

# CONQUERING AMAZON

## Making the most out of the 1P to 3P shift

There's been a lot of talk lately about Amazon shifting strategy and urging 1P vendors to be 3P sellers. Whether your company is selling on Amazon now or you're planning to, choosing the appropriate platform is critical to your success. To make the most-informed decision, it is critical to understand the basics and how the landscape is changing.

APRIL 2019

Selina Heckendorf, The Mars Agency



## First Party vs. Third Party

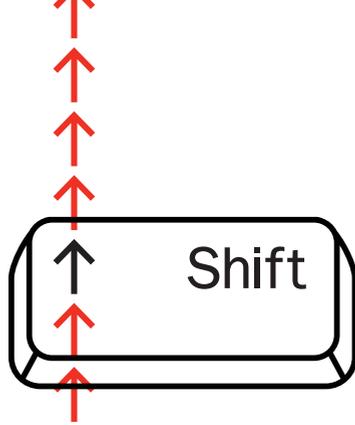
### First Party (1P)

This is a direct vendor relationship where Amazon is considered the retailer and seller of record. If you are selling to Amazon as a 1P vendor, you—the brand or the e-commerce business—are the supplier or wholesaler. You use Amazon's Vendor Central to inform Amazon about the products you have available. Amazon Retail places weekly purchase orders at a wholesale cost, sells products on Amazon.com and makes most of the selling decisions, such as inventory count and pricing.

### Third Party (3P)

The second selling platform is where the brand or the e-commerce business is the seller of record and lists products on the Amazon Marketplace platform, Seller Central, to sell to Amazon customers directly. If you are selling on Amazon as the 3P seller, you—the brand or the business—control the product you want to sell and the price you want to change. However, like running your own business, you are responsible for the quality of your product content, fulfillment, and customer service (if not using FBA).

AMAZON	1P (FIRST-PARTY RETAIL)	3P (THIRD-PARTY, MARKETPLACE)
Platform Interface	Vendor Central	Seller Central
Selling Strategy	Sell first-party, wholesale, directly to Amazon Retail and let Amazon Retail sell to Amazon customers	Sell third-party directly to Amazon customers through the Amazon Marketplace platform
Margins	Potential for higher order volume; wholesale pricing minus co-op fees	Potential for higher margin; retail pricing minus commission fee depending on product category (8%-20%)
Orders	Purchase orders once a week Potential for larger volume	Order based on customer demand Potential for higher margins
Payment Terms	Net 30, Net 60 or Net 90 terms after invoice submitted	Every 7 or 14 days based on account type
Operations	Less resource intensive	Dedicated resource required
Logistics	Bulk shipment to Amazon and Amazon ships to customers	You ship to customers directly, use FBA (Fulfillment By Amazon), partner with a 3PL or dropship
Buy Box	Preferential Buy Box winner over other 3P sellers	Buy Box management required to be eligible
Pricing Ownership	Amazon Retail may break MAP to compete with 3P resellers	You have 100% control over the prices they charge
Inventory	Amazon controls	You control
Reporting & Analytics	Additional cost for Premium Analytics reports	Free robust accounting and sales reports
Customer Service	Amazon takes care of all customer inquiries	If using FBA, Amazon takes care of customer inquiries. If seller-fulfilled, you need to take care of customer inquiries
Geographic Reach	Amazon Retail decides	You have options to sell on 11 Amazon marketplaces (US, CA, MX, UK, DE, FR, IT, ES, CN, JP, IN)



## Amazon is hitting the shift button

### Trend Spotting

Amazon is pushing vendors to its 3P marketplace. On March 4, 2019, tens of thousands of Amazon vendors didn't receive their weekly PO replenishments, a sign Amazon is seeking to control how companies sell on its platform. At a glance, these vendors don't make economic sense to Amazon as these businesses are doing \$10 million or less in sales volume per year, and don't have assigned vendor managers. Additionally, vendors who specialize in oversized goods with higher shipping cost have been impacted. In response, Amazon's spokesperson said in an email, "We regularly review our selling partner relationships and may make changes when we see an opportunity to provide customers with improved selection, value and convenience."<sup>1</sup>

### The Numbers

Roughly two-thirds of Amazon's sales come from third parties. In fact, during the 4th quarter of 2018, 52% of Amazon paid units were sold by 3P marketplace sellers.<sup>2</sup> In 2017, Amazon U.S. generated \$129.45 billion in 3P seller service revenues and sales jumped 41.4%.<sup>3</sup> This year, eMarketer forecasts that marketplace sales will increase to \$230 billion. Realizing the higher margin and revenue potential in 3P marketplace, Amazon has been reallocating investment to support their growing 3P business. To this end, Amazon is opening up more e-commerce features and capabilities to 3P sellers that were once reserved for 1P wholesale vendors, including Subscribe and Save and all of Amazon's advertising products, creating more parity between tools and platform features.

### Changing Strategies

Amazon's new packaging improvement program<sup>4</sup> targets large 1P CPG brands and makes it more difficult for them to do business with Amazon Retail. Non-compliant product packaging is charged an additional \$1.99 per item shipped. Many CPG brands are considering selling on 3P instead to avoid the hefty fees.

### Shifting Priorities

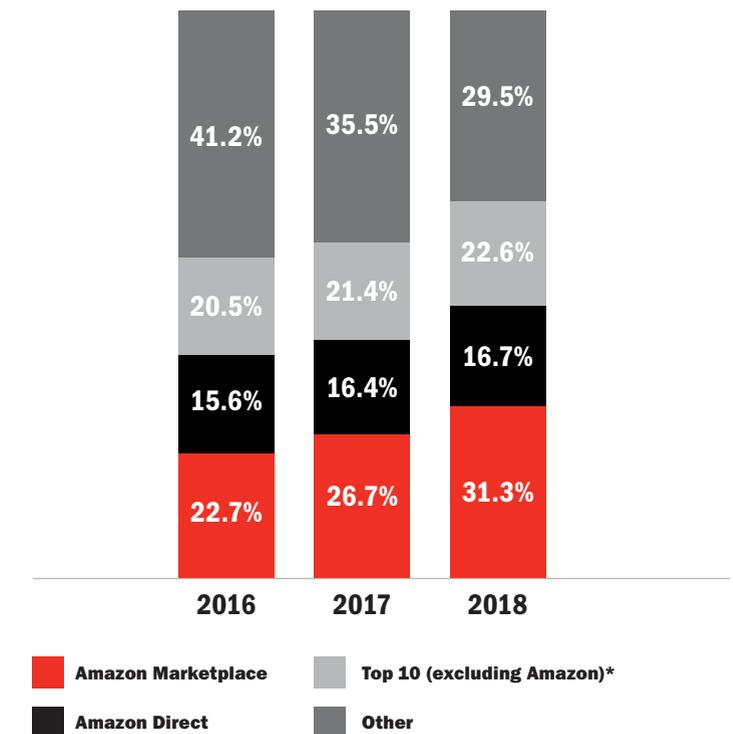
Last year, Amazon de-prioritized wholesale vendors that were doing less than \$10 million annual sales and discontinued vendor manager support for these accounts.<sup>5</sup> While on the 3P side, Amazon launched the Marketplace Growth program, which assigns a strategic account manager to help sellers navigate the requirements and acts as an internal resource in solving problems and growing their businesses.

Elaine Kwon, a former Amazon vendor manager, explains, "There is no reason for any brand that is trying to grow their Amazon business to do it anywhere but the [3P] marketplace."

**LIKE ANY BUSINESS, AMAZON'S PRIMARY FOCUS IS PROFITABILITY**, which means running a hands-off retail business and maximizing volume for its 3P marketplace, which is already growing faster than Amazon's 1P Retail business. Moving forward, Amazon will limit 1P eligibility to maintaining relationships with premium brands.

### AMAZON SHARE OF US RETAIL E-COMMERCE SALES, DIRECT VS. MARKETPLACE, 2016-2018

% of total retail e-commerce sales



**Note:** \*Includes eBay, Walmart, Apple, The Home Depot, Best Buy, Macy's, Qurate Retail Group, Costco Wholesale and Wayfair **Source:** eMarketer, Nov 2018

## Others are following

### Retailers

The increasing popularity of online marketplaces is not unique to Amazon. eBay was founded on the 3P marketplace model, while retailers like Walmart and Target are mixing in third-party merchants on their e-commerce platforms. As Target's competitors—Amazon, Walmart, eBay, and Sears—found success in 3P marketplaces, Target followed suit and launched its own invite-only 3P e-commerce marketplace, Target+, in February 2019. By opening up the marketplace to 3P sellers, it allows Target to expand its online assortment quickly and drive profitable growth.

### Brands

Amazon typically only buys a brand's top-selling items, and will often delist lower priced SKUs or SKUs that Can't Realize a Profit (CRaP). Plus, there's no guarantee that they will re-order again. Consequently, we are seeing brands migrating from selling on Amazon as 1P wholesale vendors to 3P marketplace sellers, ultimately because of control and growth potential. Brands are becoming less dependent on wholesale relationships and have enabled more efficient supply chains and internal teams to actively support e-commerce.

#### IN OUR EXPERIENCE WORKING WITH BRANDS, BRANDS WHO USED TO SELL ON 1P NOW WANT MORE CONTROL

and are starting to shift their business to the 3P marketplace, or to take the hybrid approach where part of their assortment is sold through 1P and the remainder of their assortment is sold by themselves through 3P. Because of control, higher margin, faster growth, and the overall strategy shift from 1P to 3P, we recommend that brands have a 3P strategy when selling online.

## ✓ PROS

### 1P: WHOLESALE TO AMAZON

1. Less resource intensive
2. Higher order volume
3. Preferential Buy Box Winner
4. Preferential Marketing Winner
5. Access to Amazon Retail contacts

### 3P: DIRECT TO CONSUMER

1. Greater price control
2. Higher sales margin
3. Inventory backstop for 1P products
4. Test-and-learns to optimize investment
5. Direct consumer feedback
6. Better transactional reporting
7. Go-to-market faster with new products
8. International expansion opportunities

## ✗ CONS

1. Amazon controls pricing
2. Vendor Manager controls inventory level
3. Lower sales margin
4. Amazon Buyer decides what to purchase
5. Extensive "lean-in" marketing costs
6. Limited to the region
7. Contract terms become onerous
8. Supply Chain fees & hidden fees
9. Amazon Strategy shift from 1P to 3P retail contacts

1. Dedicated resource (in-house, agency, or outsource) needed
2. Logistics management
3. Competing with other 3P sellers for the Buy Box

## Ready to make your move?

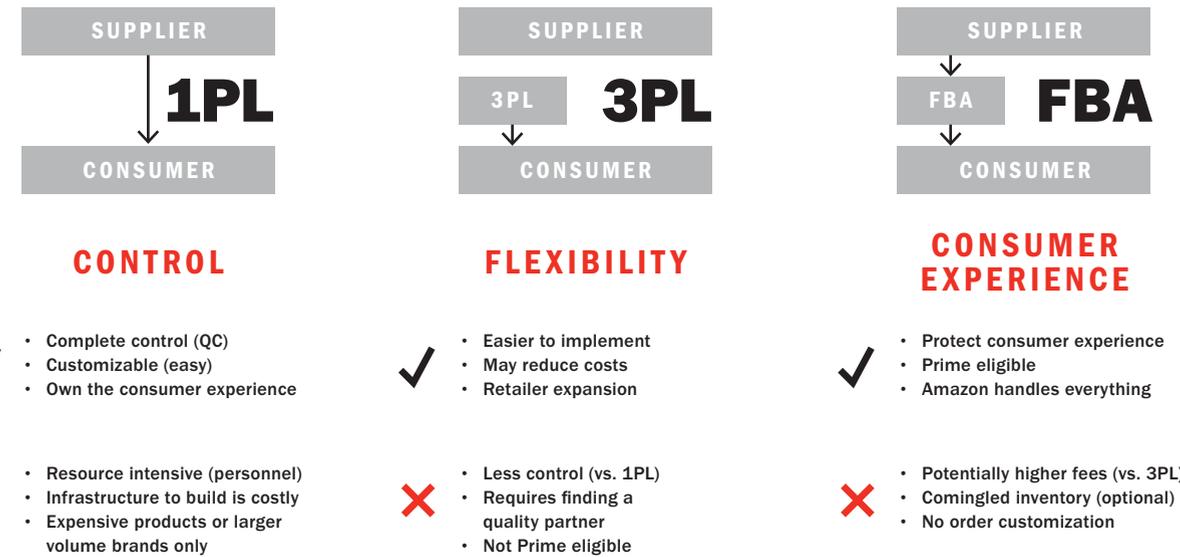
If you're already selling as a 1P vendor, changing your business model isn't easy. There are many things to consider, from operations to strategy and execution. Selling directly to consumers through Amazon 3P means setting up your own listings, ensuring they're optimized, and handling your own marketing. In a press release this week, Amazon announced that they have already released 50 new tools this year, for sellers in the 3P marketplace. With Amazon's "hands-off-the-wheel" approach, it can leave brands feeling overwhelmed. The direct-to-consumer model requires brand action, entrepreneurial spirit, and e-commerce expertise. Whether you're a 1P Amazon vendor looking to start selling on 3P or just starting 3P from scratch, here are 3 steps to help you become successful.

### #1 Be Ready To Go To Market

Focus on the top 10% of your products, in terms of sales, and create a product and pricing strategy. Prepare product content and images that are optimized for Amazon's search results and are relevant and speak to your customers. Know your competition and understand their strengths and weaknesses. Have a dedicated marketing budget and strategy to ensure your products get the visibility they deserve, and stay price competitive. Price is the primary purchase-decision driver for 82% of Amazon shoppers.<sup>6</sup> Once you get the hang of it and start to build selling momentum, move on to the next batch of products.

**96% OF CONSUMERS HAVE VISITED AMAZON IN THE PAST YEAR, YET ONLY 42% OF BRANDS THAT SELL PRODUCTS ON AMAZON ARE ENGAGED IN MARKETING ON THIS RETAILER'S WEBSITE<sup>7</sup>**

## 3P seller fulfillment options



### #2 Live Up To Amazon's Expectations

3P sellers need to focus on seller performance metrics, inventory planning, fulfillment, and customer service. The 3P seller business is typically more intensive than a 1P vendor business. Fulfillment efficiency is also crucial to success. You can either fulfill yourself, use a 3PL partner, or fulfill by Amazon (FBA). Finding the right fulfillment method that allows you to remain profitable and meets Amazon's standards is difficult, but with some research analysis, it can be done.

### #3 Build Your Brand

Brands need to have an e-commerce strategy to take existing market share from competitors. Focus on your brand story and how your products differentiate from other sellers in the category. Invest in your brand presence and strategize how your products should be presented online through your Brand Store and A+ Enhanced Content Pages. Increase your brand presence by utilizing Amazon Advertising programs.

## The Mars Agency can be your guide

**Getting on Amazon is easy.  
Selling profitably is hard.**

Choosing the appropriate platform and staying informed are key. But every year, Amazon introduces changes that force sellers to adapt their strategies. In addition to just running the business daily, brands need to know how Amazon communicates these updates. Because even a small change can derail or boost a business by hundreds of millions of dollars.

### Experience Counts

Selling directly to consumers as a 3P seller or as a hybrid seller (both 1P and 3P) requires management, insight, and resources. Everything is connected in Amazon's complex ecosystem. To win, you don't just need to understand Amazon, you need to know how to optimize their algorithms. An experienced partner with cross-functional expertise is invaluable, especially in your first few years.

### eAccelerator™

The Mars Agency offers a full suite of services designed to help brands succeed on Amazon as a 3P seller. Our e-commerce team is a combination of ex-Amazonians and e-commerce veterans. Located next to Amazon's Seattle headquarters, they are ready to deploy their collective experience and passion in support of your brand. They can help you navigate and grow your business with Amazon and its customers.

**WE CAN HELP ENSURE THAT YOUR BRAND WINS ON AMAZON.** Contact us to run a free health report for your business. We'll share our observations and recommendations in a no-obligation one-hour phone call.

### We'll partner with you to...

- **Get you set up** so you can be profitable from day one. We'll help you determine the appropriate selling platform(s) for you as well as the right products and prices to offer.
- **Optimize your product page** with shopper-focused keywords to get your products in front of your customers.
- **Analyze your business** competitiveness & provide strategy recommendations from operations to logistics to strategic planning, to ensure you are always ahead of the game.
- **Execute and monitor** your Amazon Media and AMS Advertising campaigns to ensure marketing dollars go further and your search ranking increases. We help you choose the right products to market and how much to invest to maximize the results and stay ahead of your competitors.
- **Build your brand identity** and elevate your products by creating a Brand Store and A+ Enhanced Content Pages to showcase your brand story and illustrate how your products differentiate from other sellers in the same category.



- Product Catalog Setup and Management
- Issue Resolution
- Content Creation
- Operational Consulting
- Fulfillment Strategy Consulting

- Promotions Management
- Seasonal Planning
- Brand Story
- Marketing Campaign Management (AMS)
- Keywords (SEO)

- Keyword Optimization
- Content & Image Optimization
- Buy Box Strategy

- Business Audit
- Competitive Analysis
- Brand Registry
- Brand Defense
- Reporting & Analytics
- Quarterly Growth Strategy

# THEMARSAGENCY®

The Mars Agency is a global marketing practice, specializing in marketing to shoppers, consumers and retailers across the ever-expanding omnicommerce environment. Mars uniquely refers to this environment as the *A-to-V Commerce*<sup>SM</sup> space, which incorporates everything from Autonomous to Voice commerce.

## Questions?

**Selina Heckendorf**

VP, E-Commerce/Amazon Strategy  
heckendorfs@themarsagency.com

## SOURCES

1. **Digiday, 2019:** <https://digiday.com/marketing/seeking-control-brands-amazon-pulls-plug-thousands-vendors/>
2. **Statista 2019:** <https://www.statista.com/statistics/259782/third-party-seller-share-of-amazon-platform/>
3. **eMarketer, 2018:** <https://retail.emarketer.com/article/amazon-moves-needle-with-marketplace-sales/5b4f6f2eebd4000b2414099d>
4. **Forbes, 2019:** <https://www.forbes.com/sites/kirimasters/2019/02/11/amazon-sets-deadline-for-cpg-brands-to-overhaul-packaging/#185db4cb6bf2>
5. **Digiday, 2019:** <https://digiday.com/marketing/amazon-chasing-growth-shifting-resources-third-party-sellers/>
6. **Statista, 2019:** <https://www.statista.com/statistics/670499/us-amazon-usage-reason/>
7. **ClickZ, 2019:** <https://www.clickz.com/how-important-is-amazon-compared-to-other-retailers-in-the-ecommerce-landscape/219905/>