PERFECTING YOUR APPROACH TO SELLING ON AMAZON

CLARKSTON CONSULTING

It's no secret that retailers can't ignore Amazon when selling products online. In fact, Amazon was responsible for 37.7% of all US eCommerce sales in 2019– begging the question: How do retailers successfully and effectively engage with Amazon and its huge customer base?

Organizations can structure their Amazon relationship in one of two ways, treating Amazon either as a customer or as a marketplace. True success comes not only from successfully selling your products on Amazon, but from how you choose to sell your products – which greatly impacts your profit margin. This is the most crucial aspect of selling on Amazon, as it has an incredible effect on your overall profitability.

AMAZON VENDOR CENTRAL

Selling via 1P or 1st party fulfillment is known as Amazon Vendor Central. With this model, merchants and organizations sell their product to Amazon, who then in turn sells the product to consumers. Here, Amazon is the true seller of record and is responsible for all price-setting, forecasting, and the overall customer experience. This is a great option for companies who are new to selling online, as it offers the most ease and least complexity of all the models.

Amazon Vendor Central is an invite-only model, with Amazon typically reaching out to brands they're interested in to invite them to the AVC portal. Selling via AVC allows your products to automatically receive Prime eligibility and all the benefits that come with it. Prime products are known for their free shipping and speedy delivery (typically delivered to the end-consumer in 1-2 days) – eliminating the leading cause of shopping cart abandonment. Additionally, there are over 100 million Amazon prime members in the US, who tend to spend **more than twice as much** than non-prime members ($1,400 vs $600 annually). This leads to a substantial lift in sales for products designated with the Prime badge.

Another advantage of selling via 1P to Amazon is the Buy Box. The Buy Box is the white box on the right of product display pages – where customers either add the item to their cart or are able to "Buy Now". Amazon determines what seller is listed in the Buy Box and what seller(s) are listed in a "See Other Sellers on Amazon" or "See All Options" link that consumers have to click on. Naturally, as a merchant, you want to win the Buy Box to avoid needing consumers to go through additional clicks to find your product. **In fact, 82% of all Amazon sales come from the Buy Box.**

Winning the Buy Box is a culmination of various factors, such as shipping time, stock availability and competitiveness of product price – but ultimately the method of selling/fulfillment is the largest indicator of who will win the Buy Box for a given product. AVC products are given top priority, then FBA, with products fulfilled by merchants being the least likely to meet all of Amazon's undisclosed metrics needed to win the Buy Box.

		ADVANTAGES	DISADVANTAGES
1P Amazon = Seller	**Amazon Vendor Central**	▪ Only offered to select customers ▪ Prime eligibility ▪ Buy Box advantages ▪ Amazon owns inventory and places purchase orders	▪ Amazon is the seller of record ▪ Amazon controls the forecasting ▪ Amazon controls customer experience and data ▪ Limited visibility into consumer demand ▪ Payment based on vendor terms negotiated
3P Amazon = Marketplace	**Fulfilled by Amazon (FBA)**	▪ Prime eligibility ▪ Hands off fulfillment ▪ Buy Box advantages over SFP and FBM ▪ Lower shipping rates ▪ Receive payment twice a month	▪ Additional fees for storage and fulfillment ▪ Amazon controls forecasting ▪ Amazon owns customer experience and data ▪ Seller owns inventory ▪ Sales tax complexity due to Nexus for storage
	Fulfilled by Merchant (FBM)	▪ Hands on fulfillment ▪ Fewer Amazon fees ▪ Potential for slightly higher margins ▪ Customer contact ▪ Access to more data - orders, consumers, addresses, etc. ▪ Receive payment twice a month	▪ Loss of Prime eligibility ▪ Fully own responsibility for fulfillment and SLAs ▪ Overhead costs increase ▪ Lower reach / conversion due to loss of Prime ▪ Lowest Buy Box placement (FBA, SFP first)
	Seller Fulfilled Prime (SFP) *	▪ Hands on fulfillment ▪ Fewer Amazon fees than FBM ▪ Prime eligibility ▪ Receive payment twice a month	▪ Buy Box disadvantage (FBA first) ▪ Must offer 2-day free shipping

Third-party fulfillment (3P) refers to any method of selling in which Amazon is used as an online marketplace.

FULFILLMENT BY AMAZON

The first method for third-party fulfillment, Fulfillment by Amazon (FBA), is the most widely used 3P option. Here, Amazon purchases the inventory from the seller in bulk, sets their own pricing, and handles all the marketing, sales, and logistics. As a seller, you ship product to an Amazon fulfillment center, and Amazon handles the rest. Pricing for FBA is mainly based on fulfillment fees and monthly storage costs. Depending on item size, season, and other factors, these storage costs can often be tricky for companies to navigate on their own. To compare the cost of your current fulfillment process to prospective FBA fees, check out Amazon's **FBA Revenue Calculator**.

Much like with AVC, utilizing FBA enables your products to be eligible for "Prime Status" and all the related benefits. It also gives your product an advantage over the other 3P selling options when it comes to the coveted Buy Box.

Having Amazon handle the fulfillment processes greatly simplifies the selling process. Your products are covered by Amazon's renowned 24/7 customer service and returns, and Amazon handles the picking, packing and shipping of products on an order-by-order basis. FBA also encompasses other fulfillment services, including Multi-Channel Fulfillment (utilizing Amazon to manage and fulfill orders for you on multiple sites, not just Amazon) and Subscribe & Save (Amazon's program for regularly scheduled repeat shipments).






Receiving these services comes at a cost, so to qualify for FBA you must adhere to strict receiving processes and pass over control to Amazon – as the company reserves the right to set end-customer prices for your product and control the majority of branding. The FBA model also removes any direct contact your company has with customers on Amazon – potentially increasing customer loyalty to Amazon rather than to your brand and products. This can drive customers to purchase your products again on Amazon in the future, where you are likely making smaller margins than through any owned eCommerce channels (due to Amazon prices and fees).

With FBA, Amazon charges a series of fulfillment fees and storage costs on top of the Amazon Referral Fee charged at the sale of any product (regardless of fulfillment method). These costs are known to be exceedingly difficult for companies to navigate and can change at a moment's notice, making it almost impossible for companies to know or predict actual costs on a given day. Costs vary depending on the product, its size / weight, the length of storage time, and a multitude of other factors. Fulfillment fees include picking, packing and shipping orders and can vary from $2 per product to over $10, depending on the size. FBA products are then charged an Inventory Storage Fee based on size / type of product and length of time in inventory.

We've seen these fees increase greatly over the past year, and they could potentially increase more in the future, making FBA a costly option for smaller businesses. These fees also increase seasonally, as Amazon adds holiday storage fees to discourage holiday-only sales and minimize overpopulated warehouses during peak season. Other fees include Package Prep, Return, Penalty, and an Inventory Removal (for Amazon to destroy or return any inventory if you stop selling via FBA).

FULFILLMENT BY MERCHANT

The second 3P method, Fulfillment by Merchant (FBM), has far fewer fees and offers more autonomy. For this method, when an order is placed on Amazon, the order is sent directly to the seller. You are then responsible for all shipping and fulfillment, as well as customer service (rather than Amazon).

Sellers typically choose FBM to keep their own logistics and customer service networks for their products sold on Amazon, ideally cutting costs. Compared to Fulfillment by Amazon, FBM lets you be in control – over inventory, storage fees, fulfillment & shipping, and over returns and refunds. Using FBM allows you to avoid the constantly changing fees Amazon typically charges under FBA. Overall costs for FBM are far more abstract, as you are only paying Amazon the typical Professional Seller and Amazon referral fees – but do still have the added cost of providing all your own fulfillment services.

Unfortunately, sellers are unable to qualify for Prime and its benefits through the FBM model. Additionally, using your own logistics and customer service networks means you don't get access to the renowned networks Amazon already has in place. Depending on your current network, there is a potential that FBM could cost more than FBA.

SELLER-FULFILLED PRIME

The final 3P option is Seller-Fulfilled Prime (SFP). Similarly to FBM, here the seller ships and fulfills orders directly to the customer. SFP requires you follow all of Amazon Prime's shipping policies, and you are allowed to display the Prime badge on products in the Amazon Marketplace. This is the newest fulfillment method that Amazon offers, introduced in 2015. It has grown so rapidly that Amazon is currently not accepting new applications for SFP, though businesses can sign up to join the **waitlist.**

There are a number of qualifications that need to be met to be eligible for SFP, such as:

- On-time delivery rate of 92% or higher
- Cancellation rate of less than 1.5% of all orders

Additionally, to meet SFP specifications, you must first pass a trial period consisting of a minimum of 50 Amazon Prime trial orders. These orders must meet certain metrics as well, such as an on-time shipment rate for at least 99% of them. After completing this trial, you are automatically enrolled in SFP. Once enrolled, these requirements must continue to be met on a 7-day rolling basis and a minimum of 200 orders every 90 days is required or you will lose your SFP status.

Companies that utilize SFP retail all control over their logistics networks while still receiving treatment as a Prime Seller, a significant benefit. Additionally, seller-fulfilled listing becoming Prime eligible for the first time through SFP experience an average sales uplift of more than 50%.

What are the downsides of SFP?

Amazon's stringent requirements and constant evaluation places a huge burden on sellers using SFP. You must be able to pay for fast shipping and be able to ship within 2-days as per Prime status, which can be very costly and hurt profits, especially if this is something new to your business.

It follows that, to successfully utilize SFP, you as a seller must be highly efficient at fulfillment and must continually stay very involved with your processes. You must supply the information regarding shipment metrics to Amazon. Prime status is easy to lose and once lost, it takes a month to requalify. Very few SFP brands are able to consistently meet the requirements, making this a risky and difficult model for most sellers.

HOW DO YOU DECIDE WHAT IS BEST FOR YOUR BUSINESS?

In general, FBA is recommended for companies that are selling smaller, more lightweight products, companies that are selling products with a high sales velocity, companies that aren't currently accustomed to selling to individual consumers, or those that are looking to outsource fulfillment, perhaps due to limited inventory space or a smaller logistics network.

We find that FBM works best for companies with established and efficient fulfilment processes, as well as those that are more focused on margins. Although Amazon is currently not accepting any applications for SFP, we'd recommend SFP to any company currently using or exploring FBM that is looking to take advantage of all that Amazon Prime has to offer.

Amazon is a force in the consumer goods and retail space that simply can't be ignored. Even if your business does not participate in the Amazon marketplace, the policies and practices set forth by Amazon create consumer expectations that your business must be prepared to address.

ABOUT CLARKSTON CONSULTING

Leading consumer products businesses partner with Clarkston Consulting to address and adapt to the most critical industry challenges stemming from evolving consumer expectations, a highly competitive landscape, and an unrelenting pace of change. Our people combine industry and functional expertise to deliver solutions that fit your business, your goals, and your future. At Clarkston, your purpose is our purpose.

For more information about how we can help your company, please contact us.

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