



amazon.com

SHOULD YOU
SELL ON AMAZON?



FULL SERVICE E-COMMERCE AGENCY
Helping businesses with digital transformation and
online growth for over 20 years.



Should you be selling your products on Amazon?



Amazon scares many consumer brands. It's the world's biggest marketplace so it cannot be ignored, but many businesses just don't know whether to compete or collaborate.

According to Magento, 55% of customers start their search on Amazon and 50% of products sold globally on Amazon are from third party sellers. However certain brands, particularly in the luxury sector, have tried to resist what they see as a race to the bottom.

You can decide to exclude your brand but if you do, Amazon customers might choose a suitable alternative from one of your competitors. Once they have jumped ship, it's going to be tough getting them back. Any margin you save by not selling on to Amazon, you are going to have to spend trying to re-acquire that customer anyway.

"55% OF CUSTOMERS START THEIR SEARCH ON AMAZON ..."

The Amazon logo, featuring the word "amazon" in a bold, lowercase sans-serif font with a curved orange arrow underneath it, set against a background of a warehouse with workers and a forklift.

amazon

... Jewellery



sp.



39 per cent of online spend in the UK goes through Amazon ...



According to a Salmon study from 2017, 39 per cent of online spend in the UK goes through Amazon. The percentage is 57 in the US and growing. The bigger Amazon gets, the greater share of consumer spending they will take and the harder it will be for merchants to get their fair share of that spend. By collaborating, however, you have to accept giving something up.

- It might be margins when selling wholesale to Amazon
- It might be the ability to interact directly with customers
- It might be hard-won brand equity, because Amazon customers are loyal to Amazon and the service it provides, not to their suppliers and marketplace traders

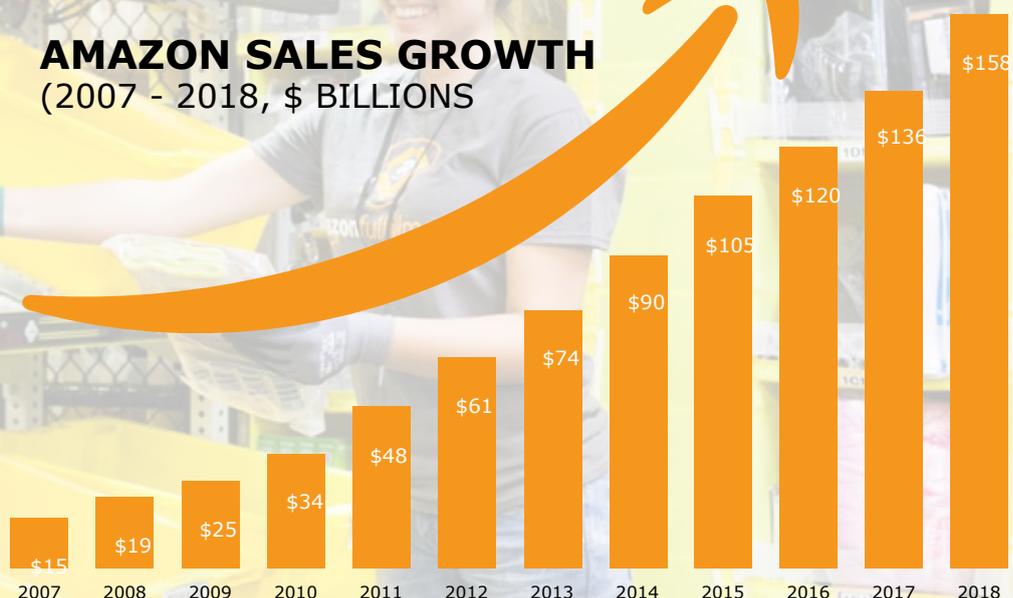
However, consumer brands should be aware of the growing influence Amazon has on the high street as well as online. Product reviews and social recommendations are critical, and not just for millennials. Baby boomers report checking major eCommerce sites and reviews as well. A good review on Amazon can nowadays be the difference between your product selling or not, whether in store or online.

“While Amazon’s dominance of the online retail market is no secret, few could have predicted how it has become not only the starting point in the online shopping journey, but also the predominant channel for product purchase. It’s clear that Amazon has set the standard for consumer expectations with its focus on price, delivery and innovation.”

- Hugh Fletcher, global head of innovation and consultancy at Salmon

Source: Susquehanna Financial Group, Kurt Salmon analysis

AMAZON SALES GROWTH (2007 - 2018, \$ BILLIONS)



How has Amazon come to be so influential?



There are many reasons, but the most significant of all is Amazon Prime.



People often think of Prime as a shipping program. It is not. It is a loyalty programme. The thing about Prime is, it's more sticky than most other loyalty programmes because of Amazon's investments in customer service and fulfilment. Amazon doesn't even have to offer the cheapest goods anymore because it gives customers what they want most: the item they want, at a reasonable value, exactly when they want it.

The numbers back this up:-

- In the US, Kantar figures show that a third of households are Prime members.
- More than 90 per cent of Prime subscribers renew annually.
- In the US, average annual spend for Prime customers is two and a half times that of non-Prime customers.
- Conversion rates are 74 per cent, compared to just 13 per cent for non-Prime.

A few years ago, most people would have said that consumers care most about price. Indeed, many merchants were advertising the fact that if you found a product from another merchant at a lower price, they would refund you the difference (e.g. the tag line "never knowingly undersold" from John Lewis). Things have changed and we now know that availability and convenience are equally as attractive to consumers.

What Amazon figured out long before everyone else is that people care more about availability and convenience than they do price. In eCommerce, that also trumps any preference for whom you are buying from, or even loyalty to any brand. Loyalty is earned through ease, convenience and good customer service.



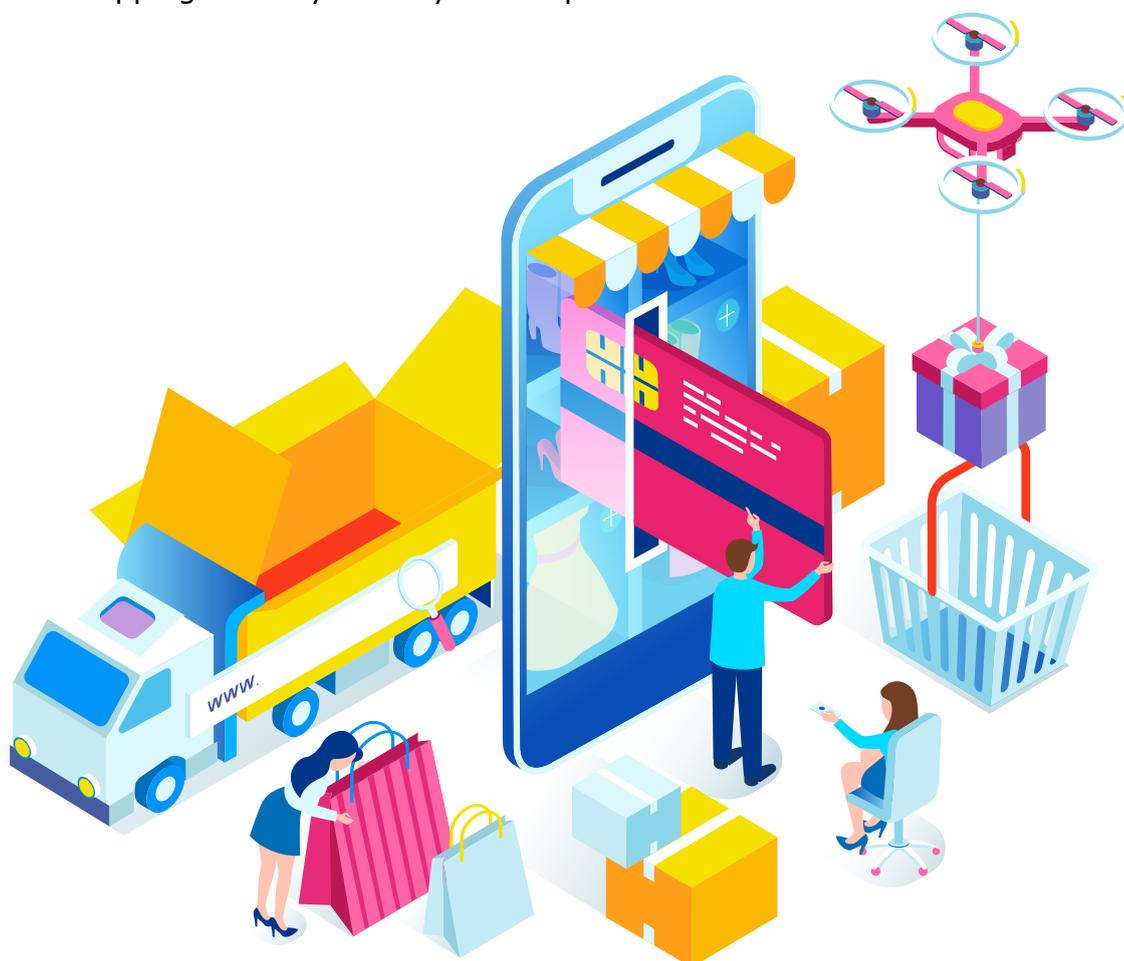
People care more about getting a product quickly than they do about getting it cheap

WWW

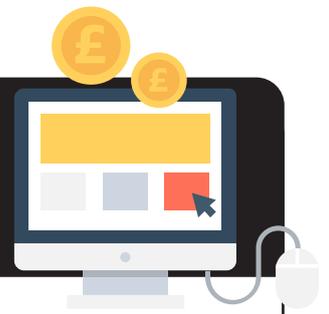
Amazon's ambitions do not end with Prime. Around the world, it is continually testing out new, innovative ways to make it easier for customers to shop and receive goods online, whether it is the automated re-order Dash button, Click and Collect or Amazon Instant (now available in some part of the US) – which promises to fulfil orders in two minutes.

Amazon offers merchants the ability to service their customers and markets in ways that they would not otherwise be able to do due to lack of investment and infrastructure, etc. The options available to merchants are very flexible:

- You can opt for a straight retail model, where you sell wholesale to Amazon and they take care of everything else.
- You can choose to provide a product wholesale but still keep control of the shipping. This often happens with very large or high-value items.
- You can keep more control over merchandising, price, customer service and so on as a marketplace seller.
- You might decide to hand over shipping to Amazon because you want to offer your customers the Prime experience.
- You might decide to sell across Europe by having 1 unified account for all 5 marketplaces (120 million consumers). A good example of why you might do this is that if you get your product in one distribution centre in Europe, you get Prime shipping in every country in Europe.



There are different pros and cons ...



If you sell wholesale to Amazon, you might be getting a 50 per cent margin as opposed to an 85 per cent margin selling on the marketplace.

However, the quid pro quo is that Amazon takes the inventory risk, not you. By acting as supplier, Amazon is also motivated to support and grow your business.

On the other hand, with a wholesale arrangement, you lose access to sales and conversion data about your products, and you have very limited opportunities to follow up with customers unless you have your own compelling loyalty program.

Magento (now owned by Adobe) recognises the power of Amazon and as a result, provides out of the box functionality to seamlessly integrate your Magento store with Amazon. To get advice and guidance around selling on Amazon, call us now on + 44 (0)1932 359160 or email info@screenpages.com.

Sarah Willcocks, CEO, Screen Pages Ltd
Jan 2019



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