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ECOMMERCE NEWS

NOVEMBER - DECEMBER 2023

BY

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Foreword

With eCommerce growing bigger year after year, fulfillment centers are turning into Santa's workshops every Christmas season, while delivery trucks help reindeer ensure everyone gets their presents on time.

My last series of articles focused mostly on regulatory issues within the eCommerce world. This time, as we approach the holiday season, I suggest we take a look at logistics and analytics.

TikTok is setting up their logistics network, with TikTok shops becoming more popular day by day. Meanwhile, Amazon has announced major changes in their FBA fees for 2024. We will also delve into UPS's acquisition of Happy Returns.

The supply chain is important for everyone involved in the eCommerce world, but I will also discuss an important issue for managers and entrepreneurs: benchmarks and how to interpret them.

I hope you will enjoy this report, and I wish all my readers a merry Christmas season.

François Maingret

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From Q3 Hurdles to Holiday Hustle

Are Ecommerce Returns a Good Bet for UPS?

Have you ever wondered how Santa gets gifts to every home so quickly? He's got a secret weapon: a brown sleigh with the letters U-P-S on the side. When the reindeer are overworked, UPS is out there, making holiday wishes come true. UPS and other carriers will be busy this holiday season, as up to 80% of customers say they plan on shopping online.

But hold on, we aren't there yet. Let's take a moment to go over UPS's Q3 performance. It's a big deal in the world of e-commerce, and things haven't quite lived up to what we were hoping for. UPS isn't just sitting around, though. They're on the move, making changes and taking action. Let's jump into the numbers, UPS strategy, and the outlook on the upcoming Christmas season.

BEHIND THE NUMBERS: UPS'S Q3 PERFORMANCE

I don't think I need to introduce UPS. This giant in the shipping industry ships over 20 million packages and documents daily to more than 220 countries and territories. This is significantly more than one of its main competitors, FedEx, with "only" 6 million packages daily.

UPS recently reported their numbers for the third quarter of 2023. Their revenue declined 12.8% from the year-ago period to $21.1 billion. Their consolidated operating profit declined 48.7% over the same period to $1.3 billion. We can also observe a stronger decline in the most recent quarter, as well as a similar decrease in the domestic market, from $15.4 billion to $13.7 billion, with operating profit tumbling down by 66%.

And here's something for the stock-watchers: UPS stock recently hit a new 52-week low and updated their yearly revenue forecasts, now between $91.3 billion and $92.3 billion, down from its previous projection of $93 billion.

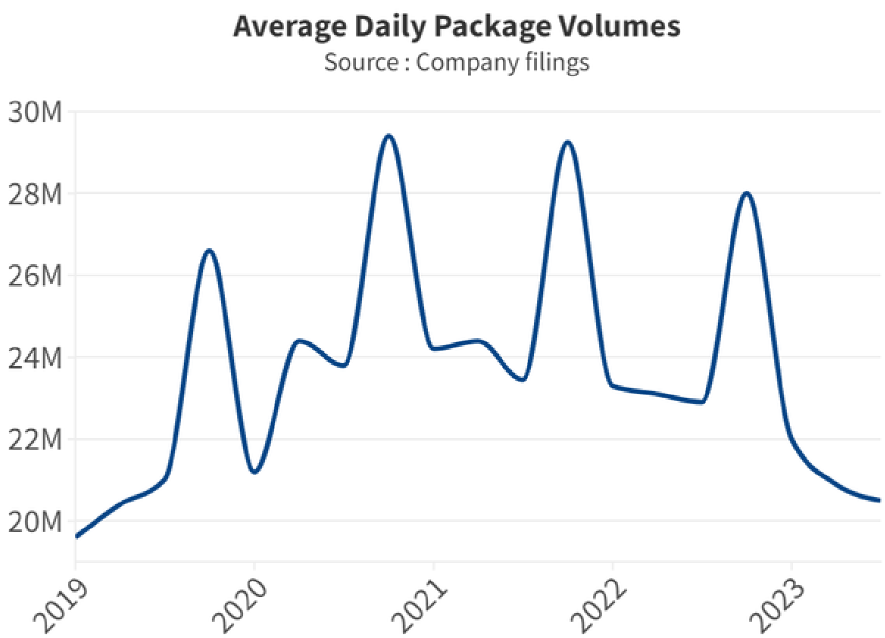
Several performance indicators for UPS are raising concerns. Notably, their reported operating margin sat at 4.2% on the domestic segment, while it should be in the 10-15% range. UPS also reported that their UPS average daily package volume declined by 11.5%. Their margins are drastically better on the international segment, at 14.8%, but that is a much smaller part of UPS revenues.

Volumes were a problem for UPS, partly due to drop during labor negotiations. There was some uncertainty while the new labor contract with the Teamsters was not fully ratified, but UPS is confident volumes will improve and they will regain momentum. A pressing concern for UPS was the notable decrease in higher-margin services, particularly a near 30% year-over-year drop in profitable international shipments. It has been reported that UPS clients favored less expensive shipping options, going with UPS ground over air courier, and some even considered other carriers. In recent years, both UPS and FedEx had hiked their rates amid rising volumes. But as market conditions worsened and shipping volumes have decreased, they had to offer discounts to keep their existing customer base.

UPS Stock - 2023

2023 was anticipated to be challenging, and it has lived up to that expectation. The company lowered guidance, to $91.7B from $93B. However, UPS is investing in several important initiatives. For example, UPS has a strategic objective to become the number one complex healthcare logistics provider globally.

They have made acquisitions, such as Bomi and the announced acquisition of MNX Global Logistics. The company has been expanding its healthcare distribution operation, and plans to open seven new dedicated healthcare facilities in Europe and the US. This is part of their goal of reaching a $10 billion healthcare revenue target.



Beyond some of their other digital transformation, operational efficiency and cost reduction initiatives, I'd like to focus on one I found especially interesting : the acquisition of Happy Returns.

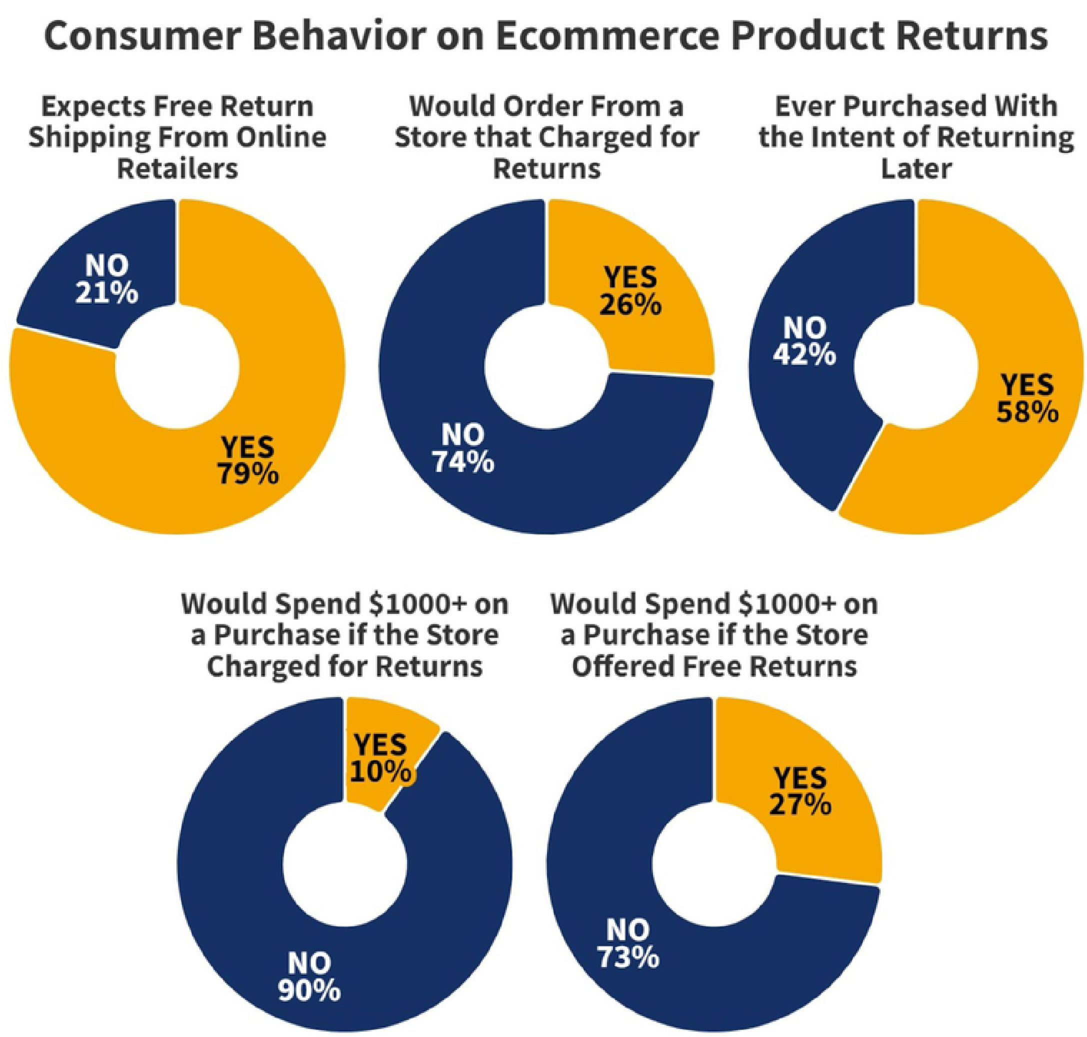
HAPPY RETURNS ACQUISITION AND THE COST OF CONVENIENCE

Online shopping is great, except when you order some stylish-looking clothes that make you look like a clown once you get to try them on. Fortunately, it is now easier than ever to return items. Online shoppers returned $428 billion worth of products in 2020, with an estimated return rate of 15% to 20%.

UPS recently acquired Happy Returns from PayPal, a service that simplifies the process of returning online purchases. It allows customers to return items without a box or label. This service also includes a large network of 12,000 drop-off locations, which, when combined with UPS locations, are often found in convenient places like retail stores and shopping centers. The service is integrated with many e-commerce platforms and retailers, making the process even easier for customers.

While returns are a key part of e-commerce, I wonder about the future volumes of items returned. The Wall Street Journal recently reported that companies pay on average $26.50 to process $100 in returned products. Returns can be very costly for retailers, and as companies pivot from chasing top-line growth to focusing on profits, we might see more of them start to pass these costs onto consumers. Unfortunately for businesses, a recent survey from Invesp has reported that 79% of consumers expect free return shipping, and 74% also stated they would not order from an online store that charged for returns.

This puts retailers in a tight spot, having to juggle consumer expectations with the reality of bottom-line impacts. I wrote about product returns earlier this year (https://fmaingret.com/2023/03/how-can-online-businesses-effectively-deal-with-product-returns/), and look forward to seeing how many companies will update their return policies in the near future. If they do, this should have an impact on UPS and the return on investment for the acquisition of Happy Returns.



ECOMMERCE'S HIGH STAKES: THE 2023 HOLIDAY OUTLOOK

Now comes the SuperBowl of E-commerce: the holiday season. With Black Friday and Christmas coming soon, it is certain that volumes of shipments will surpass those of the first three quarters of the year. The real question is, can the 2023 holiday season beat 2022? Deloitte's retail and consumer products practice says yes and estimates that holiday sales will reach $1.54 to $1.56 trillion during the November to January period. According to a recent release, "Deloitte also forecasts e-commerce sales will grow between 10.3% to 12.8%, year-over-year, during the 2023-2024 holiday season. This will likely result in e-commerce holiday sales reaching between $278 billion and $284 billion this season."

UPS shares this rather optimistic outlook. Despite the dip in earnings, CEO Carol Tomé stated in a press release that the company is "well-prepared for the peak holiday season." The company will be hosting its annual "Brown Friday" hiring event, with over 600 in-person and virtual events on Nov. 3rd and 4th. On the other hand, some experts are forecasting a slow holiday season. The definitive outcome remains uncertain, but one thing is clear: this will be a major event for E-commerce players.

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FROM DISRUPTION TO DIVESTMENT
UNILEVER IS SELLING DOLLAR SHAVE CLUB

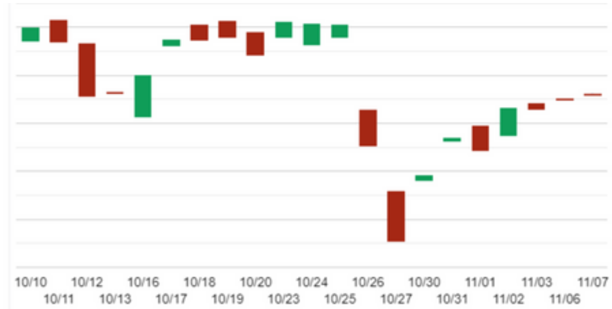
I could write a whole article on the Ad that turned Dollar Shave Club into a billion-dollar company. The ad was hilarious, but also communicated the company value proposition very well : quality razors delivered to your door at a fair price. But instead, I want to go over Unilever's announcement to sell the majority of its stake in Dollar Shave Club to Nexus Capital Management.

Back in the days, the company's disruptive direct-to-consumer (DTC) model was a little revolution, and a major success. The company's journey took a sharp turn when it was acquired by Unilever in 2016 for $1 billion. Fast forward to today, Unilever is stepping back, and sold Dollar Shave Club, while retaining a 35% share. Let’s take a closer look at the latest news on this strategic move, see how the DTC model has changed since the early days of Dollar Shave Club, and try to understand what motivated the decision to sell.

REFOCUSING ON CORE STRENGTHS: UNILEVER'S STRATEGIC PIVOT

Following the success of Dollar Shave Club, the acquisition of the company by Unilever was a clear signal that the DTC model had potential. The intention was to capture part of the booming ecommerce space, and expand its presence on the growing male grooming market. However, it appears that integrating the disruptive startup into Unilever’s wide portfolio of massive, established brands was more challenging than initially expected. A year before selling Dollar Shave Club, Former Unilever CEO Alan Jope said during an earnings call in 2022, "Dollar Shave Club did not deliver as expected, and the economics of the DTC model changed.". The recently appointed CEO, Hein Schumacher, was not satisfied with the company's competitiveness, despite Underlying sales growth of 5.2% for the third quarter of 2023.

It seems like Unilever's new strategy will be to focus on its core brands, such as Dove or Hellman's. "Prioritizing these brands will give us a real opportunity to improve Unilever's growth profile," said Schumacher. He also mentioned Dollar Shave Club. "Dollar Shave Club is an example of unsuccessful attempts to move away from our core."



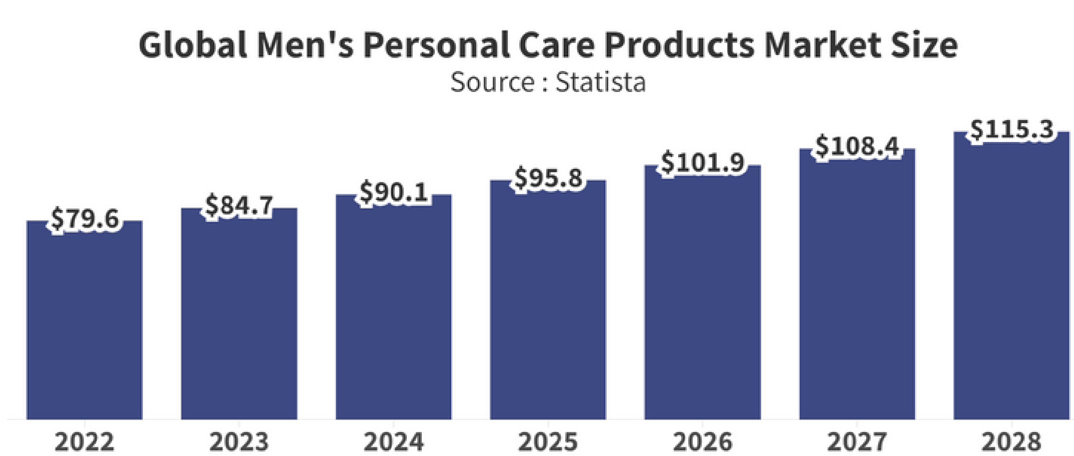
Unilever Stock - October 23

> *"Dollar Shave Club is an example of unsuccessful attempts to move away from our core."*
>
> *Hein Schumacher, recently appointed CEO at Unilever*

While the financial terms of the deal were not disclosed, Nexus Capital Management seems optimistic about the company. "We are thrilled to acquire Dollar Shave Club, based on its strong brand loyalty, pioneering DTC model, and omnichannel presence. We see growth potential and will invest in cutting-edge marketing, product quality and new innovations," says Michael Cohen, Partner at Nexus Capital Management.

DOLLAR SHAVE CLUB'S BLUEPRINT: THE DTC APPROACH

Direct-to-Consumer (DTC) in ecommerce is a business model where companies sell products directly to customers, bypassing traditional retail channels such as third-party stores or distributors. Dollar Shave Club is a prime example of a successful DTC business, selling directly to customers tired of paying for overpriced blades.



Their success was followed by many brands. Selling directly to customers has several advantages compared to selling through a 3rd party.

Branding and customer relationships
Companies selling DTC have better control over their brand image, the messages and interaction with customers. Their identity is stronger than if their product was sold on the aisle of the grocery store next to a million other brands, and they can build better relationships with customers.

Agility
Brands can be faster when implementing changes in their offer, pricing, or strategy. For example, this model allows companies to easily create subscriptions to their product and control the customer experience.

Profitability
Eliminating middlemen means brands can potentially enjoy higher profit margins.

OMNICHANNEL STRATEGIES REDEFINING RETAIL

That being said, many brands that originally started as purely DTC expanded into omnichannel. Dollar Shave Club did that in 2020, and customers can now find their product in retail stores, including at Target and Walmart. There are many more examples of originally DTC brands who now sell on other channels. The footwear brand Allbirds initially started as a DTC brand, but now opened physical stores and sell their products through retailers like REI, Dick's or Nordstrom. Warby Parker expanded its product line from its early days, but also opened its own retail stores.

Physical stores can help them reach new customers who prefer shopping in person, and give customers a chance to touch and feel the product before buying. It also gives the brand more visibility.

On the other hand, there are some very established brands that are now setting up DTC channels. Even though Nike started selling its products DTC through its website in 1999, they keep growing their own channel, especially since the Covid-19 pandemic. Under Armour's DTC strategy has been part of its business model for several years, they also operated their own retail stores. The omnichannel model keeps growing in popularity, and these examples show the blurring lines between traditional retail and originally DTC brands.

CULTURAL FIT CHALLENGES: WHEN STARTUP MEETS CORPORATE

As we see most brands going with omnichannel strategies, and with Unilever extensive experience with DTC brands such as Hourglass or Graze, can we really say that Dollar Shave Club's origins in the DTC space caused them to not be a good fit for Unilever? It might be a simplistic answer. The real reason may be a combination of other factors. Dollar Shave Club was a fast growing startup, with a distinct, entrepreneurial culture and agile mindset. It may have been challenging for them to integrate with a corporate empire like Unilever.

The added complexity has made it challenging for them to grow and scale. There could also be a lot of other economic and market dynamics factors. Finally, Unilever made it clear that they are shifting their strategy, and need to refocus on their strongest brand. Although they sold Dollar Shave Club, they retain 35% ownership, sending a clear signal that they still see potential in the brand.

https://cosmeticsbusiness.com/unilever-turnover-lags-in-q3-as-new-ceo

https://beautymatter.com/articles/nexus-capital-management-to-buy-dollar-shave-club

TikTok's New Logistics Network

And the Impact on the Competitive Environment

In my opinion, one of the main reasons behind Amazon's success is its attractiveness for 3rd party sellers. The large amount of traffic and the easy way to generate sales (profitability is another story) certainly helped. Another big reason is their fulfillment network, notably their FBA program.

When I didn't know much about Ecommerce, I thought the idea of 3rd party logistics programs was genius and a huge opportunity for ecommerce entrepreneurs. It is no surprise that Walmart, a serious contender in the US Ecommerce space, launched their marketplace along with their WFS (Walmart Fulfillment Services) program.

The hot topic in Ecommerce this year is TikTok shops, leveraging the huge amount of traffic the Chinese social network has seen over the last few years. Their next strategic move is to develop a logistic network for its Ecommerce feature. Let’s see how it will work, how it compares to Amazon's, and what will be the impact on consumers.

TIKTOK'S ECOMMERCE EVOLUTION: BEYOND INFLUENCER MARKETING

When I first downloaded TikTok a couple of years ago, I had no idea how much the company would change Ecommerce.

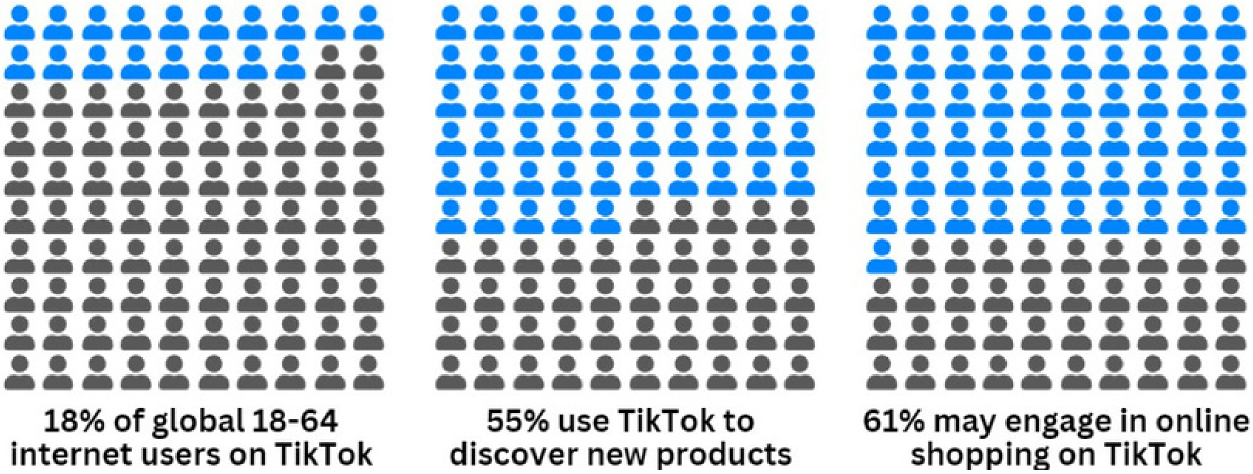
Of course, I thought that companies would advertise and strike deals with influencers. However, I did not see the Chinese company going as far as building a fulfillment network. TikTok is hoping to attract more sellers to the platform through this fulfillment network, most likely inspired by Amazon. Sellers won’t have to be in charge of fulfilling orders themselves; they’ll be able to rely on this new network to outsource this task and focus on more strategic goals. According to the company, its fulfillment service allows them to provide a “seamless and fast shipping experience for merchants and customers.”

> *According to TikTok, its fulfillment service allows them to provide a “seamless and fast shipping experience for merchants and customers.”*

A major difference between Amazon and TikTok’s models is that TikTok built partnerships with logistics providers like ShipBob and Newegg rather than building their own warehouses. Processes won't be as streamlined (for example, Sellers will be responsible for arranging shipping to the fulfillment centers directly with the carriers, versus using Amazon Seller Central and benefiting from discounted rates), but this is a major step towards market share growth. However, TikTok didn’t comment on whether it may build its own warehouses in the future. In addition to coming up with their own fulfillment services, TikTok is also subsidizing free shipping to customers, in an effort to encourage sellers to join the platform.

According to TikTok, “For orders using TikTok Shipping, we offer free shipping to buyers on orders of $5 and above for first-time customers and $20 for returning customers. TikTok will reimburse shipping costs up to $40 for Standard and $80 for Express shipping.”

They will also offer to subsidize discounts of as much as 50% to get sellers to join the Black Friday program, taking place from Oct. 27 through Nov. 30. US consumers spent over $20B online during Black Friday and Cyber Monday last year, and with consumer spending expected to reach similar levels this year, TikTok wants its share of the pie.



TIKTOK'S ECOMMERCE FUTURE: FROM SELLER BOOM TO MARKET WARS

What will be the impact of these new features on sellers and customers? The first thing that comes to mind is that it may decrease the likelihood of customers getting scammed and receiving the wrong items. Merchants will need to actually ship the product to get paid, and I am hoping that TikTok will be quick to ban malicious sellers who ship counterfeits.

The easier it is to join the platform and sell, the more attractive it will be for sellers. That is what caused millions of new sellers to join Amazon, hence the popularity of "Make a quick buck with Amazon FBA" gurus online.

A lot of these "FBA Entrepreneurs" joined Walmart Marketplace when the WFS program became easily accessible. Now that TikTok is offering an easy way to sell, what do you think will happen? This is even more true now that TikTok offers to subsidize shipping and deals. The main difference between TikTok shops and Amazon is the shopping experience. When (and if) TikTok gets flooded with "FBA Sellers", it will be interesting to see how the shopping experience evolves.

Over the years, Amazon dedicated more and more space to sponsored ads. Will TikTok eventually take this route and turn TikTok Shops into a pay-to-win model?

For now, what we can observe is how fast sellers will join the marketplace, and how competitive the environment will become. Strong brands may thrive, taking advantage of discounts and subsidies. Rising brands will be able to test a new channel at a lower financial risk. However, I believe things will be more complicated for weaker brands, lacking differentiation and identity. I wouldn't be surprised if we see bloody price wars, with many sellers competing for limited market share.

CONCLUSION

TikTok's introduction of logistics and fulfillment services is a major move for the company, getting inspiration from Amazon's successful model. This new venture aims to attract sellers by making logistics easier and more efficient for sellers, so they can focus on their core expertise and added value. TikTok even offers to subsidize shipping costs and deals, which is especially attractive right before Black Friday.

However, making it so easy for sellers on TikTok could lead to market saturation and intense competition. The challenge for TikTok will be to manage this potential increase in sellers, and find a way to become profitable in the future. If successful, TikTok's new logistics network could significantly impact the Ecommerce world, benefiting consumers and transforming online shopping trends.

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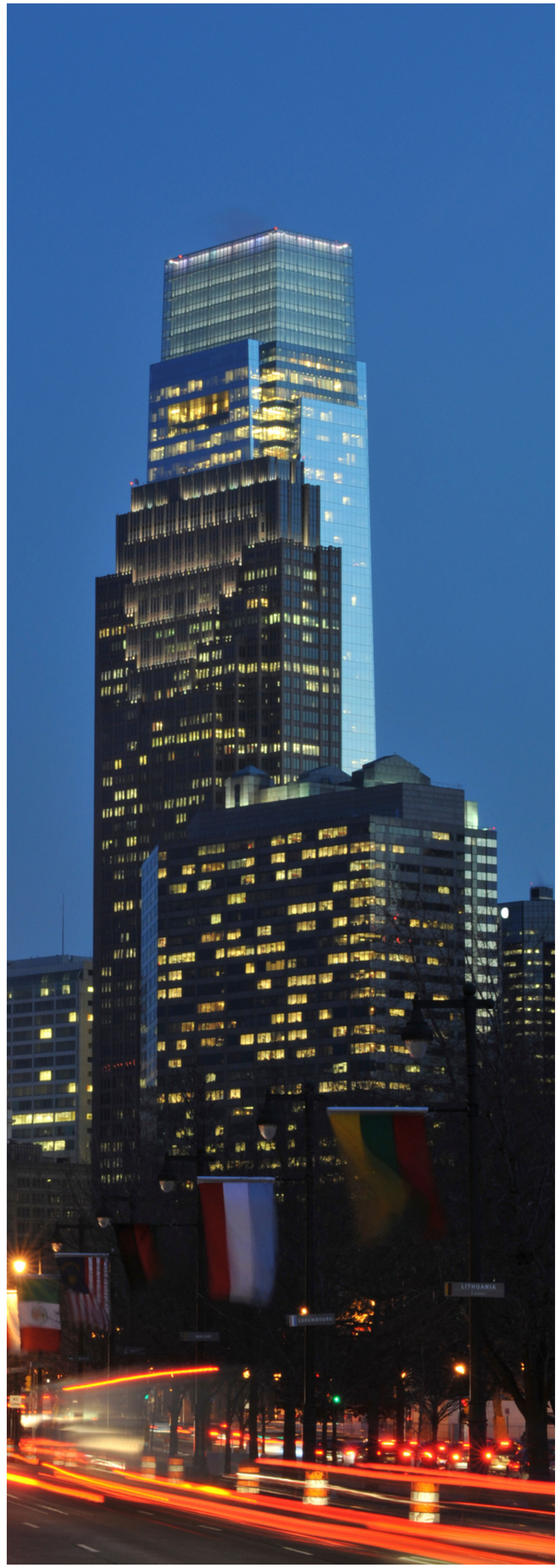


AMAZON NOW SELLS CARS: A NEW ERA OF GROWTH OR A ROAD FULL OF POTHOLES?

Amazon sells millions of different products: clothes, food, lawnmowers, toilets, and even houses. Not much is missing, especially now that we're almost able to buy cars on Amazon. Starting in 2024, Amazon plans to revolutionize car buying by enabling customers to purchase Hyundai vehicles online directly from its platform. Amazon's latest move, in partnership with Hyundai, may significantly impact the auto industry. The news was strong enough to impact the stock prices of companies like Carvana and Autotrader in mid-November. This move is a natural progression for Amazon and its digital showrooms, presenting an unprecedented offer to consumers.

The concept is easy to understand: customers can search for new Hyundai cars, configure them according to their preferences, and complete the transaction directly on Amazon, choosing between home delivery or pickup at their local dealership. This is a natural move, considering Hyundai's digital showroom introduced on Amazon in 2018. There are also plans for integrating Amazon's technology, including Alexa, into Hyundai vehicles after 2025.

While I can't wait to ask Alexa how many miles are left until the next Buc-ee's, there may be some issues down the road. The traditional auto industry has a very complex model, and its state-specific regulations will be challenging. While companies like Tesla are already exploring direct online sales, Amazon's entry into this industry is more questionable. ? Will the platform be a vehicle (pun intended) for change, or will it struggle when facing dealerships and regulations?

The announcement hit the auto market hard. The impact on the stock market shows how potentially game-changing this could be for the industry. However, will customers trust Amazon for such important purchases, especially when other brands are not available online yet?

Amazon's venture into car sales promises speed and efficiency for consumers, but could also shake up the industry more than expected. For traditional dealerships, it's like watching a self-driving car drive by: wondering about the future, and worrying about what the consequences may be.

Amazon and Hyundai's partnership may create a future where buying a car is as easy as buying a book online. However, the car-buying experience is so unique that it may be challenging to get customers to trust the process. While visiting a dealership isn't always the best experience, it's hard to imagine what it would be like to not see, touch, and experience cars the traditional way. The complex industry and regulatory environment make things even more challenging. We'll see how things go for Amazon and Hyundai. If this works, we can wonder what is off-limits for Amazon to sell?

BLACK FRIDAY 2023
RECORD SALES AND SHIFTING CONSUMER TRENDS

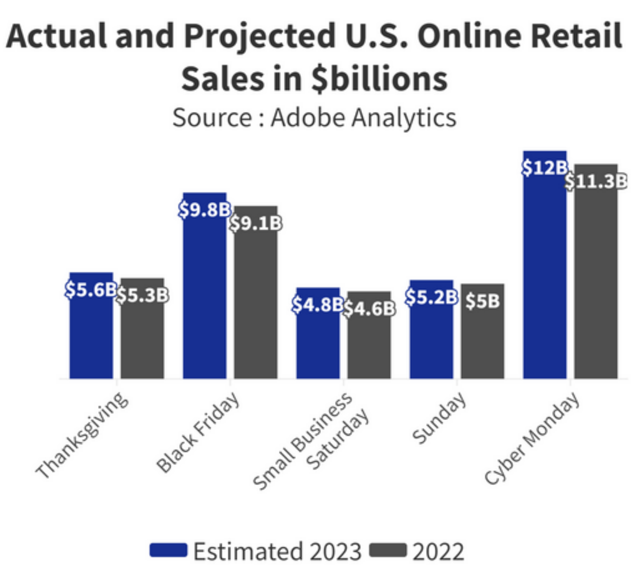
I remember watching videos of people rushing through the store and fighting for flat-screen TVs on Black Friday. Fortunately, when I was old enough to buy myself a large TV, online shopping had taken over, and there are now much easier ways to enjoy great deals.

For digital marketers, Black Friday and Cyber Monday are the Super Bowl of online shopping. The 2023 period did not disappoint, with record-breaking sales that show how E-commerce is still growing. While I won't go into details about this important time (thousands of others have done it successfully), I still want to communicate to my readers the most important insights for this season.

A NEW SALES RECORD THIS THANKSGIVING SEASON

In 2023, according to Adobe Analytics, Black Friday online sales reached new heights at $9.8 billion, which is 7.5% higher than last year. Shoppers did not wait for Black Friday, as sales on Thanksgiving reached new records as well, with a 5.5% growth year over year, and $5.6 billion in total sales in 2023. As expected, TVs, smartwatches, and other electronics were big hits this year, with sales up 152% compared to a typical day in October. According to Salesforce, the biggest areas of growth in the U.S. were footwear and handbags (up 22%), sporting goods (21%), and health and beauty (17%).

Another important insight is that the growth was much stronger online than in brick-and-mortar stores. According to the MasterCard SpendingPulse index, e-commerce sales grew 8.5% on Black Friday, while overall retail sales rose by 2.5%, and should be even higher on Cyber Monday.



INSIGHTS ON CONSUMER BEHAVIOR

The 2023 sales period was characterized by consumers being especially sensitive to discounts and value deals. Retailers who offered substantial discounts, especially in high-demand categories, saw the largest increase in sales volumes. This isn't surprising, as consumers faced record inflation and economic conditions seem to worsen.

Mobile sales were at an all-time high this season, as Adobe reported that 59% of all Thanksgiving online sales were made on mobile devices. This shows that consumers are potentially shopping for deals anywhere, at any time.

"

> *"Mobile traffic and sales are soaring as people are on the go once again this holiday weekend. Consumers are embracing mobile wallets to break down friction between discovering on social and purchasing on mobile,"*
>
> *Rob Garf, vice president and general manager of retail at Salesforce.*

Customers also seem to favor alternative payment options, such as buy now, pay later. These new consumer preferences can explain part of the increase in sales, despite the current economic situation and budget considerations.

https://business.adobe.com/resources/holiday-shopping-report.html

DECODING ECOMMERCE BENCHMARKS THE TRUE MEANING BEHIND YOUR METRICS

In this super competitive world, everyone wants to see how they rank. Which football team is leading this season? What are the top 5 best-selling smartwatches? Which car has the best 0-60 times? In reality, the most important question is arguably, "Am I doing well compared to my competition?" That's where benchmarks come in, and they're everywhere – from tech, health, and of course the business world.

Of course, there are benchmarks in the world of Ecommerce too. For example, Fortunet recently released their benchmark, offering a large set of metrics for Amazon Sellers, such as Advertising Cost of Sales (ACoS), Conversion Rate, or Inventory Performance Index. These KPIs are important for sellers to reflect on their performance, but also for those willing to invest in these businesses.

Here's the catch, benchmarks come with limitations, and a simplistic reading can lead to a flawed vision of the performance of a product, strategy, or business.

Think of ecommerce metrics and benchmarks as the smartwatch on your wrist. It tracks all sorts of things, collecting millions of data points about your heart rate, calories burned, and steps taken. 'Benchmarks' might tell you that a healthy resting heart rate falls between 60 and 100. But what about an elite athlete whose resting HR is around 50? Would that be a red flag? This is where medical expertise is important to properly interpret health metrics. Ecommerce isn't any different. A combination of business knowledge and reliable analytics is key for making the best decisions.

I think benchmarks such as Fortunet can be very valuable, as they are easy to read and give a quick picture of a business's performance. Yet, in order to get the full benefits of them, understanding how each metric works, and the specificity of each market is key. Is a 20% conversion rate always better than a 10% rate? While many people would say yes, it often isn't that simple. That is why I would like to go over some of the metrics found in most benchmarks reports for Amazon Sellers, and give a few examples of why context matters when evaluating business performance. (article continues on the right)

ACOS, TACOS, and Total Ad Sales %

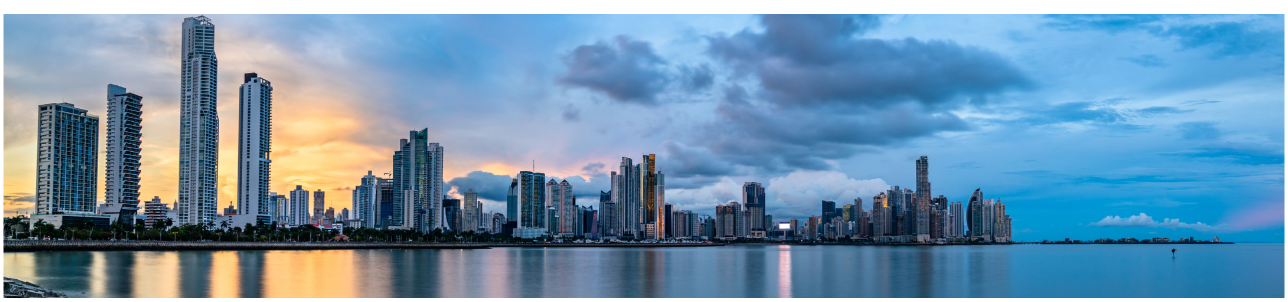
As a reminder, ACoS (Advertising Cost of Sales) is a metric used on Amazon to measure the efficiency of an advertising campaign. It's calculated by dividing the total spend on advertising by the total sales generated from that advertising, resulting in a percentage. TACoS (Total Advertising Cost of Sales) gives a broader perspective. It's calculated by dividing the total advertising spend by the total revenue (including both ad-driven and organic sales). Finally, Total Ad Sales % is the percentage of your total sales that are directly attributed to your advertising efforts.

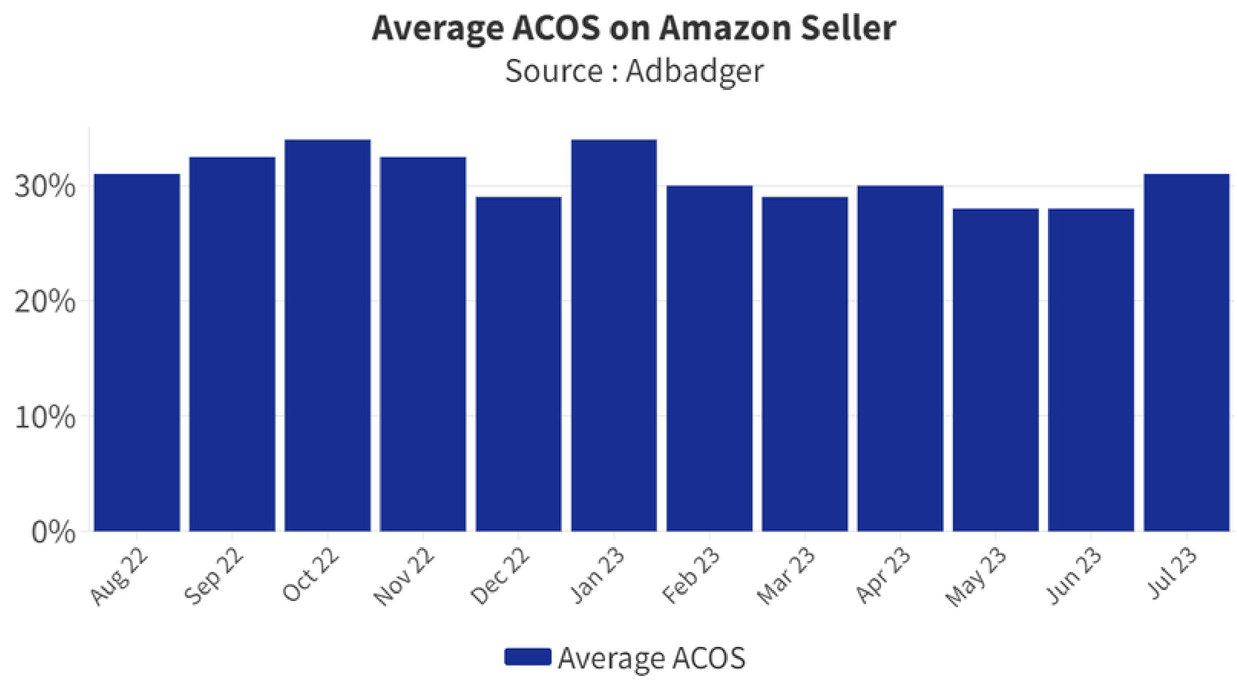
	Low	Moderately Low	Fair	Moderately High	High
ACoS	<25%	25%-33%	33%-45%	45%-60%	>60%
Ad Sales %	<25%	25%-35%	35%-45%	45%-60%	>60%

Fortunet benchmark for the ACOS and Ad sales % metrics

It generally makes sense to seek a lower ACoS, as this has an important effect on profitability. Also, a low portion of sales attributed to advertising is generally a positive sign, suggesting higher organic sales and most likely better rankings and a better rate of returning customers.

The numbers in the table above are interesting, and they appear to fit the average ACoS experienced by Amazon sellers.

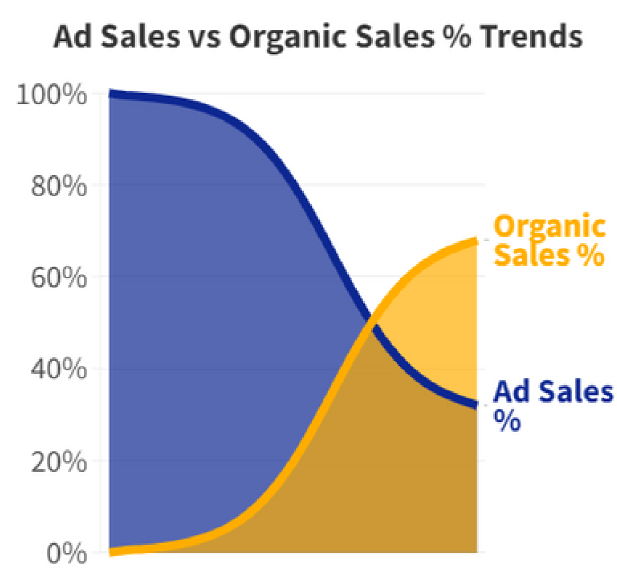




For individual sellers, this gives a good idea of how they rank compared to the average sellers, but what matters the most is how it compares to their direct competitors. The ACoS will vary based on how competitive a seller's category is, in the peak of the season for highly seasonal products, or when a new trend emerges. The sales price also has an important impact on a company's ACoS: a $2 average advertising cost on a $10 item results in a much higher ACoS than a $3 advertising expense on a $100 item sold.

Timing also matters when reviewing advertising metrics. A new product that just launched, with a very low organic ranking, will often need a higher advertising budget to generate traction, improve rankings, and accumulate reviews. Once the sales pick up, it becomes less costly to advertise, and the metrics improve. That is why the Ad sales % tend to decrease over time, in favor of the Organic sales %.

In a longer time frame, it is important to notice that advertising becomes more and more important on Amazon, with sponsored listings taking up a lot more space than they did ten or even five years ago. For all these reasons, it is important to look at recent benchmarks, and consider timing and industry specificities to evaluate a business's performance.



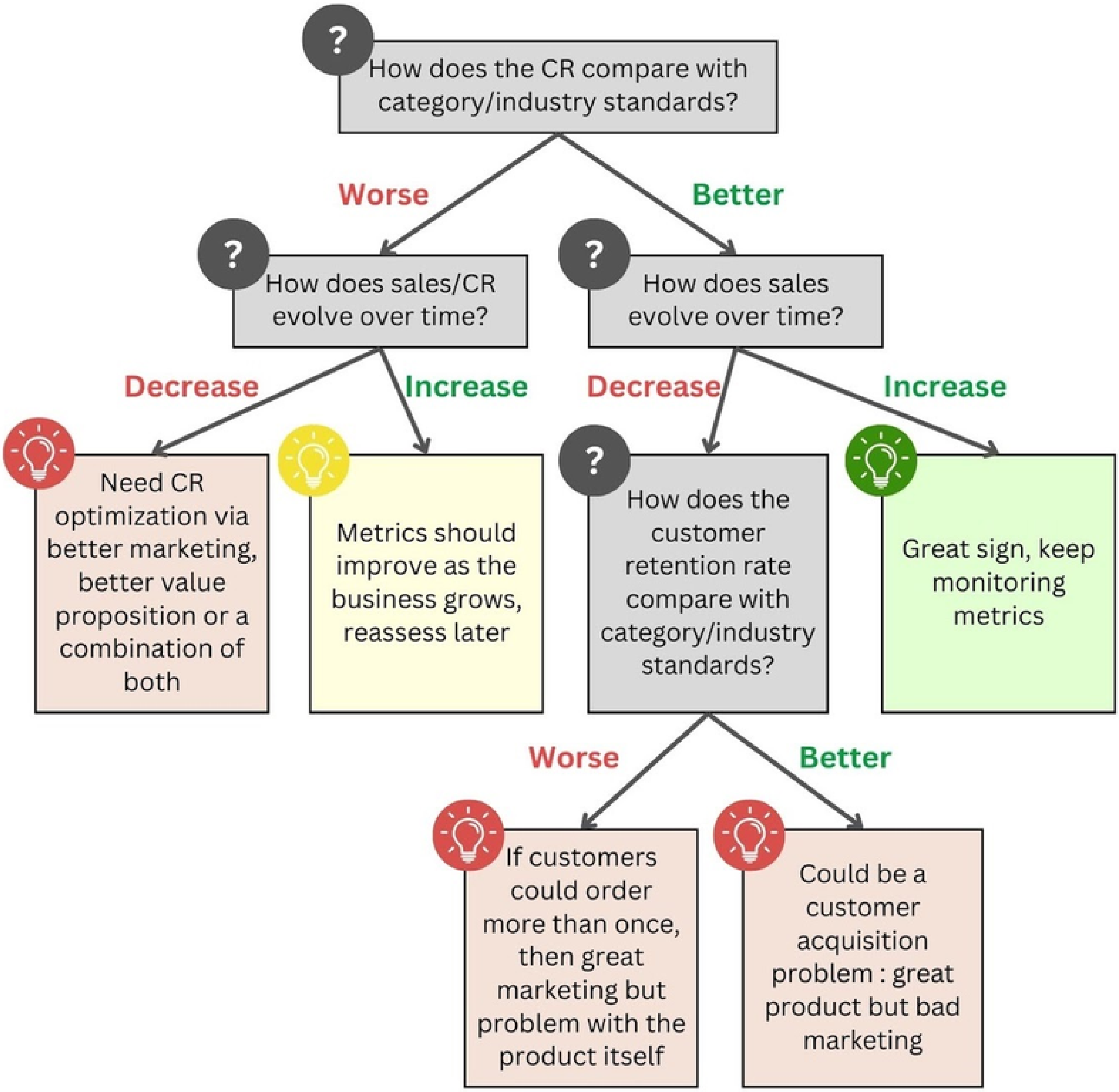
CONVERSION RATE, REPEAT CUSTOMER RATE AND CLICK THROUGH RATE

Conversion Rate (CR) is a great example of a metric that is often misunderstood. Going back to the question in the introduction, is a 10% CR inherently better than a 20% CR? The easy answer would be to say “yes”, the 20% CR would generate more revenues and is therefore better. The real answer is, it depends. Evaluatting this metric in isolation does not paint a full picture. Let’s review another example: a 10% CR for a product that generates $100K a month in sales vs. a 30% CR on a similar product that does $1000 a month in sales. The 10% CR product sounds more interesting, not only because of the higher sales, but also due to the potential for improvement. For similar products in a given market, it is far easier and cheaper to improve the CR from 10 to 12% than from 30 to 32%.

But what does an exceptionally high conversion rate, say 50% or above, say? A first possibility is that you have an amazing product that most people will purchase once they come across it, and an amazing value proposition. It is like selling $10 bills for $5, a no-brainer deal. The alternative is that something else contributes to this high CR.

A metric that can inflate the CR is the customer retention rate. Retaining customers is a great thing, as the cost per conversion is lower than for acquiring new customers. Loyal fans can also help you promote your product, for example via social media and user generated content.

The problem is when a business only has a loyal customer base, but struggles to get new customers. A symptom is a high customer retention rate and high CR (loyal customers see your product on Amazon search results, and are quick to reorder), coupled with low or even negative sales growth. Unfortunately, Amazon does not allow sellers to segment their customer data and does not differentiate between CR for loyal fans and for new customers. The point is, CR and customer retention rate should be observed with sales growth in mind to have a significant meaning. Below is a simplistic interpretation of CR, that highlights some specificities based on other metrics.



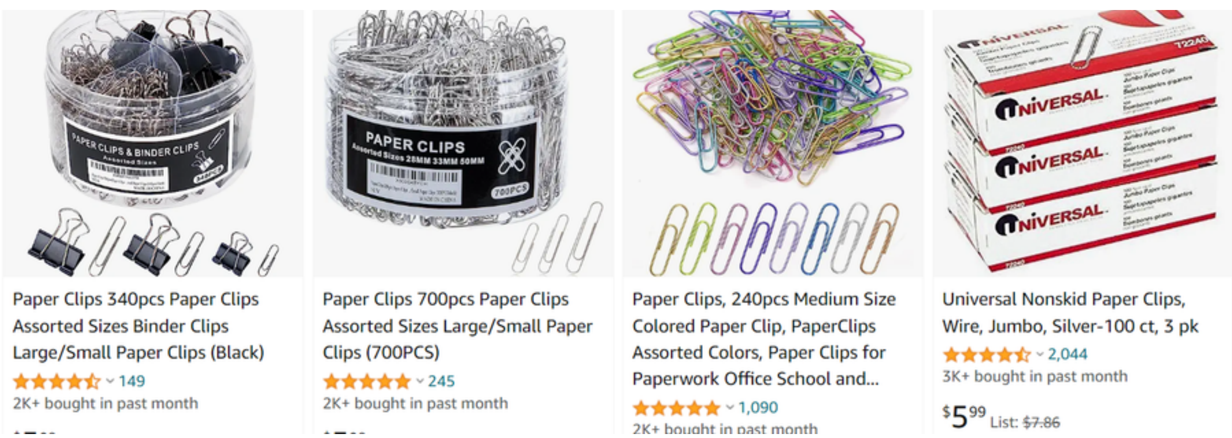
Another important point is the influence of product categories and industries. Different industries cater to different customer needs and expectations. For example, in the fast fashion or other fast-moving products sectors, consumers often make emotionally driven, impulse purchases, leading to higher conversion rates.

In other categories, for example luxury products or when doing B2B sales, purchase processes are more complex and people consider their options for a long time, resulting in lower conversion rates. What's con

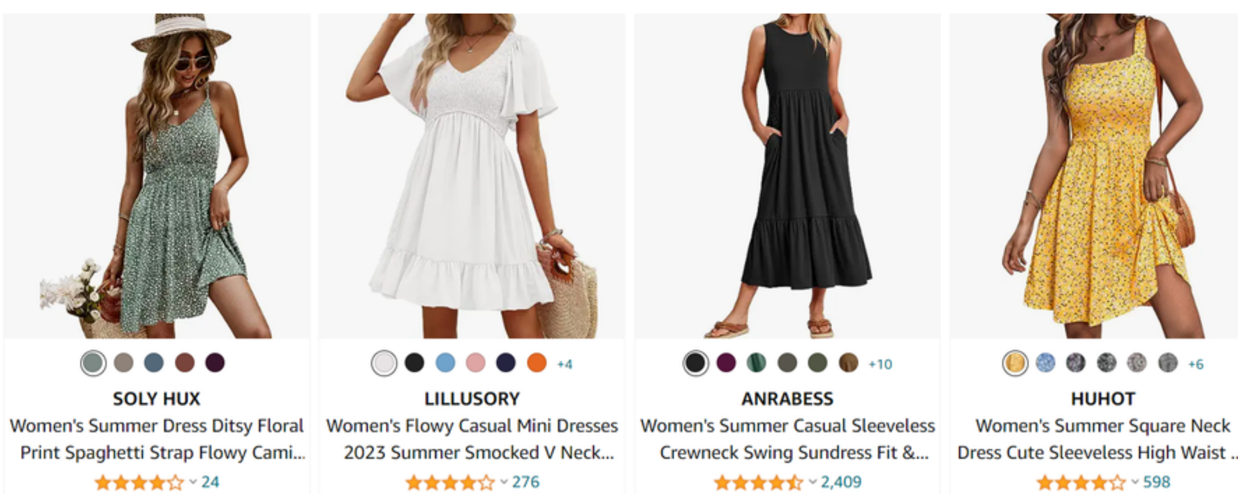
PRODUCT RATING, MARKET SHARE, AND REFUND RATE.

As you know, these metrics are key for any ecommerce business. Market share has a very strong correlation with revenues, product rating directly impacts click-through rate and conversion rate, and refund rate makes a significant difference in net profit. According to Fortunet's benchmark, a high product rating is anything above 4.6 stars. That is most likely true across the whole marketplace, but it's important to note that this is highly product-dependent and should be evaluated in comparison to competitors' ratings.

Is a 4.6 high if most of your competitors have 4.8 or above? Is a 4.0 low if your competitors are all under 3.5? Many factors influence the average rating across a niche. For example, utilitarian basic products tend to have a high rating. How hard is it for a company to make low-quality paper clips? The vast majority of products have between 4.5 to 5 stars displayed on Amazon. On the other hand, fashion items tend to have, on average, lower ratings. This is often due to sizing issues. It is difficult to estimate how an item will fit; some brands may use misleading pictures, resulting in disappointed customers who may post negative reviews.



▲ Search results for "paper clips" on Amazon



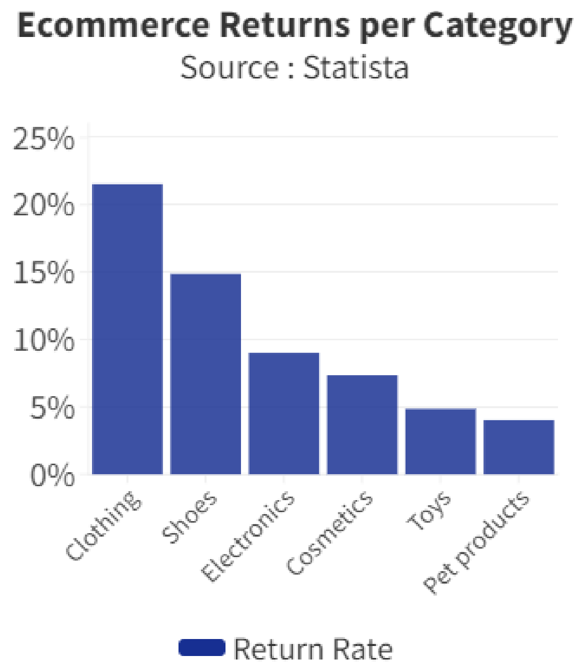
▲ Search results for "summer dress" on Amazon

Product ratings also tend to be influenced by location. For example, a 4 out of 5 stars rating for a restaurant in Europe is considered good, whereas in North America, such a rating may be seen as pretty average.

Similarly, return rates are widely influenced by the product category. Statista conducted a survey asking people, 'Which of these kinds of articles have you sent back after an online order in the past 12 months?' Unsurprisingly, the results show massive discrepancies among product categories.

It is safe to assume return rates are even higher when customers order on Amazon. The ecommerce giant has a liberal returns policy, shipping is free for millions of Prime members, and the return process is relatively easy. This example shows why context matters: a company may experience very different return rates on Amazon compared to their D2C website. Another statistic worth mentioning is the 58% of customers in the U.S. who admit to occasionally buying items with the pre-planned notion of returning them later. Customers may purchase an item for short-term use, only to return it, or even falsely claim it was never delivered. While fraudulent returns are not the main reason for returns, they are not uncommon and inflate return rates.

Market share is not easy to evaluate and should not be reviewed in isolation. The industry and category are, of course, very important (would you rather be a small fish in a large pond or a big fish in a small pond?), but historical data plays a large role.



It isn't uncommon for products with a large market share on Amazon to slowly decline. These products were typically introduced over a decade ago, accumulated a long sales history, thousands of reviews, and stayed at the top of their categories for years. New competitors entering the market, sometimes with a better value proposition, can challenge these market leaders and erode their market share over time.

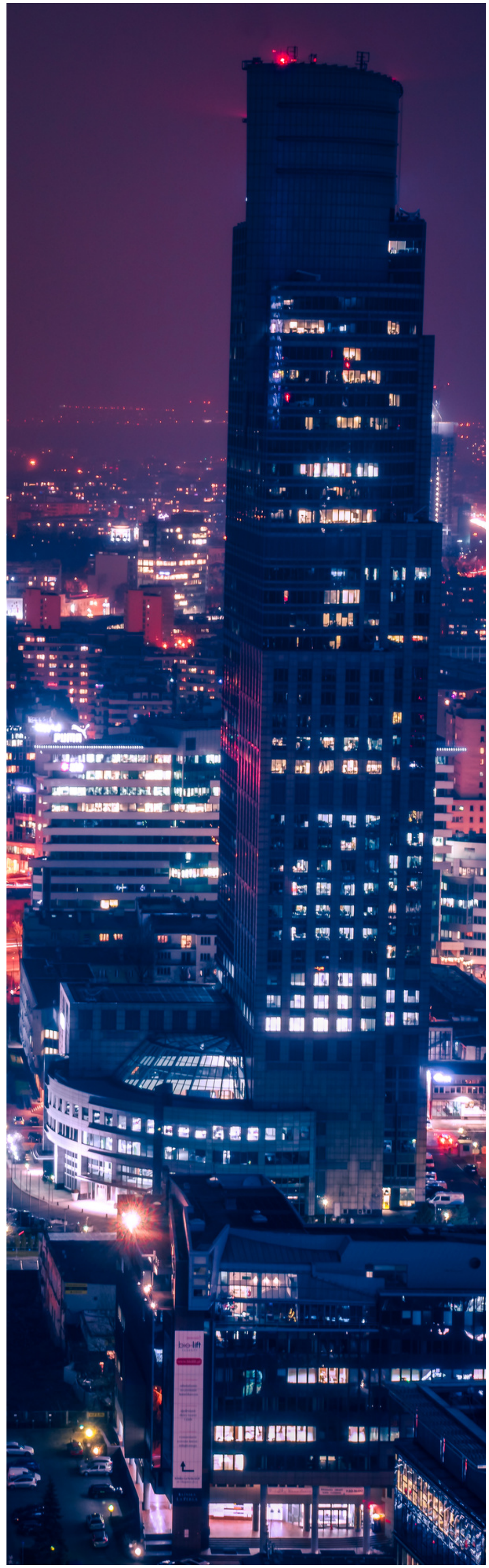
Conversely, some sellers adopt a very aggressive approach during product launches, selling their product at a loss. The low prices and high sales velocity help them quickly gain market share. But once they try to become profitable and increase prices, sales velocity and rankings decline, and they experience a drop in their market share figures.

GROSS MARGIN, COGS AND FULFILLMENT FEES

One of the most important tips I have for new ecommerce entrepreneurs is to have a good understanding of basic finance and know their cost structures well. It is no surprise that gross profit margin, COGS (Cost of Goods Sold), and Fulfillment Fees are often discussed in ecommerce benchmarks.

Again, the differences between industries are significant. The gross margin is also heavily influenced by the business model. A company manufacturing and designing its own products tends to have a better gross margin than a distributor acting as a middleman. A business selling private labeled products will generally have a better gross margin than someone doing dropshipping. The risk and initial investment vary between each business model. Gross margin benchmarks are a very useful indicator, but a good gross margin/low COGS does not necessarily mean the company will be profitable.

Fulfillment fees and COGS are only part of a company's cost structure, along with overhead costs, advertising, storage fees, etc. When looking at financial reports and data on cost structures, I like to look at current numbers but also at the potential for improvement. If a company sells coffee makers and pays alarmingly high fulfillment fees as a percentage of the sale price, there isn't much to do besides increasing the price or making the item smaller/lighter. However, if the business sells coffee pods, the customer may be interested in buying multiple units. Setting up multipacks for items customers tend to buy in bulk is a great way to drastically decrease fulfillment fees and increase revenues.



INVENTORY PERFORMANCE INDEX

I'd like to end this article with a quick note on the Inventory Performance Index (IPI). This metric, often included in performance benchmarks, is, in my opinion, poorly understood by professionals with little experience with Amazon. The IPI is a metric used by Amazon to evaluate the efficiency and effectiveness of how sellers manage their inventory on the Amazon marketplace. The IPI is scored on a scale from 0 to 1000. Amazon sets a minimum threshold score (which can vary), and sellers must maintain their score above this threshold to avoid penalties.

It is, of course, very important for sellers using FBA to maintain their IPI above the required threshold. Not doing so can cause storage limitations and other penalties, impacting the ability to stock and sell products on the marketplace. However, I would argue that more is not always better, and maximizing the IPI can have negative consequences for a business. Very high inventory levels might boost your IPI but can increase storage costs and the risk of unsold inventory. Holding too much inventory can negatively impact the company's ability to invest in other ventures, while increased storage fees directly affect profitability. That is why this metric should be optimized rather than maximized.

CONCLUSION

As you can see, as much as ecommerce benchmarks are great tools and offer valuable insights, they demand a nuanced interpretation. Some metrics, like the ACOS or CR, may look straightforward but are heavily dependent on market trends, industry specifics, or product category. For others, such as Fulfillment Fees or COGS, I also like to consider the potential for improvement before forming an opinion on the business's future prospects. Finally, some metrics like IPI tend to have a negative return when they are too high, and the tricky part is to find the optimal value to maximize growth and profits.

https://www.adbadger.com/blog/amazon-advertising-stats/

https://www.statista.com/topics/10716/e-commerce-returns-in-the-united-states/

Amazon Lowering Their Fees!*

(*Only Applies When Competing With Shein)

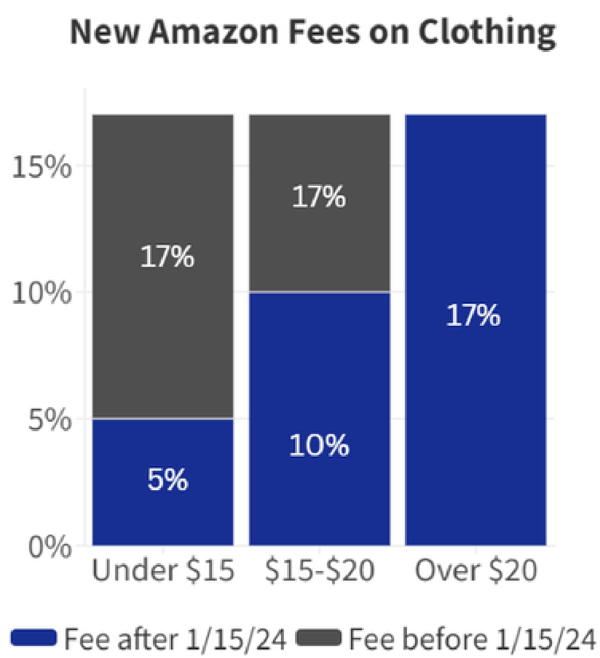
Did you know that consumers throw away an estimated 60% of clothes within a year of purchase? This is shocking to me, as I still own a T-shirt or two from my high school years. The fashion industry is responsible for about 10% of global carbon emissions, more than international flights and maritime shipping combined. Companies mass-producing a continuous flow of new, cheap designs like Shein have a disastrous impact on the environment.

Some experts also claim that fast fashion has a negative impact on customers' mental health, leading to feelings of inadequacy if they don't regularly purchase new items, to impulsive buying decisions, followed by regret and guilt. We have all bought something online and regretted it weeks later, but the fast fashion industry takes it to the next level.

Besides consumers and the environment, established companies are also suffering from the recent dynamics of the industry. Notably, Amazon reacted with a surprising strategic move, a very strong signal that they want to be better positioned to compete with Shein.

AMAZON LOWERS FEES FOR LOW-PRICED CLOTHES

Shortly before the Shein IPO, Amazon announced they were going to reduce the fees they charge their 3rd party sellers on clothing products priced below $15 to 5%. For items priced between $15 to $20, fees will drop to 10%. That is a massive improvement from the previous 17% they were charging. For items priced above $20, prices will not change.



This is newsworthy, Amazon very rarely decreases fees for their sellers. The fees 3rd party sellers are paying to Amazon are such a large source of revenue that they must have very strong reasons to reduce them, even if only focusing on very specific items. It is very clear that this decision targets competitors in the fast fashion industry. These changes will go into effect January 15, 2024, once the holiday season is over.

WHAT DOES THAT MEAN FOR 3RD-PARTY SELLERS AND FOR SHOPPERS?

This new strategy will directly impact shoppers as well as 3rd party sellers. I am not qualified to analyze how a more favorable environment for fast fashion brands will influence customers' mental health and perception of environmental issues. However, I am certain that this will give them more options at lower price points. As of 2023, Amazon Prime has a total of 174.9 million users in the United States, and certainly many of them will enjoy free shipping and free returns on low-priced clothes.

The situation is darker for 3rd party sellers. A decrease in selling fees sounds like a great thing and immediate improvement of their bottom line. Unfortunately, the industry is so competitive that this will most likely trigger further price wars and lower prices.

	Before	After
Sale Price	$12	$10
COGS	$2	$2
Fees	$2	$0.5
Logistics	$5	$5
PPC Ads	$2	$2
Profit $	$1	$0.5
Profit %	8%	5%

Example of how this could affect sellers

In this fictional example above, a company decides to lower their price from $12 to $10 to reach the 5% fee threshold and be more competitive. Their fees decrease by $1.5, but every other expense remains the same. At the end of the day, the company will need to sell twice as many units as before to maintain their total net profit.

As you can see, a decrease in fees does not always mean a higher net margin for sellers. But again, this is just a fictional example and there is no way to accurately forecast how things will play out.

COLLATERAL DAMAGE OF THE AMAZON-SHEIN PRICE WAR

The intensifying competition from Shein and Temu in the fast fashion industry, and the attempts from Amazon to capture part of this market are significantly affecting established retailers like Etsy or Gap. These companies are struggling to match the low prices and rapid production rates of the fast-fashion giants. It is also putting a lot of pressure on advertising costs.

This competitive pressure is forcing these traditional retailers to reevaluate and innovate their strategies, focusing on differentiating aspects like customer service, store experience, or unique marketing approaches to retain customer interest and market share. Competing on price can be a winning strategy, but in that case, established companies will need to provide value beyond pricing. That being said, with the ever-increasing cost of logistics, I wonder how ultra-low-cost clothing sellers will remain profitable. If large companies such as Amazon start charging for returns (yes I know, this sounds crazy), customers may return to retail stores to try clothes before purchasing.

CONCLUSION

Amazon's surprising but logical strategy to lower their fees for some clothing items will shake things up in the fast fashion game. It's a bold move to attract customers with lower prices and compete with Shein, but it also means sellers have to get creative to stay profitable in a market where prices keep dropping. This Amazon vs. Shein showdown isn't just about who sells more tees; it's reshaping the future of the fast fashion industry. With increasing costs and pressure on traditional retailers, we can expect continuous change in that space.

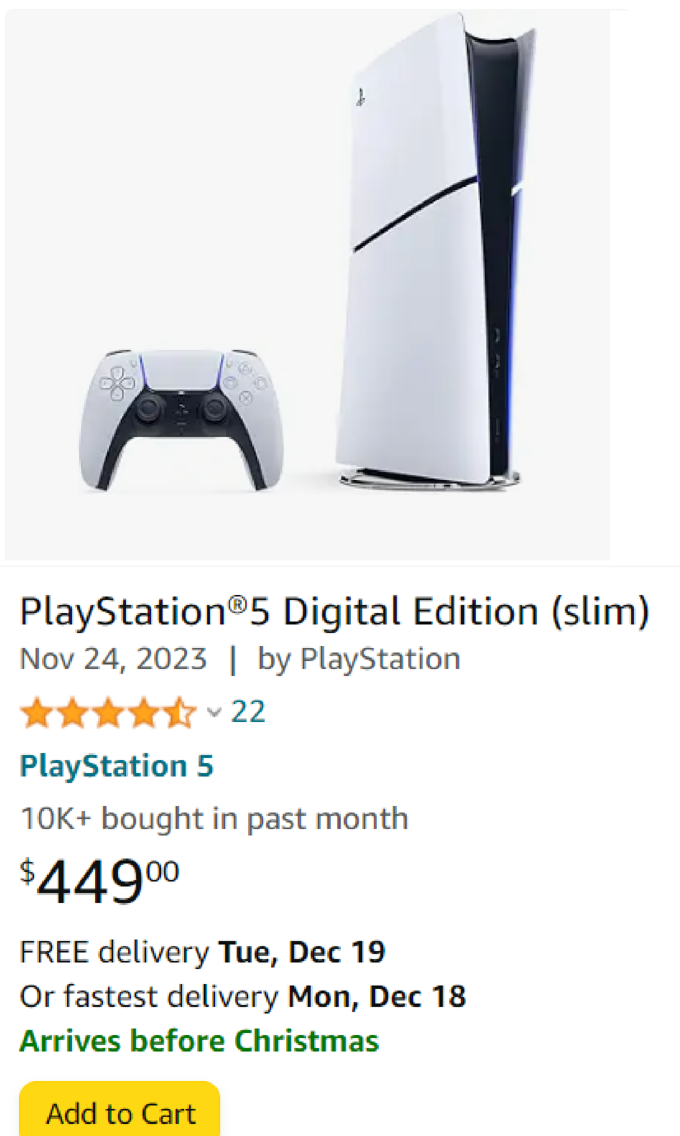
https://www.pcmag.com/news/amazon-drops-seller-fees-on-inexpensive-clothing-to-compete-with-shein
https://www.fibre2fashion.com/industry-article/8736/fashion-waste-is-rubbish-yes-but-this-is-not-the-issue
https://capitaloneshopping.com/research/amazon-prime-statistics/

HOLIDAY COUNTDOWN
HOW RETAILERS MANAGE CUSTOMERS EXPECTATION WHEN SHIPPING ORDERS

As we get closer to Christmas, many of us prefer to order our presents online and skip the long lines in grocery stores. I make the same mistake every year, waiting until the very last minute to start shopping. And every year, I ask myself the same question: Will my stuff be delivered before Christmas?

For businesses, the holiday season is often a very important time, and setting the right expectations for customers while maximizing sales is key. Let's take a look at how big retailers do it, what we can learn from them, and what the best practices are.

Each year, retailers adjust their strategies to cater to the holiday rush. This year is no different, with several big names laying out their plans early. Amazon, the e-commerce leader, has not set a concrete shipping deadline. They have a label on each product page that indicates whether the products will arrive before Christmas or not. This depends on the customer's location, whether the item is shipped by Amazon or the merchant, and where the item is currently stored. This is very important for customers, but also stressful for 3rd party sellers who don't want to miss out on sales.

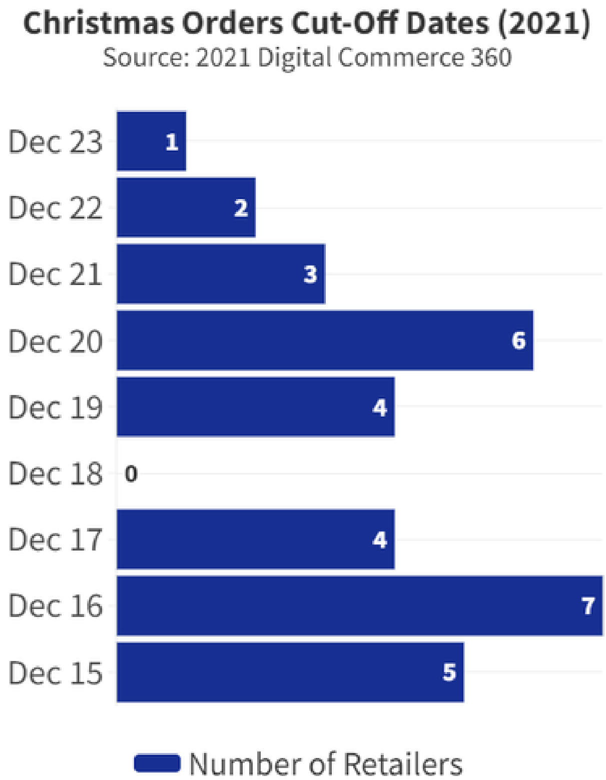


As you can expect, having this badge greatly improves your conversion rate for desirable Christmas presents.

Similarly, Best Buy and Walmart have not announced official shipping deadlines, but both provide two-day shipping on many items. Estée Lauder and Kay Jewelers prominently display their shipping cut-off dates on their websites. For example, Kay Jewelers set one of the latest cut-off dates seen among major companies. Customers can, in theory, order up until the 23rd and still receive their order on time. Generally, it is very important to give customers clear expectations. Not doing so and shipping orders late can of course upset customers and damage the brand's reputation. But it also has an important financial cost. A retailer not clear on deadlines, or not meeting these deadlines, can face a customer service nightmare and pay high reverse logistics costs, especially if they pay for part of the returns.

To help with shipping delays, many retailers are pushing omnichannel solutions. Options like Buy Online Pick up In-Store (BOPIS) or curbside pickup are available. For example, Yankee Candle prominently advertised its BOPIS service, reflecting a broader trend among retailers to offer more flexible shopping options.

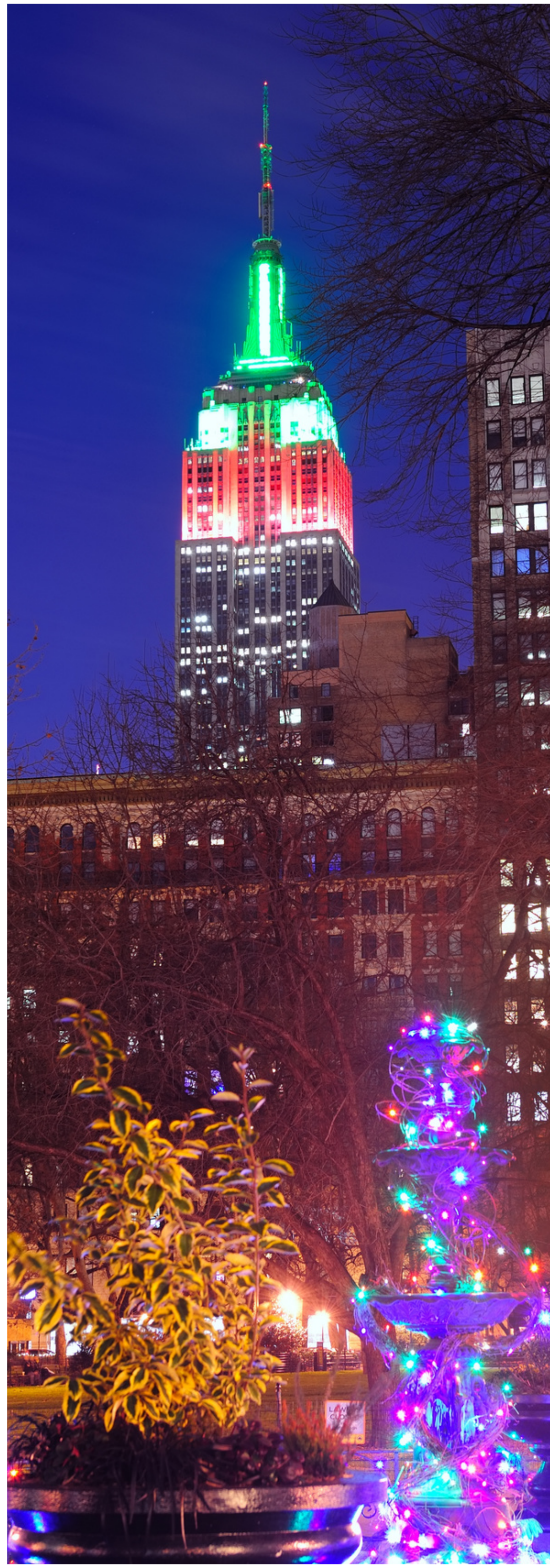
Carriers like USPS, UPS, and FedEx have also published their holiday schedules. USPS states that December 16 is the last day for ground service shipping. UPS and FedEx have similar deadlines, with services like UPS Three-Day Select and FedEx Ground having cut-off dates around mid-December.



Survey data suggests a large number of consumers start their holiday shopping well before the traditional peak. This shows how important it is for retailers to make it attractive to shop early. Doing so minimizes the return rate and limits the need for customer service reps during the peak season. Retailers can also offer alternative shipping options, with faster service.

An interesting strategy is the "Free Shipping Days", which makes it attractive for budget-conscious shoppers, and makes it easier to forecast demand and limit the peak for sellers.

Navigating the holiday shipping season takes planning, awareness, and strategic thinking. Shoppers have high expectations and want to receive their orders on time. For online sellers, the key is finding the right balance between maximizing sales while minimizing the risk of getting a high rate of returns and upsetting customers.



https://www.wcvb.com/article/holiday-shipping-deadline-2023/46028179#

https://androidpolice.com/holiday-shipping-deadlines-2023/

2024 AMAZON FBA FEES CHANGES WHAT YOU CAN EXPECT TO PAY NEXT YEAR

If you're selling on Amazon and plan to continue doing so next year, I advise you to stock up on aspirin. Amazon has announced changes to their fee structure, and it will become a lot more complicated to figure out your cost structures when selling on the marketplace.

Some fees will decrease, others will increase, and new fees will be introduced. While selling on Amazon in 2023 could be a little confusing for new entrepreneurs, I imagine that even veterans will need time to adjust to these new fee structures.

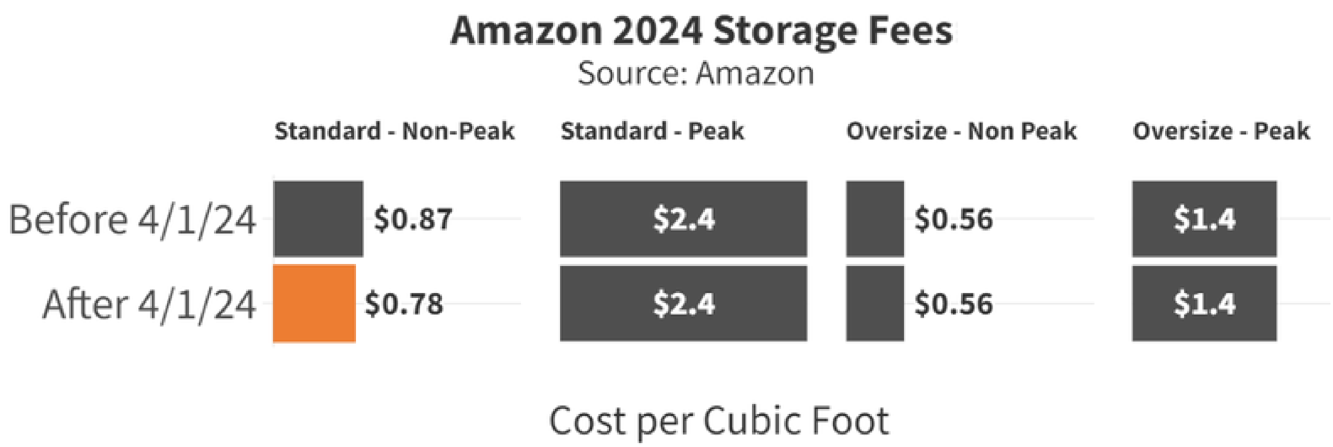
Let's go over the December 5th statement from Amazon explaining what changes will be made, and see who will see their expenses increase the most (and maybe the lucky ones who may pay less than in 2023). I will summarize the fees and try to make them as easy to understand as I can.

AMAZON FEES CHANGES IN 2024 EXPLAINED

In the first half of 2024 (exact date varies), Amazon will implement several changes in their fee structure. Essentially, outbound fees and storage fees will decrease, while Amazon will charge more for inbound shipments. Let's go over these fees first, then we'll talk about what it really means for sellers.

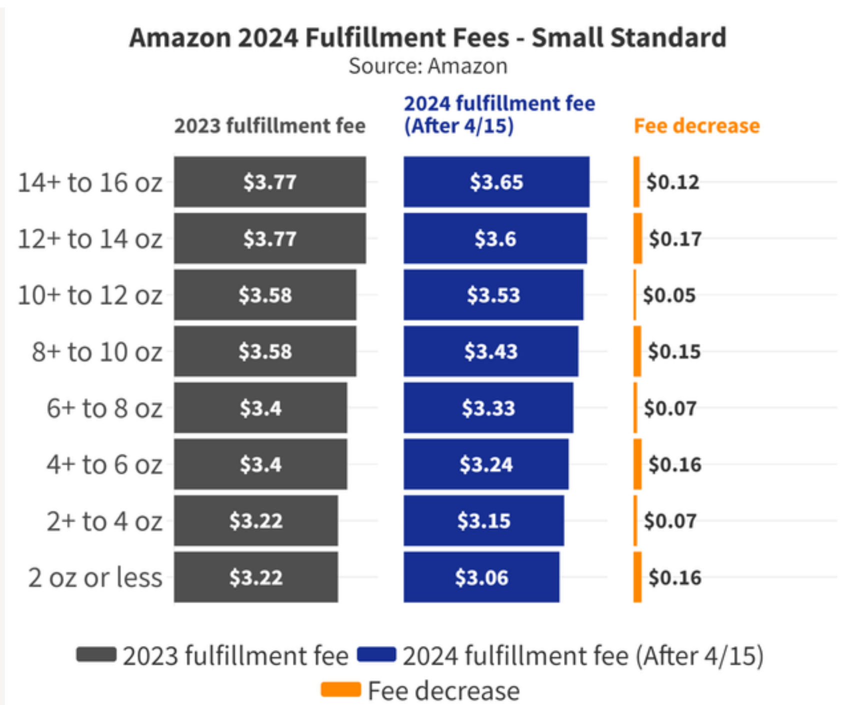
FEES THAT WILL DECREASE

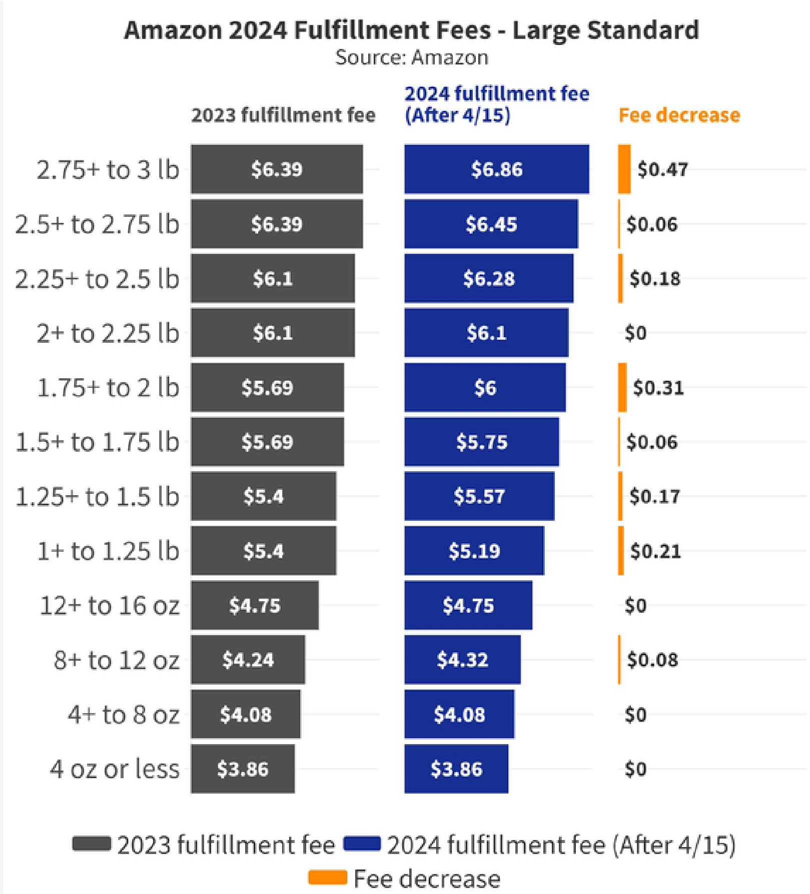
Let's start with the good news. In addition to the referral fees decrease on low-cost items (see my previous article from this month), Amazon will reduce the non-peak (January-September) monthly storage fees for standard-size products by an average of $0.09 per cubic foot, from an average of $0.87 per cubic foot to $0.78 per cubic foot. There will be no change for oversized items. This change will apply starting on 4/1/24.



Amazon also states that they will decrease FBA fulfillment fees for standard-sized products by $0.20 per unit and for oversized products by $0.61 per unit. This change will apply starting 4/15/24. Amazon will also make changes in shipping tiers, adding more tiers to their pricing structure.

They will also offer a discount on fulfillment fees in the range of $0.04 to $1.32 for items that can be shipped in their existing packaging. This seems fair, as it minimizes packing materials costs. It is also good for the environment; some sellers may be encouraged to make sure they can enroll in the Ships in Product Packaging (SIPP) program. Sellers can expect to benefit from this discount starting 2/5/2024.

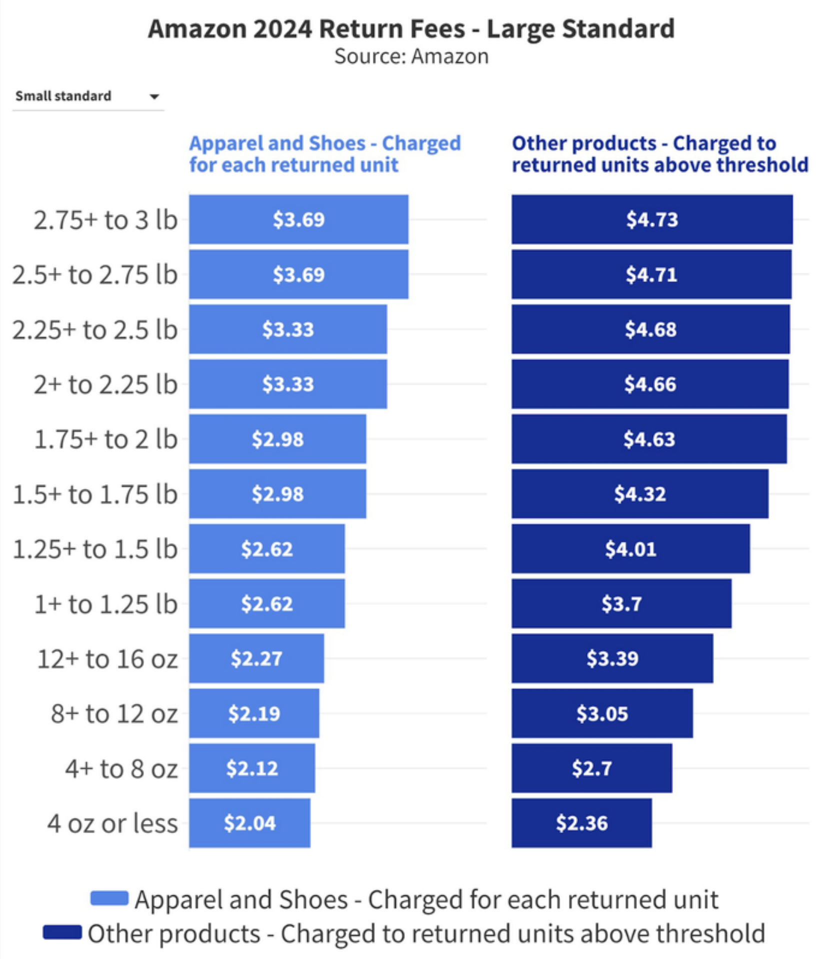




Finally, while not affecting shipping directly, Amazon changes their Vine program fee structure, charging less for smaller quantities of units enrolled.

FEES THAT WILL INCREASE:

Amazon will expand the returns processing fee to apply to products with high return rates compared to other products in their categories, with the exception of apparel and shoes. It will apply starting 6/1/24. This fee starts at $1.78 for the smallest items, up to $4.73 for items under 3lbs. For the largest and heaviest items, this fee sharply increases, for example, $157.35 for a 150 lbs item.



NEW FEES

In addition to these changes to existing fees, Amazon will introduce new fees, mostly regarding storage and inbound shipments.

INBOUND SHIPMENT FEE

Customers love fast shipping, and to ship as fast as possible, Amazon dispatches inventory in their fulfillment centers (FCs) over multiple strategic locations. Shipping inventory to multiple FCs has a cost, and Amazon will pass part of that cost onto sellers using FBA. Sellers will now have the option to ship inventory to multiple FCs to avoid paying the new inbound placement service fee, or ship to one location and be charged an average of $0.27 per unit for standard-sized products and $1.58 per unit for Large Bulky-sized products.

These fees will be effective starting March 1, 2024, and the fees will be charged 45 days after products are received.

LOW INVENTORY FEE

Items with limited days of inventory are a challenge for Amazon, which claims it makes it difficult to manage to ensure fast shipping to customers. Amazon will introduce a new low-inventory-level fee for standard-sized products that have less than 28 days of inventory. The fee ranges from $0.32 to $1.11, depending on the product size and increases with days of inventory decrease. This will be, in my opinion, the most challenging new change for sellers. The full breakdown with examples is provided by Amazon on Seller Central.

THE IMPACT ON SELLERS USING FBA AND ON CUSTOMERS STORAGE

For those of you selling on Amazon, you know that few things are more terrifying than a key ASIN appearing out of stock. Not only are you missing out on sales, but organic rankings are tanking and climbing back can be difficult when the product is back in stock. However, overstocking can be expensive in storage fees and opportunity costs. Maintaining the optimal amount of inventory in Amazon FCs was already an important issue for sellers.

With the new low-inventory fee, sellers will have to adapt and in many cases, change their standard for how much inventory they want to carry at Amazon. When demand is steady, that should not be too difficult. Problems may arise when a product is highly seasonal, with low demand during most of the year and one or multiple spikes in the right seasons. But that isn't too bad, as experienced sellers know how to anticipate these variations in demand. The most difficult thing will be experimenting with product pricing or product creatives. If a price change experiment creates large variations in demand, sellers will have to adjust the quantities of inbound inventory to minimize these fees.

I can see some sellers benefiting from an overall decrease in storage fees, but many of them will start paying extra low-inventory fees. In my opinion, this change will be the most complex to navigate and companies will have a hard time estimating how much they will pay next year. I am hoping that measuring the cost of low inventory and tracking improvement will not be too difficult. That is certainly an opportunity for software companies designing tools for Amazon sellers, providing clear dashboards would be extremely helpful.

INBOUND AND OUTBOUND SHIPPING FEES

The price changes for outbound shipping are pretty straightforward. However, I think the key information is the new shipping tiers introduced by Amazon. Amazon used to charge $5.40 for an item in the 1-1.5lbs range. Starting 4/15/24, they'll charge $5.37 for an item in the 1.25-1.5 lbs range. That is only a $0.03 decrease. However, if the item weighs between 1 and 1.25lbs, the fee drops to $4.99, or $0.41 in savings. Sometimes, sellers will be able to find ways to lower the weights of their product (for example, using lighter or less packaging) to save a little more on shipping, by moving to the lower new tier.

For inbound shipping, time will tell how much more this will cost for sellers. Will it make sense to pay the surcharge rather than shipping to multiple warehouses? I do not have the data to tell you which way will be more cost-effective. What I can tell is that monitoring these costs will be important, as it contributes to decreasing overall profitability.

RETURN RATES

I feel like I've said it a million times this year: customers love free returns, but reverse logistics is a major expense for online retailers.

Amazon has a very liberal return policy compared to other retailers but certainly understands that customer service and processing returns are expensive. I would not be surprised to see a new "customer service" fee in the next few years. But for now, Amazon has introduced a returns processing fee for high return rate products compared to other products in their category.

This should encourage sellers to improve their product and listing qualities to minimize customer returns. Misleading images will continue to generate negative reviews for those using them, but will now cut into these sellers' bottom line.

The full explanation of this returns processing fee can be found on Seller Central, including how it will be calculated. Again, I am afraid that these fees will be difficult to measure and monitor by sellers, making the selling experience more confusing. However, it is generally important for sellers to maintain a low return rate and ensure customer satisfaction. The return rate threshold for each category will be announced by Amazon on May 1, 2024.

CONCLUSION

A good understanding of cost structures, revenue, and expenses is key for businesses to succeed. Selling on Amazon is no exception, and understanding how the platform changes can be challenging. I will personally analyze how the recently announced changes for 2024 will impact the e-commerce department I am managing, and I recommend other entrepreneurs do the same. The documentation on Seller Central may be intimidating, but it is a necessary read to figure out how to limit the cost increase as much as possible. I hope this article could help you understand the basics, and how your business will be impacted.

https://sellingpartners.aboutamazon.com/update%20to%20us%20referral%20and%20fulfillment%20by%20amazon%20fees

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NOVEMBER - DECEMBER 2023

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Francois Maingret