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6 REVIEW OF EMERGING TECH'S IMPACT ON RETAIL

7 OPERATIONS AND LOGISTICS

8 WEDNESDAY, MARCH 7, 2018

9 House of Representatives

10 Subcommittee on Digital Commerce and Consumer

11 Protection

12 Committee on Energy and Commerce

13 Washington, D.C.

14

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16

17 The subcommittee met, pursuant to call, at 10:00 a.m., in

18 Room 2123 Rayburn House Office Building, Hon. Robert Latta

19 [chairman of the subcommittee] presiding.

20 Members present: Representatives Latta, Kinzinger, Lance,

21 Guthrie, McKinley, Bilirakis, Bucshon, Mullin, Walters,

22 Costello, Duncan, Walden (ex officio), Schakowsky, Welch,

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23 Kennedy, and Pallone (ex officio).

24 Staff present: Mike Bloomquist, Deputy Staff Director;
25 Melissa Froelich, Chief Counsel, Digital Commerce and Consumer
26 Protection; Adam Fromm, Director of Outreach and Coalitions; Ali
27 Fulling, Legislative Clerk, Oversight & Investigations, Digital
28 Commerce and Consumer Protection; Elena Hernandez, Press
29 Secretary; Paul Jackson, Professional Staff, Digital Commerce and
30 Consumer Protection; Bijan Koochmaraie, Counsel, Digital Commerce
31 and Consumer Protection; Ryan Long, Deputy Staff Director;
32 Annelise Rickert, Counsel, Energy; Austin Stonebraker, Press
33 Assistant; Madeline Vey, Policy Coordinator, Digital Commerce and
34 Consumer Protection; Hamlin Wade, Special Advisor, External
35 Affairs; Greg Zerzan, Counsel, Digital Commerce and Consumer
36 Protection; Michelle Ash, Minority Chief Counsel, Digital
37 Commerce and Consumer Protection; Jeff Carroll, Minority Staff
38 Director; Caroline Paris-Behr, Minority Policy Analyst; Michelle
39 Rusk, Minority FTC Detailee; and C.J. Young, Minority Press
40 Secretary.

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41 Mr. Latta. Well, good morning. I would like to call the
42 Subcommittee on Digital Commerce and Consumer Protection to
43 order. And I will now recognize myself for five minutes for an
44 opening statement.

45 Good morning. I would like to welcome our witnesses this
46 morning for today's hearing in Emerging Tech's Impact on Retail
47 Operations and Logistics.

48 Thank you for being here to help us examine how e-commerce
49 has changed the face of retail, and how both e-commerce and retail
50 operations are responding in a world where technology,
51 innovation, and consumer expectations are constantly evolving.

52 Today, U.S. consumers demand the speed and convenience of
53 getting what they want, when and where they want it, including:

54 Ordering from their phones and picking up in-store;

55 Varied payment options, and;

56 Different delivery choices, including free shipping.

57 This was evident during the 2017 holiday season, as 51
58 percent of last minute shoppers said they had planned to purchase
59 their gifts online.

60 E-commerce and catalog sales increased 12.3 percent during
61 the holiday, accounting for 16 percent of all goods sold.

62 In 2017, 80 percent of shoppers made more than four to seven

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63 online purchases in the typical three-month time frame.

64 As online shopping continues to gain in popularity and
65 acceptance as in-store shopping, we want to understand how a
66 consumer's decisions impact not only the e-commerce and retail
67 companies, but also supply chain and delivery channels,
68 particularly residential last-mile.

69 This past holiday season, it struck me how massive the
70 challenge of getting millions of packages processed and shipped
71 to shoppers once they clicked "buy now."

72 How are purchases able to be delivered to my home in Ohio,
73 or to family members or friends across the country in two days'
74 time or less, often without adding additional charges? If I was
75 in a hurry, I might be able to take advantage of same-day delivery
76 with the help of the new last-mile and independent contractor
77 options, like Insta-cart or Cargo-matic.

78 When parcel deliveries encounter bad weather and delays, or
79 are misrouted or misplaced, how does that impact -- what impact
80 does that have on e-commerce shippers and ordinary shoppers like
81 me? Have the current tracking tools helped give consumers more
82 information about their orders?

83 Then there is the whole question of returns. What happens
84 to a purchased item when it is returned? When it enters the

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85 reverse supply chain for restocking, is it sold on a secondary
86 market, donated to charity, or discarded? I am sure this varies
87 among companies, but I am interested from hearing from our
88 witnesses about their return processes.

89 This hearing is part of this subcommittee's ongoing effort
90 to explore how the Internet and advanced technology impacts our
91 lives, jobs, and economy. Ohio is already home to some of the
92 most highly regulated -- regarded e-commerce fulfillment and
93 shipping facilities in the country. Many retailers and
94 e-commerce companies have made the investment in fulfillment and
95 shipping operations in my home state because of our outstanding
96 workforce, Ohio's transportation network, and the proximity to
97 major population centers.

98 For instance, where I live, just about 12 miles north of me
99 where I-75 and the Ohio Turnpike come together, it is within one
100 day's drive of 60 percent of the United States population.

101 Emerging innovations, such as premium delivery, parcel
102 locker boxes, and drones, will surely challenge the future of the
103 supply chain to provide higher performance to satisfy customers.

104 The Internet and data have had a transformative effect on
105 every industry in this committee's jurisdiction, for the better,
106 and also in presenting new challenges. One of those challenges

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107 is consumer data security in the e-commerce landscape. As this
108 subcommittee has learned through numerous hearings on the
109 subject, in exchange for efficiency and convenience, consumers
110 provide companies with personal details, like their addresses,
111 payment card information to complete that order.

112 The reality is, that process is not going to change. I still
113 need to tell the retailer where to deliver my new book after I
114 pay for it. But continuing to improve security at all points of
115 the supply chain is a critical goal that companies large and small
116 need to be focused on.

117 There are many interesting elements to this conversation
118 about how new technology is changing how consumers shop and the
119 package delivery system. I look forward to hearing from our
120 witnesses today about their experience with this transformation.

121 And with that, I will yield back the balance of my time. And
122 at this time will formally pass on the ranking member of the
123 subcommittee and go to the ranking member of the full committee,
124 the gentleman from New Jersey, for five minutes.

125 Mr. Pallone. Thank you, Mr. Chairman. There's no question
126 that the Internet has changed the way we live, nearly every aspect
127 of our lives. It certainly has changed the way we shop. At any
128 hour of the day, by phone, tablet or a smart speaker on our kitchen

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129 counter we have access to a dizzying array of products that appear
130 almost magically at our doorstep overnight.

131 The evolution of e-commerce presents exciting opportunities
132 for business. And I look forward to learning about the new
133 technologies that are making it possible.

134 The consumer benefits of e-commerce are obvious: ease of
135 shopping, unlimited selection, and the convenience of fast home
136 delivery or easy in-store pick-up. Consumers of every
137 demographic appreciate the advances of online shopping. Yet, as
138 in all online activities, the constant amassing of personal
139 information that makes benefits of online shopping possible
140 presents privacy and data security concerns.

141 We also know that the sophisticated algorithms analyzing all
142 that data can have structural flaws that create racial and other
143 biases and in how products are marketed, priced, and delivered.
144 Additionally, the growth of e-commerce has increased freight
145 traffic in our residential neighborhoods, and led to more
146 packaging waste than necessary.

147 Now, I am particularly concerned that the trend toward
148 e-commerce is increasingly resulting in consumers purchasing
149 counterfeit goods. Just last month, the Government
150 Accountability Office released a report finding that of 47

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151 products purchased from third party sellers hosted by major
152 e-commerce website, 20 of those 47 were counterfeit. While we
153 all want more choice, consumers do not want fake products,
154 especially counterfeits that are dangerous, such as cosmetics
155 laced with lead or mercury.

156 And today I wrote to five e-commerce websites GAO
157 investigated asking them to explain how they are addressing the
158 problem of sales of counterfeit products through their platforms.
159 And I hope our discussions at this hearing will include a review
160 of the consumer protection challenges that I have mentioned.

161 The commerce landscape is changing for sellers as well.
162 Online sellers are reaching a larger, more diverse customer base
163 around the world. Low start-up costs allow even more people to
164 benefit from online selling. Moreover, sellers are able to reach
165 customers at all hours and employ workers who need a flexible work
166 arrangement.

167 At the same time, I am troubled by two big hurdles small
168 businesses face in the growing world of e-commerce. The first
169 is an outdated and decaying infrastructure. Our energy grid is
170 precarious and inefficient, something as basic as clean water
171 supply is not a given, and many areas of our country still lack
172 reliable broadband access.

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173 And the second is the FCC's dismantling of free and fair
174 access to the Internet, or net neutrality. And this action by
175 the Trump FCC will significantly handicap any business without
176 major economic clout.

177 Many Democrats and me took on the infrastructure crisis by
178 proposing \$40 billion for secure and resilient broadband. This
179 is part of our LIFT America Act. And we must stay focused on
180 making reliable broadband access a reality everywhere. It's
181 essential to small retailers in both rural and urban communities.
182 And, of course, net neutrality is essential to small retailers.
183 Without free and open access to the Internet, the entrepreneurs
184 that drive our economy will struggle to survive, let alone thrive.

185 And last year I toured four businesses in Asbury Park, which
186 is a city in my congressional district, and I witnessed firsthand
187 just how integral the Internet is to engaging new customers and
188 generating sales.

189 So, we should also be mindful of how the decline of physical
190 stores, the rise of large fulfillment warehouses, and the
191 incorporation of robotics and automation into the supply chain
192 will affect the job market. And I am not suggesting we resist
193 innovation, but that we continue to assess how to ensure our
194 workforce is able to adjust to the shifting marketplace.

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195 Again, I thank all of you. It is going to be interesting
196 to see what you have to say. And I yield back.

197 Mr. Latta. Thank you very much. The gentleman yields back.
198 And the Chair now recognizes the gentleman from Oregon, the
199 chairman of the full committee, for five minutes.

200 The Chairman. Well, thank you, Mr. Chairman. Thanks for
201 doing this very important hearing on the future, again of emerging
202 tech impact on retail operations and logistics.

203 My district is home to a number of data centers: Google,
204 Facebook, Apple, Amazon. Pretty impressive the build-out that
205 is going on there, the jobs that come with it, and how our economy
206 is changing dramatically and rapidly. So this is really another
207 part of our hearing sequence of looking at the future in innovation
208 and legacy rules and regulations that actually can constrain and
209 hold back innovation.

210 The Internet's incredible ability to transform old ways of
211 doing business is by now widely known. And in the retail space,
212 e-commerce has closed this gap between buyer and seller to the
213 point where, you know, I can use this phone sitting right here
214 and order whatever I need, and have it delivered by tomorrow, or
215 perhaps sooner than that, I don't know. Well, I guess Uber Eats
216 is something I can get -- hey, what am I getting for lunch? I

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217 should figure this out.

218 The long and the short of it is, the customer is in charge.
219 And that's the way markets really work. And, you know, we want
220 to make sure this marketplace continues to grow and that we don't
221 stand in the way with federal policy in things that inhibit.

222 I would just say on the issue of net neutrality it was really
223 hard for these little start-up companies to ever get off the ground
224 prior to Tom Wheeler's decision on net neutrality. That's why
225 these little start-ups we know today like Amazon, Google,
226 Facebook, et cetera, et cetera, by the way all blossomed prior
227 to these rules. And I think you are seeing a complete overplay
228 on the opposition to net neutrality. I don't think it is well
229 understood.

230 But anyway, going forward we see this enormous change going
231 on in shipping. We see the change in the workforce needs. And
232 we want to make sure that the market works, that there is space
233 for innovation and competition. And we are more than happy to
234 legislate in this space to prevent bad behavior on the Internet
235 such as throttling and blocking and some of those things that I
236 think we can find common ground on, we can enshrine in statute,
237 and give certainty to the market as opposed to ping-ponging back
238 and forth between courts and FCCs. And we would welcome a

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239 bipartisan effort to do that.

240 At the same time, the shoppers are benefitting from lower
241 costs and greater choices, this revolution in logistics allow
242 Americans to find a product online, purchase it, have it delivered
243 to their homes in a few days or hours. Companies are
244 experimenting with drones.

245 I was down at Google X with Sergey Brin as he was running
246 one of their drones on the rooftop showing how he could do package
247 delivery and the speed with which they can bring you whatever you
248 need. And so we need to look at what federal issues are in the
249 way of allowing that to move forward.

250 And then you have changes in manufacturing, with the 3 --
251 D printing holding potential to allow on-demand creation of
252 products from "local" manufacturers. And so this, the Internet
253 revolution, continues. And public policy has to evolve with it.
254 And our goal here is to put the customer first.

255 And so, Mr. Chairman, thanks for your good work and
256 bipartisan way as we move forward in this endeavor. And with
257 that, I yield back the balance of my time.

258 Mr. Latta. Thank you very much. The gentleman yields back.
259 And the Chair now recognizes the gentlelady of Illinois, the
260 ranking member of the subcommittee, for five minutes.

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261 Ms. Schakowsky. Thank you very much, Mr. Chairman. And
262 thank you to all our witnesses today.

263 The Internet has literally revolutionized how Americans
264 shop. Consumers and businesses are less bound by geography.
265 E-commerce opens up the door to new opportunities and greater
266 competition. E-Commerce doubled from 2011 to 2016. In fact,
267 it's growing five times faster than traditional retail. These
268 numbers come as no surprise, given the number of delivery trucks
269 we see on our streets and the packages are piled up on the doorsteps
270 and mailrooms across the country.

271 As with other technological changes this subcommittee
272 examines, e-commerce comes with other new challenges.
273 Businesses must attract consumers to their websites, provide a
274 convenient and secure shopping experience, and then literally
275 deliver the goods. U.S. Postal Service and private delivery
276 service must transport a growing number of packages. Our
277 infrastructure, physical and digital, must handle orders as they
278 come in and ship out. States and cities must deal with changes
279 to their revenue, not to mention collection of trash and
280 recycling. And workers must adapt as jobs move from retail stores
281 to customer service, tech support, and supply chain.

282 The shift of consumers to the Internet is especially

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283 difficult for small businesses. They have fewer resources to
284 build a strong online presence, while a big player like Amazon
285 can offer free shipping and get consumers to sign up for annual
286 memberships. Small businesses generally don't move enough
287 product for that kind of business model.

288 Unique challenges of building a successful business online
289 only add to longstanding struggles such as access to capital and
290 attracting quality workers. As we improve the resources that the
291 Federal Government makes available to small business owners, we
292 must factor in the growth of online retail.

293 We also need to consider e-commerce as we advance
294 infrastructure legislation. The Internet can connect a business
295 in rural Vermont, for instance, to a consumer in suburban Chicago,
296 and both need access to reliable broadband. If we invest in
297 broadband we can expand business opportunities in both our large
298 cities and smallest rural communities. But if broadband only
299 reaches the area where it is most profitable, millions of
300 entrepreneurs, workers, and consumers will be left behind.

301 In addition, expanding opportunity through e-commerce
302 requires a fair playing field. Net neutrality is fundamental to
303 the innovation we are -- we have seen on the Internet. The FCC's
304 vote in December to undo net neutrality, net neutrality protection

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305 puts that innovation at risk. Without net neutrality, a
306 broadband provider can charge a business extra to make its website
307 load faster. The big names in e-commerce can afford to pay off
308 broadband providers, but for a small business trying to sell
309 nationwide, paying new fees to every broadband provider to load
310 its website as fast as a big corporation -- big corporate
311 competitors may be prohibitively expensive.

312 Consumers deserve better. That is why I have co-sponsored
313 Congressman Mike Doyle's legislation to restore net neutrality
314 and protect fair online marketplace.

315 Before I finish, I would like to take a moment to introduce
316 David Borris. Mr. Borris founded Hel's Kitchen in Northbrook,
317 Northbrook, Illinois. In addition to running a successful
318 business, Mr. Borris serves as an executive committee -- on the
319 executive committee of Main Street Alliance, a national network
320 of small businesses committed to being inclusive, sustainable,
321 and trusted members of our community.

322 I look forward to hearing from Mr. Borris and the rest of
323 our witnesses as we explore the challenges and opportunities
324 presented by e-commerce.

325 And I thank you, Mr. Chairman. I yield back.

326 Mr. Latta. Thank you very much. The gentlelady yields

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327 back. This now concludes the member opening statements.

328 The Chair reminds members that pursuant to the committee
329 rules, all members' opening statements will be made part of the
330 record.

331 Again we want to thank our witnesses for being with us today
332 and offering testimony before the subcommittee. Today's
333 witnesses will have the opportunity to give 5-minute opening
334 statements, followed by a round of questions from our members.

335 Our witness panel for today's hearing include Mr. Rob Taylor,
336 CEO of Convey; Mr. Dan Sanker, Founder, President, and CEO of
337 CaseStack, Inc.; Mr. David Borris, Founder of Hel's Kitchen, and
338 Executive Committee Member of Main Street Alliance; and Mr.
339 Jonathan Johnson, Member of the Board of Directors at
340 Overstock.com, and President of Medici Ventures.

341 And, again, we want to thank you all for being with us today.
342 And we will start with Mr. Taylor. You are recognized for five
343 minutes for your statement. Thank you very much.

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344 STATEMENTS OF ROB TAYLOR, CEO, CONVEY; DAN SANKER, FOUNDER,
345 PRESIDENT, AND CEO, CASESTACK, INC.; DAVID BORRIS, FOUNDER, HEL'S
346 KITCHEN; AND JONATHAN JOHNSON, MEMBER, BOARD OF DIRECTORS,
347 OVERSTOCK.COM, AND PRESIDENT, MEDICI VENTURES

348

349 STATEMENT OF ROB TAYLOR

350 Mr. Taylor. Chairman Latta, Ranking Member Schakowsky, and
351 members of the subcommittee, it is a privilege and honor to provide
352 testimony on this important subject. My name is Rob Taylor, and
353 I am co-founder and CEO of Convey, a software company
354 headquartered in Austin, Texas.

355 We partner with many of the nation's largest retailers to
356 help them gain supply chain visibility for customer deliveries,
357 prevent those deliveries from failing, and ultimately provide
358 improved customer experiences. We sit squarely at the
359 intersection of technology, retail last-mile supply chain, and
360 consumer experience.

361 Over the past 20 years, I have helped build several
362 successful companies focused on providing enhanced, transparent
363 retail consumer experiences. At Convey, we are helping our
364 retail customers differentiate on the emerging competitive
365 frontier -- providing predictive, proactive e-commerce delivery

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366 experiences to consumers.

367 A confluence of factors is creating opportunities for
368 innovation and differentiation in the last-mile retail supply
369 chain.

370 E-commerce growth continues to explode, projected to
371 represent one in every eight retail dollars spent by 2020.

372 The Amazon effect continues to raise the bar in all aspects
373 of consumer experience, including redefining consumer
374 expectations for fast, free delivery.

375 The online sales growth of big and bulky items, such as
376 furniture and appliances, require more complex last-mile carrier
377 networks, and expansion into other delivery modes such as
378 residential freight, where capacity and connectivity is limited,
379 appointments must be set, and drivers need to enter consumers'
380 homes.

381 Collectively, these trends create not only transport
382 challenges, but also significant data and visibility challenges
383 for retailers to effectively serve their customers.

384 Carrier networks for retailers are expanding. Several of
385 our customers work with 100 or more carriers just for last-mile
386 deliveries. Each of these carriers produce unique tracking data
387 that requires integration with disparate retailer systems.

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388 There is no industry standard for the production and use of this
389 information.

390 So why does enhanced visibility matter? We know 4 to 10
391 percent of all last-mile shipments are at risk of leading to a
392 negative consumer experience. Yet, 70 percent of these exception
393 cases have the potential to get back on track through proactive
394 carrier collaboration or customer communication.

395 Delivery failures inevitably reflect poorly on the retailer,
396 not the carrier, given the retailer's brand relationship with the
397 consumer. Survey data confirms that retailers who are unable to
398 uphold their delivery promise risk losing customers, with 70
399 percent of consumers indicating they would abandon a retailer
400 after one failed delivery.

401 Convey was conceived to help retailers solve these
402 challenges. We believe the last mile represents the most
403 important opportunity for retail innovation. Our application
404 ingests millions of data streams from carrier and retail systems,
405 and transforms this data using machine intelligence to highlight
406 distressed shipments early enough for all parties to collaborate,
407 remediate, and head off a potential negative consumer experience.
408 From this, our retail customers see reductions in call center
409 activity, faster delivery times, reduced transportation costs,

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410 and increased customer satisfaction.

411 Emerging technologies, like ours, that increase efficiency,
412 speed, and transparency for shippers, consumers, and carriers,
413 ensure that the future of the retail experience looks bright.
414 Intelligent, self-healing, and adaptive delivery networks are not
415 far away. These transportation innovations will lead the way for
416 other supply chains beyond retail, including healthcare, parts
417 distribution, and more.

418 While the consumer clearly benefits from these innovations,
419 care must be taken for consumer safety and privacy, particularly
420 as more data is produced through the Internet of Things, and
421 consumers require more in-home deliveries, whether or not they
422 are present in the home. There is also more sharing of data across
423 an increasing number of last-mile ecosystem participants,
424 requiring diligent and shared accountability.

425 In summary, local carrier capacity and connectivity, data
426 security, and consumer safety and privacy are all relevant issues
427 the subcommittee may wish to consider related to the retail
428 last-mile supply chain.

429 I want to thank the members for the opportunity to share some
430 perspective with you today.

431 [The prepared statement of Mr. Taylor follows:]

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433

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434 Mr. Latta. Well, thank you very much for your testimony this
435 morning.

436 And, Mr. Sanker, you are recognized for five minutes.

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437 STATEMENT OF DAN SANKER

438

439 Mr. Sanker. Thank you, Chairman Latta, Ranking Member
440 Schakowsky, and members of the subcommittee for this opportunity
441 to testify before you today.

442 My name is Dan Sanker. I am the Founder, President and CEO
443 of CaseStack. In simple terms, what we do is we bring clients'
444 products into warehouses on the West Coast, in L.A. and Seattle;
445 in the middle, in Dallas, Chicago, Toronto; and on the East Coast,
446 in Atlanta and Scranton. And then what we do is we collaborate
447 with retailers, like an Amazon, Walmart, Whole Foods, Kroger,
448 Target, and a lot of others, and mostly what we do is create
449 multi-supplier orders, so, that are destined for retailers and
450 consumers.

451 And what that does is it, on average, converts what would
452 have been about 16 loads going someplace to one efficient
453 truckload. The result for supply chains is less time in transit,
454 less damages, less wasted miles and empty space on trucks, and
455 less environmental impact and, ultimately, lower prices for
456 consumers.

457 We are currently developing a new division of CaseStack
458 called SupplyPike. The expectation there is that we will spin

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459 that off and it will be a leading cloud-based platform for supply
460 chain management professionals in consumer packaged goods. The
461 CaseStack cloud-based technology platform already enables
462 consumer packaged goods companies to manage everything from
463 merchant interaction, account management, improvements in
464 sourcing and forecasting, item setups, sell-through
465 optimization, logistics, and business analytics.

466 The SupplyPike technology platform is going to open that up
467 to more, probably more than a half a million, we think, people
468 that are in supply chain management in our industry.

469 One of the other things, our company considers blockchain
470 to be important for supply chain. That is probably one of the
471 areas it is most applicable to. We are incorporating that into
472 the applications. We are already taking Bitcoin as a payment
473 mechanism just recently.

474 Other big issues for me, sustainability. I moved out to
475 Arkansas when Walmart was very focused on a groundbreaking
476 sustainability initiative. I started a 501(c)(3) to try to help
477 drive that.

478 Now what I see, though, is a very big reversal in some of
479 the progress that we had made because of all the packaging kind
480 of coming back, packages started coming back with a vengeance to

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481 accommodate the needs for logistics of e-commerce and long tail
482 distribution. We have got boxes that are stuffed with paper and
483 plastic dunnage that are driven to people's houses in thousands
484 of trucks. Many of those are carrying items that might be as small
485 as a box of pencils, but they are getting the gas mileage of
486 something like an 18-wheeler. So it is obviously not the same.

487 Recently I posted an article on LinkedIn that was really well
488 received. It got tens of thousands of people interested and a
489 lot of comments about how I ordered a box of cereal online. I
490 spent about \$3.00. It was \$3.64, free shipping -- it is a pretty
491 good deal for a box of cereal. But there is really nothing free
492 about it. There is nothing free about free shipping. There is
493 not anything really normal or remotely sustainable about the fact
494 that it's two pounds of cardboard and paper, six feet of tape,
495 about a gallon of diesel fuel, and a lot of labor to get that box
496 of Reese's Puffs to my house so that we could eat the cereal.

497 It feeds into the capacity issue. If you take a -- if you
498 were to book a truckload from here to somewhere today, you would
499 pay about 31 percent more than you would have a year ago. You
500 would be out vying for that truckload with 5.5 other people looking
501 for a truckload. About a year ago you probably would have been
502 vying for that same truckload with one or two other people. So,

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503 obviously, prices are going to continue to go up.

504 Warehousing is also extreme because e-commerce uses about
505 six times as much warehousing as bricks and mortar retail. So
506 those are some of the challenges.

507 Now, some of the opportunity there is this is going to create
508 millions of jobs in supply chain. And as the demand goes up,
509 salaries will probably go up.

510 Finally, I would be remiss if I didn't thank Congress for
511 helping with entrepreneurial wherewithal and building
512 entrepreneurial capacity. I am in a pretty rural part of the U.S.
513 in Arkansas, and we have a really good, budding venture scene
514 happening. And some of that is attributable to things like the
515 SBA Regional Innovation Cluster funding, the Department of
516 Commerce EDA i6 funding. And those are great for helping train
517 future entrepreneurs and help the region plan.

518 So I am looking forward to answering any questions you may
519 have and, again, humbly appreciate the opportunity and attention
520 and consideration today. Thank you.

521 [The prepared statement of Mr. Sanker follows:]

522

523 ***** INSERT 2 *****

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524

Mr. Latta. Well, thank you very much for your testimony.

525

And, Mr. Borris, you are recognized for five minutes.

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526 STATEMENT OF DAVID BORRIS

527

528 Mr. Borris. Thank you, Chairman Latta, Ranking member
529 Schakowsky, and members of the committee. Thank you for the
530 invitation to testify today on the impact of e-commerce and online
531 retailers on Main Street small business.

532 My name is David Borris and I serve on the Executive Committee
533 of the Main Street Alliance, a national network that creates
534 opportunities for small business owners to speak for ourselves
535 on matters of public policy that impact our businesses, our
536 employees, and the communities we serve.

537 The rapid emergence of technologies disrupting and remaking
538 vast sectors of our economy unleashes incredible innovations but
539 also pose dramatic challenges in the retail sector. Online
540 retailers are ever more able to deliver goods and services to
541 satisfy ever-increasing consumer demand.

542 But with the incredible growth of e-commerce companies like
543 Amazon.com, there is an existential threat to the millions of
544 small business owners who form the backbone of the American
545 economy, creating jobs and ensuring that local wealth stays
546 circulating in local economies. Ensuring that America's small
547 businesses remain competitive in this brave new world of

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548 e-commerce should be a core concern of policymakers, and
549 significant attention should be paid to the development of laws
550 and regulations that ensure fairness and prevent unhealthy market
551 concentration, .

552 Today, I will discuss three key policy issues that we feel
553 are essential in ensuring such a fair and competitive marketplace
554 for small business: Internet tax fairness; net neutrality; and
555 affordable, high quality broadband access.

556 Small business owners need policies that level the playing
557 field and ensure necessary revenue for local and state
558 investments. When e-commerce laws allow for big Internet
559 retailers to avoid their tax responsibility, small businesses
560 suffer and our states miss out on revenue needed for adequate
561 funding of education, infrastructure, and public safety.

562 Since the 1992 Supreme Court decision ruling in Quill
563 Corporation v. North Dakota, Congress has been unable to create
564 a proper legislative environment to enable states to protect
565 bricks and mortar businesses that are the heart and soul of our
566 local communities. By exempting online retailers from
567 collecting sales tax, current public policy perversely
568 incentivizes consumers to shop online, reducing local economic
569 activity. Not only does this practice reduce Main Street's

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570 customer base, it also dramatically undermines state and local
571 government budgets.

572 When looking across mail, online, and catalog retail, this
573 unfair tax gap costs an estimated \$23.3 billion to state and local
574 budgets annually. Main Street needs Congress to act to ensure
575 this lost revenue can be collected.

576 Net neutrality. We are concerned that the FCC's regulatory
577 changes to net neutrality will significantly and unfairly
578 undermine market access and competition on the Internet. While
579 only a small handful of companies sell Internet access, nearly
580 every company in the country buys it. Weakening or rolling back
581 the 2015 protections would be disastrous for the country's small
582 business community.

583 Internet providers would gain new power to steer businesses
584 and customers in whatever direction they choose. Our customers'
585 ISPs could charge us new fees for the right to reach our customers,
586 or charge them for access to our sites and services. And they
587 could favor our competitors by slowing down our traffic or
588 exempting our competitors' traffic from users' data caps, or
589 simply block websites and apps outright. Small business owners
590 would simply be unable to compete with large corporations on a
591 pay-to-play Internet. This would create immense uncertainty for

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592 small businesses in every sector of the economy who rely on open,
593 unencumbered connectivity for their businesses and productivity.

594 While countries around the world embrace strong, common
595 sense net neutrality protections, American small businesses would
596 be left behind. Congress must maintain strong net neutrality to
597 protect America's small business.

598 Finally, access to affordable, high-quality broadband is
599 necessary to boost small business owners' and entrepreneurs'
600 access to e-commerce marketplaces. This is particularly true in
601 rural areas.

602 A recent report by the FCC found that nearly 40 percent of
603 the rural population -- that is over 23 million Americans --
604 compared to only 4 percent of the urban population, lack access
605 to basic broadband service. This report notes that this
606 disparity, "disproportionately impacts the ability of small
607 businesses operating in rural areas to successfully compete."

608 Without access to reliable broadband service small
609 businesses cannot develop quality online platforms, and stand to
610 lose out on both sales and relevancy as the number of online
611 shoppers continues to grow.

612 Internet tax fairness, net neutrality, and access to
613 affordable, quality broadband -- all policies that create a level

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614 playing field for small businesses in the e-commerce marketplace
615 -- this is the recipe for small business success, a strong middle
616 class, and vibrant local economies.

617 Thank you again for the opportunity to testify today. And
618 I look forward to your questions.

619 [The prepared statement of Mr. Borris follows:]

620

621 ***** INSERT 3 *****

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622 Mr. Latta. And thank you very much for your testimony.
623 And, Mr. Johnson, you are recognized for five minutes for
624 your opening statement.

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625 STATEMENT OF JONATHAN JOHNSON

626

627 Mr. Johnson. Thank you, Chairman Latta, and Ranking Member
628 Schakowsky, and members of the committee. I have to -- I
629 appreciate the committee taking the time to learn about new
630 technologies and what laws and regulations stand in the way of
631 their deployment and adoption.

632 Overstock is a technology leader in the e-commerce industry.
633 And to this end, we incorporate two principles as business
634 tenants:

635 First, it is all about customer experience, and;

636 Second, our customers' experience improves when decisions
637 are made at the knowledge frontier.

638 Because knowledge is costly to centralize, we prefer
639 self-organizing systems and free market solutions. These can
640 often be low-tech, old-school ways. For example, Overstock
641 became a consistent award winning customer service organization
642 when we adopted the credit "the customer deserves justice," and
643 then empowered our customer service representatives to make
644 decisions on their own to determine what justice was for each
645 customer.

646 However, in an ever-expanding and advancing world where

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647 technology, innovation, and customer expectations quickly
648 evolve, we are constantly incorporating new technology into our
649 business model to improve our customers' experience. Much of
650 this technology empowers the customer herself, or those working
651 directly with the customer, to make decisions in a more informed
652 way, .

653 Let me give four current examples:

654 First, our mobile application. Overstock's current
655 award-winning mobile application incorporates the latest
656 technology to increase its speed. We have learned that with every
657 100 milliseconds of average page load time decreases the
658 conversion rate by 1 percent. In other words, customers are less
659 likely to buy something on our site when it takes more to load
660 a page.

661 We have also launched an augmented reality tool on our IOS
662 mobile app. This tool lets customers use their phones, use their
663 phones to accurately visualize our products, like a sofa, in the
664 room where they are going to use it, like their living room. They
665 can see the size, the dimensions, and the colors, and how they
666 fit in their room. This allows our customers to make more
667 informed decisions.

668 Importantly, this AR tool was an idea of one of our IT

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669 developers borne out of his own desire to improve his shopping
670 experience on our site. It was not conceived or directed by
671 senior management at the company.

672 Second, personalization technology. Both our website and
673 our digital ads are highly personalized for each customer based
674 on their past searching, browsing, and shopping experience. For
675 example, if two customers come to our site and search for a red
676 couch, they will receive different content based on their past
677 experience on the site. This technology understands customers'
678 style presences and incorporates these preferences into search
679 results and served pages. It uses customer feedback loops to
680 increase personalization and, in turn, has increased our shopping
681 conversion rate.

682 Importantly, this technology was developed during a
683 developer hack-a-thon where we allow our developers to work on
684 whatever projects they think will be best for the company. Again,
685 it was not conceived or directed by senior management.

686 Overstock is an e-commerce industry leader in shipping large
687 furniture items without damage. That is a difficult thing to do.
688 We do this by using state-of-the-art technology in manufacturing,
689 packaging, and shipping. These technologies include designing
690 products that are less prone to be damaged in shipping, using

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691 packing optimization such as tailored boxes, use of tailored
692 boxes, and breaking less-than-load large items into multiple
693 packages which can be shipped more easily. And then, of course,
694 we use geographical warehousing to keep the product as close to
695 the customer as possible.

696 Again, many of these improvements were suggested by sourcing
697 and warehousing employees most familiar with the problems of
698 shipping.

699 In January of 2014, Overstock became the first major retailer
700 to accept Bitcoin as a payment mechanism. We now accept nearly
701 fifty different cryptocurrencies. This calendar year our weekly
702 volume of cryptocurrency revenue we range between about \$100,000
703 and \$250,000 a week. While this is a minuscule percentage of our
704 weekly revenue, it is a growing percentage. And so, Overstock
705 has created a wholly-owned subsidiary called Medici Ventures with
706 the aim of advancing blockchain technology.

707 We think blockchain technology will be used for three
708 significant things:

709 First, democratizing capital to allow everyone, including
710 the poorest members of our society, to participate in local, in
711 the local, national, and global markets;

712 Second, blockchain technology can eliminate middlemen,

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713 which add unnecessary time, difficulty, and cost to transactions,
714 and;

715 Third, we think blockchain technology will re-humanize
716 commerce so that you and I can conduct business together without
717 middlemen in between. Our digital handshake becomes the physical
718 handshake of years past.

719 Again, thank you for this opportunity to testify in front
720 of the subcommittee. I look forward to answering your questions.

721 [The prepared statement of Mr. Johnson follows:]

722

723 ***** INSERT 4 *****

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724 Mr. Latta. Well, thank you very much for your testimony,
725 and to all our witnesses for your testimony. And we are now moving
726 to the question and answer portion of the hearing. And I will
727 begin by recognizing myself for five minutes.

728 Mr. Sanker, if I could ask, start with you. How important
729 will improving the supply chain be to e-commerce and retail
730 growth? And what kinds of supply chain strategies does CaseStack
731 provide to its clients?

732 Mr. Sanker. Thank you. Yes, there is a, I mean there is
733 a lot of changes that are required. Really, I think the most
734 significant thing is as we move to long tail distribution, if you
735 take a look sort of historically at retail, there was a group of
736 people at a retailer who would sort of protect the shelf, and they
737 would protect the whole supply chain behind the shelf. So you
738 have got a bricks and mortar store layout with limited shelf space,
739 then if you were a buyer at a big retailer you would buy the best
740 selling items, you would sort of curate what was in the box.

741 That would then protect what was behind it, which was usually
742 a distribution center network. There was a lot of technology that
743 was built around best selling items as opposed to lots of items,
744 which is what we have now.

745 So, everything up the whole supply chain is sort of changing

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746 and we are trying to work with that to make that economical and
747 feasible. So that one of the major things I mentioned that we
748 do is consolidation. So it takes a lot of collaboration and a
749 lot of technology to figure out how could we consolidate the stuff
750 that is going out to a retailer, and eventually all those packages
751 that are sitting at all of our front doors.

752 When you think about I oftentimes come home to my house, and
753 I will be gone for a couple of days, and I have what is really
754 about a quarter of a pallet of products. But they didn't come
755 in on a pallet. What they did is they came in ones and twosies
756 a box, a box, a box at a time. It is really expensive. It is
757 not an environmentally sustainable thing to do. And a lot of
758 people really aren't making any money on that.

759 So, what we see as a change, and one of the things that we
760 are working on that is in that area is take the consolidation that
761 we have done for retail and do the same thing for consumers. So
762 instead of that coming in as a box and in lots of little boxes,
763 bring in something that would be a larger delivery, something like
764 a pallet or a quarter of a pallet -- it might not look exactly
765 the same as it does now -- and then you wouldn't need as much of
766 the plastic and paper dunnage and all the packaging. And you get
767 one delivery, maybe one delivery every couple of days or once a

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768 week as opposed to one at a time.

769 And that will make, you know, e-commerce companies will
770 actually be able to make money on that. And then it is just better
771 for the consumer doesn't have a pile of boxes to deal with. I
772 am sure people are familiar with the trash that they have to take
773 out, which is really not a -- it is not convenient at all to have
774 to open up all the boxes, dig through it all, and then figure out
775 what to do with, you know, these piles of trash.

776 So we're trying to -- our biggest objective really is ways
777 to collaborate with retailers, with e-commerce retailers,
778 anybody, to consolidate.

779 Mr. Latta. Thank you very much.

780 Mr. Taylor, how do you leverage data to help clients improve
781 their cost structure and improve efficiency?

782 Mr. Taylor. Well, at our core we are a data-ingestion,
783 transformation company. And so one of the challenges that our
784 retail customers face today is a lack of visibility into those
785 in-transit, out-for-delivery shipments to customers. And the
786 reason they don't have visibility is because they don't have the
787 data.

788 Their carrier networks are more complex. Each of those
789 carriers produces data differently. And so, through our

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790 technology we ingest all of the data from their carriers, we
791 transform it, we put a predictive layer in it. And that enables
792 us to identify exception cases or distressed shipments very early
793 in the process, which then allows our customer, the retailer, to
794 be proactive instead of in today's world being reactive to
795 customer complaints.

796 Mr. Latta. Now, do you use algorithms to help in that?

797 Mr. Taylor. We do, yes. We absolutely do.

798 A very good example of this would be -- and we get data from
799 various places, so carriers provide us data on behalf of our
800 customers. We take feedback from consumers. And then we, we as
801 a company, through these algorithms create our own exception or
802 distressed states on shipments.

803 Just an easy example would be given all the data that is
804 flowing through our platform we know that a terminal, a carrier
805 terminal in North Dakota, products should be moving through that
806 facility in six hours, and we notice a shipment, through the
807 machine intelligence, that has not moved in 18 hours. And so we
808 will actually create an exception case out of that shipment, even
809 if the carrier hasn't told us there is an issue. And that enables
810 then our retail customer operations team to work with the carrier
811 to understand what is happening with that shipment.

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812 Mr. Latta. Thank you very much. And my time is just about
813 to expire, so I yield back the balance. And I recognize the
814 gentlelady from Illinois, the ranking member of the subcommittee,
815 for five minutes.

816 Ms. Schakowsky. Thank you. And while I have most of my
817 questions for Mr. Borris, Mr. Sanker, I wanted to just, I was just
818 fascinated. Yes, I have the boxes all over and but we have big,
819 big recycle bins. But it does seem to me that the environmental
820 concerns are really big. And I would love after this hearing
821 maybe my office could be in touch with you about that. I think
822 it is a really important question, including the gas that is used.
823 So, thank you.

824 Mr. Borris, I really appreciate your being here. We have
825 worked together a lot on issues that deal with small businesses.
826 And that voice is so important at this table right now I think.
827 And I want to -- you noted how the inequities in the state sales
828 tax laws favor Internet retailers with no in-state presence at
829 all. And Congress has looked at legislation to create a level
830 playing field for tax collection but, unfortunately, those
831 efforts have stalled.

832 If all retailers, Main Street and online, had to collect
833 sales taxes in the state where the consumer buys the product, that

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834 would generate revenue for, as you pointed out, for state and local
835 government as well. It is not just a problem for the retailers.
836 How would that revenue in a fair playing field help Main Street
837 businesses?

838 Mr. Borris. Well, sure, so in Northbrook where I conduct
839 my business, you know, we have 9.75 percent sales tax that we have
840 to collect. So right from the, and so right from the beginning,
841 you know, you have got to discount your product by almost 10
842 percent.

843 The business that I happen to be in, and I don't really
844 compete necessarily in that space because we tend to produce more
845 full-service events, which is a more difficult thing for a online
846 business to try to recreate what we do in my business. But if
847 I am in a different business and if members of my network are in
848 those businesses, many small businesses are operating on trying
849 to drop 8 percent, 9 percent, 11 percent of the bottom line. When
850 you strip away that amount of money they are suddenly not in
851 business any longer. So it is --

852 Ms. Schakowsky. Opponents of marketplace fairness have
853 argued that small businesses would struggle to collect the correct
854 sales tax for each state. Do you share that concern?

855 Mr. Borris. So, even in my small business, we operate our

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856 core business in Northbrook, Illinois, but we operated a satellite
857 business in Rosemont, Illinois, and a satellite business in
858 Glencoe, Illinois, and a satellite business in Lake Bluff, and
859 a satellite little business -- these were all seasonal type
860 businesses or small cafes. So, you know, when we fill out, you
861 know, five sales tax return sheets as part of our Illinois sales
862 tax return that is a little bit of pain in the ass; right?

863 But what we are talking about is on a monthly basis for me
864 to do that it took maybe 45 minutes instead of 15 minutes to do
865 five instead of one. I think that is just the cost of doing
866 business. And when we look at that and say, well, if I am going
867 to go into an online retail business I need to understand that
868 that is what is going to happen.

869 The other thing I would say is that the software solutions,
870 the day that every online retailer has to pay sales tax in every
871 municipality that they do business in, the day after that there
872 will be a boatload of solutions available by good software
873 developers that say, whoa, there is a market here. So, we will
874 pay a little bit to obtain those software solutions. We will turn
875 them over to our administrative staff and they will incorporate
876 them in the same way as we incorporate all new technologies into
877 our businesses.

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878 Ms. Schakowsky. I wonder if you, you also talked about net
879 neutrality. And I have never received more communications from
880 constituents on any issue as net neutrality. It is incredible.
881 Probably every Millennial particularly in my district, including
882 my grandson who called to lobby me, has definitely been involved.

883 So if you could elaborate on the extent to which day-to-day
884 operations depend on fast, affordable Internet service, and what
885 it would mean to small businesses not to have net neutrality?

886 Mr. Borris. So, I think the conversation on net neutrality,
887 and when we say, well, you know, certain businesses flourished
888 ten years ago when they were born, or 13 or 14 years ago when they
889 were born, and we didn't have, you know, the net neutrality
890 regulations in place, but the Internet was not the presence in
891 our lives 10 years ago, 15 years ago as it is today.

892 You can't function any longer; right? You can't. You can
893 barely function as an individual. You certainly can't function
894 as a business in anywhere approaching an urban environment without
895 working with the Internet on a daily basis, both to look for
896 vendors and where you are going to source your supplies, as well
897 as finding new clientele and interfacing with your clientele.

898 I think that the reason you see surveys that say that
899 somewhere near 70 or 73 percent of Americans are in favor of net

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900 neutrality rules is because we intuitively understand, and I think
901 small businesses do as well, we intuitively are concerned about
902 concentrations of power in the marketplace. And to believe that
903 something as fundamental to my business and to our network of small
904 businesses, and everybody's business, something as fundamental
905 as access to the same speeds, and the same data, and the same
906 ability to utilize the Internet, to believe that a concentration
907 in market power could subvert and change that ability is a
908 frightening prospect.

909 And once we get there, it is going to be way, way harder to
910 go, oh, we made a mistake, now we have to undo it, because the
911 market will have already spoken. It is a frightening prospect.

912 Ms. Schakowsky. I wanted to say, as Mr. Johnson testified,
913 slowing the load time for a web page by just 100 milliseconds can
914 cut into sales. So it is significant.

915 Thank you, I appreciate it. Mr. Chairman, yield back.

916 Mr. Latta. The Chair now recognizes the gentleman from
917 Illinois, the vice chairman of the subcommittee, for five minutes.

918 Mr. Kinzinger. Thank you, Mr. Chairman, for yielding.

919 Mr. Borris, I appreciate your passion. I agree with you,
920 concentrations of power are exactly what folks my age and younger
921 are concerned about, which is why we are getting this out of the

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922 Federal Government's control and changing the rules from what the
923 last administration did.

924 I also would welcome you -- I notice you have a lot of, a
925 lot of, you know, restaurants and places around Illinois -- come
926 out to real Illinois sometime in the flat part, the not suburbs.
927 We will welcome you at any time. So, we would love that even.
928 Thanks for being here.

929 Mr. Johnson, you note in your testimony that Overstock was
930 the first major retailer to accept Bitcoin, and now accepts over
931 50 different cryptocurrencies. I know there is a lot of people
932 that try to kind of be, you know, new day and say, hey, the
933 cryptocurrency thing is cool and everything. I have a lot of
934 concerns about it. I have actually kind of evolved my thinking
935 on this in the last even year.

936 Let me ask you a question. What are some of the benefits
937 that cryptocurrencies can provide? And what are some of the risks
938 and challenges? I am more concerned about the risks and
939 challenges. But if you could give me both, that would be great.

940 Mr. Johnson. Sure. So, Overstock decided to start
941 accepting cryptocurrency because we are in the business of making
942 it easier for our customers to transact with us. Whether that
943 means accepting credit card, or PayPal and Apple Pay, or

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944 cryptocurrencies, we would like our customers to be able to
945 purchase with us.

946 One of the benefits to us is it has significantly cut our
947 fraud prevention department down. People often say that
948 cryptocurrencies are a tool of fraud and used by criminals
949 worldwide. I will tell you this: so are credit cards. And
950 Overstock employees somewhere between, depending on the time of
951 year, 30 and 40 people in our fraud prevention department to fight
952 credit card fraud.

953 With cryptocurrencies it is like a cash transaction. It is
954 a final sale for us. And we, we have a low -- we have almost no
955 interchange fee and no risk of fraud.

956 So part of the benefits are we are reducing internal costs
957 we can then pass on to our customers.

958 Mr. Kinzinger. Well, let me ask you then if you with, for
959 instance, Bitcoin with the massive fluctuation in value, how does
960 that affect your bottom line?

961 Mr. Johnson. So, what, when we first started accepting
962 Bitcoin we converted all of it into U.S. dollars immediately.
963 Over time we have begun to --

964 Mr. Kinzinger. And what do you do that through?

965 Mr. Johnson. Through our integration with Coinbase. So if

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966 you came and purchased a sheet set on our site with Bitcoin it
967 would immediately be converted into dollars because we are paying
968 our bills in dollars.

969 Today we have vendors, and others, who take payment in
970 cryptocurrencies, so we keep up to half of our cryptocurrency
971 revenue in Bitcoin. Most of it still goes to dollars, we keep
972 the other half, up to half in Bitcoin and we let our treasury
973 department manage that, selling or not. So we don't hold much
974 risk in that sense.

975 Mr. Kinzinger. So, obviously you are exposed to
976 fluctuations but maybe not, I mean you are also exposed to
977 fluctuations in the value of a dollar or whatever?

978 Mr. Johnson. Sure. And we are exposed to fluctuation in
979 gas prices and the cost of shipping, all kinds of things.

980 Mr. Kinzinger. Yes. And also, in your testimony you
981 emphasize that care must be taken for consumer safety and privacy,
982 especially as retailers continue to deploy Internet-connected
983 applications to enhance customer experiences.

984 We know that with an increasing number of IoT devices,
985 cybersecurity is of the utmost importance. What do you think
986 retailers must do to protect consumer information? And what
987 approaches to cybersecurity are you seeing?

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988 Actually, this is for Mr. Taylor. I am sorry. And what
989 approaches to cybersecurity are you seeing retailers apply?

990 If you need me to repeat, I will, because you probably were
991 zoned out when I was asking Mr. Johnson.

992 Mr. Taylor. I got the gist of it.

993 Mr. Kinzinger. Okay.

994 Mr. Taylor. Yes, so there are a number of issues around,
995 you know, data security, consumer privacy. and safety. I mean,
996 I will touch on a few of these.

997 So, you know, with, with the consumer's desire for more, ever
998 more convenience, ever more control in their deliveries, you know,
999 this is resulting in innovations like Amazon Key and Ring where
1000 now delivery drivers are going to be able to enter consumer homes,
1001 even without, potentially without them being present. So,
1002 clearly there are considerations for consumer privacy and safety
1003 in a world like that.

1004 On the data side, some of the, you know, one of the things
1005 we see, at least in our business -- again, our business is
1006 last-mile, you know, visibility, and distressed shipment
1007 management. But one of the things we see, you know, we are a good
1008 example of this. We are a technology company. We now sit in
1009 between the retailer and the consumer and the carrier in terms

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1010 of the data that is being produced. So there are more companies
1011 like us, there are more carriers that retailers are working with
1012 that produce more data.

1013 So, with more nodes of data production and data use, that
1014 just inherently creates some risk as well. So how we manage this,
1015 you know, we don't require personally identifiable information
1016 from consumers to provide our products and services, but our
1017 products are certainly enhanced if we can have basic PII, such
1018 as a delivery address, email, and phone number.

1019 Mr. Kinzinger. Okay.

1020 Mr. Taylor. And we hold ourselves to high standards around
1021 that.

1022 Mr. Kinzinger. Thank you, I yield back. Appreciate it, Mr.
1023 Chairman.

1024 Mr. Latta. Thank you very much. The gentleman yields back.
1025 The Chair now recognizes the gentleman from Kentucky for five
1026 minutes.

1027 Mr. Guthrie. Thank you very much. Thank you for being
1028 here. It is an interesting hearing.

1029 I founded the Congressional E-Commerce Caucus. And
1030 Louisville, Kentucky, a few years ago, probably a generation ago
1031 now, was the winner of the Worldport location for UPS. So most

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1032 UPS flights, planes that fly in and out, fly out of Louisville.
1033 It is a great place to locate. Not much snow, center of the
1034 country, of this part of the country, so other people are looking
1035 for it.

1036 But what I guess we didn't see happening with the Internet
1037 moving forward and what that happened is what's happened, I don't
1038 have Louisville, but my district just south of there,
1039 Sheperdsville, Brooks, Hillview, if you drive through there you
1040 will Zappos, Best Buy, bestbuy.com, amazon.com, Geek Squad. I
1041 mean, all those are there because of the access to Worldport. And
1042 so it is something I have been very interested in because it is
1043 a big driver of economics in my district, and a big driver for
1044 trade, quite honestly, because they ship stuff all over the world
1045 from there.

1046 And so we're looking at these centers like are in my district.
1047 The centers, there is warehouses, sorting hubs. How do they
1048 contribute to the last mile of delivery? This is for Mr. Sanker
1049 and Mr. Taylor. With the drive for 2-day, next day, and even same
1050 day delivery have you seen an increase in the need for more
1051 fulfillment centers?

1052 Mr. Taylor. One of the things we certainly observe with our
1053 retail customers, again driven by consumer demand for convenience

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1054 and immediacy, is certainly more assortment in inventories moving
1055 closer to where demand is. And so this is really, really being
1056 done in two ways.

1057 One is additional capacity. Fulfillment centers are being
1058 built.

1059 And the other is for our omnichannel retailers that have
1060 physical presence with stores, many of these stores in a world
1061 where retail is constricting, many of these stores are at least
1062 being partially used for warehousing. And so there are sort of
1063 parcel store operations and then e-commerce fulfillment center
1064 all in one facility.

1065 Mr. Sanker. Yes, and similarly I think we see a little bit
1066 of everything, which I think is the market at work really. We
1067 see, you know, fulfillment from stores, fulfillment from new
1068 distribution centers. There is no doubt there will be a lot more
1069 new distribution centers. And I think there is no doubt that the
1070 current retail square footage that is out there is going to have
1071 to shrink and the current square footage of warehousing and
1072 distribution center capacity is going to increase.

1073 And then you do have some of what you mentioned, which is
1074 this clustering effect, which is great for the areas that can do
1075 it. I know one of the key issues that we are going to have is

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1076 a workforce that is capable and trained and can handle all this
1077 growth.

1078 Mr. Guthrie. That leads into my next question I was going
1079 to ask you. As you are going down that path the biggest concern
1080 you have when you go through this is they are incredibly high tech,
1081 I mean unbelievably high tech. Of course, you need sorters, just
1082 people that are there helping with the boxes moving forward. But
1083 they really need people who have industrial maintenance, computer
1084 skills. And what are you trying to do to retain talent?

1085 We just lack that talent, at least in our area. But I think
1086 in the whole country you here that from everywhere you go in the
1087 country?

1088 Mr. Sanker. Yes. I mean, we have this issue where next week
1089 I go back and we are having what we are calling the Nowhere
1090 Developer Conference because we are sort of in the middle of
1091 nowhere out in Arkansas. And we are attracting technology,
1092 hardcore sort of technology developers to the area.

1093 We are also working with high school students. We have got
1094 interns, high school interns come into the office every week. We
1095 have got meet-ups and conferences. So, everything from high
1096 school students. And I think that is probably the -- it is a
1097 challenge, I mean you can't just invent more people.

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1098 So the two areas that we see that are great opportunities
1099 is start younger. So anything that anybody could do to support
1100 getting high school students some real life experiences. These
1101 kids that are 13 and 14 have unbelievable talent -- I think you
1102 probably all see it in other areas -- that I don't think I, my
1103 generation ever had.

1104 And then we have had H-1B people that were rejected who, you
1105 know, are Masters degrees in computer science. They come to
1106 schools in the United States. And we pay to train them. And
1107 then, you know, we have got two: one is in China now, one is in
1108 Canada, helping to create jobs for Chinese people and Canadians,
1109 and helping build venture capital there and new companies.
1110 Things like that I think are huge.

1111 Like, mostly it is start with high school students, train
1112 them, give them real experiences. They are eager. That has been
1113 great.

1114 Mr. Guthrie. Thanks. And I did have a couple more
1115 questions. I am about out of time. But I was going to talk to
1116 Mr. Johnson. So I will just -- you won't have time to answer.

1117 But, you know, and so we are trying to figure out, I know
1118 what Mr. Borris always talks about, those teens. We need to be
1119 hearing those businesses in our communities with names on the

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1120 backs of Little League jerseys. That is what we like to talk
1121 about, the local folks. We have to be cognizant of that.

1122 And maybe there is a way as the last stage of same day
1123 delivery, some of these retail operations also become almost
1124 warehousing opportunities where you buy online and ship, goes to
1125 a local store and comes to your business. Or you go to the --
1126 I like to buy books online but I go to the local store because
1127 I want the local store to still be there. So I go there to make
1128 the purchase because I don't want it all to become online and the
1129 local bookstore with the coffee shop and everything goes away.
1130 And so that is something we need to be cognizant of.

1131 But I am out of time. So I appreciate the opportunity to
1132 be hearing you guys here today.

1133 Mr. Latta. Thank you very much. The gentleman yields back.
1134 The Chair now recognizes the gentleman from West Virginia for five
1135 minutes.

1136 Mr. McKinley. Thank you, Mr. Chairman. I am sorry I missed
1137 some of the earlier comments. We were, we have got a hearing going
1138 on upstairs. And so we have been back and forth on this.

1139 But if I could, just to kind of focus in on perhaps on the
1140 postal delivery with the U.S. Postal Service. We have had enough
1141 testimony in other meetings, other hearings about some of the

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1142 deficiencies in our Post Office, and handling the products, and
1143 security and the like. What---are there some suggestions that
1144 you would make and how we might be able to improve our Postal
1145 Service to handle what potentially could be, as this e-commerce
1146 continues to pick up, what we might be -- what we should be
1147 proactively moving on? Any of you, any of the four of you?

1148 So, everyone is satisfied the Post Office is running fine?
1149 Thank you.

1150 You look like you want to jump in.

1151 Mr. Johnson. I will say something. I think the Post Office
1152 served a wonderful purpose before we had private companies like
1153 UPS and FedEx delivering to any small and rural town. We use the
1154 Postal Service for about 2 percent of our deliveries, mostly small
1155 items, very small items.

1156 The UPS and everyone else gets anywhere and everywhere for
1157 less. And so, I think trying to run it more like a private
1158 business than a government bureaucracy would make sense.

1159 Mr. McKinley. I was just curious because of that last-mile
1160 delivery. Often they will hire the Post Office to make that
1161 delivery. So I'm aware of that.

1162 But let me go to another, because I am fascinated with this,
1163 how it changed. I can remember back when I was in college back

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1164 in the '60s when the first computers came out. To think how we
1165 have evolved in the last 50-plus years with this. But I am curious
1166 with deliveries going to homes. When we have, we go to a Post
1167 Off -- or, excuse me, we go to an airport they always ask, one
1168 of the first things, your chain of custody. Did you have
1169 possession of your items the entire time? Yet now we are leaving
1170 products, could be one day or two days, sitting on a porch that
1171 have custody.

1172 How do you deal with that? And what are, what are some of
1173 the issues that perhaps get into it in terms of people having
1174 access or your telegraphing to the bad actors there is no one home?
1175 What is the process and what is your liability as the shipper,
1176 or someone that is shipping products, how does that, how do you
1177 come into that? Anyone?

1178 Mr. Sanker. Yes, I guess I can address some of that.

1179 Yes, you definitely have packages that are just left on
1180 doorsteps now. And there is a growing bad actor group that has
1181 sort of figured that out and is stealing those packages I think.

1182 But I think that the market is also addressing that. Lockers
1183 that you see popping up. There is, you know, Amazon has got
1184 lockers in Whole Foods. There is whole locker companies that just
1185 make, sell lockers to apartment complexes and things like that.

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1186 I think that does, goes a long way to addressing it. So, you will
1187 use your phone to unlock your package. And that is pretty
1188 convenient.

1189 Mr. McKinley. I don't know of too many lockers in rural West
1190 Virginia.

1191 Mr. Sanker. I mean, I think this is a pretty new concept
1192 really, I think. I live in Fayetteville, Arkansas. We have got
1193 lockers in the apartment building across the street from my
1194 office.

1195 Mr. McKinley. Okay.

1196 Mr. Sanker. We have got them in the Whole Foods.

1197 Mr. McKinley. The last question I want to get towards is
1198 I have had the experience in a highly secure area to classified
1199 which they hear about the dark web and all the e-commerce that
1200 is occurring over that. What suggestions would you make on
1201 e-commerce on the dark web?

1202 Mr. Johnson. First I would just comment one of the things
1203 we do on that package delivery issue is we sell a lot of larger
1204 goods, couches, and pieces of furniture. We allow our customers
1205 to arrange for a delivery time. And I think that helps stop that.

1206 The thing I would say, the dark web is a problem. And I think
1207 a lot of cryptocurrency purchases on the dark web are often said

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1208 to be a problem. But as I have talked to law enforcement
1209 officials, they have said one of the things they like about
1210 cryptocurrency on the dark web is it leaves an electronic
1211 footprint. It is not an anonymous transaction, it is a
1212 pseudonymous transaction and they are able to track those
1213 purchases and, if they are illegal purchases, see who ultimately
1214 did that.

1215 And I noticed the other day that the U.S. Marshal was selling
1216 a lot of Bitcoin. Not because they had bought Bitcoin or had been
1217 mining Bitcoin, but it is because they had seized it through
1218 illegal transactions, most likely on the dark web.

1219 So I think that something that leaves that electronic
1220 footprint is actually helpful in solving problems that may arise
1221 out of it.

1222 Mr. McKinley. Well, in conclusion I just hope we can keep
1223 up with the speed of the transformational economy right now and
1224 be able to keep the control. So I hope you are right on that and
1225 we can, because it is very concerning when we think 90 percent
1226 of the web, the Internet is not what we use and it is not easy
1227 access, it is the dark web. So, I am hoping we can be careful
1228 with that.

1229 Thank you. I appreciate it. I yield back my time.

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1230 Mr. Latta. Thank you very much. The gentleman yields back.
1231 And the Chair now recognizes the gentleman from Indiana for five
1232 minutes.

1233 Mr. Bucshon. Thank you, Mr. Chairman.

1234 Mr. Johnson, how do you see the impact of e-commerce
1235 affecting rural parts of the country? I represent a broadly rural
1236 district. And, I mean, no one wants to be left out of the consumer
1237 revolution. So that, that and what kind of technology and
1238 innovation changed the way industry, is changing the way industry
1239 is thinking about servicing rural areas of our country?

1240 Mr. Johnson. Great question. As I have traveled around,
1241 rural Utah in particular quite a bit, I have been asked that same
1242 question. I think one of the things that e-commerce does that
1243 can help rural America is it gives them access to a customer base
1244 outside of their city or county lines.

1245 We have lots of suppliers that drop ship from their homes
1246 and warehouses in rural parts of America that list product on
1247 Overstock, are able to access all of our marketing, our backbone
1248 of processing their credit card, et cetera. So I actually think
1249 that e-commerce helps rural America because it allows people that
1250 are manufacturing or have a good idea, good product, greater
1251 access to all 300-plus million people in the United States.

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1252 Mr. Bucshon. Yes. And I think that, I agree with that.
1253 And I think that brings up someone mentioned broadband access.
1254 And so I just want to point out again that some areas in my
1255 congressional district don't, can't get -- you know, they have
1256 dial-up almost still, you know, for their Internet access. They
1257 do. And so it does bring up the importance of where they are going
1258 to have access at getting rural broadband.

1259 I want to just ask a question about the healthcare space.
1260 I was a surgeon before. And I guess I will start that, and I mean
1261 where do you see this type of industry going as it relates to the
1262 healthcare space? Because we have a cost problem in the
1263 healthcare space: it costs too much. And are there innovations
1264 out there that can help us overall bring down the cost of what
1265 it is costing us to provide healthcare services to our citizens?

1266 Mr. Taylor?

1267 Mr. Borris. Well, I would weigh in on that and just say that
1268 when we look at the cost of healthcare and when we look at where
1269 those costs are, certainly in end-of-life care, right, which is
1270 a whole different conversation culturally, I think, but there is
1271 also the single most preventable, a driver in healthcare, and that
1272 is adult onset diabetes and obesity. And when we look at that
1273 I think that -- and this might be anathema to some of you guys

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1274 -- but I think this government has a role to play in understanding
1275 what our food chain looks like and how we use tax policy to
1276 incentivizes that.

1277 Mr. Bucshon. Okay.

1278 Mr. Borris. And I think there is a spot there.

1279 Mr. Bucshon. Mr. Taylor?

1280 Mr. Taylor. Yes. So, again, our world to convey really is
1281 around trying to find efficiencies in last-mile transportation.
1282 And while our core market is retail, we are beginning to do some
1283 exploration in last-mile, you know, business to business
1284 deliveries for healthcare. So this is, you know, distribution
1285 to pharmacies, distribution to hospitals.

1286 You know, in some sense there are some similarities to retail
1287 where this last-mile transportation involves different modes of
1288 transportation. It is not just small package delivery, but there
1289 are large item deliveries to hospitals. There are medical
1290 devices to hospitals. Their predictability of those deliveries
1291 is very, very important.

1292 So I think, you know, if we can get better visibility into
1293 those deliveries and make them more predictable, that will result
1294 in efficiencies and cost savings.

1295 Mr. Bucshon. Yes, because historically, I will just give

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1296 an example, like a hip prosthesis or something, you know, used
1297 to be hospitals would have inventories of those; right? Now it
1298 has kind of gravitated to where the device company itself, you
1299 know, will come that day when you have a procedure and bring their
1300 inventory, and you use the one that you want. That is kind of,
1301 you know, that is the way it is done.

1302 It seems kind of cumbersome to me, but there may be
1303 opportunities there to further decrease cost by, you know, if you
1304 can get things delivered accurately and efficiently in the
1305 healthcare space.

1306 Anybody else, do you have anything?

1307 Mr. Johnson. I think you can cut all kinds of costs out of
1308 it by having things centrally warehoused and shipped. I am
1309 friends with a fellow who runs a company called PillPack which
1310 sends out prescriptions to people every month in daily packages
1311 so they are going to be more likely to take their medication and
1312 stay healthy than if they have to go to the pharmacy and the bottle
1313 runs out.

1314 Mr. Bucshon. Yes?

1315 Mr. Sanker. Similar to that we have a company in town that
1316 is working on more home diagnostic kits so that people can sort
1317 of figure out their own issues without having to actually go to

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1318 the doctor, which I think is also stems from some of this.

1319 Just I think, if anything, it is going to help access, give
1320 people access that wouldn't have otherwise have access and make
1321 it easier to take, you know, their meds and manage that, and also
1322 diagnostics.

1323 Mr. Bucshon. Yes, I mean, I am not an IT person but I think
1324 there is a lot of opportunity in the healthcare space for the use
1325 of technology to improve efficiencies and get our costs down.

1326 Thank you, Mr. Chairman. I yield back.

1327 Mr. Latta. Thank you very much. The gentleman yields back.
1328 The Chair will now recognize the gentleman from Florida for five
1329 minutes.

1330 Mr. Bilirakis. Thank you. Thank you, Mr. Chairman, I
1331 appreciate it. Thank you for your testimony today as well.

1332 Mr. Johnson, retailers are no longer competing just on
1333 products, as you know, but instead for people's time. In
1334 particular, you mention in your testimony new innovations like
1335 the Overstock mobile app, cryptocurrency, personalized
1336 recommendations that can help shoppers save time by providing an
1337 array of tools and options. How has this changed the way
1338 companies operate?

1339 Mr. Johnson. Well, we have been in business for 18 years

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1340 as an e-commerce company. If you went back and looked at our
1341 original site 18 years ago, it feels almost caveman-like compared
1342 to today. We are always trying to make the customer experience
1343 better, easier for them to interface in, and to make it more
1344 pleasing.

1345 We now put up, for example, videos so that they can see all
1346 around the product.

1347 We have better sizing and color. You know, sometimes your
1348 computer screen has a little bit different color than the actual
1349 picture.

1350 We do all this to make the customer experience better and
1351 to reduce the potential of returns to us. So, I think technology
1352 lets us find ways to make it easier for the customer to access
1353 what he or she wants.

1354 Mr. Bilirakis. Right. And again, you have a lot of
1355 competition so you have to keep up with the times; correct?

1356 Mr. Johnson. The competition is fierce. And, you know,
1357 frankly, we have gone from a place where it was brick and mortar
1358 or e-commerce. And most companies today are more like a brick
1359 and click. You can buy something online and pick it up at the
1360 local store or return it to the local store. Competition is
1361 fierce. And I think that means the customer is ultimately the

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1362 winner because businesses are competing hard for the customer's
1363 time and money.

1364 Mr. Bilirakis. What is the percentage of revenue on
1365 e-commerce as opposed to the brick and mortar store?

1366 Mr. Johnson. It is certainly going up over time. And I
1367 think that is because customers find convenience in it. It is
1368 the convenience factor, it is not whether they have to pay sales
1369 tax or not. Every customer who buys online has to either pay sales
1370 or use tax. It is a convenience factor.

1371 And I know when wedding invitations come into my house my
1372 wife always shops online because they can ship it. She doesn't
1373 have to do all the extra work. People like e-commerce because
1374 it is easier.

1375 Mr. Bilirakis. She doesn't mind not having to try something
1376 on, you know, and maybe getting it online as opposed -- and I guess
1377 she would send it back if it didn't fit?

1378 Mr. Johnson. And I think companies have gotten so much
1379 better at helping us size. I bought a pair of shoes the other
1380 day online, and it was very specific in its sizing on this company,
1381 saying if your, you know, foot is wide, buy a size extra. When
1382 they showed up, I bought a size that is not my natural size kind
1383 of following what was on the website, when they showed up they

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1384 fit perfectly.

1385 Mr. Bilirakis. Yes. I hate trying things on anyways.

1386 Mr. Johnson. There you go.

1387 Mr. Bilirakis. I just gamble.

1388 Mr. Johnson. You and me both. You and me both.

1389 Mr. Bilirakis. I take the risk.

1390 All right. Mr. Taylor, I am always concerned about the
1391 welfare of my senior citizen constituents from the great state
1392 of Florida. Are there new last-mile and independent contractor
1393 services that will help the elderly and disabled live more
1394 independently?

1395 Mr. Taylor. You know, this is a really interesting issue.
1396 I mean, you know, we don't directly deal with this specific
1397 question in our business, but I do think that consumer demand
1398 around convenience, the ability to be in our homes and shop from
1399 our homes and have delivery gratification quickly will certainly
1400 benefit those who have more difficulty getting out to a physical
1401 store.

1402 But as I mentioned in my testimony, I think care must be taken
1403 around a world where delivery drivers are more and more coming
1404 into our homes. We are ordering more and more large item
1405 deliveries today than ever -- couches, other furniture, patio

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1406 furniture, appliances -- we no longer have to see and touch these
1407 items. And so all of those items require delivery appointments
1408 and strangers to come into our homes.

1409 So, I think it is an interesting issue that this subcommittee
1410 may, may wish to address.

1411 Mr. Bilirakis. Very good. Thank you. Next question --
1412 well, I don't have time. I will submit it for the record, Mr.
1413 Chairman. Thank you so much. Appreciate it.

1414 Mr. Latta. Thank you very much. The gentleman yields back.
1415 And the Chair now recognizes the gentlelady from California for
1416 five minutes.

1417 Mrs. Walters. Thank you, Mr. Chairman.

1418 So, I am actually one of those women that does shop online,
1419 yes. I almost exclusively now buy my clothes online. And I love
1420 it because it is so much easier, although I think it is costing
1421 me a lot more money. I don't think my husband is too happy about
1422 that.

1423 Mr. Johnson. The more you shop, the more you save.

1424 Mrs. Walters. There you go. And I look, and I look for all
1425 of those special deals that I can get.

1426 Anyway, my questions are going to be for Mr. Johnson.
1427 Consumers are increasingly utilizing voice-activated assistants

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1428 to play music, check the weather, or set cooking timers. One
1429 company's voice-activated assistant product saw a 325 percent
1430 increase in its users from May 2014 to May 2017. Voice-activated
1431 assistants are expected to see continued growth in the coming
1432 years.

1433 One estimate predicts that a majority of U.S. homes will have
1434 one of these smart speakers by 2022. There are expected to be
1435 over 800 million of these devices worldwide in coming years.
1436 Since current technology is somewhat limited, purchases via
1437 voice-activated assistants are typically limited to small or
1438 replenishment purchases because it is difficult to compare prices
1439 or visually inspect a product.

1440 Mr. Johnson, do you have any thoughts on how voice-activated
1441 assistants could offer an improved shopping experience by
1442 leveraging personalized and behavioral data like other platforms
1443 offer, or is this platform's usefulness in e-commerce limited?

1444 Mr. Johnson. We have not looked at this a lot, so I am not
1445 sure I will speak really intelligently on it. But as we use
1446 voice-activated assistants in my home, it is just an easier way
1447 to do things. It is convenient. It is less typing. It is more
1448 talking. And I think it, you know, lets you access data quickly.

1449 But I am afraid I can't give a great answer because we are

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1450 not using it a lot in our business.

1451 Mrs. Walters. Okay. Then, I don't know, let me ask this
1452 other one and see if you can answer that.

1453 Are there ways to benefit consumers who shop by
1454 voice-activated assistants? Do they receive recommendations for
1455 the best-reviewed product or the product that best fits their
1456 needs, as opposed to products that pay for enhanced placements?

1457 Mr. Johnson. Sure. Absolutely. And our view is we want
1458 to be serving the customer and not have suppliers buying shelf
1459 space. And so we are serving up recommendations. You know, as
1460 I mention in my testimony, if you search for a red couch or a
1461 specific style of red couch the other searchers that come up
1462 underneath that will be based on your browsing experience, or your
1463 voice-activated browsing experience, so that it will fit you.

1464 Our goal is to please the customer, not to necessarily push
1465 one product over another.

1466 Mrs. Walters. Okay, thank you. That is the only questions
1467 I had, so I yield back the balance of my time.

1468 Mr. Johnson. Thank you.

1469 Mr. Latta. Thank you very much. The gentlelady yields
1470 back. The Chair now recognizes the gentleman from Pennsylvania
1471 for five minutes.

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1472 Mr. Costello. I always thought that it was the more that
1473 you shop, the more than you spend. But I appreciate the
1474 perspective that you actually save more when you shop more. That
1475 is a good way of looking at it.

1476 Mr. Johnson. At least on Overstock.

1477 Mr. Costello. And you were quick with it, you were so quick
1478 with it. That is very good.

1479 I have QVC, which is actually now Qurate Retail Group is a
1480 constituent company of mine. And I have been very interested to
1481 see them navigate the new digital economy as they are, modernizing
1482 their television platform and marrying it with Internet sales as
1483 they have.

1484 The question I want to focus on is sort of what is around
1485 the corner, Internet of Things, IoT. And I am just curious --
1486 and this is a question for each of the witnesses -- explain or
1487 share with me how IoT is being used to enhance your supply chain,
1488 both in terms of getting consumers their packages, in situations
1489 potentially where consumers need to return items. Sometimes Mrs.
1490 Walters gets the package, she decides she doesn't want it then,
1491 and so it needs to get back to you. So share with me how technology
1492 is changing the face of the consumer experience as well as the
1493 supply chain?

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1494 Mr. Sanker. I can talk a little bit about supply chain.

1495 From a transportation and warehousing perspective there is
1496 a lot of new IoT devices that are now connected, so that as we
1497 build out our new supply-side platform we are building APIs so
1498 that it is easy for all these IoT devices to connect. So things
1499 like, you know, when you order or you buy from the store your food,
1500 it was supposed to be refrigerated. You know, you have got IoT
1501 devices now in the trailers that can track to see if it actually
1502 was refrigerated for the whole ride or even internationally.

1503 I think things like that are all throughout the warehousing
1504 and transportation industry. And they are going to just keep on
1505 growing because they get less expensive each year.

1506 Mr. Johnson. I think one of the things that IoT can help
1507 with is knowing when the replenishment purchases need to be made.
1508 If you have the Internet of Things telling you when you are out
1509 of milk, or when at a farm you need, you know, more fertilizer
1510 or whatever, that is particularly useful and can help in the
1511 replenishment.

1512 Mr. Borris. Well, certainly when we purchased small wares,
1513 equipment 12 years ago we would call four different potential
1514 suppliers and they would have to fax over spec sheets. And then
1515 it would come up murky and we couldn't read them. And then we

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1516 would have to bang back and forth with working on price back and
1517 forth, and what are the shipping costs. And now probably 80
1518 percent of what we purchase for supplies are purchased from
1519 Webstaurant or any one of a half a dozen other sites.

1520 You know, the negative to that, you know, in my community
1521 long-term is that we don't pay sales tax on that, which takes out
1522 of Northbrook, and takes out of North Chicago, and takes out of
1523 Waukegan or wherever the vendors were located. That is an issue.
1524 I mean, for me it puts a little bit more money in my pocket as
1525 a business owner but, but certainly nothing is going to change
1526 on that. Right? I mean, the Internet of Things is here and it
1527 is going to be used and exploited. And it works in many ways to
1528 the benefit of a company like mine.

1529 Mr. Taylor. In last-mile delivery, you know, we are sort
1530 of early days in Internet of Things.

1531 Mr. Costello. Right.

1532 Mr. Taylor. But we are excited about it. I mean our, again,
1533 our business is connecting data from all these disparate systems.
1534 And as these physical devices get deployed in last-mile retail,
1535 you know, we will be able to ingest, unify, and make sense out
1536 of all of this data that is going to be produced. So, we think
1537 it holds great promise and are excited.

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1538 Mr. Costello. How about the issue of, you know, oftentimes
1539 it is brick and mortar versus e-commerce. But I thought The Wall
1540 Street Journal has done a pretty good job in cataloging how, sure,
1541 it can be viewed comparatively. But if you look at there is a
1542 decline in retail jobs but the increase in warehousing jobs, or
1543 what is traditionally termed a warehousing job, but it is much
1544 more sophisticated, requires much more tech savviness than one
1545 might expect. Just share the future, your workforce, and how it
1546 may more than compensate potentially for the loss of jobs that
1547 are being displaced as a consequence.

1548 Mr. Sanker. It does seem like that there, you know, the new
1549 jobs will be warehousing instead of retail clerk type jobs.

1550 Mr. Costello. More ergonomically friendly.

1551 Mr. Sanker. Yes. We also, it is interesting, we are also
1552 working with a company called StrongArm. What they do is
1553 ergonomic tracking so they can actually track people in the
1554 warehouses and see --

1555 Mr. Costello. Yes.

1556 Mr. Sanker. -- that they are lifting properly. And there
1557 is a lot of new technology around that.

1558 So the jobs in warehouses, I think if you go back five years
1559 ago some of the retail warehouses that I used to visit you would

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1560 not want to work there. But I do think it is improving.

1561 And I think what we are going to get is a whole new crop of
1562 people who will start out in warehouse jobs, move up, salaries
1563 will increase. They will become skilled. And then there are so
1564 many new technologies that they have to learn that it is not going
1565 to just be, you know, lifting boxes. So I think it is a good thing
1566 for a whole new group of people to get into the supply chain
1567 management workforce.

1568 Mr. Costello. Good points. Thank you. I yield back.

1569 Mr. Latta. Thank you very much. The gentleman yields back.
1570 The Chair now recognizes the gentleman from Oklahoma for five
1571 minutes.

1572 Mr. Mullin. Thank you, Mr. Chairman.

1573 One point I just want to follow up on, on the jobs to which
1574 my congressman from or colleague from Pennsylvania brought up.
1575 Yes, those jobs may be getting replaced in numbers but they are
1576 not on Main Street. They are not in the small towns, which I am
1577 all about business but you can't compare apples to apples. I love
1578 the idea of creating jobs. Every industry needs creating jobs.
1579 That is awesome. I am very pro business. But we have got to be
1580 careful there that we are not, we are not comparing them.

1581 Because the guys and gals that lose their jobs on Main Street,

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1582 they are not working at your warehouses because they don't live
1583 there. They are centrally located in areas that most places
1584 aren't.

1585 Going on to some questions. And, Mr. Chairman, I appreciate
1586 you holding this hearing. Appreciate the witnesses for being
1587 here, too. I want to talk to Mr. Johnson for just a second.

1588 I know my colleague from Illinois brought this up a little
1589 bit about cryptocurrency. The question that I have is are there
1590 tax consequences with this?

1591 Mr. Johnson. Yes. And I think that the IRS ruling on it
1592 has made it difficult. Today cryptocurrencies are not treated
1593 like a currency, but they are treated more like an asset or a stock.

1594 So, if I were to receive a Bitcoin today, I need to know the
1595 price when I received it. And then when I spend it or any portion
1596 of it I need to know its value or price when I spent it. I need
1597 to know how long I held it, whether it is going to be treated as
1598 ordinary income, or capital income, or a loss. It makes it very
1599 difficult to transact in Bitcoin or cryptocurrencies on a daily,
1600 a daily way because it would almost be like being a day trader
1601 in stock. And most of us don't have accounting systems set up
1602 to do that.

1603 Mr. Mullin. Sure. I can see the difficulty in that.

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1604 Staying on the topic of taxes, you are aware of the case in
1605 South Dakota right now?

1606 Mr. Johnson. We are a defendant in the case.

1607 Mr. Mullin. Right. That is what I said, you are aware of
1608 it?

1609 Mr. Johnson. Yes.

1610 Mr. Mullin. What do you think the reaction is going to be
1611 with the states and local municipalities if this case gets
1612 overturned?

1613 Mr. Johnson. Well, I guess it depends how it is overturned.
1614 If it is overturned and remote sellers now owe taxes for the --
1615 that they weren't required to collect, now have to pay out of their
1616 bottom lines, it is going to be a problem.

1617 I have long been a proponent of Congress acting and taking
1618 the invitation that is being debated in Quill and putting together
1619 fair legislation. I don't think that the court should be
1620 legislating but I think the Congress should be. And I think that
1621 the ideas of Chairman Goodlatte and others have put out are good,
1622 fair solutions that work for both remote sellers and --

1623 Mr. Mullin. Right.

1624 Mr. Johnson. -- point of sales sellers.

1625 Mr. Mullin. Mr. Johnson, Mr. Goodlatte, his bill, he

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1626 doesn't have a bill. It hasn't been marked up. There hasn't been
1627 a bill placed. But Representative Kristi Noem's bill is out
1628 there.

1629 Do you support her bill, RTPA?

1630 Mr. Johnson. So, we worked very closely with Mr. Chaffetz
1631 in the previous Congress --

1632 Mr. Mullin. Right.

1633 Mr. Johnson. -- on the same bill. We do support it. We
1634 think it has some extra burdens for remote sellers that, for
1635 example, Mr. Sensenbrenner's bill does not. Wwe are concerned
1636 that it allows the states to reach across borders and put
1637 regulations in place that aren't appropriate. But we have
1638 expressed our support for it.

1639 Mr. Mullin. It would be -- I, I get your concerns. They
1640 are legit concerns. However, I do agree with you, RTPA is a much
1641 better solution than allowing our court system to make this
1642 decision. I believe at that point we have a potential for a lot
1643 worse consequences for retailers because you are going to have
1644 a hodgepodge possibly of rules and regulations that you are going
1645 to have to deal with.

1646 And so we are encouraging that RTPA be brought up, too. I
1647 am helping Congresswoman Kristi Noem on this and appreciate your

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1648 support for it, too. That means, that means a lot to us.

1649 Mr. Johnson. You are welcome.

1650 Mr. Mullin. With that, Mr. Johnson, I am done. And, Mr.
1651 Chairman, I will yield back the remainder of my time.

1652 Mr. Latta. Thank you very much. The gentleman yields back.
1653 The Chair now recognizes the gentleman from South Carolina for
1654 five minutes.

1655 Mr. Duncan. Thank you, Mr. Chairman. I apologize, with
1656 multiple committees going on. But we are dealing with electric
1657 vehicles upstairs, AI, and now we are dealing with cryptocurrency
1658 and digital commerce. And I think it is pretty fascinating.

1659 I don't know how many members of Congress actually own
1660 cryptocurrency in some form, but I do. And the reason I do is
1661 because I wanted to educate myself on how to purchase it, the
1662 different exchanges. I look at it every day just like I look at
1663 a stock portfolio just to try to understand these type topics that
1664 we deal with here in this committee and are talking about today.

1665 So, Mr. Taylor, what specific consumer preferences or trends
1666 do you see being the driving force behind a lot of the retail
1667 innovations?

1668 Mr. Taylor. Well, certainly the consumers' appetite for
1669 convenience, for fast and free, are driving many of the

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1670 innovations we see in the last mile. And I think that, you know,
1671 the Amazon effect is very real here. And, you know, we are helping
1672 many other retailers be able to provide, you know, similar or even
1673 better, better level of service.

1674 And so the innovations we see and that we are directly
1675 involved in is helping our retail customers gain much deeper
1676 visibility and the ability -- in last-mile delivery -- and the
1677 ability to be truly proactive in helping the distressed shipments
1678 get back on track, and then communicate with the customer in a
1679 proactive way as well.

1680 Mr. Duncan. Right. I guess this is for the panel. Because
1681 of the demand for speedy delivery -- and my wife and I use Amazon
1682 a lot for, you know, household goods, I mean just because of the
1683 convenience of it -- but do you see more trucks taking less than
1684 full trailers? And how is that affecting the trucking industry?
1685 And that is for the panel.

1686 Mr. Sanker. Yes, I mentioned earlier, we spend most of our
1687 time trying to figure out how to consolidate again because things
1688 have become deconsolidated as we have all ordered less than, like,
1689 really tiny packages going all over the place and coming from all
1690 over the place. So I think consolidation is the answer.

1691 And I think that what a lot of it -- some of the subcommittees

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1692 you just mentioned -- I think it all kind of gets back to math
1693 really. It is not our favorite subject for most of us but all
1694 this stuff is going to be solved with algorithms. And we don't
1695 really have the people. It all comes down to the people that can
1696 do the math.

1697 So, the consolidation example is a great one. We use some
1698 pretty sophisticated algorithms that I couldn't possibly
1699 understand that we have got some great developers that do. And
1700 I think that is the key to a lot of everything now.

1701 Mr. Duncan. Yes. I have visited some fulfillment centers,
1702 like Walgreen's, where the stores are actually sending in orders,
1703 done automatically I guess, that they need, you know, three or
1704 four bottles of aspirin and ten bottles of formaldehyde, or
1705 whatever, you know, hydro peroxide or hydrogen peroxide. And
1706 they don't have warehouses in the back of the stores anymore. It
1707 is all just-in-time fulfillment.

1708 But the box may only have four items in it that's going to
1709 that store. And so, and it just that is going to take up a lot
1710 of truck space for a box that only has three or four items in it.
1711 I can think only how that transcends or translates to individual
1712 consumers that are purchasing one item. And that truck has got
1713 to go to Eureka, Montana, right, that delivery truck.

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1714 So let me move on in the little bit of time I have got left.

1715 Mr. Sanker, CaseStack is considered a third party logistics
1716 company, or a 3PL. What are the primary functions of 3PLs within
1717 that supply chain? And why do companies hire 3PLs to handle parts
1718 or even all of their logistics?

1719 Mr. Sanker. Yes, I think the bar has gone up a lot on all
1720 of this stuff. So it is not something that anyone can do anymore.
1721 So you need expertise. So third parties that provide logistics
1722 services are becoming increasingly relevant and having to invest
1723 quite a bit in technology.

1724 So I think the divide that is happening is you have got low
1725 tech and you have got high tech warehousing and logistics. At
1726 some point, you know, the higher technology based logistics
1727 operations are the ones that will be surviving, and the lower tech
1728 ones won't because there is just demand for instant visibility
1729 and even shipping, and the things that you have mentioned, like
1730 the consolidation of packaging so that it is sufficient.

1731 And when I say sustainability there is an environmental
1732 impact to allow these things that is pretty serious. And then
1733 from a business standpoint, like I mentioned the \$3.00 or so box
1734 of cereal I ordered, you know, it was less than a dollar of profit
1735 in that for businesses, too. So, really nobody could possibly

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1736 make money if they spent, in order to get me a \$3.00 box of cereal
1737 they used a gallon of diesel fuel, two pounds of paper and
1738 cardboard, and six feet of tape, plastic tape. And you can
1739 imagine that cost more than a dollar.

1740 So at some point the market figures this out. I think some
1741 of the retailers are a little bit ahead of the consumers.
1742 Consumers, some of the surveys I have seen for consumers is they
1743 are all right waiting a little while for some of the deliveries.
1744 But right now the businesses haven't really given them the
1745 incentives to do it. It's free shipping. I mean a lot of times
1746 I imagine everybody in here has the same experience, I order
1747 something on a Friday, that is this Friday. I got it on Sunday.
1748 I didn't really need it for a week. But it is there. And I didn't
1749 need all that.

1750 So that is going to change. I think the market will adjust
1751 for that.

1752 Mr. Duncan. Definitely a paradigm-shift going on all across
1753 the globe, I mean not only in the U.S. with your companies, and
1754 Amazon, and other fulfillment companies like that. But you are
1755 seeing Alibaba and JD and some others in the Asian markets.

1756 We have a logistics system in this country with good roads,
1757 good trains, and good airports. But I am just curious and really

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1758 watching what is going on overseas with companies like Alibaba
1759 and JD and how they are getting those, those items to their
1760 customers in much rural areas than we have in this country.

1761 It is a great hearing, Mr. Chairman. I appreciate the time.
1762 Mr. Latta. Well, thank you very much. The gentleman yields
1763 back.

1764 And seeing that we have no other members to ask questions,
1765 I want to thank our panel for being with us today. It has been
1766 very, very informational. We really appreciate it.

1767 And before we conclude, I would like to include the following
1768 documents to be submitted for the record, by unanimous consent:

1769 A letter from the U.S. Chamber of Commerce Technology
1770 Engagement Center; and a letter from RILA.

1771 And without objection, so ordered.

1772 [The information follows:]

1773

1774 ***** COMMITTEE INSERT 5 *****

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1775 Mr. Latta. And pursuant to committee rules, I remind
1776 members that they have 10 business days to submit additional
1777 question for the record. I ask that witnesses submit their
1778 response within 10 business days upon receipt of the questions.

1779 Without objection, the subcommittee will stand adjourned.
1780 And, again, thank you very much for being with us today.

1781 [Whereupon, at 11:44 a.m., the subcommittee was adjourned.]