



Amazon 2021: Dominating the all-delivery economy, advertising and streaming, the FBA roll up



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Introduction

- **Due to the various lockdowns 2020 was arguably the first real online Christmas, which has meant a great final quarter for Amazon, closing out a real stand out year for the company.**

- **We believe that Amazon marketplace's GMV has grown by at least 50% from US\$200bn in 2019 to around US\$300bn in 2020.**

- That said, some other retailers have also reported record figures and **in many ways the logistical advantage (FBA, Prime Air, Fulfillment centre network) Amazon has built up over the competition over years has (almost unbelievably) been somewhat reduced**, as competing retailers have invested heavily into their own digitalisation (Walmart, Kroger etc) and logistics efforts and/or services such as Instacart have proliferated and are easily available on a plug and play basis. One should mention the runaway success of Shopify in enabling independents and major retailers alike to go online in this context too.

- While Amazon's logistics network was simply overwhelmed in Q1/2 2020 with the spike in extra demand, a situation which has stabilised now, there is another reason, why we think the competitive moat of FBA has been somewhat eroded. **This is due to the rise of click & collect, which has become such a major trend in the USA.** For Walmart click & collect (or drive up) has taken 50% of all online orders - and possibly all of US online grocery has developed like this, as it is the cheapest option for both retailers and shoppers, due to the last mile deliveries cost falling away.

During the pandemic click & collect also enabled shoppers to avoid going into crowded shops.

- Amazon lacks the same physical presence as its bricks and mortar competitors (Walmart, Target for example), but has started to address this with the acquisition of the Whole Foods business, the locker roll out, its click & collect partnerships (with Kohls' for example) and of course its Go and Fresh stores.

- **Another prediction we are making is that Amazon advertising is set for massively successful 2020 and 2021.** Estimates are pegged at an annual US\$20bn run rate for the business unit. And looking ahead, there might be another nascent market in audio ads (coupled with Alexa) that could grow massively in years to come.

- Advertising on the Amazon platform will be driven by the sheer endless number of SKUs on the website and the problem to gain visibility for brands and sellers as a necessary prerequisite for sales conversion. In this sense Amazon follows down the path of the Alibaba model, where the Chinese platform makes most of its money from advertising rather than the listing fees. End user experience on Amazon has suffered for some time now, with the search function being overwhelmed by the sheer mass of Asins and advertising making the problem even worse.

- Amazon is also looking to use influencers more in future and has copied live video shopping streams, which have gained quite a bit of traction in China and in the fashion

sector. It remains to be seen whether this will be as successful in the West.

- **The other big story in the Covid era is the FBA roll up and a whole new industry has evolved around the marketplace, the most successful sellers and their top selling products.** While the gold rush of selling on Amazon as a 3P business is now over, with most categories featuring well established top selling products and companies, private equity has discovered the platform.

- For 3P sellers being successful on the Amazon marketplace platform has become a lot more difficult, as it has matured somewhat and it is overrun by Chinese competitors. Due to this influx, it has become very hard to gain visibility for a new product launch. Moreover, if a 3P seller has built up, let's say, a kitchenware top selling product and is thinking of branching out into a different category (for example mobile covers), chances are there is a lot of competition there already.

- Many private label sellers on the marketplace hit a plateau in sales, somewhere around the couple of \$ million mark. Then a lot of start ups look for a way out, because it is hard to raise cash for a new venture, if a company has only one top seller. These trends of 3P sellers looking for an exit and of PE looking for new opportunities have come together in the form of the FBA roll up company and have created a new boom.

- **Instead of trying to build new consumer-goods brands from scratch, the new FBA roll up ventures plan to buy up dozens of small merchants that have already proven**

successful on Amazon. Most of them did not even exist at the start of the year. All hope to emulate the model of two-year-old Thrasio, and Anker, the Chinese electronics accessory maker and "Amazon native" brand that listed at an \$8bn valuation. The FBA roll-ups benefit from more financial muscle than single sellers, better marketing, and greater bargaining power with factories and potentially even with Amazon.

- **The main risk for these new start ups is the dependency on Amazon and its fee structures, algorithm changes and policies - we also don't know why Amazon isn't doing the roll up themselves.** The most likely explanation is probably that the company fears political oversight and interference from both the US and the EU around its private label business and alleged data misuse. It should also be kept in mind that Amazon benefits greatly from the success of its 3P marketplace platform in form of the service fees it charges and because it uses the infrastructure built for the marketplace for its own first party business.

- **Looking ahead, from being an essential emergency service throughout the first phase of the pandemic, Amazon has become an almost boring household utility going into 2021. But at the same time political oversight and interference has become a major threat to its business model.** How serious the company takes this is also reflected in the PR campaigns highlighting charitable giving, wage increases, environmental initiatives and of course the success of small and medium size enterprises on the platform.

Key questions answered

Amazon 2021

- What will happen with oversight by Congress and the EU? Could Amazon's business and power be broken up, and if so, how???
- How sustainable is the FBA roll up business model? What are the major risks? Will Amazon intervene?
- Has Amazon lost some of its competitive advantage in the logistics space? Is the lack of click & collect (despite WFM, lockers, partnerships etc) a serious problem?
- Can Amazon's delivery services become quicker than shoppers going to store themselves? That's the direction of travel and the logistics infrastructure being built now could enable this in future. What will happen then?
- What is the biggest threat to Amazon?
- Will Amazon be all about services, advertising and streaming going forward?
- How will the marketplace change as a result of the FBA roll ups and PE reshaping the private label seller model?
- How many more hidden Ankers are out there? How many Amazon Native brands could reach 1bn in sales eventually?
- Is Amazon the biggest winner from the pandemic?
- Where will Amazon be once the lockdowns end, assuming vaccination roll outs are successful and protect against new mutations?

Features & Benefits

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- In-depth understanding of Amazon's strategy, gain key insights into one of the most active and innovative retail companies in the world
- Find out about growth opportunities and identify Amazon white spaces and weaknesses, understand the risks associated with working with the market leader
- Benchmark your performance against the best in class, find out how to future proof your business
- Understand Amazon's mindset from its established successful businesses (Marketplace, Prime, AWS, Advertising, logistics etc) bets for the future (Alexa, drones), and even its failures (mobile wallet, Elements, Fire smartphone, Dash buttons, Pantry)
- 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 through having become the essential infrastructure
- 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
- Data on the marketplace, GMV, biggest seller rankings, seller analysis

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