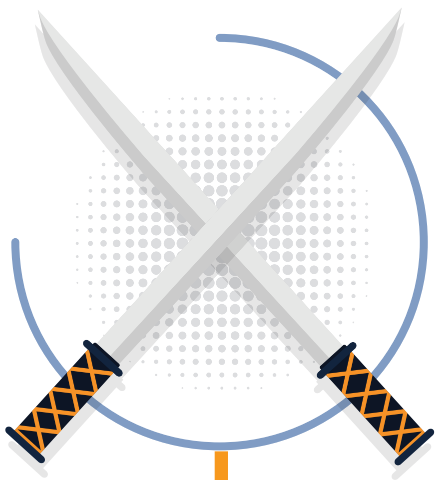
THE AMAZON SELLER'S DILEMMA AND ECOMMERCE OPPORTUNITY

The scale of Amazon is its greatest strength and appeal for brands, both in terms of the incoming, product-specific searches from consumers with strong buying intent and the advanced logistical infrastructure for order fulfillment. That scale is driven by the company's obsession with customer-centricity, optimization, and automation.

However, even within Amazon, discoverability needs to be optimized and paid strategies, on and off platform, might be needed to drive visibility.

As Shopify's analysis of retention trends noted, "the pandemic-induced plunge in customer acquisition costs was short-lived." In Q3 2020, digital advertising platform Kenshoo observed: "Year-over-year spending on Placement Asset Customization Ads has increased nearly 6x since the third quarter of last year, as more and more elements of program management become automated."



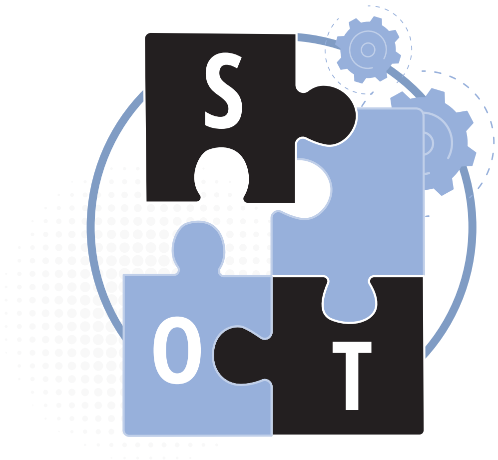
Consumer brands go to Amazon because their buyers already go there and are largely satisfied with the total shopping experience.

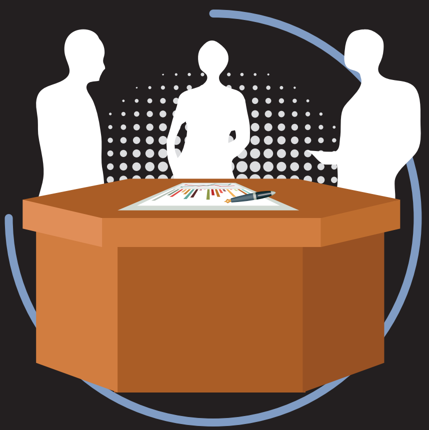
Brands have fears or reservations about Amazon because they sometimes are, on some level, collaborating with a competitor and entrusting it with business data.

Amazon doesn't only enable habit creation — it provides habit automation through subscribe & save. For a consumer brand, this creates benefits and drawbacks.

If consumers purchase from the brand on Amazon, it might reinforce the habit of always transacting through Amazon. The consumer might never even check to see if there's lower pricing available on the brand's own D2C site or app, or check to see if there even is a website or app. That could be problematic if a brand's margins are worse off on Amazon, or if it has strategic reasons for pursuing a more independent business model.

Amazon itself shouldn't be the only threat listed in a SWOT analysis, either. Selling on Amazon could put a product on the radar of another seller in the third-party ecosystem and the manufacturer itself could copycat the product.





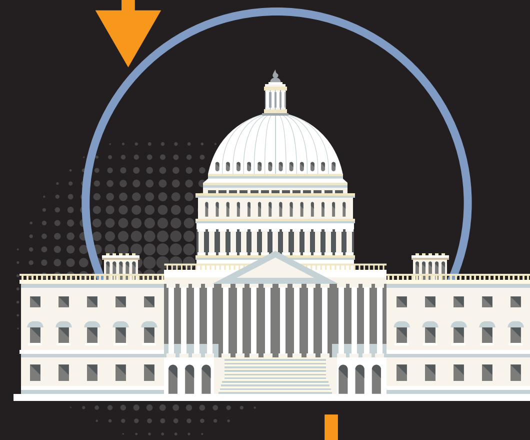
Amazon versus D2C considerations might become a point of disagreement among a brand's team, especially if individual performance incentives are structured in a way that isn't really omnichannel and cross-functional. This perspective fracturing can happen irrespective of where maximum revenue can be generated for the business itself.

In some instances, startup co-founders may have simply harbored different visions and this issue could expose that.

Some of the fundamental areas of conflict or concern present in the Amazon seller's dilemma are actually pervasive throughout tech. The risk-reward ratio may skew differently in different areas. Sometimes, the full picture of costs and incentives must be examined before a business can trust a potential partner.

For example, Truffle POS, which is purpose-built for the restaurant industry, claims that some restaurateurs have lost so much potential profits to meal delivery services that they could have afforded their own delivery drivers and still saved money.

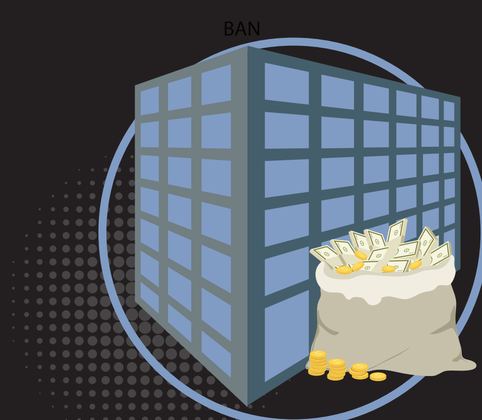
In testimony before a House Judiciary Subcommittee on Antitrust Law on July 29, 2020, Amazon CEO Jeff Bezos attributed his company's success, in part, to trust earned slowly over time, by doing hard things well, with the implication that any unprincipled decisions or behaviors would undermine that.



House Judiciary Subcommittee on Antitrust, Commercial and Administrative Law Chair David Cicilline argued that 37% of the 2.2 million active sellers rely on Amazon as their sole source of income, which heightens the severity of the problem if interests are not aligned.

As Amazon sellers achieve higher sales volume, they also need more capabilities and resources to support their operations and manage their international supply chain. There might be diminishing returns along with growth and increased difficulty with execution, especially for smaller businesses.

For these reasons, Thrasio was able to raise $260M in its Series C to acquire and then optimize third-party Amazon businesses. 5 Thrasio claims an average 233% YoY increase in revenue as a result of their adjustments and resources, which is relevant to founders if the deal terms include an earn-out. Thrasio claims to have paid 94% of earn-outs.



In December 2020, eMarketer published a year-end estimate of total ecommerce sales that was well over $100 billion higher than its January 2020 forecast for the upcoming year.

Canada Post surveyed 1,500 Canadian e-merchants and characterized "growth leaders" as businesses that were shipping at least 1,000 orders per year and surpassing the typical growth rate. Growth leaders in this new era of retail exceeded the ecommerce market average by 30% and were 14% more likely to manufacture their own products.

POLICY 2050

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