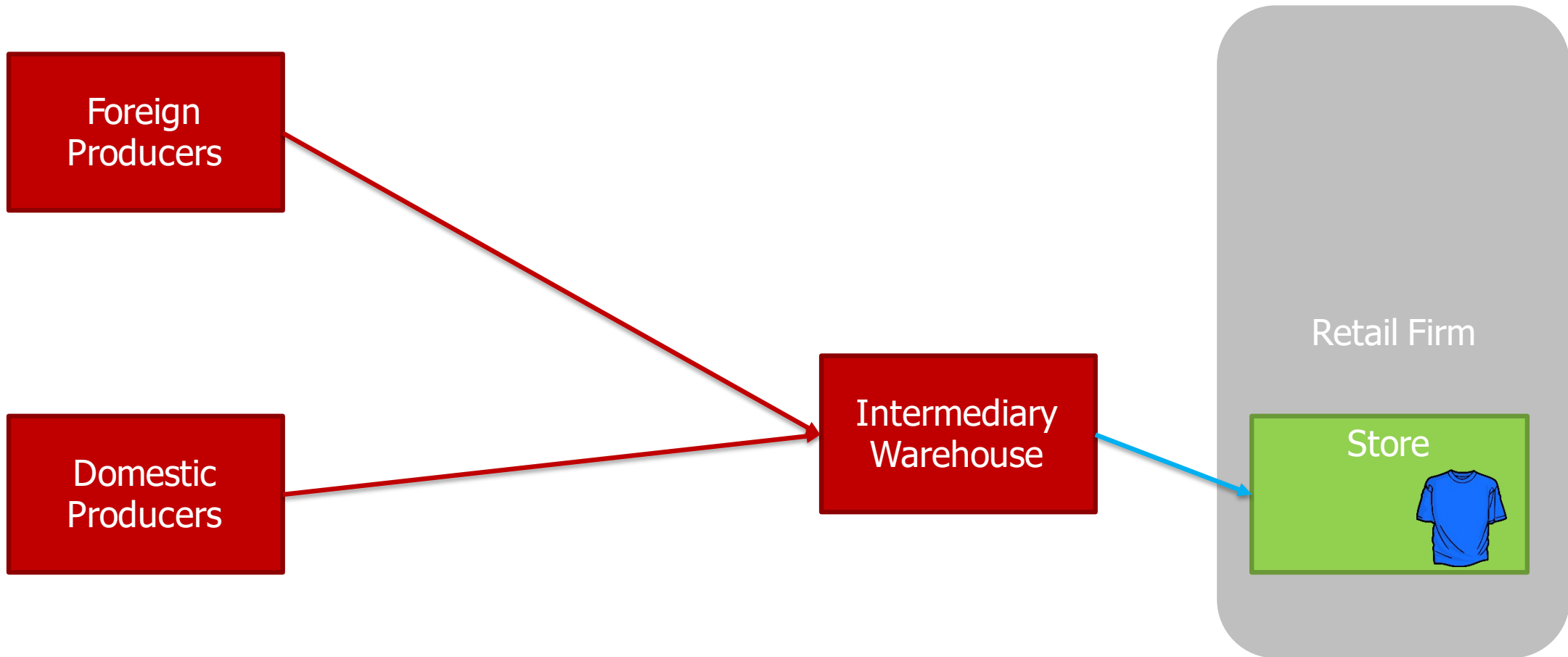
Source: Calculations from the LFTTD and CRT. Data are for 2007.



Conceptual Framework and Challenges



Small Retailer Value Chain

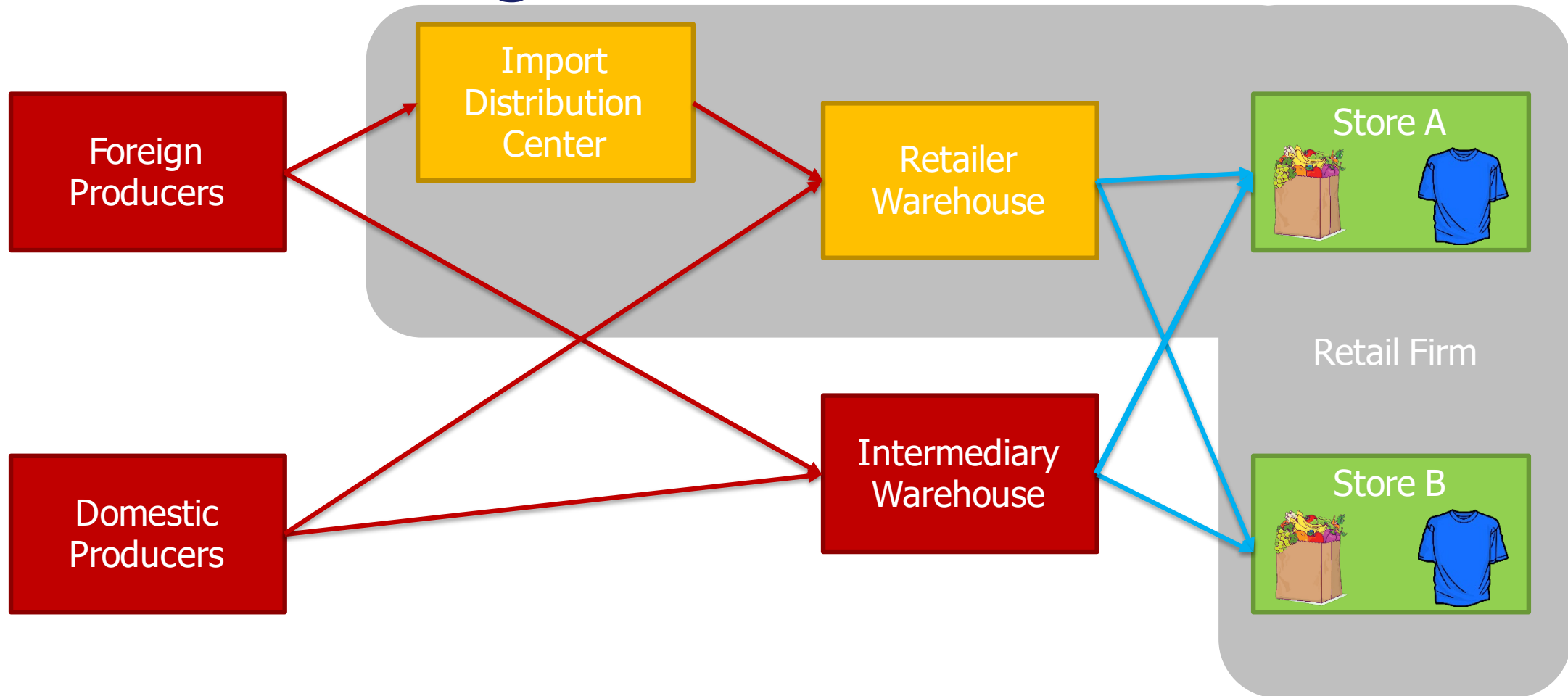


Large Retailers are Vertically Integrated

Our current distribution network includes 23 regional distribution centers (RDCs) and **three import warehouses (IWs)**. We plan to add three RDCs and **two IWs** over the next two years,

~ [Target 2005 Annual Report pg. 9](#)

Large Retailer Value Chain



Why do retailers directly import?

This [increase] in gross margin rate primarily reflected an improvement in markup, including an increase in direct import penetration, as well as favorable inventory shrinkage performance.

~ [Target 2005 Annual Report pg. 17](#)

Direct Imports Lower Marginal Cost

- Avoid intermediaries (Ganapati, 2019)
- Bundling goods (Holmes and Singer, 2018)
- Decrease shipping distance
- Control over product



Impact on Productivity



Impact on (Labor) Productivity

1. Activities happen outside of retail establishments

- ▶ Lower cost of goods sold => increase in quantity
- ▶ Potentially no change in labor productivity

$$\text{Retail Productivity} = \frac{\text{Quantity Sold}}{\text{Hours Worked}}$$

2. Composition changes may cause measurement issues

- ▶ Concerns about deflators

Note: Outlet Substitution Bias (OSB)

$$\text{Retail Productivity} = \frac{\text{Sales/CPI}}{\text{Hours Worked}}$$

- Small retailers close when competitors imports (Smith, 2018)
- Potential to contribute towards OSB
- Overestimate inflation => underestimate productivity

Further Complication: Multi-product retailers

The factors affecting our outlook include: ..., **our growth in direct imports** and our ability to leverage our increasing scale, offset by ... **the more rapid pace of growth of lower margin categories, like consumables and commodities.**

~ [Target 2005 Annual Report pg. 18](#)

Available Data



Census Data

1. Trade Data
 - ▶ Imports by firms
2. Longitudinal Business Database/County Business Patterns
 - ▶ Employment by establishment
 - ▶ Activities in other sectors (warehousing)
3. Census of Retail Trade
 - ▶ Revenue by product for all establishments
4. Monthly/Annual Retail Trade Survey
 - ▶ Firm cost of goods sold



Imports of Consumer Goods

	1992	1997	2002	2007
Total Consumer Goods Imports	319	538	794	1,192
Imports from China	23	55	124	316
Retailer Imports from China	6	13	27	62
Large Retailer Imports from China	5	12	25	57

Source: Calculations from the LFTTD.

