IN THIS CHAPTER

» Brushing up on ecommerce basics

» Weighing the pros and cons of different Amazon business types

» Figuring out the costs of doing business on Amazon

» Getting up to speed on Amazon Seller rules

Chapter 1
Laying the Groundwork

Prior to engaging in any endeavor, you're wise to pause and consider what you're about to get yourself into. You may be excited by your future prospects, which is good because your eagerness provides the energy and drive required to succeed. However, you also need to consider the likely challenges and potential obstacles that may stand in the way of success. Having realistic expectations going in improves your chances of success when the going gets tough.

Consider this chapter part preparation checklist and part reality check. Here, we bring you up to speed on the basics of selling online and specifically on Amazon, introduce you to the different Amazon Seller business types, inform you of the costs of doing business on Amazon, explain the rules, and present the different product categories and restrictions tied to certain categories.

Getting the Lowdown on Selling Online

Online retailing is the digital version of owning and operating a brick-and-mortar retail store — without the brick and mortar. Online retailing enables you to provide goods and services to consumers across the Internet, removing the traditional physical barriers between stores and shoppers. The Internet has also removed barriers of entry to the retail industry, allowing anyone with a computer and an Internet connection to sell online.

However, online retailing is still a business. As such it requires a certain level of ambition, commitment, and expertise to succeed, especially as competition increases. Before you take the leap into online retailing, examine the pros and cons and develop a general idea of where you want to set up shop. In this section, we provide the guidance for making preliminary decisions.

Weighing the pros and cons of online retailing

Many retailers — from huge companies to individual sellers — have become rich by selling products online. But achieving success isn't always as easy as it may seem. In this section, we draw your attention to the pros and cons of starting and running an online retail business.

Recognizing potential benefits

Selling online has multiple advantages over traditional retailing, including these:

- **Low start-up costs and overhead:** You can start without having to build a store, hire employees, or develop and maintain complex operations.
- **Easy access to customers (nationally and globally):** You can sell products to anyone, anywhere who has an Internet-enabled device.
- **Option to outsource inventory storage:** Products can be stored and shipped from third-party warehouses.
- **Deeper customer insights:** By analyzing shopper activity online, you gain deeper insight into what they want and the effectiveness of your advertising and promotions.
- **24-hour sales:** You make your own hours, while customers can shop 24/7. You can sell products in your sleep!
- **No waiting in lines:** Customers don't have to wait in line, which can boost sales.

Considering potential drawbacks

Although online retailing has numerous advantages over traditional retailing, it does have several potential drawbacks, including the following:

- **Increased competition:** You're often competing against both big businesses and individual sellers.

- **Lower profit margins:** According to the law of supply and demand, increased competition drives down prices, especially in popular marketplaces, such as Amazon.
- **Higher costs:** Although overhead costs are significantly lower, you can expect other costs, such as the cost of building and maintaining an online store, pay-per-click (PPC) advertising, transaction fees on marketplaces such as eBay and Amazon, and so on. (See the later section "Tabulating the Costs" for details regarding Amazon Seller fees.)
- **Reduced consumer trust:** Until you become an established retailer, some shoppers may not trust you enough to place an order. Selling in a trusted marketplace such as Amazon eliminates these trust issues to a certain degree.
- **Reduced customer loyalty:** Online shoppers are fickle and usually swayed more by prices than by any feelings of loyalty to a particular retailer. However, over time, you can build a more loyal customer base.

Taking a tour of online stores and marketplaces

As an online retailer, you're free to choose where you want to list and sell your products. You have three options:

- **Your own online store:** You can find plenty of ecommerce web hosting services that provide the tools for setting up and maintaining your own store, such as `Shopify.com`.
- **Pure marketplace:** A pure marketplace, such as eBay, simply brings buyers and sellers together and facilitates and secures transactions between the two. It doesn't carry or sell inventory of its own.
- **Hybrid marketplace:** A hybrid marketplace, such as Amazon, brings buyers and sellers together, facilitates and secures transactions between the two, and sells products, competing with other sellers in the marketplace.

TIP

These choices aren't mutually exclusive. In fact, you may want to build and maintain your own online store and establish a presence on multiple pure and hybrid marketplaces to extend your reach. Having your own store also gives you the opportunity to improve customer trust and loyalty.

Online marketplaces (both pure and hybrid) typically profit by collecting a commission on all sales. In exchange, they offer several advantages, including the following:

- Diverse product selection at competitive prices, which attracts sellers
- Secure transaction processing for both buyers and sellers
- Access to millions of shoppers eager to spend
- Virtually unlimited scalability to accommodate any level of growth

In this book, we focus almost exclusively on the Amazon marketplace, which has revolutionized the world of ecommerce with its superior technology, universal reach, ability to offer nearly every imaginable product, and the unmatched trust and loyalty it has earned among shoppers.

Exploring How Amazon Works

One of the big draws to selling on Amazon is how easy it is. Here, we break the process down into two stages: before you start selling and selling products. We also explain the basics of how Fulfillment by Amazon (FBA) works.

Before you start selling

Preparing to start selling on Amazon is a simple three-step process:

1. **Figure out what you want to sell.**

   Amazon has 20 product categories open to all sellers and 10 or more additional categories open only to Professional Sellers.

2. **Decide on a selling plan.**

   If you plan to sell fewer than 40 items per month, choose an Individual plan, which charges $0.99 per item. If you plan to sell 40 items or more, go with the Professional plan, which charges a $39.99 monthly fee and no fee per item. (See the later section "Comparing Amazon Business Types" for details.)

3. **Register to become an Amazon Seller.**

   Go to `SellerCentral.Amazon.com` to register and follow the on-screen prompts.

Selling products

After you're registered, you can begin to list products for sale. Chapter 9 covers the product listing process in detail, but the process basically consists of the following four steps:

1. **List the product(s) you want to sell.**

   You have two options:

   1. **List products already on Amazon.**

      Choose products already listed on Amazon and specify the number you have available, their condition (new or used), and your shipping options.

   2. **List products not on Amazon.**

      If the product you want to sell isn't being sold on Amazon, you need to specify the item's universal product code (UPC) and stock keeping unit (SKU); write a product title and description, and provide product photos.

2. **Sell the item.**

   Selling consists of waiting for someone to buy the item you listed. When someone clicks your listing and buys the product, Amazon notifies you of the sale. During this time, you can try to improve sales via pay-per-click (PPC) advertising on Amazon and engaging in other marketing and advertising efforts. Chapter 12 discusses ways you can market and advertise your products.

3. **Ship the product to the customer.**

   Upon receiving notification of the sale, you ship the product to the customer or, if you use Fulfillment by Amazon (FBA), Amazon ships it from its warehouse for you. (See the next section for more about FBA.)

4. **Get paid.**

   As you sell products, Amazon deposits payments (less Amazon Seller fees) into your account and notifies you when payments have been made.

Using Fulfillment by Amazon (FBA)

With FBA, you ship inventory to various Amazon fulfillment centers across the country and, if desired, around the world. When someone clicks your listing and orders the product, Amazon picks, packs, and ships the product for you. FBA offers several benefits, including the following:

» You save the time and cost of picking, packing, and shipping the product yourself. (However, you pay for inventory storage and pay Amazon an FBA fee based on the product's size and weight, as explained in the later section "Tabulating the Costs.")

- Shipping costs are potentially lower because you benefit from the rates Amazon negotiates with carriers.
- Your products are eligible for free two-day shipping and, in some cases, one-day shipping (for Amazon Prime customers) and free shipping on eligible orders (for all Amazon customers).
- You increase your chance of winning the Buy Box (the box on the right of the product detail page that enables a shopper to add the product to his shopping cart).
- Amazon processes returns and refunds for you.

AMAZON: BEYOND ECOMMERCE

Founded by Jeff Bezos in 1994 out of his garage in Seattle, Amazon has defined ecommerce and revolutionized the way retailers sell products and consumers buy them. However, Amazon has expanded far beyond the world of traditional ecommerce to penetrate even deeper into people's lives. Here are some of the notable Amazon businesses:

- **Consumer electronics:** Kindle devices, Amazon Fire TV, smartphones, and Amazon Echo
- **Digital content production:** Amazon Music, Amazon Kindle Store
- **Amazon Game Studio:** Game streaming services
- **Amazon Prime Video and Amazon Studios:** Video streaming services and original movies and series
- **Private labels:** Amazon Basics, Amazon Elements, Wickedly Prime, and so on
- **Amazon Web Services:** The world's largest cloud services provider
- **Amazon Fresh and Amazon Prime Pantry:** Fresh foods and grocery delivery services
- **Amazon Books:** Physical bookstore
- **Amazon Home Services:** A marketplaces for professional services for homeowners

Comparing Amazon Business Types

"Selling on Amazon" can carry different meanings, depending how you conduct business on or with Amazon. You may be selling on Amazon as a retailer, selling to Amazon as a vendor, selling professionally or as an individual, and so on. In this section, we explain the different business types and how they operate on Amazon.

Vendor (1P) versus Seller (3P)

Amazon *vendors* and *sellers* differ primarily by their relationship with Amazon and the way they sell in these ways:

- **Vendors** have a first-party (1P) relationship with Amazon, selling their products directly to Amazon, which then resells the products to shoppers. Vendor status is granted by invitation only.
- **Sellers** have a third-party (3P) relationship with Amazon, selling their products to shoppers and receiving payment through Amazon. Sellers are responsible for listing, pricing, and marketing their products, and anyone can become a seller through the Amazon Seller registration process.

Being an Amazon Vendor, has its pros and cons.

Here are the pros:

- Products carry the "Sold By Amazon" label, evoking strong customer trust and hence increased sales.
- Amazon offers a suit of marketing tools for vendors through Amazon Marketing Services (AMS).
- Amazon vendors typically don't pay seller fees, such as referral fees, fulfillment fees, and other charges.

Here are the cons:

- Amazon sets prices, and sometimes prices are set so low that the vendor suffers a loss or may not realize the desired profit margin.
- Launching new products may be a challenge because Amazon is often reluctant to issue purchase orders for products that have no sales history.

Meanwhile, being an Amazon Seller also has its pros and cons.

Here are the pros:

- More control over the listing, pricing, and delivery options
- More analytics and customer performance metrics for improving business
- Direct connection with buyers to gather feedback and information on buyer preferences

And the cons:

- Seller fees, including commissions and referral fees
- Not having the "Sold by Amazon" label to instill the consumer trust that leads to increased conversions, which is especially valuable when competing head-to-head with vendor products

Individual versus Professional

When you register to become an Amazon Seller, you must choose from the following two plans:

- **Individual:** You pay $0.99 per item sold, no monthly fee, and you pay only when an item sells. Amazon provides access to a basic set of listing and order-management tools. As an Amazon Individual Seller, you have the option to create listings one at a time by matching your products to existing listings or by creating new listings. Amazon sets the shipping rates for orders and determines which shipping service levels sellers can offer to buyers.
- **Professional:** You pay $39.99 per month whether you sell nothing or a million items. You pay no per item sold fee. Amazon provides its Professional Sellers with access to additional features and tools and removes some selling restrictions.

REMEMBER

These aren't the only fees you pay to sell on Amazon. Other fees include referral fees and shipping fees. See the later section "Tabulating the Costs" for a complete accounting.

Do the math, and you quickly conclude that anyone who sells more than 40 items a month will save money with the Professional plan. However, costs are only one difference between the two plans. When choosing a plan, consult Table 1-1 for a side-by-side comparison.

TABLE 1-1 Comparing Professional and Individual Seller Plans

Seller Plan	Individual	Professional
Monthly subscription	N/A	$39.99
Per item closing fee	$0.99	N/A
Use of feeds, spreadsheets, and other tools to facilitate multiple listing creation and updates	No	Yes
Access to order reports and order-related feeds	No	Yes
Earn top placement on product detail pages	No	Yes
Sell in 20+ open categories	Yes	Yes
Apply to sell in 10+ additional categories	No	Yes
Customized shipping rates	No	Yes

REMEMBER

If you're selling fewer than 40 items per month and don't need to upload and frequently update diverse inventory, the Individual selling plan is probably the logical choice. You can always upgrade to the Professional plan as you grow your business.

Arbitrage versus private label

As an Amazon Seller, you're responsible for procuring products to sell. Two common product sourcing options are arbitrage and private label, as we explain in this section.

Arbitrage

Retail arbitrage (or simply *arbitrage*) is an easy, low-cost approach to sourcing products, which involves buying discounted products from other retailers, marking up the price, and reselling them. Many sellers get their start on Amazon through arbitrage. Chapter 7 discusses some stores where you may be able to find discounted and clearance items.

Experimenting with arbitrage on Amazon enables you to develop the knowledge and experience of selling on Amazon without risking huge sums of money.

However, arbitrage does have potential drawbacks, including the following:

- Arbitrage requires considerable time and energy in terms of finding deals and listing and marketing new products that may not be listed on Amazon already.
- You run the risk of buying substandard, counterfeit products of popular brands and getting into trouble with Amazon for selling them as the real thing.

- The brand owner may file a complaint, result in Amazon requiring you to remove the product from your listings, in which case you get stuck with the unsold inventory.

Private label

A *private label product* is a product that's manufactured by a third party and sold under a retailer's brand name. Examples include Amazon Essentials, Target's Mainstays, and Walmart's Great Value brand. To create private label products, you have two options:

- Invent a new product, patent it, manufacture it (or have it manufactured), label it, and sell it as the manufacturer.
- Contact a manufacturer of a product you want to sell, have the manufacturer label the product with your brand, and start selling it as your own branded product.

Selling private label products offers several advantages, including the following:

- Reduced competition. You're not selling the same brand-name products as everyone else on Amazon.
- Greater control over pricing.
- Improved changes of winning the Buy Box.
- Greater ability to expand sales in the future and beyond the Amazon marketplace.

Creating and selling under your own private label does have some drawbacks, including the following:

- Creating a private label can be expensive in terms of manufacturing, branding, labeling, and marketing new products, in addition to manufacturing and inventory costs.
- Introducing a new product with unproven sales to the market increases your exposure to risk.
- Negative feedback and reviews could sink your entire brand, hurting sales across all your private label products.

The cost of creating a private label and building and maintaining brand recognition discourages many sellers from taking this approach. However, if you can clear the initial hurdles, creating and selling your own private label products is very rewarding, and if you can establish a very good supplier base and control quality, you can build a very successful and profitable brand.

REMEMBER

You don't need to choose between arbitrage and private label. You can engage in both methods simultaneously.

Sellers with and without brand registry

Although Amazon provides various tools to help drive sales, including Fulfillment by Amazon (FBA) and sponsored ads, marketing copy is still fairly restrictive for most sellers. Amazon Brand Registry provides a way for brand owners to overcome many of these limitations to deliver more robust, visual, and interactive product descriptions that set brand owner listings apart from those of other sellers.

Table 1-2 presents a list of brand registry benefits, contrasting the advantages of brand registry owners to those without brand registry.

TABLE 1-2 Brand Registry Benefits

Brand Registry Benefit	With Brand Registry	Without Brand Registry
Accurate brand representation and increased sales	Increased control over product listings enables brand registry sellers to deliver more complete, accurate, and reliable product information, which often boosts sales.	Product listings can easily have partially or entirely wrong information updated by various sellers offering the same product, reducing trust among customers thus resulting in lower sales.
Access to search and report tools	Search tools such as global search, image search, and ASIN search simplify identification of potential infringement cases.	Without brand registry, you're likely to overlook threats to your brand.
Brand protection	Provides additional brand protection based on the information provided during the registration such as potential misuse of trademarked terms in other listings, images that contain your logo, unauthorized sellers, and counterfeit products.	Difficult to convince Amazon support team of potential abuse/misuse of trademarks, listings, and brands. Without brand protection, you need to gather a lot of material evidence to resolve trademark and similar issues.
Global support	Amazon provides dedicated 24-7 global support teams to resolve branding concerns on a priority basis.	No dedicated support teams. Sellers must go through regular customer support channels, which is often time consuming.
Brand building tools	Take advantage of additional marketing tools such as (A+ Content), Amazon Stores, Sponsored Brands, the Brand Dashboard, and Brand Analytics tools.	No access to those features without brand registry.

Tabulating the Costs

Selling on Amazon isn't cheap. In addition to the cost of the products you plan to sell are numerous expenses, including per-item closing fees (or monthly subscription fee), referral fees, inventory storage and shipping fees, and refund administration fees. To earn a reasonable profit from sales, you need to account for any and all fees when pricing your products. This section provides a full accounting of the costs.

WARNING

Amazon fees may change at any time. Check the Amazon Fee Schedule for the country in which you're selling to find the most recent fee details.

Product sourcing

When you're buying products from a supplier, consider both the cost of the product and any additional fees, which include packing, labeling, and freight charges and may include *duties* (taxes levied by a governing body, such as import duties).

For example, suppose you're ordering 500 units of a cellphone case, each of which costs \$3.00. Additional costs may include a 4 percent import duty (\$3.00 × 0.04 = \$0.12), a freight charge of \$100 (\$100 ÷ 500 units = \$0.20/unit), packing costs of \$0.50 per unit, and labeling costs of \$0.10 per unit. Your total cost per unit would look like this:

Supplier cost per unit	Duties	Freight	Packing	Labeling	Total cost/unit
\$3.00	\$0.12	\$0.20	\$0.50	\$0.10	\$3.92

Shipping and storage

Shipping and return costs vary considerably depending on the product size and weight and the carrier or service you use. If you're using Fulfillment by Amazon (FBA), you're charged for both shipping and storage. At the time of this writing, shipping costs ranged from \$2.41 (for an item weighing 10 ounces or less) to more than \$137 (for special oversized items).

FBA storage costs are charged by cubic foot and at the time of this writing were \$0.69 per cubic foot (January – September) and \$2.40 per cubic foot (October – December) for standard-sized items. Storage for oversized items cost \$0.48 per cubic foot (January – September) and \$1.20 per cubic foot (October – December).

REMEMBER

When using FBA, you need to account for Amazon shipping and storage fees plus the cost of shipping product from your supplier (or yourself) to Amazon fulfillment centers.

For example, suppose the cost to ship 500 units from your supplier to FBA warehouses is $50 — that's $0.10 per item. The 500 units consume 10 cubic feet, so that's $24.00 for storage (October – December) or $24.00 ÷ 500 = $0.048/unit, which you can round up to $0.05/unit. Finally, you're charged $2.41 to ship the product from the FBA warehouse to your customer. Your per-item storage and shipping charges add to your total cost per unit:

Sourcing cost per unit	Ship to FBA Warehouse	Storage	Ship from FBA Warehouse	Total cost/unit
$3.92	$0.10	$0.05	$2.41	$6.48

Amazon Seller fees

Amazon Seller fees include the following:

- **Per-item or subscription fee:** $0.99 per item or $39.99 per month
- **Referral fees:** A percentage of the price the customer paid, which varies depending on the product category but is generally 15 percent or less
- **Closing fee:** Applicable to items in certain product categories, such as books and DVDs

Assume a per item fee of $0.99, a sales price of $15, and a 15 percent referral fee (15% of $15.00 = $2.25). Your total cost per unit is now:

Cost per unit	Per item fee	Referral fee	Total cost/unit
$6.48	$0.99	$2.25	$9.72

Returns

Returns can be costly, especially if you sell items such as clothing that are commonly returned or exchanged. Depending on your shipping and returns policy, you could end up having to eat the costs of both shipping and returning the product along with an Amazon return processing fee (20 percent of the original order fees up to $5.00) and perhaps the cost of the product if it's defective or damaged.

Factor in a ballpark estimate of 5 percent of returned items. If you're planning to sell 500 units, plan to have 25 returned to you. In our example, if you pay the return shipping fee of $2.41, and 20 percent of the original order fees or 0.20 × ($0.99 + $2.25) = $0.65, you're looking at $2.41 + $0.65 = $3.06 loss per item or a total loss of 25 × $3.06 = $76.50. Divide $76.50 by 500, and you get a loss per item of about 15 cents. You may want to add this to the total cost per unit of $9.72 in the previous section prior to setting your sale price.

Other costs

When setting a price for your products, consider additional costs, including your operating costs (professional fees such as legal and accounting and bank charges) along with any money you plan to spend on marketing and advertising. To ensure that your Amazon selling venture is profitable, be sure to account for all costs. Otherwise, you may barely break even or perhaps lose money.

REMEMBER

As a retailer, you also need to collect sales tax on all sales and remit the collected taxes to the states in which your items are purchased. Sales tax isn't a cost to you; the buyer pays it.

Following Amazon's Rules

Amazon's success hinges on customer satisfaction and maintaining a positive reputation in the retail space. The company allows other sellers access to its marketplace on condition that they behave themselves and share the company's commitment to delivering superior customer service. In this section, we cover the rules that govern your participation in the Amazon marketplace.

REMEMBER

Amazon's changes its code of conduct and seller policies from time to time. For the most current information, click the Search icon (top right of Seller Central), type amazon code of conduct, press Enter, and click the Selling Policies and Seller Code of Conduct link.

Seller code of conduct

Amazon's seller code of conduct stipulates that sellers act fairly and honestly on Amazon to ensure a safe buying and selling experience. All sellers must comply with the following do's and don'ts:

- Do provide accurate information to Amazon and your customers at all times.
- Do act fairly and don't misuse Amazon's features or services.
- Don't attempt to damage or abuse another Seller, their listings, or ratings.
- Don't attempt to influence customers' ratings, feedback, and reviews.
- Don't send unsolicited or inappropriate communications.
- Don't contact customers except through Buyer-Seller Messaging.
- Don't attempt to circumvent the Amazon sales process.
- Don't operate more than one Selling on Amazon account without permission by Amazon.

Violating the Amazon's code of conduct or other seller policies may result in penalties such as having product listings removed, payments suspended or forfeited, or selling privileges revoked.

The following sections expand upon specific stipulations in the code of conduct.

Accurate information

As a seller, you're responsible for providing accurate, up-to-date information about your business and the products you sell. For example, you must list products in the correct category and post accurate photos and specifications. See Chapter 9 for more about creating product listings.

Acting fairly

Acting fairly means no cheating, such as:

- Recruiting your friends to post positive reviews on your listings or negative reviews on your competitors' listings.
- Hacking or hiring someone else to hack into Amazon to remove negative reviews.
- Hijacking a listing from the original owner to use as your own.
- Filing a brand or intellectual property infringement notice against a competitor to have competing listings removed.

Ratings, feedback, and reviews

Amazon prohibits any attempts to influence or inflate customer ratings, feedback, or reviews. You're permitted to contact customers to request feedback and reviews, but you're not allowed to request or coach a positive review. Examples of other prohibited behaviors in this area include the following:

- Paying for or offering an incentive (such as a coupon or free product) in exchange for removing a negative review or posting a positive review
- Requesting only positive reviews or asking a customer to remove or change a negative review
- Reviewing your own or a competitor's products

Communications

Amazon requires that all communications to customers must be sent through Buyer-Seller Messaging and be necessary for fulfilling orders or serving customers. Don't contact customers with marketing or advertising content or send any unsolicited or inappropriate messages.

Customer information

Customer information such as names, addresses, and phone numbers is to be used only to fulfill orders and provide customer service. After processing a customer's order, delete the customer's information. Don't sell or share customer information with any third party.

REMEMBER

Customer information is the customer's property. If anyone approaches you to purchase your customer information, refuse to share that information.

Circumventing the sales process

Understandably, Amazon wants all sales to go through its marketplace, so it can collect fees and retain its customers. Any attempt to divert a sale to another website to avoid paying fees or to steal customers from Amazon is a violation of Amazon policies. Don't provide links or messages that prompt shoppers to visit any external website, order a product from a different store, or complete a transaction elsewhere.

Multiple Amazon Seller accounts

Amazon allows you to have only one seller account for each region in which you sell unless you have a legitimate business need to open a second account and all your accounts are in good standing. If any of your accounts aren't in good standing, Amazon may deactivate all your selling accounts until all accounts are in good standing. Here are a few examples of legitimate business needs that qualify you to open more than one seller account in a given region:

- You own multiple brands, each of which is associated with a different business.
- You manufacture products for two separate and distinct companies.
- Amazon recruits you to participate in a program that requires separate accounts.

TIP

Use a different bank account and email address for each seller account in a given region. If you're selling across regions (for example, in North America and Europe), you may use the same bank account for the two seller accounts as long as your accounts are linked through Amazon Global Selling (see Chapter 19 for more info on selling globally).