



THE COSTS OF AMAZON

*AMAZON RETAIL, THIRD-PARTY SELLERS,
& DIRECT-TO-CONSUMER SELLING*

etailz

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OVERVIEW

One of, if not the first and most consistent questions business owners have to ask is, “How much will it cost?” When it comes to selling products on online marketplaces, finding a clear answer can be surprisingly difficult.

To address this issue, etailz has assembled the following overview of the three primary business models on Amazon, which include:

- Sell product wholesale to Amazon Retail (also called “first-party” or “1P”)
- Sell product wholesale to third-party (3P) retailers (FBA, SFP, and dropship)
- Sell directly to consumers from your own seller account. This has two sub-options:
 - Work independently, supplying labor, expertise, and resources internally
 - Work with an agency or consultant to outsource labor, expertise, and resources

Each business model comes with its own pros and cons, and determining which business model will best serve a brand depends entirely on the brand’s goals, capabilities, and challenges.

THREE BUSINESS MODELS

1P

AMAZON RETAIL
(FIRST-PARTY)



You manufacture the product.



1P buys your product.



You pay for most expenses.



They resell & keep profit.

3P

THIRD-PARTY RETAILER



You manufacture the product.



3P buys your product.



You and 3P share expenses.



They resell & keep profit.

YOU

DIRECT-TO-CONSUMER



You manufacture the product.



You sell the product yourself.



You pay for all expenses.



You keep profit.

THE KEY DIFFERENCE

Who will provide the strategy, technology, labor, and time to grow your brand?

AMAZON RETAIL (1P)

PROS

- ✓ Marketplace Handles Fulfillment on Your Behalf
- ✓ Hands-Free Selling
- ✓ Place Larger Purchase Orders & Sell in Bulk
- ✓ Amazon Serves as the Middleman
- ✓ Amazon Handles Sales Taxes Where Required

CONS

- ✗ No Control Over How Listings Look
- ✗ No Control Over Inventory Locations or Allotment
- ✗ Little Pricing Control
- ✗ Amazon Determines Fees You Pay
- ✗ More Dependent on the Marketplace
- ✗ Extra Fees for Viewing User Data on Vendor Central

WHAT IS AMAZON RETAIL AND HOW DOES IT WORK?

Amazon Retail is the name of Amazon's first-party (1P) platform. In the most simplified terms, Amazon Retail operates as a middleman. A brand manufactures product, sells the product to Amazon Retail, and then Amazon Retail resells the product at a higher price point on marketplaces.

When working with Amazon Retail, manufacturers operate in Vendor Central (as opposed to Seller Central). In Vendor Central, manufacturers can monitor purchase orders and inventory levels, view reports, and, depending on the manufacturer's size and budget, dictate some marketing control. Overall, Vendor Central provides less control and customization than Seller Central since Amazon assumes control once they acquire inventory.

Why do brands choose to work with Amazon Retail?

- **Resources:** Amazon Retail is an enticing option for brands with limited resources. If brands want to sell product directly to consumers, they need to supply the time, manpower, hardware, software, strategies, and expertise themselves. By working with Amazon, they save on some those expenses. Of course, brands will still greatly benefit from having an internal team to run their Vendor Central account, as Amazon's service primarily includes placing the purchase order (PO), handling returns (though you still pay), and pricing products.
- **Cash flow:** Another considerable benefit is that Amazon Retail will often place larger PO's than many third-party sellers, although those orders will be placed less frequently since they tend to be larger.

AMAZON RETAIL (1P)

These PO's also tend to be on net-90 or net-120 terms.

Pricing Control

One caveat worth noting about cash flow is that Amazon Retail is reputed for making unilateral decisions around pricing. The platform utilizes increasingly sophisticated software to ensure that Amazon always offers the lowest price available, regardless of a seller's MAP or MSRP.

This enforcement extends even to temporary deals on other marketplaces. For example, if a brand ran a two-day 10% discount on Walmart.com, Amazon's algorithm would detect the price difference and either roll up the Buy Box or slash prices to match the discount. This isn't a deal breaker for everyone, but brands should know what to expect.

In general, the way Amazon Retail works with brands is dependent on your size, relationship, and negotiations. Typically, the larger the account, the more favorable the relationship.

Amazon Considering Vendor Rationalization

For small and medium businesses, these benefits may not be available for much longer. In 2019, Amazon Retail began to signal that it is turning its attention to major brands, and may discontinue its 1P relationship with smaller brands.

This change was predicted in late 2018 by Recode and seemingly substantiated in March 2019 when Amazon Retail abruptly stopped placing purchase orders to thousands of vendors. Nearly all the brands affected did less than \$10MM in annual sales on Amazon.

Some saw this as the first step towards "One Vendor," a rumored system that would merge Seller Central and Vendor Central to streamline backend maintenance and labor costs for Amazon. In response to widespread outcry, Amazon resumed placing purchase orders a week later and stated that the cancellation was a system error.

The concerns resurfaced in May when Bloomberg reported that Amazon was preparing to slow walk the vendor removal, letting contracts expire and



AMAZON RETAIL (1P)

not renewing them. However, little information around One Vendor has surfaced since.

Why Would 1P Remove Smaller Vendors?

In 2015, U.S. third-party seller sales surpassed Amazon Retail sales for the first time, tipping the scales to account for 51% of all sales on Amazon. That trend of 3P dominance has continued ever since, with 3P sellers accounting for 53% of sales in Q4 2019.

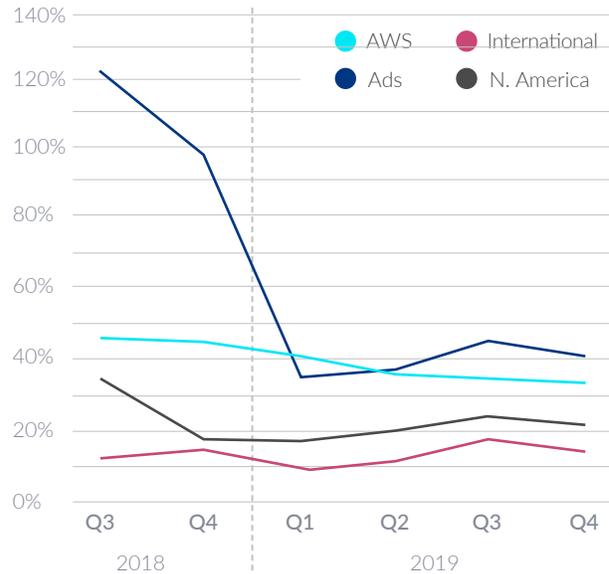
As first-party market share wanes (even while total sales grow), advertising has become one of Amazon's most profitable revenue streams, posting about 40% growth year-over-year in ad revenue from 2018 to 2019 – around \$14.1 billion.

As a result of the tremendous growth, industry experts predict that Amazon will eventually limit its first-party platform to only the highest-revenue brands so it can focus its attention and resources on only the most lucrative divisions. Smaller brands previously using 1P would be left to pick between 3P and direct-to-consumer selling.

WHAT ARE THE COSTS?

Amazon Retail pays vendors for product, but it also charges percentage-based fees for services such as marketing co-op, damage allowance, early payment, chargebacks, and shipping. If brands wish to use voluntary services like marketing, they will also be responsible for the bill. These fees are typically dependent on how you negotiated your contract with Amazon, and larger vendors have greater negotiation power.

AMAZON'S YOY REVENUE GROWTH BY SEGMENT



Digital Marketing

Amazon Retail offers many marketing services to brands, including on-platform sponsored ads, coupons, Amazon Vine, A+ Content, Brand Stores, Amazon Live, and Amazon DSP. When partnering with Amazon Retail, brands fund these services, and they can choose to manage the services themselves or pay Amazon or an agency to manage them.

Amazon's service fees vary. In some cases, Amazon will negotiate a PO discount in lieu of charging fees for their marketing services. The contract will also define which party will manage the marketing services. Some brands report that they have limited visibility into marketing performance when Amazon runs marketing, but this option does allow brands to outsource the work if they lack an in-house

AMAZON RETAIL (1P)

marketing team and do not want to work with an Amazon marketing agency.

Brand Protection

Amazon's brand protection services, with the exception of the Transparency program, are free. These programs include Brand Registry, Brand Gating, and Project Zero.

Each of these programs are available to any brand on Amazon; they are not restricted to Amazon Retail partners.

Brand Registry is an Amazon program that provides brands access to a suite of additional tools for brand protection on Amazon, as well as half-a-dozen marketing services. The chief benefits for brand protection are the ability to limit who can edit your listings and gaining access to Amazon's Infringement Reporting Tool.

To enroll in Brand Registry, Amazon states that you need:

- An active, registered trademark
- Verification that you are the rights owner or an authorized agent
- A Vendor Central or Seller Central account

Brand Gating is an invite-only Amazon service that prevents sellers from listing specific ASINs unless they provide an authorization letter. Brand Gating is especially useful for brands who have encountered many violations.

Brands interested in Brand Gating should always report violations through Amazon's platform, which will help you make the case to Amazon that Brand Gating is necessary.

Transparency is a program created by Amazon that can be used anywhere your products are sold. Products enrolled in the Transparency program are labeled with unique QR codes provided by Amazon (for a fee). When an Amazon warehouse receives product enrolled in Transparency, they scan the QR codes to verify the product is from your approved manufacturer. If it is not, they remove and destroy the product as counterfeit.

Transparency is also unique in that it's not limited to just Amazon warehouses. Shoppers can also download the Transparency app and scan the QR codes while at brick and mortar locations. For example, if your product is enrolled in Transparency and it's sold at Walmart, shoppers can still scan the code on the packaging to verify that it's authentic. Each QR code is unique, preventing counterfeiters from mass producing them to sneak through the system.

Beyond just protecting against counterfeits, Transparency also offers great marketing and safety options. When shoppers use the app to scan the code, the app can also show them ingredients, manufacture date, and additional ideas for use that may not be on the package itself or in the listing.

To enroll in Transparency, brands need:

- Proof of brand ownership
- A Global Trade Item Number (GTIN)
- The ability to apply Transparency codes to all enrolled products

Project Zero is Amazon's effort to snuff out counterfeiters by enabling brands to remove counterfeit listings themselves. This method

AMAZON RETAIL (1P)

bypasses the Amazon case system. In addition to a self-service model, Project Zero also uses machine learning to evaluate billions of listing updates every day and assess if they're potentially counterfeit. Like the Transparency program, Project Zero requires enrolled products to apply a unique code that Amazon can scan at its fulfillment centers to verify authenticity.

Currently, the program is invite-only, and only a handful of brands are utilizing it. To join the wait list for Project Zero, Amazon states that brands must:

- Enroll in Brand Registry
- Own the brand's trademark
- Have a 90% or higher acceptance rate for potential infringements reported within the last six months

No matter which business model brands use to sell on Amazon, brand protection services are a must, especially Brand Registry. The above

services are available to brands using first-party, third-party, or direct-to-consumer business models, and except for Transparency, they cost nothing more than time.

Logistics & Supply Chain

Brands selling to Amazon Retail will automatically be eligible for Fulfillment by Amazon and 2-day shipping; however, they still have to comply with Amazon's requirements for product preparation, labelling, and shipping. This means that brands will either need to prepare product themselves to satisfy Amazon's stringent rules before shipping them to an Amazon warehouse, or utilize a third-party logistics (3PL) provider to prepare their products for them.

Both of these cases come with costs. If preparing inventory yourself, you will need to budget for the supplies, time, and labor. If you leverage a 3PL, you will pay for their services.

SAMPLE AMAZON FEES		
PRODUCT EXAMPLE	AMAZON	
	Product A	Product B
MAP	\$21.99	\$34.99
Wholesale Costs	\$11.63	\$22.50
Standard Payment Terms	Net-90	Net-90
Fees	Paid by Brand	Paid by Brand
Total Marketplace Fees	\$0.00	\$0.00
Shipping to Amazon	\$0.00	\$0.00
Marketing Co-op	7%	4%
Damage Allowance	3.5%	3%
Early Payment	2%	2%
Chargebacks	1%	5%
Shipping to Amazon	1.75%	8%
PO Discounts	0%	0%
Overall Outcome		
Average off invoice charges > Paid to Manufacturer	15.25% \$9.86	22% \$17.55

THIRD-PARTY SELLERS (3P)

PROS

- ✓ Dictate Payment Terms and Consistent Cash Flow
- ✓ Control Inventory
- ✓ 3P Provides Tools and Immediate Expertise
- ✓ Fewer and/or Lower Fees than Amazon Retail
- ✓ Seller Handles Sales Taxes Where Required
- ✓ More Collaborative Approach to Growth

CONS

- ✗ Typically More Frequent, but Smaller PO's
- ✗ Some Control Over Pricing
- ✗ If You Have Multiple Sellers, Their Marketing Competes

WHAT IS A THIRD-PARTY SELLER AND HOW DO THEY WORK?

At face value, the third-party model is very similar to the first-party model. In both cases, brands sell product to another entity, which then retails the products on the Amazon marketplace.

What then are the key differences between 1P and 3P? Why do some brands elect to use third-party sellers instead of using Amazon Retail or selling their product themselves?

There are many factors, but three significant considerations are:

- **Cash flow:** Like the 1P model, brands are paid upfront for their product, rather than waiting for sales to generate revenue. 3Ps

can also provide brands greater control over their pricing, though this is dependent on the 3P. It pays to be selective and seek out a trustworthy partner.

- **Collaboration:** Amazon Retail has gained a reputation for limited communication and collaboration with their vendors. Brands that wish to play a role in their Amazon presence may find greater support and transparency from third-party sellers.
- **Services & expertise:** Many 3Ps offer the same or even more services than Amazon Retail, providing brands additional levers to drive growth. Furthermore, Amazon Retail's shrinking market share hints at a larger truth: Some 3Ps are out-performing Amazon Retail, delivering better results and offering better deals. This, compounded with the risk of Amazon undergoing vendor rationalization, is a key reason in why more and more brands are choosing 3P.

THIRD-PARTY SELLERS (3P)

For third-party sellers, this business relationship relies on thin margins. After purchasing product from a manufacturer, they resell it for a higher price, deriving their profit from the difference. Those pennies on the dollar have to pay for the third-party retailers' expenses, from salaries and benefits to warehouse storage fees and business development.

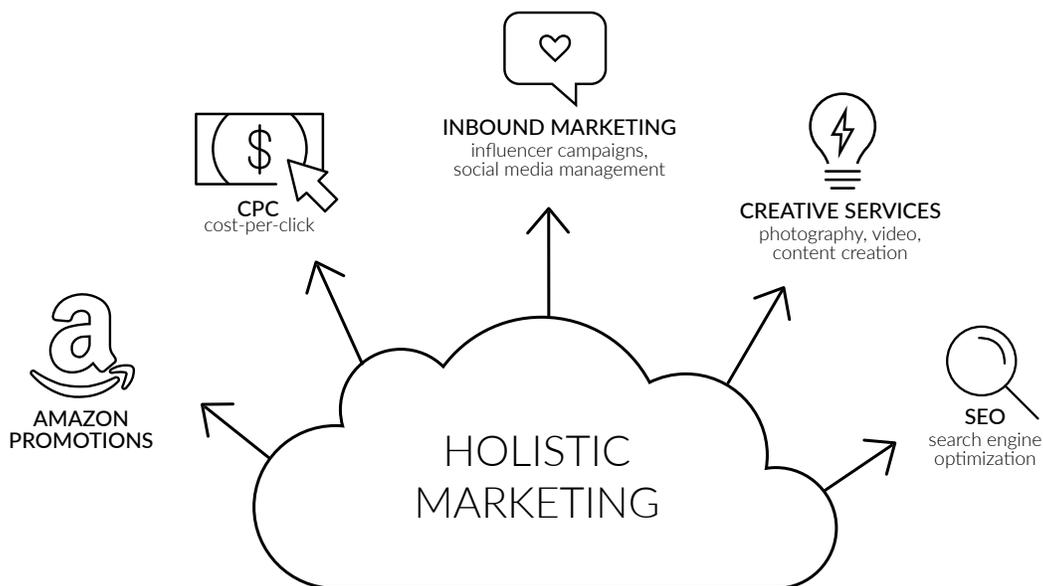
In the best 3P partnerships, the relationship is mutually beneficial, providing a steady and growing cashflow to both the brand (in the form of monthly, quarterly, or annual purchase orders) and the third-party retailer (in the form of good product margin). The 3P will feel like an extension of your brand, and the partnership will closely resemble a direct-to-consumer business model.

When seeking a 3P seller to represent your products on Amazon, it's important to think of sales as if they are all pulling from the same

pie. Each seller represents a slice of the pie, so maximizing the number of sellers does not translate to maximizing sales; in actuality, it can have an adverse effect. Rather, increasing brand equity and sales volumes on Amazon is done through being very selective with your partners, seeking only 3Ps that will apply thoughtful strategy, technology to allow for efficiencies, and selective distribution to ensure brand control.

WHAT ARE THE COSTS?

At the entry level, there are no costs for working with third-party retailers. Unlike the 1P model, a third-party retailer will pay Amazon's fees instead of the brand. A retailer pays the brand for product, and that's it. Costs enter the equation only if the third-party seller offers additional services and the brand elects to take advantage of them.



THIRD-PARTY SELLERS (3P)

Today, most third-party retailers don't just retail; they offer many other services on top of simply storing, listing, and distributing product. Some of the most common offerings are for marketing and brand protection.

Digital Marketing

Marketing is perhaps the most common service offered by 3P retailers, which is no surprise given that marketing, when executed well, increases sales significantly while increasing costs minimally, thus improving profitability.

As retailers sell more, they can place larger and more frequent purchase orders. In this way, marketing is a mutually beneficial service for both the brand and the retailer. This is true for both 3P and 1P.

Most retailers will ask brands to fund marketing, which is often done through monthly or annual funding and/or discounts to purchase orders. In some cases, retailers may commit to help fund marketing with a small percentage of sales revenue, though this varies widely across the industry.

Brands interested in marketing services should request marketing proposals. These proposals should answer several key questions, such as:

- Which marketing services are recommended and why?
- How will the services be implemented?
- What results have been achieved with these services in the past?
- What is the recommended budget for each service?
- What are the forecasted returns for these services?

Brand Protection

The brand protection services listed under 1P are also available to brands who use third-party sellers. In addition to those programs, some third-party sellers may also offer software and services for online brand protection.

Brand protection services vary, but can include marketplace compliance advisement, sales and use tax compliance, and last but not least, abiding by the brand's MAP or MSRP. Pricing for these services varies from a flat fee, an hourly rate, or complimentary service provided by the retailer.

MOST EFFECTIVE MARKETING SERVICES

Service	Min. Recommended Spend	Service	Min. Recommended Spend
Sponsored Product Ads	\$500+/month	Amazon Live	Free
Sponsored Brand Ads	\$300+/month	Social Media Mgmt.	Varies by provider
Influencer Marketing	\$1,000+/campaign	Listing Optimizations	Varies by provider
Paid Social Media Ads	\$500+/month	Photo and Video	Varies by number and type
Coupons	\$100+/month		

THIRD-PARTY SELLERS (3P)

On the software front, there are many software applications that provide seller identification and tracking, price monitoring, potential counterfeit identification, and IPR violation identification and removal. Typically, such software is charged on a subscription basis.

When working with a retailer or distributor, contract negotiation is another key element in preserving brand integrity. Before signing agreements or upon renegotiation, consider adding clauses that support your brand strategy, such as protections covering to whom goods can be sold, where goods can be sold online, if they can they be sold internationally, and so on.

If a brand signs an agreement that does not specify restrictions on where and to whom

product can be sold, they lose their legal footing for controlling their online representation.

Logistics and Supply Chain

Handling the logistics and supply chain is a key value offering for nearly all third-party sellers. Such work requires extensive infrastructure and resources, which is why so many brands choose to partner with 1P or 3P.

As such, most third-party sellers will pay any Amazon fees related to logistics and supply chain. The only instance when a 3P may ask a brand to pay or contribute to fees is when they cannot make enough margin on a product. These situations are rare, again because handling the logistics and supply chain is a core reason why brands choose to partner with 3Ps in the first place.

SAMPLE FEES - THIRD-PARTY VS AMAZON RETAIL

PRODUCT EXAMPLE	PRODUCT A		PRODUCT B	
	Amazon	3P	Amazon	3P
MAP	\$21.99	\$21.99	\$34.99	\$49.99
Wholesale Costs	\$11.63	\$11.63	\$22.50	\$25.50
Standard Payment Terms	Net-90	Net-30	Net-90	Net-30
Fees	Paid by Brand	Paid by 3P	Paid by Brand	Paid by 3P
Total Marketplace Fees	\$0.00	\$6.49	\$0.00	\$20.94
Shipping to Amazon	\$0.00	\$0.94	\$0.00	\$2.35
Marketing Co-op	7%	0%	4%	0%
Damage Allowance	3.5%	0%	3%	0%
Early Payment	2%	0%	2%	0%
Chargebacks	1%	0%	5%	0%
Shipping to Amazon	1.75%	0%	8%	0%
PO Discounts	0%	0%	0%	0%
Overall Outcome				
Average off invoice charges > Paid to Manufacturer	15.25% \$9.86	0% \$11.63	22% \$17.55	0% \$25.50

THIRD-PARTY SELLERS (3P)

Some third-party sellers also offer inventory forecasting as a service, helping brands plan for inventory production in alignment with demand on Amazon.

Retainer Fees

Retainer fees are the exception to the norm for upfront costs. In situations where retailing a product will not be initially profitable for a retailer, they may ask the brand to pay a retainer fee to make the product financially viable for the retailer.

This is a common scenario when introducing a new product to market and its expected performance is unknown. Instead of relying on margin to fund their expenses and generate a profit, retailers may charge a brand a retainer fee in exchange for bringing the product to market. In these cases, the retainer fee transitions to a traditional wholesale retail relationship once the product has gained enough traction and velocity to be profitable.

DIRECT-TO-CONSUMER (DTC)

PROS

- ✓ Control Over Brand's Online Representation
- ✓ Total Price Control
- ✓ Own Supply Chain, Retail, & Marketing Portions
- ✓ Larger Margins

CONS

- ✗ More Research, Time & Effort Required
- ✗ Responsible for Every Expense
- ✗ Inventory Management and Supply Chain
- ✗ You Provide the Manpower, Expertise, and Infrastructure
- ✗ Responsible for Collecting Sales Tax

WHAT IS DIRECT-TO-CONSUMER SELLING AND HOW DOES IT WORK ON AMAZON?

Direct-to-consumer (DTC) selling is the model where a brand operates as both the manufacturer and the seller of a product. When shoppers purchase a product online, it will say "Sold by [brand]" instead of "Amazon" or a 3P's name. Brands of all sizes use DTC, from mom & pop shops to major corporations. If you want to own the supply chain, retail, and marketing portions of your Amazon business, you're interested in DTC selling.

What are the primary benefits of DTC selling?

- **Content control:** Direct selling has many benefits, not least of which is maximum control over your brand's online

representation. Rather than relying on third-party sellers or Amazon Retail to present your products accurately and entice customers, you control your listing content.

- **Inventory control:** You also have control over your supply chain, potentially all the way from the factory to the customer. Controlling your supply chain helps mitigate the risk of counterfeits entering your distribution network or unauthorized sellers undercutting your pricing.
- **Pricing control:** Last but not least, you control pricing. As the exclusive seller of your product, there aren't any sellers that can go rogue and violate your pricing policy.

With so many benefits of direct selling, it's easy to see why many brands are interested in DTC, and that number is growing. According to a 2018

DIRECT-TO-CONSUMER (DTC)

report from the Interactive Advertising Bureau, non-store retailers, of whom DTC brands are a major part, more than doubled their total market share from 4% in 1992 to 9.4% in 2015.

However, DTC selling also comes with many challenges that can prevent brands from pursuing it or drive them to reconsider 1P or 3P. The two greatest limiting factors are:

- **Resources:** The first and foremost obstacle is resources. Handling production, supply chain, marketing, creative services, compliance, customer service, taxes, etc. requires a great deal of research, time, effort, and money.
- **Expertise:** Just about anyone can sell on Amazon, but it takes practice to excel at it. Like schooling, it's far easier (and often quicker) to have a teacher or coach to show you the ropes than it is to learn the necessary skills and best practices from scratch.

Managing these elements is easier for brands that only have a few products because the workload grows exponentially with the addition of more product lines or marketplace expansion. To scale successfully and sustainably, you need to either expand your team (preferably with experienced personnel) and/or use software to automate processes and increase efficiency.

WHAT ARE THE COSTS?

As the manufacturer and seller of your products, you're responsible for nearly every expense.

This is not inherently a bad thing, but it's a major factor for determining your business strategy. Below are some of the key considerations for your budget.

Personnel

The benefit of hiring an internal team is again rooted in control over your business. As their knowledge and expertise grows, your brand directly profits. Their focus is exclusively on your company's efforts, and they can respond to issues immediately.

The challenge is that hiring all of the employees needed to run an Amazon seller account is a significant investment, requiring brands to budget for wages, salaries, and benefits. These expenses quickly add up. How many employees do you need, what experience and skills do they need, and can you afford them?

Digital Marketing

Marketplaces are increasingly crowded, and marketing costs are continuing to rise.

To ensure that your products can be found, digital marketing is a must. Fortunately, not all marketing has an expense. Listing optimizations are among the most important efforts a seller can make, and they require nothing more than time, research, and effort.

Product images and videos are also incredibly important for improving sales velocity.

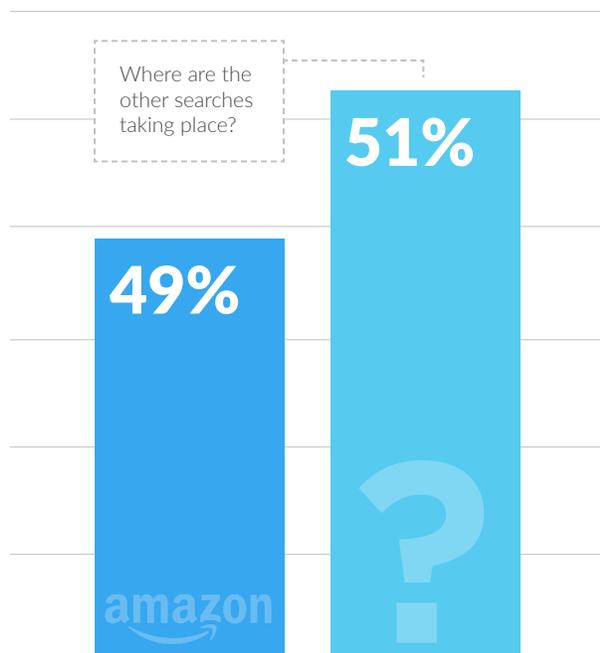
Keywords make a listing appear on the search results page, but it's the image on that entices a shopper to click into the listing itself.

DIRECT-TO-CONSUMER (DTC)

Another free marketing service is Amazon Live, which allows brands to livestream product videos directly on Amazon. The service launched early in 2019 and has proven to drive excellent visibility. Accessing Amazon Live requires Brand Registry.

While free services are fantastic, brands should also consider paid marketing services. For Amazon, this includes Sponsored Product Ads, Sponsored Brand Ads, Sponsored Display Ads, Coupons, and Deals. Beyond Amazon, brands can look into paid marketing on social media with services like paid social ads, direct B2C social media engagement, and influencer marketing. While 49% of online shoppers start their search on Amazon, 51% start elsewhere. Social media marketing and influencer marketing help brands reach that other 51%.

% OF ONLINE PRODUCT SEARCHES



How to Create Great Listings:

1. To optimize a listing, start with keyword research. Which search terms have the greatest relevancy to your product and what's the competition for those search terms? A mixture of high search volume and low competition keywords can help your product establish a foothold.
2. Use short-tail and long-tail keywords. Short-tail keywords can help listings populate for more general queries (boosting visibility) while long-tail keywords are more likely to lead to conversions (shopper has specific interest and therefore stronger intent). Plug keywords into the listing title, bullets, and product description.
3. Last but not least, review and revise the listing to achieve a balance of discoverability with buyability. The listing must be keyword-rich to be discoverable by Amazon's algorithm, but it must also be persuasive to a human. If the listing is just a string of keywords, shoppers won't convert, and then it doesn't matter that your listing was discovered.

DIRECT-TO-CONSUMER (DTC)

How to Manually Check for Sellers:

1. Navigate to your brand storefront page in Seller Central and scroll down until you find the refined search box on the left side of the page. Here you will see all departments that your brand is listed under.
2. Clicking into any department will redirect you to a new page with additional search refinements.
3. Search through the options until you find a seller section function. You can click on “See more” to view the full list of Amazon sellers that are currently selling your products. (Keep in mind that this is not a complete list of sellers but rather a list specific to one category.)
4. To gather a list of all sellers, you must perform a refined search for all departments that your product is listed under.

As with everything else, each of these services require time and effort, and they greatly benefit from being driven by someone with experience in search marketing or social media marketing. Brand owners interested in selling their products themselves can take on these services themselves, expand their teams internally, and/or outsource marketing to freelancers or agencies.

Brand Protection

As with 3Ps, DTC brands can still access Amazon’s brand protection services. In addition to those services, DTC brands should also take legal measures to help protect their brand against intellectual property theft, counterfeits, and false allegations.

To start, brands need to proactively protect their IPR by filing for trademarks, copyright, and trade secrets whenever appropriate. This includes domestically and internationally. Filing for IPR can be expensive, but it positions your brand for long-term stability.

Similar to how brands can protect themselves in a 3P relationship with contracts, defending against counterfeiters in the DTC model means being selective about with whom you work. Brands should seek out trustworthy factories that won’t sell your designs or products to other parties, closely monitor your supply chain to prevent counterfeits from entering your inventory, monitor listings, and periodically make test buys on Amazon to verify product authenticity.

Another element of brand protection is product pricing. If you are the exclusive seller of your

DIRECT-TO-CONSUMER (DTC)

products, controlling pricing is straightforward. If you sell your products yourself and through a third-party, it's important that you coordinate with your 3P to have consistent pricing. When a product is offered for far less than MAP/MSRP, shoppers question if its legitimate and why the MAP/MSRP is higher.

If you have or currently use other retailers, you may need to actively monitor and enforce your pricing policies. This can be done manually, but it's a time-consuming process that is difficult to scale without automation.

Finally, if your account is suspended due to false allegations, the quickest way to get it restored is to provide the necessary paperwork showing that you own the product you sell and that it's not counterfeit. If your account is suspended due to a legitimate reason, pay close attention to the suspension notification, accept responsibility for any violations, and create a specific plan of action that addresses the reason for the suspension.

An account shutdown may not incur fees, but the lost profit from missed sales can be devastating if the account shutdown is not resolved quickly.

Logistics & Supply Chain

Logistics and supply chain will account for a significant portion of your annual expenses, with fees coming from sourcing, compliance, manufacturing, packaging, freight, taxes, warehousing, processing, shipping, demand planning, liquidation, and battling counterfeiters, to name a few.

SHIP ON YOUR OWN ACCOUNT	
SMALL PARCEL	LTL less than a truckload
<p>You Need:</p> <ul style="list-style-type: none"><input type="checkbox"/> box labels<input type="checkbox"/> box level content<input type="checkbox"/> box restrictions<input type="checkbox"/> 'ship to' address	<p>You Need:</p> <ul style="list-style-type: none"><input type="checkbox"/> box labels<input type="checkbox"/> pallet labels<input type="checkbox"/> box level content<input type="checkbox"/> Amazon ref. ID<input type="checkbox"/> must set up LTL appt. through Amazon portal <p>Pallets:</p> <ul style="list-style-type: none"><input type="checkbox"/> can be no higher than 72 inches<input type="checkbox"/> can be no heavier than 1500 lbs.<input type="checkbox"/> must be standard size (48" x 40") unless a single box won't physically fit on a standard-size pallet

Do you have the knowledge, tools, and personnel necessary for managing your business's supply chain from start to finish? If not, which portions can you acquire and which can you outsource to a 3PL?

Amazon's fulfillment centers take care of the final leg of the supply chain (although FBA comes with its own fees). Brands can also work with services like Deliverr to offer two-day shipping for other online marketplaces, including Walmart, eBay, Shopify, and more.

Supply chain is one of the most extensive and significant obstacles to direct selling, which is

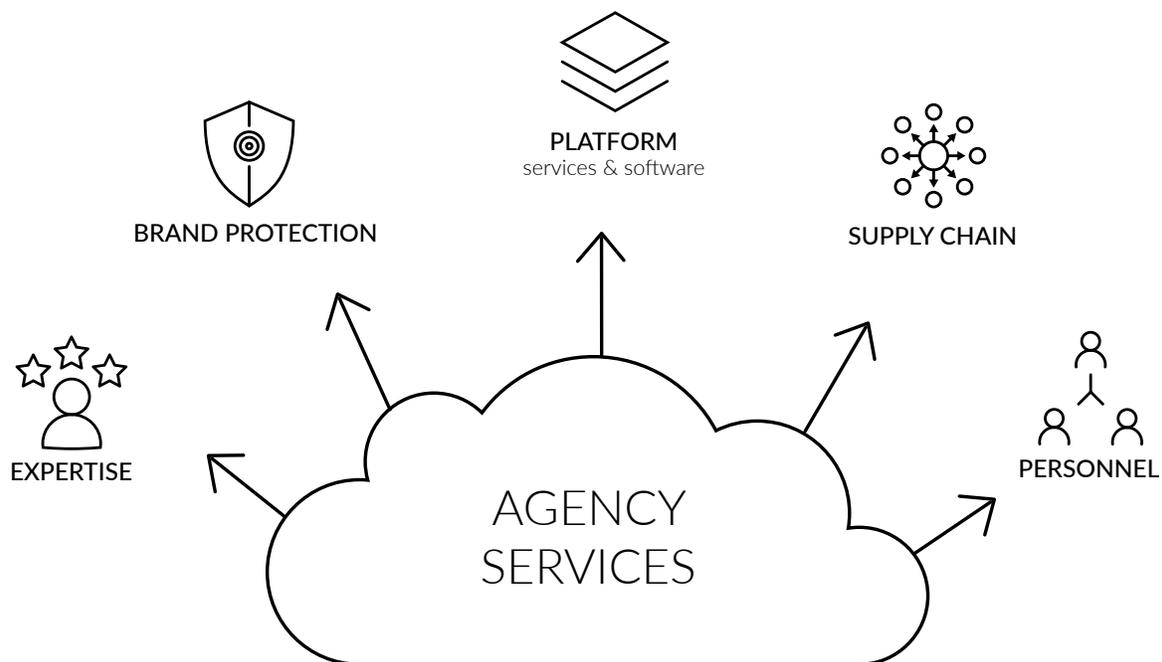
DIRECT-TO-CONSUMER (DTC)

why many manufacturers turn to third-party sellers, Amazon Retail, or agencies to outsource that segment of their business.

THE AGENCY SOLUTION

The benefits of DTC selling make it extraordinarily appealing to many brands, but many discover through experience that they're not yet equipped to handle it. For those brands, there's a middle ground: partner with an agency.

Brands can hire agencies to gain additional expertise, personnel, services and software for marketing, supply chain, brand protection, or any combination of the three for a fraction of what it would cost to hire a team in-house. It's a cost-effective approach that can drive profitability and sustainable growth, giving brands time and capital to pursue their short-term and long-term goals, including preparing brands for an eventual shift to an entirely in-house DTC business.



THE TAKEAWAY

WHICH BUSINESS MODEL IS BEST?

After reviewing the business expenses associated with Amazon Retail (1P), third-party sellers (3P), and direct-to-consumer (DTC) selling, the annoying answer is that there is no perfect solution. The best Amazon business model for your brand depends entirely on your business's goals, needs, limitations, and priorities.



Brands interested in a minimalist approach to their ecommerce business may be most satisfied working with Amazon Retail.

Brands interested in a retail model but want greater transparency and control will likely find a 3P model the most desirable.

Brands interested in being deeply involved in their ecommerce business will be best served pursuing a DTC model, either on their own or supported by an agency.

Drawing on 12+ years of ecommerce experience, etailz offers a platform of software and services that support both 3P and DTC business models. If you'd like to learn more about any of these services, reach out through etailz.com/contact.

