

The Amazon Effect

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The **Amazon Effect** is a term often used to describe the dominance of Amazon in the e-commerce space as well as the impact of that dominance on consumer companies. Amazingly, Amazon accounts for nearly half of all e-commerce activity. They dominate and it really isn't close. As a matter of fact, you can take the next ten largest companies in e-commerce, including companies like eBay, Walmart, Apple and Home Depot, add them together, and you still wouldn't equal the market share of Amazon.

Amazon's Dominance

A frequent comparison, and one that goes back to the 1990's, is Amazon vs Walmart. It's interesting to note how many people back in the late 1990's predicted Amazon would put Walmart out of business in 20 years. Well, it's 20 years later and, while Walmart has its problems, it's certainly still in business and doing well. But that's a discussion for another article. The growth in recent years between these two companies couldn't be more different. Amazon has been averaging nearly 30% annual growth while Walmart's annual growth is closer to 3%. Like most statistics, some unpacking is required here. While Amazon is growing 30% annually, much of that growth is coming from its cloud computing services. Amazon's e-commerce activity has actually showed some signs of slowing. Yes, Walmart is growing at a much slower pace but they have gained some traction with e-commerce, with that part of their business growing in double digits. The bottom line, though: Amazon is the dominant player.

For Amazon, all e-commerce categories are growing at a fast clip. From apparel and accessories, to home furnishings to health and personal care products, most verticals are growing more than 20%. Due to its early roots as an online book seller, Amazon has 80% market share with online book sales. Although food and beverage has seen a slower migration to the internet, food and beverage sales on Amazon are growing at nearly 40%. Trends seem to indicate this growth will continue and may accelerate in the next several years.

Keys to Amazon's Success

There are many reasons for the success of Amazon. Here are just a few:

- Incredible resources (\$10 billion of profit in 2018)
- Advanced customer data collection algorithms
- Unparalleled distribution system
- Dynamic pricing
- They sell everything to everyone (one-stop shopping)

It's difficult to believe that in its first decade of existence, Amazon lost money – a lot of it. But when they turned the corner, they turned it in a big way. Profit has risen exponentially in recent years. Among other things, that profit has helped them invest in loss leaders to assist in gaining market share. In Amazon's 2019 third quarter earnings release, they noted how much money they were losing on shipping. With their size and profitability, it is easier for Amazon to make that investment.

Very few companies are as good as Amazon at collecting and analyzing customer data. They have personal assistants in millions of homes and, as we have already mentioned, more people shop on Amazon than any other platform. They turn that data into actionable information, targeting people in different ways depending on their habits, geography and socio-economic status. They also use this information to constantly adjust pricing. Amazon can change pricing on products many times every hour based on the information they collect. This is an incredibly valuable tool.

Amazon Prime was a game changer for Amazon and e-commerce in general. A key feature of Amazon Prime was two-day free shipping. Amazon actually started this program 15 years ago but its membership has grown dramatically in recent years. Two-day free shipping became one-day free shipping and now, for some products, has become one-hour free shipping. There are over 100 million Amazon Prime members making Prime one of the largest subscription services in the world. While Amazon has attracted many consumers with its fast delivery, they are losing money on shipping. An open question is how long they will be willing to accept this but, for now, competing with Amazon on shipping has proven difficult for most companies.

Developing a Successful E-commerce Strategy

We have spent a lot of time on Amazon's strengths and why they dominate but, like all large, successful companies, they have some weaknesses as well. Amazon lacks personalization. It is price competitive but not necessarily the best quality. Also, on surveys, they seem to score with mixed results on social awareness. Many believe they are not the best when it comes to dealing with sellers as well as their own employees. Understanding Amazon's strengths and weaknesses should be part of the process as you develop your own e-commerce plan.

We work with many companies assisting them in developing a successful e-commerce strategy. The initial meeting almost always starts with a conversation about goals – what are you trying to achieve? Do you want your growth to come primarily from online sales? Do you want to use your e-commerce platform to increase foot traffic at your retail stores? Do you want to build a brand with a more direct, deeper connection to the consumer? Based on the answers to these and other questions, you can start developing your plan.

Any plan needs to be focused on the customer experience. This is critical to success. Why do customers leave your site or stop buying your product? Overwhelmingly, customers point to poor customer service and a poor overall experience. Part of that experience includes purchases on a smart phone. Nearly 75% of smart phone users have made a purchase online using their mobile device in the past 6 months. More than a third of all e-commerce purchases in the prior holiday season were made on a smart phone. And 8 in 10 shoppers use a mobile device inside a physical store to either look up reviews, compare prices or find alternative store locations. What does this mean? You need to make sure your site is easy to navigate not only on a desktop computer but on a small device as well. It should be easy to navigate and scroll through using your hand and, generally, video works better on a smart phone than lengthy text.

We mentioned earlier how Amazon has raised the bar when it comes to fast delivery. While you may not be able to offer the same shipping benefits, there are many things you can do to level the playing field. Some things to consider:

- Analyze your shipping spend
- Monitor the delivery performance of your carriers
- Improve order packing
- Automate shipping and returns

Offering a subscription service can also help mitigate the negative financial impact of free shipping. Additionally, many companies have used packaging as a way to differentiate themselves from Amazon. While Amazon packaging is plain, many companies use more unique and descriptive packaging when shipping directly to their customers. This helps them build the brand's message and the direct relationship with the consumer.

The Winning Formula

There are many examples of companies experiencing tremendous growth online without the benefit (or limited benefit) of Amazon. Etsy sells handmade and vintage items online. They compete directly with Amazon Handmade and are doing well. Why? There are several reasons including that they were first to market with this online niche. But they also distinguish themselves with what many consider a more user-friendly site. They are also seller-friendly, willing to link buyers directly with sellers and have lower fees. As Amazon has grown in size and prominence, they have become, at least in some cases, more demanding and difficult to deal with. Etsy is the "anti-Amazon" in this respect and it has helped them stand out. There are also many insurgent brands from Halo Top to Beardbrand that have had success growing their business by, in part, being unique and creating a "journey" and "community" on their sites.

So, what is the winning formula? There isn't a "one size fits all" approach, but you need to create an excellent product offering for your niche. Personalize the customer experience throughout the buying process, leverage technology, offer superior customer service and have on-going customer messaging. Success is never guaranteed but, by incorporating these things into your e-commerce plan, you are well on your way to not just co-existing but thriving in the online Amazon world.

Contact Us

For more information on developing an e-commerce plan or for assistance with your consumer operational strategy, please contact your engagement team or:

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