



CLIENT: Amazon Expert Interview Findings

July 2019

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Conducted 12 in-depth phone interviews with various Amazon selling experts

- Interviewed 4 current/former Amazon employees, 3 Amazon experts/consultants, and 5 sellers
- Discussions conducted over the phone with an average interview time of ~50 minutes

Assessed the risks associated with an Amazon-centric business

- Biggest threat is Amazon competing directly with Basics or other programs
- Some risk of top seller displacement, but not as likely with value products unless competitors pump a lot into marketing investment
- No apparent threat of sellers being forced onto Vendor Central (this simply doesn't happen)

Assessed the opportunities associated with an established Amazon selling business

- Expansion into new product categories best suited for adjacent areas that are most like existing categories and generally challenging to compete if sellers must learn about new customer preferences
- Moving beyond the US is quite challenging due to lack of the ability to leverage US success and the complexities of selling on different countries (e.g., cultural, regulatory, legal, tax, etc.)
- Selling outside of Amazon is an entirely different beast for lesser known brands, requiring knowledge of completely different marketing tactics to be successful

Seller Central expected to continue to become more automated with fees continuing to increase

Important to further assess the customer & market perception in next phase of this diligence effort

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Project background

CLIENT is evaluating **TARGET**, a **REDACTED**, for potential investment / acquisition.

TARGET has been in business for **REDACTED** and has an annual sales level of **REDACTED** with a **REDACTED** team.

CLIENT is particularly interested in better understanding the sustainability and growth potential for the Amazon channel given **TARGET** reliance on that channel.

In addition to better understanding the Amazon channel, there are key questions about the ability or **TARGET** to expand into adjacent product categories and non-Amazon channels to help grow the business.

CLIENT has expressed interest in a multi-phase approach. This document focuses on a Phase 1 sprint of ~1.5 weeks. There may be a Phase 2 which includes customer & market interviews and/or surveys to better understand brand loyalty and other key issues.

Project Status

Key Activities & Deliverables

- Design interview questionnaire with input from Client
- Conduct ~30-minute phone interviews with 10 individuals:
 - ~5 Amazon experts who work for Amazon or for large Amazon seller
 - ~5 Amazon experts who manage large scale Amazon businesses that sell simple products
- Provide anonymized verbatim responses (in Excel)
- Share audio recordings (for interviewees who approve of recording) of interviews (with audio file link)
- Analyze results of survey, highlighting the key takeaways and supporting analyses & share summary of key findings and supporting analyses (in PowerPoint PDF)

Status

- ✓ **Complete:** Completed June 25th
- ✓ **Complete:** 12 interviews completed with ~50-minute average length
- ✓ **Complete:** 7 interviews completed
- ✓ **Complete:** 5 interviews completed
- ✓ **Complete:** Shared; in separate file
- ✓ **Complete:** Shared; in separate link
- ✓ **Complete:** Shared; this document

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The biggest risk for incumbents selling generic products is direct competition from Amazon



Amazon is getting more aggressive about selling

- “I've had two clients where Amazon has come out with their own products [to compete against them].” – Amazon Consultant
- “We contact manufacturers directly. We have people approaching people all the time, including sellers that we think have potential.” – Amazon Employee

Data key to category entry

- “We add new product categories based on industry trends and our internal data. We have a ton of data and we are a data-driven company.” – Amazon Employee
- “We harvest data on all types of brands and products, and they watch what sells well. We have 500+ brands and the numbers will keep growing.” – Amazon Employee

Basics strategy is to copy best sellers and fill any gaps

- “They manufacture the same product. They have all the data and figure out what's doing well and they copy it. They will win in that situation.” – Seller
- “We always want to be the one-stop shop for everything a customer needs.” – Amazon Employee

Amazon is attracted to more generic categories

- “We look for cases where there's not a huge differentiation in the product type. If we can get close to quality and price discount, we consider entering. The strategy... is to drive price down to get more people coming to Amazon.” – Amazon Employee
- “We see [Amazon competing] in best sellers and staple products with no clear leader.” – Seller

Capabilities are important to deciding where to compete

- “It's probably sourcing and sales. Logistics matter a lot.” – Amazon Consultant
- “If I had to guess, it's where they have the easiest supplier relationship and where they see the biggest sales opportunities.” – Seller
- “They focus on products that can sell across their warehouses and sell well.” – Amazon Expert

Top sellers are well-positioned to sustain best-seller position, unless competitors invest a lot in marketing to compete



Strong reviews provide a shield protecting from displacement

- “The biggest challenge is getting reviews and organic key word placement.” – Amazon Consultant
- “It's extremely difficult that's why everyone is desperate for product reviews.” – Amazon Employee
- “Legacy sellers have a bit advantage due to both better reviews and best seller rankings.” – Amazon Consultant
- “Very difficult to be displaced naturally without manipulation.” – Amazon Consultant

Sellers can buy their way into top seller positions

- “It's not impossible. Someone can be to be the top simply by overpaying for sponsorship. To get to the top organically it requires investment in reviews and marketing.” – Seller
- “With the right amount of money, you can displace anything. 80% of Amazon listings are paid placements.” – Amazon Employee

Category innovation and brand power play a big role

- “In some categories, who's selling well versus six months ago is a different group of sellers. This is mostly true in technology, like LED lights and handheld electronics. In the home category, style and design trends can lead to changes pretty quickly.” – Amazon Employee
- “If you have a strong brand, it's harder to be displaced.” - Seller

Amazon does not directly contribute to seller success

- “Amazon has no credit at all. It's all the seller. It's all product.” – Amazon Consultant
- “We generally want to be as hands-off and automated as possible. We will systemize anything we can, and it won't be unique to any one seller. There are pilots where we may select a few large brands to test but that's a short-lived advantage.” – Seller

Sellers are not forced to move to Vendor Central and Amazon is increasingly more selective of who is a vendor



Sellers not pressured onto Vendor Seller

- “No forcing. If Amazon sees an opportunity, they'll ask. But we are seeing it less.” – Seller
- “Amazon doesn't force anyone to move but they encourage brands selectively.” – Amazon Expert
- “It's the opposite. They move smaller sellers from Vendor Central to Seller Central.” – Amazon Employee

Amazon is moving smaller sellers off Vendor Central

- “Some brands recently are being effectively forced from Vendor Central to Seller because PO's are not being accepted.” – Seller
- “Many smaller sellers are being moved to Seller Central. Manufacturers with big brand names have more control over.” – Amazon Employee
- “There's a lot of talk about closing down accounts below \$10 million or so per year... They don't want Vendor Central to have a bad name, so cutting out smaller sellers.” – Amazon Consultant

Vendor Central provides more data & may be better for transactional wholesalers

- “It's much more powerful in terms of access to data... than Seller Central.” – Amazon Employee
- “The benefits of being a vendor are getting more attention (if you're big enough) and you don't have to deal with a lot of logistics as we take care of a lot for you.” – Amazon Employee
- “It's comfortable for [some sellers] because most manufacturers are used to it. It's like a wholesale model.” – Amazon Employee

Lose control over pricing and brand when on Vendor Central

- “If you can avoid [Vendor Central], avoid it. Amazon doesn't care about your MAP pricing. They can change price from day to day... Heard stories about Amazon negotiating sellers out of Amazon -- and pushing products into their Amazon Basics group.” – Amazon Consultant
- “You lose control over what you can sell and when and for how much. You lose control over your pricing and the perception of your brand in the market.” – Amazon Employee

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Category expansion success depends a lot on the ability to scale quickly and on which new categories are selected



Must develop traction by building up strong reviews and moving up the rankings

- “The biggest challenge on Amazon is traction. There are so many products there. It's harder for people to notice new products unlike a retail store or website.” – Seller
- “Everything on Amazon is about getting ranked high based on their algorithm... getting good reviews, marketing well, building up content that will attract people, meeting Amazon requirements, getting into the buy box.” – Seller

Ability to successfully add new products depends on the category

- “It's not hard to get into a new category, but to be successful you need to understand the nuances between categories. For example, book versus home & garden have very different customer experiences and preferences. You can't port a successful approach in one category to another and call it a day.” – Amazon Employee
- “It depends on the [category]. It hasn't been hard for us to move into new categories (e.g., furniture warranty). It may be easier for us since we are an add-on. It depends on how big you are as a seller and the relationship you have with Amazon.” – Seller

Critical to develop a deep knowledge base of the new category

- “[Challenges are] lack of knowledge of that category, competition, understanding the rules we place on sellers with respect to how they market by category (they vary by category a lot).” – Amazon Employee
- “You need to find the next new product based on your capabilities and see what works well for you and where the demand is.” – Amazon Expert

Large sellers must be strategic with new category selection

- “You have to have a unique SKU or be in a less category that's less competitive.” – Seller
- “It's important to get on quickly. Legacy sellers have a bit advantage due to both better reviews and best seller rankings.” – Amazon Consultant

International expansion is generally challenging as new markets have different requirements & customer experiences



Little ability to leverage US Amazon success to other regions

- “It depends on the category and if your product category is allowed. Mexico and Canada are really easy because the platform is unified. Europe is trickier because you have to think about issues like translation, customer service, differences between platforms inside Europe. Your status on Amazon in US has no bearing on other regions. It doesn't carry much weight.” – Seller
- “Understanding the culture is huge... what graphics to use in the UK or Spain is different than the US.” – Amazon Consultant

International selling introduces many complexities

- “The laws of crossing the border must be obeyed. Logistics, shipping will lower margins. Filing taxes, business license. Managing new and different competition, language. Amazon makes it easy, but the seller must be ready.” – Seller
- “Different rules about pricing and warning labels and disclosures. Sometimes it's hard to manage more products across the different platforms.” – Amazon

The opportunity is limited vs the US

- “We were in a handful of foreign markets... We never were able to have much success outside the US.” – Seller
- “Europe is a much smaller marketplace and you won't face too much competition. Some marketplaces haven't been as big as people thought.” – Amazon Employee

Customer expectations vary by region

- “I've seen is differences in expectations in customer service and customer complaints. There are different requirements and expectations of sellers. There can be very different buying behaviors and a product could do great in the US and do badly in other markets.” – Amazon Employee

It is not easy to apply a winning Amazon strategy to other channels without a strong brand



Pricing must be carefully managed

- “Pricing needs to be the same. There are price-parity rules. You lose to the buy box if you don't match price.” – Amazon Employee
- “We monitor all those channels for pricing. We sometimes have contractual pricing agreements to ensure we have the lowest or equal price. We constantly scrape other channels. On Vendor Central, we match price aggressively – even at a loss.” – Amazon Employee

Success varies by channel & brand strength is important

- “You have to understand the customer. Walmart is different than eBay which is different than others. You need to approach each channel differently.” – Seller
- “You need a separate strategy both Amazon versus retail.” - Seller
- “We have had a bunch of examples of brands that start and grow on Amazon and then grow on other channels, like Cards Against Humanity.” – Seller

A presence on Amazon provides strong marketing to support other channels

- “We are seeing more and more that Amazon is more than just a sales platform. It is the single best marketing tool for a product.” – Seller
- “Almost everyone researches products on Amazon. Even at trade shows, people research on Amazon before they purchase.” – Seller

Cannibalization is not a major concern

- “I don't think you'll cannibalize as much as you think. You want to watch your pricing and strategically think through your promotion strategy to ensure you're consistent.” – Seller
- “A very big, very well-known brand in retail is taking what I think is the wrong approach because they are too worried about cannibalization by adding Amazon as a channel. I'm not worried about it.” – Seller

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Seller Central offers sellers more control over product, inventory, and pricing

Seller Central is the point of entry to the largest marketplace

- “Instant access to buyers.” – Amazon Expert
- “It's a seller's portal into the largest ecommerce retailer in the US.” – Amazon Employee
- “It has everything you need to sell on the marketplace.” – Seller
- “The largest mall in the world. Gets retail location in the largest shopping mall in the world.” - Amazon Consultant

Seller Central offers more control compared with Vendor Central

- “We have control over what we can offer.” – Seller
- “Ability to set your own prices.” – Amazon Employee
- “You control your margin. You control your pricing.” – Amazon Employee
- “Inventory planning control.” – Seller

Economics are superior to Vendor Central

- “We are seeing more brands transition from Vendor Central to Seller Central. Margins are better. There are no hidden costs.” – Seller
- “[We like the] clarity of fees.” – Seller

However, Seller Central has limited data, a difficult platform to manage, and offers minimal human interaction with Amazon



Data availability / control is limited which minimizes sellers' insight into their own customers

- “There's a lot of information that sellers won't be able to see, like what other products customers are browsing, etc..” – Amazon Employee
- “The information you get is what everyone else gets so it's hard to get a competitive advantage.” – Seller
- “Instantly all of your data is transparent -- everyone knows how much you're selling, what you're selling at what price.” – Amazon Expert
- “Sellers don't control the relationship with customers.” – Amazon Employee

Platform and rules are tough to navigate, even for larger sellers

- “Seller Central is difficult to use because you have to manage everything granularly.” – Amazon Employee
- “Amazon has a position of do something first and ask questions later.” – Amazon Consultant
- “It's not a tool that we got a lot of value out of. We built systems all around it to give us proprietary information.” – Seller

Highly automated, with very limited access to live support

- “It's hard to talk to a live person since we are managing it at scale. The bulk of support is self-serve.” – Amazon Employee
- “I go to work every day with a fireman hat because I have to put out Amazon fires every day.” – Amazon Consultant

Constantly have to fend off fraudulent competitors

- “Anti-competitive behavior has spiked... You have to constantly fend off fraudulently competitors.” – Amazon Employee
- “Every larger seller has to deal with resellers who compete. Hard to compete with those who are breaking the rules without breaking the rules.” – Amazon Consultant

Seller Central is expected to add more features & increase fees, as well as require more autonomy by brands to succeed



Increasing cost of doing business on Seller Central

- “Fees will increase and will be charging more for new tools.” – Amazon Employee
- “Amazon is always adding new fees over time” – Amazon Consultant
- “They put profit pressure on sellers.” – Amazon Consultant
- “It's just been an effort to slowly grind the sellers. They slowly and incrementally increase the fees over the rate of inflation.” – Amazon Expert
- “Amazon will continue to add more and more options to nickel and dime the sellers.” – Amazon Consultant

Continuously adding new features on the platform

- “The big change is the way we allow sellers to support their businesses with new features like AmazonPay, Amazon Choice, etc.” – Amazon Employee
- “It's getting better and better. Now you can get premium content and other features from Vendor Central onto Seller Central.” – Seller

More and more automation of tools on the platform

- “There will be even more self-management.” – Amazon Employee
- “They're trying to make it a bit more self-service as much as possible. They've put in a lot more automated rules that trip us up and we have to micromanage.” – Seller
- “I expect them to be a lot more automated. More and more, it's harder to speak with a human being.” – Seller

More advantages for the largest sellers

- “It's getting more and more competitive. You need to operate at scale and have tools and resources and a team.” – Seller
- “The big will get bigger and the small will get tossed.” – Amazon Expert

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If CLIENT continues its due diligence of TARGET, it will be critical to get a more holistic view of the company's strategic defensibility and growth potential

It will be important to further assess the company from several different angles

- **Customers:** satisfaction, stickiness, brand value, and other key viewpoints
- **Competitors (value home & pet product competitors):** strategic positioning of players, value of brand in this space, and ability to expand into new categories/geos/channels
- **Market (value home & pet products) experts:** category outlook, growth potential, and key risks for lesser-known / value brands in this space

Conducting primary research will support a much better understanding of these areas

- Interviews and/or surveys of customers, lapsed customers, and customer prospects
- Interviews with current / former employees of competitors in same/adjacent spaces
- Interviews with industry experts

This work can be conducted in a second phase

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