CLEVELAND RESEARCH COMPANY
ECOMMERCE COUNCIL

Brands are Betting on Amazon, Even as Growth Cools

CRC's 2018 eCommerce Performance Benchmark

2.7.2019

Important disclosures can be found in Appendix

Key Learnings from CRC's Performance Benchmark

Each year CRC surveys 100+ manufacturers on their business to better understand trends around eCommerce performance. **We recommend sharing this report with your eCommerce and Amazon teams, as well as the broader organization, as the findings in this report will help you to benchmark your business against your peers as well as understand trends in other categories.**

KEY LEARNINGS

- There has been a significant shift to eCommerce over that past several years, and suppliers expect over 20% of their sales mix to come from eCommerce 5 years from now. While growth slowed in 2018 relative to 2017, likely due to retailers' emphasis on profitability and a growing base, **on average suppliers are expecting their eCommerce business to grow over 46% in 2019.**
- Vendors still view **Amazon as a key account**, even as performance has slowed. 97% of the polled vendors sell on the platform, and the eTailer represented nearly 50% of the eCommerce sales mix for suppliers in 2018. Amazon is expected to account for over 50% of eCommerce sales in 2019, translating to ~$297B.
- For 44% of vendors Amazon performed in line with expectations and 33% reported the account performing better than expected. **Half of the polled suppliers expect Amazon to be less profitable relative to other retail customers in 2019**, and 29% expect Amazon to do better than their other accounts. The remaining 21% of suppliers think Amazon will be equally as profitable as their other retail customers.
- **40% of suppliers feel less optimistic about profitability than growth.** Even so, 57% of suppliers expect Amazon to be their largest dollar growth account in 2019.
- Suppliers seem to be utilizing Amazon's strategic programs, including Brand Registry (76%), Born to Run (28%), and Amazon Vendor Services (21%). In conversations with vendors, the feedback on these programs has been mixed.
- Amazon Business seems to be the most popular and the fastest growing Amazon program for vendors, as 50% of vendors report participating in it, seeing growth of ~58% in 2018 vs. 2017.

SURVEY BACKGROUND

CATEGORIES

hardlines	**42.5%**
food & CPG	**35.4%**
softlines	**5.5%**
other	**16.5%**

SALES MIX IN 2018

eCommerce[1]	**11.0%**
Amazon[2]	**49.3%**

eCOMMERCE BUSINESS SIZE

$1-3M	**11.0%**
$3-5M	**4.0%**
$5-10M	**17.0%**
$10-20M	**11.0%**
$20-50M	**21.0%**
$50-100M	**15.0%**
> $100M	**18.0%**

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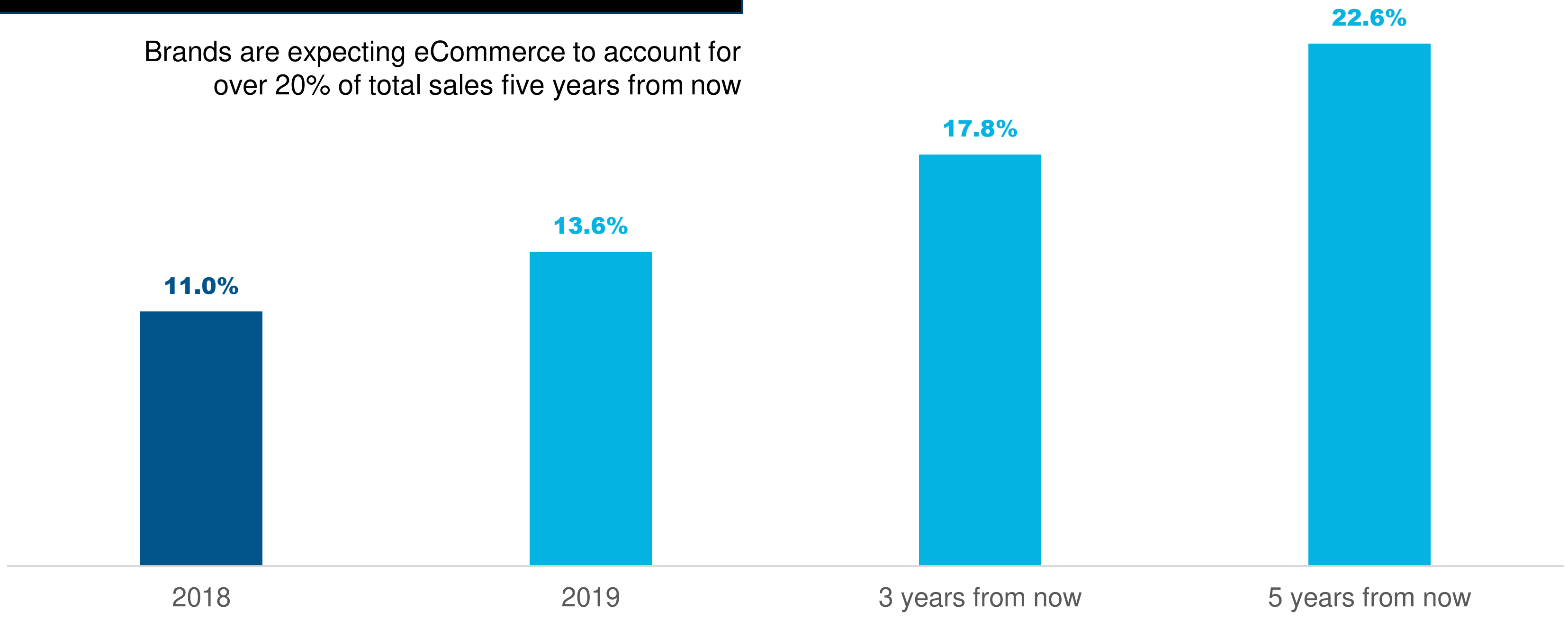
Source: CRC 2018 eCommerce Performance Benchmark, Company Reports
1) eCommerce figure is the percentage of total sales
2) Amazon figure is the percentage of total eCommerce sales

eCommerce Sales Shift

The shift of sales to eCommerce is expected to increase approximately 11 points over the next five years, consistent with expectations a year ago. However, the sales mix expectations have slowed from last year, as vendors expect about 20% of their sales to come from eCommerce in 5 years (vs. the 26% estimate in 2017). It is important to note that lines between eCommerce and brick & mortar sales have become increasingly blurred as consumers adopt an omnichannel mindset when researching and purchasing products. It is, therefore, becoming less important where a sale is coming from, but increasingly more imperative to engage with retailers on all fronts – digital as well as physical.

CURRENT & EXPECTED SHIFT OF SALES TO eCOMMERCE



HARDLINES[1] SUPPLIERS

Hardlines suppliers saw 11.4% of their sales shift to eCommerce, and **expect ~23% of sales to come from digital channels** over the next 5 years. Our consumer research indicates that 46% of US online customers purchase home improvement/hardlines products online, suggesting that the category is ripe to keep shifting online.

CPG & FOOD[2] SUPPLIERS

CPG & Food suppliers underindexed in 2018 eCommerce sales (~8%) relative to other categories. They **expect eCommerce to account for ~17% of total sales over the next five years.** Although a great deal of headway has been made in digitization of grocery in the past couple of years, our consumer research suggests that 85% of shoppers are still shopping for grocery in stores, contributing to the softer shift of sales to digital channels.

LARGE eCOMMERCE BUSINESS[3]

Suppliers with large eCommerce businesses have seen ~14% of total sales come from digital channels, and **expect eCommerce to account for nearly a quarter of total sales.**

Source: CRC 2018 eCommerce Performance Benchmark, CRC 2018 Consumer Study

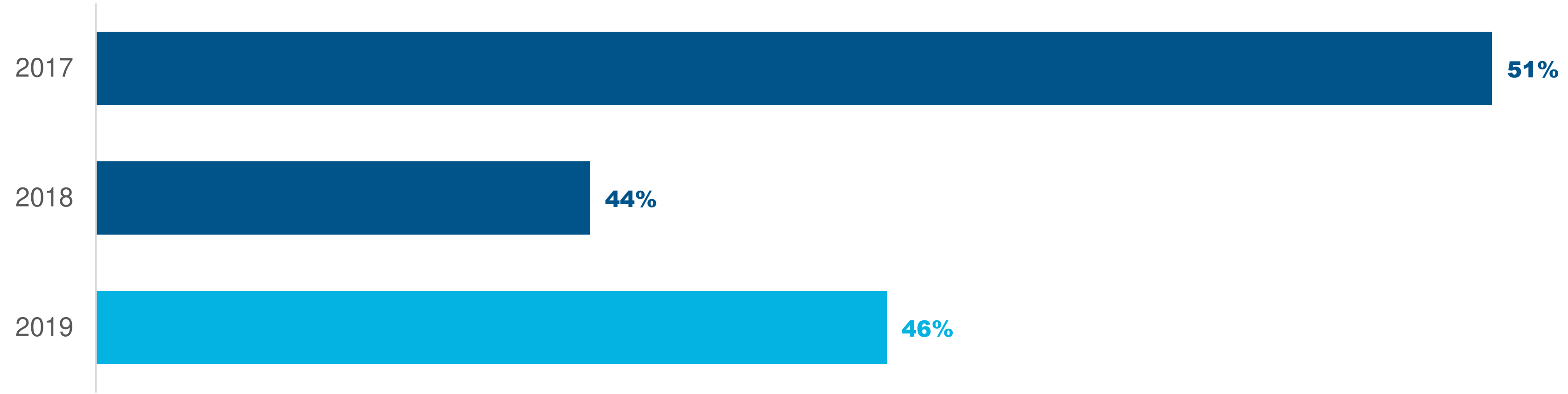
1) *Hardlines includes appliances, automotive, furniture/home décor, home improvement, housewares, lawn/garden*
2) *Food & CPG includes consumables, health & beauty, non-perishable grocery, perishable groceries*
3) *Large eCommerce business is defined as sales of $20M (+)*

eCommerce Growth Decelerates

Vendors report eCommerce growth decelerated meaningfully from 2017 to 2018, declining more than 7 points. This is likely due to Amazon leading the charge in profitability initiatives, including delisting items. This focus was adopted by omnichannel peers as well, such as Walmart. However, **vendors seem optimistic about eCommerce in 2019, expecting an average growth rate of 46.4%, even as profitability initiatives don't show signs of slowing down.**

eCOMMERCE GROWTH EXPECTATIONS

Brands saw growth decelerate from 2017 to 2018, likely due to retailers paying greater attention to profitability over the past year.



Source: CRC 2018 eCommerce Performance Benchmark, CRC 2018 Supply Chain Benchmark

HARDLINES SUPPLIERS

Suppliers in this category saw a deceleration in eCommerce growth in 2018 vs. prior year, growing 23.4% in 2018 (vs. 39.3% in 2017). **They expect to recover some of the growth in 2019, to ~30%.** CRC's Supply Chain study shows that hardlines suppliers are making a great deal of investment into SIOC (53%) and FFP (37%), which is one factor potentially putting pressure on profits and contributing to a deceleration in overall eCommerce growth.

CPG & FOOD SUPPLIERS

CPG & Food suppliers saw tremendous eCommerce growth in 2017 (~103%), vastly surpassing hardlines (39.3%) suppliers. Similar to the other categories, they experienced a slowdown in growth in 2018 (62%), but are **optimistic about 2019, expecting to grow an average of ~74%.** Suppliers in this category are facing headwinds, including the threat from private label as well as steep investments in various grocery programs including Amazon Fresh, funding Prime Now discounts at Whole Foods, and Walmart's OGP (online grocery pickup) program.

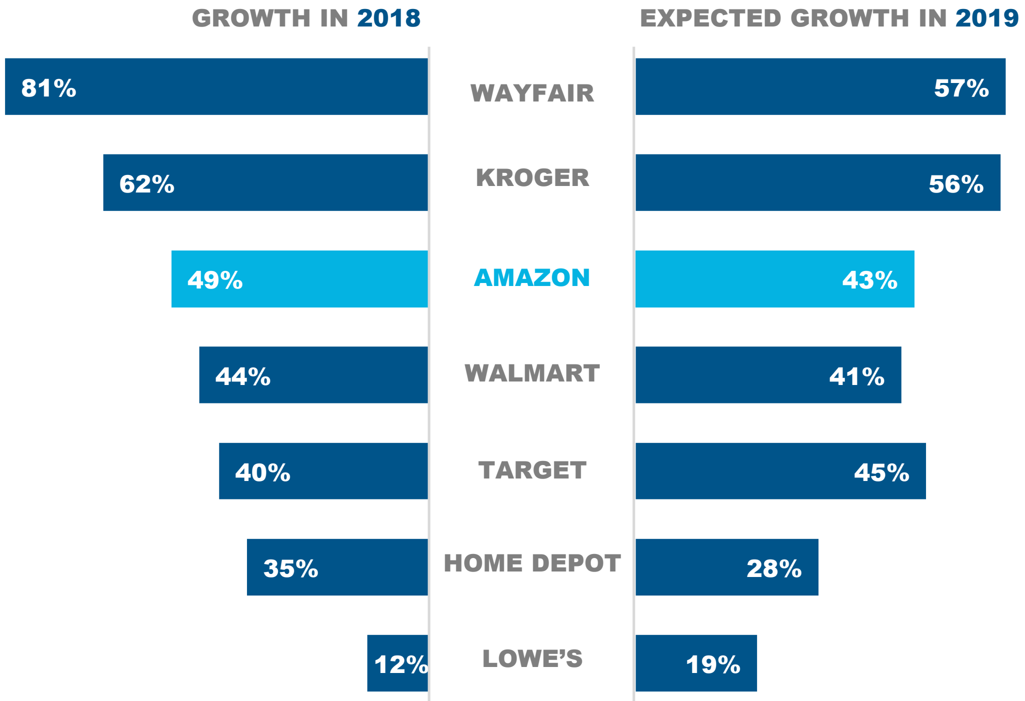
LARGE eCOMMERCE BUSINESS

Suppliers with large eCommerce sales **have seen growth decelerate in 2018 as well** (~28% vs. 35% in 2017) and expect to grow an average of 31.4% in 2019.

Largest '19 Dollar Growth Coming from Amazon

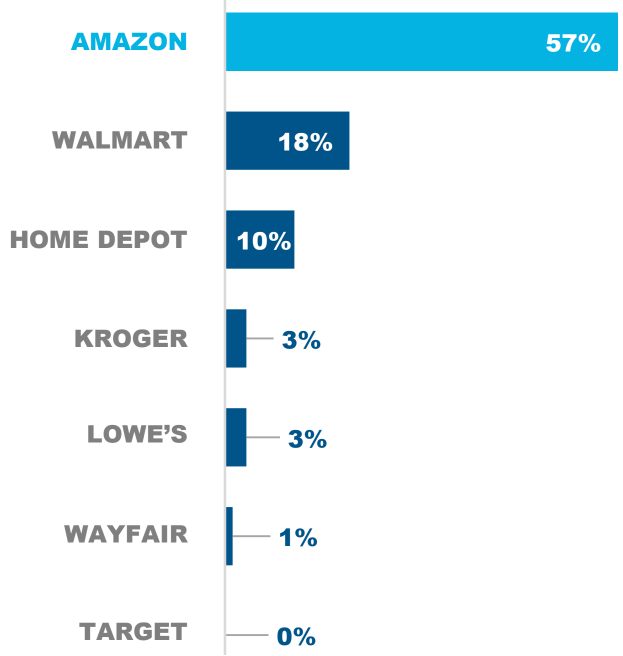
For key eTailers, vendors reported a higher average growth rate for 2018 relative to what they expect in 2019. A few exceptions include Target (expected to grow 45% in 2019 vs. 40% in 2018), and Lowe's (expected to grow 19% in 2019 vs. 12% in 2018). **Amazon is no longer the fastest growing account in terms of percentage points, but 57% of vendors still expect Amazon to contribute the largest dollar growth to their businesses in 2019.**

PUREPLAY & OMNICHANNEL GROWTH



Note: The data in this chart refers to the eCommerce portion of these retailers.

LARGEST DOLLAR GROWTH EXPECTATIONS IN '19



Note: The figures in this chart represent the percentage of respondents indicating which account they expect will deliver the highest dollar growth in 2019. The data in this chart refers to the eCommerce portion of these retailers.

HARDLINES SUPPLIERS

Hardlines suppliers saw the largest growth in Wayfair (80%) and Walmart (48.2%) in 2018, but expect both to grow less in 2019 (~57% for Wayfair and 20% for Walmart). Both, Amazon and Home Depot are expected to grow ~30% in 2019. **64% of suppliers in this category are expecting Amazon to contribute the largest dollar growth to their business in 2019.**

CPG & FOOD SUPPLIERS

CPG & Food suppliers saw the highest growth from Costco (89%) in 2018, followed by Amazon (73%), Kroger (~61%) and Walmart (~47%). Relative to 2018 numbers, suppliers are expecting increased growth from Amazon (82%) and Walmart (~53%) in 2019. **49% of suppliers are expecting Amazon to grow the most in terms of dollars, and 33% are expecting Walmart to do so.**

LARGE eCOMMERCE BUSINESS

Suppliers with large eCommerce sales saw Amazon grow 26.3% in 2018, and expect to see a slightly higher growth rate in 2019 (~30%). These suppliers saw the largest growth from Kroger (79%) followed by Costco (~70%) in 2018, but are expecting both to grow more slowly in 2019. **59% expect the largest dollar growth opportunity to come from Amazon in 2019.**

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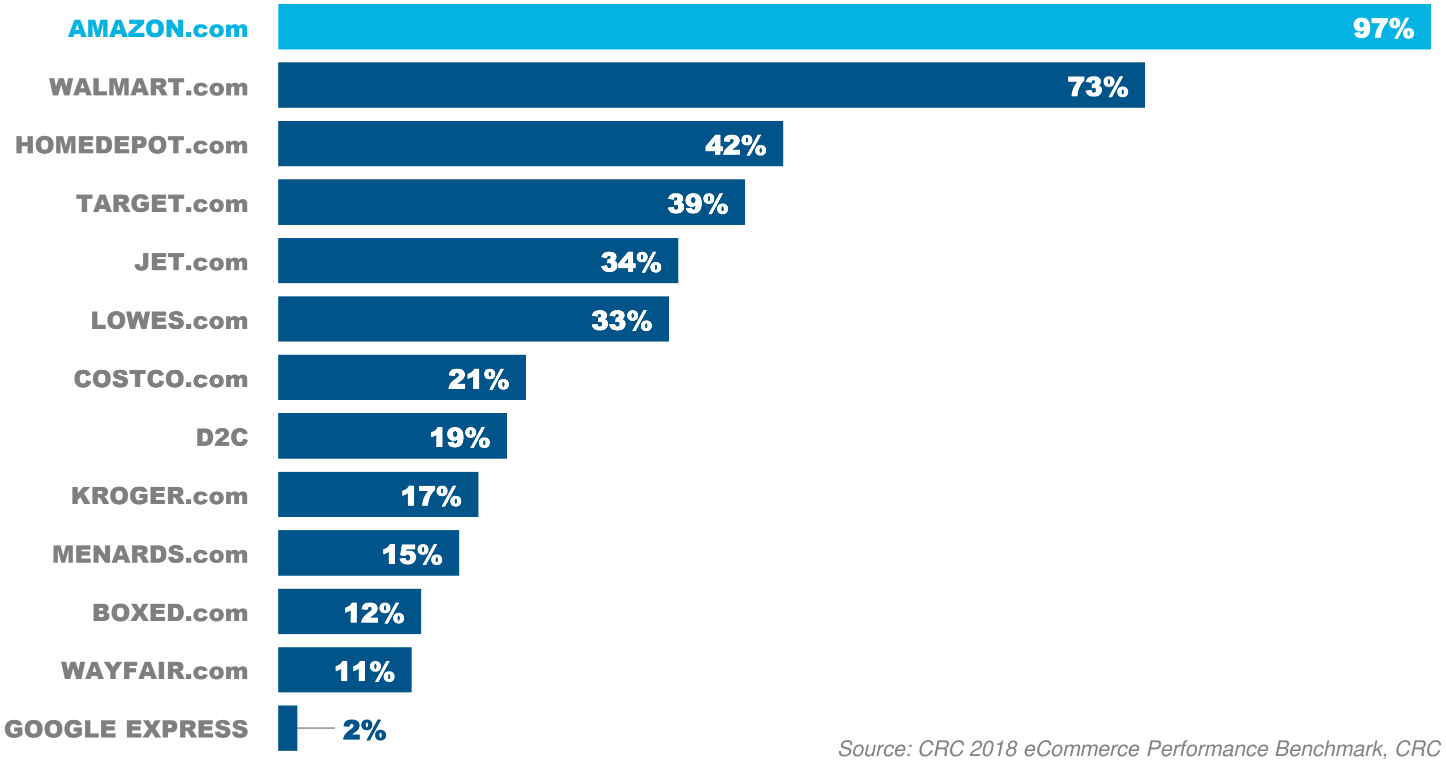
Source: CRC 2018 eCommerce Performance Benchmark, CRC Supply Chain Benchmark

Amazon is the Platform of Choice

With 97% of vendors selling their products on Amazon (same as last year), the eTailer is the clear website of choice for brands participating in the benchmark. Walmart.com is the runner up, with 73% of suppliers selling on the platform. Google Express, while currently only utilized by 2% of participants, is an intriguing new platform to watch as it is approaching the market with an interesting model and is a very important step on the path to purchase for consumers. Compared to 2017, participation in Jet.com suffered the largest decline as Walmart has dramatically de-emphasized the platform.

Our consumer research indicates a **large overlap between Amazon and Walmart.com shoppers, as 57% of Amazon purchasers also shop on Walmart.com and 91% of Walmart.com purchasers buy products on Amazon.** To capture these customers, it is important that brands have a presence on both of these platforms.

WEBSITES SUPPLIERS SELL THEIR PRODUCT ON



Source: CRC 2018 eCommerce Performance Benchmark, CRC 2018 Consumer Study

HARDLINES SUPPLIERS

Amazon is the platform of choice for hardlines suppliers as well, as **96% of them report selling on Amazon.** Unsurprisingly, HomeDepot.com (85%) and Lowes.com (70%) are other popular retailers for hardlines suppliers, followed by Walmart.com (55%).

CPG & FOOD SUPPLIERS

For CPG & Food suppliers Amazon is also number one, with **95% selling on the platform, closely followed by Walmart.com (89%).** Other popular platforms include Target.com (57%) and Jet.com (55%).

LARGE eCOMMERCE BUSINESS

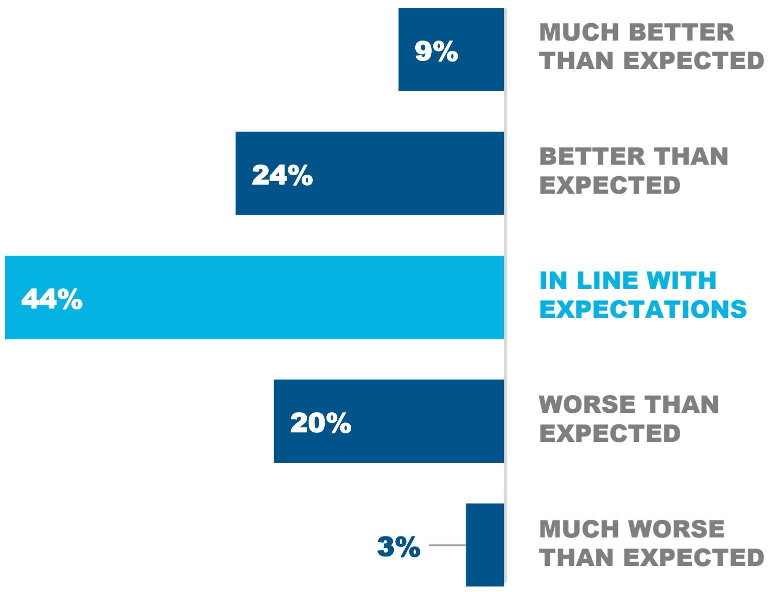
Nearly all brands with large eCommerce sales are selling on **Amazon (98%), closely followed by Walmart.com at 84%.**

Amazon Performance vs. Expectations

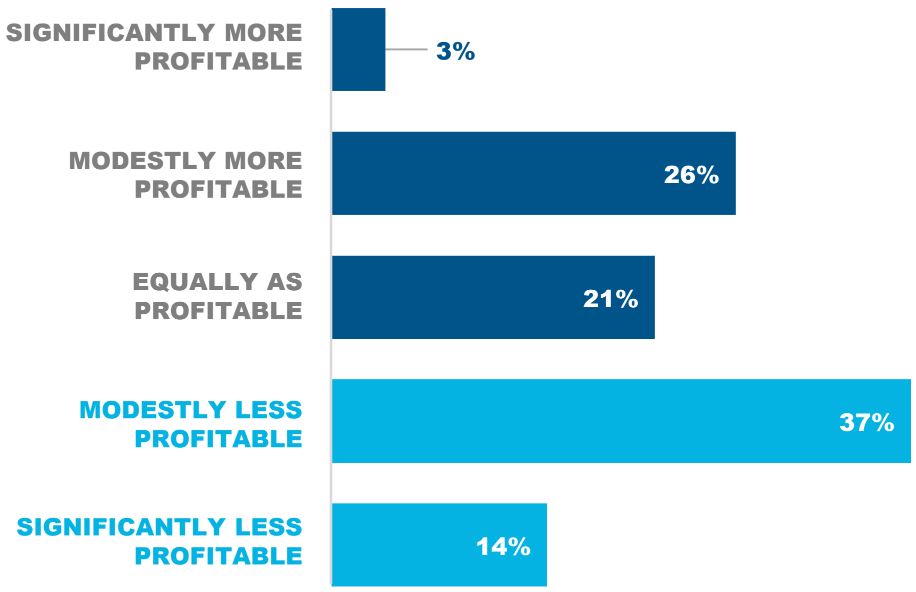
The majority of vendors report Amazon performing in line with expectations in 2018, while 23% were disappointed with the platform's performance. **Overall, Amazon performance in 2018 seems to be worse relative to last year, as 33% reported the eTailer beating expectations in 2018 compared to 53% of brands who said Amazon exceeded expectations in 2017.** Our research suggests that in 2019, 40% of vendors expect profitability to decline, but feel optimistic about growth, as over half of the respondents still feel that Amazon will be the largest dollar growth opportunity in 2019.

Relative to other retailers, half of the polled suppliers expect Amazon profit margins to be lower in 2019 vs. 2018 compared to other retailers, and only 29% think Amazon will be more profitable. In comparison to our survey results last year, this outlook on profitability has worsened. Lower profitability expectations are likely due to Amazon devoting a great deal of attention to their own profit margins (CRaP initiatives, packaging requirements) as well as focusing on the expansion of its private label brands. Profitability is likely also slowing due to brands having to take on more supply chain responsibility and spending more on advertising to compete on Amazon.

AMAZON 2018 PERFORMANCE RELATIVE TO EXPECTATIONS



AMAZON 2019 PROFITABILITY EXPECTATIONS RELATIVE TO OTHER ETAILERS



Source: CRC 2018 eCommerce Performance Benchmark

HARDLINES SUPPLIERS

42% of hardlines suppliers report Amazon performing within expectations in '18, and 38% say Amazon performed better than expected. Only 20% reported Amazon performing below expectations. **42% of suppliers expect Amazon to be more profitable** and 34% expect profitability to decline in 2019 as compared to other retailers.

CPG & FOOD SUPPLIERS

39% of CPG & Food suppliers reported Amazon performing in line with expectations,. 32% reported the eTailer performed worse than expected and 29% saw Amazon exceed expectations. **66% of suppliers expect Amazon profitability to be worse compared to other retailers in '19**, likely due to Amazon's continued focus on maintaining its own margins.

LARGE eCOMMERCE BUSINESS

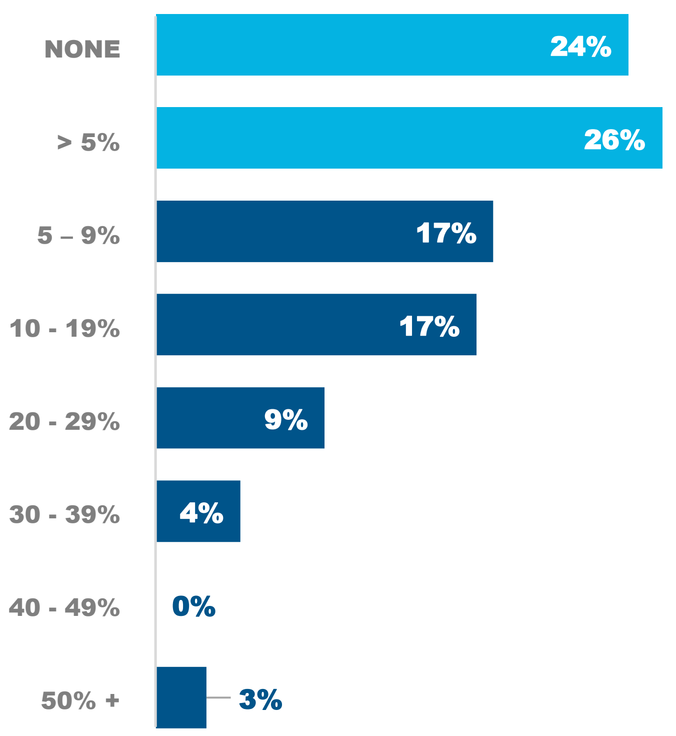
44% of vendors with large eCommerce sales reported Amazon performing in line with expectations. **Vendors are almost evenly split on Amazon performing better (26%) and worse (30%) than expected.** 60% of suppliers are expecting Amazon profitability to be worse relative to other retailers in 2019. 28% expect Amazon to do better and 12% think that the eTailer will be in line with other accounts in terms of profitability.

Implications of Amazon's Profitability Measures

75% of survey respondents saw products get delisted in 2018 and 70% of suppliers expect Amazon to delist either the same amount or more of their items in 2019. For half of suppliers, the CRaP'd out items were minimal, between 0-5%. Delisting and packaging requirements are some of the top concerns for brands.

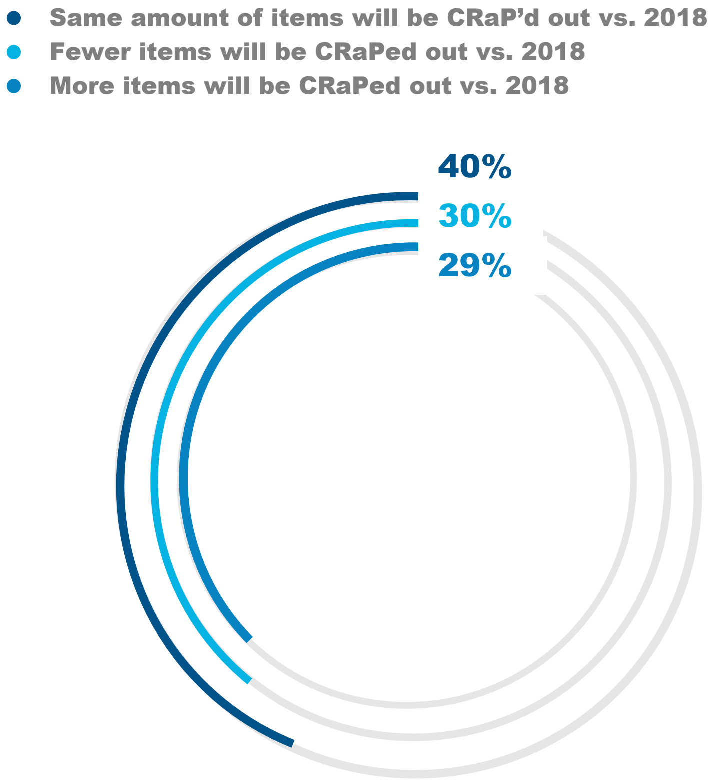
Our recent Amazon research suggests that Amazon may be pulling back (to a degree) on CRaPing out items and that overall, vendors are making appropriate adjustments to item profitability, leading to less items being delisted in 2019. However, our research suggests that the challenge is not going away entirely.

% OF ITEMS DELISTED DUE TO AMAZON'S CRaP METRIC



Source: CRC 2018 eCommerce Performance Benchmark

VENDORS' EXPECTATIONS OF AMAZON DELISTING ITEMS IN 2019 VIA THE CRaP METRIC



HARDLINES SUPPLIERS

On average, **hardlines suppliers saw 10% of their products get delisted through the CRaP metric** and are evenly split on delisting expectation in 2019. 38% expect more items, 31% expect the same amount of items, and 31% expect less of their items to be delisted in 2019 compared to 2018.

CPG & FOOD SUPPLIERS

On average, **food & CPG suppliers saw 9% of their items get delisted in 2018.** Half of the suppliers expect the same amount of items to be delisted in 2019. 27% expect to see less items and 20% expect more items to be delisted in 2019 relative to 2018.

LARGE eCOMMERCE BUSINESS

On average, **brands with large eCommerce sales saw 10% of their items delisted in 2018.** Most of the respondents (44%) expect the same amount of items to be delisted in 2019 vs. 2018. 31% of brands think that fewer items will be delisted in 2019. The remaining 24% expect to see more of their items be delisted in 2019 relative to 2018.

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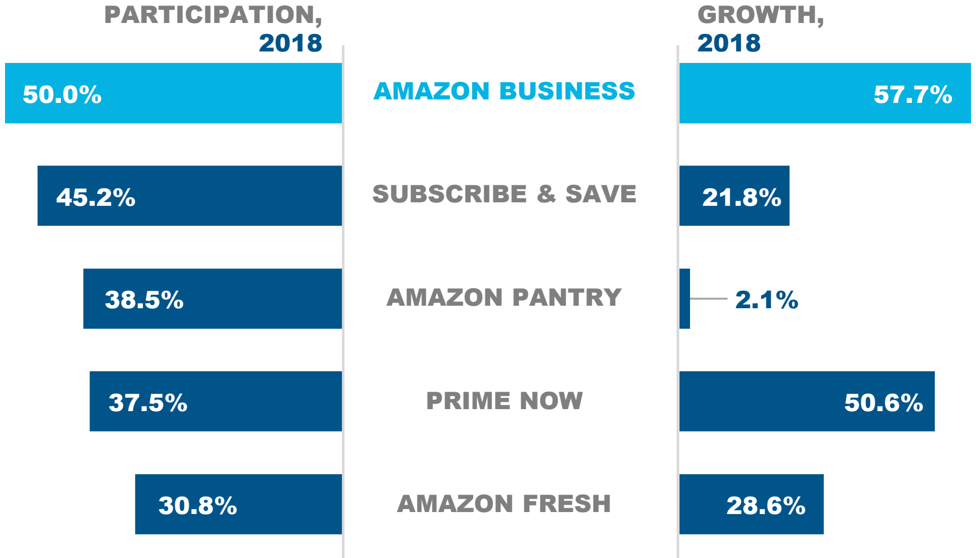
Amazon Program Participation, 2018

In 2018 brands seem to have participated in several programs to manage their businesses as well as to gain incremental Amazon sales. **Amazon Business was the most popular retail program last year, with half of the polled suppliers participating in it, as well as being the program that yielded the most growth, on average growing ~58%.** Prime Now came in second in terms of growth (~51%), albeit with smaller participation. On average Prime Now and Amazon Fresh have experienced substantial growth, increasing ~51% and ~29% respectively. However, from conversations with suppliers and other research, these results did not seem to meet Amazon's forecasted levels, leaving many brands that made large investments into Fresh disappointed.

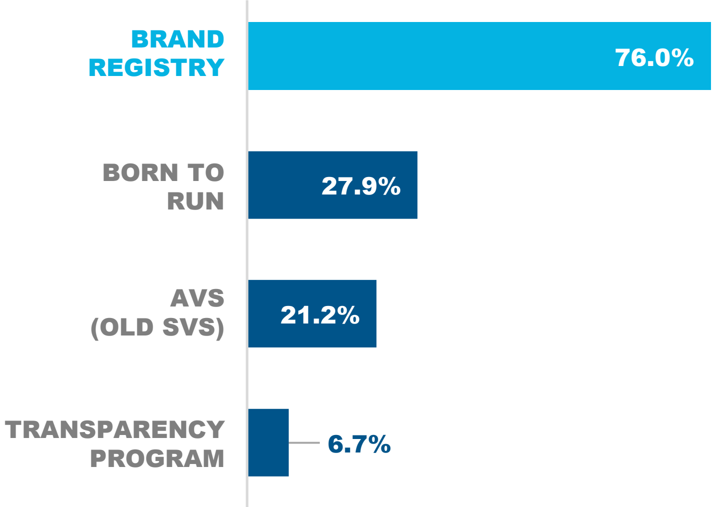
Brand registry is the most popular strategic program for respondents, as 76% are participating in it. AVS (Amazon Vendor Services) so far has low participation and research suggests the program is much less strategic in nature compared to SVS, leading vendors to reconsider participation.

AMAZON RETAIL PROGRAMS



Note: *Participation refers to the percentage of vendors that have participated in each program for at least one year. Growth refers to the 2018 percentage growth of programs vendors participated in for at least one year.*

AMAZON STRATEGIC PROGRAMS



Note: *The data in this graph represents the percentage of vendors participating in each program.*

HARDLINES SUPPLIERS

54% of hardlines suppliers are participating in Amazon Business (more than any other program) and on average grew 37.4% on the platform in '18. Prime Now has shown the most growth (91.3%), but only 7% of suppliers in this category participate in it.

CPG & FOOD SUPPLIERS

It seems that suppliers in this category are **participating in all CPG programs Amazon offers**, including Subscribe & Save (77%), Amazon Pantry and Amazon Fresh (both 72%), Prime Now (67%), and Amazon Business (56%). Prime Now is by far the most successful program for CPG & Food Suppliers, growing about 58% on average. Amazon Pantry seems the least successful, driven primarily by Amazon delisting sub-$3 items.

LARGE eCOMMERCE BUSINESS

Suppliers with large eCommerce businesses are also investing in these programs across the board, and are almost evenly split among Pantry (54%), S&S (54%), Prime Now (52%), Amazon Business (52%), and Fresh (40%). **Prime Now and Amazon Business appear to be the most successful, growing 43% and ~47% respectively.**

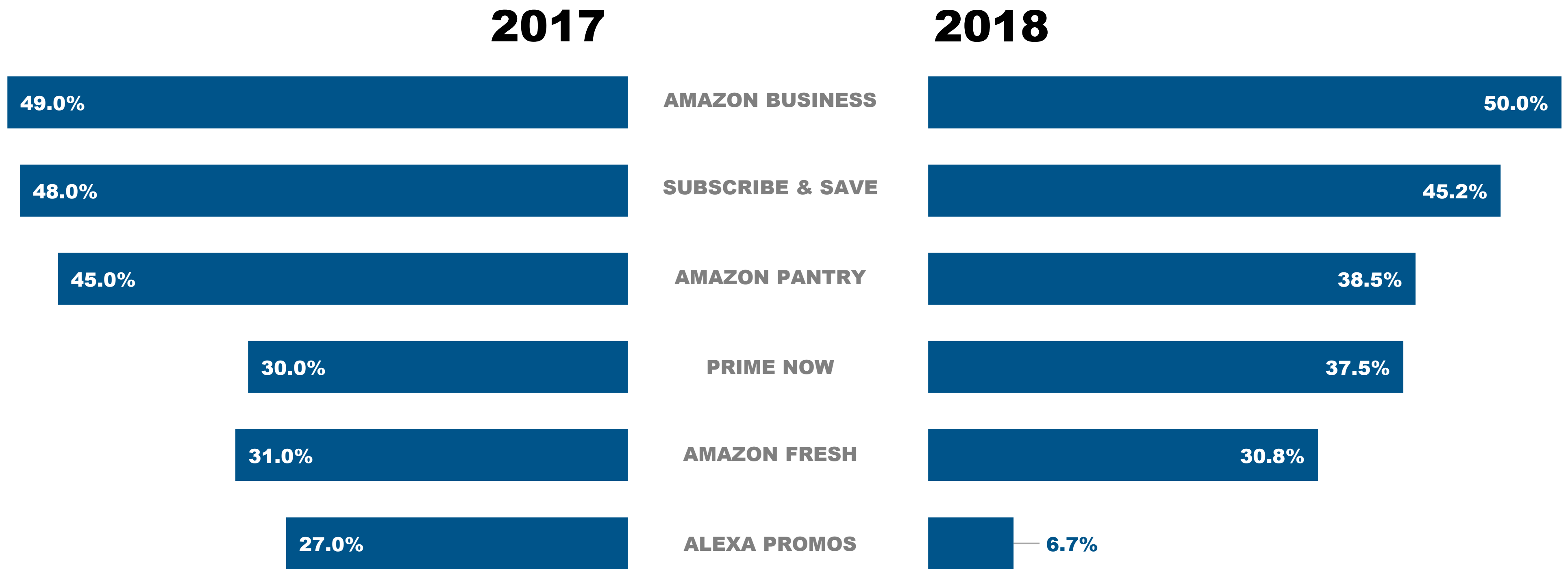
Source: CRC 2018 eCommerce Performance Benchmark

Amazon Program Participation, 2017 vs. 2018

Participation in Alexa Promotions seems to have seen the largest decline vs. 2017 as the value proposition towards participating remains unclear. **While participation in Amazon Pantry has not seen a significant decline, the survey shows that it was the biggest loser for vendors in 2018 with a 2.1% growth rate.** Many brands had a tough time with Pantry due to items CRaPping out. Those focusing on recovering their Pantry business have considered different bundles to navigate price point requirements.

Prime Now is the Amazon program with the best reported growth rate **and the benchmark suggests it saw the largest increase in participation compared to 2017. We anticipate 2019 will be an important year for the Prime Now program as Whole Foods (and Amazon's grocery ambitions more broadly) becomes better integrated into the platform.**

VENDOR PARTICIPATION IN AMAZON PROGRAMS



Source: CRC 2018 eCommerce Performance Benchmark

TO LEARN MORE

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