6 ways Amazon will eat media and marketing

DIGIDAY

Amazon seems to have everything going for it: Endless scale, bottomless coffers and a customer-centric point of view that can provide the kind of data marketers and media have only been dreaming about for the last few years. If Amazon can improve some of its advertising back-end and focus on growing its non-commerce business, 2018 will certainly be the year of Jeff Bezos.

Amazon Is Everywhere

Amazon's living up to its name.
The company has sprawled seemingly into every corner of every industry.
Here's where Amazon has its fingers.

By Shareen Pathak

Marketplace

This is the big one Amazon is set to account for over half of all of the country's e-commerce by 2012. Bolstered by Prime members, Amazon is a wholesale seller of some of the world's biggest brands — and for others, acts as a third-party marketplace. Essentially, it acts as both a buyer and a seller, and because of sheer scale, it can control pricing, creating a virtuous cycle that keeps customers happy and keeps brands on its platform.

Amazon brand

To cause more consternation, Amazon is also able to compete with the brands that sell to it either wholesale or through its third-party system. The brand now sells AmazonBasics for essential items and has private labels in consumer packaged goods and apparel as well. It makes sense: It barely has to spend on marketing, and the data it keeps close to its chest enables it to know what is selling well. Then, it tries to undercut brands by making its own products.

Luxury and fashion retail

While Amazon may have the market cornered on basic retail, it also has its sights set on luxury. It has made a series of investments, from buying e-commerce site Shopbop in 2006 to acquiring Zappos in 2009. Amazon Fashion is a growing presence — its big challenge is convincing high-end brands that it won't dilute them — and it has a real opportunity in becoming a showroom for upcoming designers.

Advertising

Amazon is turning into an advertising powerhouse. The company has a programmatic ad product that will generate it $1 billion this year — and potentially break the Google-Facebook duopoly. Through Amazon Marketing Services and Amazon Media Group, Amazon is now selling an ad product that brands have a lot of interest in. Amazon Web Services Amazon's second biggest source of revenue made about $12.2 billion in sales last year. While more under the radar than its other businesses, AWS is a behemoth, letting Amazon sell more than actual products — and sell storage space. It's also been a big reason why the company is able to attract tech talent.

The Amazon Store

From the test bed of Amazon Go — the store with no human employees — to Amazon Books, Amazon is pushing hard into bringing its online brand into the physical world. Coupled with its moves in grocery with the acquisition of Whole Foods and AmazonFresh, being in the real world is a huge asset for Amazon. It lets it extend its Prime membership offering, showcase its devices like Kindle and Echo, and reach a new legion of customers.

Amazon Studios

Amazon is pushing deep into video. In order to shore up Prime subscriptions (which are the company's third-largest source of revenue), Amazon is creating premium streaming content that customers will want to pay for. Content Amazon's Echo home device plays a big part not only for its retail business, but also its media. Echo lets it deepen its media relationships, opening it up to companies like the BBC (and Digiday) to reach new audiences.

The Bank of Amazon

Amazon's foray into brick-and-mortar has been extended with July's launch of Amazon Pay, which lets customers pay for items in a store like they're on Amazon.com. This extends Amazon's reach into the world of finance, where banks still control a lot because customers can use debit or credit cards to buy things. It's a natural stepping stone to a future "bank of Amazon," which can do lending and manage money. For a company that is more trusted by people than most banks are, it's probably a good fit.

How Amazon could become an entertainment powerhouse

By Lucia Moses

The list of industries trembling at the thought of Amazon turning its sights on them is not short. One juicy target: Hollywood.

Amazon already has a foothold in entertainment. After all, Amazon Prime Video already reaches roughly 18 percent of U.S. households. Amazon chief Jeff Bezos is poised to spend $4.5 billion on video content in 2017, nearly double what it spent the year before. Amazon, like Netflix, is poised to eat Hollywood.

Central to its entertainment empire is Amazon Studios, the arm that puts out original TV shows like “Transparent,” “The Man in the High Castle” and “The Grand Tour” — content that’s available for free to the 80 million people who pay for a $99-a-year Amazon Prime membership. It’s spent $12 million to buy movies (and credibility) at this year’s Sundance; the year before, its “Manchester by the Sea” was the first movie bought by a streaming service to win an Oscar, per Fortune.

Beyond the homegrown shows, Amazon buys and distributes feature films and videos from publishers including Condé Nast and Playboy and HowStuffWorks. Amazon also lets viewers subscribe to streaming services including HBO Go, Showtime and Starz as well as smaller channels. It’s gotten a foothold in sports programming, having made a deal in April with the NFL to stream 10 Thursday night games and outbid Sky for the U.K. rights to broadcast ATP tour tennis matches.

Its Alexa-powered device, Echo, already dominates the voice-activated home assistant market.

Oh, and it’s also getting into social media, launching Spark, an Instagram-like network for shopping; and working on Anytime, a messaging app.

Prime time

Amazon’s biggest trump card in its entertainment ambitions is that they help it sell toilet paper. Amazon is bulking up on all this entertainment because it’s critical to Amazon Prime, which is fueling much of Amazon’s growth. Prime members spend twice as much — $1,300 — a year on Amazon than non-Prime members. Prime also gives Amazon data on its shoppers, which it can use to target more products and ads to them. So adding entertainment to Prime’s free shipping benefits gives people more incentive to join and renew their subscription and watch more Amazon video.

“The end game is to cement the subscription-bundled relationship with the consumer so that you never leave the bundle,” says Rich Greenfield, media and tech analyst at BTIG. “I believe they think they’ll win by controlling your time. Consumers spend four to five hours a day watching television. So there’s a huge pot of fish to catch.”

Amazon clearly wants more. It still lags behind Netflix in a few ways. It’s one of the four major OTT apps, but is third in household penetration and fourth in terms of monthly viewing hours per month, behind Netflix, YouTube and Hulu, per comScore. To keep people re-upping Prime, it also needs to keep giving people more attractive content. And Amazon hasn’t had a breakout hit on the level of Netflix’s “Orange is the New Black” or “Stranger Things.”

With Amazon, the common refrain is, “Amazon can do anything it wants.” And media and entertainment are no different. Observers see Amazon going after more and varied content. It's expensive to keep relying on third parties for content, so Amazon will continue to create its own, says Darren Herman, operating partner at Bain Capital.

Buy or build

However, as its acquisition of Whole Foods shows, Amazon isn't averse to buying established companies after starting out building its own, as it did with food retail. In entertainment, that could mean buying a movie studio.

It could bid for more sports rights. Observers see it bundling streaming channels a la skinny cable bundles, positioning it to take video ad share from Google and Facebook, says Bernard Gershon, president of GershonMedia, which consults to publishers.

"One could imagine them buying ESPN, CNN, and that becomes just like another channel on your Amazon account," says Josh Lovitz, partner and co-founder of Consumer Intelligence Research Partners. Less likely, but not out of the question, he says, Amazon could leverage Bezos' ownership of The Washington Post to start a cable news network, which it could then promote and distribute.

Making video part of Prime's benefits makes Amazon's entertainment model different from other streaming services, which are just competing for people's entertainment budget. This Prime model also seems to be bringing new customers to streaming video. Netflix dominates streaming video, but fully 26 percent of Prime video watchers aren't already subscribing to Netflix, according to comScore research.

Amazon's packaging genius also extends to its Fire TV device, which makes TVs into connected devices. According to comScore, Fire TV owners are twice as likely to watch Amazon video on their Fire-connected TVs — far more than people who have Google Chromecast-connected TVs are likely to watch Google's YouTube.

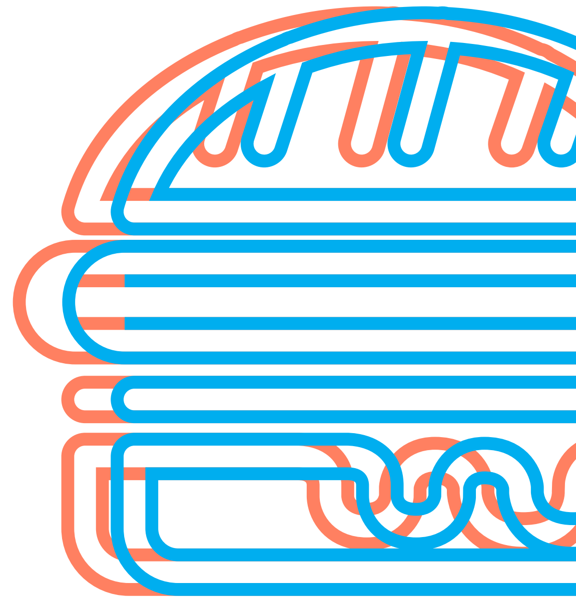
"It speaks to how Amazon has packaged these things together as part of the Prime membership to create these synergies," says Mike Rich, vp of emerging products at comScore. "Clearly, Amazon is differentiating in making video a broader suite of products and services, so there's a stickiness they're going for."

Video helps Amazon in other ways. According to CIRP, Prime members who watch free video are more likely to buy and rent video from Amazon.

What does this all bode for publishers and content creators? Amazon's moves into entertainment mean more competition for people's time and attention that are now going to newer streaming services such as Netflix and Hulu as well as legacy cable and broadcast companies. There's an opportunity for video companies to get more distribution for their content; the question, Lovitz asks, is will Amazon's terms be better or worse than what the legacy distributors would have paid?

"They are not traditional, which makes them dangerous to the traditional ecosystem," Gershon says. "They are incented to grow Prime members, and Prime members buy more stuff. So their hands are not tied as a traditional bundler of content." ◘

How Amazon will eat advertising



John Wanamaker, meet Jeff Bezos. He knows which ads were a waste.

By Shareen Pathak

When it comes to threats to advertising, WPP chief Martin Sorrell is a keen student. He quickly identified Google as a frenemy during its rise. And now, it's Amazon that's keeping him up at night.

The reason: Amazon boasts a gigantic pool of data, not just likes and habits, but purchases. It could position its ad platform to be the arbiter of what ads work in driving people to make purchases — and the one best positioned to target those ads.

That's the vision of the Amazon ad platform, one that will be achieved if Amazon goes all-in on advertising. It's already starting to happen. Amazon's ad business is already worth almost $2 billion. (BMO Capital Markets places it at $3.5 billion in revenue this year.) And Amazon executives have repeatedly said the company is investing heavily in ad sales teams. The growth rate of jobs in that area has exceeded the company growth rate, CFO Brian Olsavsky has said. The company also sees both sales tools in self-service and managed accounts growing. To Dooley Tombras, evp at The Tombras Group, it's just a matter of time.

"Our perspective isn't if Amazon will go all-in on advertising. It's that they are going all-in on advertising," Tombras says.

Proving ads work

If there's one thing chief marketing officers hate, it's unscientific and unreliable attribution methods that require them to connect the dots from their marketing to actual conversions. Any platform that helps them go beyond theory to practice helps, which is just what Amazon is pitching agencies: If you buy ads on Amazon, you'll know if they work. Google and Facebook became the duopoly because they delivered more conversions, Tombras says, and Amazon goes much further.

"Imagine that you're a brand running an Amazon campaign. Then, you can see how many people click on your ad, maybe even buy your product online. Then, inside the Amazon Media Group service arm, you can see data inside the stores on who was served an ad and who bought in store," say Tombras.

Agencies and brands, especially in the consumer packaged goods industries, are paying even closer attention to Amazon after its purchase of Whole Foods, its latest foray into brick-and-mortar retail.

"What Amazon is really introducing brands to is performance marketing," says Kevin VanValkenburgh, svp of connections planning at Tombras. "Take a brand like Tide, where a search ad on Google is just brand building. On Amazon, a search ad is brand building, but it's also conversion and sales."

If Amazon goes all-in on advertising, it also means a new wave for social media. Spark, its new Instagram imitator that lets customers view a feed of shoppable photos posted by Prime members and then shop them through Amazon.com, is a big game-changer, says Brian Cohen, evp and senior group director at Catapult Marketing. "You're talking about a website being able to monetize personal social data," he says.

What makes this plausible — and also a bit scary — is how much data Amazon is sitting on that could make this a nearly seamless undertaking, from image recognition technology to supply chain that

makes this close to a perfect e-commerce and advertising play. "They probably know more about us than the government," says Cohen. The individual player in the marketplace usually knows pieces of a customer on a purchase level. Using third-party data, you can supplement that. But Amazon is close to marrying all of that to create what those in the industry call a "total wallet" perspective.

Frank Kochenash, svp of commerce at Possible, says Amazon is lacking scale and more outreach to agencies to show them why it should be the choice. "Amazon looks at advertisers as customers like they look at their actual customers," says Kochenash. "To Amazon, the end consumer will also be the main person to sell to. That is why maybe there is some caution in developing ad programs. But that's good for advertisers in the long run." That's especially true considering the fears brands have of their programmatic ads showing up in odd places: Amazon can ensure ads are appearing only where they should.

Threatening the duopoly

As an advertising behemoth, Amazon could break up the Google-Facebook duopoly — or at least add a third leg. And both could stand to lose. Amazon's AMG and AMS services both provide essentially what those two platform giants do, albeit in a slightly more ramshackle and rudimentary fashion. (Observers say Amazon's current offerings put it where Google was about eight years ago.)

The key, say those who work with Amazon's ad products, is to merge AMG and AMS. The company is also building a self-service platform that will let it scale, and according to people familiar with the matter, opening up application programming interface access akin to Google's big management platform. Amazon's paid search arm doesn't have it yet, but it's in the works. That would position Amazon to take market share from Google, while Amazon's media group, which lets marketers put ads in places outside Amazon such as the Kindle, would directly rival Facebook.

Amazon also boasts a big content play. Let's say it knows, for example, what brand of running shoes you buy. If that running shoe manufacturer comes out with a new pair that matches your stride, the manufacturer could announce that news on Amazon, not Runner's World. The implications for publishers is potentially enormous. "Nobody is going to call up a publisher to advertise there," says Cohen. "They're going to buy audiences."

Why Amazon is set to change adver-tising as we know it

By Shareen Pathak

When it comes to threats to advertising, Martin Sorrell is a keen student. He quickly identified Google as a frenemy during its rise. And now, it's Amazon that's keeping him up at night.

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Pitch Deck

How Amazon is pitching ad buyers

By Shareen Pathak

agency

advertising

Facebook

platform

Google

e-commerce

Amazon is ramping up its advertising pitch to agencies and brands. The company recently expanded its self-serve programmatic advertising offering so agencies can now buy ads on their own through Amazon Media Group. It also extended some of the AMG offerings to third-party sellers on the platform, going as far as to offer them discounts and incentives to advertise on the platform.

The e-commerce giant has, according to agency executives, also been growing its sales team. Chief financial officer Brian Olsavsky confirmed this during the company's most recent quarterly earnings call, saying the growth rate for the ad sales team is faster than the head-count growth at Amazon's other myriad business units, which averages 42 percent annually. "What we're seeing is an accelerated growth rate in software engineers and also sales teams to support primarily [Amazon Web Services] and advertising. So, yes, the growth rate of those two job categories actually exceeded the company growth rate," he said on the call.

Amazon's pitch to agencies focuses on Amazon's own power as a shopping behemoth, according to a pitch deck obtained by Digiday. Its pitch emphasizes that its data reflects how people research, consider and purchase things, not only on Amazon but also elsewhere. It's a clear shot at other platforms like Google and Facebook — the wealth of the data Amazon has on its customers is beyond what those behemoths have. Essentially, Google has search data and Facebook knows interest levels, but Amazon has real power because it knows what people are buying and how they're doing it. "They are taking steps to make the ad program scalable," said one executive.

It's an approach that emphasizes targeting at scale, across behavioral, contextual, lookalike, remarketing and demographic and geographic targeting.

Amazon has 300 million users on Amazon.com and data on each user, from where they live to what they browse and buy. Amazon is able to create complete pictures of customer data potentially better than any other platform. And it's all data it keeps close to its chest, retailers say.

In June, Amazon also launched a self-serve platform called Advertiser Audiences, which lets brands upload CRM lists to let them audience match. The deck plays that up in a section on lookalike and remarketing targeting, telling brands that Advertiser Audience segments can reach all types of new, existing and lookalike customers.

Growing

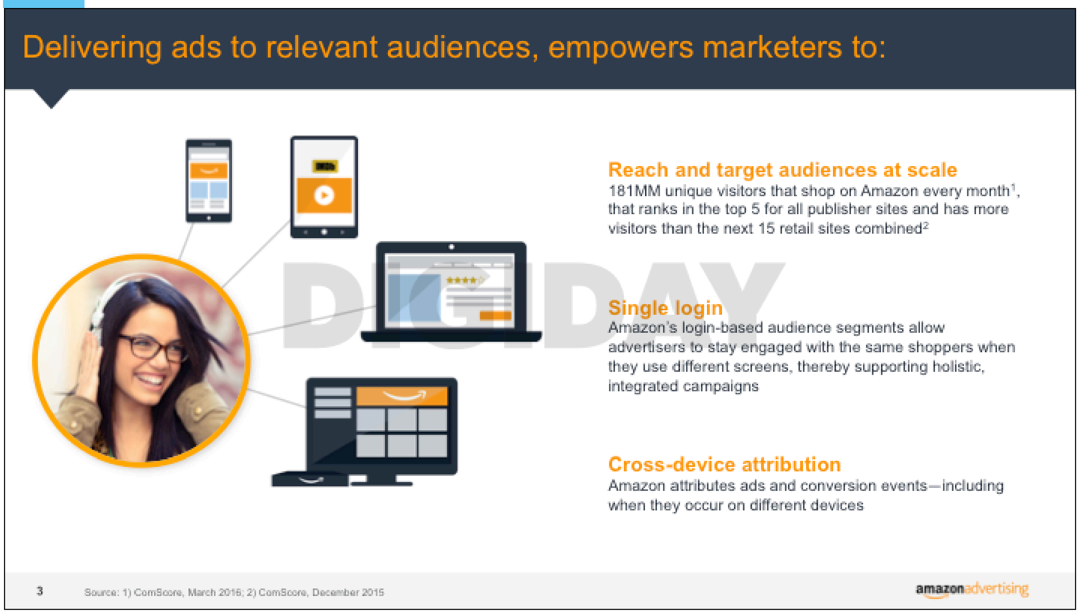
1


Targeting at Amazon
Presenter Name
Date
amazonadvertising
Amazon.com Confidential

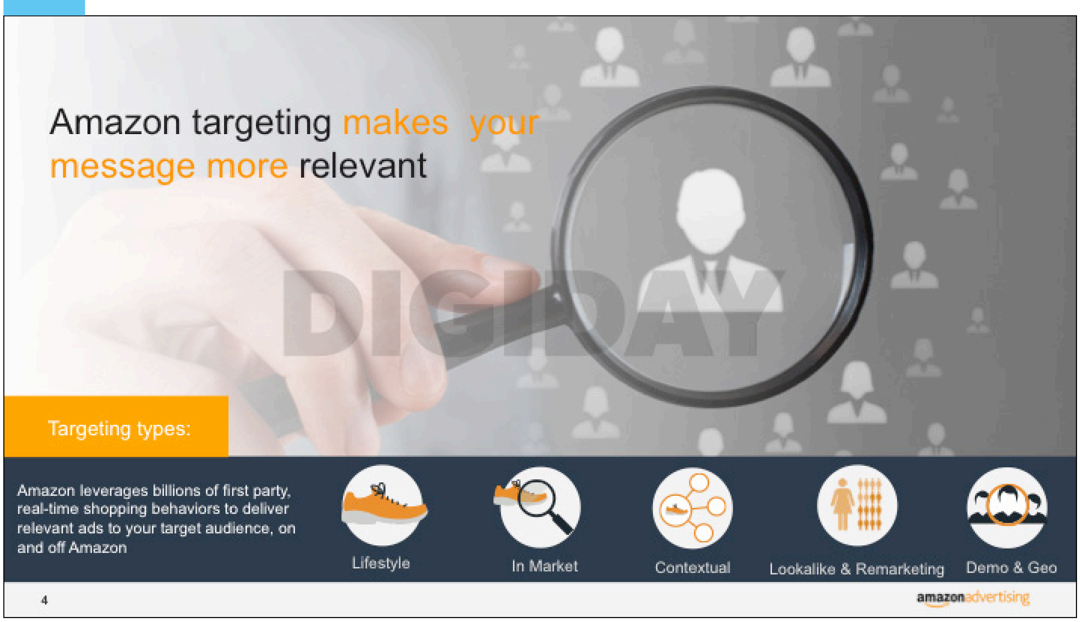
2


Amazon advertising drives awareness, consideration and sales
Metrics across the customer journey
Amazon advertising data reflects behaviors of billions of customers' shopping experiences as they research, consider and purchase products both on and off Amazon – all at scale.
2
amazonadvertising

3

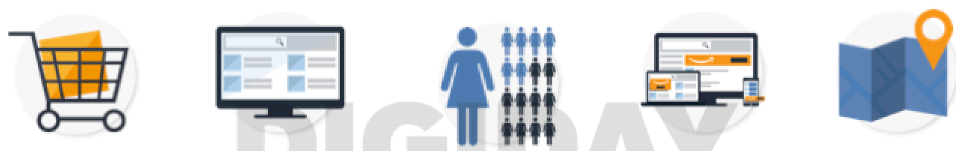

Delivering ads to relevant audiences, empowers marketers to:
Reach and target audiences at scale
181MM unique visitors that shop on Amazon every month1, that ranks in the top 5 for all publisher sites and has more visitors than the next 15 retail sites combined2
Single login
Amazon's login-based audience segments allow advertisers to stay engaged with the same shoppers when they use different screens, thereby supporting holistic, integrated campaigns
Cross-device attribution
Amazon attributes ads and conversion events—including when they occur on different devices
3
Source: 1) ComScore, March 2016; 2) ComScore, December 2015
amazonadvertising

4


Amazon targeting makes your message more relevant
Targeting types:
Amazon leverages billions of first party, real-time shopping behaviors to deliver relevant ads to your target audience, on and off Amazon
Lifestyle
In Market
Contextual
Lookalike & Remarketing
Demo & Geo
4
amazonadvertising

5

Types of Targeting at Amazon



Behavioral

Segments based on historical search, browsing and purchase history

- In-market
- Lifestyle

Contextual

Segments based on the detail page a consumer is actively viewing

- Product category

Lookalike

Segments to extend campaign reach

- Pixel-based
- Anonymous customer match
- Amazon first-party data

Remarketing

Custom segments created uniquely for an advertiser

- Pixel-based
- Anonymous customer match

Demographic & Geographic

Segments to reach a specific audience type

- Age/ Gender
- Location
- Income level
- Time of day
- Browser

7

Lifestyle Targeting Segments

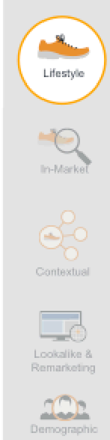
Lifestyle targeting leverages Amazon first-party data from up to the past year of habitual search, browsing and purchase behaviors.

Health Strivers

Customers who have browsed or purchased health and/or fitness related products in the past 12 months.

Video Gamers

Customers who have browsed or purchased products from the Video Game product category over the past 12 months.



6

In-Market Targeting Segments

In-market targeting allows an advertiser to reach customers who have recently browsed for a product within a specific category

Lifestyle

In-Market

Contextual

Lookalike & Remarketing

Demographic

amazonadvertising

8

Contextual Product Category Targeting

Contextual product category targeting delivers ad creative based on the detail page the customer is actively viewing – rather than leveraging a customers' historical interactions with Amazon.

Lifestyle

In-Market

Contextual

Lookalike & Remarketing

Demographic

amazonadvertising

9

Remarketing your lost customers

» Customers who have visited your brand's website

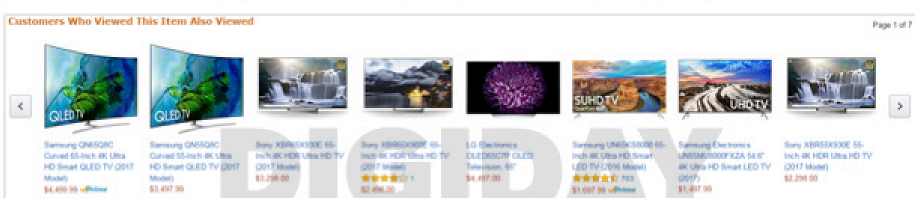
» Customers who viewed your products but did not purchase

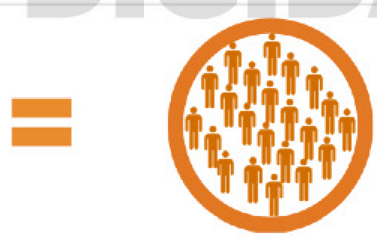
» Your Lost Customers

11

Targeting shoppers of similar products

People who viewed products similar to your products





Shoppers that have looked at products like yours

10

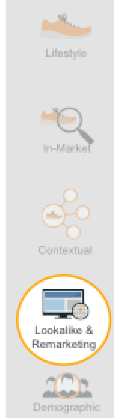
Extend your reach through Lookalike Targeting

Target new people who exhibit similar behaviors to your current customers or site visitors through audience lookalike targeting

Use data collected from an advertiser's website via a **remarketing pixel**

Use Amazon **first-party shopping data**

Create **Advertiser Audience** segments by matching your CRM data to Amazon shopper data



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12

How can we use Advertiser Audience segments in campaigns?

Reach **EXISTING** customers

Reach **LOOKALIKE** customers

Reach **NEW** customers

12

amazonadvertising

13

How to create an Advertiser Audiences Customer List segment

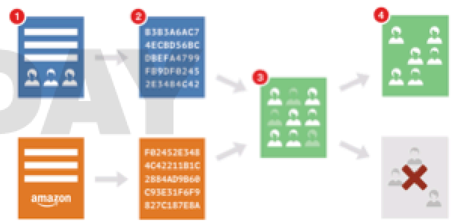
1 Build a list of at least 20,000 email addresses into a .txt file

2 Submit list to Advertiser Audiences to hash
- *Your browser will hash the file before upload*

OR

Hash the list yourself using SHA-256

3 Your hashed file is matched with a list of hashed Amazon customer email addresses



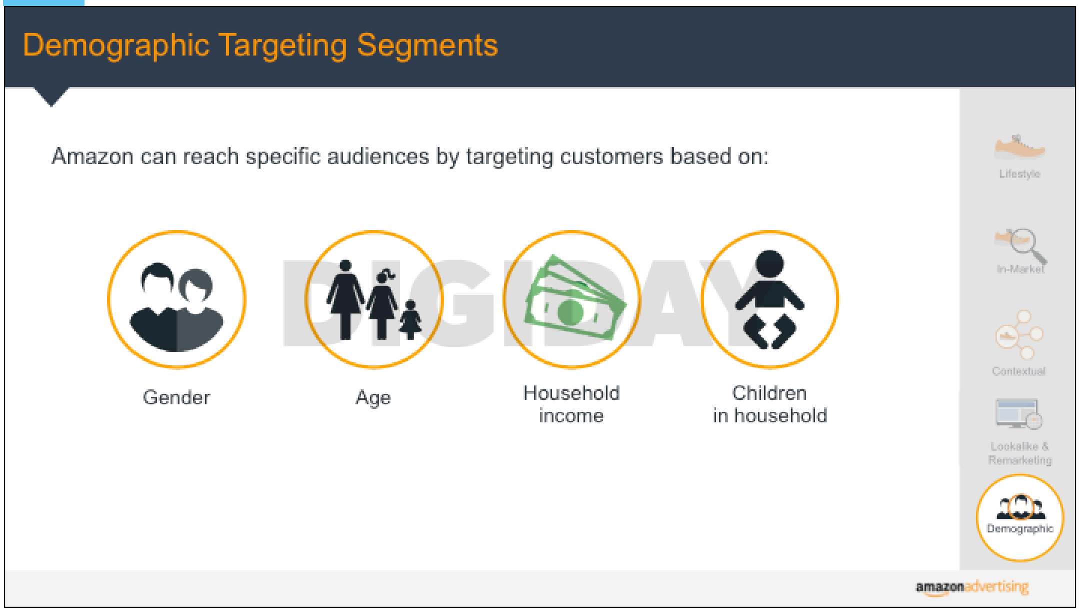
4 Matched records become your Advertiser Audiences segment and unmatched records are removed. All hashed data is deleted ***immediately***

14

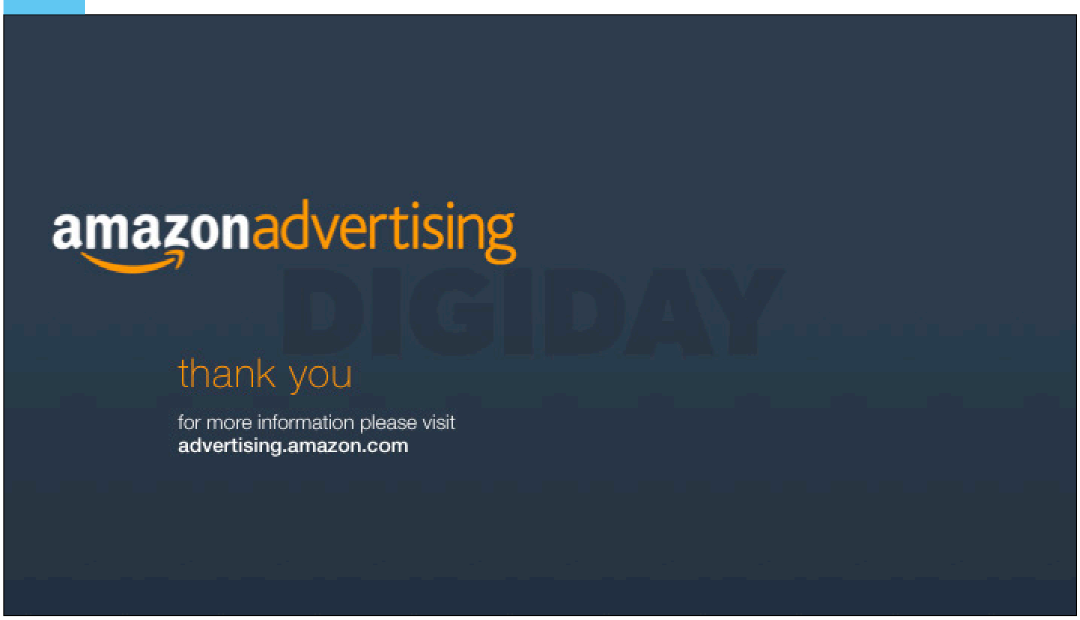
Business results of Advertiser Audiences from early case studies

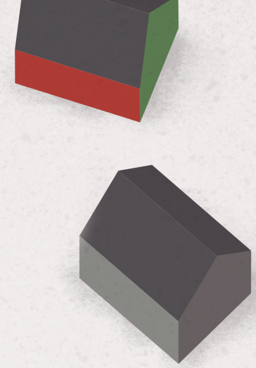
- Results over campaign averages in all customer journey stages
  - **Awareness:** 2x CTR
  - **Consideration:** 9x DPVR
  - **Purchase:** 4-8x Purchase Rate
- **ROAS lift**: 100-700% over campaign averages
- Est. **5-10% cost savings** when focusing on new customers
- Lookalike customers have 200% **uplift in traffic to detail pages**, 4x **more likely to purchase**

15


Demographic Targeting Segments
Amazon can reach specific audiences by targeting customers based on:
Gender
Age
Household income
Children in household
Lifestyle
In-Market
Contextual
Lookalike & Remarketing
Demographic
amazonadvertising

16


amazonadvertising
thank you
for more information please visit
advertising.amazon.com



Inside Amazon's pitch to agencies

By Seb Joseph

As Amazon's advertising business gathers momentum, agencies are realizing what it takes to run campaigns on the world's largest online retailer.

Unlike Facebook and Google, the e-commerce giant is in the business of selling products to shoppers, not selling inventory to brands — a subtle, yet important difference. Advertising executives are talking to Amazon's reps about supply chains and inventory as much as ad copy or keyword strategies, which Jason Hartley, 360i's national head of search and paid social, admitted "is very different and challenging, but absolutely necessary."

As Amazon reps clarify that difference to agencies, there's a growing sense among executives that the e-commerce giant isn't going to change the way it works to accommodate advertisers. Instead, it asks agencies to change their approach to creating online campaigns. "Traditional media owners are focused on maximizing the impact of their media and boosting the yield for themselves, whereas Amazon is focused on creating experiences that benefit the customer," said one executive, speaking on condition of anonymity.

Amazon's reluctance to compromise its shopping experience can make it trickier to buy media at times, the executive said. That's not to say agencies are struggling with Amazon's ads. In fact, the business is more open than Google and Facebook in some respects to creative ideas for campaigns, agency sources said. The executive explained: "If you work with Amazon in the right way, then there are opportunities to create custom campaigns for brands, which might not necessarily be so easy to pull off on Google or Facebook."

Previously, brands needed a distribution presence on the platform to capitalize on Amazon's ads. However, with the online seller's expansion of placement and targeting options, more brands, including those that do not sell through Amazon, are using the company's advertising business, said Scott Abbott, head of pay-per-click marketing at iProspect.

Part of that flexibility is due to the size of Amazon's ad business compared to that of Google and Facebook; eMarketer estimates Amazon made $1 billion (£777 million) on ads in 2016, significantly less than the $79 billion (£61 billion) and $27 billion (£21 billion) Google and Facebook generated respectively over the same period. Being a smaller ad player means Amazon's reps are more hands-on with individual agencies, encouraging them to view product pages like "brand-marketing vehicles," according to executives working with the business. Generally, marketers are more interested in how Amazon can drive lower-funnel conversions, and consequently, its search ads. Nick Buckley, L'Oréal's digital director in the U.K., recently told Digiday he would move more of the brand's search budget over to the retailer, given its emergence as the preferred entry for internet shopping. More than a quarter (29 percent) of consumers say they start product searches on Amazon, versus 15 percent who say they start on search engines, according to a UPS survey conducted in the first quarter of 2017. Brands may want the lower-funnel conversions from Amazon, but agencies have noticed the retailer has its eye on budgets further up the purchase funnel.

Recent improvements to Amazon's content options for its brand storefronts are a step toward "improving the experience on the site in ways that brands will appreciate," said Hartley. Amazon is also building a paid search tool to monetize the reams of product searches it hosts.

"To a large degree, Amazon is still seen as a performance buy," Abbott said. But he added that he expects the launch of Amazon Spark in the U.S., the Amazon Influencer Program and the new Amazon Store "brand pages" will prompt more brands to use Amazon for brand building. Until more brand budgets flow into Amazon, agencies believe their clients will continue to use it to complement, rather than replace Google's own ads. However, Hartley said, if brands try to find new customers on Google using more generic non-brand terms and don't get strong results, more budgets could shift to Amazon. "As it becomes easier to integrate data into multi-touch attribution, we might see more fluidity between the platforms," he said.

For 360i's campaigns, ROI on Amazon's search ads, particularly sponsored products, is strong relative to traditional search programs for many brands. Yet the ROI with Amazon can also be less straightforward, Hartley said, as ads can drive direct sales, but those sales can also lead to more visibility in organic searches on Amazon. Consequently, there is a "halo effect that is real," but it is difficult to measure or identify, he said.

Another challenge for agencies is calculating the commission Amazon takes for any sales generated from search ads, which varies from product category to product category, said John Barham, head of paid media at Roast.

As Amazon grows its sales team and agencies build out their own expertise on the platform, the online retailer's place in a fragmented supply chain is set to become clearer sooner rather than later.

Amazon gets deeper into programmatic

By Shareen Pathak

Amazon is growing its ad business, most recently making two big moves that will bring it more revenue.

Agency execs say Amazon is opening up and evolving self-service for Amazon Media Group, its advertising arm that works similarly to programmatic advertising to serve ads to people off Amazon.com. "What they're doing now is opening as a self-service platform to agencies, letting us manage those campaigns," said one exec, where previously agencies had to go through Amazon's own manager services.

The executive said Amazon first approached him about the tool in the third quarter of last year, saying it was in beta. The company told this executive in July that the tool was now open to more brands and agencies, and it was a work in progress with some branding changes coming to it. Another agency executive said Amazon has made major advancements this year that make it easier to bid on the platform and report for both first-party and third-party users.

The second executive also said the company has made widely available an application programming interface for sponsored product ads, increasing the efficiency of bids on the platform, and that similar developments are expected for the AMS platform in the near future.

An Amazon spokeswoman said that advertising is still a newer part of the business, but the goal for the company is to constantly evolve and update tools available for advertisers — and the ultimate goal is to make all tools available in self-service.

Amazon's public page describing its programmatic ad platform says the platform will dynamically deliver ads across Amazon.com and IMDb, as well as other owned and operated sites and apps, on publishers' sites and through exchanges. The offering, called Amazon Advertising Platform, or AAP, is the company's proprietary demand-side platform and can use everything from product images from Amazon.com to product review information that can be used for creative.

In June, Amazon also launched Advertiser Audiences, a self-serve platform that lets brands access audience matching, similar in a few ways to Facebook and Google. The tool allows brands to build audience segments based on data from Amazon. The growth of self-serve is a clear move to give more levers and control to marketers and their agencies. Self-serve means more ads, and more ads means more revenue. It's attractive to agencies because it lets agencies impose their own margins or markups. That inevitably reduces friction and also means more ad options and, therefore, more revenue. "I have heard from reps that this is a major part of their effort to boost advertising," said one agency executive with knowledge of the matter.

The second change Amazon made that caused ripples in the seller community was opening up headline search ads to sellers as long as they are brand owners. Headline search ads are largely the most powerful Amazon advertising tool — second only to sponsored product ads. They appear above the search results when customers search for a particular item, similar to Google Search.

"This high-performing slot can be a huge difference for brands working to announce and launch new products or defend critical or strategic brand terms," said one executive. (The third ad type available is product display ads, formerly known as e-commerce ads, which are only open to those who are vendors, that is, sell directly to Amazon)

Some sellers who spoke to Digiday under the condition of anonymity said they are getting $99 coupons and incentives to spend on Amazon Marketing Services, a common tactic for platforms as they grow ad options. Kristin Rae, an entrepreneur and founder of Inspire Travel Luggage, who sells as a third-party seller on the platform, said she doesn't remember getting credits, but does see headline search ads (part of AMS) advertised to her occasionally. "This lets me dominate keywords," she said. "I know I spend the same amount within Amazon and get more targeted return than anywhere else."

Until now, third-party sellers, who sell in Amazon's marketplace, not to Amazon directly, had a number of hacks for accessing AMS. Those in the seller community had a low-performing product — essentially a sacrificial lamb — sold via Vendor Central, which would give them a door into AMS. (AMS options like product display ads are only available to vendors.)

"While [Amazon is] still years behind monetizing the platform as Google has, the new changes, such as opening up new ad slots, allowing for automated campaign reporting, complex keyword attribution and use have greatly increased efficiency of the channel and allowed strategic brands to steal share from those still struggling with the platform," said one executive. Amazon has a growing ad business, although its size is still up for debate. WPP chief Martin Sorrell, who has been one of the loudest voices in the industry on Amazon, estimated last week that the company made $2.5 billion from digital advertising in 2016, while eMarketer put Amazon's 2016 ad revenue at $1 billion. Morgan Stanley analyst Brian Nowak estimates that Amazon's advertising business will reach $7 billion in revenue by 2020. Brands are also increasingly using Amazon's ad platform, especially as the company ramps up its pitch to them.

Analysts in the industry believe rapid growth on the ad side is probably a priority for Amazon, since that can help ease its other growth issues, especially in its lucrative Amazon Web Services arm. And advertising has a profit margin of 20-30 percent versus the 5 percent that is common for retail, according to analyst Steven Mallas.

Too BIG to Ignore:

Could Amazon get broken up?

By Hilary Milnes

When **Amazon** decided to buy Whole Foods for $13.7 billion, the retail industry responded with a resounding gulp.

The news inspired Amazon antagonists to speak up: The company has gotten too big to fail, and it's competing in too many industries. Now, as it thunders into the grocery market, it's time to do something.

The call to break up Amazon has one vocal supporter: President Trump, who said in a May 2016 interview that Amazon chief Jeff Bezos (who also owns The Washington Post and against whom Trump has a personal grudge) had a "huge antitrust problem" and is sitting on a monopoly that needs to be divested.

Talking down big business in favor of small, locally owned companies has been political lip service for a long time. And while in the case of Amazon as a monopoly, no action is apparently imminent, it's not entirely out of the question that the company could eventually split off one or more of its businesses.

"It's certainly plausible — someday," says Cooper Smith, head of Amazon research at digital intelligence firm L2. "With the dominance of tech giants like Amazon and Google, we're almost anti-antitrust today. It's incredible how large and how important these organizations have become in their industries."

Antitrust laws in the U.S. are relatively helpless against Amazon, though. They're set up to target companies that are hurting consumers, not other businesses, so it's not in the nature of the Federal Trade Commission or the Department of Justice to rule that companies must "play nicer" in order to help other businesses stay afloat. Plus, Amazon competes on pricing, and according to the FTC, it's nearly impossible to prove that "too-low" prices are unlawful, unless a company is specifically lowering prices to drive out competitors, then raising them after competition is out of the way, something Amazon hasn't done.

"The idea is that Amazon simply has its tentacles in too many different businesses," says Smith. "Amazon is the e-commerce leader, retail dollars are leaving brick-and-mortar, going online, et cetera. But where we could get closer to an actual breakup is if Amazon becomes a bigger player in these secondary businesses. Amazon is taking market cap away from traditional enterprise companies, and what happens if Amazon becomes the leader in retail,

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cloud computing, advertising, media and shipping logistics?"

Those businesses include Amazon Web Services, its cloud computing business that has begun to take market share from traditional leaders like Oracle and Microsoft, and advertising, which Smith calls Amazon's "dark horse." According to a recent L2 Amazon report, advertising is Amazon's fastest growing line of business, worth $2 billion, while a 2016 BloomReach survey found that 55 percent of online shopping searches start on Amazon. Shipping and logistics, which Amazon sees as complementary to its retail business, could become a considerable business arm as well, as the company spends more to reduce costs of delivery and fulfillment. Amazon Video, meanwhile, is now the third-largest online streaming service after Netflix and YouTube.

If the FTC or DOJ were to rule that one or more of those businesses had to be divested by Amazon, it's possible Amazon's biggest competitive strength — its ability to take continuous profit losses while still growing the top line — would be weakened, meaning it may not be able to deliver on its promises, like fast, free shipping.

"A breakup would set a precedent for the retail industry," says Smith. "Amazon has set the standard for what customers want from a retailer, and if it were broken up, more retailers would attempt that model themselves. They have a difficult time keeping up today because Amazon can absorb its profits and reinvest them in the organization like no other retailer can."

While Amazon may be a boon for time-strapped customers now, it's arguable that Amazon's unbridled dominance is stifling competition and innovation, which could make for a less robust market and limit options for consumers in the long term. But diminishing Amazon wouldn't be a magical cure-all for retail.

"Amazon being broken up in any way will not save retail from itself," says Jared Blank, svp of data analysis and insights at analytics firm Bluecore. "Amazon's investments have been in customer service, data and quick delivery. Undercutting that wouldn't send people back to the malls. It wouldn't be helpful to Amazon, and it wouldn't really help retail. Marketplace sellers are also often overlooked, but they benefit a ton by having Amazon as a distribution channel."

If any action is taken against Amazon, it's going to be a lengthy legal process. According to Jason Goldberg, the svp of content and commerce at SapientRazorfish, current antitrust laws aren't equipped for a company like Amazon.

"Congress would basically have to pass a new law, and then we'd have to change how those laws get interpreted," says Goldberg. "We have conservative antitrust laws that are centered around protecting consumers against, say, inflated prices. Our antitrust laws are basically outdated because in the digital world, Amazon can sell stuff at a loss almost forever to help grow their business."

Blank points out that the most recent company to face antitrust scrutiny was Microsoft in the 1990s, when it was worth $900 billion by today's dollar. Amazon, while seemingly too big to fail already, is worth $497 billion.

"The conversation that has come up so far is around the Whole Foods purchase and the president's grudge," says Blank. "I don't buy it. Amazon making people uncomfortable isn't a valid reason to break it up."

Amazon seems to have everything going for it: Endless scale, bottomless coffers and a customer-centric point of view that can provide the kind of data marketers and media have only been dreaming about for the last few years. If Amazon can improve some of its advertising back-end and focus on growing its non-commerce business, 2018 will certainly be the year of Jeff Bezos.

— ***Shareen Pathak***