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KEY FINDINGS FROM THE 2018 AMAZON REPORT

Internet Retailer, a Digital Commerce 360 brand



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INTRODUCTION

Amazon is a company on the move, expanding in areas well beyond its e-retail roots, and its moves are making it tougher for competitors to manage the threat it poses to their business with the methods taught in business school.

Amazon doesn't play the same game as other retailers, nor does it define itself as a retailer. Those in retail who view Amazon as a company that buys and sells goods to consumers the same as they do misunderstand Amazon at their peril.

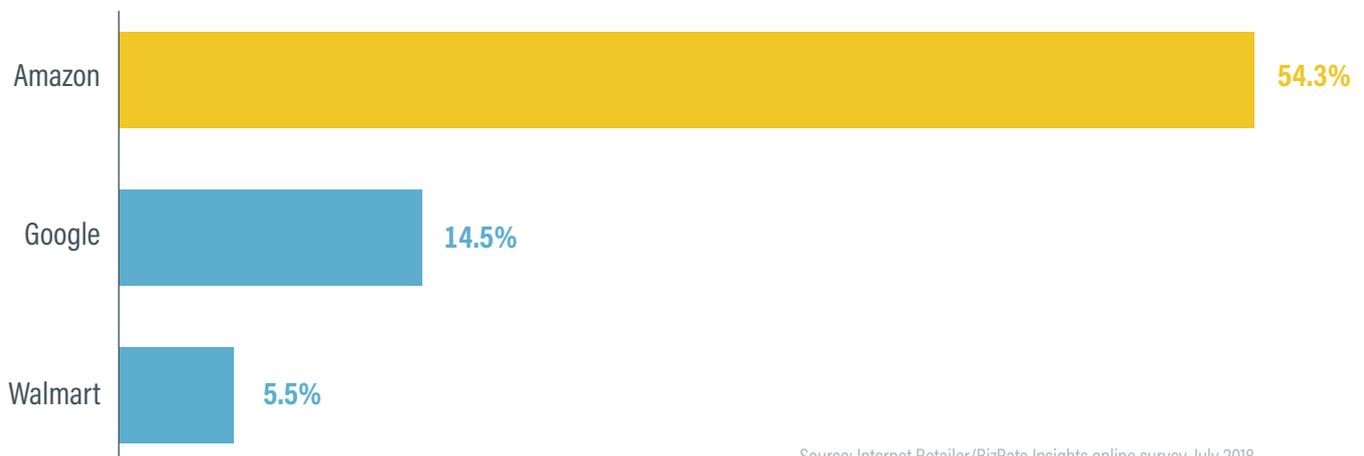
As Amazon diversifies, online retail is factoring less into the company's business model. While its online retail business is important, familiar and (critically important) growing faster than the e-retail industry, it is Amazon's services business lines, including Amazon Web Services,

Fulfillment By Amazon and the commissions it makes for facilitating the sales of other merchants, that are powering the company. Online retail transactions—where Amazon sells product from its own inventory to an online shopper—accounted for about 61% of Amazon's revenue last year, down from about 67% in 2016, 72% in 2015 and 77% in 2014.

Amazon's growing services businesses are largely invisible to Amazon's online retail shoppers, but it is the revenue these profit engines bring in that allows Amazon to enhance and add the consumer-facing services that knit consumers ever more tightly to shopping with the company, like quick delivery and voice-based shopping. Such moves are what is keeping Amazon in the lead and everyone else running to stay in the race.

CONSUMER SURVEY

WHEN SHOPPING ONLINE, WHERE DO YOU GO FIRST?



Source: Internet Retailer/BizRate Insights online survey, July 2018

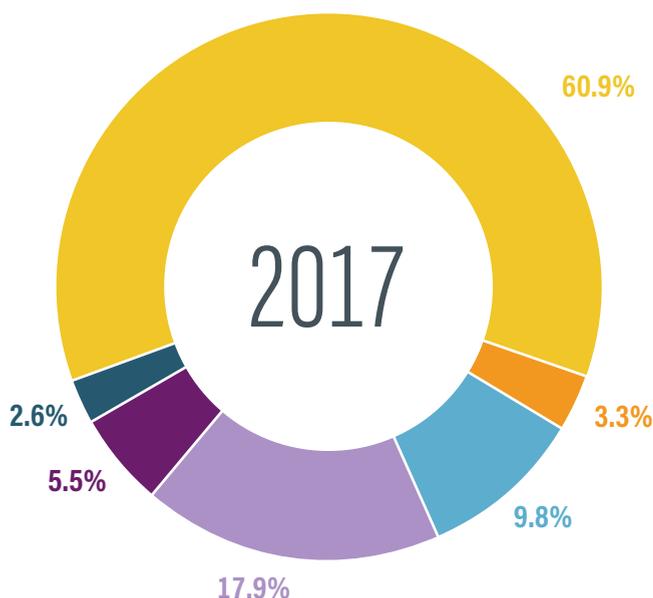
Nearly 55% of consumers say when going online to shop, they visit Amazon first, according to an Internet Retailer consumer survey conducted by BizRate Insights. That knitting to Amazon feeds Amazon’s growing dominance in e-commerce.

Our intent with this report is to examine Amazon’s business lines in the United States with an eye on their power to affect prevailing business norms in retailing, logistics and computing. This report also includes a detailed review of the fourth edition of Prime Day, the Amazon-made sales event. 🙌

AMAZON'S REVENUE BREAKDOWN

Percentage of total revenue

- Retail - Online
- Retail - Physical Stores
- AWS
- Third party seller services
- Retail subscription services
- Other



Source: Amazon annual reports

"Retail - Online" includes physical and digital products Amazon sells directly; "Retail - Physical Stores" includes revenue from Whole Foods, Amazon Bookstores, etc.; Third-party seller services include marketplace commissions, Fulfillment by Amazon fees and fees from other seller services; Retail subscription services include Amazon Prime fees and other subscription fees; Other includes advertising services revenue and revenue from other sources, such as co-branded credit cards

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2018 Edition The Amazon Report

41-page report includes
more analysis and data

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RETAIL

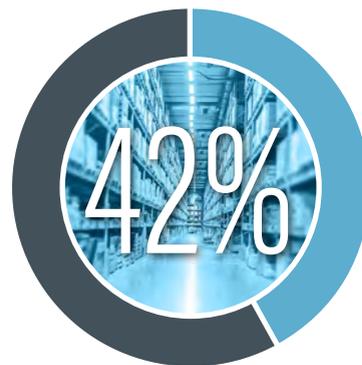
GROWTH AND REVENUE

U.S. consumers spent 42% of their online retail dollars and nearly 5.5% of their total retail dollars (when factoring out items not normally purchased online like automobiles and gasoline) with Amazon last year. Correspondingly, that's up from 35% and 4% from 2016.

Indications are that Amazon will capture an ever-increasing share of retail growth in the foreseeable future.

Without question, Amazon is the growth engine for online retail in the United States. U.S. e-commerce grew by \$58.60 billion in 2017, per U.S. Commerce Department figures, and Internet Retailer estimates the gross merchandise value of goods sold through Amazon-owned sites grew \$42.61 billion. That means Amazon accounted for about 72.7% of U.S. e-commerce sales growth last year, up from 65.9% in 2016. Meanwhile, total U.S. retail growth (excluding categories not normally purchased online) was \$126.5 billion, and Amazon accounted for 33.7% of that.

A significant portion of the gross merchandise value of goods sold through Amazon in the United States is sold by marketplace sellers—48.2%, according to Internet Retailer estimates. Amazon collects a commission on each sale made by marketplace sellers. The commission varies from 8%-25% according to the product type, with most products requiring a 15% commission.



Portion of U.S. consumers' online retail dollars spent at Amazon in 2017.

Putting that into the context of overall U.S. e-commerce sales, the total value of sales made by U.S. marketplace sellers on Amazon accounted for 20.1% of U.S. online sales last year, up from 17.4% in 2016.

An increasing number of retailers are signing on to sell at least a portion of their goods through Amazon's marketplace. Best Buy Co. Inc., Chico's FAS and Sears Holdings Corp. all launched storefronts on the Amazon marketplace since mid-2017.

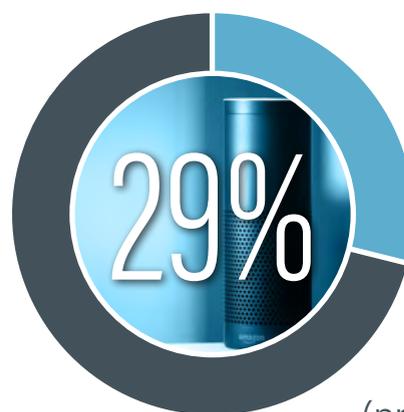
With an established, highly trafficked website and customer base, Amazon's marketplace commission model is a profit machine. For every \$100 million in goods sold through Amazon by marketplace sellers, Amazon collects about \$15 million in revenue. Internet Retailer estimates marketplace merchants selling to U.S. consumers sold \$91.37 billion worth of goods through Amazon last year. Roughly measured, this means Amazon collected about \$13.7 billion

in commissions on its U.S. sales alone last year. Additional services used by many marketplace merchants, such as Fulfillment by Amazon—whereby Amazon stores and ships inventory for marketplace sellers—and Amazon advertising, generate further revenue.

Amazon’s first-party sales—meaning the sale of products owned and sold by Amazon—and the GMV of marketplace sellers in the U.S. totaled \$189.61 billion last year, up 29.0% from \$147.00 billion in 2016.

Despite the size of Amazon’s retail business, revenue Amazon generates from marketplace commissions, FBA and other service lines are what help pad Amazon’s thin North American retail margins. The operating income generated in Amazon’s North American business, excluding AWS but including retail-related services, was \$2.84 billion in 2017, or 2.7% of North American net sales of \$106.1 billion. Take out the estimated \$13.7 billion in marketplace commissions, and Amazon’s first-party retail business of selling goods it owns itself is at least \$10 billion in the hole.

Amazon’s international business, in which Amazon continues to invest heavily, has been in the red for years when AWS is excluded. Amazon had an operating loss of more than \$3 billion in its international segment (excluding AWS) in 2017. The growing AWS business, with operating income of \$4.331 billion in 2017, up 39.4% from 2016, is what’s supporting Amazon’s continued experimentation and expansion. 🙌



Amazon’s first-party sales growth (products owned and sold by Amazon) from 2016 to 2017.

Q&A

An executive conversation with
KC Fox, Senior Vice President,
Technology Services, Radial

**What are strategies for retailers to keep up with the standards Amazon has set?**

Retailers have an uphill battle when it comes to matching the distribution, delivery and scale that Amazon has achieved. However, there are strategies that retailers can employ to compete, including leveraging physical stores and technology.

Flexible fulfillment options like ship-from-store and buy online pickup in store (BOPIS) are powerful methods for not only getting e-commerce orders to customers quickly and cost-effectively, but also expanding the products available to online customers. And consumers are embracing these store fulfillment options. Many retailers report that up to 50% of their e-commerce sales are picked up in-store. Not to mention those customers are also likely to add additional items to the purchase once in store, increasing revenue for the retailer.

What advice can you give retailers to make store fulfillment programs successful?

It's important to invest in a sophisticated order management system (OMS) that's capable of intelligently making those important decisions about how, where and when to fulfill orders in the most profitable way. The OMS should offer predictive analytics so you're not just guessing. It should provide accurate and complete inventory visibility to avoid stock-outs, as well as optimize shipments based on the best fulfillment location to achieve the greatest margin and efficiency. The OMS should have the flexibility to set business rules and algorithms to determine these decisions. And store technology needs to be flexible and user-friendly so that store associates can easily fulfill e-commerce orders and not detract from in-store customers.

What are some of the common pitfalls retailers encounter when adopting these smart store fulfillment options?

The first is lacking accurate inventory visibility. They need to understand their stock levels across their chain (stores and distribution centers), where products are located, and then know where to ship them from to get to consumers in the fastest and most profitable way—whether it's a direct-to-consumer online retailer or a brick-and-mortar store.

The second part of that is not having accurate data and analytics to identify inventory problems before they happen, which leads to customer friction and lost revenue.

Retailers also need to be sure they can set safety stock levels and have the ability to re-route orders to other stores/locations, so they don't deplete products for their foot traffic, but also ensure that ship-from-store or BOPIS orders don't get cancelled or, worse, just don't get fulfilled.

Another is that many retailers implementing options like BOPIS, ship-from-store, or ship-to-store don't have the right training and incentive programs in place for their store associates to want to fulfill e-commerce orders in the store. In a warehouse, employees are incentivized to process, pick and pack orders; they get credit for those transactions. But in the store, they only reward employees for in-store sales.

Any other takeaways?

Fast delivery and more available products have become the expectation of consumers. Retailers struggle because they need to maintain margins but meet expectations or risk losing customers. But with the right technologies and processes in place, and partners who provide efficiency and best practices, it can be done quickly and profitably.

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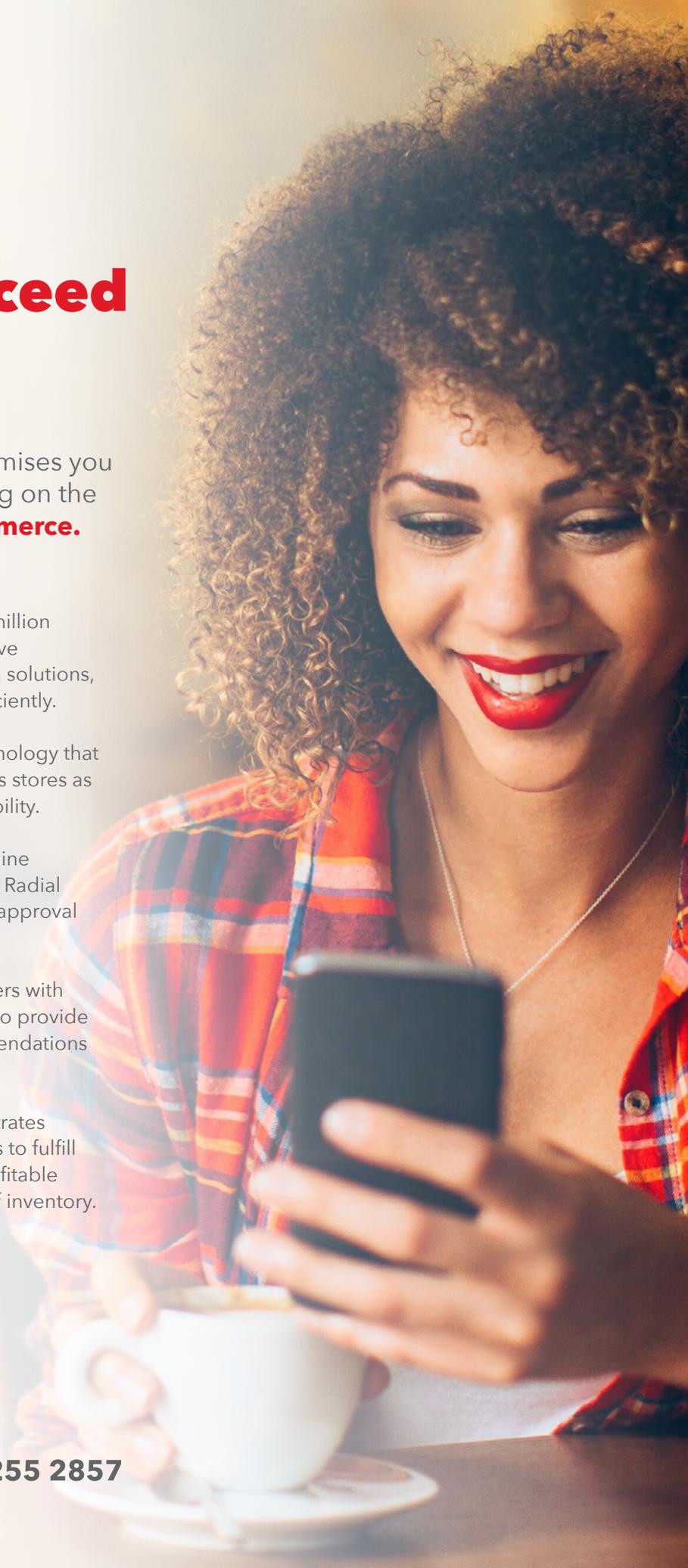
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THE PRIME EFFECT

When Amazon Prime debuted to U.S. consumers in 2005, it cost \$79 annually and offered unlimited two-day shipping on one million Prime-eligible products. Today, Prime is available to consumers in 17 countries, including seven added since the start of 2017, and includes an expanded array of benefits, although these vary by market.

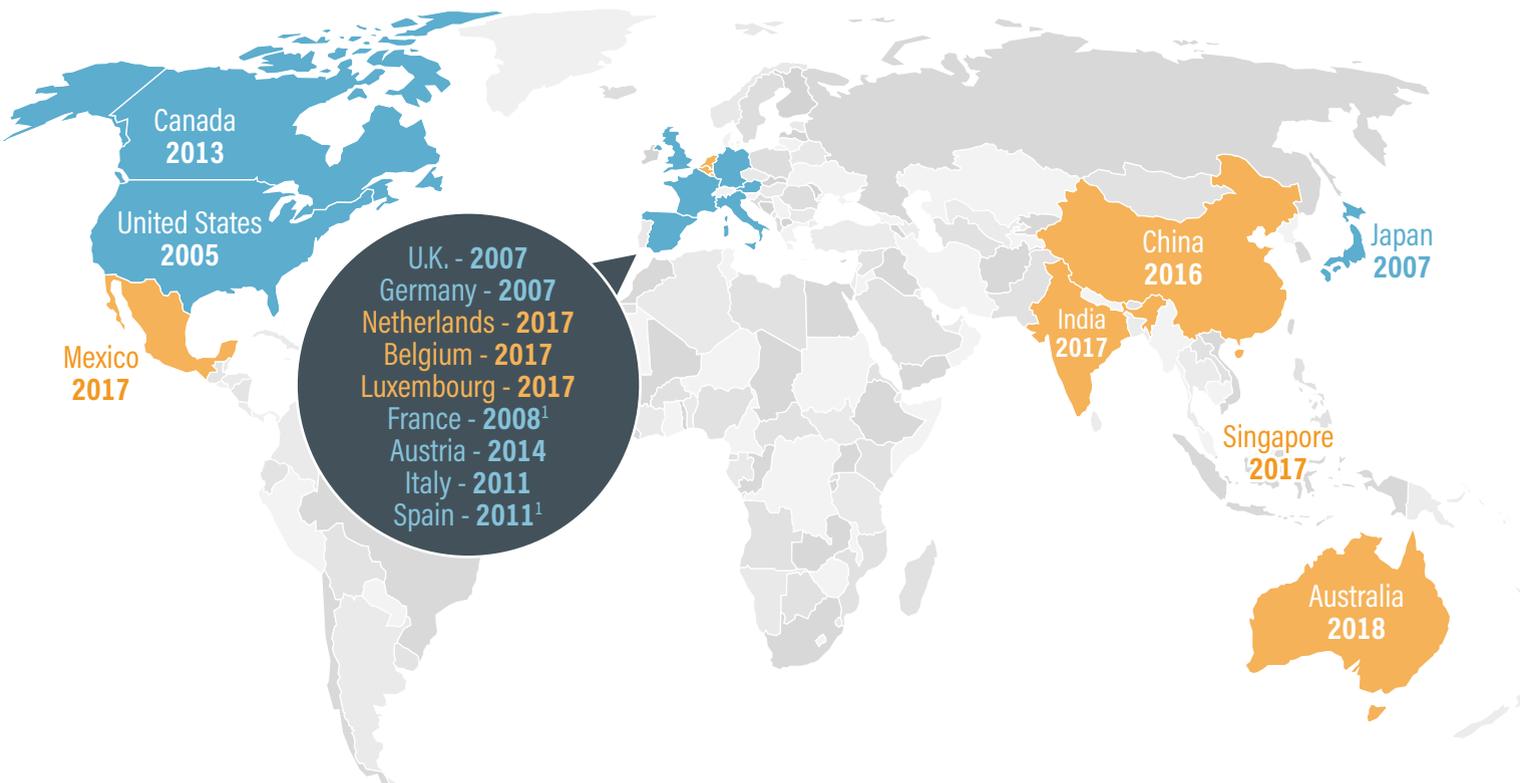
The membership program in the United States now gives members access to expedited shipping on more than 100 million items.

It includes same-day delivery or even one-hour, Prime Now delivery (in 34 metropolitan areas reaching 42% of the U.S. population). Other Prime benefits include access to streaming music and video, complimentary e-books and cloud storage for photos and more. It is currently adding Prime Now delivery for grocery items from Whole Foods Market supermarkets.

One of the more interesting developments in recent years has been Amazon making certain products—often products from Amazon’s array

WHERE AMAZON PRIME IS AVAILABLE

With year launched (● Launched 2005-2015 ● Launched 2015-2018)



1. Amazon Prime is called Amazon Premium in Spain and France Source: Amazon, Internet Retailer

of private-label product lines—available only to Prime members. This exclusivity also applies to Prime Day, the self-made sales holiday Amazon hosts every July (see page TK).

In spring 2018, Amazon raised the annual price of Prime in the United States to \$119 from \$99. But, despite some grumbles on the internet, the price increase doesn't appear to have negatively affected Prime membership rolls. According to Internet Retailer surveys conducted by BizRate Insights in March (before the price increase announcement) and July (after the announcement), the number of consumers living in households with a Prime membership clicked up three percentage points, to 65.5% from 62.4%. Using household data from the Census

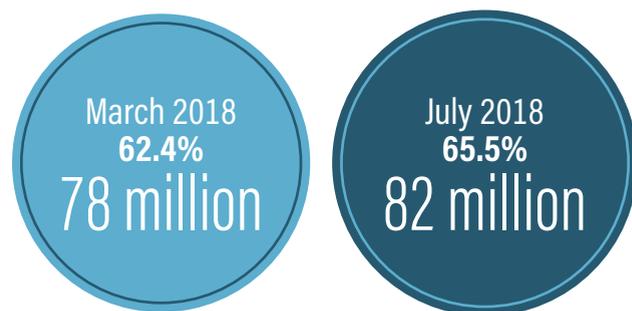
U.S. AMAZON SHOPPER FREQUENCY AND SPENDING



Source: Consumer Intelligence Research Partners

CONSUMER SURVEY

U.S. ONLINE HOUSEHOLDS BELONGING TO AMAZON PRIME



Source: Internet Retailer/BizRate Insights online survey, July 2018

Bureau, this means Amazon gained about 4 million Prime households from March to July, topping 82 million.

Other estimates peg Prime's U.S. membership at as many as 95 million individual consumers. Amazon confirmed for the first time in early 2018 that Prime has more than 100 million members globally. It does not publicly say how many members Prime has in each country.

Prime membership is crucial for Amazon because it makes a consumer's relationship to Amazon stickier. Amazon Prime members visit Amazon more often, buy more often and spend more money there. According to a Consumer Intelligence Research Partners (CIRP) consumer survey, U.S. Prime members place an average of 24.0 orders with Amazon annually versus 13.2 orders for non-Prime customers and spend more than twice as much (\$1,400 Prime vs. \$600 non-Prime). More than 90% of U.S. Prime customers renew their memberships after the first year, CIRP data shows. 🙌

A large, dark blue, stylized letter 'P' logo is centered in the background. The 'P' has a thick vertical stem and a rounded top that curves slightly to the right.

PRIME DAY

PRIME DAY 2018

Amazon held the fourth iteration of its mid-summer Prime Day sale event for 36 hours July 16-17, 2018, adding six hours to the sale period from its 2017 incarnation.

That extension, plus a handful other factors—such as Amazon hosting the sale in 17 countries this year as opposed to 14 in 2017—throw a bit of a monkey wrench into making firm year-over-year comparisons. Regardless, at the end of the day, Amazon accomplished what just about everyone expected it to do: It had its best sales day (and a half) ever.

Amazon, which is often circumspect in revealing any business figures beyond those required for financial filings, said only that Prime Day sales surpassed its sales during other major sale events, measured in comparable 36-hour increments, including 2017's Cyber Monday and Black Friday and Prime Day a year ago. Amazon said value of goods sold by marketplace merchants on its sites “far exceeded” \$1 billion, and that it signed up more Prime members on July 16 than any previous day. Deals on Prime Day are available only to Prime members.

Internet Retailer estimates Amazon's sales globally (measured as the gross merchandise value of goods sold) during the Prime Day event were \$4.19 billion, up 73.9% from an estimated \$2.41 billion globally during the 30-hour Prime Day sale in 2017. Internet Retailer estimates

Amazon's global Prime Day sales grew



Global Prime Day sales reached an estimated

\$4.19 billion

\$2.65 billion, or 63% of the total sales, were in the United States, down from 65% during the 2017 sale.

Despite the rock-star numbers, the sale event was not without its issues. The opening minutes of Amazon Prime Day in the United States—Amazon's largest market—were fraught with problems. Many shoppers received error messages on Amazon.com and in the Amazon smartphone shopping app when they tried to access information, and some others who could view pages had issues completing their transactions.

The issues, caused by many thousands of consumers trying to access the site and app

at once and Amazon initially being unable to support that surge, were largely contained to the U.S. The irony here, of course, is Amazon’s AWS business unit is the market leader in cloud computing. Prime Day traffic blew up so big, so fast, even Amazon couldn’t keep up. It was a double-edged sword.

Traffic data from SimilarWeb shows global traffic to Amazon.com on July 16-17 was up about 33% from Prime Day 2017 and up nearly 40% on July 16 from July 9 (the Monday before).

Although some consumers continued to have trouble buying well into the evening of July 16, site monitoring service Down Detector says Amazon’s biggest problems occurred during the first 63 minutes of the Prime Day sale. Internet Retailer estimates Amazon may have lost as much as \$72.4 million in sales from U.S. consumers due to the errors during those 63 minutes. Amazon had no official statement on the service issue, but it did acknowledge in a post on Twitter that some shoppers were encountering problems with the site. It later said sales in the first 10 hours of Prime Day grew at a faster pace than the first 10 hours of Prime Day in 2017.

Some of Amazon’s retail competitors threw some shade at Amazon for its site issues, and tried to capture some sales at the same time. Referring to the pictures of dogs that appeared on Amazon’s error pages, Office Depot, for instance, tweeted “Tired of looking at dogs? Our deals are still up.” 🐕



Office Depot was quick to call out Amazon’s site availability issues, and offer shoppers its own deals instead.

ABOUT THE AUTHOR

As editorial director of Internet Retailer, the leading source for strategies, news and research serving the needs of e-commerce professionals, Allison takes the pulse of industry, analyzing critical digital retail business trends. Her coverage areas include Amazon, online marketplaces, technology and e-commerce operations.



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At Internet Retailer Research our goal is to provide data and information about e-commerce that helps retail companies, investors and technology providers prosper.

The team tracks hundreds of metrics on roughly 6,000 online retail companies around the world, including such sought-after data points as web sales and traffic, conversion rates, average order value and key technology partners used to power their e-commerce businesses. We sell this data in its raw format in our multiple online databases, and we dig deeply into these numbers to help inform our 30+ exclusive analysis reports we publish each year on key e-commerce topics, including online marketplaces, cross-border e-commerce and omnichannel retailing. In-depth, data-focused reports are also available on key categories of online retail like apparel, housewares, food and luxury. We also have a robust custom research department, which provides tailored research products—in-depth reports, exclusive surveys, raw data pulls and other products—for top retail companies, consultants, financial analysts and technology companies.

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