

Study: For small sellers, sometimes it pays to sell to Amazon—and sometimes not

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On Prime Day, Amazon shoppers will be able to browse over 600 million products. They may not be aware that most of those listings are from non-Amazon sellers, who account for 60% of sales on the platform. Most are small- and medium-sized businesses: bookstores selling used hardbacks, toymakers selling original goods, and distributors unloading clothes.

What shoppers also don't see is the choice that the [platform](#) and the seller make about how to interact. Is it better for the seller to retain control over the price of their product, but share a fraction of revenue with Amazon? Or should they sell to Amazon and let it resell their products to consumers?

Research from Texas McCombs may help them determine when it pays to sell to Amazon—and when it does not. Stephen Gilbert, professor of information, operations, and risk management and the Eddy Clark Scurlock Centennial Chair in Business, creates mathematical models of the interactions between companies and consumers.

With Parshuram Hotkar of the Indian School of Business and Chuanjun Liu at Fudan University in Shanghai, Gilbert modeled the two types of channels that e-commerce platforms such as Amazon offer sellers.

- The agency channel is the most common one and the most independent. The seller lists its goods on the platform but keeps control of inventory, pricing, and possibly fulfillment.
- The reseller channel is a partnership, in which the retailer buys the seller's inventory, sets prices, and ships products. Reseller channels are more exclusive, with Amazon's being invitation-only.

Reseller relationships hold out the hope of higher sales volumes, thanks to Amazon's marketing might. But they come at a cost. Amazon collects

\$140 billion a year in seller fees, and complaints from sellers about unfair fees have drawn a [probe from the Federal Trade Commission](#).

Amazon, for its part, argues that the fees cover its costs, such as its distribution network, inventory management, shipping, and delivery. Under the agency channel, the seller bears those costs.

The conventional wisdom has been that for sellers with high sales volumes, a reselling relationship is worth the added fees. "It's true that a high-volume reseller may have a better chance of getting into one of these relationships," says Gilbert. "But we're saying there's more to it than that."

More to Reselling

In constructing the models of seller and reseller channels, Gilbert's team looked at several factors that influence the choice between them.

- Other channels. Some manufacturers already sell their goods in other places, such as brick-and-mortar stores, their own websites, or e-commerce storefronts such as eBay and Etsy.
- Number of players: The number of other resellers involved—such as traditional stores—affects the intensity of competition in the marketplace.
- Substitutability: For mass-market goods, it's relatively easy to substitute one channel for another. A shopper can find Gillette razor blades at a wide variety of outlets that offer comparable convenience.

For more artisanal goods, such as a set of wind chimes, it might be harder to substitute an online channel. A shopper might want to see and

hear them in person before buying.

These variables, Gilbert found, can affect a seller's choices.

- A reseller relationship can be attractive when competition and substitutability are high, as with razor blades. If shoppers can buy the same product from several sources, Amazon is more likely to offer a good deal. Says Gilbert, "Both the platform and the manufacturer are better off."
- The agency channel makes more sense when a product's market is smaller, and shoppers have fewer options to find it. With less competition, the seller can set higher prices and reap higher profits.

He notes that sellers have a third choice: neither channel. That might be the best option, if Amazon sales would cannibalize too much of their existing sales.

"If those sales do not generate enough incremental profit to offset a possible reduction in profit from traditional reselling channels, the seller should consider walking away from the platform," Gilbert says.

As with negotiating over a car, a walkout could even lead to a better deal, he adds. "A [seller](#)'s willingness to walk away from the platform's agency [channel](#) might make the platform more willing to offer it favorable reselling terms."

The paper "Channel Choice via On-Line Platform" is [published](#) in *Production and Operations Management*.

More information: Stephen M Gilbert et al, Channel Choice via On-Line Platform, *Production and Operations Management* (2024). [DOI: 10.1177/10591478241249478](#)

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