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ECOMMERCE NEWS

JANUARY - FEBRUARY 2024

BY

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Foreword

Wishing all the ecommerce wizards who are reading my content a Happy New Year! May your conversion rates soar higher than fireworks!

In every ecommerce entrepreneur's journey comes two important decisions: 1 - Which target demographic to address and 2 - On which sales channel to be on?

The beginning of 2024 was very exciting as e-commerce platforms are fighting for market share. While Amazon is still by far the leader in the US, no one can ignore the new Chinese entrants. Walmart is still flying under the radar, but for how long? The retail titan marketplace is becoming more and more strategic for brands.

Finally, I decided to include some case studies in this report. While these may not be relevant directly to your industry (if you are in the shoe polish or massage gun business, that is your lucky day), these give a good idea of how competitive Amazon and Walmart can be.

I hope you all had a great start to the year, and that you will enjoy this first report of 2024.

François Maingret

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THE FALL OF ZULILY

And Why Shifting Customers Expectations Can Kill Once Booming Businesses

Back in December, several Linkedin posts caught my eye: these were about Zulily laying off part of their workforce, updates by former employees. I have heard of the company and knew it was a significant player in the ecommerce space, but I did not know they were going through a rough time. My initial thought was that they were merely downsizing, like many other tech companies over the last couple of months. It was a few days after Christmas that I read the news about the company shutting down.

Why would such a company close their doors? A company shutting down is always a complex issue, but in Zulily's case, I can see that part of the problem comes from the evolution of the ecommerce landscape in the last few years, and customers' expectations. As Sergey Podlazav, a former employee, put it: "It's not one event that led to the fall of the company, it had to be a series of events." Let's try to figure out what happened to that company.

ZULILY’S HISTORY AND BUSINESS MODEL

Before we start, who is Zulily? Zulily is an American ecommerce company based in Seattle, and was established in 2009 by Mark Vadon and Darrell Cavens, former executives at Blue Nile. The company specialized in brand-name goods, and targeted mostly young mothers. Unlike traditional retailers, Zulily held no inventory, and chose instead to consolidate vendor-owned merchandise at its fulfillment centers or dropship directly to customers. Each day, Zulily offered different discounts, with sales typically lasting 72 hours. These discounts were an important part of their strategy, coupled with aggressive online advertising.

Zulily went live on January 27, 2010, initially focusing on children's apparel. In less than a year, it had become a cash-flow positive business. The company went public in November 2013, with 2.6 million active customers and $331 million in revenue, valued at $2.6 billion.

At this time, everything is going relatively well for the company, but growth begins to slow down. In August 2015, Liberty Interactive's QVC division acquired Zulily for $2.4 billion. Zulily's business model initially relied heavily on flash sales, but in 2015, the company reduced these in response to customer feedback. Retaining customers was challenging, and despite an increase in revenue in early 2015, the growth was slower than in previous quarters. Zulily began holding some inventory in warehouses to shorten delivery times, but faced quality control issues, including defective and incorrect products.

By 2023, things went south for Zulily. Following a notable decline in revenue in 2022 and 2023, Qurate Retail sold Zulily to Regent, L.P. in May 2023. The company faced multiple layoffs and downsized its headquarters. In December 2023, Zulily laid off over 800 employees and announced a going out of business sale.

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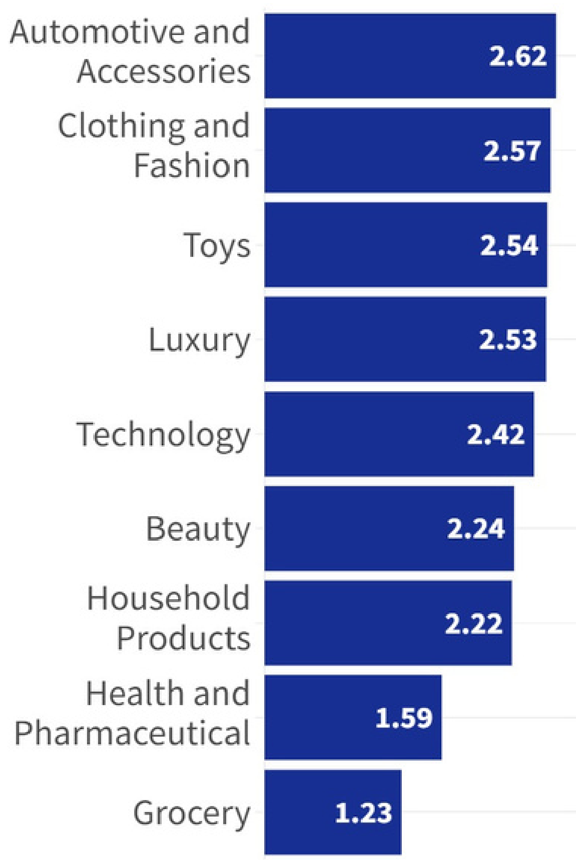
“It’s not one event that led to the fall of the company, it had to be a series of events.”

Sergey Podlazav, former employee at Zulily

WHY DID ZULILY FAIL?

If you've been in the industry for more than a few years, you know how fast companies can innovate and customers' expectations can change. Amazon significantly raised the bar for fast and free shipping. In 2023, waiting more than three days to receive their orders is unacceptable for many customers.

Expected Delivery Time per Product Category in Days
Source: Wunderman Thompson



The limitations of dropshipping did not help, as this model often lengthens delivery times, compared with traditional retail. When reading reviews on the company on TrustPilot, one of the most frequent complaints is slow shipping. Some customers report several weeks before receiving their orders.

If I made an impulse buy after seeing an ad for a flash sale, and had to wait 3 weeks to receive it, I wouldn't even remember what I ordered in the first place.

Zulily understood that they needed to get the products to the customers faster, and stored inventory in their warehouses. Unfortunately, other issues appeared and things did not improve fast enough. In a 2020 eMarketer study, free and fast shipping was the main reason customers bought from Amazon (79% of customers said it was important), trumping product selection (68%) or pricing (49%).

It's not all about fast shipping: the cost of shipping and returns also matters. For a long time, Zulily's shipping policy was another puzzle. Customers faced a somewhat convoluted system where the first order of the day incurred a shipping fee, but subsequent orders shipped free. This strategy intended to encourage multiple daily purchases, but I'd be surprised if many customers saw this offer as valuable.

Zulily's model was to offer frequent flash sales and advertise aggressively. However, this causes a few issues. The cost of advertising across all platforms has increased on the most relevant media for Zulily's, decreasing the return on investment. This is a problem, because the company heavily relied on these ads and struggled with retaining existing customers. I believe a low customer retention rate is a profitability killer for many companies.

I'm not saying flash sales are necessarily a bad thing. Flash sales create a sense of urgency and exclusivity, encouraging quick purchases. It initially attracts customers looking for deals and helps clear inventory quickly, reducing holding costs. However, Zulily struggled to maintain long-term loyalty. Customers were often inundated with too many deals, which caused decision fatigue. Additionally, the revenue growth slowed as the novelty of flash sales wore off, and the business model became less effective in a market where consumers valued consistent availability, faster shipping, and a broad product range. Loyalty was most likely higher on a platform like Amazon, where product discovery was easier, and availability was constant.

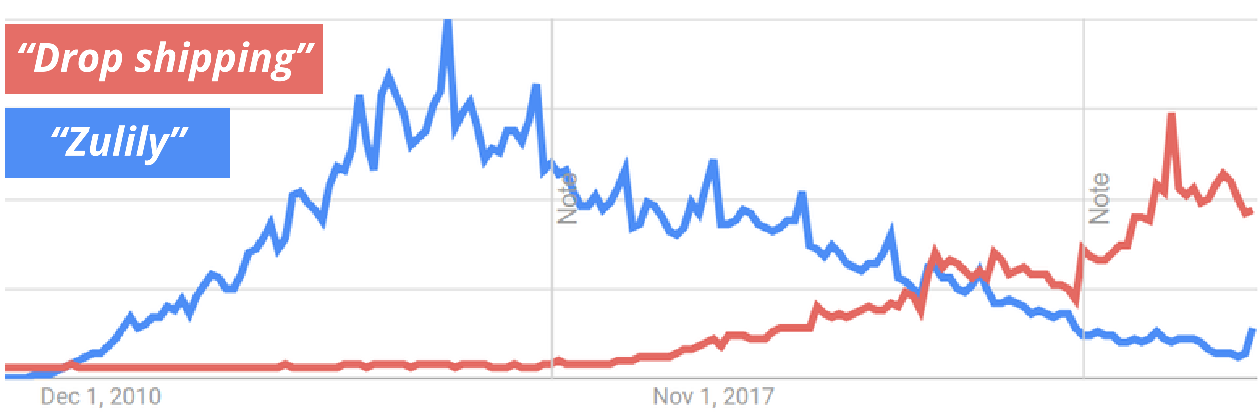
AN UNFAVORABLE BUSINESS ENVIRONMENT

The ecommerce environment became a lot more competitive in the last few years. As we saw in the section above, innovation created new customer expectations, which drove even more innovation from existing companies.

The market became tough, and strategies that worked in 2015 did not work anymore in 2023.

As dropshipping became more well-known, the market became saturated with dropshippers. This increased competition made it more difficult to find unique products and maintain profit margins, as many companies were selling similar or identical items. Barriers to entry were relatively low, and margins kept getting lower for dropshippers. Customers also became better at comparing prices and finding what they need at the best prices, thanks to new technologies.

Delivery times were of course an issue, and the COVID-19 pandemic strongly disrupted supply chains. These disruptions impacted the reliability and efficiency of dropshipping, resulting in lower customer retention rates. Now, dropshipping popularity peaked recently, well before Zulily decline, but in my opinion this only accelerated the decrease in revenues.



Google Trends Data

CONCLUSION

Zulily's decline is a very complex issue, but we went over some of the factors that contributed to it. I found several articles dating from 2015 about the acquisition of Zulily by Liberty highlighting some of the challenges the company had to deal with. With the fast paced ecommerce landscape, things did not improve for Zulily. The high customer expectations for fast and free shipping challenged Zulily's business model.

Their reliance on flash sales and aggressive advertising initially attracted customers but struggled with long-term loyalty and profitability due to high advertising costs and low customer retention rates. The competitive ecommerce environment and changing market dynamics, including the impact of COVID-19 on supply chains, seem to have impacted Zulily's operations. The end result was layoffs, and eventually the company going out of business.

TIKTOK SHOP INCREASES REFERRAL FEES

WHO WILL LOSE THE MOST?

If you're selling on TikTok Shop, or if you consider doing it, you've probably heard the big news: Referral fees will increase from 2% to 8% per transaction. TikTok Shops will also cut some of the subsidies they previously offered. While some immediate reactions following the announcements were dramatic, with people claiming the death of TikTok Shop, I feel that most people still see the platform as a viable channel.

My opinion is that TikTok Shop is a unique channel, with a strong value proposition. The lower fees were a tactic to increase the number of sellers on the platform and grow the marketplace. However, it isn't for every business and some will be more impacted by the new fees than others. I also believe that the importance of the subsidies cut was downplayed, and will have significant consequences this year.Let's see how these fees compare with other marketplaces and what I think will be the consequences for businesses.

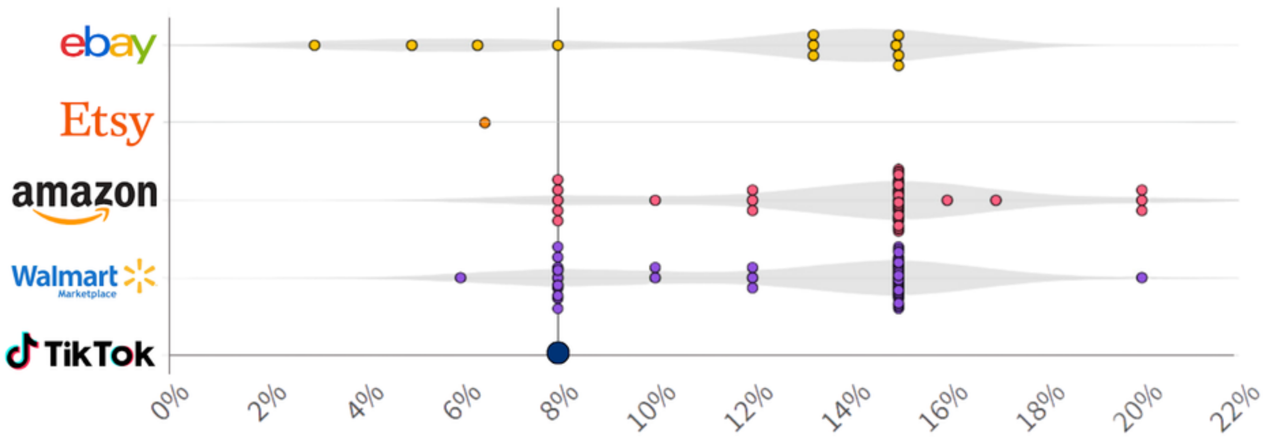
TIKTOK'S ANNOUNCEMENT AND HOW REFERRAL FEES COMPARE WITH OTHER MARKETPLACES

Let's start with the announcement, for those of you who may have missed the news. As you may know, TikTok Shop is working towards scaling its US business to a projected $17.5 billion. The recent announcement from TikTok stated that starting July 2024, the fees will increase from the current 2% to 8%, with a temporary hike to 6% starting April 2024. This gradual increase aims to ease sellers into the new structure and reflects TikTok's strategy to align its fees with industry standards, ensuring value continues to be delivered to customers. TikTok Shop is expected to take substantial losses despite high consumer spending within the app. The fee increase is part of their plan to improve financial performance.

No one likes to hear about taxes increasing, I get it. But how bad is it really? Several sources reported that the newer fees are aligned with industry standards. I looked at referral fees across various platforms, and it seems like even with this hike, TikTok Shop is still quite competitive.

For most product categories, Amazon, Walmart, and eBay charge 15%. For others, the standard is 8% or 12%. In a few cases, and for Etsy, the fees can be at 6.5% or lower. But Amazon and Walmart charge 20% for some product categories.

Comparison of Category-Specific Referral Fees Across Leading Online Marketplaces



Referral fees for the initial pricing tiers within a category across various online marketplaces. It specifically Represents the lowest fee percentage within each category, applicable when certain sale price thresholds are not exceeded, excluding tiers specific to items priced under $10.
The data presented is gathered from the publicly available fee policies of the respective marketplaces as of the current year. For a detailed breakdown of fee structures, including higher tier pricing and category-specific nuances, please refer to the official fee policy documents provided by each marketplace.

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WHAT SELLERS WILL BE THE MOST IMPACTED?

To be fair, this fee increase was expected. It is typical for marketplaces to start with lower fees to attract sellers, then gradually increase fees over the years. The first obvious consequence for sellers is that their profit margin will decrease. The options for them will be to 1 – Have a sale price that is high enough that they can work with healthy profit margins, 2 – To ensure advertising costs and costs per conversion are low enough, or 3 – A combination of both.

Strong brands who can afford to sell their products at high prices will have an advantage.

Selling commodities and off-brand items will become more difficult to sell, as there are frequent price wars on marketplaces when the only differentiator versus other products is the price. When customers value other things than just low pricing and free shipping, brands will have a significant advantage. Conversely, to stay competitive when fees are increasing, companies will need to optimize their expenses and the cost of sales. This makes organic traffic a lot more valuable, rather than relying on paid ads or influencer marketing.

Essentially, a strong brand and value proposition is more important than ever, and a brand with an organic following will have an advantage over competitors that can't attract organic traffic.

TIKTOK SHOP'S CUTS IN SUBSIDIES WILL IMPACT MANY COMPANIES' STRATEGIES

Beyond referral fees, I believe the cut of shipping costs and deals subsidies was downplayed by several sources, but it will have a strong impact on sellers' strategy in 2024.

Heavily discounted shipping rates did not only help sellers' bottom lines, but it also encouraged experimentation with the channel. TikTok Shop is still relatively new. While some brands enjoyed success quite early on the platform, in industries like fashion or beauty, TikTok Shop is still exotic to many brands that sell on established channels like Amazon. Addressing a new channel is taking a risk, but reduced fees significantly decreased this risk. Brands were a lot more likely to generate a profit, and evaluate the potential for long-term success on TikTok Shop, once the fees are at a more normal rate.

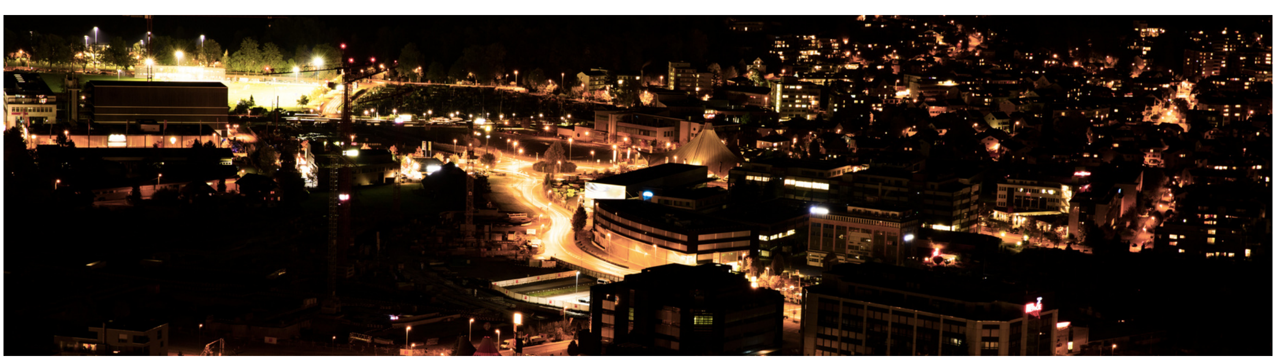
I have a feeling that this announcement will discourage companies in more conservative industries from attempting to sell on TikTok Shops, as the risks will be higher. Everything is moving really fast, and there is no reliable benchmark yet on TikTok Shop.

Making the decision to sell on TikTok will become more difficult, but the first mover advantage can be real on marketplaces and social media. The data and experience those who joined TikTok Shop early gained will be valuable to make future decisions.

CONCLUSION

In conclusion, the recent changes in TikTok Shop's fee structure and the reduction of subsidies were expected by sellers, but still represent a major change. Data shows, however, that the increase in referral fees from 2% to 8% aligns TikTok Shop more closely with industry standards.

The transition may pose challenges, especially for new businesses or those selling lower-margin products. It is a good reason for brands to strengthen their value proposition and focus on building a solid organic following. Experimenting will become riskier with the increased referral and shipping fees, but I believe TikTok can still work for many businesses.



A FITTING ROOM IN THE POST OFFICE?

Why La Poste Latest Experiment Can Make Sense in Some Areas

I recently saw a news article about a surprising innovation in my home country: fitting rooms at the post office. What does fashion have to do with shipping packages? You guessed it, ecommerce returns. Why would I want to change and try on clothes in a post office?

Well, in some cases it could make sense. Beyond the unique aspect of this move, I thought it was a good reminder of why local specificities still matter in an ever more connected ecommerce world.

LA POSTE INNOVATIVE INITIATIVE

In an attempt to adapt to the growing trend of online shopping, La Poste, France's national postal service, is experimenting with fitting rooms in some of its Paris branches. This allows customers to try on clothes immediately after collecting them from the post office, saving shoppers time and reducing the need for return trips when items don't fit.

The fitting rooms, distinctively designed in the shape and canary yellow color of a French mailbox, are equipped with what you'd find in your favorite clothing store's fitting room: chairs, mirrors, and shelves for convenient on-the-spot returns. This experiment follows La Poste's observation that many customers would pick up parcels and return shortly because the items were unsuitable.

One of La Poste's current challenges is the declining letter traffic. Focusing on ecommerce is a way to generate revenue by improving the parcel business. By installing these fitting rooms, La Poste aims to simplify customer experiences, save their time, and potentially increase traffic to their branches. The initial phase of this experiment only involves a few select offices in Paris, but the company has plans to extend to other locations like Valenciennes, Saint-Etienne, and Amiens.

Finally, it is worth noting that this experiment has met with some resistance. The French Retailers Association, representing around 450,000 small shops, expressed concerns over the potential impact on local businesses. They fear that making online shopping more convenient could divert customers away from brick-and-mortar stores, thereby affecting local economies.

THE IMPORTANCE OF LOCAL SPECIFICITIES

I currently live in Dallas, Texas, and I don't see the USPS putting fitting rooms in their offices anytime soon, nor do I see customers needing this service. However, this makes more sense in a place like Paris.

Picture this: you live in Paris and order a large coat and a few pairs of pants. After picking up the package at the post office (due to many thieves in your apartment building), you walk home or ride the public transportation carrying your bulky items. (Few people own a car in Paris, as traffic and parking are a nightmare.) This isn't your lucky day, and none of the items you received fit. If you decide to return them, you'll have to carry all of your stuff again to the post office. This would not be a huge hassle for me in Texas. In Dallas, I am used to safely receiving packages by my front door and driving everywhere. But I can see why people would rather try the clothes in the post office in a place like Paris.

Of course, these personal transportation constraints make it more difficult for people living in big French cities to order multiple sizes and return what does not fit. But there are other issues impacting consumer behavior. For example, while the median income is significantly higher in the US than in France, the cost of clothing is more expensive in France.

As a result, we can imagine that each purchase is a bigger deal for consumers, and customers have higher standards for their purchases, making trying on clothes more important. The fashion culture may also play a part, with French customers putting a higher value on finding the right fit for their clothes.

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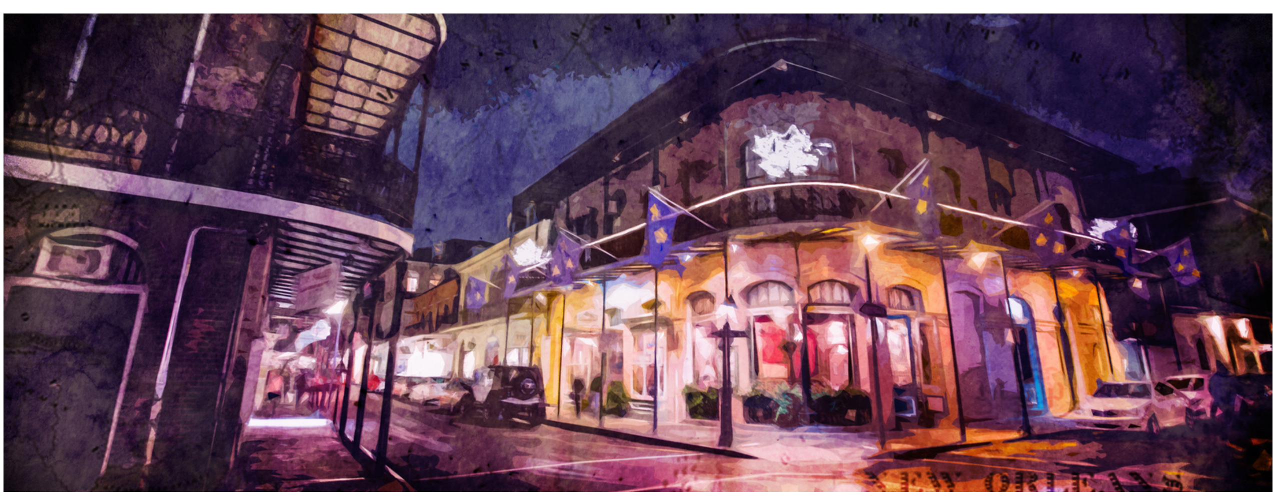
CONCLUSION

La Poste's fitting room initiative in Paris cleverly addresses the unique challenges of urban online shopping, considering practical, local solutions. While such an innovation might seem unnecessary in car-friendly, suburban settings, it makes a lot more sense in a densely populated, public transit-oriented city like Paris. This strategy also highlights the importance of understanding diverse consumer needs in the evolving world of ecommerce. Will it revolutionize the industry? I don't believe it. But I am personally curious to see if consumers will actually use these fitting rooms and if it brings new business to La Poste.



TEMU OPENS TO US AND EUROPEAN SELLERS

EXTRA REVENUES OR MAJOR HEADACHES?

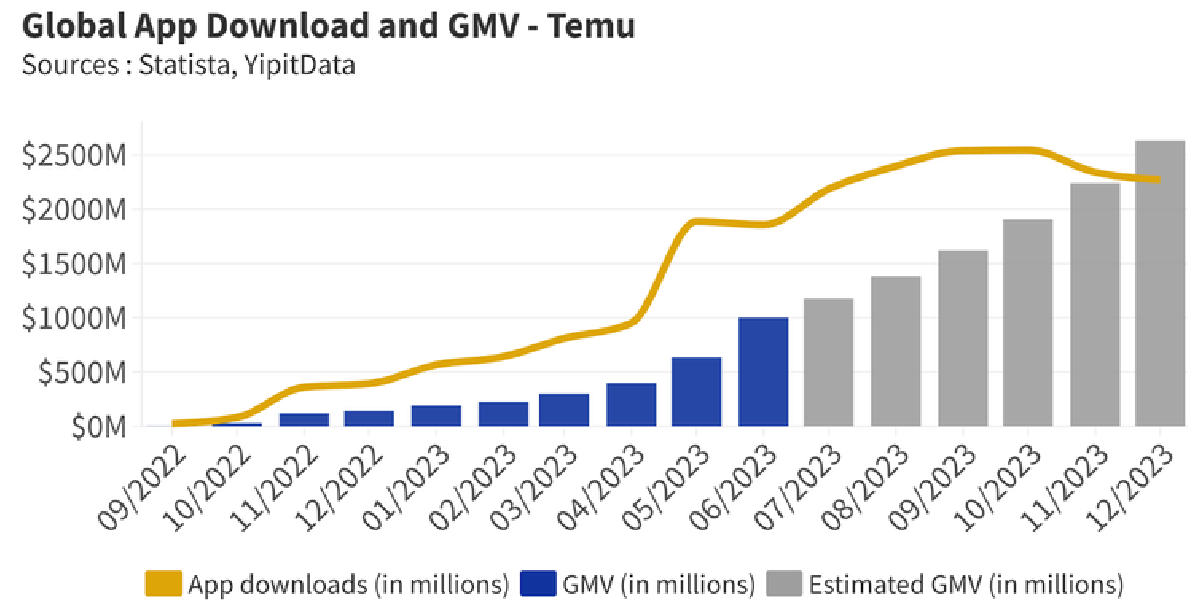
Have you found yourself needing a toaster-shaped desk lamp? How about a $1.28 keychain stapler? Or a 200-pack of men's ankle socks? If so, I've got you covered. Temu has it all, and quickly became one of the most downloaded shopping apps in the US, offering millions of relatively inexpensive products shipped directly from China, targeting low-income Americans.

In recent news, Temu announced they would open their marketplace to US and European sellers. While this sounds like an obvious way to expand their operation, this information surprised me and made me wonder about Temu's long-term strategy. Will they still pursue low-cost items, or are they attempting to diversify their offer?

TEMU'S CURRENT MODEL AND IMPRESSIVE GROWTH

Unless you live under a rock, you've heard of Temu, or at least its annoying ad "Shop like a Billionaire". Temu, operating under PDD Holdings, has emerged as a major player in the US and global e-commerce space. Its growth is especially impressive, with over 100 million active users in the US since its launch in September 2022.

The platform initially focused on selling a very diverse range of products, from clothing to electronics, primarily sourced from Chinese manufacturers, at ultra-low prices. They also aimed to add many unique items not currently sold on Amazon. This pricing strategy has been important in its fast rise in the US market: Temu's GMV grew from $3 million to over a billion dollars in a short span.



Temu's initial business model was a fully-managed marketplace approach. Sellers would send goods in bulk to Temu's warehouses in China, where the company would take over the tasks of listing, marketing, fulfillment, customer service, and pricing. This model allowed Temu to maintain control over the supply chain and product pricing, which is key to its strategy. According to Marketplace Pulse, Temu has allegedly more than 100,000 merchants based in China selling their goods on the platform. Temu recently announced that they would open to US and European sellers.

WHAT DOES EXPANDING TO US AND EUROPEAN SELLERS MEAN FOR TEMU

A Temu spokesperson recently confirmed the company's plans of opening to US and European sellers. A major difference will be that Temu will not handle pricing or marketing for sellers, and they won't have to ship their products to the warehouses in China but handle fulfillment from their local warehouses.

This will give sellers a lot more freedom while allowing faster shipping to US and European consumers. For businesses, this will be more similar to what they can do with Amazon. However, it comes with its challenges, with no FBA-like program available for those without a 3PL partnership in place or with their own warehouses. But in my opinion, this announcement brings up another, much bigger challenge.

It was reported that Chinese manufacturers selling to Temu are operating on very thin margins, and the Chinese giant puts a lot of pressure on suppliers to keep prices low. In addition to the low COGS, according to Wired, Temu loses about $30 for every order placed. Chinese news site 36kr suggests the company currently loses about 30 to 35 percent on every US order. That is the secret recipe to offer customers $2 cat socks with free delivery from across the world.

Customers go to Temu to find these inexpensive items, and for many, shopping on the website feels like a treasure hunt for stuff they didn't know they needed. But US and European sellers probably won't sell at a $30 loss per order. If they have higher COGS and have to pay for shipping to the customers (while paying fees Temu may require), they won't be able to offer the same ultra-low prices. Opening to US and European sellers conflicts with Temu's core value proposition for consumers. If Temu wants popular brand names on their platform, it could turn the shopping experience into a confusing Amazon-Wish mix. Other Chinese platforms, like Shein or Aliexpress, attempted to attract US sellers, but were not as successful as expected.

I believe that profitability will become a challenge for Temu at some point, but doing so while matching customers' expectations when it comes to logistics and pricing will be a major challenge, especially when competing with Amazon or Walmart. Amazon has its own challenges, but the US giant has many solid brands selling through their marketplace, and an impressive logistic network in place.

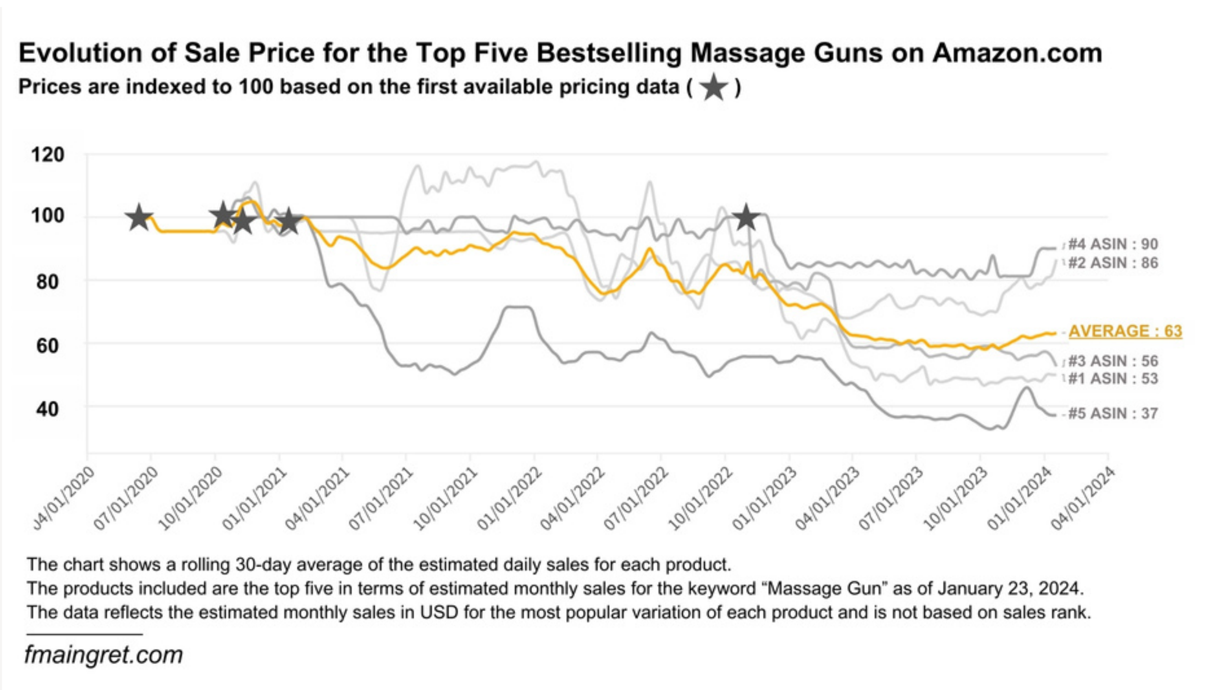
CONCLUSION

Temu's decision to open its marketplace to US and European sellers marks a significant shift in its strategy that could redefine its core value proposition and its position in the e-commerce world. This would push the company away from its original model of offering ultra-low-priced products from Chinese manufacturers, and offer more diverse products, including brand names. While this expansion offers greater diversity of products and potentially faster shipping for US and European consumers, it raises the question of how Temu will reach profitability and effectively compete with established U.S. titans.

ANECDOTAL DATA ON AMAZON PRICING AND MARKET SATURATION

Is Amazon saturated? I don't have the answer, but I do have some interesting anecdotal data (and some good news if you're in the market for a massage gun).

I looked at a random product, massage guns. First, the evolution of the sale price for the current top 5 massage guns on Amazon. Most launched in 2020 (the first few months of data isn't always available).

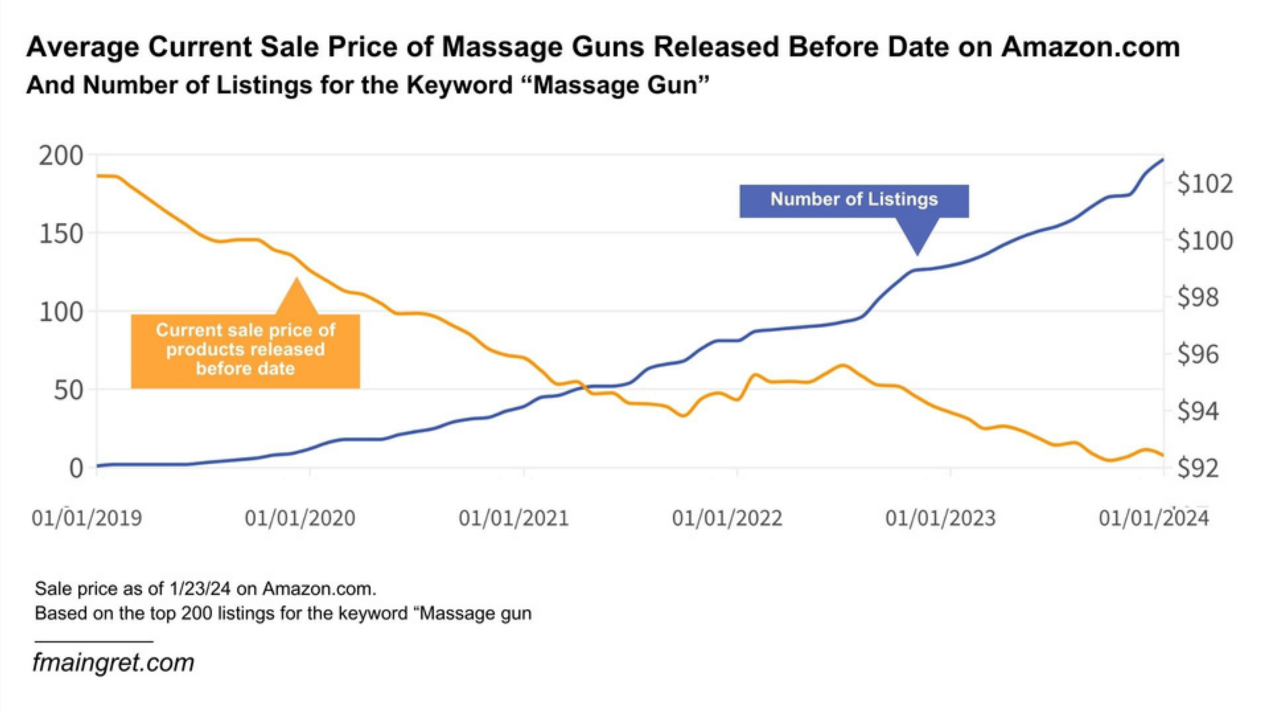


A few years after launch, the top products now sell for 90 to 37% of their original price – 63% on average.

They might have used a skimming pricing strategy, but that is still a massive cut! Did they have to cut prices to remain competitive?

The second chart is where things get spicy. It shows the market indeed got more competitive.

From only a few listings in 2019, there are now hundreds of massage guns listed on Amazon.



The other interesting data is that the earlier the product launched, the higher the price tends to be. In January 2014, products launched before 2020 are still sold for $100 or more, while the average sale price for the top 200 listings is $92. There is a good chance that new sellers had to enter this market with lower prices to become competitive. I am not an expert on this market, but this might be the case of a product that was once innovative and became commoditized (except for maybe the strongest brands that can afford to charge more).

So, what's the takeaway from all of this?

Well, there isn't much more to say. This data is a lot more meaningful if you operate in the massage gun market. But this is only a small snapshot of a very specific market (and doesn't tell us about operating profits), and we'd need a lot more data to reach a conclusion on market saturation and price wars.

So why do I share these findings? I still think Amazon is a great opportunity for many brands, but success is becoming more difficult over time. This anecdotal data reinforces my opinion that a strong brand and value proposition are key for long-term growth.

RUFUS UNLEASHED

Amazon's New AI Assistant and What It Means for Your Business

In the last couple of months, we've been hearing about AI all day, every day. Everyone and everything claims to be using AI these days. Marketing tools, dating assistants, deep fake scams, you name it. I think no one was surprised to hear about Rufus, the latest generative AI-powered shopping assistant, recently introduced by Amazon.

My first reaction to this announcement wasn't how this would help me as a consumer, but how this would impact my work as a marketer. We are still in the very early stages of this adventure, but we can already do some guesswork. Let's quickly review the announcement, then try to imagine what the implications are for the millions of businesses selling on Amazon.

WHO IS RUFUS?

First thing first, who is Rufus? Rufus is Amazon's new shopping assistant that uses generative AI to enhance customers' online shopping experience. It can provide personalized assistance directly within its mobile app and can handle a wide range of customer inquiries.

This tool was trained on Amazon's extensive product catalog, customer reviews, community Q&As, and information from across the web. It can help customers with broad product research, at the start of their product discovery journey. For instance, a customer interested in running shoes may ask Rufus "what to consider when buying running shoes?" or "what are the differences between trail and road running shoes?". Once the customer knows what to look for, they may ask more specific questions and recommendations, such as "What are the best train running shoes for a beginner?".

Rufus will also help answer more specific questions related to a product, that we can assume uses information found within Amazon's product reviews, like "are these durable?" Rufus offers tailored advice and product suggestions to users, to make the shopping process easier and more convenient. Will the buying process feel "artificial" compared to reading reviews? Only experience will tell.

Launched only in beta to a select group of U.S. customers, Amazon plans a gradual rollout of Rufus to more users in the coming weeks.

Amazon's CEO, Andy Jassy, stated that Rufus is a significant improvement in customer experience and will simplify product discovery and selection through a more intuitive and conversational interface.

Rufus is part of Amazon's broader customer-centric strategy to integrate generative AI technology within its services. It represents just one aspect of the e-commerce giant's ongoing investment in AI, which includes a wide range of tools and services aimed at both consumers and businesses. From AI-generated review summaries to assistance for third-party sellers in creating listings or logistics optimization, Amazon heavily invested in AI in the last two decades.

Even more than trying it myself, I am excited to hear what customers think, how the shopping experience will change, and how big Rufus will be in Amazon's ecosystem.

WHAT ARE THE POTENTIAL CONSEQUENCES OF RUFUS FOR AMAZON SELLERS?

Now that we know what Rufus is, the goal for sellers is obvious: having their product recommended by Rufus as often as possible.

Rufus isn't a superhuman who has ordered and tried every product sold on Amazon; it uses data from Amazon to help customers make purchasing decisions.

This includes product data, reviews, Q&A, UGC, and more. I believe having the most "Rufus-optimized" content will be key for sellers if it happens that a significant part of Amazon traffic will come from AI in the future.

Basic sections like product title, bullet points, and everything customers can see will matters, but also the backend with keywords now having even more importance than ever.

I've always said that product reviews, including on your competitors' products, are a goldmine of information on customer attributes, behavior, and on the market.

I bet that Rufus will also heavily use these reviews to provide recommendations. Rich, positive reviews should, of course, help products be recommended to customers.

There is a fine line between black hat tactics (such as incentivizing customers to post 5-star reviews) and what is allowed by Amazon, but sellers must do whatever they can to get the best rating. This isn't new, rating always mattered on Amazon. What I think is new is the importance of the review content. Having specific keywords in reviews will be a lot more important than in the past. For example, if many customers ask Rufus "What are some easy to clean running shoes?", the keyword "easy to clean" will become more important.

Ultimately, following Amazon's announcement, I believe sellers must do three things:

1. Monitor the adoption of Rufus by customers, and try it themselves to see how it works and what the experience is like.
2. Read industry reports on what the best practices are, which brands will learn with experience.
3. If experience shows it is necessary, optimize their listings to be more Rufus-friendly.

CONCLUSION

Amazon's Rufus, one of the giant's latest developments in AI, could be a game-changer, both for consumers and marketers. Rufus is Amazon's attempt to make shopping more personalized, intuitive, and convenient. For sellers, it may be a wake-up call to get our product listings Rufus-ready.

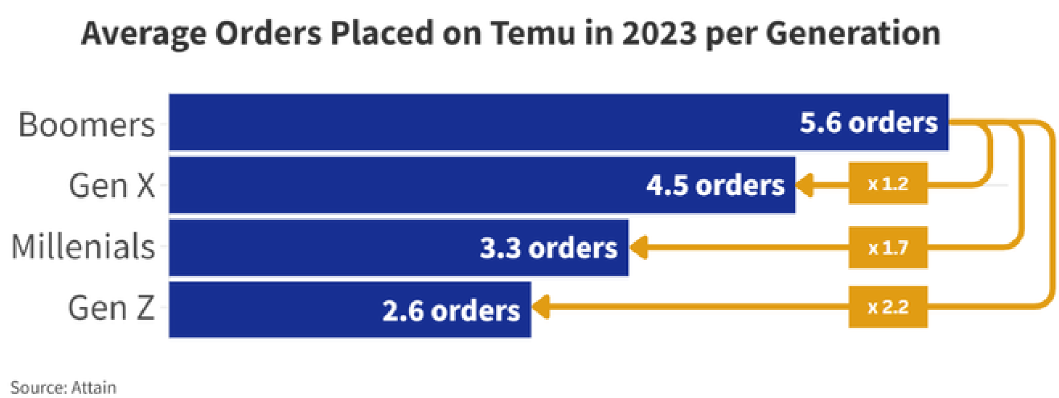
This means nailing the product details and keywords but also focusing on gathering genuine, helpful customer reviews. It's all about making sure Rufus picks our products to recommend to shoppers. The journey with Rufus is just starting. It is still early to tell how impactful it will be, but it will be interesting to see how customers react to this new feature.

https://www.aboutamazon.com/news/retail/amazon-rufus

FORGET GEN Z
WHY BOOMERS ARE OBSESSED WITH SHOPPING ON TEMU

When I first heard about Temu, my knee-jerk reaction was to think it would be a Shein for random items, from kitchenware to toys. I also thought the target audience would be similar, Gen Z, especially after I saw some young influencers showing off their "Temu hauls" on TikTok.

Recent reports proved me wrong: Boomers placed on average 5.6 orders last year on Temu, while Gen Z only ordered 2.6 times.



There have been multiple theories going around on why Temu is so popular with the older generation. Some people mention the gamification and the discounts offered by some roulette wheels that are particularly appealing.

Others mentioned the need to buy cheap gifts for grandkids, the ease of navigation, or the fact that Boomers tend to have more storage space in their homes. Some experts also say that older customers are less attached to name brands than their kids, and are okay with cheaper Temu's items as long as the quality is there.

An interesting Business Insider article features several answers from Temu's customers, explaining why they use it, and some answers were surprising, but made sense to me.

Was it part of Temu's strategy to be so popular with Boomers? I don't know. But the Chinese company will need to use all the data they have and understand the "Why?" if they want to keep growing and become profitable.

Factors like gamification may be helpful in retaining older customers (although there is no evidence that this is the case), but many younger consumers report this impacts their shopping experience negatively. Temu may need to make some tough decisions in the future. But the main problem is pricing: If pricing is the main driver of consumer engagement, over variety, quality, speed of delivery, or any other factor, it might become difficult for Temu to become profitable and keep expanding in Europe and in the US.

"

> *"My father used to have a kitchen drawer full of knickknacks or some junk he'd find from a TV commercial (As Seen On TV commercials). Temu brings back that nostalgia for me, plus I find items that genuinely make life a little easier."*
>
> *https://www.businessinsider.com/why-gen-x-boomers-love-temu-2024-1*

Finally, let's keep in mind that there are a lot more than the average number of orders per year. We don't know about the trends over time, the average order value, or the cost per conversion.

Yet, the correlation between age and the orders placed seems clear and massive. I think this can be a very interesting case study for marketers, and a great learning experience.

WHAT IS THE "BEST DEAL" ON AMAZON?

MY TAKE ON THE RECENT "BUY NOW" LAWSUIT

Yes, I know, another lawsuit involving Amazon. But unlike many others' past lawsuits, I struggle to see what Amazon is doing wrong. The complaint accuses Amazon of setting up the "Buy Now" button so users pay more than they should. Let's see what this lawsuit is about, and why Amazon may be acting in most customers' best interest.

First, what exactly is the "Buy Now"? If you've never used it, the "Buy Now" button on Amazon streamlines the shopping experience by allowing customers to bypass the shopping cart and head straight to checkout. This feature uses pre-saved account details to strongly reduce friction and expedite the purchase process for quick and decisive transactions.

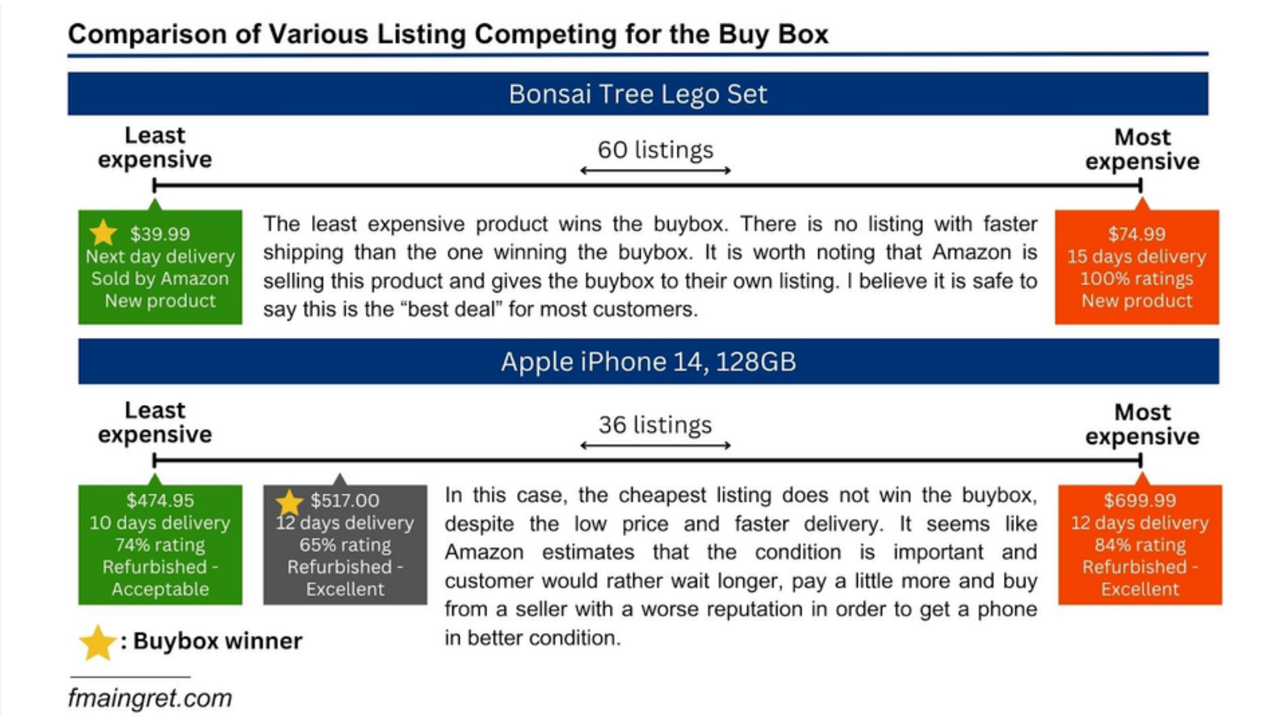
When an Amazon product has multiple sellers, an algorithm picks one seller to "win the Buy Box" and get the sale when the customer hits the "buy now" button. The lawsuit claims that 98% of Amazon's sales are from products in its Buy Box, but customers could potentially find better deals if they explored offers by other sellers.

This is where I disagree with the lawsuit. First, the section with other sellers isn't exactly hidden on the page. It is, in fact, right below the Buy Box on the desktop website.

Then, there is the idea that Amazon does not always show the customer the best deal. But what is the best deal? Is it necessarily the lowest price? I doubt most customers would rather save a few pennies but purchase from a seller with a bad reputation and with a three weeks delay for shipping. Pricing seems to be the main criteria for Buy Box attribution, but there is more than that: Amazon also considers the delivery timeframe, seller's performance, items' conditions, customer feedback, and more.

Does Amazon maximizes their own net profit? Probably. But they don't just give the Buy Box to sellers that brings them the most money. Otherwise, the highest prices would win it, so referral fees paid would be higher.

While getting enough data to analyze the Buy Box attribution process would be difficult, I looked at two listings that I think are good examples of how Amazon shows what might be the best deal considering more than just pricing.



At the end of the day, each customer has a different view of what the best deal is. For everyday commodities or non-urgent items, customers may prefer lower prices over fast shipping. Conversely, for urgent needs or last-minute gifts, many customers are willing to pay more for faster delivery.

Maybe someday AI will analyze customers' buying patterns and show them a personalized option. But for now, I think the lawsuit is wrong by focusing only on pricing.

https://qz.com/amazon-lawsuit-buy-box-now-add-to-cart-1851251133

TARGET CONSIDERS A PAID MEMBERSHIP PROGRAM

What is it About and Should Ecommerce Professionals Care?

For some people, going to Target to buy a loaf of bread and returning with $300 worth of clothes and home decor is a familiar scenario. The addiction to Target is real and might become more intense for some. Bloomberg reports that the company is considering offering a paid membership program as early as this year.

Should they launch it, this program would be another competitor for Amazon Prime, Walmart Plus, and Costco memberships. However, Target is late to the party, many years after its competitors. Would proceeding with the project make sense for the company, or would it be doomed to fail? Ultimately, should e-commerce entrepreneurs keep an eye on this program?

Let's first examine the existing offerings. The main perks of Amazon and Walmart+ are free shipping, with one-day or faster shipping by Amazon being one of the main reasons for its success. A Costco membership provides access to their stores. In addition, companies offer additional benefits such as flat tire repairs or access to streaming services.

Regarding pricing, memberships range from $5 a month for Costco to about $12 per month for Amazon Prime. Millions of consumers subscribe to these services. Although numbers vary by source, Amazon Prime leads with over 160 million members in the US.

Feature	Amazon Prime	Walmart+	CostCo Gold Star
Price	$139 per year	$98 per year	$60 per year
Delivery	Free One-Day and Same-Day Shipping	Free shipping Free delivery from store ($35 min)	N/A
Other benefits	Prime Video, Reading, Gaming and Amazon Music access	Fuel discounts Paramount+ Free flat tire repair Free road hazard warranty	Warehouse access Costco Fuel access Free household card Access to Costco services
Members	29 Million	160 Million	129 Million

What would a Target membership look like? There is no information available at this time, but we can imagine a program similar to Walmart+, with the company leveraging its network of retail stores and adding on their free membership program benefits, Circle.

The main benefit for Target would be recurring revenues. Memberships provide a consistent, predictable revenue stream. Fees from memberships contribute to the company's earnings, supporting operations and potentially reducing reliance on sales margins.

Membership programs encourage customer loyalty by offering exclusive benefits, discounts, or services. Members are more likely to continue shopping with the company to maximize the value of their membership, increasing customer retention. Customers paying an upfront fee are incentivized to make more purchases or use more services to justify their investment, which can lead to higher average spending per member compared to non-member customers. There are also several other benefits, such as data collection, community building, and upselling opportunities.

On the other hand, building such a program could be costly for Target. Implementing and maintaining a membership program involves significant operational expenses, including technology infrastructure for tracking and managing memberships, customer service support dedicated to members, and the logistics of fulfilling membership benefits such as free shipping or exclusive deals. Attracting new members and retaining existing ones requires continuous marketing efforts. The costs can include advertising, promotional offers (like discounts or free trials), and the development of new services or benefits to keep the membership attractive. There is the risk that not enough customers enroll in this paid program, and that Target could not offset the fixed costs involved.

With this information in mind, it is clear that Target could benefit from having such a program, if it were successful.

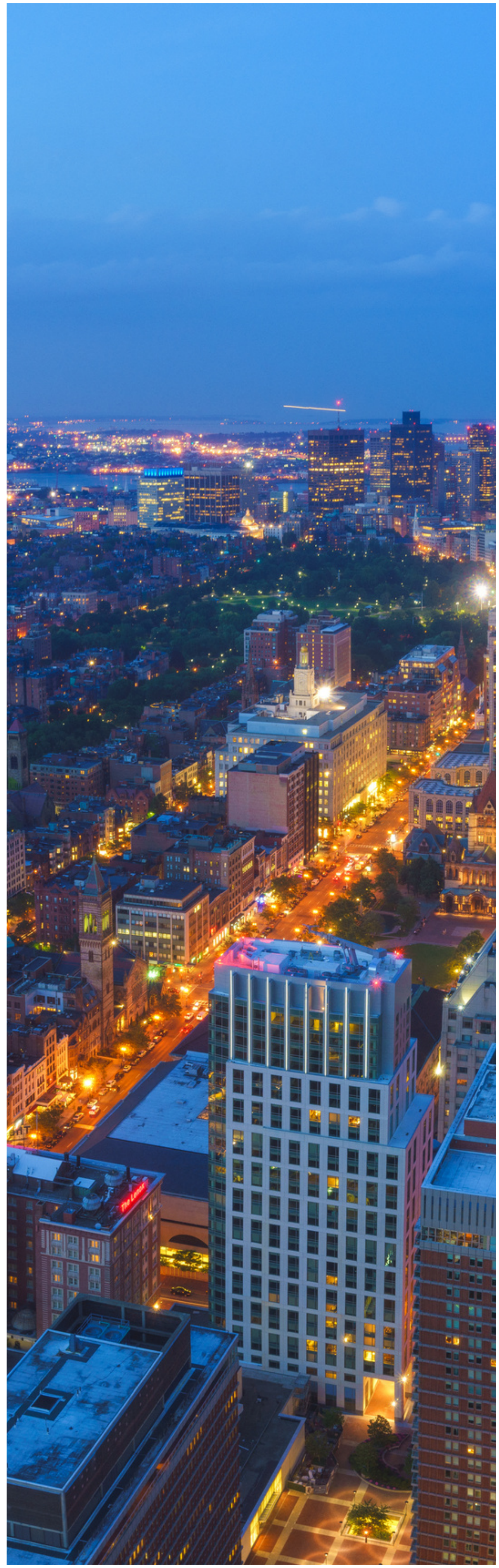
The market is competitive, with competitors offering very attractive deals. It's true that people can subscribe to several services at once (many households subscribe to Netflix, Disney+, Hulu, and a million other streaming services). However, in the case of retail stores, would it make sense to have two memberships that offer very similar benefits and products? Target would need to give customers a compelling reason to subscribe and come up with a very strong value proposition. Let's not forget that Target and Walmart have different customer bases with different needs, which gives the program potential for differentiation. In conclusion, while there are compelling reasons for Target to consider launching a paid membership program, this decision should be approached with a clear understanding of the potential challenges and costs involved.

But what about us, e-commerce entrepreneurs? Target launched its marketplace, Target+, in 2019. Unfortunately, the invite-only marketplace remains rather small. In 2023, it only had 650 sellers. This is a deliberate choice by Target's management, who wants to offer a more curated experience than Amazon. While Target is the 5th largest retail e-commerce company, industry sources report that most of their sales came from store-powered fulfillment, with the marketplace likely having a negligible contribution to Target's total e-commerce sales. Due to the size and strategy of their marketplace, I believe the potential paid membership program should not become a priority for brands, but entrepreneurs should keep this information in mind. Who knows, it could be a signal that Target is about to change their plans regarding their e-commerce strategy.

https://www.usatoday.com/story/money/retail/2024/02/15/target-paid-membership-program-report/72606127007/

https://investor.costco.com/company-profile/default.aspx
https://www.insiderintelligence.com/content/walmart-memberships-will-grow-10-4-this-year

https://backlinko.com/amazon-prime-users
https://www.marketplacepulse.com/articles/targets-curated-marketplace-turns-four



DEEP DIVE

IS WALMART MARKETPLACE CATCHING UP ON AMAZON?

A SHORT CASE STUDY ON A SPECIFIC CATEGORY

If you missed the big news about Walmart this month, here it is: their earnings surpassed expectations, and the company hit a major ecommerce milestone with $100 billion in sales last year.

This announcement prompted many ecommerce managers and executives (I certainly did) to reflect on their strategy regarding Walmart.com and if their plan was appropriate.

It is true that overlooking Walmart is easy these days. Amazon is still the king in the ecommerce realm, and flashy new entrants like Temu or Shein are being extremely aggressive in their marketing.

And Walmart is in this awkward space where its ecommerce operations are too big to be completely ignored, but too small to be a company's main focus (I get approached by Amazon agencies every day, but they very rarely mention Walmart).

I am guilty of this; my news commentary articles don't reflect the weight of Walmart in the industry, as I only wrote about the retail titan once or twice in the last few months.

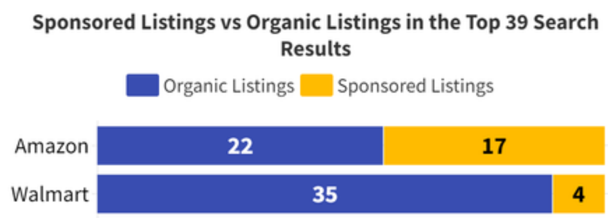
Yet, what I find the most impressive about Walmart isn't its sheer size in the ecommerce space; it is the velocity of its growth and its potential due to its existing infrastructure. I like telling this story of this conversation I had with a regular customer over the phone. I always assumed he bought from Amazon and was shocked when he told me he preferred ordering from Walmart because delivery is a day faster than Amazon in his area.

Today, I don't want to give you an overview of Walmart vs Amazon, compare their financials, future investments, or current strategies. I want us to put ourselves in the customer's shoes and compare what the shopping experience is like. I will focus on the products offered, pricing, and logistics. Then, I'll try to explain what potential differences could mean on a broader scale.

To do so, I will pretend I am shopping for shoe polish (I just ordered some from Amazon before starting writing this article, without even looking at Walmart or other sources). I'd love to review more data, compare many different niches and markets, but then I'd need to write a whole book that may be obsolete within months. So for now, let's focus on one product and see what we find. I specifically compared the top 39 products that appear in the search results when searching for "shoe polish". Sometimes, the differences between Amazon and Walmart can be so massive that I believe there is a good chance we can extrapolate this anecdotal piece of data to other categories..

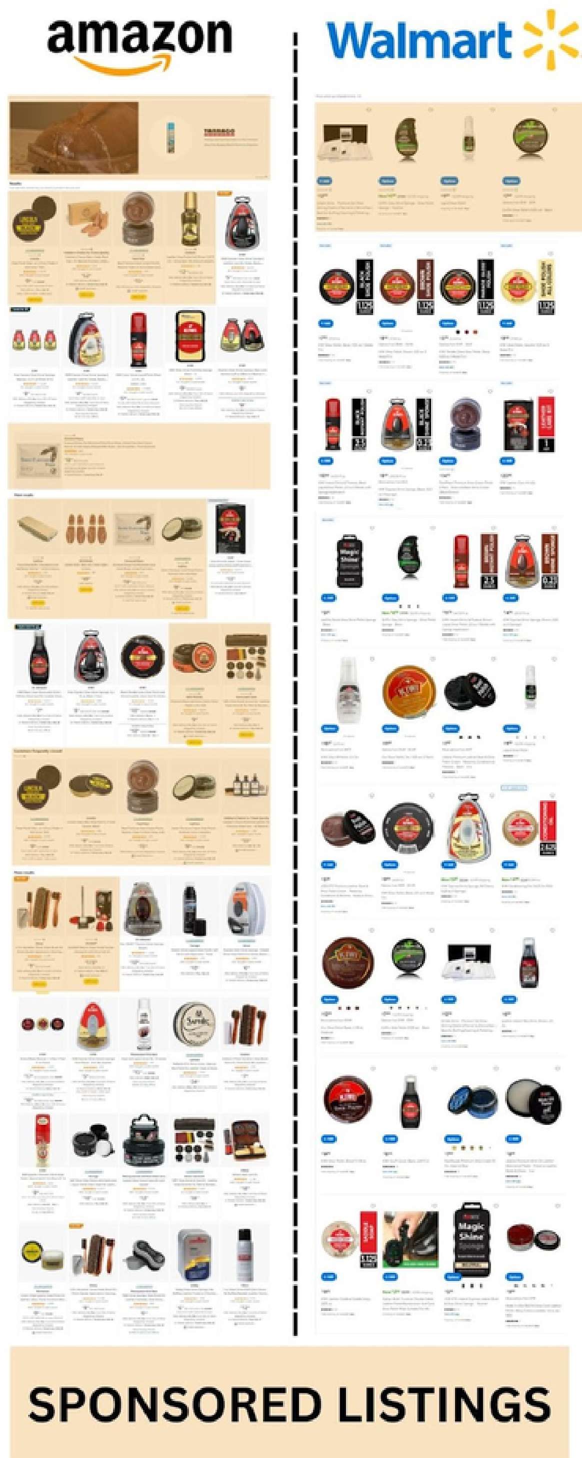
AD SPACE : AMAZON DISPLAYS FOUR TIMES MORE ADS THAN WALMART

As a customer, the first thing you have to deal with searching for any item is often the crazy amount of search results: over 1000 for "shoe shine", on both Amazon and Walmart. On both platforms, search results are a mix of organic results and sponsored listings (meaning these may not be the most relevant results, but the brand is paying to advertise the product so it appears in the top of the search results).



Amazon displays a lot more sponsored listings than Walmart, over 40% of listings compared to about 10% for Walmart. Here is what the search results look like on both platforms, to give you an idea of what the customer experience is like.

For those of you who have been shopping on Amazon for years, you may realize that the search results on Amazon contain a lot more sponsored products than in the past. Many sellers have the feeling Amazon became "pay-to-win" for new products, and advertising became a lot more strategic (and costly) over the years. Amazon's ad services revenue is bringing in more than $14 billion in Q4 2023, making it an important source of revenues for them.



Amazon vs Walmart
Ads when searching for “Shoe polish”

On the customer’s side, this huge proportion of ads can be detrimental to the shopping experience, making it difficult for shoppers to find the most relevant products. The FTC has an eye on this trend; you can find a more detailed analysis here:

https://fmaingret.com/2023/10/is-amazon-now-mostly-ads-how-the-recent-ftc-lawsuit-addresses-the-user-and-seller-experience/

On the other hand, Walmart only features a few sponsored products at the top. As we’ll see in the rest of this article, the competition is not as intense on the Walmart marketplace, and CPC tends to be lower than on Amazon.

As Walmart ecommerce sales keep growing, should we expect more space dedicated to advertising? Probably. But I assume Walmart ecommerce leaders have an eye on what Amazon is doing, to come up with the best strategy. As of today, I believe Walmart’s smaller ad space is better for consumers, but it may not last forever.

PRICING : IS “EVERYDAY LOW PRICES” STILL TRUE WHEN SHOPPING ONLINE?

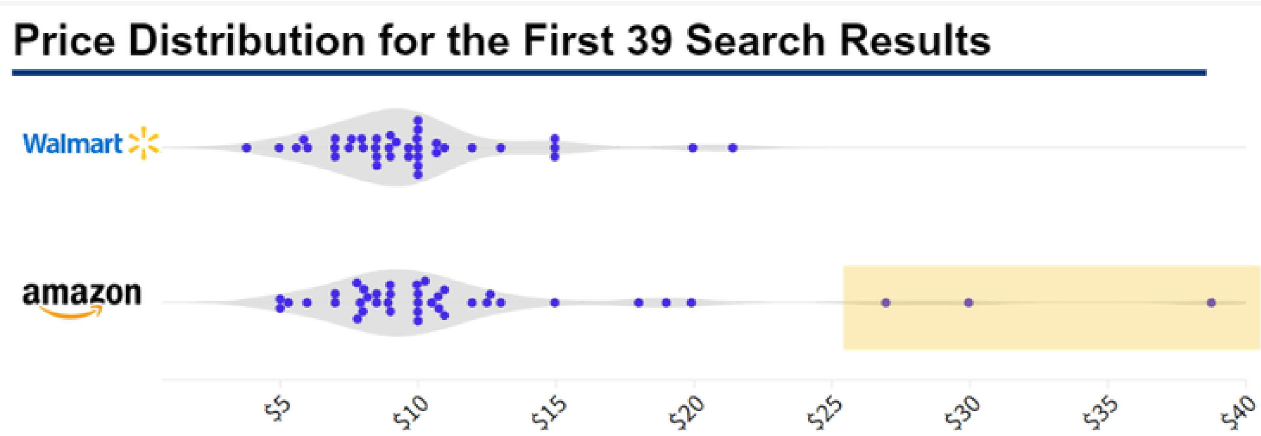
Walmart built its reputation on lower prices, which is the reason why the retail chain has so many loyal consumers. On the other hand, Amazon also tends to attract value-oriented customers. In the last few years, we’ve seen thousands of Asian manufacturers joining the Amazon marketplace, offering their items at reasonably low prices.

Amazon also became extremely competitive, with many niches at near saturation and many products commoditized, which drives prices down. So which platform has the cheapest items, and how large is the price difference in our case study?

Our first 39 search results for "shoe polish" on Amazon have an average selling price of $11.68, compared to only $9.76 on Walmart. Wow, that is quite the difference.

Is Walmart pushing low prices to match its value proposition? Or is the competitive environment on Walmart more intense, leading to price wars?

In reality, the median price tells us a different story: $9.99 on Amazon versus $9.20 on Walmart. The distribution of prices makes it obvious the outliers are skewing the average for Amazon.

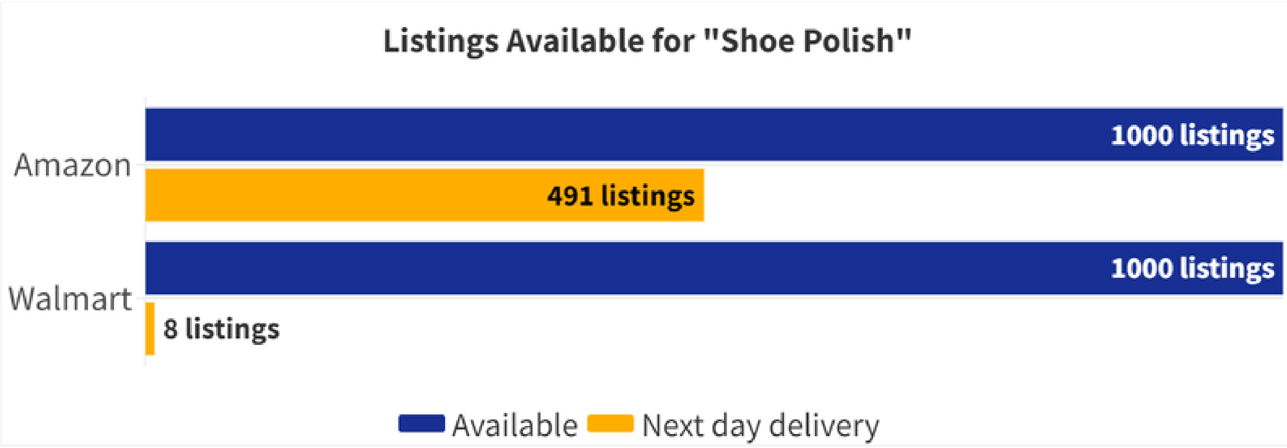


If we exclude the products over $25, the average price for Amazon products drops to $10.04, compared to $9.76 on Walmart, or a difference of $0.28. While this is only a very specific market, and 39 listings among millions, this suggests that the pricing difference between the two marketplaces, despite less competition on Walmart, could be rather small.

Sellers may be aligning their prices (Amazon often takes away the buybox from a seller listing its product at a lower price on another channel), but it is worth noting that both marketplaces have similar cost and fee structures.

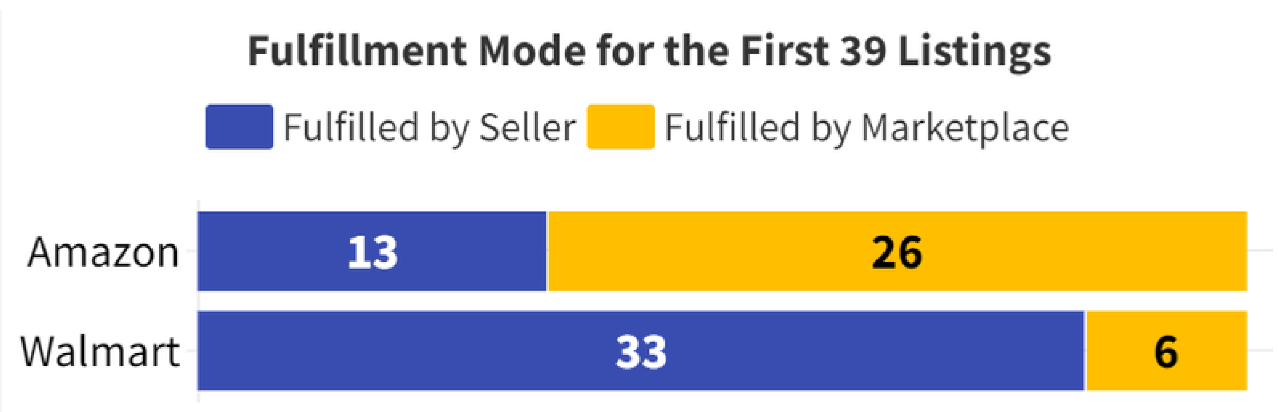
LOGISTICS : IS AMAZON REALLY THE KING OF LOGISTICS?

In the age of Amazon Prime, waiting more than a day or two quickly became unacceptable for many customers. Only ultra-low-cost competitors like Temu or Shein are able to make their customers wait for a bit longer. But Amazon isn't the only company able to ship packages fast and efficiently. Walmart can leverage its size and its network of retail stores and warehouses to offer impressive performance when it comes to logistics. So who wins the logistics battle between the two giants?



There are over 1000 listings available on each marketplace. However, the difference is shocking when looking at items available with next-day delivery: almost 500 listings on Amazon and only 8 for Walmart! (and these are products for leather car seats, not shoe polish).

I compared the delivery speed between an Amazon Prime account and a Walmart Plus account. Walmart Plus did not increase delivery speed while Prime makes a huge difference. But why does Amazon deliver so much faster?



A first reason could be the fulfillment mode used by sellers. A lot more listings seem to be using FBA on Amazon, which drastically speeds up the shipping process. Other reasons are more complex.

It could be that Amazon's logistics networks outperform Walmart, that this specific product or my zip code do not represent the overall shipping time frames for both marketplaces, or that Walmart is more conservative when displaying delivery dates.

WHAT BRANDS ARE SELLING ON EACH MARKETPLACE?

Are the same brands selling on both marketplaces? Again, I looked at the first 39 search results, and while there is a lot of overlap, Amazon features 15 different brands in the first 39 listings compared to 10 for Walmart.

In my opinion, the reason why we see a larger variety of brands is due to Amazon dedicating more space to sponsored listings: it gives brands with little recognition more visibility. Some brands may have different strategies and decide not to address Walmart yet, but I believe this is less true than a few years ago.

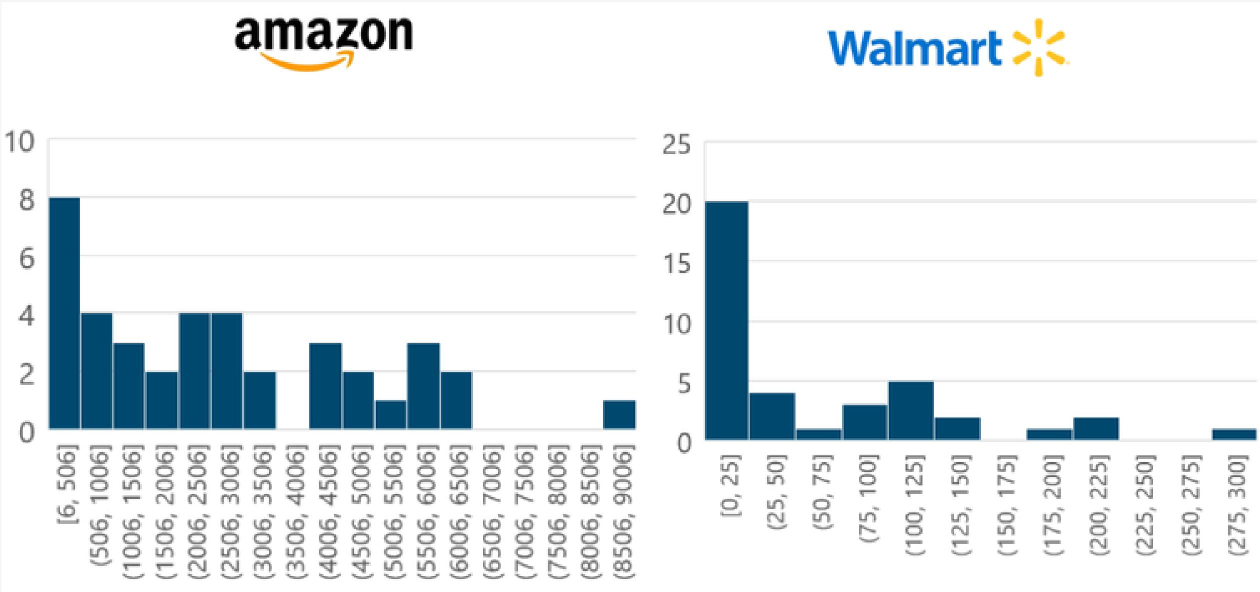
Listings per Brand for the First 39 Search Results

PRODUCT REVIEWS MATTERS : WHERE CAN SHOPPERS FIND THE MOST REVIEWS?

Finally, let's look at how many reviews are posted on both marketplaces. To the surprise of no one, Amazon top listings have a lot more reviews than Walmarts. Only 3 listings have over 200 reviews on Walmart, while most top listings have over 500 on Amazon.

Even though there are more sponsored listings on Amazon, the sheer size difference between the marketplaces makes a huge difference in terms of reviews.

It could also be due to the reviewing process being easier on Amazon than on Walmart. This shows that there may be an opportunity to get on Walmart "early" and not be at a huge disadvantage in terms of reviews.



Distribution of Product Reviews per Listing

CONCLUSION

While the data I presented is only about a niche product and may not be representative of the competitive environment, I found it interesting to compare the offers of Amazon and Walmart.

It is clear that Amazon has a lot more sponsored listings than Walmart, impacting the customer shopping experience (but Walmart could potentially catch up on that in the next couple of years).

In terms of pricing, both marketplaces offered similar products and without more data, it is difficult to say that one is cheaper than the other. On the other hand, I believe the advantage Amazon has in terms of logistics is pretty clear, even though industry sources report major progress on Walmart's side.

Ultimately, the impressive increase in ecommerce sales on Walmart.com is a signal that this channel, while still being much smaller than Amazon, should not be ignored.

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Francois Maingret