

Amazon.com sellers complain of tied-up payments, account shutdowns

November 21 2012, by Amy Martinez

For many small merchants, selling on Amazon.com is an easy way to boost their business in a tough economy - if only they can get paid.

Dozens of online sellers complain that Seattle-based Amazon.com Inc. arbitrarily withholds their payments for as long as three months, jeopardizing their ability to replenish inventories and stay in business, according to a [Seattle Times](#) review of state records.

Sellers who say they've been hurt by this practice are the single most common source of complaints filed against Amazon with the Washington state attorney general's office in the past three years, The Times found.

All told, the attorney general's office received more than 370 complaints against Amazon, ranging from customers worried about their online privacy to game-[application developers](#) demanding better financial terms.

But about 40 percent of the complaints came from small [merchants](#) who use Amazon's Web platform to sell their products. And of those, three-fourths - nearly 120 sellers - complained that Amazon abruptly suspended or closed their accounts, tying up anywhere from several hundred dollars to more than \$20,000.

In many cases, the world's largest Internet retailer stacked the deck against them by providing no real explanation or chance to appeal.

Jack Caruso, who owns a party and janitorial supplies store in Amherst, N.H., began selling on Amazon last year to reach new customers. But he complained to the attorney general's office in May after Amazon notified him via email that it had begun a review of his account and suspended his daily disbursements.

"Things are tight enough as it is," he said. "And then, all of a sudden, I have \$30,000 sitting with Amazon, wondering if I'm ever going to get my money. It's not right."

Caruso, like many complainants, expressed [frustration](#) that Amazon did not explain the hold. Left to speculate, he believes it was because of a low number of online customer reviews, one of the many metrics Amazon uses to evaluate sellers.

"It's not my fault that 200-some-odd people don't want to give feedback. I've bought 50 or 60 items from Amazon and never once given any feedback. The average person just doesn't," he said.

"You try to talk some sense to them, and their attitude is, 'We have all the power.' "

Amazon, which declined to comment for this report, suggested to the attorney general's office that Caruso's hold was typical of what happens to sellers who suddenly do a lot of business without sufficient buyer feedback. It also encouraged Caruso to "send a friendly reminder to buyers requesting that they leave feedback."

The attorney general's office closed the books on Caruso's complaint, saying it lacked legal authority to force a resolution or to act as an attorney on his behalf.

Many sellers, noting the difficulties of defending themselves against

vague or unstated allegations, described communications with Amazon as a one-way street.

"They won't even give you a last name," Caruso said. "How am I supposed to have a conversation with 'Chris F.?' "

Amazon requires sellers to accept a Participation Agreement that gives it "sole discretion" to withhold payments for up to 90 days if it believes their behavior could cause problems with customers. The agreement also excuses Amazon from liability and allows it to refuse service to "anyone for any reason."

Amazon is not alone in holding sellers' money. Rival eBay does the same thing, and Internet giant Google is known to ban advertisers without explanation.

In 2010, eBay sellers whose accounts were frozen filed a class-action lawsuit in Northern California, accusing payments processor and eBay subsidiary PayPal of breach of contract and unjust enrichment. But U.S. District Judge Jeremy Fogel ruled that PayPal's pact with sellers gave it broad discretion to freeze accounts without disclosing the reasons.

"You're talking about a black box," said plaintiff's lawyer Jeff Leon.

"You have people whose money is being held for no other reason than their behavior fell within a certain profile."

While Amazon sells many products itself, it relies on thousands of small merchants to expand its selection of everything from books and electronics to hardware and jewelry.

When customers buy from a third-party seller, Amazon processes their credit-card payments, then takes a cut of between 6 and 25 percent,

depending on the product.

Experts say this enables Amazon to try out new product categories without the risk of surplus stock, shifting the financial burden to other sellers.

Amazon reported last month that third parties represented 41 percent of all goods sold on its site, up from 32 percent two years ago. Forrester Research estimates third parties generated about 9 percent of Amazon's \$48 billion in revenue last year.

But relations between Amazon and its sellers long have been charged. Michael Harvey, chief operating officer of e-commerce-solutions company CorraTech, calls it a "sheep lying down with the lion" scenario.

"We have clients who do as much as 40 percent of their business through Amazon, and yet they hate it," he said. "Their margins are lower because Amazon takes a cut, and Amazon knows all their market intelligence."

In 2001, the now-defunct electronics chain Circuit City began selling through Amazon's marketplace. But it severed ties in 2005 to concentrate on its own website.

"As soon as we could get out of the deal, we did. The marketplace is an R&D facility for Amazon, where they look to see what's selling and then sell it directly," said former Circuit City executive Fiona Dias.

"If you look at the marketplace today, it's a bunch of little moms and pops with no marketing budget and no power. Amazon competes with them because it can," said Dias, chief strategy officer at ShopRunner.com, a members-only shopping service.

To many, Amazon's [Web platform](#) looks like an opportunity too good to

pass up, boasting some 80 million unique monthly visitors at Amazon.com, more counting all of the company's sites. Listing products is both cheap and easy, said Sucharita Mulpuru, an e-commerce analyst with Forrester Research.

"It's a Faustian bargain," she said. "The trade-off is you have all these onerous terms over how you get paid and concerns about whether they're going to steal your data."

Although Amazon aims to be "Earth's most customer-centric company," it can seem ambivalent about its sellers.

Marge Belfry, a married mother of five in Mukilteo, Wash., last spring decided to sell scrapbook supplies on Amazon to supplement her family's income. Within three weeks, she had boxed and shipped \$2,200 in online orders.

But Amazon notified her in April that it had begun a review of her account and would not release her money until further notice. At the same time, it encouraged her to keep filling orders, which really infuriated her.

"If I sold all of these items, and they held all of my money, I'd be out of business," she said, surrounded by \$10,000 worth of inventory.

Amazon soon emailed again to say that it had removed her selling privileges, canceled her listings and placed a 90-day hold on her money.

Belfry, who never found out what her specific transgression was, suspects she angered Amazon by directing a customer to a manufacturer's website for information about how to use a new scrapbooking device. (Amazon prohibits "the use of email intended to divert customers away" from its sales process.)

Three months later, and four months after she began selling on Amazon, Belfry finally received payment for \$1,900.

Ousted sellers have caught the attention of the Better Business Bureau of Alaska, Oregon and Western Washington. Last June, the organization noticed "a pattern" of complaints by Amazon sellers whose accounts were closed without explanation, said spokesman David Quinlan.

"Consumers claim that once their accounts are closed, their funds are not released within the dates specified, or their funds are held indefinitely," he said. "Amazon's aware of the pattern, and they're working with us on it."

If the issue isn't resolved, he said, Amazon could lose its A-plus rating from the BBB.

Eric Best, chief executive of Seattle-based Mercent, which helps businesses with their online strategies, says Amazon has good reason to be careful about its sellers.

"The whole company's reputation is at stake if shopping on Amazon through a third-party seller becomes a subpar experience," he said.

Amazon owes it to customers to weed out fraudulent or incompetent sellers, said University of Washington business professor Suresh Kotha. But he said the company must avoid making honest sellers collateral damage, noting that many small businesses fail because they don't maintain enough cash flow to cover their operational costs.

Amazon, in contrast, held \$5.2 billion in cash and marketable securities at the end of September.

Belfry said she wonders if Amazon's real purpose is to use sellers' money

as an interest-free float to prop up its balance sheet.

"They claim they have to hold our money for 90 days due to possible refunds. What a scam!" she wrote the attorney general's office.

But Web marketing consultant Perry Marshall said Amazon errs on the side of caution to protect customers from online fraud - and that tendency, along with a devotion to automation, can cause it to come down hard on even well-meaning sellers.

"You have people at these companies who look at spreadsheets and say, 'OK, this pattern matches fraudulent transactions. So when we see this pattern, we're going to shoot first and ask questions later,' " Marshall said.

Scot Wingo, chief executive of e-commerce software company ChannelAdvisor, said Amazon provides the least "human interaction" among key online marketplaces.

"A lot of these sellers want to be schmoozed. At Google or eBay, you'll be given a dedicated account manager. If you have a question, you can just pick up the phone and call," Wingo said.

"Amazon doesn't have anything like that. If you have a question, there's a form to fill out, and then a robot responds to you in an email."

Marshall, who believes Amazon should be more discriminating with its holds policy, said many sellers use different names, credit cards and IP addresses to secretly set up multiple accounts as a hedge against possible closures.

"Ten years ago, everybody hated Microsoft. They were the big, bad bully," Marshall said. "Now, Amazon is the 800-pound gorilla. And

they're creating a lot of ill will from the people who pay their bills."

Caruso, the New Hampshire businessman, mentioned that in the midst of his hold, a corporate salesman tried to get him to upgrade to a Fulfillment by Amazon account. That would have made his products eligible for free, two-day shipping through Amazon Prime, but Caruso worried about becoming more intertwined with the company.

He said his breaking point came in July, when he learned that Amazon dipped into his account to refund a customer who bought a vacuum cleaner from him in March and never returned it.

"The buyer gets a free Oreck Vac worth \$170," Caruso said. "And J&J" - the name of his business - "a headache."

Caruso said he closed his account and plans to spend what he would have paid Amazon in fees on attracting more customers to his website, possibly through Google AdWords.

Since July, he said, Amazon has begun selling Oreck Commercial vacuum cleaners itself.

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