BUS 189: Strategic Management
Case Analysis

Stihl is a manufacturer of chain saws and other similar power tools. It has been shunning big retail chains like Home Depot and selling primarily through small retail shops. It has been doing well.

Recently, however, the growth and popularity of online market platforms such as the Amazon Marketplace – where manufacturers can sell directly to consumers if they choose – has created both opportunities and threats to manufacturers such as Stihl.

Review the attached documents about the platform business model, Stihl, and Amazon.

Suppose that you were a strategic consultant and Stihl hired you to evaluate whether it is worthwhile for Stihl to use the Amazon Marketplace to sell its power tools. Your analysis and answers will be considered by Stihl's CEO as he develops company's strategic planning for the next five years. Based on information in the provided documents, please answer the following three questions.

1. *What are pros and cons of Stihl using the Amazon Marketplace to sell its tools?*

2. *Based on your analysis, what would be your recommendation to Stihl on whether to use the Amazon Marketplace?*

3. *Might any changes in situation – such as increasing competition, change in product quality, or change in its customer base - lead you to reverse your recommendation or call for a different approach?*

Enclosed are five documents.

1. Rothermeal, F. T. (2019). Business Strategy: Innovation, Entreneurship, and Platforms. Strategic Management, 4th Edition. Dubuque, Iowa, McGraw-Hill Education 249-253.
2. Stock, K. (2014). Stihl Chain Saws Thrive Outside the Big Box. Bloomberg.
3. Marketplace-Pulse (2019). Marketplaces Year in Review 2018, Marketplace Pulse.
4. Danziger, P. N. (2018). Thinking of Selling on Amazon Marketplace? Here Are the Pros and Cons. Forbes.
5. Greene, J. (2019). Amazon Tests Pop-up Feature Touting Its Lower-Priced Products. Wall Street Journal.

The paper should thoroughly address each component above, be professionally written and formatted, and be no more than three single-spaced pages.

You instructor will give you additional details on the submitting the assignment on Canvas.

Document 1

7.5 Platform Strategy

LO 7-6
Explain why and how platform businesses can outperform pipeline businesses.

Up to this point in our discussion of strategy and competitive advantage, we focused mainly on businesses that operate at one or more stages of the linear value chain (introduced in Chapter 4).

A firm's value chain captures the internal activities a firm engages in, beginning with raw materials and ending with retailing and after-sales service and support. The value chain represents a linear view of a firm's business activities. As such, this traditional system of horizontal business organization has been described as a *pipeline,* because it captures a linear transformation with producers at one end and consumers at the other. Take BlackBerry as an example of a business using a linear pipeline approach based on a step-by-step arrangement for creating and transferring value. This Canadian ex-leader in smartphones conducted internal R&D, designed the phones, then manufactured them (often in company-owned plants), and finally retailed them in partner stores such as AT&T or Verizon, which offered wireless services and after-sales support.

THE PLATFORM VS. PIPELINE BUSINESS MODELS

Read the examples below, and try to figure out how these businesses' operations differ from the traditional pipeline structure described earlier.[78]

- Valued at $70 billion in 2017, the ride-hailing service Uber was launched less than 10 years earlier in a single city, San Francisco. Uber is not only disrupting the traditional taxi and limousine business in hundreds of cities around the globe, but also reshaping the transportation and logistics industries, without owning a single car. In the future, Uber might deploy a fleet of driverless cars; it is currently testing autonomous vehicles.
- Reaching close to 2 billion people (out of a total of 7 billion on Earth), Facebook is where people get their news, watch videos, listen to music, and share photos. Garnering some $30 billion in annual advertising revenues in 2016, Facebook has become one of the largest media companies in the world, without producing a single piece of content.
- China-based ecommerce firm Alibaba is the largest web portal that offers online retailing as well as business-to-business services on a scale that dwarfs Amazon.com and eBay combined. On its Taobao site (similar to eBay), Alibaba offers more than 1 billion products, making it the world's largest retailer without owning a single item of inventory. When going public in 2014 by listing on the New York Stock Exchange (NYSE), Alibaba was the world's largest initial public offering (IPO), valued at $25 billion. Not even three years later, by early 2017, Alibaba was valued at some $260 billion, making it one of the most valuable technology companies in the world.

What do Uber, Facebook, and Alibaba have in common? They are *not* organized as traditional linear pipelines, but instead as a **platform businesses**. The five most valuable companies globally (Apple, Alphabet, Microsoft, Amazon, and Facebook) all run platform business models. ExxonMobil, running a traditional linear business model from raw materials (fossil fuels) to distribution (of refined petroleum products) and long the most valuable company in the world, had fallen to number six by 2016.[79] Based on the 2016 book *Platform Revolution* by Parker, Van Alstyne, and Choudary, platforms can be defined along three dimensions:

platform business An enterprise that creates value by matching external producers and consumers in a way that creates value for all participants, and that depends on the infrastructure or platform that the enterprise manages.

1. A platform is a business that enables value-creating interactions between external producers and consumers.

2. The platform's overarching purpose is to consummate matches among users and facilitate the exchange of goods, services, or social currency, thereby enabling value creation for all participants.
3. The platform provides an infrastructure for these interactions and sets governance conditions for them.

The business phenomenon of platforms, however, is not a new one. *Platforms,* often also called *multi-sided markets,* have been around for millennia. The town squares in ancient cities were marketplaces where sellers and buyers would meet under a set of governing rules determined by the owner or operator (such as what type of wares could be offered, when the marketplace was open for business, which vendor would get what stand on the square, etc.). The credit card, often hailed has the most important innovation in the financial sector over the last few decades,[80] provides a more recent example of a multi-sided market. Credit cards facilitate more frictionless transactions between vendors and customers because the vendor is guaranteed payment by the bank that issues the credit card, and customers using credit cards can easily transact online without the need to carry cash in the physical world. In addition, credit card users can buy goods or services on credit based on their promise of repaying the bank.

In the digital age, *platforms* are business model innovations that use technology (such as the internet, cloud computing, etc.) to connect organizations, resources, information, and people in an interactive ecosystem where value-generating transactions (such as hailing a ride on Uber, catching up on news on Facebook, or connecting a Chinese supplier to a U.S. retailer via Alibaba) can be created and exchanged. Effective use of technology allows platform firms to drastically reduce the barriers of time and space: Information is available in real time across the globe, and market exchanges can take place effectively across vast distances (i.e., China to the United States) or even in small geographic spaces (such as Tinder, a location-based dating service).

THE PLATFORM ECOSYSTEM

platform ecosystem The market environment in which all players participate relative to the platform.

To formulate an effective platform strategy, a first step is to understand the roles of the players within any **platform ecosystem** (see Exhibit 7.13). From a value chain perspective, *producers* create or make available a product or service that *consumers* use. The *owner* of the platform controls the platform IP address and controls who may participate and in what ways. The *providers* offer the interfaces for the platform, enabling its accessibility online.

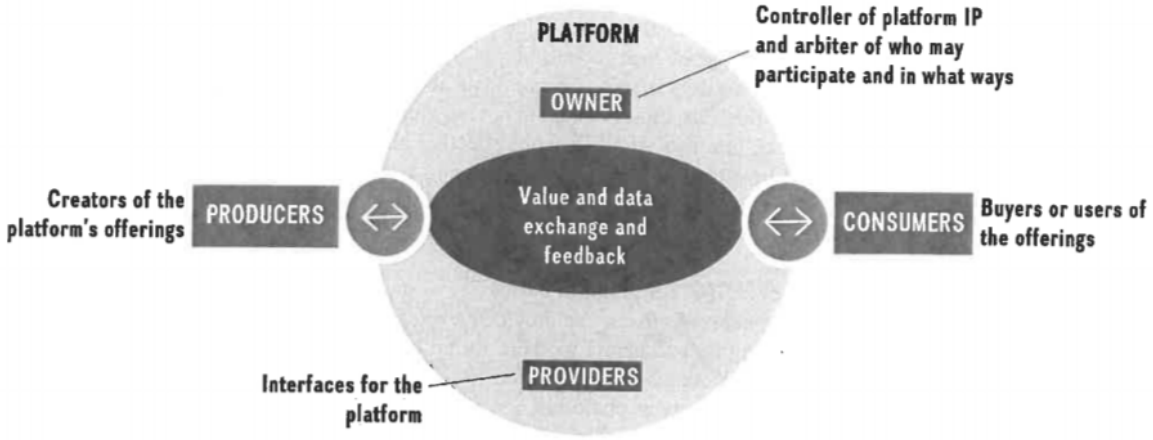
The players in the ecosystem typically fill one or more of the four roles but may rapidly shift from one role to another. For example, a producer may decide to purchase the platform to become an owner, or an owner may use the platform as a producer. Producer and consumer can also switch, for example, as when a passenger (consumer) who uses Uber for transportation decides to become an Uber driver (producer). This is an example of so-called *side switching.*

ADVANTAGES OF THE PLATFORM BUSINESS MODEL. *Platform businesses* tend to frequently outperform *pipeline businesses,* because of the following advantages:[81]

1. *Platforms scale more efficiently than pipelines by eliminating gatekeepers.* Platform businesses leveraging digital technology can also grow much faster—that is, they scale efficiently—because platforms create value by orchestrating resources that reside in the ecosystem. The platform business does not own or control these resources, facilitating rapid and often exponential growth.

In contrast, pipelines tend to be inefficient in managing the flow of information from producer to consumer. When hiring a professional services firm such as consultants or

EXHIBIT 7.13 / The Players in a Platform Ecosystem



SOURCE: Adapted from Van Alystyn, M., Parker: G. G., and Choudary, S. P. (2016, Apr.) "Pipelines, Platforms, and the New Rules of Strategy." *Harvard Business Review.*

lawyers, the buyer has to purchase a bundle of services offered by the firm, for example, retaining a consulting team for a specific engagement. This team of consultants contains both senior and junior consultants, as well as administrative support staff. The client is unable to access the services of only one or two senior partners but not the rest of the team, where inexperienced junior associates are also billed at a high rate to the client. Platforms such as Upwork unbundle professional services by making available precisely defined individual services while eliminating the need to purchase a bundle of services as required by gatekeepers in old-line pipelines.

2. *Platforms unlock new sources of value creation and supply.* Consider how upstart Airbnb (featured in ChapterCase 3) disrupted the hotel industry. To grow, traditional competitors such as Marriott or Hilton would need to add additional rooms to their existing stock. To add new hotel room inventory to their chains, they would need to find suitable real estate, develop and build a new hotel, furnish all the rooms, and hire and train staff to run the new hotel. This often takes years, not to mention the multimillion-dollar upfront investments required and the risks involved.

In contrast, Airbnb faces no such constraints because it does not own any real estate, nor does it manage any hotels. Just like Marriott or Hilton, however, it uses sophisticated pricing and booking systems to allow guests to find a large variety of rooms pretty much anywhere in the world to suit their needs. As a digital platform, Airbnb allows any person to offer rooms directly to pretty much any consumer that is looking for accommodation online. Airbnb makes money by taking a cut on every rental through its platform. Given that Airbnb is a mere digital platform, it can grow much faster than old-line pipeline businesses such as Marriott. Airbnb's inventory is basically unlimited as long as it can sign up new users with spare rooms to rent, combined with very little if any cost to adding inventory to its existing online offerings. Unlike traditional hotel chains, Airbnb's growth is not limited by capital, hotel staff, or ownership of real estate. In 2017, Airbnb offered over 2 million listings worldwide for rent.

3. *Platforms benefit from community feedback.* Feedback loops from consumers back to the producers allow platforms to fine-tune their offerings and to benefit from big data

analytics. TripAdvisor, a travel website, derives significant value from the large amount of quality reviews (including pictures) by its users of hotels, restaurants, and so on. This enables TripAdvisor to consummate more effective matches between hotels and guests via its website, thus creating more value for all participants. It also allows TripAdvisor to capture a percentage of each successful transaction in the process.

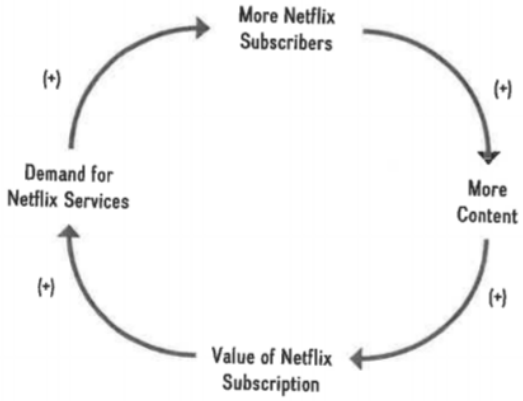
Netflix also collects large amounts of data about users' viewing habits and preferences across the world. This allows Netflix to not only make effective recommendations on what to watch next, but also affords a more effective resource allocation process when making content investments. Before even producing a single episode of *House of Cards,* for example, Netflix knew that its audience would watch this series. Netflix has continued following the data, which allows the market to shape new content.

NETWORK EFFECTS For platform businesses to succeed, however, it is critical to benefit from positive *network effects.* We provided a brief introduction of network effects earlier when discussing how to gain a foothold for an innovation in a newly emerging industry during the introduction stage of the industry life cycle. We now take a closer look at the role of network effects in platforms, including feedback loops that can initiate virtuous growth cycles leading to platform leadership.

Netflix. Consider how the video-streaming service Netflix (featured in the ChapterCase) leverages network effects for competitive advantage. Netflix's business model is to grow its global user base as large as possible and then to monetize it via monthly subscription fees. It does not offer any ads. The established customer base in the old-line DVD rental business gave Netflix a head start when entering into the new business of online streaming. Moreover, the cost to Netflix of establishing a large library of streaming content is more or less fixed, but the per unit cost falls drastically as more users join. Moreover, the marginal cost of streaming content to additional users is also extremely low (it is not quite zero because Netflix pays for some delivery of content either by establishing servers hosting content in geographic proximity of users, or paying online service providers for faster content streaming).

As Netflix acquires additional streaming content, it increases the value of its subscription service to customers, resulting in more people signing up. With more customers, Netflix could then afford to provide more and higher-quality content, further increasing the value of the subscription to its users. This created a virtuous cycle that increased the value of a Netflix subscription as more subscribers signed up (see Exhibit 7.14).

EXHIBIT 7.14 / Netflix Business Model: Leveraging Network Effects to Drive Demand

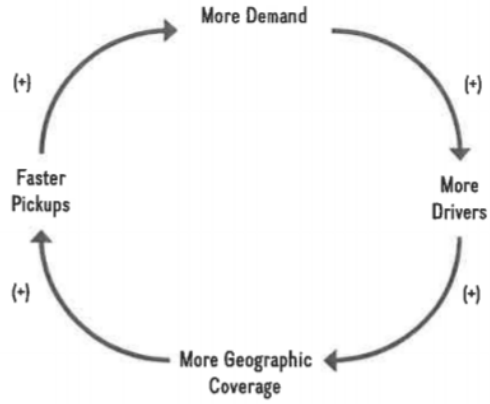


Growing its user base is critical for Netflix to sustain its competitive advantage. Netflix has been hugely successful in attracting new users: In 2017 it had some 100 million subscribers worldwide. Yet, while providing a large selection of high-quality streaming content is a necessity of the Netflix business model, this element can and has been easily duplicated by others such as Amazon, Hulu, and premium services on Google's YouTube. To lock in its large installed base of users, however, Netflix has begun producing and distributing original content such as the hugely popular shows *House of Cards* and *Orange Is the New Black.* To sustain its competitive advantage going forward, Netflix needs to rely on its core competencies, including its proprietary recommendation

engine, data-driven content investments, and network infrastructure management.

Uber. The feedback loop in network effects becomes even more apparent when taking a closer look at Uber's business model. Like many platforms, Uber performs a classic matching service. In this case, it allows riders to find drivers and drivers to find riders. Uber's deep pockets, thanks to successful rounds of fund-raising, allow the startup to lose money on each ride in order to initiate a positive feedback loop. Uber provides incentives for drivers to sign up (such as extending credit so that potential drivers can purchase vehicles) and also charges lower than market rates for its rides. As more and more drivers sign up in each city and thus coverage density rises accordingly, the service becomes more convenient. This drives more demand for its services as more riders choose Uber, which in turn brings in more drivers. This positive feedback loop is shown in Exhibit 7.15.

EXHIBIT 7.15 / Uber's Business Model: Leveraging Network Effects to Increase Demand

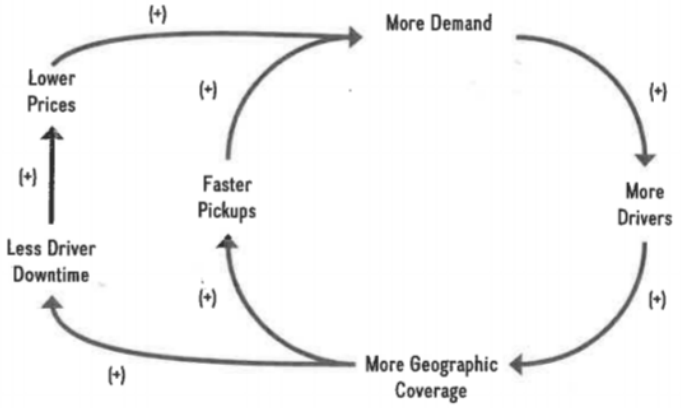


With more and more drivers on the Uber platform, both wait time for rides as well as driver downtime falls. Less downtime implies that a driver can complete more rides in a given time while making the same amount of money, even if Uber should lower its fares. Lower fares and less wait time, in turn, bring in more riders on the platform, and so on. This additional feedback loop is shown in Exhibit 7.16.

This feedback loop also explains the much hated "surge pricing" that Uber employs. It is based on dynamic pricing for its services depending on demand. For example, during the early hours of each New Year, demand for rides far outstrips supply. To entice more drivers to work during this time, Uber has to pay them more. Higher pay will bring more drivers onto the platform. Some users complain about surge pricing, but it allows Uber to match supply and demand in a dynamic fashion. As surge pricing kicks in, fewer people will demand rides, eventually bringing supply and demand back into an equilibrium (see Exhibit 7.16).

The ability of a platform to evince and manage positive network effects is critical to producing value for each participant, and it allows it to gain and sustain a competitive advantage. In contrast, negative network effects describe the situation where more and more users exit a platform and the value that each remaining user receives from the platform declines. The social network Myspace experienced negative network effects as more and more users abandoned it for Facebook. One reason was that Myspace attempted to maximize ad revenues per user too early in its existence, while Facebook first focused on building a social media platform that allowed for the best possible user experience before starting to monetize its user base through selling ads.

EXHIBIT 7.16 / Uber's Network Effects with Feedback Loop



Document 2

Successful Sales

Big-Box Cutter

Stihl builds chain saws in America and sells them through the kinds of little stores that are supposed to be going out of business. And it's working great. By Kyle Stock

When he bought Speed's Power Equipment in 1991, Sam Wilson felt the thrill of owning a small business wear off quickly. Amid a recession, his 15 employees struggled to sell pretty much any available brand of power tool in his shop about a mile south of downtown Salt Lake City. Then Home Depot opened eight blocks away. Wilson, now 51, was ready for a strategic Hail Mary.

He stopped carrying almost every brand of machinery that could be found in a big-box home-improvement store, which left him primarily with a bunch of chain saws, blowers, and hedge trimmers made by Stihl. Wilson also moved his business to a new location six blocks away—six blocks closer to Home Depot, that is. "I'm not going to lie; I was nervous," he says. "But my sales went crazy. It was just awesome."

Stihl (pronounced steel) has become the world's top chain saw seller and a manufacturing powerhouse by actively positioning itself against two of the most powerful forces in commerce: big-box retail and the Internet. In the U.S., Stihl has annual sales of about $1.3 billion, says Fred Whyte, its president, and that figure has been going steadily up.

Stihl has built its business model in the U.S. around retailers such as Speed's—mom-and-pop hardware stores, lawn mower repair shops, and thousands of other small outfits with creaky signs out front and piles of greasy spare parts in back. About 8,500 Stihl dealerships exist in the U.S. These aren't the places consultants mention when they talk about the future of retail. They don't have 3D printers, and they aren't working on package-delivering drones. These dealers don't have delivery at all. Although Stihl's website details its products at length, anyone who wants to buy has to see a dealership employee in the flesh.

And that is the genius of the company's strategy. In betting on the scrappy underdogs, Stihl has cultivated a fiercely dedicated sales force. To an independent dealer, a Stihl chain saw or weed whacker isn't just one product in a warehouse stacked with drywall screws, plumbing fixtures, and gallons upon gallons of paint. It's a survival tool—one of the only ones it has.

Small shops also give Stihl a chance to demonstrate how well its machines work. "Of course, it's a very old sales tactic," Whyte says. "Our dealers will say, 'Why don't we go out to the woodpile and try this model and that model?'"

Whyte says cost-cutting pressure from giant retailers has driven some of Stihl's best competitors out of business. "Eventually, they say, 'I guess we don't have to put chrome on the chain, and we don't need a declutching brake, and we don't have to powder-coat a lot of these parts," he says. "Over time the brand just becomes eroded."

In 1926, Andreas Stihl, a Swiss-born engineer, set up shop in Stuttgart, Germany, and started making washing machines and one of the world's first chain saws—a two-person model with an inchwide chain that ran on electricity. In 1950, Stihl cranked out arguably the first chain saw designed for a single user. The company didn't launch a U.S. subsidiary until 1974, when it opened a small plant in Virginia Beach, Va. That factory started building a single line of chain saws and quickly expanded its campus to comprise a swelling sales force and models. Stihl's U.S. operations are still a full subsidiary of its privately owned German parent, though it exports to almost 100 countries out of the Virginia Beach port and employs about 2,100 workers.

As the big-box stores increased in power, the small dealers became anxious. "They'd come down here to Virginia, and late at night, after about 14 cocktails, they'd kind of lean over and say, 'C'mon, Fred, you can tell us...one day you'll go to the big boxes, right?'" recounts Whyte, who's led Stihl since 1992. So in 2006, the company bought a full-page ad in the *Wall Street Journal* that read: "Why is the world's number one selling brand of chain saw not sold at Lowe's or Home Depot? We can give you 8,000 reasons, our legion of independent Stihl dealers nationwide."

Whyte remembers the date well, because that's when big-box retailers stopped calling the company's headquarters to arrange sales meetings. "The way to do this was to draw a line in the sand," he says. "And once we put it in print, we couldn't go back on it."

Speed's Power Equipment, meanwhile, sells on average two to three Stihl chain saws a day and about four of its other products. The company's line now accounts for roughly two-thirds of the retailer's revenue. "Maybe I'm ignorant," Wilson says. "But Home Depot doesn't really scare me anymore." B

DATA: COMPILED BY BLOOMBERG; PHOTOGRAPHY BY DAVID BRANDON GEETING FOR BLOOMBERG BUSINESSWEEK


Numbers
U.S. LOCATIONS
Home Depot 2k
Lowe's 1.8k
Stihl dealerships 8.5k
Product
The MS 271, a midgrade workhorse, appeals to pros and the homeowners who want to be like them.
Tools
Stihl requires all its dealers to sell parts and service its products. That makes for an additional revenue stream—and when machines under warranty break, the company doesn't have to replace them with new models.
STIHL
MS 271

DOCUMENT 3

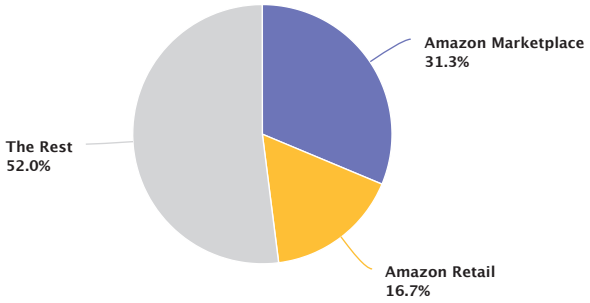
Marketplace Pulse

Marketplaces Year in Review 2018

The largest online retailer in the US is not Amazon, but the Amazon Marketplace. Made up of millions of sellers it will account for 31.3% of total e-commerce sales this year, according to market share estimates by eMarketer. It's close to twice as big as Amazon itself.

At $175 billion, Amazon marketplace sales will make up 68% of Amazon's $258 billion gross merchandise volume (GMV) in the US. Marketplace sales will grow 35.6% in 2018, double the rate of Amazon direct sales' 17.5% growth. eBay, the second largest marketplace in the US, is five times smaller at $35 billion in domestic sales. Next is Etsy and Wish with roughly $2 billion in GMV each, then followed by Walmart Marketplace.

Amazon Marketplace Share of US Online Retail Sales



Despite their size and growth rate, marketplaces are the most overlooked player in the US e-commerce. Amazon doesn't mention theirs often, retailers and brands are focused on Amazon the retailer, and shoppers don't notice it thanks to FBA and Prime.

The *Year in Review* looks at the state of marketplaces and their challenges, and makes predictions on what's to come next year. Unless otherwise noted all metrics mentioned in this report are calculated by our technology platform. Our software parses unstructured and semi-structured data sources and programmatically extracts the key pieces of structured data we care about. We collect more data on e-commerce marketplaces than any organization in the world.

In short, the industry continues to spin around Amazon. Amazon is growing both in the US and internationally, as the company struggles to make up its mind between being a retailer, a product creator, and a platform. Amazon's flywheel is enabled by the marketplace, FBA, and Prime. A lot of the goods sold on Amazon are sold directly from China. Competition is trying to match Amazon's two-day shipping, but it's just one of the services they fail to offer to their marketplaces. eBay is struggling to reinvent itself, Walmart is doing ok, and Jet.com is forgotten. Two newcomers in the form of Google and Facebook are making moves. There is also Wish and Etsy, both finding their own niche and growing. Overall the power of services built around Amazon cannot be matched by the competition, and the rise of advertising is sparking the creation of a whole new industry - Amazon brand agencies.

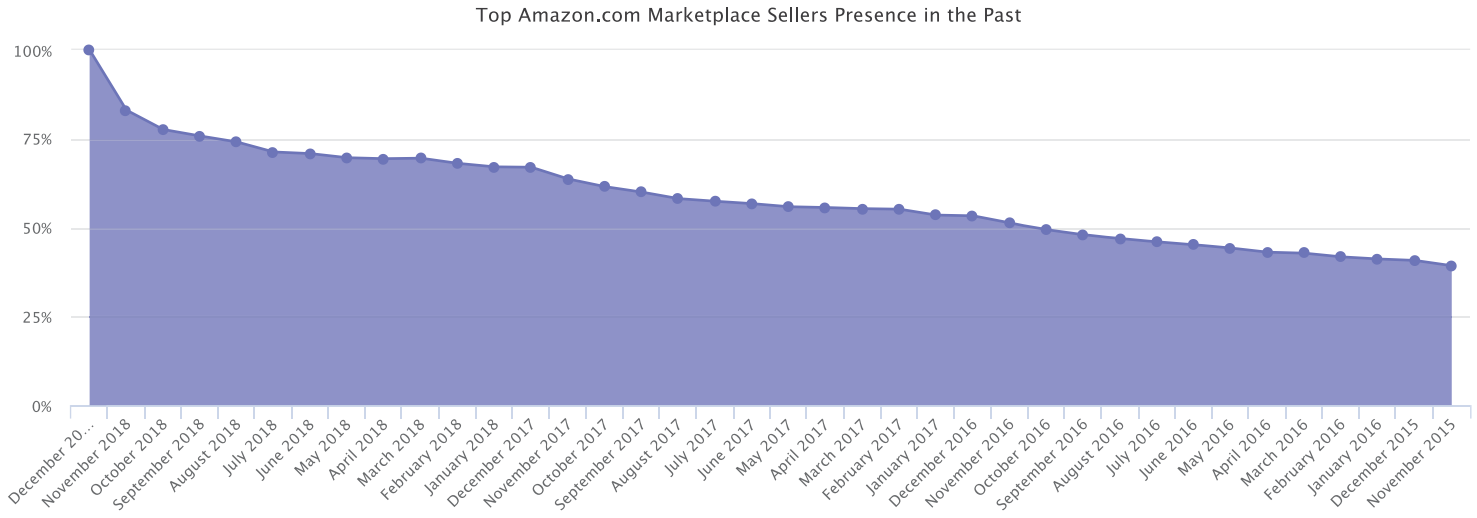
Amazon Sellers Funnel

The Amazon marketplace size is most often described as “there are currently more than 2 million sellers on Amazon worldwide.” The 2 million figure has become common speech. But not only is the marketplace bigger in terms of the number of sellers, it also has better metrics to benchmark its performance.

20,000	140,000	2,500,000
Sellers with $1 million in sales	Sellers with $100,000 in sales	Sellers with products for sale
Number of sellers worldwide with more than $1 million in sales a year.	Number of sellers worldwide with more than $100,000 in sales a year.	Number of active sellers worldwide with products listed for sale.

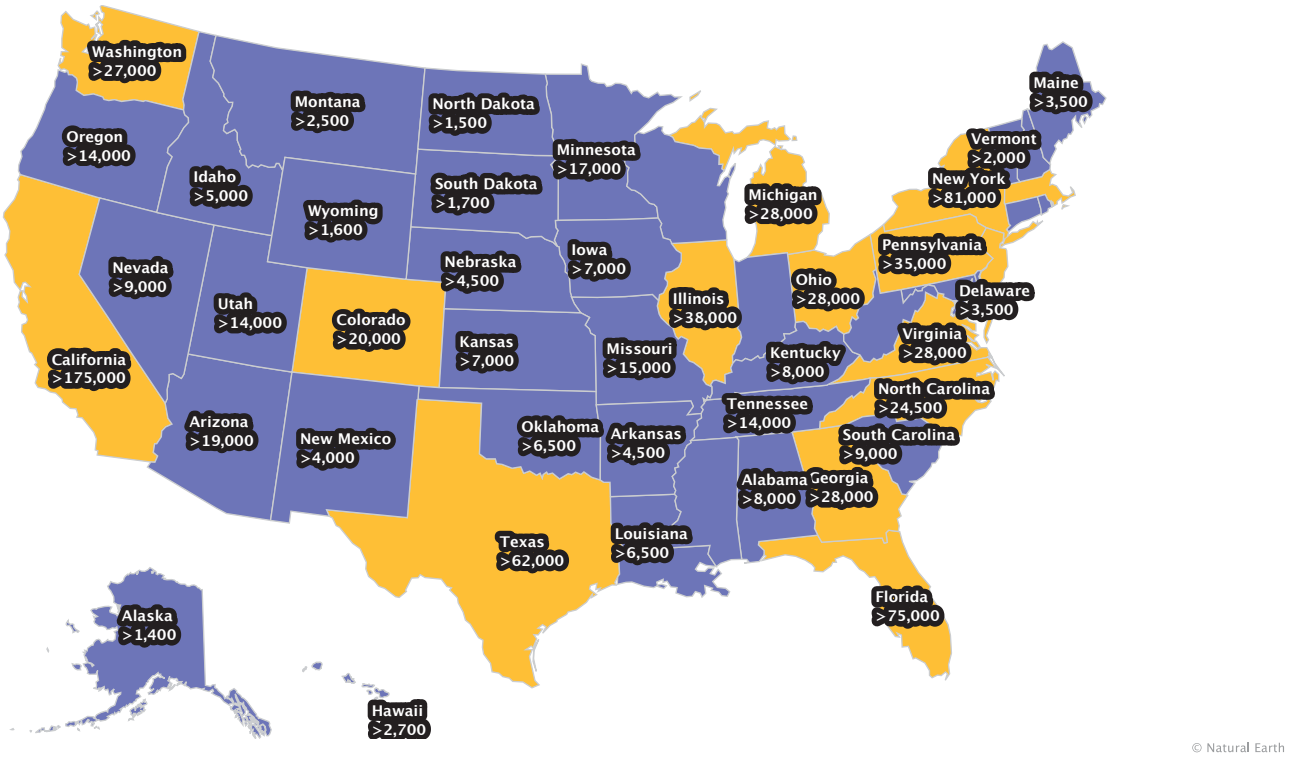
This is the Amazon marketplace funnel. Millions of sellers at the top, only tens of thousands at the bottom. There are millions of sellers with products listed for sale, there are more than 6 million sellers in total to have ever sold on Amazon, but the top 20,000 sellers with $1 million or more in sales represent the most important cohort.

Analyzing the current top sellers on Amazon, approximately 67% of them were also in the top one year ago; 53% of them were also in the top two years ago; and 41% of them were also top sellers three years ago. This highlights the apparent long-term sustainability of businesses relying on the Amazon marketplace and the relatively low churn rate. Churn rate, also known as the rate of attrition, is the percentage of sellers on a marketplace who stop selling within a given time period. Retention of top sellers is the opposite of churn.



More than one million US-based small and medium-sized businesses are selling on Amazon. US sellers are mostly located in California, representing 18% of all sellers. Other common locations include New York, Florida, and Texas. These four biggest states make up 40% of US sellers.

Amazon Sellers' Location By State



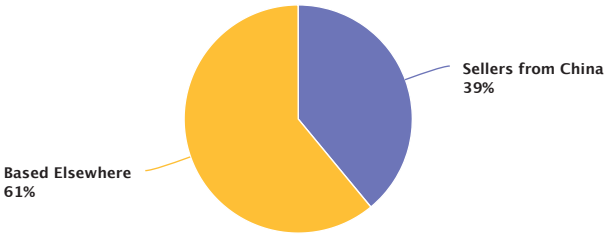
This breakdown showcases Amazon's economic impact across the US. Amazon estimates that the Amazon Marketplace has created more than 900,000 jobs.

Sellers are a unique type of business. Their business processes, capital funding, launching of new products, and inventory is built to work specifically on marketplaces. They understand keyword optimization much more than they do store layouts. They are not going around their brick-and-mortar store picking products off the shelves to fulfill an online order either.

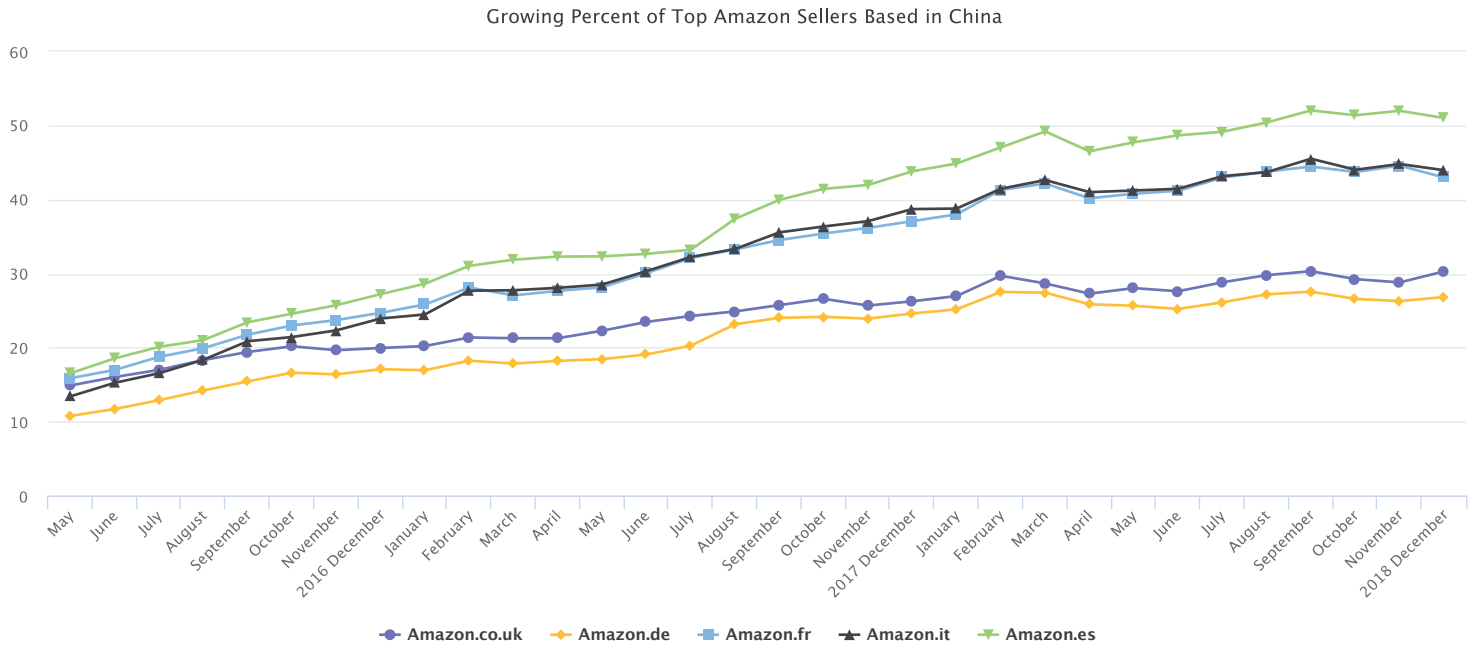
Amazon China Sellers

On Amazon, 39% of the top sellers are based in China. This is based on a combined average of the 5 European marketplaces (Spain, Italy, France, UK, and Germany). Retailers in Europe are required to disclose their business location as part of European Union law, this thus also apply to sellers on European marketplaces. The business information is analyzed in this report to determine what country is the seller located in. Unfortunately this is only possible for the European marketplaces, and the same analysis is not possible for Amazon.com.

Top Amazon Sellers Based in China



Nonetheless China sellers share of Amazon.com marketplace is at least that of Europe at 39% or even higher. The US marketplace generates the most sales overall, thus the interest from sellers is highest there. In a study from 2016, Payoneer interviewed 900 Chinese sellers and found that 62% of respondents are selling on Amazon marketplaces. Of the 62% figure, 91% sell on Amazon.com in the US.



In two years the number of successful sellers from China on the Amazon marketplace has doubled. 39% of the top sellers are now based in China, up from 15% two years ago.

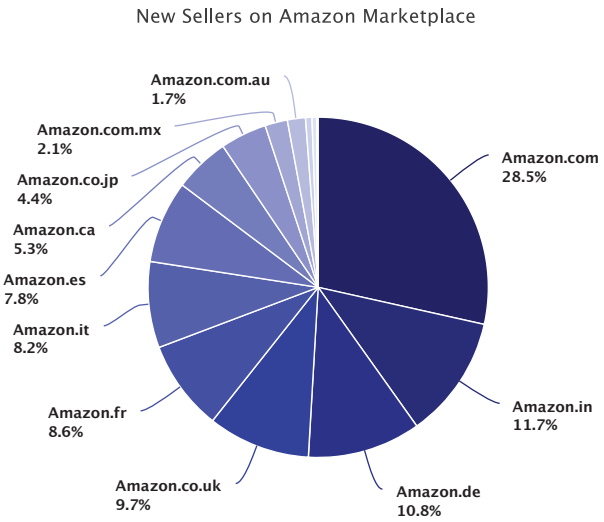
> "Why buy a $40 bikini made in America when you can buy a $4 bikini directly from China? For that matter, why buy a $20 bikini made in China but imported by a U.S. company like the Gap when you can buy a $4 bikini directly from China?"
>
> – *Alana Semuels, The Atlantic*

More than ten thousand Chinese sellers attended the 4th annual Amazon Global Store Seller Summit (年亚马逊全球开店卖家峰会). The event was held in Ningbo, Zhejiang province on December 6-7th. Twice as many participated in the live online broadcast. In comparison, Amazon's only event in the US, titled Boost with FBA and held in New Orleans, LA this year, attracted less than three thousand sellers. But comparing the size of the events is not as important as the difference in the topics discussed. The US' Boost with FBA focused largely on inventory management and starting-out advice, while the China's Global Store Seller Summit - as the name suggests - is about international expansion, product innovation, and brand building.

Amazon's message in China is simple: innovate on great products, expand worldwide, and build brands. And it's working.

Amazon Marketplace Growth

This year more than 1.2 million sellers joined all Amazon marketplaces. This equals to 3,459 new sellers every day, or 144 every hour, or more than 2 every minute.



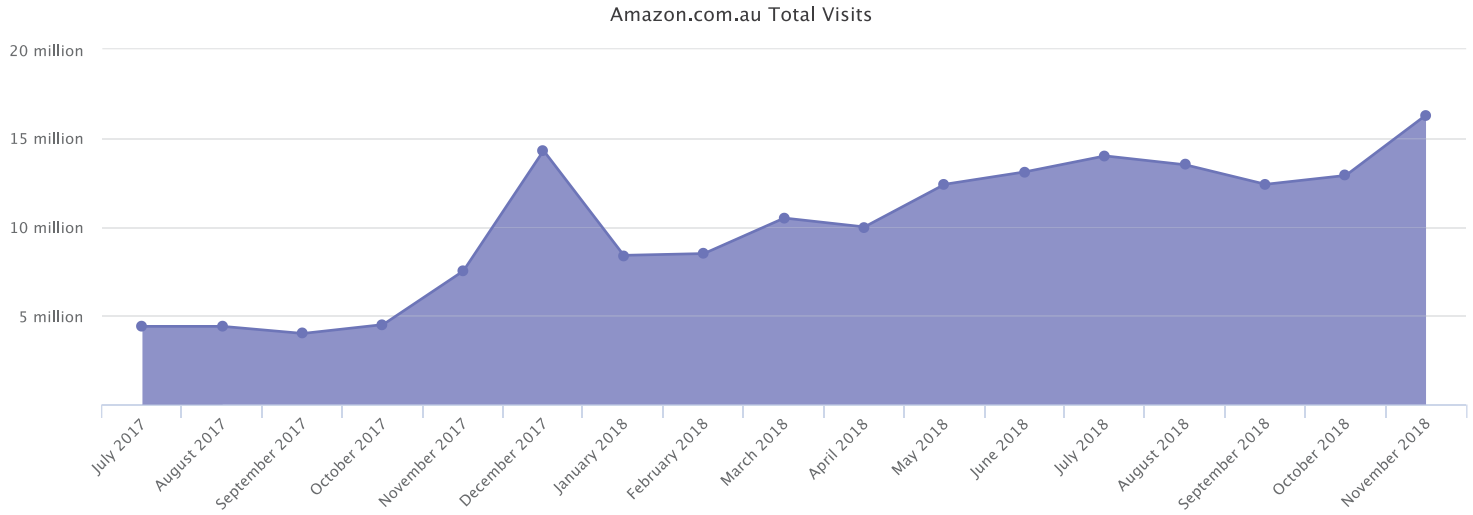
This is adding to the millions of marketplace sellers, and was mostly contributed by Amazon.com in the US, Amazon.in in India, and Amazon.de in Germany. Although few of them will ever become active - many sellers end up never listing even a single product.

In India it took four years for Amazon to grow the marketplace from zero to 200,000 sellers, but just over a year to double from 200,000 to 400,000 sellers. Amazon launched in India in June 2013 and it took the company 37 months to reach the first milestone, 100,000 sellers, in July 2016. It then took 11 months to double to 200,000 sellers in June 2017. Since then the marketplace growth has accelerated reaching 300,000 sellers in 8 months in February this year. Only 7 months later it reached 400,000 in September 2018.

"While Amazon and Flipkart (ex-Myntra and Jabong) were neck-and-neck in terms of GMV in FY17, Amazon has taken the clear lead in FY18 with GMV of $7.5 billion as compared to $6.2 billion for Flipkart on a standalone basis," according to a report from Barclays. Walmart acquired 77% in Flipkart earlier this year paying $16 billion, valuing it at $22 billion.

In Australia Amazon launch 12 months ago may not have lived up to the hype, but the company is on track to put the building blocks in place for years to come. "It's been a big year and we're only getting started," said Amazon Australia's country manager Rocco Braeuniger. Amazon managed to grow the assortment from 7.5 million products at launch to close to 100 million twelve months later. 20 million of which are from Amazon US available through the Global Store. The biggest driver of the growing catalog is the marketplace, which has grown from 2,000 to 25,000 sellers in a year. 40% of sellers, or 10,000 to be exact, are based in Australia, while the rest are international sellers, mostly from China.

The marketplace, FBA, and Prime are starting to spin the flywheel in Australia. As a result, in November it saw the most visitors yet at 16.3 million, according to SimilarWeb. That's more than in December last year, and thus this December is going to be even bigger still. Before Amazon launched in Australia the website was attracting 4 to 5 million visitors a month, but has steadily grown since - Amazon.com.au has doubled website traffic so far this year.



Fulfillment by Amazon (FBA)

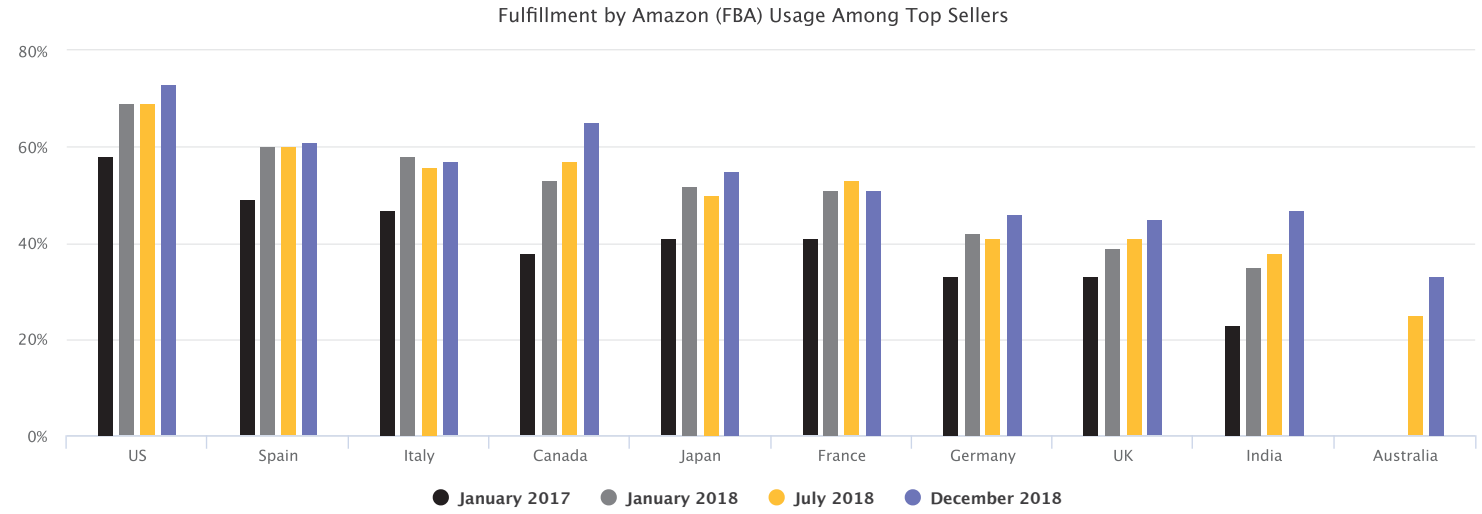
Amazon's Prime program now includes more than 100 million members worldwide. That makes it one of the largest loyalty programs in the world, and as a result Prime members as a group are influencing retail as a whole. Not only are other retailers waking up to having to offer "free" two-day shipping, other marketplaces are finding their own ways to enable unifying shipping experience.

The number of sellers offering products through Prime is steadily increasing. More than 90% of the top sellers now offer Prime for at least one product, up from 70% three years ago in 2015. Furthermore, 73% of the top sellers offer Prime for more than half of their assortment, up from 40% three years ago. Sellers choose to store inventory in FBA not because it is more convenient or cheaper than the alternatives. They do so because it unlocks access to more shoppers on Amazon. And thus over the years those who do got more successful than those who don't. It's all about that Prime checkmark.

The growing Prime catalog is enabled by FBA. Launched twelve years ago on September 19th, 2006 Fulfillment by Amazon (FBA) has become a cornerstone service enabling the Amazon flywheel. FBA is an Amazon program which allows sellers to offload most of their warehouse operations to Amazon for a fee. Customers buying from FBA sellers get the same two-day Prime shipping and thus sellers get preferential treatment in buy-box rotation.

> "We created Fulfillment by Amazon because it is good for Amazon.com customers, and therefore, great for our third-party sellers. With membership in Amazon Prime growing every day, more and more Amazon.com customers want a great deal on shipping and to receive their orders quickly. Fulfillment by Amazon makes it possible for sellers to offer Amazon.com customers this convenience."
>
> – *Joe Walowski, Product Manager, Fulfillment by Amazon*

Joe Walowski said this during the announcement in 2006. At that time it was already clear that Prime memberships will be one of the key pillars in the future, even though less than a million customers had signed up for one. Prime combined with FBA has made the marketplace almost invisible to most shoppers. A decade ago Amazon made three long-term bets: Prime memberships, fulfillment consistency, and third-party sellers are going to be key. By most estimates half of the US households have a Prime membership. The convenience of two-day shipping, and even same-day delivery has become the norm. And the third-party marketplace has grown faster than Amazon itself because it deeply integrated into all of this. They were the right bets to make.



Across all Amazon marketplaces the number of sellers offering Prime shipping is increasing. On February 26th Amazon launched Fulfillment by Amazon (FBA) in Australia. Ten months later 33% of sellers had already committed to using FBA for most of their catalog.

Those who use FBA on average have less products listed than those who don't use FBA (referred in the table below as Fulfillment by Merchant (FBM)). This is because listing products when using FBA requires sending those items to Amazon. For example, many of the books sellers have hundreds of thousands of products listed, but are rarely using FBA because of high storage fees.

Marketplace	FBA Seller Median Products	FBM Seller Median Products
Amazon.com	57	818
Amazon.in	37	102
Amazon.co.jp	36	472
Amazon.de	32	763
Amazon.co.uk	29	593
Amazon.fr	27	608
Amazon.it	25	508
Amazon.es	24	373
Amazon.ca	11	245
Amazon.com.au	5	19

Free Two-Day Shipping

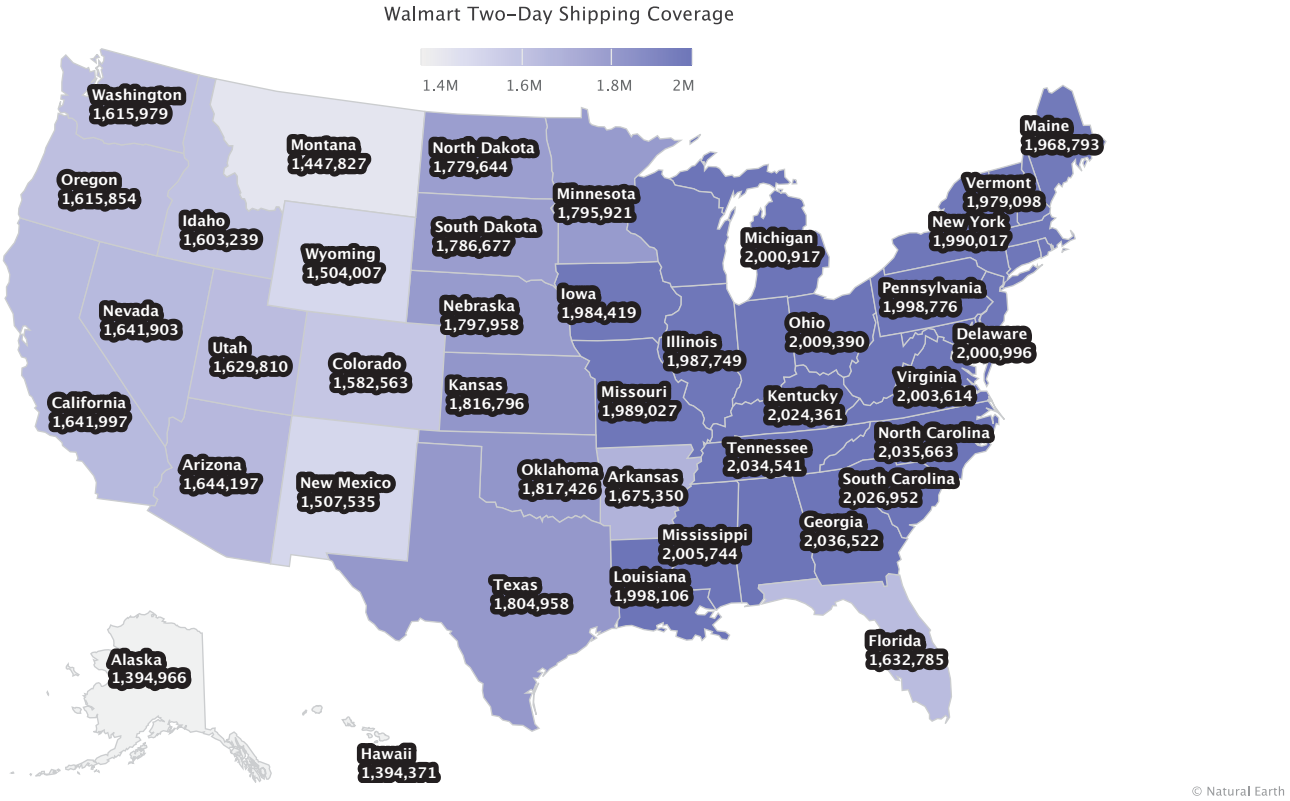
Free two-day shipping is an inalienable right, as Christopher Mims of The Wall Street Journal put it, "alongside life, liberty and the pursuit of happiness." This is mostly thanks to Amazon. Amazon launched Prime in 2005 and in thirteen years since has created a perception that two-day shipping is the standard every other retailer needs to meet too. The company offers free two-day shipping for Prime members for 100 million products.

The truth is that achieving nationwide free two-day shipping is hard and expensive. It requires inventory planning and mirroring, a warehouse network, and sophisticated technology to manage it. And all of that complexity needs to happen at a price point which still allows it to be marked as "free". Scale is essential too. None of this can be done by mom-and-pop shops or small retailers without the help of someone who has aggregated many of them.

> "In today's world of e-commerce, two-day free shipping is table stakes."
>
> – *Marc Lore, president and CEO of Walmart U.S. eCommerce*

Walmart, the largest retailer in the country with close to 5,000 stores locations and close to ten e-commerce fulfillment centers, can't do it perfectly. Customers on the east cost have access to 2 million products with two-day shipping, but on

the west coast the availability is 20% smaller at 1.6 million products. In some states like Montana or Wyoming only 1.5 million products are available with two-day shipping.

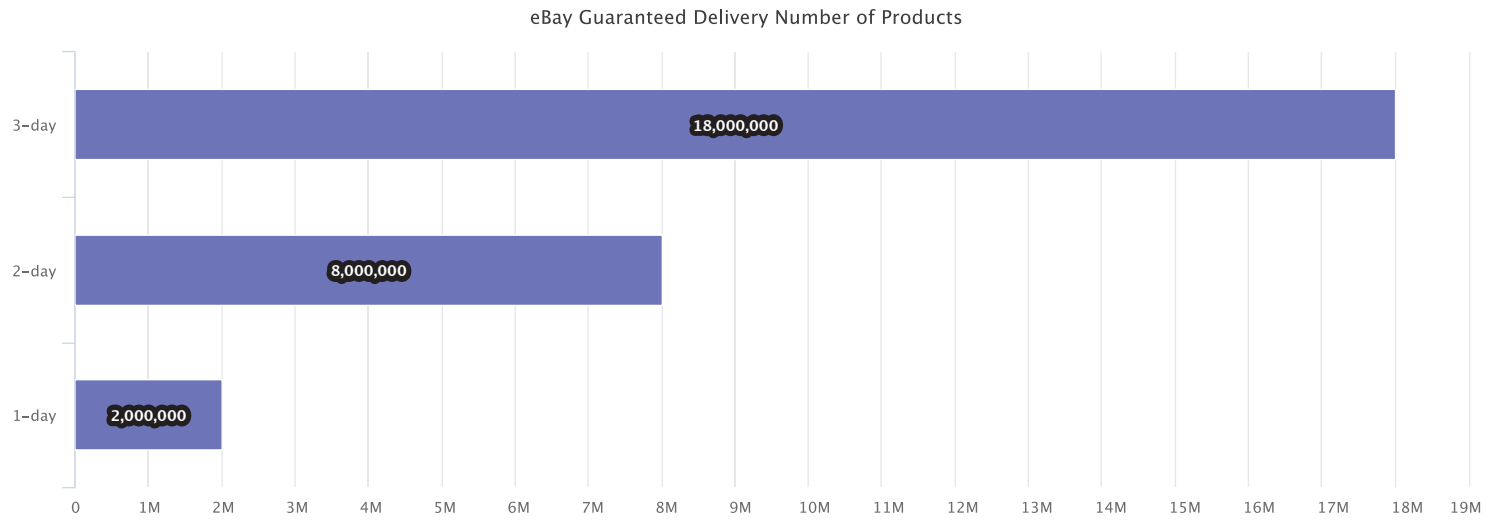


Walmart Two-Day Shipping launched with two million products in 2017 and so far has failed to grow. Two years later it is still hovering at two million products. Prime is Amazon's golden ticket and there is no point discussing Amazon vs Walmart without Walmart being able to match it. Two million items is no match for one hundred million. This is where the marketplace will play a crucial role in the future. It has allowed Walmart to expand the catalog, but hasn't always integrated into the shopping experience well since fulfillment was up to the seller. Walmart doesn't offer an FBA equivalent, and without it the growing catalog by the marketplace doesn't contribute to the two-day shipping selection.

In September 2017 eBay launched a new program called Guaranteed Delivery, allowing shoppers to filter search results to show only items that offer guaranteed delivery within 3 days or less. eBay automatically guarantees the delivery dates on

listings from stores with 100 or more transactions per year, a late shipment rate of 5% or less, and same-day or 1-day handling time.

Of the 800 million items on eBay in the US, 18 million are available with 3-day guaranteed delivery, 8 million are available with 2-day guaranteed delivery, and close to 2 million are available with next day 1-day guaranteed delivery.



eBay's Guaranteed Delivery is an attempt to offer Amazon Prime-like convenience without a membership and without eBay owning any warehouses. "In today's world of e-commerce, two-day free shipping is table stakes," said Marc Lore, president and CEO of Walmart eCommerce for the U.S. market. eBay wants to offer the same, but unlike Amazon or Walmart, it wants to achieve that without investing into physical infrastructure.

> "The one thing I don't think we need to do is deploy large amounts of capital to build the warehouse strategy. I've never thought that. I don't believe that and I think that we use data and we use the diversity of our inventory to close the gap."
>
> – *Devin Wenig, CEO of eBay*

eBay is probably right. eBay is too late to join the game of building an Amazon FBA competitor, and even if tried to it would take years. However the relatively small percent of eBay's catalog available with guaranteed fast shipping is showing that sellers often don't have the capability to do it themselves either. Most of the tens of millions of sellers on eBay are small operations, often one-person side-businesses. They can't offer nationwide fast shipping without the use of a third-party logistics infrastructure. eBay has built the website functionality to showcase fast shipping, but not partnerships and services to help, educate, and enable sellers to offer it.

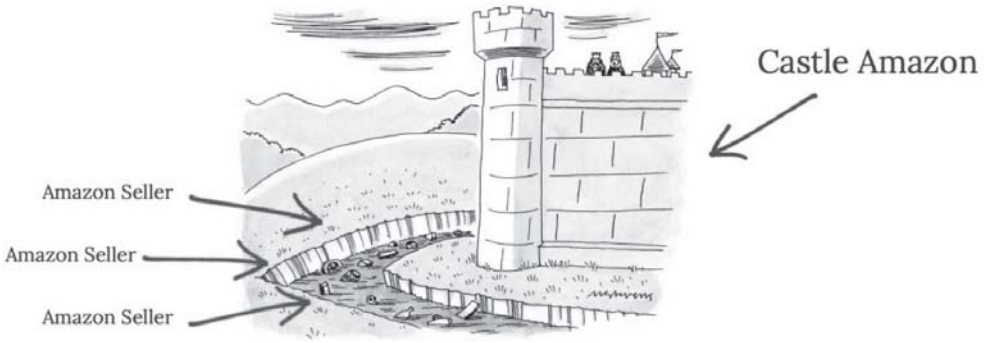
Amazon Sellers Moat

When Walmart or Google launch their new marketplaces the idea is that sellers will flock to them. But the reality is that most of them have a well-oiled process with Amazon and doing anything else is distracting. The repeatability of selling on Amazon, combined with expertise in launching products, reviews building, advertising, and other skills is not easily transferable.

The notion of multichannel, selling on dozens or even hundreds of marketplaces, is often a pipe dream. As Amazon gets bigger and as more shoppers join Prime, more sellers buy-in into FBA. And thus as a result for those sellers multi-channel becomes something they do to appear diversified, and not an actual business strategy. Multichannel inventory storage is an unsolved problem, at least competitively compared to FBA prices.

> "It doesn't seem appealing to me to add an enormous burden of having another inventory somewhere other than Amazon just to be able to sell 10% more than we currently sell on Amazon."
>
> – *Amazon Seller*

From 30,000ft above the Amazon ecosystem does look like the castle protected by an unbreachable moat, as Warren Buffet, American business magnate and philanthropist, described: "In business, I look for economic castles protected by unbreachable moats." Other castles - to continue the analogy - in the form of Walmart and eBay don't have a moat because they don't have what built Amazon's: Prime and FBA. Even if Amazon continues to upset some number of sellers, change rules, or increase fees, the moat only gets deeper as more sellers join and as more shoppers subscribe to Prime.



Amazon provides growth as a service. All of its services - warehousing, fulfillment, international expansion, lending, advertising, etc. - combine into a marketplace built on services. It continues to work on sellers because as long as they have cash flow to support it, the marketplace provides avenues for growth. Competing marketplaces are lacking, for example none offer warehousing and fulfillment, and thus cannot achieve the same.

A great marketplace is a combination of reach and services. Amazon is not only the biggest shopping website, but has 100 million Prime members. That, combined with the infrastructure it has built around itself, makes it great. Competing marketplaces like Walmart and eBay have reach, but are weak in services.

One of the services offered by Amazon is lending. This year Amazon has loaned more than $1 billion to sellers worldwide. Loan sums range from $1,000 to $750,000, and are invite-only - Amazon's systems decide which sellers are worthy by analyzing their sales data. It's a win-win for both parties - Amazon gets to fund overall marketplace growth with relatively small risk, while sellers get to expand through extra capital which is often not available otherwise.

Amazon runs 14 marketplaces around the world which includes USA, UK, Germany, France, Canada, Japan, India, Italy, Spain, Mexico, Australia, Turkey, Brazil, and China. An increasing number of sellers are expanding internationally, for example, US sellers add the European marketplaces and Japan to reach more customers. Amazon and the industry around it offers various services to help with international expansion. Taking what used to be a challenging business, and making it more accessible through the infrastructure of services built around the marketplace.

In May this year Amazon launched the Marketplace Appstore, which includes software tools to handle pricing, inventory, advertising and other needs for pro sellers. The software industry has long existed around Amazon, but the appstore makes it easier for sellers to discover new tools. It is also another layer of the services infrastructure around Amazon.

Amazon Advertising

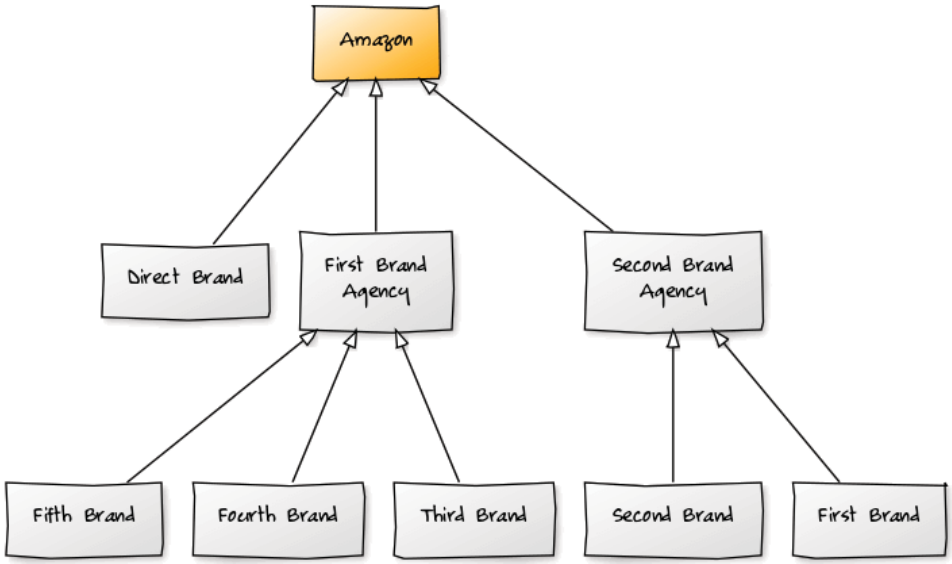
Amazon is the third largest advertising platform, behind Facebook and Google. Facebook and Google together account for more than half of the overall online advertising market in the US, but Amazon advertising is growing six times faster than the incumbents.

Advertising platform revenue in millions	2017 Q3	2018 Q3	Growth
Google	$24,065	$28,954	20%
Facebook	$10,142	$13,539	33%
Amazon	$1,123	$2,495	122%
Twitter	$503	$650	29%
Snapchat	$208	$298	43%

Amazon advertising is the one to watch because the company is building towards a full-journey, attributable marketing experience. Amazon has historically shared very little data with sellers and brands, but recently it is starting to run experiments with advertising agencies and brands to change that. The consensus among some is that eventually this will lead to a data service provided to brands and agencies.

Amazon is becoming a pay-to-play platform because it's better to pay Amazon to show up on top of the sort order - even more on top of other fees - than not to be found. The internet makes it possible for any product from anywhere in the world to be on Amazon. But how do shoppers find your brand? Advertising.

The struggles of brands on Amazon, and many more standing by the sidelines trying to decide what to do, has over the past few years created a new industry - Amazon brand agencies.



Amazon brand agencies are also known as Amazon digital marketing consultants, marketing agencies, strategy consultancies, etc. They are primarily in the business of "we'll hold your hand." They manage listing creation, optimize brand content and keywords, run advertising campaigns, etc. They do the things Amazon first-party vendors used to get, but have over time lost to Amazon's own automation. For many brands they solve the problem of being on Amazon in a way which retains control.

Big driver for this is advertising on Amazon. WPP is the largest advertising company in the world measured by billings and revenue. Last year its clients spent a combined $7 billion on advertising on Facebook and Google alone through WPP. In theory both Facebook and Google ad platforms are self-service, but in reality most businesses get better returns having experienced agencies manage these services for them. The same is happening with product advertising on Amazon. Brands are flocking to agencies to manage their ads on Amazon.

Amazon brand agencies are in many ways similar to distributors of the past. But instead they only have one place they distribute to - Amazon. This reshuffles the relationships of retail in a peculiar way and almost adds a new layer of middlemen Amazon was set out to remove. These brands are sellers on the marketplace, sometimes with a mix of also selling some inventory directly to Amazon, but all managed by a third-party.

Amazon Own Brands

This year ago Amazon began selling a $130 AmazonBasics foam mattress. Prices range from $129.99 for the 8-inch twin to $349.99 for the 12-inch king size. Right in line with some of the least expensive foam mattresses currently available. There are three reasons why Amazon got into the bed-in-a-box business:

- "mattress" is the 42nd most searched term on Amazon.com
- Best selling mattresses on Amazon.com are brandless
- Mattress as a product is hard to differentiate on

First, it might be surprising that people shop for mattresses on Amazon, but data shows that they often do - “mattress” is the 42nd most searched term on Amazon.com. It’s a more popular term than “iphone charger”, “paper towels”, or even “baby wipes”. Terms like “twin mattress”, “queen mattress”, “memory foam mattress”, and “full size mattress” are in the top 1,000 search terms too.

> “About 70 percent of the word searches done on Amazon’s search browser are for generic goods.”
>
> – *Julie Creswell, The New York Times*

Searches for mattresses are a great example of this. Shoppers are not looking for a particular brand. Maybe because few mattress brands outside of Casper are common speak. This means search volume (and thus demand) is big, but no particular brand owns it.

Second, when customers search for a mattress most of the time they end up buying one of the brandless affordable options. Products from Zinus, Signature Sleep, Linenspa and Night Therapy are most popular. They are all in a similar price range and mostly compete on reviews and ratings. The top selling mattress from Zinus, for example, has more than 22,000 reviews and is rated 4-out-of-5. Any new product can launch in such environment and start amassing market share if its reviews are better, price is lower, advertising is more aggressive, or if Amazon pushes it. They of course do.

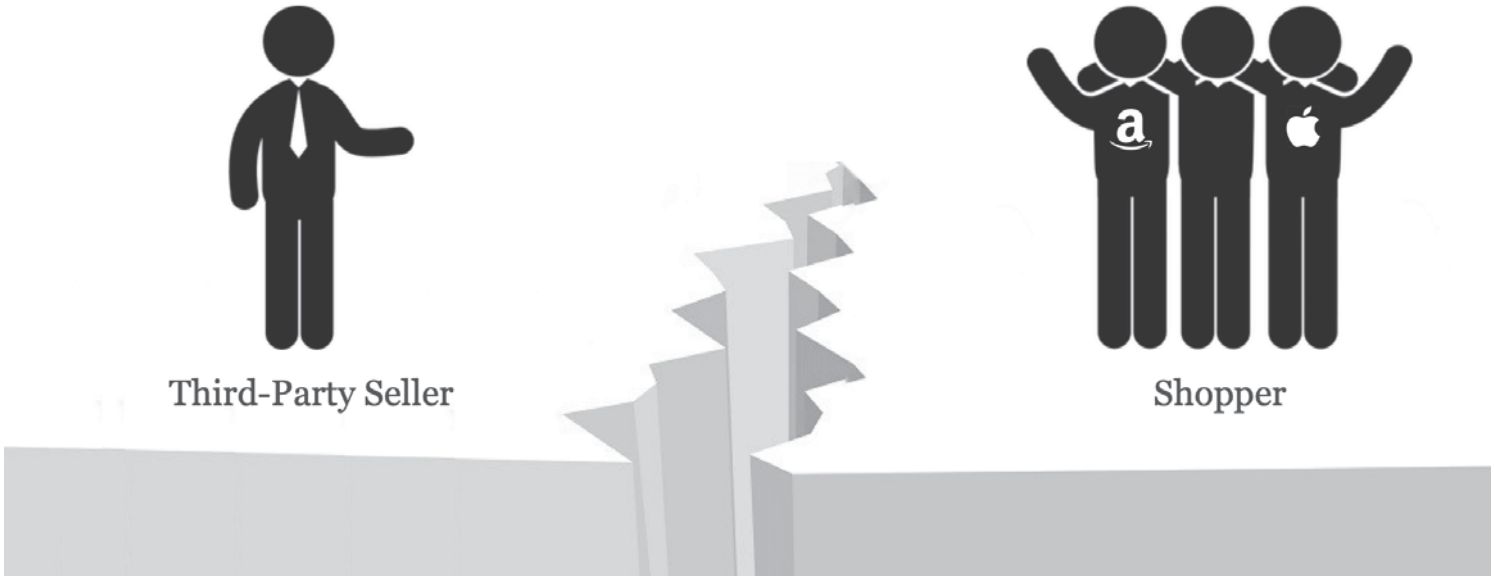
Third, most mattresses are made by a few manufacturers in China. For example the one Amazon just launched is by WAI KIN HOME FASHION (HUIZHOU) CO., LTD. Some premium brands have unique features to offer, but most of the market is comparable products sold under different names. www.sleeplikethedead.com, one of the most trusted websites for unbiased ratings of sleep products, rates Casper at 79% customer satisfaction. But Zinus and Signature Sleep are not far off with 76% each. At similar price points the winner is whichever ranks first. Few customers can objectively decide based on quality of a mattress. As a result no one knows which is the “best” mattress.

So it’s not about Amazon having more data on customers than anyone else. Nor it is about them pushing their own brands. It’s about understanding the environment that is Amazon shopping. Most customers search by generic keywords and they have no problem buying brandless goods if reviews are great. All Amazon, or anyone else making private label products, has to do is find niches which have the same behavior. Sleeping mattress is one.

Sellers Representing Brands on Amazon

For over a decade the Amazon marketplace worked as a trick to get brands unwilling to sell directly to Amazon onto the platform. Most brands would refuse to sell to Amazon, but their products would still end up on Amazon because a few small retailers would list them there. It wasn't uncommon for those retailers to hide the fact that they sell on Amazon as the brands wouldn't sell to them if they knew. Some Amazon sellers even had fake brick-and-mortar stores set up, all so they could tell to brands their products will be sold in stores

Brands woke up to Amazon. This happened in the last few years. First, brands tried to control distribution on Amazon through only allowing a set list of sellers. Second, they tried to become sellers themselves. And most recently they started hiring Amazon agencies to manage their presence on the platform. For most brands - especially for big brands like Apple - it is often damaging to ignore Amazon. Shoppers search for Apple products on Amazon and there is nothing Apple can do to stop that. Neglecting Amazon means a disappointing shopping experience, and with Amazon capturing more than half of all shopping searches that's too much to ignore.



Last year Amazon made a deal announcing that Nike will start selling on the website. It made the same deal with Apple this year. Not unlike Apple, Nike was trying to weed out counterfeits and improve their presence on the platform. One seller described the impact of this deal to their business the best - their opportunity is brands which don't work with Amazon. If they do, the opportunity closes.

> "That's how I make my money. Amazon is the No. 1 marketplace. Nike is the No. 1 brand. If they're not in bed together, that's my opportunity."
>
> – *Amazon seller talking with The Wall Street Journal*

The future of Amazon is brands represented by Amazon, an Amazon agency, or by the brand itself. The opportunity for sellers to represent brands is shrinking. Sellers aware of this shifting dynamic are building their own brands, experimenting

with private labeling, and diversifying internationally. The opportunity is still great, but the way Amazon sees brands, and the way brands sees Amazon is not the same.

Looking Forward to 2019

Unanswered questions:

- Marketplace Sales Tax
- Antitrust investigating Amazon's dual role in the market
- China Import Tariffs
- Counterfeits and knockoffs
- Black-hat techniques on Amazon

Areas to watch:

- Advertising on Amazon
- Amazon brand agencies
- Google shopping
- Fulfillment infrastructure
- Brand building

Winners:

- Amazon Marketplace
- Amazon in India
- Etsy
- Amazon Prime
- Direct-to-consumer brands
- Sellers from China

Losers:

- eBay
- Jet.com
- Voice shopping
- Blockchain for e-commerce
- US cities competing for Amazon HQ2

DOCUMENT 4

Thinking Of Selling On Amazon Marketplace? Here Are The Pros And Cons

Pamela N. Danziger Contributor
Retail
I study the world's most powerful consumers -- The American Affluent

TWEET THIS

- more than 300,000 U.S.-based small and medium-sized businesses (SMBs) sell through its Marketplace service.
- For small and mid-sized businesses, selling through Amazon Marketplace is a gamble.

(Photo by S3studio/Getty Images)

Jeff Bezo's 2018 letter to Amazon shareholders delivered some important news about how far it has reached into the fabric of consumer culture. Sales topped $177.9 billion in 2017, a 31% increase from $136 billion in 2016, but Amazon still has a long way to go to catch up to Walmart, which had sales of $485.9 billion last year. Still the investor market is betting on Amazon's long term dominance with a reported market cap of $700 billion as compared with $310 billion for Walmart.

Bezos reported that Amazon has now exceeded 100 million Prime members worldwide. Prime is the company's fee-based loyalty program that guarantees U.S. members free two-day delivery on most orders along with streaming services, access to Amazon Everyday and Prime Pantry products and with other services.

When you consider that the U.S. has some 126 million households, 100 million Prime members is an impressive number, especially considering that they paid $99 for the privilege. That fee is going up to $119 on May 11 for new members, though current members can renew at the $99 rate through June 16. This is the first time the company has officially shared the number of Prime members.

Along with news of Amazon's amazing consumer penetration, it also announced that more than 300,000 U.S.-based small and medium-sized businesses (SMBs) sell through its Marketplace service. Marketplace is how third-party companies can partner with Amazon to list and sell products there, with the option of using Amazon to fulfill customer orders as well. Bezos reported that more than half of all units sold on Amazon worldwide were from its third-party Marketplace sellers.

With 100 million thoroughly committed Prime customers, and numerous studies finding that more than half of all product searches start on Amazon.com, it is no wonder that so many small and mid-sized businesses have turned to it to find new customers. But is Amazon a good, reliable partner for SMBs to do business with, especially now that President Donald Trump is calling Amazon public enemy number one for small business?

I canvased a group of SMBs that are doing or have done business on Amazon Marketplace to get their expert opinion about the pros and cons of doing business with Amazon. Here's what they shared:

Pro: It's fairly easy to get started on Amazon Marketplace

Getting launched as a seller on Amazon is straight forward, but easier in some categories than others where prospective sellers must be approved and meet specific selling requirements. "Amazon makes it easy to reach a large consumer base at scale and gives you the tools and infrastructure needed to do so," says David Heacock, CEO of FilterBuy which sells replacement air filters for heating and cooling systems. "Getting started is certainly easier than setting up your own website and warehousing infrastructure. Create your product listing, send inventory to an FBA (Fulfillment by Amazon) warehouse, and you are in business."

That said, in some categories it may be too easy to get started selling, with newcomers pricing low to lure buyers away from established sellers. "It has gotten increasingly hard to be 'found' on Amazon, as it has been flooded with products from internet marketers and 'me too' products attempting to game the system," Heacock adds. "It's a constant battle to fight counterfeits and listing 'hijackers' have been growing," referring to companies that try to sell substandard products using a reputable company's listing.

Con: Unscrupulous sellers can steal your listings

This seller found out about hijacking the hard way, by losing sales but still getting the bad reviews. "Copycats 'gamed the Amazon system' with us to try to gain market share. They listed counterfeit products under our legit ASIN (item

number) on Amazon, thus using all of our marketing to get attention to their product," shares Peter Denbigh, co-creator of Watch Ya' Mouth game. "It was a massive problem for us that we still feel the effects of due to poor customer reviews of these counterfeit products, but the reviews show up under our legit product."

He goes on to share that Amazon is making progress handling counterfeits and hijacking through Brand Central registry but that it still isn't doing enough to protect the authorized brand owner. "We are the owner and manufacturer, so I feel we should have approval rights when someone tries to sell our product. At minimum, have a strict limit on how many they can sell without out approval by us."

Pro: Good for companies with unique product and adequate profit margins

For companies that have exclusive products, Amazon Marketplace can be a good partner. "Amazon helped grow our business exponentially," says Joe Jaconi, cofounder and general manager of Tech Armor, a screen protector and mobile accessories brand. "The Amazon Marketplace is easy to use and empowers the small business to chart its own destiny. The FBA program has taken the heavy lifting of logistics off our shoulders, allowing us to focus on building great products and servicing our customers."

Companies that make and market their own brands should have pricing control so that they can maintain adequate margins to give Amazon their hefty commission. "If you are selling products with relatively low mark-up, it makes no sense at all to list your products on Amazon. They charge anywhere from 15-20% of the sale price in addition to the listing fees. When your margins are low, you simply can't afford to give it all to Amazon," says Dave Hermansen, CEO Store Coach, which provides training and consulting on setting up an online store.

Companies with unique brands need to be alert to the possibility of their distribution partners recognizing the potential of Amazon's reach. "If business owners refuse to sell themselves on Amazon and stick with traditional

distribution, eventually someone else will buy the product wholesale and sell it on Amazon themselves, keeping the profit that would otherwise be yours," says Jonathan Weber, Marathon Studios which consults with small business owners about selling on Amazon. "You'll have no way to stop them, unless you control your own brand on Amazon from the beginning."

Con: Amazon is greedy

This 12-year veteran selling on Amazon, Adam Watson of Hollywood Mirrors, who reported growing business to over $3 million a year there, has abandoned the site because its commissions are too high and the demands for free delivery cut into profit margins. Further rampant competition on Amazon itself were forcing sellers to market down prices even further. "This resulted in our company being busy fools," Watson says. "We were turning over a large amount, but there was next to no profit at the end of it all."

"There is a reason Jeff Bezos is the richest man in the world. It's from creating this perfect business model," he adds with Amazon and company holding all the cards.

Con: Amazon owns the customer relationship

Amazon Marketplace may be a way for SMBs to sell more product to more people, but ultimately Amazon owns the customer relationship. "You can't remarket to Amazon or actively sell to them in the future. They are Amazon customers," Watson affirms.

Con: SMBs still responsible for customer care and feeding

Regardless of whether companies use Amazon's FBA program or not, they are still ultimately responsible for customer satisfaction. "If any customer service issues arise, you have to resolve them quickly," says Rick Lite, of Stress Free Book Marketing, that works with authors. "Sellers are rated by the customers, so if you aren't ready to deal with customers, this is not the best option for you."

Those customer reviews are the key that unlock success on Amazon Marketplace. “As a small company located in the center of Ohio, it took a solid three months of trial and error to find out which of our products would work on a national level,” says Michael Russell, of Ratchet Straps, selling tie down hardware.

“Overall, we found out reviews are key. Reply to your customers and if they have a problem with your products, you must work with them, whether it be shipping them a new product, returning the old product, or whatever it ultimately takes to have the customer feeling happy and coming back. In terms of SEO and sales, the most important thing is having good reviews.” He goes on to add that currently his company is doing six figures a month through Amazon.

Pro: Get with Amazon or get left behind

This personal care products company relies on Amazon for the bulk of its business and is doing quite nicely thanks to it. “Amazon has helped to grow our business immeasurably. Amazon is not only the dominant force behind e-commerce right now, but behind commerce in general,” says Nate Masterson, marketing manager for Maple Holistics. “While it’s important for every small business to build and maintain their own retail website, you simply can’t compete with the number of eyes that can find your product on Amazon.”

Masterson believes SMBs must get on board Amazon or get left behind. “Not only would I recommend becoming an Amazon Marketplace Partner to small businesses, I would argue that becoming established as an Amazon Marketplace Partner is imperative to the future success of any small business. Amazon only continues to grow and the propensity of global consumers to look to Amazon to make purchases only continues to grow. Amazon is the future (if not the present), and businesses will either adapt to it or get left behind.”

Con: Forewarned is forearmed

While Amazon offers customer reach that is unimaginable through any other marketplace, including the potential for global distribution, success isn’t easy or guaranteed. Along with many stories from small businesses that have done well on Amazon, there are just as many of businesses that have lost.

"I have worked with Amazon for 12+ year and have a love-hate relationship with them," says Lite of Stress Free Marketing. "I have made a lot of money and enjoyed the convenience of their service, but how they treat their vendors is another issue," he continues, referring to the difficulty of resolving problems if Amazon pulls the plug on a particular merchant account.

"Amazon can shut your selling account down if you infringe on their policies, so it is not a stable business. It can be difficult to reinstate your seller account, making it a fragile situation to base a business on and it is easy to get suspended," Watson of Hollywood Mirrors warns.

For small and mid-sized businesses, selling through Amazon Marketplace is a gamble. It can offer unmatched potential for sales, if managed properly and the SMB seller can control costs to give Amazon its hefty cut. But at the end of the day, the house always wins.

Note: This post was updated since publication, due to a question about a recommendation that may or may not violate Amazon policy. To avoid violating Amazon policy, companies are advised to closely review the Amazon Terms of Service.

Called "groundbreaking" by Midwest Book Review, my book, "Meet the HENRYs," profiles millennials with money. Connect @ Twitter, LinkedIn, Facebook, Unity Marketing

Pamela N. Danziger Contributor

I am a market researcher, speaker and author focused on the affluent consumers' behavior and mindset, including the HENRYs (high-earners-not-rich-yet) mass affluent. I founded Unity Marketing in 1992 as a research-led marketing consultancy, following a corporate career in r...
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TECH

Amazon Tests Pop-Up Feature Touting Its Lower-Priced Products

Experiment in mobile app forced customers to either click through or dismiss pop-ups

A mobile phone screen displays the Amazon Inc. mobile app. **PHOTO:** RITCHIE B. TONGO/EPA/SHUTTERSTOCK

By Jay Greene
March 15, 2019 9:13 a.m. ET

Amazon.com Inc. AMZN **+1.35%** ▲ tested a pop-up feature on its app that in some instances pitched its private-label goods on rivals' product pages, an experiment that shows the e-commerce giant's aggressiveness in hawking lower-priced products including its own house brands.

The recent experiment, conducted in Amazon's mobile app, went a step further than the display ads that commonly appear within search results and product pages. This test pushed pop-up windows that took over much of a product page, forcing customers to either click through to the lower-cost Amazon products or dismiss them before continuing to shop.

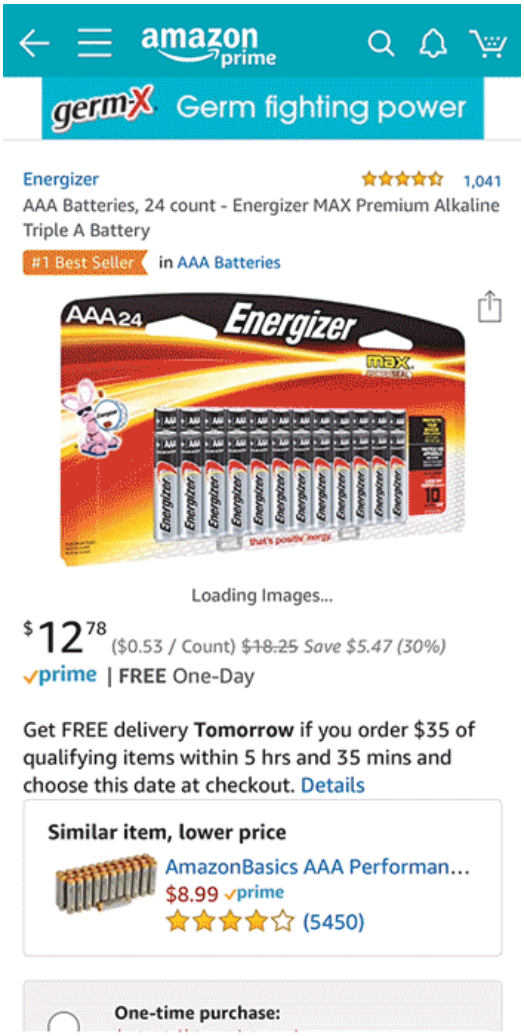
When a customer using Amazon's mobile app searched for "AAA batteries," for example, the first link was a sponsored listing from Energizer Holdings Inc. After clicking on the listing, a pop-up window appeared, offering less expensive AmazonBasics AAA batteries.

The limited experiment, which ended last week, highlights the power Amazon holds over brands on its home turf. In its quest to offer the best selection at the lowest price, Amazon has created more than a hundred in-house brands, from batteries and trash bags to nutritional supplements and furniture.

Amazon's private-label brands have chipped away at market share in some categories, such as batteries, and the company actively advertises its products throughout the site. Consumer-product manufacturers have found Amazon increasingly important because the website accounts for roughly half of all U.S. sales online.

The test, which didn't appear on every customer's mobile device, ran on top of both sponsored and non-sponsored listings. Amazon also said it pitched lower-cost alternatives from other brands, but it didn't specify which ones.

Amazon said the pop-up windows weren't ads, but rather a test of a feature to help shoppers find cheaper alternatives. The group that developed the test was from Amazon's retail business, not its advertising operations. The company declined to



A pop-up window for Amazon's own brand of batteries appeared as an Amazon app user looked at Energizer batteries.

discuss the results of the experiment.

"We regularly experiment with new shopping experiences for customers, and this was a small test," the company said. "The similar, lower-priced product options shown to customers featured relevant items from a range of brands on our website and were displayed when a customer clicked on any type of listing."

The Wall Street Journal last week conducted dozens of product searches in a variety of categories in the mobile app, clicking on the first several products listed including those from Amazon. The Journal found three instances of the pop-up ads, which took up about half of a nearly 6-inch iPhone screen and which all touted Amazon products on rival pages. The ads didn't show on several other phones tested under different user accounts.

One company whose sponsored-listing page was targeted, Nested Naturals Inc., only found out about the test through social media, its co-founder and chief marketing officer, Kevin Pasco, said.

Before mobile shoppers included in the experiment could buy Luna sleeping pills from the Vancouver-based supplement company for $21.95, they were offered a pop-up window hawking an $11.99 vial of melatonin pills from Amazon Elements. The pop-up included the tag “Similar item, lower price” with a link to the Amazon product.

Mr. Pasco described the tactic as “sneaky,” though he said building a business on Amazon requires “having a stomach of steel and taking whatever they throw at us.”

Nested Naturals sold about $10 million of its supplements on Amazon last year, roughly 85% of its business, he said. That makes it easier to roll with Amazon’s efforts to compete against Nested Naturals, Mr. Pasco said. The experiment, he added, had no discernible impact on Luna sales.

“We try to be a little less emotional and say this is Amazon being Amazon,” Mr. Pasco said.

In the Energizer example, Amazon’s pop-up appeared in a sponsored listing for a 24-pack of MAX Premium AAA batteries priced at $12.14. The rival 36-count AmazonBasics batteries cost $8.99.

An Energizer spokeswoman declined to comment.

Another target of Amazon’s test was Clorox Co.’s Glad Products Co. and its 110-count of tall kitchen trash bags for $19.06. The pop-up touted Amazon’s Solimo bags for $14.49. A Clorox spokeswoman didn’t respond to a request for comment.

Like many big-box retailers in physical stores, Amazon is taking premium space to sell its own generic products. But unlike placing generic acetaminophen on a shelf next to Tylenol, Amazon’s test forced consumers to dismiss the option of viewing alternatives before they could continue with a purchase.

Amazon declined to say if it notified the advertisers when the test usurped sponsored listings or if it refunded sponsored-ad payments.

The company is increasingly finding ways to monetize the space on its website, especially as it forges deeper into the advertising business. Shoppers are encountering a variety of sponsored ads, whether at the top of search results with sponsored listings that look similar to regular listings, or within product pages in a number of formats.

Last fall, The Wall Street Journal reported that Amazon for more than a year wove sponsored product listings from Johnson & Johnson and Kimberly-Clark Corp. , onto consumers’ baby registries that led some shoppers into believing the new parents had chosen the items. Amazon said it has since phased out the sponsored listings on the baby registries.

Amazon’s sales of private-label goods on its website received increased scrutiny last week when Sen. Elizabeth Warren, a Massachusetts Democrat running for president, proposed banning large companies from participating in the platforms they have created. She specifically called for splitting AmazonBasics from the company’s marketplace business.

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