

Sent: Fri May 29 07:08:18 2009

Subject: FW: One more Diapers.com thought

Here was the thread initiated by me that spurred the note from Doug Herrington on diaper buyer LTV

From: Herrington, Doug

Sent: Thursday, May 28, 2009 4:58 PM

To: Wilke, Jeff; Shure, Steven

Subject: RE: One more Diapers.com thought

I have been less concerned about P-Ads, but I'm willing to deep dive on this case to see if there is a bigger problem. I especially like you last point: "kickoff ad hoc analysis of diaper buyer LTV, profile of the lifecycle of a diaper buyer, and investigation of all current, significant Product Ads advertisers in the category" I can ask Michelle to look at this. Is there someone on your team, Steve, who has the LTV methodology standardized so we don't re-invent the wheel? Re Wilke's question, no I haven't been pushing on Sebastian's team on p-ads. Let's look at the numbers here, and if it is an issue, I'll propose some of the other ideas steve has outlined.

From: Wilke, Jeff

Sent: Thursday, May 28, 2009 11:13 AM

To: Shure, Steven; Herrington, Doug

Subject: RE: One more Diapers.com thought

All of the below (off the top of your head) sound OK to me. Doug, are you pushing with Sebastian's team on the p ads issue?

Thanks

JAW

From: Shure, Steven

Sent: Thursday, May 28, 2009 12:38 AM

To: Wilke, Jeff; Herrington, Doug

Subject: FW: One more Diapers.com thought

Did either of you have a point of view on this?

From: Shure, Steven

Sent: Sunday, May 17, 2009 3:08 PM

To: Wilke, Jeff; Herrington, Doug

Subject: One more Diapers.com thought

There are obviously a lot of follow-ups from that meeting and plenty for us to feel uncomfortable about. In addition to all the shipping policy stuff, I keep coming back to our discussion of Product Ads.

Do we really think it is ok that Diapers.com flipped from selling on the platform to being a large scale user of Product Ads totally unscrutinized? I don't. You've heard this sort of "limited protectionism" argument from me before, Jeff, but I think it really makes sense in this situation. All in all, I'm supportive of the open platform concept and do think we should be largely indifferent to Product Ad revenue vs. 3P and retail. However, I don't think it is possible that the current product ad business is priced properly for diapers, or any other consumable that people purchase over and over for that matter. We think of a product ads clicks from a purely transactional perspective. We compare them with the OPS that we'd get from that session alone on the day the customer visits the detail page. However, in the case of Diapers, sending a customer off to buy from Diaper.com is clearly going to lead in many cases to the customer buying all their future diapers from Diapers.com rather than Amazon. There's no way we're properly pricing the LTV loss of providing an easy and cheap way for a credible competitor to convert lifecycle purchasers (like new moms) from our potential customer to theirs.

We're under no obligation to allow them to advertise on our site. I'd argue we should block them from buying Product Ads immediately or at minimum price those ads so they truly reflect the opportunity cost of a lost diaper buyer (or to reflect the true value of a new customer to such a competitor.)

Off the top of my head, I'd think we'd benefit from the following:

An automatic trigger when a merchant on a watchlist (strategic competitors) attempts to launch a significant quantity of product ads—with escalated approval required to allow their ads to launch

Another trigger point when any customer reaches a particular threshold of Product Ads clicks (to ensure that we're still ok with their use of our platform)

A regular re-assessment of pricing in all repeat purchase categories in which we have meaningful selection on the platform (consumables, toner, etc.)

A kickoff ad hoc analysis of diaper buyer LTV, profile of the lifecycle of a diaper buyer, and investigation of all current, significant Product Ads advertisers in the category.

Thoughts?