

NEW REPORT

AN INSIDER VIEW: AMAZON.COM 2016/7

Real Insights – New ResearchFarm Flagship report

A large, stylized, semi-transparent watermark of the Amazon logo is centered in the background. The word 'amazon' is in a bold, lowercase, sans-serif font. The orange arrow is positioned below the 'a' and 'z', pointing from the 'a' towards the 'z'.

Two of the three big pillars: Prime and the marketplace - How Prime Now is changing the world, as profit harvesting shows the company's unassailable lead, new marketplace strategies

All your data needs:

1. Contains original Amazon material, lightly edited
2. Essential exclusive insights, data and recommendation as Amazon is becoming dominant
3. Retailer: A strategy to trade on Amazon and/or how to compete
4. Manufacturer: A strategy to trade on Amazon and how to navigate the private label threat
5. Wholesaler/3P: A strategy not to become obsolete and irrelevant

AMAZON IS ON TRACK TO BECOME THE MOST VALUABLE COMPANY IN THE WORLD

Enough has been written about the incredible success story AWS that is turning the company into the infrastructure provider of the internet, we want to focus on the retail business.

Amazon's recent profit expansion points to the first major profit harvesting, which implies a strategic change at Amazon, as this is a departure from the cycle of growth.

According to Jeff Bezos profits hinder the flywheel effects and should always be reinvested for future growth and to keep the wheel spinning faster.

Seen in this light the profit harvesting is hugely significant, Amazon basically feel that such a major strategic change won't hurt the business, as they have become so dominant, that they have become untouchable.

This means we have entered the second phase of the ecommerce era. It's not the day one of the internet anymore.

We are entering the Amazon age. In other words Amazon have now become so dominant, that in their very own view they have become untouchable. Amazon can now run the business in the hunt for profits. And it can do so without having to worry too much about the competition or that its shoppers could defect. Prime locks them into the ecosystem.

This has three implications:

1) The market share grab is over, the competitive barrier has been erected and as online continues to grow so will Amazon's dominance. Amazon could well be on its way to become the most valuable company on earth.

2) Amazon needs a new definition, as it's clearly not "day one of the internet" any longer. Amazon's profit harvesting is a massive change. The company will turn from hunter into prey. This actually raises a host of new challenges.

3) Amazon becomes more of an utility and the infrastructure of the internet through AWS, the marketplace and its logistics footprint roll out. This invites scrutiny from the state and we expect the current investigations into its tax matters to be a foretaste of things to come. There will be much more interference from regulators going forward.

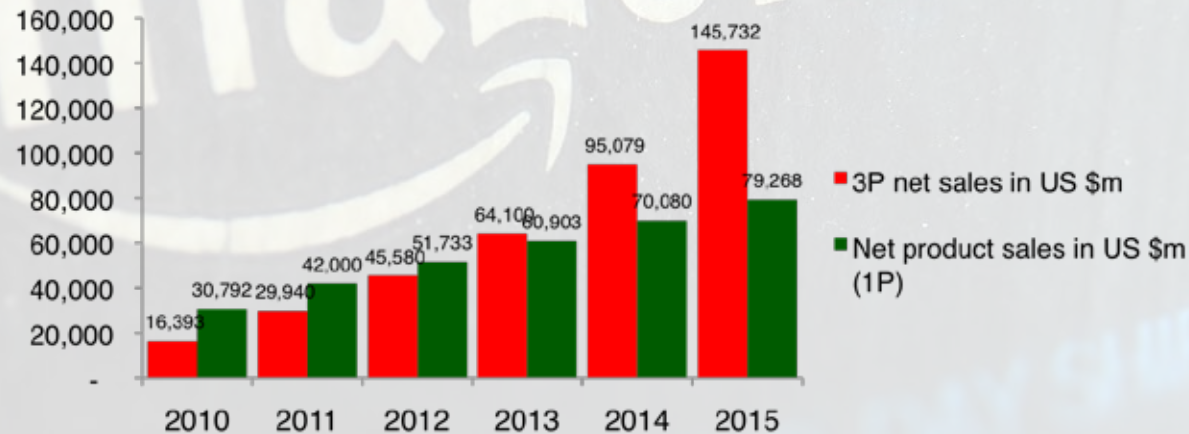


HOW PRIME NOW IS CHANGING THE WORLD

- Based on survey results on spend data and research into catchments we believe that Amazon's PrimeNow service will account for USD17.0bn on an annualised basis across the globe in 2016 - or just shy of a fifth of total prime GMV spend.
- For many prime members Prime Now has basically become a free addition, as they can wait for 2 hours, to get their deliveries free.
- And the service has introduced a real level of innovation and newness, for distressed shopping trips.
- Money paid for 1 hour delivery fees, tips, a tighter range, less packaging and 3P logistics partners or Flex citizen - couriers who cover the costs of fuel, car maintenance and insurance etc all help with driving delivery costs down.
- The impact on the competition should not be understated, suddenly OSA, traditionally one of the key advantages for b&m, isn't that relevant any more.
- Also Prime Now city depots feature a much more localised range. The more curated range is of course based on shopping behaviour and best seller data from prime shoppers. The service has launched where they live and where drop density is highest.
- For shoppers even 1 hour deliveries should be cheaper than trips to the city centre with car parking or on public transport.



THE RUNAWAY SUCCESS OF MARKETPLACE



- Growth for MP sellers in 2016 was absolutely staggering at 53%, and the 3P business is on track to be double the size of 1P in the next 5 years.
- That said, on an individual level, growth for 3P sellers has become much harder to generate, much of it due to competition from Chinese players and them becoming better integrated into the Amazon ecosystem.
- The leading Marketplace sellers (by sales) are still to be found in the entertainment categories (Music, video, books) mainly, basically recycling used media.
- We believe that this is going to change going forward. At the moment the average sales a MP seller achieves on the platform is around US\$60,000. The biggest players have a sales turnover of over US\$100m, but not all of their sales are generated on Amazon alone.
- **Amazon is now thinking about new strategies to further guarantee marketplace success:**
 - such as the focus on services, from Home services to Flex
 - better policing and brand gating implying more professionalization,
 - and finally introducing dynamic fee structures on different levels from the ASIN level to seller performance etc to better manage the overall performance of the system

AMAZON DATA

KEY QUESTIONS

- How big are Amazon's net sales per country?
- How many active customer accounts does Amazon have per country website? What are the growth rates? How many active customers were there in the UK, France etc over the last 5 years timeframe?
- What is the average annual spend in each of the markets?
- How many orders per market has Amazon delivered in 2015 (1P) – How often do shoppers buy from Amazon 1P and 3p on average per country?
- What is the total volume size of orders, units shipped, for 2015 (1P and 3P)?
- What are the average Best sellers prices per Amazon geography (derived from our tracker tool)?
- Which country has the highest, which the lowest AOV?
- How often do Amazon customers buy from 1P on average? Every other month, every month, every two weeks? Are there significant differences between countries? Who is buying most often?

PRIME DATA

KEY QUESTIONS

- How has Prime developed as a service over the years?
- How many of Amazon's active buyers, those who bought something in the last 12 months, are prime subscribers?
- How many Prime members are there in total and in individual countries? How many more prime subscribers are there in the USA compared to France?
- How much do they spend on average?
- How much of Amazon's total GMV is down to prime?
- How fast is the rate of subscriptions growing? What are the 7 key benefits prime brings to Amazon? And what is the future of the loyalty scheme?
- How does Amazon Prime work? Why is it so powerful? How successful was Amazon's Prime day?
- How much more room is there for Prime to keep growing?
- What is the prime income from the membership fee per country?

PRIME NOW DATA

KEY QUESTIONS

- How many orders have been sent since the launch?
- Number of products and average basket size per order. What is the average transaction size?
- Which products are sold together (Grocery/ non grocery) which product/categories are selling best?
- Logistics: how has Amazon organised the set up? (How many warehouses are there. How do they get replenished? Who is responsible for the last mile?)
- Range: how has the offer evolved since the launch?
- How often do Prime Now shoppers use the service?
- How big could the service become?
- How many US cities is Prime Now in? Which countries and their respective cities have Prime Now? How big is their catchment area?
- What are Prime Now's bestsellers in the US and UK?
- How is Prime Now being ramped up in Germany?
- What makes Prime Now unique and almost impossible to replicate by rivals?
- Will Prime Now be more of a threat to Postmates and Instacart and deliveries from b&m stores OR to Just Eat, Delivery Hero, Blue Apron and Grubhub?
- What will be the impact on the online competition and on other bricks and mortar retailers?

MARKETPLACE DATA

KEY QUESTIONS

- How has Marketplace evolved since its launch 15 years ago?
- Why are online marketplace such powerful business models? How has Amazon's own Marketplace transformed the company's fortunes?
- Who are the top 10 3P retailers on Amazon - ranked by global sales?
- What categories do they sell?
- Which countries do they operate from?
- What is the future of Amazon marketplace? What strategies must be implemented to ensure its future success?
- In value terms, how much bigger is the 3P business than Amazon 1P?
- And how big will it become?
- Why is inventory the key performance indicator for Amazon Marketplace?

FEATURES

AMAZON PRIME 2016/7

Data, stats and KPIs on:

- 1P Sales and average best seller prices, by geography in \$m,
- Total units, customers numbers, Shopping frequency per country,
- Average order values from Amazon 1P in its major geographies in 2013-2016
- Includes data insights mined from our Amazon best seller tracker series, benchmarking Amazon best sellers across geographies and months
- Detailed statistics about prime subscriptions per country
- Detailed Prime Now section with data on regional bestsellers, spend and frequency
- Includes shopper insight, customer survey data
- Evaluation of business principles around logistics roll out, inventory turn and tighter integration of key strategic principles into every business unit.
- Heavy recommendation focus, recommendations to FMCG and retailers over a ten year horizon
- An outlook on Amazon's future, on its march towards domination

BENEFITS

AMAZON PRIME 2016/7

- Access to data analysis on a range of Amazon businesses including .com, Prime, Prime Now and Marketplace
- Comprehensive coverage of Amazon's domestic and international markets
- In-depth understanding of Amazon's loyalty programme Prime and Prime Now
- Consider what Amazon's offline strategy could mean for bricks and mortar retailers
- Leverage key insights for your own growth strategy by copying successful innovations and the Amazon way of doing things
- Understand how to copy winning strategies such as ecosystem development, loyalty driver creation, the use of algorithms, advertising and prime
- Prepare for the future of retail, where Amazon will sit at the heart of a massive ecosystem, creating a multitude of new winners and losers
- Grasp which manufacturers, retailers and logistics providers have to fear a new competitor and identify the opportunity for those who want to join the ecosystem
- Understand the threat and opportunity that is Amazon from a strategy standpoint and a numbers perspective, find out how big Amazon will become over the next decade

BENEFITS

AMAZON PRIME 2016/7

- Access to data analysis on a range of Amazon businesses including .com, Prime, Prime Now and Find out about growth opportunities for and with Amazon and identify key threats to Amazon, Amazon white spaces and weaknesses and the risks associated with working with the pureplay
- Benchmark your performance against the best in class, find out how to future proof your business
- Gain key insights into one of the most active and innovative retail companies in the world
- Understand Amazon's mindset for success from its established successful businesses (Marketplace, Prime, AWS) bets for the future (drones, airplanes and echo), and even its failures (mobile wallet, Elements, Fire smartphone)
- Discover Amazon's activities both at home and abroad, especially the foreign markets it has pinpointed to be key to future growth

The Amazon logo, featuring the word "amazon" in a dark grey, lowercase, sans-serif font. Below the text is a curved orange arrow that starts under the 'a' and points towards the 'z'.The Prime Now logo. The word "Prime" is in a bold, blue, italicized sans-serif font. The word "now" is in a black, lowercase, sans-serif font, with the 'o' represented by a clock face with a dashed border and an orange hand pointing to the 12 o'clock position.

One-Hour Delivery on Thousands of Products

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