Amazon Vendors Being Pushed To Seller Central: What To Do Now

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Amazon has made a series of moves that suggest that more Vendors will need to move to Seller Central. I first wrote on Forbes on Monday night how many vendors didn’t receive Purchase Orders (POs) this week, and the confusing rationales given by Amazon.

Since then, there’s been a lot of discussion in the vendor community about what this could mean for a vendor based on what kind of message they actually received from Amazon, speculation on why Amazon is making the move, and how to move forward. Amazon responded to Digiday’s report yesterday to say that there is no program that currently exists called “One Vendor”. Amazon's statement for Digiday regarding the PO cancellations said: “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.”

This doesn’t tell distraught Vendors much - especially those who abruptly had their purchase Orders (PO’s) stopped this week. In the current void of actionable information from Amazon, I want to lay out the steps toward a solution that most knowledgeable Amazon practitioners are promoting: *get ready for the marketplace model (currently Seller Central), even if it’s just a backup right now.*

1. **Why Amazon wants more brands on a “self-serve” model rather than a traditional retail model**

It's likely that operating the Vendor/"1P" model is generally more expensive for Amazon because:

- More manpower is needed for Vendor Central (VC). Amazon provides all the service to Amazon shoppers, and needs to employ pretty experienced people, generally living in Seattle, to be Vendor

Managers. Sellers, on the other hand, operate their own customer support and are required to be more independent.

- More profitable warehouses. Sellers might be more diligent with inventory management than Amazon's algorithm. Sellers are charged inventory storage fees and have their own capital tied up in inventory. The marketplace model pushes the responsibility of inventory management back on the seller, and Amazon can adjust their storage fees to control the costs - possibly better than an inventory forecasting algorithm with only historical inputs. Brands can better blend the art & science of inventory forecasting since they know their category so intimately. They also might have a view on new products that Amazon's algorithm won't pick up on.

- Platform maintenance. It's costly enough to maintain one massive international retail platform, let alone two. So to identify a single go-forward channel to invest development dollars into is in Amazon's best interest.

- Product margins. Amazon will do almost anything to win the 'buy box' on inventory it owns, and is a price-follower. This means that sometimes Amazon is lowering prices to a point where neither Amazon nor the brand is making money. In comparison, every sale on Seller Central attracts a 15% referral fee (on average).

Amazon has made abrupt changes to how many manufacturers can sell their products. GETTY

2. **The key differences in the platforms**

Moving to a marketplace model is not an overnight decision for most companies, especially those who have traditionally been servicing retailer accounts rather than having a direct-to-consumer model. Here are the key differences that brands need to consider.

- POs vs. seller decision on inventory positions. On Seller Central, you're making all the decisions around your inventory position instead of relying on Amazon POs to roll in every week. This may be a great thing if Amazon's PO logic has been an issue, but it might be intimidating for brands that don't have a forecasting capability of their own.

- No price control vs. price control. Another difference that would generally be considered a positive for many brands is that brands set their own product prices on Seller Central. This can help with channel conflict issues many brands experience on Vendor Central where Amazon would match any other competitor's price.

- Different reporting. In Vendor Central, brands often need to pony up extra fees to get access to data like product views, conversions, and keyword rank. Seller Central, by comparison, has many data points and reports that are free. However, there is no Premium Analytics package available for Sellers like there is for Vendors. Luckily there are many 3rd party tools that can fill in the gaps.

- More customer service and operational oversight. Sellers must answer all product-related questions from shoppers. Some brands will relish the opportunity to have more of a direct feedback loop with customers - but there is an operational cost to this. Likewise, sellers are expected to adhere to strict operational metrics like how quickly they respond to shopper messages, and the shopper's satisfaction with the returns process.

Finally, the fee structure is different between the platforms. Vendors sell their products to Amazon at an agreed wholesale price. Additional fees vary based on a signed Vendor agreement which generally includes the following fee structure:

- General Business: Amazon deducts fees for Marketing, Remittance, Pre-Payment and Packaging: 4-10%

- COOP Fees: charged as a way for Amazon to recoup some of their operating costs. Most vendors are required to pay Market Development Fund (MDF) fees (13-22%), a freight allowance fee (2-5%) and damage allowance (2-11%)

- Chargebacks: mislabeling, improper packing, late arrival, late PO acceptance etc. Sometimes fees are charged by mistake and need to be contested with Amazon which can be a time consuming process.

By comparison, the main Seller Central fees include:

- Referral fee - charged as a percentage of the retail price, or at least the price paid by a customer less any discounts. The percentage depends on category (15% for most categories).

- Fulfillment fee for sellers using Fulfilled By Amazon (FBA) - depends on product size and weight (around $3 - $5 for standard size items)

- Monthly storage fee (currently standard-size: $0.69/ per cubic foot, goes to $2.40 in Q4)

3. **Key steps required by brands to set up a Seller Central account**

Setting up a Seller Central account is a pretty simple process by itself. The usual swag of company tax information, submitted in a W-9 or W8-BEN, contact information, payment information, and probably personal ID of the account admin.

Brand Registry is a program that should be applied for as soon as possible, as this affords access to various marketing, brand protection, and advertising tools. Brand Registry can take a week or two to be processed.

Other considerations

The more complex part of setting up a marketplace channel are the bigger business decisions that need to be made.

1. Sales Tax implications. A company will need to determine how using Amazon FBA will impact its requirement to collect and remit sales taxes. Since Amazon controls where inventory is held, this potentially opens up more tax nexuses for a company.
2. SKU-level profitability. Generally speaking, products priced under $10 are difficult to make profitable when using Amazon FBA. Brands should review their item-level profitability in a before/after scenario.
3. Operational oversight. There is just more “stuff” that needs to be taken care of on a daily basis with Seller Central. These include responding to feedback left by shoppers and reviewing your account health KPIs to make a jump on any emerging issues. A company will need to identify how to resource the added oversight required.

And herein lies the rub: if given enough advance notice, many vendors would have voluntarily moved to a marketplace model and potentially be better for it in the long term. Migrating to an entirely new business model isn't a switch-flipping exercise - there are serious issues like tax liability to consider. Vendors, and Amazon themselves, could stand to lose considerable sales as a result of these changes.

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