

# The Retailer's Guide to Amazon



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In 1995, Jeff Bezos read a report about the growth potential around online commerce. Seeing a projected growth rate of 2,300%, he took that information and ran, launching Amazon as an online bookstore that same year. By the fourth quarter of 2001 the company turned its first profit, and just 10 years later the company had grown to include 30,000 full-time US employees.

Today, Amazon is the largest online retailer in the world. Data from Statista and Retail TouchPoints says the company currently has more than 12 million products for sale and makes more than \$232 billion in annual revenue, while Comscore research shows it has more than 150 million monthly unique visitors. As of 2018, eMarketer data showed Amazon claimed a 49% share of the U.S. e-commerce market, which accounts for 5% of the country's total retail spending.

But this growth and success isn't just good news for Amazon. It also presents new opportunities for retailers.

One of the largest opportunities relates to audience size.

BloomReach and Survata reports found that a whopping 55% of all online product searches begin— you guessed it— on Amazon. In

short: It's where the consumer eyeballs are when it comes to online product research and discovery. If you're not there, you're missing out.

Amazon also includes opportunities for retailers that go beyond just selling, presenting a chance to manage, monitor, and control brand representation. With tools that allow companies to submit trademark-registered content on the products being sold on the platform, those with a watchful eye can be sure their brand is accurately represented within the Amazon environment. "When it comes to Amazon, you're dealing with a large, open marketplace and a massive customer audience. Having a presence there not only means you're better able to manage an important piece of a smart omni-channel sales strategy, but also that you can have more control over how your brand is represented there...because if you don't list your products on Amazon, someone else probably will," said James Thomson, Ph.D., a partner at Amazon management and consulting firm BuyBox Experts.

In this report, we explore the ins and outs of Amazon selling as well as some of the nuances of the platform you should know.



# 1

## How does Amazon work with brands and retailers?

When it comes to selling on Amazon, there are two main paths to consider: You can either be a **vendor** or a **seller**. Vendor Central and Seller Central are the two different programs offered based on the path you choose.

There's a big difference between these routes, but the main differentiator is who sells the products. With Vendor Central, Amazon buys and resells a vendor's products to its customer base. With Seller Central, a retailer sells directly to Amazon's customers.

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### Amazon Vendor Central and Seller Central: WTF are they?

#### WTF is Amazon Vendor Central?

Amazon Vendor Central is used by first-party sellers, which are mostly product manufacturers, suppliers, and distributors selling items in bulk. Vendors sell their products to Amazon buyers who then resell them to Amazon customers. If you buy on Amazon, you're probably already familiar with vendor listings: They're the ones that include the line "ships from and sold by Amazon.com."

#### What's the advantage of this?

The key advantage to this approach is that it's more hands-off and less labor-intensive, as vendors only handle the back-end of the supply chain such as billing, inventory, etc. The trade-off, however, is that the vendor has

very little control over customer-facing activities.

#### I heard that AVC is changing.

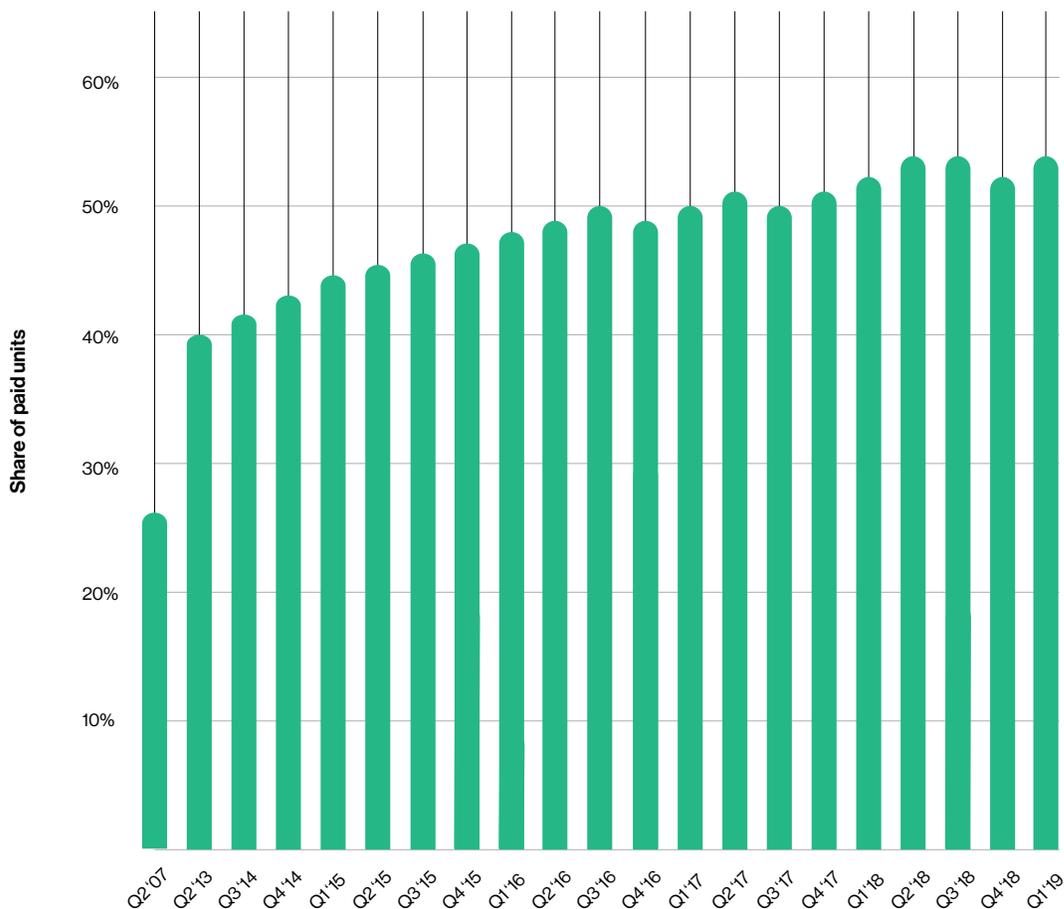
Yes. As of 2019, there appears to be a shift in regard to how Amazon handles vendor relationships in an effort to streamline its retail process. Digiday reported in March of 2019 that Amazon is actively weeding out vendors that aren't highly profitable to manage, that hurt the purchase experience, or that sell low-quality or branded products without the required authorization.

"In the future, I think we'll see fewer first-party sellers, with the remaining vendors being the ones with higher sales volume," said Tricia Carey, a director at Seller Engine, a software company with

pricing and inventory tools for Amazon sellers. “Amazon will likely require the rest to move to Seller Central. Vendor Central is expensive for Amazon to manage, especially since vendors there get an Amazon representative to manage their accounts. Seller Central, however, is self-service.”

### OK, so what’s Amazon Seller Central?

Seller Central is what merchants, referred to as marketplace or third-party sellers, use to sell products to Amazon’s customers. According to a Statista report on the percentage of paid units sold by third-party sellers on Amazon as of Q1 2019, more than 50% of sales on Amazon come from these merchants.



Source: Statista

Those using Seller Central can fulfill orders from Amazon buyers a few different ways: Some prefer a DIY approach to shipping, returns, customer service, etc., while others let Amazon handle fulfillment via the Fulfilled by Amazon program, which allows retailers to outsource those efforts.

## How do you get paid?

There are two main payment plans for those using Seller Central: The Individual Plan and the Professional Plan.

**The Individual Plan** is the path recommended for those selling fewer than 40 items per month. These sellers pay no monthly fees but are charged 99 cents per item sold as well as additional fees related to shipping, referrals, and closing costs when an item sells.

**The Professional Plan** allows sellers to sell an unlimited amount of products for a \$39.99 subscription fee. Professional Sellers also get access to 10 additional product categories. The key advantage to the third-party selling approach is that because these sellers list, price, and market their own products, they have more control over the retail experience, including messaging, packaging, and beyond. But that's not all. Digiday reported earlier this year that Amazon is now rolling out new features for third-party sellers

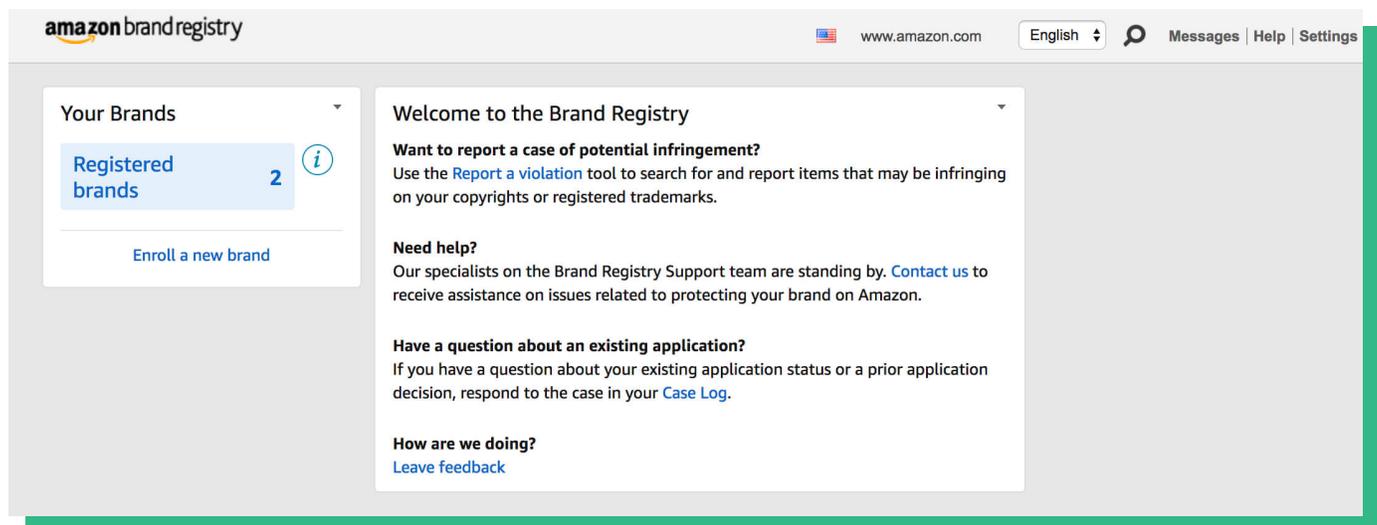
like Subscribe and Save and automated couponing, which improves the overall selling experience for third-party merchants.

One of the nuances that third-party retailers do have to be aware of, however, is their requirement to collect sales tax. Although buyers make their purchases online, certain states now require sales tax collection and reporting—and there are major penalties at stake for those who don't comply.

“By the time October 2019 gets here, California will be the 23rd state where Amazon collects and remits sales tax, at least based on the states that have already passed statutes,” said Michael Fleming, the President at Sales Tax and More, a tax resource for professionals. “We see this trend continuing for the rest of this year and next until Amazon is collecting in virtually all states. This is mostly good news for Amazon sellers who will not have to collect tax on a going forward basis. However, there will still be a handful of states like Washington where sellers will still have a filing responsibility for other taxes.”

## Understanding Brand Registry for Sellers

An added perk for third-party sellers is that they can enroll in Amazon's Brand Registry program. This program gives brands more control over their product listings and is a resource that helps with preventing counterfeit or unauthorized products from being sold under a trademarked brand name.



With Brand Registry, sellers can submit content and ensure that trademarked brand material is consistent across the platform while also accessing search tools that helps find submitted content in different Amazon stores. Currently used by more than 130,000 brands like Garmin, Makita, GoPro, and New Balance, the goal of the program is to serve as a form of proactive brand protection around trademarks and infringement.

Keep in mind, however, that this does program not protect a brand from distributors diverting product and selling it on Amazon without permission or under a different brand name. This concept may bring to mind the Birkenstock story, which Digiday reported on in 2017, wherein thousands of unauthorized

brands and retail partners were selling the brand's shoes on the platform without permission. David Kahan, Birkenstock's CEO, wrote a letter to its retail partners defining the brand's anti-Amazon stance and outlining consequences for violating the agreement. Despite these efforts, you can still find Birkenstocks for sale on Amazon even today.

The moral of the story: it's important for retailers to keep a close eye on the Amazon ecosystem when it comes to trademarked products.

### **Additional Perk of Brand Registry: Access to Brand Analytics**

Third-party sellers enrolled in Brand Registry also get access

to exclusive reports and insights under Amazon Brand Analytics. Amazon describes Brand Analytics as “a feature that contains valuable insights to empower brand owners to make informed, strategic decisions about their product portfolio and marketing/advertising activities.”

Brand Analytics provides sellers access to data like the Search Terms Report and Search Frequency Rank information.

The **Search Terms Report** shows sellers how customers find products on Amazon as well as insights around search volume, clicks, and conversion, and the most popular search terms during a set period of time. **Search Frequency Rank** organizes specific search terms in numerical order based on popularity during a set period of time.

Department <sup>?</sup>	Search Term <sup>?</sup>	Search Frequency Rank <sup>?</sup> ▲
Amazon.com	bluetooth headphones	1
Amazon.com	wireless earbuds	2
Amazon.com	headphones	3
Amazon.com	airpods	4

Other features of Brand Analytics include:

- **Item comparison reporting**, which shows the top five most-viewed products plus the percentage of time each product was viewed during a set period of time
- **Demographics reporting**, which is a summary of the seller’s Amazon customers sorted by age, education, income, gender, and marital status
- **Most clicked ASINs**, a report outlining which products got the most clicks for a given search term

With access to these more detailed insights and analytics around performance, sellers can make smarter, data-informed decisions about strategy and marketing moving forward.

# 2

## Advertising on Amazon

Is advertising on Amazon really necessary? Most sellers and sales consultants say it is. The reason: competition is fierce, with thousands of products already listed in the marketplace.

“Product discovery is an uphill battle on Amazon,” said James Thomson, Ph.D., a partner at Amazon management and consulting firm BuyBox Experts. “You have to have advertising and a larger marketing strategy in place if you want consumers to find your products, because if you’re not

on the first page of organic search results, you’re going to struggle.”

There is value when it comes to spending ad dollars here: Marketplace Pulse research shows that as many as 70% of all searches on Amazon are for unbranded products, which means there’s not a whole lot of brand loyalty going on. That’s an opportunity for sellers to capture new audiences who are not necessarily looking for a specific brand to buy from, but rather the right product for their needs.

Three main advertising formats to choose from when it comes to ads on Amazon:

- 1 Sponsored products:** Sponsored product ads are the most popular format of advertising on Amazon, accounting for 84% of all ad spending according to Merkle. These are self-service and promote individual products sold on Amazon, including a title, product image, price, reviews and a Prime badge (if applicable.) Sellers can target audiences based on keywords or products, and daily budgets are set for each campaign.
- 2 Sponsored brands:** Sponsored brand ads are available only to those enrolled in Amazon Brand Registry and help increase awareness around products by driving clicks to a specific Amazon store. These ads can be targeted manually or based on keywords, and operate on either a daily or lifetime budget with a featured logo and custom headline.
- 3 Product display ads:** Product display ads are only available to first-party vendors and include product or interest-targeted display ads that direct traffic to specific product detail pages. The creative for these is automatically generated, but a custom headline and logo is required. These also operate on either a daily or lifetime budget.

As far as basic guidance goes on Amazon advertising, the big takeaway seems to be that it’s important to have multiple channels driving traffic to your Amazon store and the products there alongside any advertising

efforts to get the best possible results. Ads alone often aren’t enough. Pinky Gonzales, an Amazon ads expert at NetRush.com, added: “My best advice for sellers advertising on Amazon is to stay focused

on the actual profitability of your campaigns. Don't fool yourself about halo effect or other 'organic' benefits of overspending. An unprofitable ad campaign not only costs money, but your time to manage as well. Avoid 'spending whatever you can at whatever you get' and instead focus on long-term fundamentals, all day, every day."

# 3

## Amazon exclusive brands vs. private label brands

Amazon has ramped up its release of exclusive and private label brands, both of which are referred to as “Our Brands”. These include a variety of products that the company sells as its own. Amazon’s biggest product portfolio is in clothing, shoes and accessories within the U.S., but their branded products also extend into other markets like food, healthcare, household goods and beauty.

The advantage Amazon has is in exclusive and private label brands is that it has access to all the selling platform’s back-end data on products and performance, which allows the company to spot gaps in the market and to pinpoint which products to launch at what price.

WTF is the difference?

**Private labels** are Amazon-owned brands, which include ‘Amazon’ or ‘Prime’ in the product listing, as well as fully branded product lines like AmazonBasics. A TJI report shows that as of 2018, Amazon has more than 136 private label brands across multiple product categories.

**Amazon-exclusive brands** are advertised by Amazon as ‘Our Brands’, but are not owned by Amazon and don’t include the same refund guarantee as their private label products do. In the case of a brand like Basic Care (made by Perrigo), the legwork of R&D and production are shifted to the brand partner rather than Amazon. The same TJI report showed that Amazon currently has more than 434 exclusive brand partners.

# 4

## Understanding Amazon lingo

The lexicon of Amazon can be confusing, which is why we've put together a short glossary of a few key terms, acronyms and programs related to selling in the Amazon marketplace.

### **WTF is Best-Seller Ranking?**

Best-Seller Ranking is a score that Amazon gives to specific products based on sales. This rank fluctuates by the hour and appears on a product's detail page as well as in category pages. It was created by Amazon to highlight an item's rank in categories and subcategories where it stands out, thus spotlighting popular or "trending" products.

### **WTF is the Early Reviewer Program?**

The Early Reviewer Program encourages customers who have already bought a product to share their experience about it, regardless of potential review score. This drives the production of social proof on product pages and helps vet products and seller experiences.

### **WTF is ASIN?**

ASIN stands for Amazon Standard Information Number, which is Amazon's internal tracking identifier for each listing in their catalog. Think of it like a UPC, but just for Amazon products.

### **WTF is Enhanced Brand Content?**

Enhanced Brand Content (sometimes called the A+ tool) is a feature that helps brand owners change the product descriptions of branded ASINs. This tool lets sellers describe their product features in a new way through a unique brand story, images, and text. It's only available to Professional sellers using the Brand Registry.

# 5

## Amazon's Achilles Heels

It's true that the opportunities are vast when it comes to Amazon, but that's not to say that the company is free from its own set of pain points that could potentially stymie its dominance.

Along with lagging growth and slow adoption in international markets, Amazon is also struggling with other obstacles—like connecting with lower-income customers. Although the brand is making steps toward improving their efforts on this front by accepting cash at retail locations for non-card holding shoppers and the introduction of a \$5.99 per month Prime subscription for customers on government benefits and Medicaid, they still have plenty of room for improvement.

Amazon also faces the hurdles of retaining brands and sellers in the face of ever-increasing Amazon-branded products entering in the marketplace. Sellers have to weigh the pros and cons of competing with Amazon on Amazon, which can feel like an impossible uphill battle. This is further complicated by the fact that Amazon's educational resources for sellers and vendors are fairly limited.

"Right now Amazon doesn't do a great job of training or teaching its sellers, which isn't that surprising since they're really a competitor. Yes, they're the selling platform, but they also have brands sold through the platform as well," said Peter Kerns, Vice President of Business Development at 180Commerce, a agency offering Amazon strategy and management. "There's this

challenge of conflicting forces. It adds a layer of ambiguity and nuance and makes the relationship a bit complicated."

Amazon has also struggled in recent years to enforce its terms of service, which creates confusion around best practices on the platform. When the terms are only enforced in fits and spurts, some merchants and vendors are penalized for certain practices, while others slip under the wire. With the number of sellers and vendors on the platform growing by the hour, this is an ongoing issue Amazon is yet to fully master.

Amazon has a long way to go when it comes to making its platform more amenable for media buyers at agencies. For a \$3 billion ad business, with Citibank projecting it to reach \$50 billion in the next decade, Amazon is still failing at many of the basics, according to ad buyers, with common complaints around slow and rudimentary tools and dashboards, case studies and robust sales support for buyers. The simple act of executing an ad buy on Amazon is far more cumbersome than on Google and Facebook, according to buyers, ironically because Amazon's infrastructure is rickety and ad programs overlapping. The company is slowly but surely improving the product, and its pitch remains intact: It has a deep well of purchase data, unlike Google or Facebook, which enables it to give brands a "total wallet" perspective.

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## Conclusion

Amazon is less than 25 years old as a company and has accomplished things many brands could never even dream of. After all, it's no minor feat to capture 5% of the country's total retail spending. And it's still growing.

However, Amazon doesn't just present an opportunity for driving sales: It also represents an important piece of the online brand management strategy puzzle. Remember: If you're not selling your products on Amazon, someone else probably will - whether you like it or not.

Tricia Carey, a director at Seller Engine, a software company with resources for Amazon sellers, summed things up nicely: "With Amazon starting to become a search engine in its own right, anyone selling a product needs to seriously analyze their reasons for not being on Amazon. It's a platform where any commerce seller can expand their marketplace, and it's the default place people go to search to buy a product. While the US has the most opportunity, the rest of the world is following suit. With their network of warehouses, logistics and infrastructure already in place, a vendor or seller can get access to this without having to build out their own."

