



Amazon Business Predictions

2023



2023 Predictions for Amazon Business

Here are our predictions on what B2B firms can expect to see from Amazon Business this year.

What does Amazon Business have in store for the B2B industry in 2023? With the recent news of downsizing at the Ecommerce giant, B2B companies that are considering selling products on Amazon this year might be tempted to take pause. And those businesses that feel that Amazon represents a competitive threat might be inclined to take a breath, resting in the belief that maybe Amazon isn't as scary as they previously thought. After all, the world's largest online marketplace recently announced layoffs of **18,000 employees**, nearly double what it said it would lay off in November 2022. Presumably, the sky is falling at Amazon.

However, is this truly a measure of the health of the marketplace and its relevance in B2B? We think not. B2B companies should not be distracted by this news. We believe these are signs that the giant will focus even more intently on B2B categories. We make our case below.

Putting "negative" Amazon news in context, we think it is important for B2B professionals to avoid losing sight of the fact that during the COVID-19 pandemic, Amazon experienced astonishing growth. While about **200,000 businesses were forced to closed in the United States**, Amazon thrived. The company reached a historical height of **\$1.67 trillion** (yes, TRILLION) in market capitalization, with 2021 sales jumping 57 percent above pre-pandemic levels. Between 2020 and 2021, Amazon added hundreds of thousands of jobs to keep up with the steep increase in demand.

More important to B2B firms than attention-grabbing headlines on Amazon's reported "fall from grace" is the growing influence Amazon Business has with B2B buyer, the underlying shifts in sellers' approach to the channel, and how Amazon is quietly resourcing and building capabilities to meet the needs of business buyers. As an industry, B2B has crossed a threshold. Amazon-native Millennials have now become the majority of B2B buyers and are expected to reach 75% of buyers by 2025, according to Deloitte. These customers are seeking to use the marketplace platform as a primary source for research and purchasing in their work lives, particularly when ordering small quantities of products that are needed quickly. Pair this with the 50% of U.S. employees that continue to work from home and Amazon's unequalled capabilities for residential delivery of Ecommerce orders, and a perfect scenario exists for continued Amazon B2B momentum. Amazon itself reported in its 2022 State of Business Procurement report that 58% of B2B buyers now make purchases that have to be delivered directly to an employee's personal residence.

In short, the extraordinary Ecommerce capabilities of Amazon are positioning the company to capture increasing share of the B2B market. And our predictions below are designed to help you, the B2B executive, navigate what we see coming.

At Enceiba, we work with dozens of leading B2B firms in creating and executing their Amazon strategies. As far as we know, we are the only agency in the market that focuses on the B2B side of Amazon. This gives us a unique perspective on what Amazon is doing, particularly with the marketplace's Amazon Business unit.

So strap in, and let's get into what we see happening – first hand!

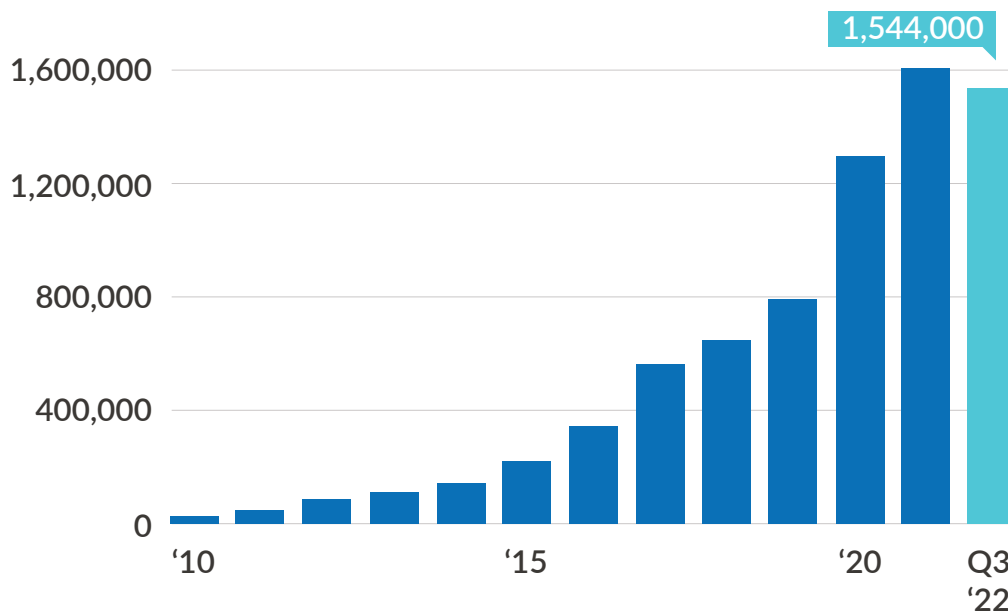
PREDICTION #1 Amazon will Continue to Right-Size

... but this doesn't mean B2B companies can rest on their laurels

This one is fairly obvious, as it's already begun. But unlike other businesses, Amazon cutting back on employees does not mean that it's B2B business is shrinking. The culture of always putting the customer first and testing, failing, and learning will certainly continue. What's more, the fact that the company is conducting layoffs doesn't indicate they are cutting back positions in areas pertinent to B2B sellers. Remember that Amazon isn't only the world's largest marketplace, it is a multi-faceted business with many business units that don't directly impact B2B buyers or sellers. Think drones, Amazon Web Services, and other areas.

Layoffs Reach Amazon After Years of Unabashed Growth

Number of Amazon employees worldwide at the end of the respective period*



*includes full-time and part-time employees, excludes contractors and temporary personnel
Source: Amazon.com

The areas publicly disclosed where Amazon has made layoffs are not B2B functions. The affected areas, according to Bloomberg News, include the company's retail, HR, devices, and services organizations. We think we will see downsizing amongst the Amazon Vendor Central ranks, as the company continues to shift its strategic focus away from company-owned 1P inventory to its 3P marketplace selling model, which is more profitable for Amazon in many categories. And worth of note is the absence of core Amazon Business operating units from the list of areas slated for downsizing.

The net of this is that B2B companies should not take continued right-sizing of Amazon's workforce as an indication that the company is either backing down on its B2B investments or falling from relevance with B2B buyers. If anything, we believe economic headwinds will intensify Amazon's focus on its fastest growing and most successful business units, which today includes Amazon Business. We believe manufacturers must have a presence on Amazon to stay relevant to their buyers and that distributors need to continue to clarify their differentiation points from Amazon. The pressure **IS NOT OFF** and B2B companies that take layoffs as a sign to rest on their laurels regarding their Amazon strategy will lose precious ground in 2023.

PREDICTION #2 **We Will Continue to See B2B Demand Shift towards Amazon**

...and B2B companies should be taking advantage of this, particularly in a slowing economy

Ok, this sounds motherhood and apple pie. But we have to say it, as the recent news around Amazon obscures the marketplace's continued growth in B2B. Yes, Amazon's traditional retail business has plateaued. However, we believe that B2B sales will continue to grow at significant double digits. And remember, this is at SCALE. eMarketer reports that Amazon Business exceeded \$35 BN in B2B sales in 2022 and is expected to increase at over 20% per year. We believe that Amazon Business could be growing at a rate of more than double this number, based on what we see with our B2B-focused client base.

Since its inception in 2015, Amazon Business has grown **approximately 50 percent each year**. And despite a challenging economic environment, the B2B market remains robust and underserved in Ecommerce channels by traditional B2B players. Simply due to this reality alone, we don't believe Amazon Business' growth will subside this year—or any time in the near future.

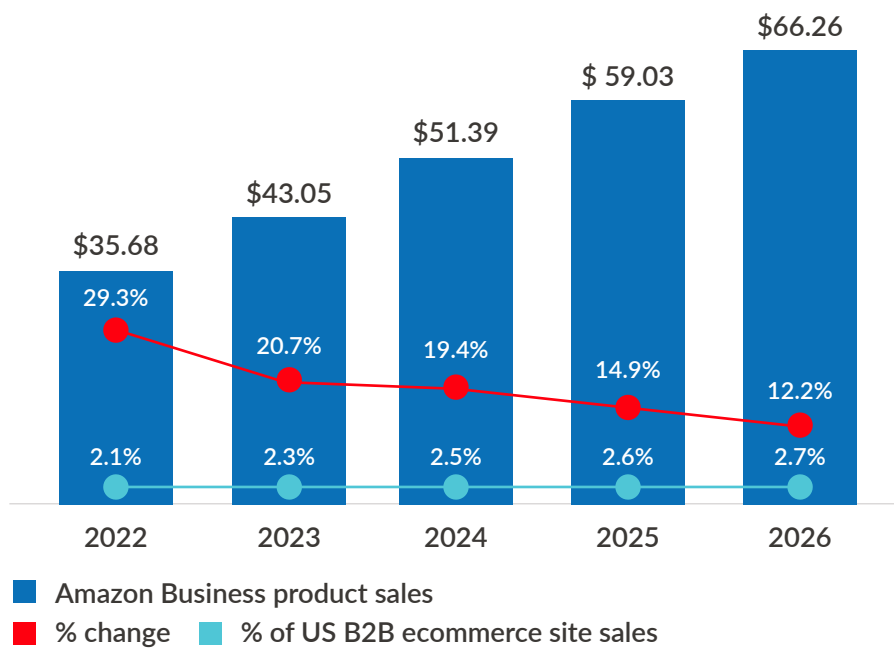
We believe that Amazon will accomplish its continued remarkable growth primarily by winning market share from traditional distributors across a number of prominent categories, such as HVAC, plumbing, electrical, MRO, and other industries that have been slow to adopt Ecommerce. Amazon will win in these categories because they have heavily invested in creating workflows and experiences that meet the B2B buyers' needs. Continued introduction of new

features and functionalities that ease friction in the buying process, particularly for small quantities of “long tail” items that are needed quickly, will drive Amazon’s penetration into multiple industries. While Amazon currently is not the “go-to” for large, complex projects requiring sizable capital investments (for example), buyers are flocking to the marketplace when they know exactly what they want, they don’t need a large quantity, and they want it fast. Unfortunately, many B2B manufacturers and distributors just aren’t set up to fulfill these types of orders.

The truth is that B2B buyers have been migrating their purchasing to Amazon Business for several years. And yet, many manufacturers and distributors continue to misunderstand the role Amazon plays in the purchase lifecycle. This is a perennial wake up call that keeps getting louder every year.

US Amazon Business Product Sales 2022-2026

billions, % change, and % of US B2B ecommerce site sales



Note: represents the gross value of products sold on Amazon Business (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets, Amazon Web Services (AWS) sales, advertising services, and credit card agreements; includes direct and marketplace sales; B2B ecommerce sales are the sale of physical products from one business to another that occurs over the internet via an ecommerce site, including sales directly from a supplier website or indirectly through third-party online stores like marketplaces

Source: eMarketer, Aug 2022

PREDICTION #3

Amazon will pursue – and begin to win – a portion of planned spend in B2B industries

...and this is going to take many B2B industry players by surprise

As mentioned above, Amazon Business has and will continue to invest heavily in attracting buyers across many B2B categories. Traditionally, the use case for B2B buyers on Amazon has been for what is called “long tail” – or un-planned – spend. “Tail” spend, according to pymnts.com, is the 20 percent of business supply spend that is not related to core corporate functions and is not ordered from the same set of suppliers on a regular basis. And this portion of B2B spending isn’t built into corporate budgets at the start of companies’ fiscal years. However, in 2023, we expect to see Amazon making a deliberate push to capture the “planned spend” portion of the B2B market. These are the procurement dollars that are planned in advance by B2B buyers, and on the buy-side typically include large commercial enterprises, government agencies, and other institutions, such as universities, non-profits, and other sizeable organizations. This is the majority of B2B spending each year (80% according to pymnts.com) and is thus attractive to Amazon Business. And today, the marketplace behemoth captures only a small portion of this spend.

As such, we predict Amazon will make serious efforts to double down on pursuing this category of B2B spending in 2023 by investing in both technology and resources necessary to grow its share of the pie. It is important to remember that Amazon has already integrated Amazon Business into some of the largest and most widely used procurement systems available, having tied into more than 100 top e-procurement platforms. However, the biggest signal to us that they are finally serious about capturing planned spend is people – they are hiring and allocating senior people to proactively pursue this portion of B2B buyers’ budgets. This involves bringing knowledge necessary to build features within Amazon Business to accommodate workflows for this spend, while also getting people out into the field to work with procurement teams at companies and organizations to sell Amazon’s participation in planned spend programs.

Amazon has not been shy about its intentions here as we moved through 2022, having published and held events specifically targeting procurement professionals. A significant example of this was Amazon’s virtual Reshape Event, which we anticipate will recur annually. The company also began releasing an annual “State of Procurement” report targeted to these professionals. It is clear that they aren’t backing off this investment any time soon. The size of the prize is large here, and Amazon has the capabilities and deep pockets to pursue it. We predict that 2023 will mark the year they achieve a foothold in this market.

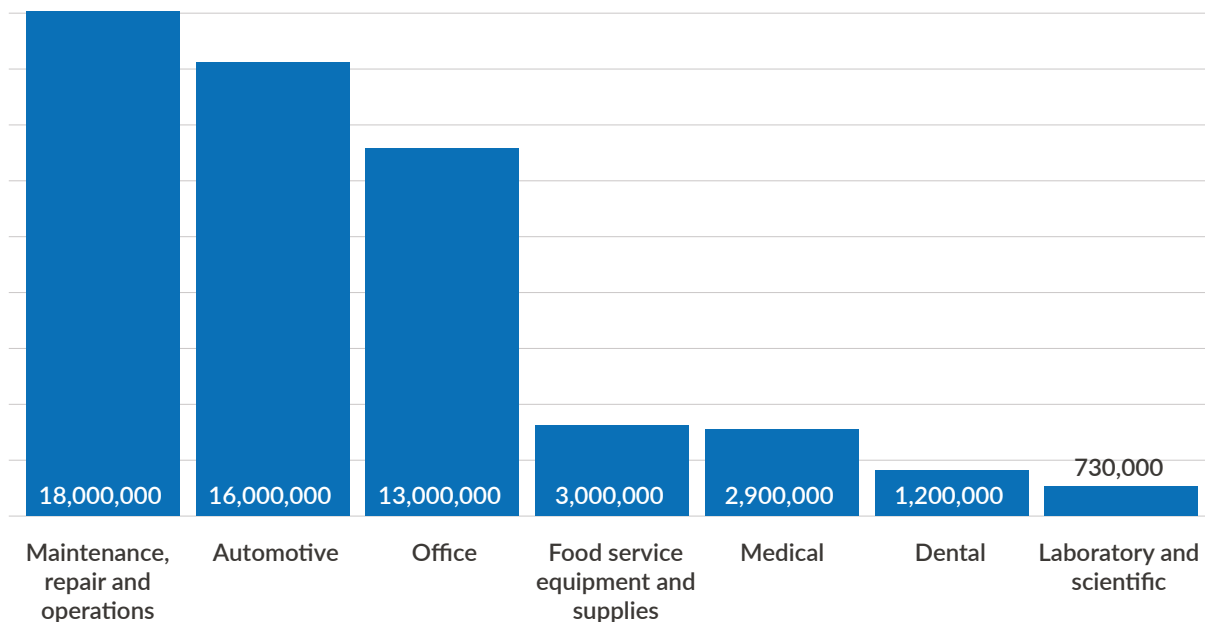


PREDICTION #4 Amazon Business will Continue to Rationalize (Reduce) Assortment in Key Areas, Particularly Private Label Offerings

...which will raise the bar for sellers in presenting excellent product information

Amazon likes to call itself “the everything store,” and with good reason. With a reported 3+ billion items offered on the web site, the marketplace has the largest assortment of products available online, at least in the United States. Data from Applico from 2020 showed that Amazon Business had over 10 million products in multiple product categories, including MRO (maintenance, repair, and operations), automotive, and office, and over a million products in food service and medical / dental product categories. This assortment count continued to grow through the pandemic. And while this can lead one to reasonably assume that Amazon is only about breadth of assortment, when we peel back a layer, we see that Amazon is quite savvy about what products it picks. And while assortment growth has traditionally been the hallmark of the marketplace’s go to market efforts, we believe we are starting to see a change in this approach as we enter 2023.

Number of Products on Amazon Business, by Category



Source: Applico – Amazon Business: Threat and Opportunity in B2B Distribution, Q2 2020

At its core, Amazon is a very practical and data-driven business. With a test and learn culture at the center, the marketplace's approach is now evolved and involves rapidly building assortment, understanding products and categories that perform, and then pruning away low-quality sellers and assortment. We believe that the last part of this process is becoming more important in 2023 in the face of economic headwinds. This approach will pay dividends to Amazon with regard to an improved customer experience through more rapid product findability and higher-quality product presentation. Ultimately, this will result in higher conversion rates for Amazon and its sellers.

Our belief is that Amazon will double down on its product rationalization in 2023 by increasing its focus on the highest performing products. This is particularly true in light of the slowing global economy, which introduces additional pressures on the publicly traded company. Combine this with regulatory pressures being applied by governments around the world related to claims of monopolistic power, particularly significant **anti-trust sentiment in Europe**, and we believe that we will see a backing down of product breadth being offered by Amazon in 2023.

Signs of this ongoing rationalization have already emerged. A great example of this is Amazon's ongoing reduction in its private label assortment, which was widely reported in the media in 2022. The company's private label products have been focused on high volume, commodity products – items such as toilet paper, paper towels, and batteries – amongst those that have traditionally be the most difficult for any company (including Amazon) to earn a profit on. The net of these factors is that the balance within Amazon has shifted to weigh profitability of products more heavily than breadth of assortment.

PREDICTION #5 **The Shift from 1P to 3P will Accelerate as Brands aim to take control of Amazon**

...giving manufacturers much higher revenue and profits while squeezing undifferentiated resellers

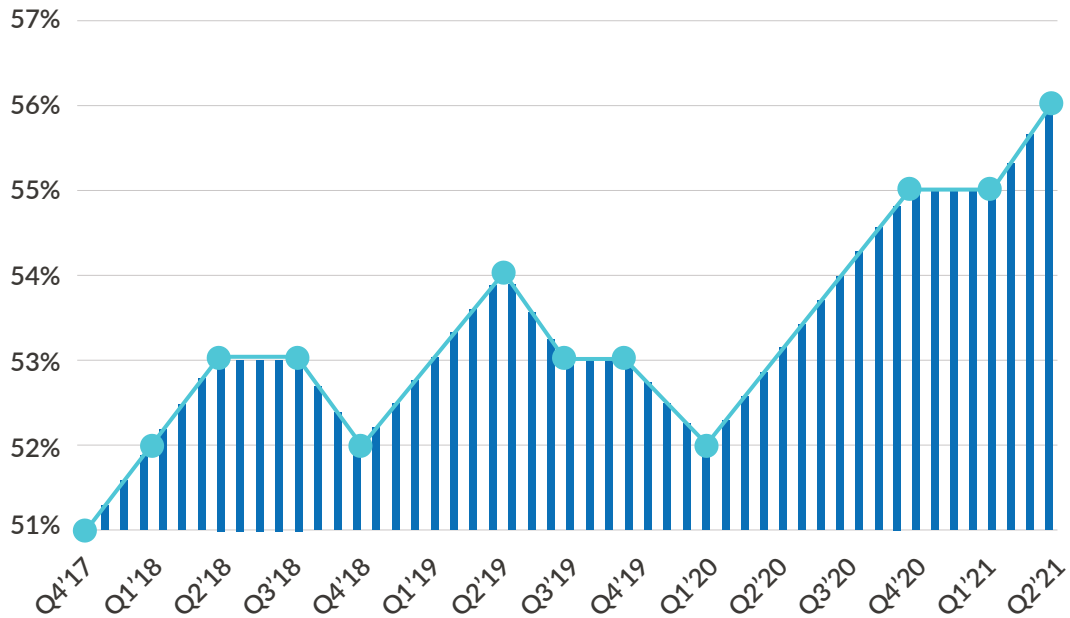
Over the past several years, product manufacturers have been gradually shifting from the 1P Vendor Central selling model (wholesale selling to Amazon) to a 3P Seller Central approach (a pure marketplace model wherein suppliers sell THROUGH Amazon, but not TO Amazon). This has been driven by a desire for brands to control their price, inventory, and content on the Amazon marketplace in ways that are not possible via 1P Vendor Central selling approach. The need to obtain control has become more urgent as Amazon has emerged as the top starting point for product search by both B2C and B2B buyers, accounting for as much as 70% of search starts in the United States, according to some analysts.

Amazon's own strategy has shifted away from 1P and towards 3P, with the marketplace's founder, Jeff Bezos, himself saying all the way back in his 2019 shareholder letter that "Third-party sellers are kicking our first party butt. Badly." A cultural shift is evident and pervasive through Amazon's 1P retail teams. Lack of communication, refusal to accept wholesale price increases, and other challenges are consistently presented to Amazon's wholesale suppliers by over-burdened 1P teams.

In our opinion, a perfect storm is upon us. Suppliers are fed up with 1P and Amazon itself is understaffing and shifting away from the Vendor Central approach. At Amazon’s enormous volumes, the 1P wholesale operating model presents huge inventory investments (risks) to the company, while also requiring staffing and support as well as infrastructure to handle warehousing. Meanwhile, manufacturers’ tolerance with channel conflict caused by Amazon’s MAP violations (Amazon will always offer the lowest retail price when they own the product) combined with much higher revenue and profitability available to suppliers through 3P Seller Central selling will drive an exodus to the 3P model in 2023.

Numbers don’t lie. Amazon’s history sets the precedent for our prediction. According to Amazon’s own filings, in 2001, sales by 3P sellers were just 6% of total Amazon sales. In 2011, this number stood at 38%. In 2021, the latest data we have, it grew to over 56%. We believe 3P may account for more than 60% of Amazon’s total sales by the end of 2023.

Third-Party Share on the Amazon Marketplace (in %)



Source: Amazon

By shifting to 3P, manufacturers gain control of their retail price on Amazon, eliminate channel conflict, control inventory levels, and dramatically improve both revenue (by capturing the full retail price) and profit from their Amazon operation. In addition, Amazon Business – Amazon’s B2B selling division – is more closely aligned to the 3P selling model, creating further incentives for suppliers to utilize this approach. The benefits are now too powerful for brands to ignore.

As an aside, we also believe this is warning shot across the bow to resellers (non-manufacturers) who are highly dependent on Amazon, including the host of heretofore fast-growing and buzz-worthy “aggregators” and “accelerators” that have been in the news over the past few years. Without clearly differentiated product or control of the channel, we believe these companies are fundamentally at risk (reference Pharmapacks August 2022 bankruptcy filing). But we’ll leave that to another set of predictions.

We are going to hold ourselves accountable

Well, there you have it. Our Amazon Business predictions for 2023. And we're going to hold ourselves to account here. We'll check back in early 2024 on how our predictions for B2B sales on Amazon played out. Stay tuned for this.

In the meantime, if you want a complementary assessment for your own Amazon opportunity, reach out to us today!

Brian Beck, Managing Partner

Enceiba

Stand tall in the Amazon

732-208-2763 phone

brian@enceiba.com

About Enceiba

Enceiba is the only agency in the market focused exclusively on helping B2B firms take control of and drive explosive growth from the Amazon platform. Founded by seasoned Ecommerce veterans, the company serves an elite list of industry leading mid-market and global companies and has a proven track record of success. Enceiba is based in Scottsdale, Arizona. More information is available at www.enceiba.com.