An Amazon Adventure

Navigating the opportunity for brands on Amazon

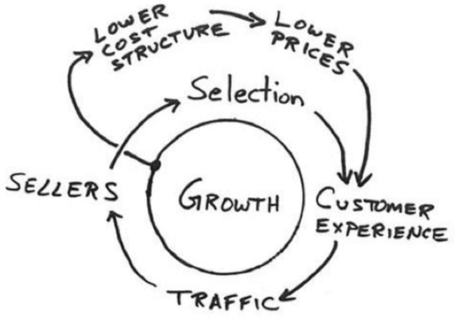
From bookstore to 'The Everything Store'. Amazon has gone on a remarkable journey from selling books, to entering and successfully gaining market share in a vast array of categories. With over 50% of British shoppers now buying from Amazon at least once a month, brands must develop an Amazon strategy to maximise the opportunity

With Amazon holding such a significant, and growing, share of total online sales, brands need to consider Amazon specifically as part of their overall e-commerce strategy. The importance of Amazon extends beyond sales alone. In the second half of 2018, Amazon surpassed Google as the leading online product search destination, showing the importance of the site for overall brand awareness too. However, there is no one-size-fits-all approach to trading with Amazon. This paper sets out the growth of Amazon, and discusses some of the key considerations, including the opportunities and risks, for brand owners when deciding which path to take on their own Amazon adventure.

The growth

There is no escaping the growth of Amazon and its role in modern day retail. Brands without a targeted Amazon strategy risk missing out on a share of the huge opportunity that exists. In the US, for example, 49% of all e-commerce spend is on Amazon. Even more staggering is that their nearest challenger is eBay, with 6.6%. At the heart of Amazon's meteoric rise is the Amazon flywheel, sketched out by Jeff Bezos in the early years of the company.

Figure 1: The Amazon Flywheel



In the Amazon flywheel, customer experience is at the heart of everything. A good customer experience drives traffic to the site. Sellers are then attracted to the site to capitalise on this traffic, resulting in a greater selection of products. Fuelling this growth, has benefits for Amazon.

Efficiencies lower fulfilment costs, with these savings passed onto consumers in the form of even lower prices. Shoppers are further delighted by finding products even cheaper on Amazon. Why would they go anywhere else? The flywheel keeps turning and Amazon's growth continues.

Incrementality

With shoppers flocking to Amazon to enjoy benefits including attractive pricing, an extensive range and convenience, why wouldn't brands want to jump in head first?

Well, brands need to focus on the incrementality of the Amazon opportunity. When we refer to incrementality, we mean that brands need to ensure that they are driving additional sales through trading on Amazon, rather than simply transferring sales which would likely have been made elsewhere.

Incrementality on Amazon can be achieved in a number of ways:

- Leverage your full portfolio of brands to decide on the right product mix for Amazon. This includes the tail of brands which might not be widely listed elsewhere and therefore less impacted by Amazon's price matching algorithms
- Launch Amazon unique pack sizes not sold in other retailers and therefore not price matched. Consider large packs that would be impractical in traditional retailers but are more practical for delivery
- Pick your channel (Figure 2). For example, whilst selling your product on Amazon Fresh might not seem incremental versus normal grocery listings, availability for rapid ordering and delivery through Prime Now could be an incremental opportunity
- Use Amazon as a platform for innovation with mass reach and ease of purchase from day one of launch (Figure 3)

The risks

Despite the attractive growth and incremental sales available, there are a number of reasons to be cautious before embarking on your own Amazon adventure. Particular attention should be shown to Amazon's pricing algorithms and aggressive trading approach.

Risk :The pricing algorithms

The Amazon pricing algorithms ensure that the price of any product, sold directly by Amazon, is no more than the lowest price anywhere across online retail, including promotional prices. Great if you are a consumer looking to get the cheapest price available anywhere online, but not so great if you are a brand owner looking to manage margin tactically throughout the year through a series of promotional and non-promotional periods.

Figure 2 – Amazon Channels

Amazon.co.uk

Description: The 'Everything Store' where shoppers can browse millions of listed products
Shopper Mission: Searching for the product you need at the best available price

Fresh

Description: A pure grocery delivery service
Shopper Mission: Online grocery shop

Prime Now

Description: Offers delivery on thousands of products including grocery items, household basics, and the best of Amazon within two hours
Shopper Mission: Distressed purchase to fulfil immediate need

Pantry

Description: Filling a box of grocery and household products that can then be delivered to your door
Shopper Mission: Used to purchase everyday household and grocery items

Subscribe & Save

Description: Shoppers select items eligible for Subscribe & Save. In doing so, they receive a discount off Amazon's everyday low price, free standard delivery, and the convenience of automatic deliveries at intervals of their choice
Shopper Mission: Used to replenish everyday household and grocery items

Figure 3 – Innovation on Amazon

Case Study: Johnnie Walker

Johnnie Walker recently launched Johnnie Walker White Walker in partnership with Game of Thrones, exclusively on Amazon. With a strong online PR launch gaining excellent online coverage and a clear call to purchase on Amazon, this is a great example of a brand using Amazon as a platform for innovation. Johnnie Walker White Walker quickly became the number one best seller in the Grocery category.

With the Amazon algorithms, if you are on promotion somewhere, it will be picked up and this will become the maximum price displayed to shoppers on the Amazon site. A tough conversation for any account manager, explaining to a large existing customer how the promotional price you've insisted is the best you can possibly offer and should only run for a limited number of periods, is constantly available on Amazon.

However, we would suggest that you shouldn't let Amazon dictate your wider pricing strategy. Firstly, this could damage your commercial leverage, and relationships, with other customers. Secondly, it can add further dependency to your relationship with Amazon, which you want to avoid given their historically aggressive trading approach.

Risk: Aggressive trading approach

Amazon's approach to pricing is with their shoppers in mind. Ensuring products sold directly by Amazon are the best value available online keeps the flywheel turning. Consequently, many of the sales that come at pricing matching levels are loss-making for Amazon.

This is exaggerated when Amazon enters a new category because the cost prices they receive from brand manufacturers in that category are likely to be higher than those offered to more established customers. This is unsurprising and something that Amazon accept, losing money to establish their position in a category. Their ability to do this is funded by their access to low cost capital.

However, brands ought to be wary that once that category has been developed by Amazon, and the sales of the associated brands become significant, Amazon is known to table aggressive demands around price improvements and marketing spend. This leaves the brands in the predicament of either walking away from this exciting growth opportunity or accepting the high levels of investment demanded by Amazon.

These demands have been met with some resistance by brands. PopSockets, a popular mobile phone accessory brand, withdrew its products from Amazon due to their aggressive commercial demands despite previously viewing them as an integral part of their business. Whilst this is an extreme response, brand owners are prudent to prioritise retaining control over trading with Amazon at any cost.

One way to mitigate against these risks is to get clear on the best way to engage with Amazon in the first place.

How to engage with Amazon

It is very important to consider the correct level of engagement in trading with Amazon. Other than the very rare instances, for example in luxury goods where brands may want to actively contest their products being sold on Amazon, there are broadly three approaches to consider. These range from indirect trading up to working with Amazon as a strategic partner:

Indirect Trading: Your products are sold on Amazon via third party vendors. This could be any third party vendor registered as a seller

Benefits:

- *Third party listed products are not priced matched by the algorithms*
- *A way for consumers to buy your products without having to invest in a trading relationship with Amazon e.g. account manger, set up supply chain relationship with Amazon*

Risks:

- *No control over brand content on the site or the authenticity of the products themselves (Figure 4)*
- *Not maximising the full Amazon opportunity*

Direct Trading: *Engage in direct trading relationship with Amazon with products sold into their warehouses and then onto consumers*

Benefits:

- *Can control product content including images and description on Amazon, protecting the brand (Figure 5)*
- *Less at the mercy of Amazon than if you go full strategic partner*

Risks:

- *Your products could get lost amongst the vast listings compared with competitors treating Amazon as a strategic partner*
- *You can become overly reliant on Amazon for your e-commerce strategy*

Strategic Partner: View Amazon as most important part of ecommerce strategy. Invest in Amazon's strategic vendor services resource and media packages. Also run Amazon specific initiatives such as developing packing that is 'Amazon-ready' (Figure 6)

Benefits:

- *Can win significant share of category on Amazon*
- *Well positioned to benefit from Amazon's continuing growth*

Risks:

- *You invest heavily in Amazon but they can corner you to improve terms or else face delists*
- *Damaging to long established customer relationships who think you are giving this disruptive competitor favourable treatment*

Figure 4 – Indirect Trading

Case Study: Birkenstock

Indirect trading with Amazon should be approached with caution due to the lack of control it gives brand owners on how they products show up on Amazon. There have been a number of standout examples where brands have complained that third parties have been selling counterfeit good on Amazon.

One notable example of this is Birkenstock, who in January 2018 terminated its business relationship with Amazon Europe over such fears. Global brands have found it hard to monitor third party sellers, which is why we'd only recommend this approach for brands in the early stages of developing an e-commerce strategy.

Figure 5 – Direct Trading

Case Study: Nike

Nike initially operated an indirect trading relationship with Amazon. They felt that the costs of doing business were too high and wanted to focus on direct sales from Nike.com. However, trading in this way meant Nike had no control of how their brand showed up on Amazon, and they were losing out to competitors who had a clearer Amazon strategy. Subsequently, Nike signed a collaboration in mid-2017, including the launch of a Nike store. This gave Nike greater control over their brand on the site and connected with all the target shoppers increasingly using Amazon. By focusing on a limited selection of non-premier product, an approach they still follow today, Nike's strategy delivers incrementality by not cannibalising the premium products sold directly on Nike.com.

Figure 6 – Strategic Partner

Case Study: Procter & Gamble

Procter & Gamble view Amazon as a key strategic partner. This is evidenced by a willingness to re-think their packaging on a number of major brands to comply with Amazon's strict shipping standards.

They have also been adopters of the Amazon Dash buttons enabling the instance purchase on consumables at the push of a button.

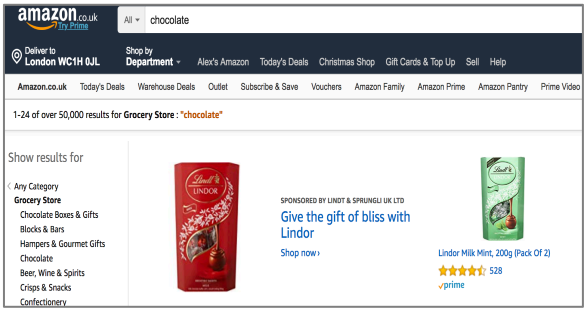
This partnership has been successful with P&G brands best-selling in a number of their major categories on the Amazon site. However, this has been met with some objection from their more long standing customers. A reminder of the challenge of balancing the exciting growth of Amazon with the long standing, high value relationships with large existing customers.

Visibility on Amazon

Even once you have decided on the right level of engagement with Amazon, you need to ensure that your brand is visible amongst the millions that are listed on the site. The importance of this is highlighted by the fact that around 80% of sales come from brands listed on the first page of results.

There are a number of ways to gain visibility for your brand on Amazon. The first, is to pay for this via Amazon search or Amazon media. Paying for Amazon search means that your products will appear as sponsored when certain key words are entered into the search bar. Figure 7 shows sponsored search from Lindt when you search "chocolate".

Figure 7: Sponsored Search



Amazon media group, involves paying for media features on certain parts of the Amazon ecosystem. This could range from a graphic banner on a category page to a campaign through Amazon Prime TV. Whilst paying for visibility on Amazon is a good option, it is not cheap. Additionally, there is not great transparency about where is best to spend your money with a lot of the evaluation metrics withheld by Amazon.

There are alternative options to grow visibility of your brand, if your budget is limited. These options include:

- 'Fixing the basics' including images, naming convention and product description
- Running a short-term deal to get in the deals section of the website
- Growing the number of reviews of your product through sampling

Conclusion

Amazon is already a major retailer, dominating the online retail market in many of the countries where they operate. This isn't going to change, and with the growth of online shopping expected to accelerate over the next few years, brands that don't develop a clear Amazon strategy are going to suffer. In fact brands that don't have a targeted strategy risk significant loss of share. This is compounded by the fact that in the second half of 2018, Amazon surpassed Google as an online product search destination. This means if your brand doesn't have a winning Amazon strategy, it will not just be your sales that are impacted, but your overall brand awareness too.

Amazon is also leading in an area that is predicted to disrupt future brand shopping, voice commerce. *This is an area we think will be big, see our paper titled "Alexa, add the new iPhone to my basket"*. The biggest risk here is the reduced reliance on the brand names themselves with shoppers saying "Alexa, order toilet roll" rather than "Alexa, order Andrex". Brands which embrace voice commerce and develop their credentials alongside the leaders here, Amazon or Google, stand the best chance of benefiting from any future growth in this area.

Amazon is too important to be ignored, brands need to develop a focused Amazon strategy now and for the future. Whilst the pricing algorithm and Amazon's trading tactics present challenges, strategising around incrementality and engaging in the correct way can deliver value for your brand. If you are nervous about some of the challenges, consider a test and learn approach by gradually ramping up your engagement. Deciding which path to take on your Amazon adventure will require some clear thinking, but if you remember these essentials your brand can flourish.

About PatelMiller

PatelMiller is a specialist retail consultancy. We combine the tools, methods and analytics of a business consultancy, with the pragmatism of a retailer, to ensure that potential benefits are quickly realised. Our team gained their skills from working for leading consulting firms and the world's best retailers – and we are now blending these skills together in our own unique way

Our services include:

Strategy & Analytics - Creating a challenging vision for your business whilst using your data to ensure you are making the right decisions Lean

Operations - Improving how your business runs across organisation, processes and technology – including applying lean six sigma to drive improvements

Programmes and Change - Structuring change programmes in an insightful and practical way and managing them to give you confidence in delivery

Our people have worked with and for businesses including Diageo, Dunelm, Samsung, Harrods, Tesco, John Lewis, M&S, Morrisons, Nisa, White Stuff, and Thomas Cook.

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