

GOVERNMENT

Net neutrality repeal is dangerous for luxury retailers' ecommerce goals

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Without net neutrality, smaller retailers and ecommerce sites will struggle to compete with juggernauts such as Amazon. Image courtesy of Net-A-Porter

By DANNY PARISI

The FCC has fulfilled its promise to repeal net neutrality, potentially leading to a future where access to different sites and applications is segmented by Internet service providers into subscription-gated tiers.

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Despite the massive public outcry against the vote held Dec. 14, the FCC ignored all opposition and agreed to repeal any regulations that would prevent Internet Service Providers (ISPs) from divvying up the Internet, thus allow ISPs to discriminate against certain types of data. Regular Internet users are not the only ones who will face negative consequences from this action, however luxury brands and retailers will likely suffer setbacks in the form of lost customers who cannot access ecommerce sites without slowdowns enforced by ISPs.

"With net neutrality gone, most smaller online retailers will watch their service speed and display quality plummet since they'll have a tough time competing with larger corporations," said Douglas Baldasare, founder and CEO of **ChargeSpot**, Philadelphia. "As a result, consumers who don't want to visit slow-loading retailer Web sites will take their traffic elsewhere, relegating retail SMBs to the bottom of the customer barrel.

"The repeal will also affect smaller ecommerce retailers who are dependent on bandwidth-intensive rich media to deliver a better customer experience," he said.

"A tiered Internet will require these companies to pay more to provide consumers with online experiences that have minimal latency, speedy video load times and overall good quality display."

No more neutrality

While the term net neutrality may seem new, the idea of it is as old as the Internet itself. From the Internet's inception, ISPs have not been allowed to favor certain kinds of content over others, though that has not stopped them from trying.

Without net neutrality, this rule would be lifted, meaning ISPs could potentially limit the speed of certain Web sites unless customers paid extra for access.

The potential negatives of such a move are immediately obvious. The brands and retailers who do not cozy up to ISPs may find themselves with an ecommerce site that is slow or blocked altogether.

"The effects of the net neutrality repeal won't be noticeable or immediate, yet," ChargeItSpot's Mr. Baldasare said. "Instead, they'll slowly occur over the coming months.

"Luxury brands have recently started to embrace the benefits of ecommerce and selling in partnership with multi-brand Web sites such as Net-A-Porter," he said. "With net neutrality gone, fashion ecommerce startups such as Net-A-Porter along with competitors Lyst and Farfetch have a finite amount of capital to fight issues such as throttling or slowdown in their services."

While many luxury retailers may have the money for such an arrangement, they will likely be unable to compete with giants such as Amazon, which is already causing trouble for retailers even with net neutrality rules in place.



The repeal of net neutrality was overwhelmingly unpopular and sparked massive protests. Image credit: [Backbone Campaign](#) via Flickr

The FCC's new ruling also allows room for anti-competitive practices.

"If, hypothetically, an ISP were to acquire one of those ecommerce platforms, they could look to slow down the speed of its competitors to give one an unfair advantage over the rest," Mr. Baldasare said. "This could affect the luxury brand's ability for exposure and sales through competitors.

"The same concept applies if an ISP were creating their own luxury ecommerce platform," he said. "Nothing would stop that ISP from slowing down traffic access to competitors' sites, and holding them hostage until the luxury brands they are partnered with switched over to the ISP's platform."

Additionally, advertisers will suffer as rich media content, such as video, virtual reality and other bandwidth-heavy content, will be stifled unless they have the right relationship with the right ISPs.

This is all beside the fact that brands and retailers may lose customers simply due to the fact that those customers will not be able to access those Web sites as easily.

"Many fear that small retailers will have a hard time competing with large brands, as the cost of fast Internet services may become cost prohibitive," said David Naumann, vice president of marketing at [Boston Retail Partners](#), Boston. "If retailers cannot afford the fees for fast Internet service, their sites will be very slow and frustrating for their customers, resulting in reduced sales and potentially lost customers."

Internet competition

Small businesses that depend on affordable and sometimes geo-local ads to spread business awareness via pre-roll spots on sites such as YouTube and Hulu will be in a world of hurt.

If ISPs are given free rein to charge for online content delivery, that cost is passed on to the advertiser. And while brand giants may not have a problem with mitigating those costs, smaller retailers will find themselves taking yet another financial hit. They will be paying for individual pre-roll, as well as the bandwidth to stream them ([see story](#)).



FCC Chairman Ajit Pai, center, spearheaded the effort to repeal net neutrality. Image credit: FCC

Additionally, smaller luxury brands and retailers will be hit doubly hard, as they lack the resources and finances to compete with larger retailers for bandwidth.

"For smaller brands and retailers, the repeal of net neutrality will have a larger overarching effect," ChargeItSpot's Mr. Baldasare said. "Since the repeal abolishes the level playing field that exists among every online business today, a potential tiered structure will make smaller retailers have to pay 'tolls' to telecom giants and ISPs to compete with larger, resource-rich competitors.

"As it stands, any retailer who registers a Web site can achieve the same visibility and service speed afforded to major players such as Walmart, Amazon, Best Buy and others of that caliber," he said.

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