

DON'T
MISS



AMAZON'S
ONE
VENDOR



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On March 4th, hundreds of thousands of Amazon vendors didn't receive their weekly purchase orders. At first, thought to be a glitch in Amazon's system, it became clear on Tuesday the move was intentional. This is Amazon's latest nod to the roll of its new system, "One Vendor." The online retailer has been alluding to the consolidation of its two systems, Vendor Central and Seller Central for months. In February, brands with annual revenue over \$10M were officially notified that they could no longer maintain hybrid 3P (marketplace) and 1P (direct 1-1) business models. Last week's actions, the deletion of hundreds of thousands of vendor central accounts, is the online retailer's biggest move to-date.

Amazon Flexes It's Muscles, Looks for More Control

The move last week unsettled many companies and there was a wave of conversation through the digital community around what this means for both the short- and long-term.

In the short-term those vendors that are big enough to have seen very little disruption in their 1P orders and did not receive notice from Amazon can expect business as usual. Advertising commitments will be held, orders will be processed and vendor negotiations should proceed as normal.

The long-term for these relationships is less certain. While Amazon made a play to push smaller partners that bring in less than \$10M in annual sales to 3P, at Wavemaker we don't believe that's the end. Amazon will likely continue to evolve the "One Vendor" system and process, and those manufacturers, even if they are larger partners, should start to evaluate the role Amazon might play in their long-term growth ambitions.

Overall, the future will depend on individual category dynamics in the total marketplace, the strength of each brand's equity, their digital assortment strategy and approach to overall pricing and promotions. Just as each brand should be considering these key factors, so too will Amazon. Our prediction is that the retailer will eventually turn its eye to category-level profitability within each vendor. The strength of the overall vendor partnership with Amazon might keep the spotlight off single categories under \$10M that are part of a larger CPG relationship.

As Amazon flexes its muscles and moves to control their business with mounting shipping costs, vendors should look to flex theirs as well.



"We regularly review our selling partner relationships and may make changes when we see an opportunity to provide customers with improved selection, value and convenience,"- AMAZON

1P & 3P 101

There is a lot of Amazon jargon thrown around these days and understanding what it all means is key to building your media strategies and best practices.

Amazon currently has two distinct selling models known as 1P or first-party logistics and 3P or third-party logistics. 1P is a direct selling relationship with Amazon and means that the manufacturer or brand acts as the Wholesaler and Amazon sells the products to the end consumer. 3P is an indirect relationship where the brand is the retailer on Amazon and sells directly to the end consumer via their marketplace.

What Marketers Should Know About “One Vendor”

Is an Amazon upfront commitment the right choice long term? Amazon is increasingly relying on advertising dollars to drive profitability and upfronts are the best way to lock in those commitments. If, however, Amazon has made it difficult for your business to be profitable across your portfolio, you should be considering whether an upfront commitment juice is worth the squeeze, or if you should move to a more flexible spending model.

If Vendor and Seller Central are combined, does that apply to advertising as well? The question of will the advertising inventory be available to both 1P and 3P sellers has yet to be answered by Amazon. The answer could have a potential impact on inventory availability and cost of inventory. As things like Prime Day drive increasing levels of traffic each year, the bid to win SOV could become even more expensive.

Impact to Media Conversion Based on Changes?

At Wavemaker, we predict very little change in the conversion of paid media on Amazon. As smaller vendors move to the 3P marketplace they must readjust their pricing strategies, but unlike when they sold 1P, they must take the hit on all price-matching or competitive pricing strategies, which would or could potentially eat into their advertising spend. What does this all mean? We believe 3P sellers will have to first decide pricing strategies and assess how Amazon media fits into their overall strategy, yet we don't foresee a major disruption in the short-term.

Read more:

1. <https://digiday.com/marketing/seeking-control-brands-amazon-pulls-plug-thousands-vendors/>
2. <https://www.linkedin.com/pulse/vendors-snubbed-amazons-ordering-system-its-me-you-andrea-leigh/>
3. <https://www.recode.net/2018/11/29/18023132/amazon-brand-policy-changes-marketplace-control-one->



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