How Amazon Is Strengthening Competitive Position

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Market Profile

Amazon started as a bookstore in 1994, but by now has turned into a real monster of Internet trading. At the site, you can sell anything. The most convenient – there you can compare the prices of different vendors and choose the most suitable offer. Moreover, the Amazon algorithm performs such a comparison for us and finds an “optimal offer” (“Buy Box”); it remains only to click the “Add to Cart” button.

Nobody knows how the Amazon algorithm works: the formula includes not only the price but also the number of positive reviews and something else. The problem is that traders are actively manipulating the Amazon algorithm to get into the cherished “Buy Box.” The task of the trader is not only to get into the optimal position but also to sell the goods at the highest possible price without losing the position. Watching the battle of trading bots on Amazon with constant price jerks is very amusing: a study was conducted by specialists from the North-Eastern University (USA).

Do you know about the dictatorship of the default settings? This law operates everywhere: the absolute majority of users are always satisfied with the default settings in the system and do not change absolutely anything. That is, formally giving the user a choice, in practice, you can control the actions of the absolute majority of users, simply by changing the default settings in the desired direction. The same law applies to Amazon. Formally, each buyer can spend a few seconds to compare the prices of different vendors, but in practice 82% of Amazon sales occur through the default box “Buy Box”. Therefore, sellers are very important to get there, they are ready for anything. Moreover, there are specialized firms like Sellery, who develop their bots to get into the “Buy Box” with the optimal price. Developers sell these bots to merchants on Amazon.

The most interesting thing begins when the bots begin to adjust and react to each other’s actions. In this case, the prices of goods on Amazon automatically change hundreds of times a day. Researchers from Northeastern University registered the prices of 1641 products from the list of popular items on Amazon. Every 15 minutes, the price of this product was registered for the position in the “Buy Box,” as well as the price of 20 other sellers and their ratings.

Customer Segments

Segmentation is the main strategic element in the company's marketing plan. It serves as a starting point for other marketing activities and creates the basis for building a successful marketing strategy. Correct segmentation allows the company to more effectively represent itself in the market, targeting the marketing mix (product, price, location and promotion) to the most receptive investors. For example, if a start-up company works in the field of biotechnology, it is better to focus its efforts on venture capital funds that specialize in financing biotech companies rather than waste time trying to establish relationships with those who are interested in investments in the electronics sector. It goes without saying that the positioning and the value proposition of the company should be targeted at the target segment.

Amazon uses the following approaches to market segmentation, and they can be divided into two groups: segmentation based on static characteristics and segmentation based on dynamic characteristics. With dynamic segmentation, investors are viewed from the point of view of their human qualities (interests, habits, attitudes, etc.) that directly affect investment motives and decisions. Such segmentation is carried out by psycho-graphic or behavioral principles. In the first case, investors are grouped according to lifestyle or personal characteristics. Representatives of one demographic group can demonstrate a wide variety of psychographic profiles. Behavioral segmentation involves the division of investors into groups based on attitudes, reactions and benefits. Less commonly used are other behavioral criteria, such as the perception, preferences and factors of the marketing mix. Psychologists and behavioral economists who studied behavioral segmentation discovered a number of curious facts concerning the attitude and reaction of investors to the conditions of financial markets.

The term "business for the consumer" (B2C) means commercial relations between the company and individuals. Although this concept refers to any kind of direct sales to the end user, it is usually associated with online sales, also known as e-commerce or E-tailing (retail sales on the Internet). In recent years, the growth of B2C online sales has become a serious obstacle to the development of traditional stores and services, which are rapidly losing the battle against Internet competitors.

As a result, many traditional companies began to focus on expanding their presence in the online market in order to remain competitive. This provided a number of new opportunities for consumers who can enjoy all the convenience of ordering via the Internet while saving on transportation costs. Some sellers are allowed to take Internet orders in regular stores (as well as to return goods that did not fit).

B2C Market Models

In the field of online sales, under the "business for the consumer" scheme, there are usually five business models.

1. Direct sales

Direct sales are familiar to most people. It has retail Internet sites where consumers buy goods.

2. Online Resellers

So-called intermediaries bring together the buyer and the seller while they themselves do not produce and do not sell goods and services. Examples include tourism sites such as Expedia and Trivago, as well as Etsy, a platform for the sale of handmade goods.

3. Sale of advertising

This approach uses large amounts of web traffic to sell advertising, which in turn sells goods and services to the consumer. In this model, high-quality free content is used to attract visitors who visit the site and watch ads. Examples of such media sites can be Huffington Post and Observer.com, where there is no paid content available only by subscription.

4. Targeted Approach

Within the framework of this model, thematic Internet communities and interest groups are used so that advertisers can offer a specific product directly to interested users. This may be a forum for photo enthusiasts, a community of diabetics or participants in an instrumental ensemble.

5. Paid viewing

The resources working under this model allow users to view the content. Usually, part of the publication (preview) is visible to all visitors, but for access to the full version, it is necessary to pay. Examples of such sites are the Amazon. The company works directly with customers, and when choosing a suitable model, it should consider how its potential customers prefer to buy the offered product or service: via the Internet or in person, in traditional stores. (Amazon.com, Inc., 2021)

An effective segmentation strategy must meet a number of criteria. First, the market must be viewed from a unique angle and not in the way that competitors consider it. This allows the company to establish its own rules of the game. If the size and financial capabilities of the identified segments are large enough, the company can force competitors to play by their own rules. Secondly, the segmentation method used should reflect investment behavior and investor motivations. This is why segmentation based on dynamic characteristics is preferable to static segmentation. Behavioral segmentation can shed light on important features of the investment behavior of the providers of capital and help formulate a strategy that allows influencing this behavior. Of course, the easiest way is to carry out geographical and demographic segmentation, especially since it is not difficult to obtain the necessary data for this. However, this segmentation does not allow for answering the question of why investors decide to invest money, say, in Microsoft rather than in Oracle. It does not provide an opportunity to develop an effective marketing strategy, including positioning, differentiation, marketing complex, sale, service, process and efforts to create a brand. (Porter, 1985)

Thirdly, the target segments should be quite large and promising in terms of future long-term financing opportunities. It is necessary to define the characteristics of potential suppliers of capital as accurately as possible so that the company can adapt its positioning, differentiation, marketing mix, sales and branding strategy.

Competitive Analysis

FBA (Fulfillment by Amazon) is a special paid service for sellers, which allows using the storage capacity of Amazon. This program can be used for 1-2, several or all products from its range. The products you choose will be stored in ultramodern warehouses on the same shelves as Amazon's own.

In the study of products, people often make one mistake: they choose the goods solely from:

- Demand (for example, see that 3000 units are sold per month on the main key request);
- The level of competition (for example, only ten players in the market with the availability of 50 to 70 reviews).

Then, immediately conclude that you need to deal with the sale of this particular product. But forget the main thing – one cannot neglect such an important factor in the search for a product, as profit per unit of a product. As DJ Quick once remarked: "If it does not make dollars, it does not make sense." The approximate meaning of this expression: "It does not matter if it does not bring a dollar."

There are several mechanics in using the FBA-calculator profit that you need to know. Next, the story will be about two approaches that will help to avoid the loss of investment and profit and will also allow you to earn even if you sell 1 unit of goods.

Let's start with the steps that you must do to calculate and refine the profit per unit of the goods sold. As a result, you will be able to verify the viability of the product, i.e., you will be sure that you need to purchase this particular product. If its implementation is really profitable, you should not hesitate with the launch of the project. For convenience, we offer to work with the Excel table: to enter into it all the data of competitors, their indicators (sales figures), profit and so on, in order to investigate information, use it and draw conclusions in the future.

First of all, you need to decide. Suppose you cannot have all the exact data for a product; you can only get rough estimates based on competitive analysis. This will help in the future to find out whether the product is profitable. If a particular product turns out to be unprofitable, it will be necessary to continue the search, if it is cost-effective – to negotiate the delivery. On how to do this, read the article “How to reduce your risks to 0 when buying goods in China.”

Analysis Of Retail Prices

The easiest way to start an analysis is with income, so you can get information about how many customers are willing to pay for the product. Of course, in the future, you can set different prices and experiment with the cost using A / V testing, but in the beginning, the easiest way is to take the average price for a similar product from your competitors. Analyze offers of competitors, writing out the cost in the table. This is easy to do manually, systematically fixing the names and prices of goods.

However, it is more rational to do this in the Jungle Scout program, with which you can simply view the prices for the goods of the selected group and find out the average, as an example, the average price of a stick for frying pastilles.

Cost Analysis

If you decide to work through the FBA, you will not be able to avoid the “necessary evil” – you will have to pay membership fees to Uncle Sam, that is, FBA fees. You pay for the use of the service by FBA-Dachshund, and “Amazon,” in turn, takes the delivery process by itself. Prices include shipping, packing, customer service and much more.

Cost of certain services

- Commission Amazon (Amazon Referral Fee). Essentially, this is the payment for using an active lot on Amazon and working through this site – it is she who brings customers to you. Such compensation is formed as a percentage of the final sale price. Each category of goods has an interest charge for it. The full table of percent can be found here.

1. Demand for goods

The first step is to check the popularity of the product in Western online stores, as well as determine the potential of the audience and the interest of customers. To do this, we check how often people are interested in hangers and tremps when searching the Internet.

For analysis, we use statistics from all over the world since we do not plan to limit sales to one country. You should search for several popular variations of the product name:

- Clothes hangers, clothes racks, clothes hangers, and baby clothes hangers.

As a result, we see statistics for each request and its popularity in different countries of the world in recent years:

On the request for a “clothes rack” (red line), we see a stable trend to increase demand – a good sign. We also check other combinations of queries:

- buy thrash,
- trembling Amazon,
- Hanger eBay.

Perhaps some products will be more popular at a specialized store? About how to determine which store is best to sell hangers and related products, we’ll tell you in the next post. Also, these query options can be remembered and used in the names and descriptions of their products.

2. The price of the goods

The experience of working with sellers in Western online stores suggests that the price of a unit of goods can vary from $ 5 to $ 50. So, for the first placement on Amazon and testing of sales, you can expose the goods at different prices for one hanger or by collecting kits with different numbers of units in the box. The specificity of the goods allows you to form positions from several dozen hangers, manipulating the final value. The site is popular offers from 10 to 50 units in the kit.

3. Analyzing the competitors

To assess the prospects of selling hangers, you need to look at competitors and predict the costs of entry. Without any software, Amazon gives us a few tips for analyzing the competitiveness of niche-selling temples, namely:

- goods « Bestseller » – under this badge, you will really find the product that is sold best in the category under consideration;
- quantity and quality of reviews – we advise you to pay attention to products with a large number of reviews – from 500, this will be your main competitors;
- BSR (Best Seller Rank) – the smaller the BSR, the better. Goods with the lowest BSR buy more and more often than the goods with the largest BSR.

In the Standard Hangers category, the products of the Amazon Basics brand with the most reviews rank among the 20 best products labeled “Bestsellers.” This is the main competitor in this category. For such a popular product in this niche you can get from $ 10,000 per month. And with the worst scenario, you can count on 30 – 50 sales per month. The best product in the category, Standard Hangers, has BSR 101 and is one of the last on the first page – 7036 place in Home and Kitchen. Strive to ensure that the BSR of your product is always below 5000 in the general category.

Method For Delivering Value

According to the principles of Bezos about creating a brand, you need to do the following: “You need to make a name today so that it works for you tomorrow. It is necessary to have a clear idea of, i.e. what is behind the name of the company. Working with public opinion, along with advertising, should be an important link in the creation of the brand. The name must have a specific value. Amazon took advantage of this device, promising to become “the world’s largest bookstore” and then “the supermarket with the biggest choice.

“Rule, but divide.” The Amazon site can be compared to a multi-brand shopping center that links to other sites. Justify your reputation. Being already a large and well-known company, it is not difficult to forget what I once started. However, when working on the Web, do not forget these promises because the information on the Internet is much faster than usual. Do not spoil a good name with a low level of service.

The scheme of Amazon’s affiliated markets allowed an arbitrary description-advertising, which was given different sites in different ways, which eliminated Amazon’s large expenses for advertising campaigns. As a result, the principle of publicity was implemented. Consumers could tell each other about a particular book, passing information by word of mouth and communicating through interactive forums.

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