

## RETAIL INTIMACY 2.0 (PART 3)

# Winning at Amazon.com

In collaboration with:



*Dedicated teams and resources can help CPG brands improve their performance with the company.*

By Michael Applebaum

Few companies can elicit candor from rivals the way Amazon.com did from Netflix CEO Reed Hastings earlier this year. “Everything Amazon does is so amazing,” Hastings said during a live TV interview. “How are they doing so many business areas so well? They are trying to repeal the basic laws of business. ... They’re awfully scary.”

With its powerful growth engine and capacity to disrupt established markets, Amazon strikes fear among commerce, entertainment and brand leaders alike. The company’s diverse portfolio spans industries from healthcare to industrial manufacturing, and it will even begin to livestream NFL games next month. By far its biggest move to date is the \$13.7 billion deal to acquire Whole Foods Market, which appears to remove any remaining doubt about Amazon’s ability to conquer grocery related e-commerce. Assuming the deal goes through (it was announced near press time on June 16th), it will vastly expand Amazon’s footprint of physical stores and widen its customer base in the natural and organics foods categories. In addition, it is likely to accelerate trip declines at traditional grocery chains and put even greater pricing pressure on mass retailers, further solidifying Amazon’s position as the overall e-commerce leader.

“Prior to the deal, it was safe to assume that Amazon would become a major grocery player within the next 10 years. Now, it’s likely that number is closer to five years,” says Angela Edwards, vice president of client services and head of e-commerce marketing at Catapult. “This is a true game-changer for Amazon and a big wakeup call for the entire industry.”

For months prior to the deal, Amazon had been expanding its online grocery services and preparing to roll out AmazonFresh Pickup grocery pickup centers, while also making a bigger push in categories such as fashion, home furnishings and electronics. At a time when e-commerce is driving almost all of the growth in retail sales – particularly for CPG companies, which surpassed \$10 billion in online sales in 2016 – Amazon continues to dominate the online essentials trip. The company’s share of overall online sales jumped 10 points to 43% last year, thanks to particularly strong results in CPG categories including food, household and health and beauty, as well as in

electronics and apparel, according to data from Slice Intelligence and Internet Retailer.

Amazon continues to invest heavily in its core e-commerce business, using incremental revenue streams from sources including Amazon Media Group (AMG), Amazon Marketing Services (AMS) and Amazon Prime membership fees. “Amazon

finds creative ways to deliver the two things needed to grow its shopper base: a seamless shopping experience and an endless assortment,” says Julie Crabb, account supervisor at Catapult. “Those two things, along with the best pricing in the marketplace, make it hard for consumers to shop anywhere else.”

## FIVE KEYS TO WIN

### Introduce the Right Products

Think 3Ps: Profitability; Packaging; Pricing

- Amazon encourages “frustration free” eco-friendly packaging and wants to keep shipping weights down
- Develop a product portfolio with optimal materials and package sizes for online sales
- Online shoppers seek specialty SKUs, so take advantage of Amazon’s endless shelf

### Produce the Right Content

- Understand Amazon’s specific search methods
- Customize each brand’s representation
- Optimize the type, number and quality of product images/videos
- First look is key, as shoppers rarely go beyond the first page of search results
- Know when to support A-plus detail pages
- Understand the new rules/restrictions for ratings and reviews

### Develop the Right Promotional Plan

- Amazon invites brands to invest in every AMS/AMG media vehicle, but some will work better than others depending on the category
- Understand the role of various promotional vehicles versus brand/category objectives
- Do test and learn; seek expert guidance

### Track the Right KPIs

- Adjust measurement techniques and expectations for ROI
- Adapt ROI metrics for specific categories and different Amazon platforms
- Expand focus beyond sales/unit volume, and include plan to track/measure online visibility
- Account for Amazon driving online and offline sales
- Constantly re-evaluate performance to account for rapid-fire changes in the space

### Get the Right Support

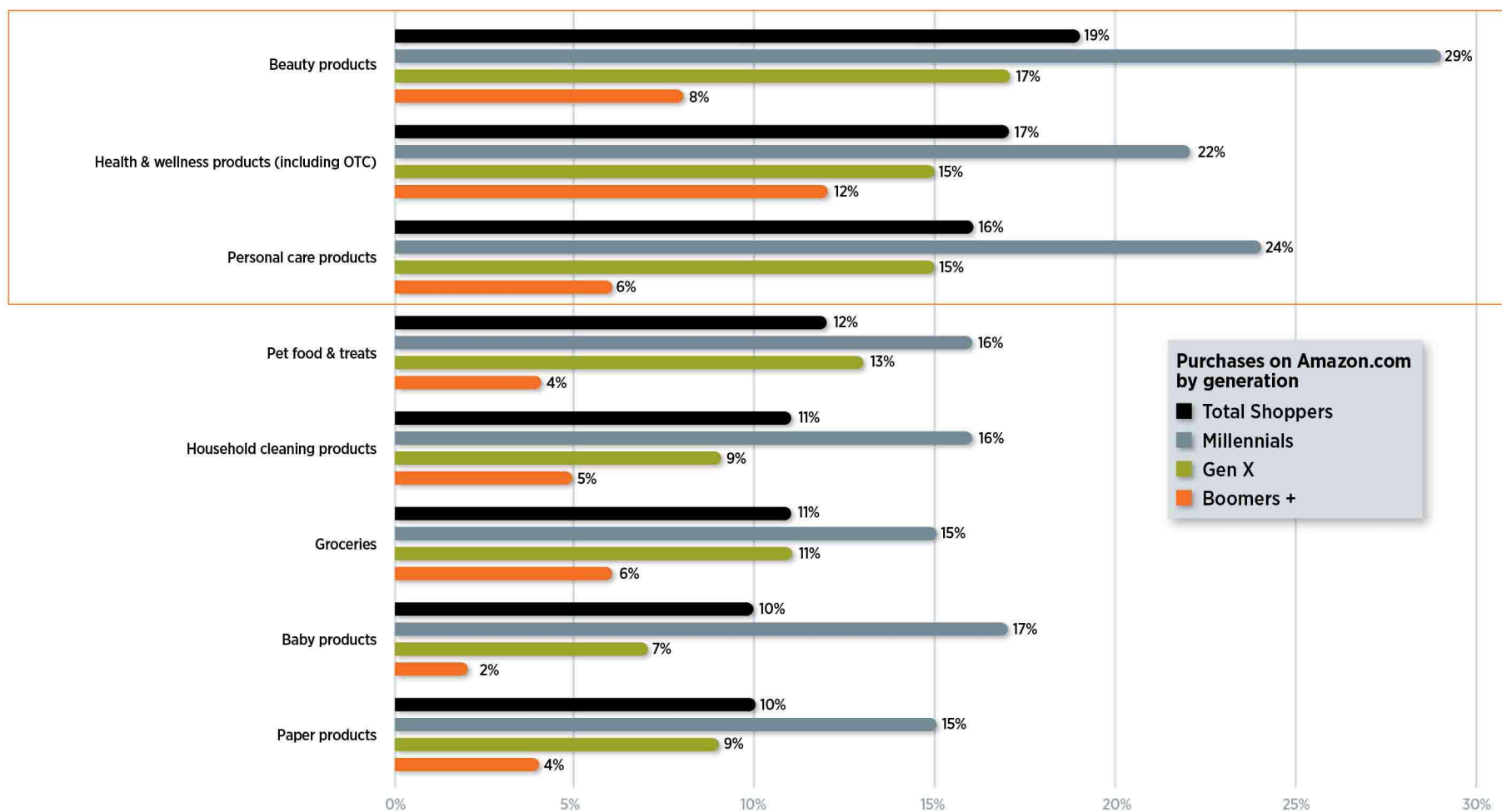
- Traditional sales and marketing teams may not succeed in this environment
- Teams must have specific data and technology expertise
- Outsource specific support needs and secure an Amazon “trusted” creative partner
- Consider whether the organization is set up to optimize e-commerce

“Winning at Amazon is about getting the fundamentals right.”

Tom Murphy, Barilla USA

## Winning with Millennials

Millennials are more likely than other generational cohorts to shop on Amazon.com for FMCG, especially HBA



Source: Catapult Shopper Lab, January 2017  
Q. At which online retailers do you purchase each of the following? — Amazon.com

## Building Dedicated Teams

Now more than ever, it is critical for CPG marketers to develop an e-commerce strategy that focuses exclusively on Amazon. By purchasing Whole Foods' 460 stores (which are mostly in the U.S.), the company will create an extensive new network of distribution centers and pickup locations for AmazonFresh, Pantry and Prime Now services. (Amazon Prime currently has more than 65 million subscribers, or about one in every five U.S. households.) "We expect both delivery of groceries and essentials and click-and-collect purchasing methods to expand dramatically," says Edwards. "CPG companies will have to ensure that they maximize assortment and achieve full distribution under Pantry and Fresh, and invest appropriately to ensure strong platform visibility for their brands."

Working with Amazon has always involved distinct challenges that set it apart from the traditional retail model, and that will not change in the new landscape. For one thing, Amazon's objectives don't always align with the goals of marketers. It continues to grow its private-label program and urges all manufacturers to support the lowest possible prices for their products. Amazon's open online marketplace also attracts a significant number of third-party sellers, which present a potential threat to sales and brand equity for many manufacturers. To overcome these challenges and maximize new opportunities, experts say brands must dedicate resources to Amazon and develop teams with specific knowledge and expertise in working with the company.

"Every brand must make critical decisions about its investment priorities with Amazon. There are many different levers to pull," says Edwards. For example, some brands may choose to supplement initial search results on Amazon.com with "below the fold" detail pages that include more

product information and marketing content.

In general, a winning strategy at Amazon requires the marketer to pay close attention to the fundamentals of distribution, assortment and content, says Tom Murphy, sales director of e-commerce at Barilla USA. "A key factor in Barilla's success has been our ability to gain distribution across all of Amazon's shopping platforms, which enables us to maximize our presence and sales with the company."

For some marketers, part of the challenge stems from an organizational approach that assigns e-commerce to other "specialty sales" teams (e.g., club merchants) who may not have the appropriate tools or experience. Working with Amazon requires specific skills, for example, to analyze sales data that is typically not broken down along traditional category lines. "You need guidance from people who can navigate Amazon's online portal and who understand its search algorithms in order to optimize detail pages," says Edwards. For example, in household products, adding more specific search terms related to product benefits (e.g., "gentle on all surfaces") can drive incremental search results. "It's important to understand and leverage the specific benefits that shoppers are looking for in your category," says Edwards.

## Amazon as Media Vehicle

Industry experts advise brands to think of e-commerce as a marketing channel, not just a conduit for sales. That is particularly true for Amazon, which often is underestimated by marketers as a media vehicle. More than half (55%) of all product searches begin at Amazon.com (almost twice the rate of Google), regardless of whether the purchase is made online or in a store, according to BloomReach research. Furthermore, 90% of consumers either "always" or "often" check Amazon's listings even if they found the product

## AMAZON'S NOT-SO-SECRET WEAPON: MILLENNIALS

Here's one more edge for Amazon (as if it needed it): It has the overwhelming support of Millennials. A study by Slice Intelligence surprised observers earlier this year when it found that Amazon was ranked as the No. 1 clothing retailer among consumers 18 to 34, ahead of Nordstrom, Old Navy, J. Crew and Victoria's Secret.

Amazon's appeal to the younger generations extends much further than apparel, according to data from Catapult's Shopper Lab. Its survey (see chart above) revealed that Millennial consumers were more likely than older cohorts to purchase products on Amazon in a wide swath of CPG categories, with the heaviest concentration of purchases registered in beauty, health and wellness and personal care.

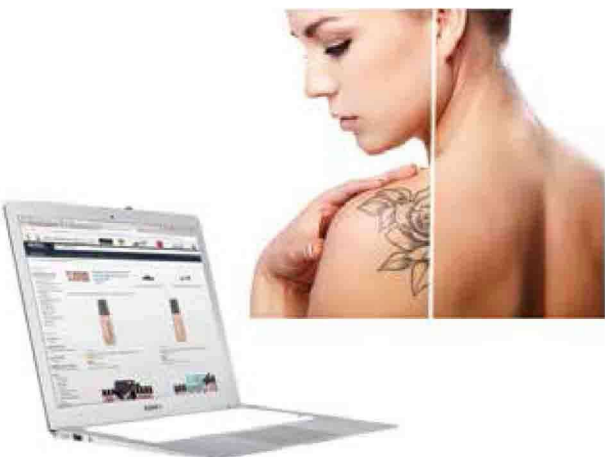
they're looking for elsewhere. The reverse is also largely true, as 70% of consumers check products they've found on Amazon on other e-commerce sites.

Thus, Amazon.com has become the primary destination for information related to purchases, and it is having an increasing influence on decisions that impact both online and offline sales. Already, Amazon ranks fifth in total unique monthly visits among all multi-platform web properties (including news and entertainment sites) in the U.S., behind only No. 1 Google, Facebook, Yahoo and Microsoft, per IRI.

This reality will only deepen as consumers further integrate digital tools into their shopping practices, allowing them to toggle easily across information and buying sources. The digital medium will influence up to 77% of all retail sales this year, which equates to a value of more than \$2 trillion, according to the 2016 U.S. Shopper Survey from Clavis Insight. Currently, more than 76% of all shopping trips begin online. Nearly two-thirds of Millennials shop online on a weekly basis, and 84% of 35- to 54-year-olds shop online monthly, per the survey. (See sidebar on page 11 for more on Amazon's edge with Millennials.)

Amazon's expansive digital platform is more than just about exposure or reach: It creates an opportunity for brands to engage with customers through content, enhancing customer relationships and increasing conversions. Such tactics may prove especially beneficial for marketers in high-involvement categories. Luminess cosmetics, for example, populates its detail pages for the brand's premium airbrush system on Amazon.com with relevant product information, high-resolution color photography and professional-looking video demonstrations of the makeup application technique.

"The goal is to create easy-to-understand content that explains, demonstrates and highlights the features and benefits of airbrush cosmetics," says Mark Bardwell, vice president of sales (North America) at Luminess Air. "We regularly work with our agency partners to audit competitive and Amazon-owned brands in order to determine best practices. Being open and self-critical helps us adapt and better position ourselves to capture the next generation of Luminess customers."



Luminess populates its detail pages on Amazon.com with relevant product information, high-resolution color photography and professional-looking video demonstrations.

In the next phase of Amazon's growth, it may become a media company in the strictest sense. Amazon is developing a sophisticated set of advertising tools and wants to significantly grow its ad business, though it has a long way to go before it can challenge Google and Facebook. According to eMarketer, Amazon's share of the U.S. digital advertising market was less than 2% last year. However, Amazon can leverage its massive reach and database of online browsing behaviors in an appeal to potential display advertisers – and beyond. Voice analytics firm VoiceLabs recently began testing 15-second sponsored ads on Amazon's voice assistant Alexa that allow consumers to ask questions and receive information about the products.

## AMAZON BUYS WHOLE FOODS ... WHO'S NEXT?

**N**o one believes that Amazon's shopping spree ends with Whole Foods. So who's next? Given Amazon's strength in pharmaceuticals/OTC and stated desire to further own the essentials trip, an even bigger fish than Whole Foods – a major drug chain, such as Walgreens or CVS – may be next on the buyout list.

"Walgreens has a much larger footprint, but culturally, CVS is probably closer to Amazon," says Catapult's Heidi Froseth. A precursor move could be a buyout of a well-known pharmacy benefit provider like Express Scripts, she adds. Amazon is also likely to look for targets within the dollar channel as a means of expanding its consumer base. "Amazon wants to grow its audience, and since the middle class in this country is unfortunately disappearing, that growth has to come from either the high or low end."

**But first things first: The Whole Foods deal has to go through. Some analysts believe that a rival bid could come from Walmart, both as a defensive move against Amazon and as a way to expand the retailer's appeal with higher-end customers. No serious antitrust issues have been raised to this point, although there have been some general rumblings in the media about whether Amazon is "getting too big."**

**Bigger isn't always better, but one suspects that in Amazon's case, it will be.**

### Retail Is Reeling

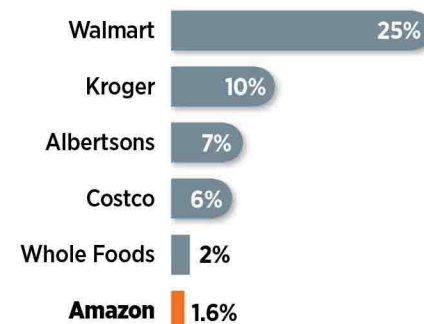
Amazon continues to upend brick-and-mortar retailing as its latest move to purchase Whole Foods has thrown the entire industry into disarray. (For more, see "Who's Next?" sidebar above.) Over the past year, Amazon's impact has been apparent in the financial woes of major department stores and bankruptcies of some apparel and sporting goods retailers. It has also spurred multibillion-dollar investments in e-commerce from Walmart and Target, who must now become more flexible on procurement and pricing in everything from household staples to fresh grocery in order to combat Amazon's sizable deflationary forces. As part of its ongoing battle with Walmart, Amazon recently lowered the minimum threshold for free shipping to non-Prime members to \$25 and began offering significantly discounted Prime memberships to low-income shoppers.

"In disrupting the marketplace, Amazon has raised everyone's game," says Heidi Froseth, EVP, national shopper commerce practice leader, Catapult. "They have a leadership mentality that everyone is paying attention to and learning from – or it's creating tension within organizations to drive innovation. CPG and retail brands alike across established, nascent, traditional and specialty categories are taking significant action to close the gap with Amazon."

Amazon also now poses a clear threat to traditional supermarkets. Legacy retailers with underdeveloped e-commerce programs (e.g., Supervalu, Albertsons/Safeway) are facing the greatest immediate danger, but even more established e-commerce players like Kroger will be forced to accelerate digital investments and expand click-and-collect services much faster than previously predicted, says Steve Abdo, SVP, grocery and value channel leader, at Catapult.

"Kroger remains very strong in natural and organics, which is ironic because much of that strength originated four or five years ago when it started taking share away from retailers like Whole Foods," Abdo says. "But they're going to have to make drastic changes and improvements in e-commerce, given all of the competitive ad-

### Estimated U.S. market share of food and beverage sales



Source: Susquehanna Financial Group

vantages that Amazon brings to the table."

There is a lot at stake for the entire CPG industry. Currently, e-commerce still only accounts for about 1%-2% of total CPG sales. However, by 2022, the e-commerce channel will claim an average 10% of sales – slightly less in food and beverage, but over 18% across non-food aisles – according to a recent report by IRI. In 2016, pet care was the fastest growing online CPG category (up 67%), followed by laundry/dish detergent (62%), household cleaners (60%) and health/OTC (48%), according to a recent report from 1010data. The popularity of pantry box subscription services from Amazon and others has contributed significantly to this growth, particularly in household cleaners and personal care products.

Amazon's staggering growth has drawn comparisons to Walmart in the 1990s, while its brand often gets compared to the likes of Apple. The latter comparison heated up in June when Apple unveiled its smart/speaker device HomePod to challenge Amazon's Echo. Interestingly, Amazon ranked No.2 behind Apple in this year's *Fortune* survey of most beloved brands, generating the highest score for being "available when and where I need it."

Think about it: Of the entire universe of brands that consumers say they can't live without, Amazon is right on the heels of Apple.

Now *that's* scary.

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## About the Sponsor

**Catapult** is a conversion marketing agency, where branding and buying are part of a total solution. Catapult's data-driven approach identifies the core, actionable insights that inspire brilliant creative with the power to convert consumers into shoppers, shoppers into buyers, and buyers into loyal advocates. Catapult delivers channel-agnostic solutions that are brand savvy, retailer smart, and digitally enabled. Catapult is an Epsilon brand. Visit them at [www.catapultmarketing.com](http://www.catapultmarketing.com) and on Twitter @catapultmktg.