Future Is Gloomy for Retailers as They Cut Jobs and Shutter Stores[1]

Staggering job loss numbers in the retail industry continue amidst brick-and-mortar store's inability to compete in e-commerce.

By Lisa Christy, April 7, 2017

Comments by Phillip W. Weiss

[1] https://www.gobankingrates.com/making-money/future-gloomy-retailers-cut-jobs-shutter-stores/

According to the Christy article, several major retailers, including Abercrombie & Fitch, American Apparel, Gap, and Macy's, are closing stores. At the time of this report's publication, the retail section lost 30,000 jobs. The main "culprit" are online retailers like Amazon.

The article is unduly alarmist, spinning a political line designed to debunk Donald Trump's claims that the economy is improving. This is not surprising. The author, Lisa Christy, studied public relations, advertising and broadcast journalism at Kent State University, graduating summa cum laude. Given her educational background, it is unlikely, although not completely impossible, that she endorsed Donald Trump. (source: https://www.gobankingrates.com/author/lisac/)

This article raises two questions. First, can the performance of one sector of the retail industry be used as a barometer for measuring overall economic performance? And 2. Can Marx provide an explanation for why certain retail operations are scaling back? Regarding the first question, the answer is no. Companies fail. In fact, in a capitalist system, companies are expected to fail. That is the result of competition. Which takes us to question two. Marx would assert that the companies that are scaling back are doing so because they have failed to keep up with technological advances, resulting in a reduction in the amount of surplus value that can be extracted from their workforce. Marx wrote, "Capital cares nothing for the length of life of labor-power. All that concerns it is simply and solely the maximum of labor-power that can be rendered fluent in a working-day" (Marx-Engels Reader, 373). Retailers cited in this article are utilizing

modes of production that are not maximizing the productive capacity of their labor-force. (That sales are part of production is discussed below.) For instance, a retail store such as Macy's still utilizes a one-to-one sales model. A customer enters the store and is serviced by one sales person. This mode of trade is labor intensive and inefficient. Even if the customer does make a purchase, and there is no guarantee that will happen, the sales person still must process the sale before transferring the commodity to the customer. This work is time-consuming and delays the completion of the sales process. It's no wonder that so many retailers are closing stores.

Contrast that to selling online. When a customer orders a commodity online, the customer does much of the work. The customer, not the worker, now generates the invoice. More significantly, however, online sales eliminates the one-on-one interaction between customer and sales staff. The sales department can now process many times as many orders. In fact, the traditional sales department is no longer needed and can be replaced by computer operators who process orders coming through a computer. The process is the same as that used to sell food online. One food service worker can process dozens of online orders. This greatly reduces the cost of labor while at the same time greatly increasing productivity. From a Marxist perspective, it produces a huge increase in relative surplus value. Marx stated, "The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus-value, and consequently to exploit labor power to the greatest possible extent" (Marx-Engels Reader, 385). So great is the increase in surplus value that the capitalist,

if he is not too greedy, can decrease prices and still make substantial profit (and, if he is fair minded, still have enough profit left to pay an increase in wages). Again Marx, "Like every other increase in the productiveness of labor, machinery is intended to cheapen commodities, and by shortening the portion of the working-day, in which the laborer works for himself, to lengthen the other portion that he gives, without an equivalent, to the capitalist. In short, it is a means for producing surplus-value" (Marx-Engels Reader, 403). In this case, the machinery is the computer.

Please understand that applicability of Marxist theory is not limited only to the initial manufacture of a commodity in a factory. That is just one part of production. In retail operations, the critical component of production is distribution. The capitalist needs to maximize the productive capacity of the shipping department. Retail operations are not involved in manufacturing but sales. The sales process invests the product with additional value. Marx wrote, "Whenever therefore a product enters as a means of production into a new labor process, it thereby loses its character as a product, and becomes a mere factor in the process" (Marx-Engels Reader, 348). In retail, the product needs to be moved. Otherwise it is still not a commodity. Hence the product being sold becomes part of the production process. To physically move the product to the consumer requires physical labor. That increases the commodity's cost of production. This relationship is expressed in this equation

$$L + S = C$$

C = cost of producing a commodity

L = cost of labor needed to manufacture the commodity

S = cost of labor needed to transfer the commodity to the customer

Example 1

Product cost 10 dollars to manufacture and 20 dollars to sell.

L = $10, S = $20, C = $30   (10 + 20 = 30)

Example 2

Product L costs 10 dollars to manufacture and 5 dollars to sell.

L = $10, S = $5, C = $15   (10 + 5 = 15)

If L increases, cost will increase

L = $50, S = $5, C = $55   (50 + 5 = 55)

Even if the cost of manufacture is high, a low cost of distribution will help keep the final cost of the commodity in check.

Example 3

L = $100, S = $10, C = $110   (100 + 10 = 110)

Likewise, if the cost of manufacture is low and cost of distribution high, then the final cost of the commodity will be high.

Example 4

L = $10, S = $100, C = $110   (10 + 100 = 110)

These equations may seem elementary, but they illustrate how costs can escalate, even when manufacturing component is cost-effective. The critical role of distribution in generating profit cannot be underestimated. It must be treated as an integral part of the production process.

The higher the cost of producing a commodity, the lower the profit. That is case because an increase sales price usually results in a decrease in demand. Marketing journalist Joy Joseph writes, "Retail prices … are determined by actual demand-supply economics." (source: http://www.marketingprofs.com/9/retail-price-and-impact-commodity-price-inflation-joseph.asp). To increase profit, therefore, may require more marketing. This yet adds another factor to the cost of production equation.

$$C = L + S + M$$

M = cost of marketing

This will necessitate more labor which may or may not yield sufficient surplus value to sustain an acceptable profit margin. (Of course, given the fickle nature of the market, a high-cost commodity can sell at a substantial profit, but in general that applies to luxury items which have little use-value but immense exchange-value.) Hence, the introduction of computer technology is critical to control costs, maximize surplus value and produce profit.

If manufacturing costs are stable, the company that can distribute its product most efficiently will produce the most profit. Those companies that continue to utilize outmoded models of distribution will experience a reduction in relative surplus value, placing them at a competitive disadvantage with all its dire implications, especially for the labor force.