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CC: steam-only [REDACTED]@amazon.com]
Subject: FBA Op1 - meeting notes 9/17 & 9/19

Next steps:

- [TT] **Do a 3-year financial vision** on how we can get to [REDACTED] GMS operating margin (including Prime revenue allocation). Don't assume a prime price increase in this plan.
- [TT] On Elastic fulfillment – **come back with a separate meeting on this before doing anything**. Could see raising price for peak and at the same time a decrease for non-peak at the same time. But would be for all products then (don't limit to low ASP items).
- [TT] On raising FBA rates, doc is too formulaic. Carrier rates would be one factor **but we need to meet every year on it and decide**. We should be consistent on timing of announce and effective date every year, so it becomes a normal course of action and expected. Need to do this for all countries. In high inflation countries, we may need to raise the rates more often [REDACTED]
- [TT] Team to **send email to Jeff explain how the lift metric handles seasonality** when showing sellers the post FBA sales lift...(ie don't want it giving a message in January that impact was negative).
- [TT] On X-channel sellers/units representing [REDACTED] of units, down from last year due to media. **Team to send email on what the # is when you exclude media**.
- [DH] On FBA profitability vs Retail for Consumables – **circulate a bridge for 2013 Consumables results vs OP2**
- [Brian] On FBA profitability vs Retail – **Do a complete bridge between Retail & FBA (and MFN and FBA) by each category**. Important to look at the Operating profit per unit as part of this. Will require multiple meetings.
- [SG/Faricy] – **Come back to Tom quickly on when we are putting in [REDACTED] merchant fee floor in [REDACTED]**

Actions/Takeaways:

- [DC] On low ASP, real question is not an FBA question, its an Ops question: What does an Ops solution look like to fulfill [REDACTED] item profitability? Retail needs this. FBA needs this. **One of Ops 2014 goals should be to design a FC that is optimized to fulfill low ASP items**. One idea/thread is [REDACTED] For private label, we can control the packaging so we can manufacturer the size/packaging to be what we want it to be to reduce variability. Question to ask the Ops team is: If you could control the packaging, what would an [REDACTED] solution look like?
- [TT] **Don't lower rate for add-on items**. Would have to do a lot of analysis to really prove that it would generate more money for us. Lets instead focus on lowering our cost structure so they can't fulfill for less than us.
- [JAW] "Same day" discussion - Even if [REDACTED] stuff is not economic, we should be the ones leading in this area in these type of experiments. You can justify it just on PR. Every time we see a crazy delivery model, **we should assign a 4 person team(s) to focus on these innovations and get the press from it. Team should probably live outside of Ops**.
- [TT] Seller name on detail page, leads to seller profile page - Should make sure the top of this page is marketing/communicating FBA.
- [DH/TT] On letting merchants into Subscribe and Save, we should consider charging for this as it is valuable for them to get a customer on subscription. Also consider having penalties for going OOS.
- [TT] Consider increasing our sales force, especially in [REDACTED] (where the "global sales" aspect is a unique benefit), but also look at potentially adding people in [REDACTED] to double-down on positive surprise.
- [TT] Love the Fashion Connection idea and charging for all of those services.
- [JBlack/JAW] Same day – one of the problems is that customers cannot find our same-day selection via search/browse. There is an existing project to fix this. **Make it a flagship goal**. But we don't need to wait for this for some of these innovations, like doing drones. Don't wait on this project.
- [TT] On fraudulent claims – Consider whether we should charge for false/invalid claims? Or could have a certain # free...before we charge, similar to NFL challenges.

- [JAW/SG/DH] - On combating counterfeits – **we should assign a dedicated leader to the previous idea we discussed around working directly with manufacturers and look at proposing it for Op1.** Would make it an industry-wide solution.
- [TT] On positive surprise #1 (page 9, #3-1) – Not sure we want to quantify it. Would rather have customers just “believe” in the value, than quantifying it. Be cautious about quantifying it if you don’t need to.
- [SG] On the top selling Owl necklace for [REDACTED] – we should go deep and see what we can learn including how much it would cost to manufacture this?
- [TT] On Q19 #4 – don’t give a discount. Go the other way and penalize the bad sellers.
- [SG] Meet in person with Jeff for any proposed merchant fee changes.
- Global compliance – make this an Steam goal.

Notes/Discussion:

- How are we thinking about Prime profitability and that sellers get benefit of two day shipping and not paying for it? have we tried to calculate the benefit to sellers? How do we think about seller benefit of adding 1-day shipping in Prime and how we charge for it? Answer/guidance: We can just increase rates to align with that value. [REDACTED] Do not believe that we need a different Prime plan for FBA than Retail. Economics look similar enough and our financial vision/plan for our operating margins should be the same.
- Why do we think sellers have lower fulfillment costs? A: small footprint (in garage, etc), lower labor, etc.
- On low ASP, real question is not an FBA question, its an Ops question: What does an Ops solution look like to fulfill [REDACTED] item profitability? Retail needs this. FBA needs this. One of Ops 2014 goals should be to design a FC that is optimized to fulfill low ASP items.
- Conversion rate – FR conversion rate looks like an outlier but asin count is small and mix is different. but excludes books.

- Same day discussion - Benchmarking team ran an analysis of [REDACTED] same day test. We are testing in a way with FBAF model but doesn’t focus on the superfast aspect (get it in 1 hour). Question is how do we keep experimenting in this area? Even if [REDACTED] stuff is not economic, we should be the ones leading those experiments. You can justify it just on PR. Every time you see a crazy delivery model, we should assign a 4 person team and do it and get the press from it. and we will learn. Already have 5 ideas - Have 3 ideas already that we have discussed, plus drones, pizza guy idea, etc.. The first drone should deliver a [REDACTED] Dedicated team should live outside of Ops org and have a great leader from within Dave’s world.
- Higher ASP sellers – 2 main concerns: 1) worried about returns. 2) And worried about our x-channel fulfillment rates. Teams is working on addressing both.
- How much more can we invest (in sales or other ways) to accelerate the # of merchants getting on FBA and a higher commitment once they start trying FBA. Should we increase our sales team?
- 2nd disruptive idea was not clear. If its supposed to be in place of advantage, would not want to replace that with a system where merchant gets to control price. Plus we have a program to do “vendor self-service”
- MFN operating margin is already [REDACTED] so if we covered all of our FC costs, FBA economics would be the same. Today we are subsidizing the FC and trans costs for sellers in part because we don’t have our cost structure where we want. Combine lowering cost structure with raising prime price and raising FBA fees and we can get there [REDACTED] operating margin.
- Continue to look at the acquisition targets mentioned in the doc.
- On Q19 – the most important question is: Where are our costs higher and how do we fix that?

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