

**Amazon**

## Amazon's ever-increasing power unnerves vendors

Sellers claim group's data collection gives it 'huge advantage' as EU launches probe



Margrethe Vestager, the EU competition commissioner, announced the preliminary probe this week © FT montage / AP / Reuters

Shannon Bond in Seattle YESTERDAY

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The EU launched its probe of [Amazon's](#) business model without having received a formal complaint from rival merchants that sell goods on its site. But that does not mean sellers are not complaining.

Merchants and consultants say that the returns from selling products on the platform are coming under pressure, and they blame the rising cost of accessing Amazon's data and advertising services — and the online retailer's growing stable of own-label products.

"I have always told my team that our main competition is Amazon," said one US vendor who asked not to be named for fear of drawing the company's ire. "They have a huge advantage using all the data they have . . . including [from] third-party sellers like ours."

The preliminary investigation announced this week by Margrethe Vestager, the EU competition commissioner who has proved to be a formidable foe of US technology giants, highlights concerns that have been percolating for some time among the brands and merchants that sell on Amazon.

The EU is [scrutinising](#) Amazon's dual role as competitor and host to third-party merchants that sell via its websites.

While vendors have benefited from the explosion of online commerce that Amazon has pioneered, they are growing increasingly wary of the power the company holds in knowing exactly what people

want to buy.

## Amazon's sales breakdown

By category (% of Q2 2018 net sales)



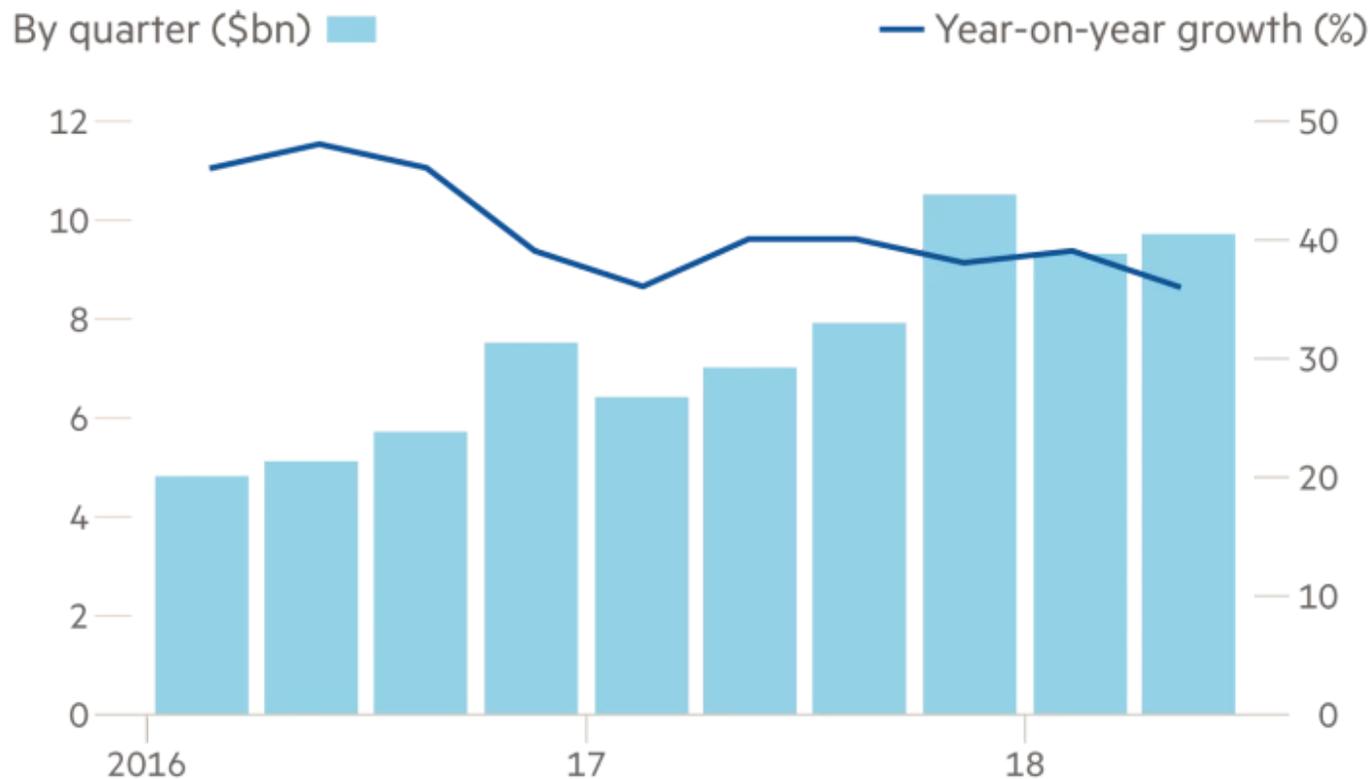
Source: company  
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Amazon first opened up its platform in 2000 when it launched Marketplace, allowing third-party sellers to list products alongside items sold directly by Amazon. Over nearly two decades, the model has been a wild success for the company and its partners, and has been an important factor in propelling it to become the world's [second most valuable public company](#).

Marketplace gives sellers access to Amazon's vast reach and sophisticated distribution network. In return, the US group gets a greater selection and range of products to attract people to its website. The company also directly benefits financially by taking a cut of third-party sales and charging merchants fees for fulfilment, payment and advertising services.

Last year, for the first time, more than half of all items sold on Amazon came from third-party sellers. Revenue generated by services Amazon provides to those vendors rose 39 per cent year-on-year in the second quarter to \$9.7bn, compared with a 14 per cent rise in revenue from items it sells directly, which was \$27.2bn.

## Amazon's third-party seller services



Source: company  
© FT

The robust growth of third-party sales has also greatly enhanced Amazon's pool of data on its customers and their shopping habits. The company knows what people look for, what they buy and what prices they are willing to pay, based on how hundreds of millions of customers interact with billions of products sold on its websites around the globe.

How Amazon may be using this information to gain a competitive edge is at the crux of the EU's inquiry.

"The question here is about the data," Ms Vestager said. "Do you then also use this data to do your own calculations, as to what is the new big thing, what is it that people want, what kind of offers do they like to receive, what makes them buy things?"

**Amazon knows exactly which customers searched for products and didn't buy them . . . It's the marketing**

Amazon does give bigger brands and retailers access to some of its data through a premium analytics programme, costing from \$100,000 a year. That includes information on what search terms are performing well and how some sales metrics compare with those of competitors.

## data that gives Amazon the insane advantage

James Thomson, consultant

But the data Amazon keeps to itself is far more valuable, said James Thomson, a former Amazon manager who advises companies on how to sell on the ecommerce platform.

“Amazon knows exactly which customers searched for products and didn’t buy them . . . It’s the marketing data that gives Amazon the insane advantage.”

The company also gathers information on how sensitive people are to small price changes by funding discounts on third-party products, he added.

In a sign of just how valuable internal Amazon data can be, the company said this week it was [investigating claims](#) that employees accepted bribes to disclose confidential information that would give outside merchants a competitive advantage.

Amazon’s deeper understanding of why people do or do not buy things underpins its recent expansion into [private label goods](#) that compete directly with popular products from outside brands and sellers.

While retailers have long sold in-house brands that compete with the other labels they carry, sellers say Amazon’s wealth of data strengthens their ability to get their products in front of exactly the right customers.

The company’s first foray into in-house brands was batteries and low-cost electronics, sold under the AmazonBasics label starting in 2009. It has since pushed into fashion, household goods, pet products and vitamins and supplements, and sells nearly 7,000 products across more than 70 brand names, according to analysis by Coresight Research.

“When Amazon launched its battery business a couple of years ago, they knew what types of products to build at what price points, and they also knew which million customers had shopped for batteries but didn’t buy them. Guess who they marketed their batteries to?” Mr Thomson said.

Amazon does not disclose details about its private label products, but Youssef Squali, an analyst at SunTrust Robinson Humphrey, estimated revenues will reach \$7.5bn this year and rise to \$25bn by 2022.

After using data to develop and launch its in-house brands, Amazon also has an advantage in how it markets those products. The company has carved out promotional space for itself in a box labelled “Top Rated from Our Brands” that appears high up on many search results pages.

“We all know that everything on Amazon depends on where your product comes up when keywords are searched and if Amazon is now pushing their product placement above other sellers, they get a

huge advantage,” the Amazon seller said.

Amazon declined to comment on merchants' concerns or the EU investigation.

## They've gotten way more aggressive

Guru Hariharan, Boomerang Commerce

With competition from Amazon's in-house brands and an expanding universe of other merchants, paying to [advertise](#) is becoming a necessity for merchants to ensure their products appear on the first page of results.

Amazon competes in its own auctions for ad space on its site, another source of frustration for some sellers.

“They are going into a game with complete knowledge of the rules,” said one former employee.

The advertising growth has been good news for Amazon, which is predicted by researcher eMarketer to overtake [Verizon's](#) Oath and [Microsoft](#) to become the third-largest US digital ad platform by revenue this year. Its forecast \$4.6bn in US ad revenue will give it a 4.15 per cent market share, behind only [Facebook](#) and Google, which together control 58 per cent of spending.

But it has added to the cost of doing business on Amazon and contributed to its evolution into a “pay-to-play platform”, according to Roshan Varma, director in the retail practice at consultancy AlixPartners.

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While Amazon's canny use of data and growing market power has invited scrutiny, it has also produced undeniable results for the company. After years of reporting little to no profits as it invested in areas from ereaders to cloud computing, Amazon has recorded 13 consecutive quarters in the black, including its first-ever quarterly profit [above \\$2bn](#).

“We're seeing that Amazon is making a lot of push on profitability,” said Guru Hariharan, a former Amazon executive and founder of ecommerce software company Boomerang Commerce. “It's not a serendipitous outcome that you're seeing Amazon turning the corner. They've gotten way more aggressive.”

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