

Episode 38: Trading with Amazon - Building a Profitable Relationship

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- Andrew Pearl:** Hello, and welcome to another episode of the Profitero podcast. My name is Andrew Pearl. I'm Director of Strategy and Insights for EMEA. Today I'm really delighted to introduce Jack Webb, who is our newest member of our strategy & insights team in Europe. Jack has already done some fantastic work working with many of our customers, helping them to make the most of the Profitero toolkit and really understand how to develop an eCommerce strategy particularly with Amazon. Jack joins us with fantastic level of experience and particular knowledge on Amazon having worked for the last two years at ACCO brands in the U.K. First of all, Jack want to welcome you to your first podcast.
- Jack Webb:** Thank you very much.
- Andrew Pearl:** It's great to have you joining us today. Just if you wouldn't mind introducing yourself to all our listeners and to give us a little bit more detail about you and what you've been up to.
- Jack Webb:** Thank you Andrew. As you said, recently joined the Profitero from ACCO brands, the U.K. My time there was focused around the eCommerce side with particular regard to Amazon. My role within this was as an analyst, so my kind of brief, I covered everything from supply chains through to spotting evolving patterns and emergence within categories within Amazon, and also brought a sense of product content side so how to optimize appearance for customers.
- Andrew Pearl:** It's a hugely in depth role. There's so many areas, and developing this relationship with Amazon is such a complex thing. I know something, a lot of our customers are very, very involved. Perhaps if we could start off Jack, with your

experience what would you say if you've got a brand who's really beginning their direct relationship with Amazon, what would be some of the most important elements they should think about when starting to develop that relationship?

Jack Webb: Absolutely. Well as you said, there are various aspects when beginning a relationship with Amazon. I think one of the key fundamentals for anyone to do before starting on that journey is to identify exactly what it is they want to achieve with Amazon. For example, although Amazon is primarily a platform for sales, there are also various opportunities through methods such as their marketing groups to grow brand exposure and gain not only an additional path to market, but also as a way to capture new customers that may be unfamiliar with the brand or products that are presented.

Andrew Pearl: If we start a first of all, what would you see would be the first thing that brands should focus on initially?

Jack Webb: I would say the initial aspects would just be around ensuring and gaining the listings. What we mean by this is developing a partnership by Amazon to maximize the products that they have available through the platform. If a product is dealing directly with Amazon, not only where Amazon therefore supplied their products, but they would also be able to have influence on how this is perceived to expand maybe from their site with regards to things such as the images, directions for use for their products, and all of the other advertising that comes with this. I think this is one of the biggest challenges faced with customers not already dealing with Amazon due to lack of control with their product content base within the public domain.

Andrew Pearl: That is consistently one of the biggest challenges and the biggest concerns that the brands have. We certainly hear that a lot particularly when you look at the quality of images that third party sellers can obviously put on there; outdated images, wrong packaging and sometimes just taking the product out of the initial packaging and really displaying it in an incorrect way. I guess having that overall control really takes the danger of these third party images away. When we're talking about perhaps customers who have wide product ranges, what would you recommend in terms of starting off a listing? Should they list the whole range or focus on a priority group of skews and really get those working well?

Jack Webb: Well from what we've seen both in my previous role and also work in the some Profitero customers is we see the typical 80/20 split that we see through retailers with 20% of the products gaining approximately 80% of the revenue, and we see that this does translate across to online eCommerce retailers particularly through Amazon. As a starting point for a new functionality with Amazon retailer, I would recommend initially starting with these products to ensure that your maximum revenue drivers are in place before extending out throughout the lower ranges.

Andrew Pearl: I guess really the focus, as you mentioned first off, is about getting the content right. How long do you think does it generally take for a product to get really established and start performing well within the best seller rankings within the category, and what can a brand do to really speed that up as much as possible?

Jack Webb: From what we've seen naturally, it can take anywhere from between a year to two years for a product to organically find its place onto page one. As we know, this is where the higher percentage of sales is achieved. What we mean there by organically is if a product has been listed within Amazon and has no additional marked in or support features through the sense of promotions, you will find the product will naturally rise as the Amazon algorithm is based around factors such as the product title, the number of reviews and the number of sales, and as with any retailer out there, these would be expected to grow. To answer that, I would say anywhere between 12 to really two years is where we would naturally see the organic rate of growth for the product from initial listing to appearing towards the top of the page one results.

In order to enhance this, as you touched on, there are a few other topics, which I'm sure we will discuss in more detail, which can aid this. I think it wouldn't be unrealistic for brands to expect to see their product going from first listing to page one inside of a six month period by using all of the various methods available through Amazon.

Andrew Pearl: It's an interesting topic. I think it's won even some established brands where we've seen the expectations that they list their products on Amazon and then sales will start straightaway, and it's not a natural process, as you say. There are some things that you can do to improve that, absolutely. You mentioned about optimizing your product content, getting great images, understanding that the right keywords to use. I think it's often quite a surprise how long it takes for the sales to build. It can be a fairly slow sort of build. How frequently should you be really reviewing your content and reviewing what you're doing versus your competitors? Again, when you're starting to set it up, just thinking about brands who've got relatively small resource. What's the best way of making that a most efficient process?

Jack Webb: I would say on average a quarterly review process across the top lines would suffice as an initial benchmark. One of the things you briefly touched upon in your question there was always using your competitors as a firm benchmark within the Amazon marketplace. What we mean by this is not just those who are directly around you within your catalog, but also using Amazon's best seller rankings to see what are the best in class and how customers react to this. One example of this is historically through Amazon, the images were solely used as a way to demonstrate the product. For example, if it was a food based product, you could have just the initial package in shot. This then emigrated onto the food substance being taken outside of the packaging and shown as an individual product, and again, this evolved into a lifestyle shot so people can understand the side of what is on offer.

What we are seeing as a more recent trend and it appears to be growing across a multitude of categories is using images as a way to pass information without a large kind of correspondence of text being related. For example, with projector screens, we're seeing some companies using dimensions and involving more color across these images to make sure they're more eye catching and standing out. As I said also, the lifestyle shots are being built on as ways to explore customers how they can use these in different settings whether it be in the home, in the office or a mobile product to allow customers to see how they can build this product into their everyday lives.

Andrew Pearl:

I think the days of having brands filling product titles and descriptions just to the brim with keywords is long gone, and actually from a lot of the research we're showing that briefer titles with the most relevant keywords can actually work better than ones that are much longer because, again, you've got to think about really optimizing the tasks not just for the Amazon algorithm, but also for the Amazon shopper as well, and having long titles certainly doesn't work for that. Obviously a lot of work has got to go into in the first year developing this content. Can you just tell us a little bit about working with the Vendor Central, and obviously we know the benefits of having an SVS strategic vendor relationship, but what that can do to really help you push your brand forward and how you can use that to best develop the performance of your brands?

Jack Webb:

Absolutely. In particular when you're working with Amazon, it can seem sometimes like a one-way street in the sense of typically a manufacturer will be delivering the product to Amazon and then also responsible as you rightly said for the external content facing out towards the customer. I think one important thing to bear in mind is that there are services and offerings available by Amazon, for example, as you mentioned, the SVS, which will give you feedback on these aspects. I think it's important to work with them to develop particular content. Amazon as an online retailer is vastly different to some of the others. We know this from the amount of descriptive content you can have. We have additional A+ enhancements on offer, as well as the number of images and length of the product title, as you said, all are completely variable.

There is almost a lack of regulation around how you can advertise these products. I think one of the important things is to contact with your SVS to understand the effects that these changes are having so they can advise you for patterns and emerging inconsistencies they see within the independent categories, and these can give you drivers over areas that they need to function. For example, what we mean by this is through your catalog, although when you first start listing your brand, you may wish to take a uniformed approach across all of your products, ensuring that the manufacturer's logo, for example, is a stable feature for this. One of the things that the SVS and the additional services such as the Vendor or Catalog Support Service can do is to help you to optimize this.

They obviously have access to a larger quantity of data, but also more circumvented towards individual categories. One of the things that they can help you with is to ensure not only the uniformity aspect, as I've said, across your brand, but how this portrays the customer in the sense of not just sharing information for information's sake, and also is it correctly optimized?

A few years ago when we saw Amazon continue a year on year incredible growth for U.K., we saw more and more vendors turning to, as you said, longer titles, more product images, and what we've seen as a recent trend and this is supported by some of the research we've seen, it's less and less about the number of keywords you have and what the important keywords are. One of the ways you can work with Amazon on this is by using some of their functionalities such as the search for keywords and also by working with the SVS as you can determine what is the terminology that the customers are using. One of the biggest problems in this area is that manufacturers tend to have a consistent language internally with regards to how they view their products and how they refer to their products. There is a habit of promoting this tendency within the eCommerce platform, and obviously this not how customers use these search terms and these functionalities.

Working with them can really help you to understand how people are viewing your products, and more importantly how they're getting to your products.

Andrew Pearl: If you're at the other end of the scale, so perhaps your product listing or the size of your business doesn't warrant having the additional investment in an SVS relationship, what would be the key things in terms of to prioritize? If you're having to do it all yourself, how do you go about making sure you get the best out of all of your listings?

Jack Webb: Then I would say just by optimizing less of the additional features of Amazon, but the more primary basis that are available on the site. These are things such as twisters. What twisters do is they enable you to link products together, and instead of performing secondary search or click into a secondary product, from your individual product page customers can swap between your entire range of products. However, there is also danger within this because by over twisting on products, you can essentially bury your own products and this will not only hinder that discoverability through search results, but also have a long term impact on sales. Again, another benefit of twisting the products together is you'll also combine all of the reviews for all those products, and as we know this is one of the drivers of Amazon's algorithms.

Although as we've touched on things such as there is SVS and external search reports that you can use, there are also primary drivers that can be used from the day one of the Amazon relationship that you can use to build your product placement.

Andrew Pearl: That's really interesting. You're saying when you're choosing the products for twisters, that really make sure they are relevant and that there is a specific shopper need to have them there. Otherwise, there is potential that they'll get lost and shoppers won't search for them, and as you say, you're effectively hiding your products.

Jack Webb: Absolutely. With twisters, specifically, there's almost to an extent an unlimited number of ways in which you can twist them. For example, if you had shoes, you could twist by shoe size, shoe color, by make. Lots of variants. What you will find is if you do have three or four twisters on a product, you can quickly have up to 40 or 50 products aligned and although the customer may click on one and it's fairly easy for them to move to the next, the entire range itself could be buried in terms of discoverability both on the organic page and also for certain keywords.

Andrew Pearl: Another key question Jack that I think comes up a lot is a real concern particularly for brands just starting their relationship, and that cover the two areas, which are synonymous with them, and that's costs and fines. We know there's quite a few on both of those. Could you take us through some of the key ones that most brands will come up against and the kind of figures they should be aware of just so when they stop and think about what a direct relationship with Amazon could cost?

Jack Webb: Absolutely. If we start off by tackling the cost part of this, obviously there are basic fixed costs that are associated by dealing with Amazon, and these will be determined through your initial meeting along with various factors such as the size of your portfolio and how much you wish to bring to marketplace through Amazon, and these will be worked out on an additional basis. There are also a wider array of functions that aren't necessary for your relationship with Amazon, however can definitely help build this relationships as you move forward. One of the ones we've briefly touched on is SVS, and this does vary from country to country, but you'll be looking at around \$160,000 mark for the year, which is broken down into monthly installments. Then also additional factors that you may wish to take part in.

For example, AMG, which is Amazon's Media Group. This, again, varies from retailer to retailer, but what we've seen through retailers and manufacturers using Amazon is it's typically between 3% and 4% of the annual turnover of sales through Amazon. The cost implicated with Amazon are obviously substantial. However, I think they believe in the long term, from what we've seen, they provide additional benefits as the relationship progress. With return to costs, this is one of the areas that is very much looked over, particularly by new manufacturers looking to come to market and create this relationship with Amazon. One of the things that I would highly recommend is before even considering this relationship to Amazon is to look at the logistical structure in place within the company.

By this, I mean how quickly is the company able to produce and turn around stock, and also from an individual warehouse and supply chain side, how quickly are they able to transport these materials. The reason for this is when Amazon orders, it's not done on any regular period or basis of time. It is all deemed on what they see through their sites with regards to demand, to traffic to the page, and conversion through to the product. The orders can come through from any day. Once the orders hit, there is then a 24 hour period to accept the order, and there will be a two-week delivery window set which will typically start from the day order after the order has been accepted. If they fail to meet these, as you said, there will be fines.

Along with this, you could have fines for miss-packaging, for a shortage of products delivered, and one of the areas where most manufacturers tend to trip up in their dealing with Amazon is not so much concentrating on the topics we've covered such as the product content and their external customer facing side of it; it is with this primarily logistic area with Amazon where if you're not careful, you will find fines creeping up very vastly possibly into the thousands or hundreds of thousands of pounds.

Andrew Pearl:

Obliviously I think the important thing to remember, as you mentioned, is clearly with the outstanding growth of Amazon, there's general, I think most brands will come to the opinion that actually you can't afford not to have a direct relationship with Amazon. Yes, there are risks and dangers involved, but equally the danger of doing nothing means that your competitor will be there. Obviously with the announcement of their purchase of Whole Foods last week, clearly this is another attempt to really break the grocery sector, and I think a lot of people wouldn't bet against them to do that in the long run, even if they're various different formats at the moment. Fresh or Pantry are very, very slowly starting to build that up.

I think also if we focus how you build your sales and your relationship with Amazon, you touched on AMS and AMG. Thinking about building your relationship with Amazon, this is something that really comes in, say, from year two, once you've got your listings done, you've got some great content on there. Can you just take us a little bit about, again, how a brand should start to think about whether they work with AMS, AMG, which they should start with first, and which is really going to give them the best ROI depending on exactly what their KPIs are.

Jack Webb:

Absolutely. Just to start with, a brief overview of the differences between the two, we have AMG, which is Amazon's Media Group. This is essentially their advertising platform that buys space not only across their own platform but also a wide variety of third party sites. These cover news outlets such as The Financial Times, sports sites such as in America ESPN.com or Sky Sports in the U.K., travel facilities, music websites. This is one area we've seen Amazon's spend increase year over year to secure these additional advertising places. AMG, as a functionality, is essentially more driven towards increasing your brand

awareness and your brand strength on Amazon rather than directly related to sales. Although there is an ROI attached to this I would say it is relatively small in terms of the outcome that we see for the sales uplift.

As a response to this, we have AMS, which is Amazon's Marketing Services, and this allows an individual vendor working with Amazon to directly advertise their products against set keywords along with other products. The main differences between the two is AMG is more of a media focus aimed at brand growth, and what this does is it offers tailored advertisement solutions. For example, Amazon frequently will capture the information of people traveling through their page and if they notice that someone visiting their page regularly clicks the buy button without scrolling through the features, the advertisement for these products will be aimed specifically with a buy now call to action. However, if they notice that a person's history of visiting their page regularly scrolled down and spent a lot of time on the ratings and review section, again, the advertisements will be featured around showing some of the more positive reviews before taking them through to that buy now button.

AMS in comparison to this is solely on site with Amazon, and this covers across all the various pages you've mentioned such as Fresh and Pantry. It allows you to do two things. Firstly, to get your products in the search results mix. As we said, although it can take in some cases 18 months to two years organically to hit that top spot, with AMS sponsorship you can drive those results from day one. AMS is also heavily more towards sales. In terms of ROI between the two, we know that AMS from the results we've seen has a much higher rate of ROI as well as there is no agreed terms or functionality. What I mean by that is, as we briefly touched on before, the AMG agreement is typically between 3% or 4% of the sales I've seen over an annual period with Amazon, whereas AMS is more in line with a Google AdWords where it's a pay per click advertising solution.

You really can limit yourself with what you want to spend, and that can be accordance with the uplift you see as a result of running sponsorship.

Andrew Pearl:

They are very, very different things. AMS is very much more of a test and learn and potentially you need to try out various different keywords, various different approaches, see which works the best, and then that can then decide how much you're going to spend going forward, whereas, as you mentioned, AMG you need to be very clear upfront what the costs are, agree those with Amazon and then they are fixed. I found a question in this area is about resource, because obviously when you're developing your relationship, you're thinking about the number of people you're going to need to deal with Amazon, clearly an account manager, someone from logistic, potentially some specific marketing resource, and obviously then there is resource to cover programs such as AMS, AMG, getting your product content up right, monitoring the campaigns.

If your brand's starting off say with one or two people in resource, how frequently should people check their AMS and AMG campaigns to really make sure that they are optimized and working well?

Jack Webb:

One of the benefits with this regard to AMG is that this will be organized and fed back to you by Amazon. In terms of workload needed by the individual vendor, you have the primary agreement with the products you wish to feature and how you wish customers to be featured. Whether it's one of the methods we've mentioned such as third party site advertising or, for example, an email blast, this will be relatively small in terms of workload on your organization. AMS on the other hand is fully led by the vendor. This means that the advert will need to be created, monitored, maintained, and if necessary, ended, preferably a brand coming to market, and particularly I'd say within the first 12 to 24 months of their relationship looking to start AMS.

I would recommend for all of the campaigns that they run to be checked no less than on a weekly basis in terms of a very top level sales to cost ratio. I would then recommend on a monthly basis to have a larger deep dive into this to understand what the redeeming factors are, which are the keywords that are really driving the campaign forward and for the different types, for example, sponsor products, which of the individual products that are driving it forward. As you then progress over time, not only will it allow you to make more campaigns, but it should streamline this process as you develop a larger understanding of what these keywords are. To start with, I would recommend a weekly top level view in terms of the sales and costings, and then a monthly deeper dive into a further understanding of all the driving factors such as products and keywords.

Andrew Pearl:

I guess then development from that just depends on how well the programs progress. Clearly they're developing very well. You're running more campaigns and therefore resource will need to increase accordingly. Thank you Jack. We've talked about the first 12 months, which is all about getting your listings and content. Next 12 to 24 were starting to do test and learn with AMS and AMG. There are so many other options obviously available to suppliers, to Amazon both from a supply chain point of view and obviously various other new opportunities coming up all the time. One that comes up whose mentioned quite a bit is Vendor Flex, and I wondered could you just take us through a little bit more detail of what that involves and really which kind of suppliers that would be most relevant for.

Jack Webb:

Vendor Flex was a program initiated by Amazon and has been operating for just over two years now. Initially it was subject to them through the period of Q4 when they were seeing high volumes of traffic in terms of goods coming into their warehouse and therefore a lack of space. What this initiative does is it sends an Amazon individual into the vendor's own warehouse and essentially claims a space for Amazon. Once goods have passed into this area, they are then property of Amazon and Amazon will sort the delivery from that location to a customer. This has a variety of bonuses for vendors that can go onboard with

this scheme. For example, you'll see a fall in the fines that we discussed earlier such as late shipments or incorrect quantities as these can be sorted on the spot on a day to day ongoing basis.

With regards to which vendors and manufacturers should be looking into this, I think one of the bigger benefits would be around those with the larger products as this will not only help with the cost of shipping, but typically Amazon have been more hesitant in purchasing these items through a variety of reasons, transportation costs, storage at their own facilities, the amount of touchpoints and how this can affect the packaging to these items. In terms of who should be looking to go onboard with these types of programs, and in particular Amazon Fresh, I would say potentially vendors that are seeing regular orders and have a larger, in terms of physical feature, range of products.

Andrew Pearl: In terms of when you talk about the regular orders, do you need to be a major supplier or can some relatively smaller suppliers who are getting regular orders coming in, would they be offered this program too? Is there a certain threshold of sales that you need to reach to be able to take part in it?

Jack Webb: Currently the scheme is still very new and so is being rolled out very much in a top down style by Amazon, category by category. It will be a case initially of the larger vendors being invited to the program. However, I think one of Amazon's future aspirations is to open this up to any vendors to in a way turn their warehouse with extra space into an additional Amazon warehouse, even if that's not necessarily for that vendor product. Currently it's only for those with I would say a larger, most historic relationship with Amazon, but I would expect that across the next 12 to 24 months we see Amazon approaching a larger range of vendors where they're not necessarily for their products, but to allow them to use their warehouse as one of these temporary hotspots for additional Amazon products.

Andrew Pearl: It's one to keep an eye out and perhaps have discussion with a buying manager if they feel it's something that could be relevant. Thank you Jack. The final thing that we hear a lot about is sharing data and sharing insight with Amazon. I know you in your previous role got involved in this in a great way. Can you tell us some of the benefits actually of sharing data with Amazon? I know that there is a lot of reference in terms of some manufacturers to share information with Amazon because they're worried what they might do with it, how it will potentially damage their relationship with their other customers? I think you've certainly been from the side where it has worked well, so would you mind explaining just a little bit about why it's useful to share information that you have as a supplier with Amazon, and in fact why sometimes Amazon may actually come to you to ask for advice within your own category?

Jack Webb: Absolutely. I think one of the key reasons for this behind it is as we know, the eCommerce market as a whole is growing and while it's currently such a small percentage of the retailer market, there is no doubt that it's going to continue to

grow at a phenomenal rate, and this is mainly driven by Amazon. Part of the reason they're able to do this is due to the information that they collect through a wide variety of sources, how they then determine and use this information and reallocate it back into the marketplace as a result, as you say, I think sharing information with Amazon is only going to strengthen your position as a vendor, and it will make them more likely to approach you for new services and tools that they are bringing to market.

With regards to which kind of information, I think in terms of patterns and trends that do appear with the eCommerce environment, this will already very much be picked up by Amazon. What they're more interested in is the offline sales. What are the patterns we're seeing through bricks and mortar and how do these directly relate? These are things that's obviously as a vendor both performing in the brick and mortar and the eCommerce space you will have a much clearer view on. I reckon in the long term sharing information will be very beneficial both ways, but with regards to have they will perceive this information continuously outwards, unless otherwise stated and agreed upon, I can't really see any circumstance under which Amazon would offer up your personal information to an additional third party supplier. Obviously it's important to make sure this won't be the case when any kind of information was passed from one party to Amazon.

Andrew Pearl: Absolutely. That makes perfect sense. Thank you so much Jack. I think we can go on talking about this for a long, long time, and I'm sure there will be a lot of questions coming through. It's been a fascinating discussion. I think just to bring this all together if I were to ask you the top three things that a potential vendor should be thinking about when either starting or concentrating a relationship with Amazon, what would be the first three things that they should really focus on?

Jack Webb: The first one would be as briefly touched upon, having the sound logistical structure in place. There's a variety of reasons behind this, some of which we discussed, but also if Amazon are ordering your products and you're unable to fulfill those orders, that is one reason why they could stop ordering from you. Before the retailer process has even got off the ground, Amazon will already be swapping back sourcing to third parties. Coming onto a second point, I would say that's just to ensure that you get the maximum amount of listings up within a short space as possible. Obviously as we mentioned in terms of finite levels of product content management, definitely start around the top 20% of your catalog, but in terms of getting products onto Amazon, I think it's important to list a further range as possible.

One of the reasons for this is not only to think about what are the benefits of working with Amazon, but what are the downsides of not. There's been a variety of research that showed in various categories up to 20% of people will search online for a product before they buy it in a brick and mortar store, and if a third

party is responsible for listing your product and has very poor information, this can be customary to your offline sales.

The third thing I would recommend is to ensure that you're taking full advantage of the primary offers by Amazon in terms of what you can do with your information particularly with regard to twisters. This is a great way of increasing the ranking of your products with relatively little work, but again to ensure that you don't over-twist these products because essentially you'll be hiding your own listings.

Andrew Pearl: Fantastic. Thank you Jack. Thank you so much for talking with me today. Great again to have you on the team. We look forward to many more podcasts on similar topics in the near future. Thank you very much.

Jack Webb: Pleasure. Thank you.

Andrew Pearl: This has been another Profitero Podcast. Thank you very much for listening today. As always, we'd love to hear your feedback, so please do provide any feedback on iTunes or wherever you get to hear this. Also, we always try to introduce new topics that are interesting to our listeners. If you have any questions or topics you'd like us to cover, please do drop us an email at insights@profitero.com. For now, thank you very much again for listening. My name's Andrew Pearl and I look forward to talking with you soon. Bye-bye.