

## Amazon Observations amidst COVID-19 - July 23, 2020

By Chris Moe and Jonathan Willbanks

Hi everyone,

Things on Amazon are not trending well. The COVID spike is challenging Amazon's supply chain significantly – despite having advance warning and being significantly more prepared than March. Many demand suppression levers we saw Amazon use before are being pulled again.

Regards,

Chris Moe and Jonathan Willbanks  
Co-founders, Cartograph

### Cartograph

We help CPG brands build sustainable Amazon businesses

### What we have been seeing:

#### **DEMAND – slow July without Prime Day. Increased consolidation to best sellers, big brands**

- July is historically the slowest eComm month – and without Prime Day, velocities have slowed meaningfully in grocery
- Across a few different categories, we have observed a migration to lower cost options, often produced by larger CPG. We believe this is happening for a couple reasons:
  - Economic pressures and uncertainty are pushing consumers to lower priced and familiar options
  - Larger brands are moving marketing spend to digital – category ad costs have been rising
- Amazon's shift of the Best Seller Ranks (taking the sum of all "flavors" on a single detail page) has boosted brands with broader, more diversified catalogs.

Emerging brands are increasingly feeling the pressure of more focus on eComm – many large CPG companies are making it much more difficult to grow and compete in saturated categories. The top 100 items in grocery, for example, looks significantly different than just 6 months ago: low-cost offerings from Fortune 100 CPG companies are seen across the rankings.

#### **SUPPLY / LOGISTICS – looks like April: restock limits, ship delays, uncertain Prime Day**

- Ship delays have started to pop up again – Prime Shipping is often 3-5 days
- Restock limits for FBA items are back. There are two important components: "temporary" limits being imposed now, and limits from Aug. 16 through the end of 2020 if you don't meet a certain Inventory Performance Index (IPI) score.
  - There are now free removal orders to clear out excess inventory from Amazon warehouses, in theory to help with the IPI scores.
- Receiving times have gotten significantly longer – often 2+ weeks. Shipments are getting re-routed to new fulfillment centers as certain centers have larger delays.
- Prime Day is still an uncertain date. The date has moved multiple times – Amazon's language continues to change and become even more uncertain.

The real story on Amazon right now is the return to supply chain strains we saw in April, except this time Amazon had months to prepare. These factors have crept up in the last few weeks – consumer ship times just lengthened this week – but we expect them to get worse before they get better as we see COVID cases rise across the US. Amazon has also stated it will issue large POs in preparation for Q4, presumably to stock up on best sellers and get ahead of any coming uncertainty.

## What should grocery brands do on Amazon right now?

- **Work on your inventory health immediately.** Amazon is already limiting ship-in quantities on FBA due to supply chain strains but have said they will limit through the end of 2020 if you don't hit an IPI of 500 by August 16.
  - Take action to get your IPI score above 500 – look at the inventory performance dashboard for suggested actions. Usually this is related to slow-moving inventory: consider running promos or even “fire sales”.
- **Think ahead to Q4.** There is a lot of uncertainty about Q4 on Amazon. The big Prime Day or Black Friday projection may not look like what is has in previous years, for both supply and demand reasons.
  - Think through full Q4 inventory quantities, and how you might ship into Amazon frequently if there are limits. Consider setting up dropship options if you haven't already.
  - Q4 launches are going to be challenging. If you're planning on this, make sure you're locked and loaded with a dropship solution.
- **Look at your Sales Ranks and consider adjusting twists.** The change in sales rank calculations which sums unit sales of all “flavors” on a detail page, has resulted in significant changes to sales ranks. Variation twists with multiple products are getting more traffic. If your traffic has declined, consider revisiting your twisting strategy.

## Our Future Outlook

In retrospect, our newsletters proclaiming things returning to normal felt naïve and a little premature. It was jarring to put all these ideas to paper: in summary, paired with what we're seeing in the news, does not bode well for a smooth remainder of 2020 on Amazon.

What we do know is Amazon has been working tirelessly to adapt to the new challenges their entire supply chain has faced with the realities of COVID, and they've been unable to keep up. At this point, we wouldn't consider some of the more severe measures enacted in March/April: essential item priority, false ship delays, and deactivation of promotional levers off the table. In fact, the restriction of FBA restock quantities came immediately following the announcement of the restrictions August 16, pending IPI score, suggesting that changes on the backend are happening quickly.

We suspect there are going to be a fair amount of challenges and surprises in the coming months. Prime Day being right next to Black Friday (if it happens at all) is going to strain already challenged consumer spending power, and the fact that Amazon – who has a wide range of leading indicators – is unable to tie down a date 3-4 months in advance suggests that there is a lot of challenges to come.

We will keep you updated as we learn more. As always, please reach out with any questions or if you'd like to chat anything Amazon!

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We'd love to hear from you! If you'd like more information, please reach out at [contact@gocartograph.com](mailto:contact@gocartograph.com).

### ABOUT CARTOGRAPH

Cartograph is an eCommerce focused agency that helps food brands sell their products on Amazon. Their mission is to help brands grow products that are better for people and the planet. They support brands with strategy, pricing, SEO, advertising, and operations and logistics. Cartograph is based in Austin, TX.