

COMPETING WITH AMAZON

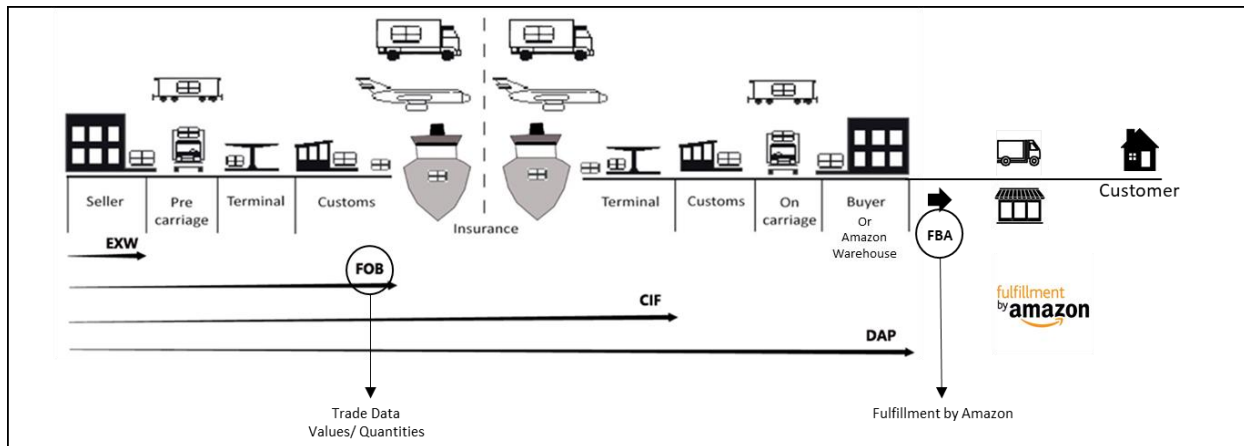
THERE ARE NO SECRETS

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Many retailers believe that Amazon is the single greatest threat to their business but there are no secrets on how to compete against Amazon. When a loyal customer find an online store with better pricing for a competitive product, they are gone but there are no secrets on how these companies are beating your prices.

As a utility, Amazon must be open kimono. Amazon publishes all product and service pricing for buyers and sellers. With a few calculations you will know all of your Amazon competitors' costs and margins.

Once you the have the numbers you have a target to beat. It is a long supply chain. You have to get them all right.



Amazon to the Customer

Selling Price	\$ 14.99
Product Cost	\$ 5.00
Ship to Amazon fee	\$ 3.00
Amazon	
Variable Closing Fee	\$ -
Referral Fee	\$ 2.25
Monthly Storage	\$ 0.02
Pick & Pack	\$ 3.19
Total Cost	\$ 13.46
Seller Proceeds	\$ 1.53
Margin	10.2%

If you are unfamiliar with these services or costs watch the following video. <https://youtu.be/gOVKdGTrWWA?t=183>

The company that made the video also sells an app that will do the calculation for you. Look around, there are similar tools available.

As you become familiar with these charges you can break them down into smaller components. Amazon sells them in total or piecemeal

You should be able to easily beat these prices. The Amazon Marketplace advantage is that virtually all of their costs are transaction driven. No human resources, real estate, IT or web design departments. These companies have purchasing and marketing departments and sometimes that is the same person.

Manufacturer to Amazon

The simplest way to get the product from the manufacturer to an Amazon fulfillment center is to use an Amazon integrator.

The Amazon integrator will coordinate all activities from the manufacturer to delivery to the FBA warehouse. The biggest advantage of shipping LCL (Less than Container Load) from China to Amazon directly is that it is quicker and cheaper as the integrator consolidates other buyer shipments to a specific Amazon warehouse.

This is simple but not cheaper if you know what you are doing or have a full container load.

Make the 5 million Global Marketplace sellers work for you.

“58% of all physical units that Amazon ships globally are from Marketplace sellers” [AMAZON’S UK CHIEF, DOUG GURR]

Marketplace businesses sell around the world with virtually no infrastructure and no capital investments. Marketplace businesses can utilize Amazon FBA (Fulfillment By Amazon) and logistics integrators, to reach customers in 180+ countries through Amazon’s 175+ distribution centers.

A Marketplace business identifies product opportunities, negotiates manufacturing costs and/or initiates cross border movements. They also set up products and pricing in each of the Amazon’s marketplaces in which they participate.

Amazon has 14 websites servicing 180 countries: .com, .ca, .mx,.br, .uk, .de, .fr, .it, .es, .jp, .cn, .in, .au, .ae. Amazon further facilitates this process with Global and North American unified accounts.

Arbitrage

Arbitrage is a term normally used in finance. Arbitrageurs identify price discrepancies in different markets or locations and buy and sell for profit until prices converge. They then move on to other opportunities.

Retail arbitrageurs will buy and sell between countries, identify price discrepancies in the supply chain or simply take out excessive margins if other sellers are not watching.

To do this the arbitrageur must have access to an efficient and timely system (Amazon FBA) to execute their transactions and get out of the market at no cost.

Use Amazon to identify weaknesses. **Amazon may be the largest most sophisticated arbitrageur with over 76 house brands. With all the data from millions of sellers, which products, specifications and at what price would you choose to compete?**

Think of your business differently.

The core of every business is the purchasing and sales department. Some businesses manufacture. Some businesses want to own trucks, distribution centers, stores, data centers etc. Most of these services can be outsourced to specialists.

Sellers on Amazon greatest advantage is that costs are transaction driven. If the product doesn’t sell, they have a fire sale and move on to a new product.

Think of your business in the same way. Instead of allocating non-core costs to products, establish transaction costs similar to Amazon. If the service, store, distribution center or even IT cannot cover their budget, there is a problem.

Initially this process could simply be an accounting exercise which you would need to tweak. You could find that some products should not be sold in stores while other products cannot be competitively sold online. Eventually non-core operations will have a simple target to evaluate efficiencies, investment and outsourcing alternatives.

You cannot be great at everything.

Amazon long-term play

“They learned a ton on our dime, and we didn’t learn much.” Target’s ex-chief strategy officer Carl Casey

In the early days Amazon convinced Toys R Us, Borders, Waterstones, Marks & Spencer and Target to sign up. The deals boosted everyone’s earnings in the short term, but Amazon was also making a longer-term play - it recognized the value of its partners’ data.

John Rossman, headed up the Amazon initiative for a time. ***“At that point people didn’t understand the potential for e-commerce and digital business, and they essentially just viewed it as, ‘Hey here’s additional revenue,’”*** he recalls.

“They really gave away the keys to a kingdom.”

“They happen to sell products, but they are a data company,” James Thomson, former Amazon executive.

CHHMA

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The Author

Bob Smith is a regular contributor to the association’s articles, data program and events. Following a 35-year banking career in Canada and Asia, he has worked to provide companies and industry associations with analysis of today’s market data with a broad perspective on business.

Statistics are available for other industries. If you have any questions or require additional information or more details, please contact Bob Smith at rsmith@chhma.ca