



Selling on Amazon: First Party or Third Party?

Should branded manufacturers sell directly through Amazon, or on the marketplace?



Sitting at number one on the Internet Retailer 2015 Top 500 list, Amazon.com is the Goliath of US online commerce. In 2014, Amazon had net sales of \$89 billion.¹ The marketplace giant boasts almost 250 million active customers,² over 2 million sellers³ and shows no signs of slowing down anytime soon. As a branded manufacturer, the question is obvious:

What's the best way for me to join in Amazon's success?

In this white paper, we'll outline a few of the options available for brands looking to capitalize on Amazon's success, along with what to consider along the way. We'll explain the differences between the two primary approaches to selling products on Amazon, as well as a third option that combines elements of the two.

JOINING THE AMAZON PARTY

One common way of identifying the type of relationship that exists between Amazon and a brand is through the terms **first party** (1P) and **third party** (3P).

1P

A first-party relationship with Amazon is a direct relationship, where Amazon is the retailer and the brand is the supplier or wholesaler. Brands interact with Amazon's vendor management team, which includes people like buyers and merchandisers. This relationship is managed through a portal called Vendor Central. In this arrangement, Amazon is a traditional retailer — buying products, selling them and owning all communication with the buyer to complete the sale. On Amazon, items sold directly by Amazon include the text "Ships from and sold by Amazon.com" in the listing.

In Stock.
Ships from and sold by Amazon.com.

3P

In a third-party relationship with Amazon, the brand is the retailer and manages a storefront on Amazon. The brand lists products and receives orders for those products. In this case, the brand uses the Amazon platform to sell directly to Amazon customers. The interface used to do this on Amazon is called Seller Central, though many companies use third-party solutions such as ChannelAdvisor to make the process easier. The brand is responsible for listing products, as well as fulfilling sales and providing customer service. Items sold by a third party include the same text as above, but with the seller's name instead of Amazon.

In Stock.
Ships from and sold by eBags.

Brand?

To keep things simple, from here on, we'll use the term "brand" to refer to brands and manufacturers of all stripes.

1P: A first-party relationship with Amazon means Amazon is the retailer and the brand is the wholesale supplier to Amazon.

3P: A third-party relationship with Amazon means that the brand is the retailer and sells directly to the consumer via the Amazon marketplace.

Given these two choices, you might be tempted to ask: "So which one do I pick?" We'll get to that below. But first, there's the question of whether you even have the ability to choose between the two options in the first place.

¹ <http://www.businesswire.com/news/home/20150129006435/en/Amazon.com-Announces-Fourth-Quarter-Sales-15-29.33#.VVCu7fIVhBc>

² <http://www.geekwire.com/2014/amazon-adds-30-million-customers-past-year/>

³ <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2002794>



DO I HAVE A CHOICE?

1P A first-party, or direct, relationship with Amazon requires an invitation from Amazon's vendor management team. Without this invitation, your only choice is to sell as a third party on Amazon. If you're a large, established brand, you've probably already had conversations with this team at Amazon and are doing one of two things: 1) currently selling at least some of your product line via Amazon through a first-party relationship, or 2) consciously not selling directly through Amazon for one or more business reasons.

If you're a smaller, up-and-coming brand or a large brand that hasn't had the conversation with Amazon, you'll need to secure an invitation before you can sell first-party. Invitations are typically sent via Amazon buyers. There are also various third-party consultants that claim that their relationships with Amazon can help obtain these invitations with a high success rate.

3P A third-party relationship with Amazon is open to almost anyone, though certain product categories require pre-approval. To initiate third-party selling, you first need an Amazon Seller Central account. Most companies should opt for a "Professional" Seller Central account. Although a third-party relationship doesn't require an invitation, we've heard of cases where successful third-party Amazon sellers were forced to move to a first-party relationship or stop selling on Amazon altogether. For now, though, this doesn't appear to be a widespread occurrence. But it's something to keep your eye on.

A Hybrid Approach

As an alternative to having solely a first-party or third-party relationship with Amazon, some brands do both. Assuming you've secured a first-party invitation and that Amazon chooses not to sell your entire catalog, it may be possible to sell non-overlapping SKUs as a third party under certain conditions. The hybrid approach gives you increased access to Amazon's loyal customers. But as indicated above, this is subject to Amazon's approval.

We've heard that it's generally easier for a retailer or brand to make the transition from third party to first party (or third party to a hybrid approach) than vice versa.

Below, we'll outline the major differences between the two primary approaches to selling on Amazon. Naturally, a brand using a hybrid approach would incorporate elements of each.

CHOOSING BETWEEN FIRST PARTY AND THIRD PARTY

When deciding between a first-party, third-party or hybrid approach on Amazon (assuming you have the choice), there are a number of factors to consider throughout the entire supply chain. Even if you don't have a choice, these are a few items to consider as you work with Amazon.

1. Managing Your Listings

1P A first-party relationship with Amazon is managed via interaction with the Amazon vendor management team and online via Vendor Central. Amazon encourages the use of Electronic Data Interchange (EDI) for transactions such as purchase orders, invoices and shipping notices. However, Vendor Central provides a web portal with similar functionality for order management, sales reports and more. Anecdotal feedback from brands and consultants suggests that the Vendor Central user interface is less user-friendly than most come to expect from Amazon.



3P Third-party interaction with Amazon occurs online via Amazon's Seller Central portal. Brands should register for the Professional selling plan. Once registered, sellers are required to take a number of steps to set up shipping options, notification preferences and other account details. Third-party sellers must also communicate information about the inventory they have for sale to Amazon. While it's possible to do this via tools found in Seller Central, companies such as ChannelAdvisor provide e-commerce solutions for managing and optimizing merchandise sales across hundreds of online channels, including Amazon. These solutions are most appropriate for brands and retailers that need to scale for a large number of SKUs.

2. Pricing, Inventory Selection and Merchandising

1P First-party suppliers sell products to Amazon at wholesale. From there, Amazon lists, sells and fulfills each product. For years, one of the biggest myths has been that Amazon doesn't often follow Minimum Advertised Pricing (MAP) guidelines, and will undercut prices, though that's not necessarily true. Though Amazon technically sets the price for an item, retailers and brands can still control the price of their products with the proper policies and distribution strategies in place. As a first-party supplier to Amazon, however, a brand has little to no control over the SKUs that Amazon actually sells. On the other hand, as a third-party seller, a brand maintains complete control over what products are listed and when they're listed. While the details and processes of how the product information gets to Amazon vary, both first-party and third-party product listings require you to submit data to Amazon, including title, descriptions, images and product attributes that vary depending on the product category. To ensure that your products are easily found on Amazon, pay attention to the details in your data.

First-party sellers also have the option of paying for Amazon A+ content pages for a product, based on the Amazon standard identification number (ASIN). A+ content pages allow for customizable templates that can include multiple images, richer descriptions, tables and video. These pages are ideal for complicated products or products that could benefit from more details than those found on a standard Amazon product page. A+ content pages aren't available for third-party sellers.

Did you know?

Even if you're a first-party supplier to Amazon, you're still obligated to provide product details for your listings, such as title, descriptions, images and product attributes.

3P As a third-party seller on Amazon, you not only control what information accompanies each listing, but you also have complete control over the price. Thus, it's easy to comply with your own MAP or manufacturer's suggested retail price (MSRP) guidelines. According to Amazon's policy, however, third-party sellers must keep their prices on the Amazon marketplace at or below their prices on every other channel. From the "Selling on Amazon/Policies and Agreements/Fees and Pricing" page:

By our General Pricing rule, you must always ensure that the item price and total price of an item you list on Amazon.com are at or below the item price and total price at which you offer and/or sell the item via any other online sales channel.⁴

In 2013, Amazon stopped enforcing this policy in Europe after countries opened investigations into the practice. Make sure to pay attention to the status of these policies in the various countries where you do business.

⁴ <http://www.amazon.com/gp/help/customer/display.html?nodeId=1161240>



3. Warehousing and Fulfillment

1P

In the first-party model, Amazon purchases and takes control of your inventory. Thus, Amazon is responsible for warehousing products and shipping orders to customers.

For inventory shipped to Amazon fulfillment centers, Amazon provides detailed instructions on packing, labeling, required documentation and transport. Adhering to these details is essential to ensure items aren't returned at your expense. Anecdotal feedback on this process suggests that vendors are responsible for the shipping costs and are sometimes called on to ship non-optimized quantities of products to multiple warehouses, a process that can be costly and difficult to track. But once Amazon has the inventory, it takes care of everything else.

3P

In the third-party model, the seller is responsible for warehousing products and fulfilling customer orders.

For brands with established direct-to-consumer fulfillment operations, this process may be straightforward. However, to ensure favorable seller ratings on Amazon, it's important that customers receive your products within the time indicated in the product listing. For brands that don't have direct-to-consumer operations or that don't want to worry about fulfillment of Amazon sales, it's worth considering Amazon's fulfillment program, called Fulfillment by Amazon (FBA). With FBA, Amazon will pick, pack and ship your products directly from an Amazon facility to the customer. Costs associated with FBA include shipping products to Amazon and fees you pay to Amazon for pick and pack, handling, storage, shipping and returns processing. Full FBA details are too numerous to elaborate on here, but Amazon has done a good job [outlining the entire process](#).

One major benefit of either the first-party model or using FBA as a third-party seller is access to Amazon Prime customers. There are an estimated 50 million loyal Prime customers worldwide,⁵ and these customers tend to spend almost twice as much as the average Amazon customer.⁶ Amazon's excellent reputation for customer service translates to consumer trust when Amazon fulfills orders.

The logo for Amazon fulfillment, featuring the word "amazon" in black and "fulfillment" in orange, with the Amazon smile arrow underneath.The logo for Amazon Prime, featuring the word "amazon" in black and "Prime" in blue, with the Amazon smile arrow underneath.

4. Payment Terms

1P

Amazon's standard payment terms for first-party brands are Net 90. This may cause a cash-flow problem for smaller companies, particularly around the holidays. It's possible to obtain Net 30 or Net 60 terms if you provide discounts to Amazon (2% or 1%, respectively). Brands must invoice Amazon for the products ordered through Vendor Central.

3P

For most third-party sellers, funds are transferred from the Amazon Seller Account to a bank account every 14 days (more frequent transfers can be requested), as long as Amazon Payments determines that funds are no longer needed to cover chargebacks, refunds and other claims against sales.

⁵ <http://recode.net/2014/09/18/amazon-prime-may-have-50-million-members-analyst-says/>

⁶ <http://qz.com/221910/amazon-prime-members-spend-almost-twice-as-much-as-other-amazon-shoppers/>



5. Marketing Services and Analytics

Whether you have a first-party, third-party or hybrid relationship with Amazon, there are a number of tools available to help promote your products and track performance.

Marketing Services

1P

Some of the marketing services brands with a first-party relationship with Amazon are eligible to use:

- **A+ content pages:** As highlighted above, brands have the opportunity to create custom A+ content pages to provide richer information about certain products. Note that there's a cost associated with creating A+ pages.
- **Amazon Vine:** This program allows new products to be sent to trusted reviewers so that a new product already has Amazon reviews when it's introduced in the market. Brands have no contact with the reviewers and no ability to influence the reviews. In addition to the samples and shipping of the items, there is a cost for this program.
- **Vendor Powered Coupons:** This program enables brands to create coupons on Amazon.com, including choosing start and end dates, the type of coupon and spend limits. Pricing is determined by the number of coupon clips and number of coupons redeemed.
- **Official Comments:** This pilot program allows brands to post a highlighted comment next to customer comments on Amazon. The goal is to answer customer queries or clarify information about the product. Authenticated posters will be given badges that highlight their relationship with the product.

A first-party relationship with Amazon may also provide access to additional merchandising options such as Amazon's targeted email campaigns, Subscribe & Save and Gold Box Deals, including Deal of the Day and Lightning Deals. Keep in mind, though, that there are thousands and thousands of brands that work with Amazon, and access to these programs isn't guaranteed.

3P

Third-party sellers on Amazon have access to the Sponsored Products program for any items where they hold the Amazon Buy Box. Amazon Sponsored Products are advertisements that appear on the search results page and are triggered based on customers' search terms.

Sellers choose which products they want to advertise, assign keywords to those products and set cost-per-click bids. If the bid is competitive (and if the product has the Buy Box), the ad may appear alongside the search results. When Amazon customers click on the ad, they're taken to the product detail page, and the seller is charged the per-click fee.

Other promotional opportunities for third-party sellers include money-off, buy-one-get-one and post-order benefits such as discounts on a future purchase.

Analytics

1P

For first-party sellers, Amazon Vendor Central provides basic reports on sales and inventory trends, including best-selling, worst-selling and most-viewed items. There are also reports on units and styles shipped and returned. In addition to reporting, Vendor Central provides demand forecasting. Some brands indicate that this forecasting data is fairly accurate, while others report just the opposite. More detailed information is available in Amazon's Premium Analytics reports. These reports aren't available to all vendors and come with an additional cost.

3P

Third-party sellers have access to detailed sales data about inventory, orders, payments, customer satisfaction, feedback, fulfillment and more within Seller Central. Sales, traffic and seller performance information is available by date and ASIN. Detailed sales analytics on Amazon and other channels are also available within the ChannelAdvisor platform for third-party Amazon sellers. Further, Amazon provides notifications on inventory, fulfillment and pricing opportunities to improve the effectiveness of third-party sellers. ChannelAdvisor displays this information through a feature called Amazon Insights.



6. Sales Volume, Fees and Profits

Now that we've discussed some of the broader mechanics around first-party and third-party selling, let's break down some of the financial details. In this section, we'll discuss sales volume, fees, margins and how you get paid for both methods of working with Amazon.

Sales Volume

As a brand, will you ultimately sell more letting Amazon take care of everything in a first-party relationship, or will you be able to sell more via the third-party route? And if selling first party can increase volume, will that increased volume come at the expense of your other channel partners? Or will the increased volume simply be the result of effective merchandising and customer service to the massive Amazon customer base?

These are good questions — that unfortunately don't have easy or one-size-fits-all answers.

Anecdotally, many brands have told us they've seen excellent sales volume through the first-party relationship. On online forums, brands talk about significant increases in sales volume after moving from third-party to first-party. We've also heard that it's a fairly simple process to transition from third-party selling to first-party.

In other forums, however, brands suggest that they saw more success with third-party sales because they understood the business and were able to better adjust for aspects such as seasonality.

So will your brand see more sales via first party or third party? The answer: It depends.

Again, because circumstances vary between different brands' sizes and product verticals, the solution might be for you to investigate a hybrid approach to Amazon selling and go with what works, assuming Amazon gives you a choice.

Fees

Whether you're selling on Amazon as a first-party brand or third-party brand, there will be fees involved. Depending on the size of your business and the relationship with Amazon, however, the fees may be negotiable. When comparing fees in a vacuum, first-party fees are generally lower than third-party fees. It's important to remember, though, that as a first-party seller, you'll receive wholesale prices for your products. And as a third-party seller, you'll receive retail prices.

1P

As a first-party seller via Amazon, you can expect the following standard fees:

- **Marketing Co-op:** Because Amazon takes steps to drive traffic to its site and promote brands, it typically charges a 10% standard co-op, which is deducted from your Amazon invoice.
- **Damage Allowance:** To cover customer returns and damages, Amazon typically works with a 2% allowance, then evaluates in subsequent years to determine if damages are higher than expected.
- **Freight:** As noted above, brands are typically responsible for paying freight to Amazon warehouses. Initially, that may just be one warehouse but can expand to multiple warehouses as business grows.
- **Payment Terms:** Additional fees may apply to expedite payment from Amazon. A typical arrangement with Amazon might include Net 90 as the expected payment terms, a 1% discount in order for Amazon to pay Net 60 and a 2% discount in order for Amazon to pay Net 30.

3P

As a third-party seller on Amazon, you can expect the following standard fees:

- **Monthly Subscription Fee:** For Professional sellers (recommended), there's a monthly subscription fee of \$39.99.
- **Referral Fee:** Sellers pay a referral fee on every item sold, but the fees depend on the product category. For most non-media categories, typical referral fees fall between 8% and 15% of the total sales price (which includes fees on shipping charges for non-FBA sellers), though they can be as low as 6% or as high as 20% in a handful of categories. For items with low total sales prices, there's a minimum referral charge of at least \$1.



- **Fulfillment:** Brands that are able to fulfill directly to consumers will already have a known cost structure. Those brands that choose to use FBA will typically pay the following fees for standard-size, non-media items:⁷
 - o **Order Handling:** \$1 per order for orders under \$300 and \$0 for orders over \$300.
 - o **Pick and Pack:** \$1.04 per unit for orders under \$300 and \$0 for orders over \$300.
 - o **Weight Handling:** Weight handling charges are based on the outbound shipping rate. For standard-size, non-media packages, these charges are \$0.63 for one-pound items, \$1.59 for two-pound items and \$1.59 plus \$0.39/pound above the first two pounds. For orders over \$300, the cost is \$0 (only for standard-size items).
 - o **Inbound Shipping/Freight:** Sellers are responsible for paying freight to Amazon warehouses. Amazon has discounted rates with its partner carriers as an optional service.
 - o **Inventory Storage:** Amazon charges a monthly inventory storage fee of \$0.51/cubic foot/month in January through September and \$0.68/cubic foot/month in October through December. Long-term storage costs may also apply for units stored in fulfillment centers for one year or more.
 - o **Return Processing Fees:** For categories in which Amazon provides free returns (e.g., apparel, shoes, jewelry, handbags, luggage), it will charge a processing fee for returns that's equivalent to the order handling, pick and pack, and weight handling charges for that item. Return fees are charged even if the original order was over \$300.
 - o **Inventory Return:** For inventory that sellers want to have returned to them, Amazon charges \$0.50 for standard-size units (weighing 20 pounds or less, with the longest side measuring 18 inches or less and its shortest side 8 inches or less) and \$0.60 for oversize units.
 - o **Inventory Removal:** For inventory that isn't sold and that the seller wants to be removed instead of returned, Amazon charges a removal fee of \$0.15 for standard-size units and \$0.30 for oversize units.

Please note that Amazon is a dynamic company and e-commerce is constantly changing. Thus, as you are evaluating working with Amazon, it is important to check on the services and fees highlighted above as they may have changed since the publication of this white paper.

Net Profits

Profit margins will generally be higher for brands that sell as third parties on Amazon. However, net profit (in absolute dollars) will vary based on a number of factors. Some of the most important:

- **Ratio of sales volume between Amazon first party and Amazon third party:** As noted above, feedback is mixed as to whether a first-party relationship with Amazon yields additional sales volume as compared to a third-party relationship. Nevertheless, an estimate of the ratio of first- and third-party sales on Amazon is vital in determining the impact on net profit for your products.
- **Wholesale profit margin:** This is the percentage profit that a brand earns when selling a product at the wholesale price.

$$(wholesale\ price - cost\ of\ goods\ sold) / wholesale\ price$$

- **Retail profit margin:** This is the percentage of profit that the retailer (Amazon, in the case of a first-party relationship, or the brand, in the case of a third-party relationship) earns when selling a product at retail.

There isn't a one-size-fits-all analysis for determining which type of relationship with Amazon will maximize your profits as a brand. But let's take a look at a few examples with the assumptions for each outlined below. These examples are for one SKU, which we'll call XYZ. A more complete analysis will require this evaluation across an entire product portfolio.

Assumptions:

- Product retail price: \$50
- Units sold as third-party: 500
- Ratio of wholesale price/retail price: 45%
- Product weight: 3 pounds
- Third party uses Amazon FBA (warehoused and shipped by Amazon)

⁷ FBA fees vary by type of product, size and item price and are subject to change. Please consult Amazon for fees related to your specific products.



- Inbound freight costs to Amazon warehouses are roughly the same for both first- and third-party sellers
- Third-party commissions: 15%
- FBA fees: \$1 order handling, \$1.04 pick/pack. Weight handling is \$1.59 + \$0.39/pound over 2 pounds
- First-party fees: 10% co-op, 2% damage allowance and 2% to receive Net 30 terms

Example 1

The table below shows the difference in expected profitability between a third-party model and a first-party model for this example product XYZ, given the assumptions above.

The vertical axis of the table represents the wholesale profit margin for the brand. As an example, if the landed cost of XYZ is \$15 and the wholesale price from a brand to a retailer is \$25, the profit margin for the brand is 40%.

Across the top of the table is a ratio of first-party to third-party sales on Amazon. This is an estimate of how much more you think Amazon might sell of your product through the first-party model expressed as a ratio: first-party sales in units/third-party sales in units. The first column assumes that Amazon will sell half as much. The last column assumes Amazon will sell five times as much.

The cells highlighted in green represent situations in which the third-party model would be preferred. Cells highlighted in red are situations in which the first-party model would be preferred. Yellow cells are neutral and could go either way.

Net Profit Difference of a Single SKU (Wholesale/Retail Price = 45%)

Wholesale Profit Margin	Ratio of First Party to Third Party Unit Volume									
	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
10%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
20%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
30%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
40%	Green	Green	Green	Green	Green	Green	Green	Yellow	Yellow	Red
50%	Green	Green	Green	Green	Green	Yellow	Red	Red	Red	Red
60%	Green	Green	Green	Green	Yellow	Red	Red	Red	Red	Red
70%	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red
80%	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red
90%	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red

The Results

For this particular SKU, sales volume needs to be quite a bit higher on Amazon for the first-party model to make sense. In addition, the wholesale profit margin must be greater than 30% for first-party selling to make sense.



Example 2

In this next example, let's use all the same assumptions with the exception of the ratio of wholesale price to retail price. In the example below, the wholesale price is now 30% of the retail price (meaning higher retail margins).

Net Profit Difference of a Single SKU (Wholesale/Retail Price = 30%)

	Ratio of First Party to Third Party Unit Volume									
Wholesale Profit Margin	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
10%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
20%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
30%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
40%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
50%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
60%	Green	Green	Green	Green	Green	Green	Yellow	Yellow	Red	Red
70%	Green	Green	Green	Green	Green	Yellow	Red	Red	Red	Red
80%	Green	Green	Green	Green	Yellow	Red	Red	Red	Red	Red
90%	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red

The Results

In this case, third-party sales make even more sense based strictly on profitability. On the other hand, if retail margins are slim, the first-party model makes more sense (though if the margins are too slim, it probably won't make as much sense for Amazon to enter into a first-party relationship).

Example 3

In the example below, the wholesale price is 55% of the retail price (meaning lower retail margins).

Net Profit Difference of a Single SKU (Wholesale/Retail Price = 55%)

	Ratio of First Party to Third Party Unit Volume									
Wholesale Profit Margin	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
10%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
20%	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
30%	Green	Green	Green	Green	Green	Green	Green	Yellow	Yellow	Red
40%	Green	Green	Green	Green	Green	Yellow	Red	Red	Red	Red
50%	Green	Green	Green	Green	Yellow	Red	Red	Red	Red	Red
60%	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red
70%	Green	Green	Green	Yellow	Red	Red	Red	Red	Red	Red
80%	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red
90%	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red



Takeaways

Again, this model is for illustrative purposes only and outlines the considerations that could apply to profits in both first-party and third-party relationships with Amazon. **Generally speaking, a third-party relationship is more profitable, unless you suspect Amazon will do significantly higher volume as a retailer than you can do as a third-party seller. This is particularly true for brands with slim wholesale margins and/or robust retail profit margins.** However, there are likely other costs unique to each brand that may influence this analysis.

A more complete analysis requires estimates across the entire product portfolio. In addition, net profits, though an important consideration, may only be part of the equation for many brands.

7. Effort

Whether you're in a first-party or third-party relationship with Amazon, a decent amount of work is required to increase your odds of success. Again, it's possible to do both, but that's contingent on factors specific to your company and your agreement with Amazon.

1P

A first-party relationship with Amazon is similar to interactions with other retailers and therefore may feel more familiar. Product data, purchase orders, freight to Amazon, and invoices all need to be managed. Additionally, your relationships with buyers from Amazon will need to be maintained. We've heard anecdotally from some brands that Amazon buyers interact with a lot of vendors. As a result, it can be easy to get lost in the shuffle. It's beneficial to everyone for brands to stay on top of sales and stock levels and remain proactive in the relationship so sales don't deteriorate. Further, if you use a number of optional merchandising features, you'll also need to manage them regularly.

3P

Fortunately, there are resources available for brands that are unable to undertake these efforts alone. There are numerous "manufacturer reps" and consultants (many of them founded by ex-Amazon employees) to help guide you through the first-party relationship and optional merchandising services.

In a third-party relationship, product data and freight to Amazon (if using FBA) are also important requirements. In addition, as sellers, brands must proactively manage the listings on Amazon, including inventory stock levels, pricing, product data and optional merchandising features. Acting as a third-party retailer on Amazon could fall outside the comfort zone of many brands, though. Providing excellent customer service is vital for maintaining high buyer satisfaction, which is required to keep your Amazon Seller Central account in good standing.

How ChannelAdvisor Can Help

On the third-party side, ChannelAdvisor provides a leading solution for managing multichannel sales across multiple marketplaces, including Amazon. The ChannelAdvisor platform offers brands and retailers cloud-based solutions to manage products, inventory levels and pricing on Amazon — as well as customer orders. Through a single inventory feed, ChannelAdvisor customers can manage their overall online selling process, from listing to order management, from one platform. By eliminating the tedious tasks of optimizing online listings and analyzing performance, ChannelAdvisor enables sellers to increase sales and successfully scale their e-commerce businesses.

For brands that would prefer not to tackle these processes alone, ChannelAdvisor also has a Managed Services team that can manage your third-party business on Amazon.

CONCLUSIONS AND RECOMMENDATIONS

This white paper has compared the many aspects of what it means to have a first-party relationship versus a third-party relationship with Amazon, from warehousing to merchandising to fulfilling the product to the end customer. Unfortunately, we can't provide a definitive answer to what type of relationship with Amazon is right for your brand, or whether you should be limited to just one type of relationship. As with many strategic questions, the answer depends on many variables that are unique to your company. What we can



do is provide a framework to follow as you determine the best course of action.

As a quick resource, the following checklist might help you answer the big question for your business.

- ❑ First, do you even have a choice?
 - Has Amazon invited you to a first-party relationship? If you're in a first-party relationship now, can you get out?
 - Do you have the option of setting up a third-party relationship? If you're selling as a third party now, will Amazon let you continue?
 - Will Amazon allow you to maintain a hybrid approach, selling some inventory directly to Amazon and selling some inventory on Amazon as a third party? If so, be sure to discuss the specifics with your vendor manager.

- ❑ What are table stakes that apply to both first-party and third-party selling? Though the mechanics will differ somewhat for first-party and third-party sellers, you'll need the following for both:
 - Availability of complete, structured product data and communication of data to Amazon.
 - Ability to ship inventory to Amazon warehouses. This is required for first-party sellers — and third-party sellers if you plan to use FBA.
 - Ability to allocate inventory to Amazon. In a first-party relationship, Amazon takes possession of the inventory. In a third-party relationship, products can be made available for sale on Amazon and then removed if that inventory is sold elsewhere.
 - Connection to additional marketing services.
 - Willingness to put in effort to effectively manage the program.

- ❑ How do the larger differences between the two programs stack up?
 - **Control:** How much control do you want over the inventory that appears on Amazon? Channel conflict is often an objection to selling on Amazon as a third party. However, brands that have control over inventory and price points on Amazon generally conduct business in a way that complies with their own MAP policies, alleviating any channel concerns.
 - **Retailing:** How prepared are you to think like a retailer and take active control of your presence on Amazon? If you aren't prepared, a first-party relationship with Amazon or a third-party relationship coupled with outsourced managed services may be beneficial.
 - **Inventory Ownership:** What works best financially for your company? In a first-party relationship, the inventory is on Amazon's books. In a third-party relationship (even if you use FBA), the inventory is on your books.
 - **Fulfillment:** Are you comfortable with fulfillment logistics? In a third-party relationship, the brand is responsible for fulfillment of individual orders. Amazon's FBA program provides a relatively straightforward means of accomplishing this for brands that have neither the internal capability nor an external partner. Whether you choose a first- or third-party relationship, fulfillment and customer service will still be demanding. You won't get out easy either way.
 - **Profitability:** Based on your estimated product mix, how profitable will each option be?

We hope you've found this information helpful in plotting your course on Amazon. If you have questions about selling on Amazon, or if you need guidance on what approach is right for your business, please feel free to email us at info@channeladvisor.com or call 866-264-8594. For the latest e-commerce news and tips delivered straight to your inbox, subscribe to [ECOMmunicator](#), our monthly e-newsletter.

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