

# Prime Day and the broad reach of Amazon's ecosystem

Amazon's Prime Day successes go way beyond sales. Retailers can learn from Amazon's focus on leveraging and building out its ecosystem.

*by Catherine Fong, Jess Huang, Kelsey Robinson, and Kelly Ungerman*



### **Most shopping holidays on the retail calendar—**

Black Friday, Cyber Monday, and now Amazon's Prime Day—function as major sales bonanzas for online retailers, often boosting average daily sales by double digits.

But for Amazon, this past Prime Day did more than just deliver a midsummer revenue spike. It was a short-term event that the company leveraged to build valuable long-term relationships with shoppers and strengthen its widening ecosystem of offerings. This ecosystem strategy in particular has significant competitive implications because McKinsey estimates that in ten years, 30 percent of the world's gross economic output will be from companies that operate a network of interconnected businesses, such as those run by Amazon, Alibaba, Google, and Facebook.

Over the 48-hour Prime Day(s) period, Amazon bolstered its ecosystem in two ways. It brought new, loyal shoppers into the Amazon fold, an important source of growth because Prime members spend an average of two times more than nonmembers.<sup>1</sup> And the ecommerce giant got existing members to use more Amazon devices, shop at Amazon stores, watch Amazon entertainment, and generally immerse themselves in Amazon's ecosystem. On July 15 and 16, the company signed up a record number of new Prime members (though not all will stay to pay the annual \$119 fee after the 30-day trial), and it posted significant sales for many of its Alexa-enabled hardware devices.<sup>2</sup> It also shipped a record 175 million products around the globe and boosted daily traffic by an estimated 48 percent and its conversion rate by 43 percent.<sup>3</sup>

With Amazon's creation and dominance of Prime Day, the event, now in its fifth year, has become one that other retailers and brands can't afford to ignore. An estimated 250 competing sites (30 percent more than last year) sought to develop a Prime Day presence by offering deals and promotions of their own.<sup>4</sup> Most of these retailers, however, are still playing catch up with Amazon and have yet to

leverage their events to build more sustainable value and lasting bonds with customers.

### **How Amazon builds upon its ecosystem**

Amazon's ecosystem strategy deliberately targets an impressive set of assets and domains to create a massive, omnichannel experience. Prime Day both leveraged and reinforced this ecosystem (exhibit).

Although Amazon's online marketplace features hundreds of brands and millions of products, the lion's share of attention this year went to Amazon's own products and properties, particularly its consumer electronics. A whopping fourteen of the top 20 products with the biggest jumps in units sold on Prime Day(s) compared with the previous six weeks were Amazon devices, which saw increases of anywhere from 25 to 550 times.<sup>5</sup> These top sellers included the Echo Dot products (which were more than 50 percent off), the Fire TV Stick (discounted up to 40 percent), and the Alexa Voice Remote. All these devices come equipped with Alexa voice activation, enabling consumers to buy products seamlessly on Amazon, which represents an important part of the company's expansion of its commerce channels. Amazon also bundled these popular products with other devices, such as the Ring Video Doorbell Pro with the Echo Dot (42 percent savings), AmazonBasics Microwave and the Echo Dot (45 percent off), and the Amazon Fire TV Stick with Alexa Voice Remote (63 percent savings). Overall, the company said it sold more Alexa-enabled devices over the 48-hour Prime Day period than ever before.

Throughout its ecosystem, Amazon ran promotions to cross-pollinate customers between channels and help cement future relationships through credits on Amazon's marketplace. Prime customers who spent at least \$10 at Whole Foods or \$50 at Amazon Books or Amazon 4-star stores received \$10 Amazon credits during Prime Days. Those who downloaded the Amazon app got a \$10 credit for

<sup>1</sup>Prime members spend \$1,500 per year on average with Amazon compared with \$625 per year for nonmembers, according to the Chicago-based market-research firm Consumer Intelligence Research Partners.

<sup>2</sup>Amazon press release.

<sup>3</sup>SimilarWeb: sales volume as compared to average daily sales volume from the previous six weeks.

<sup>4</sup>RetailMeNot.

<sup>5</sup>Jumpshot.

Exhibit

## Prime Day reinforced all elements of the Amazon ecosystem.

<b>Amazon Prime memberships</b>	More members mean more spending on Amazon’s marketplace and greater consumption of its services and content, such as TV shows and music
<b>Echo &amp; Alexa</b>	Big, prominent deals drove sales for Alexa-enabled devices and set the stage for easy, seamless, voice-controlled product ordering; integration of Alexa into a live event
<b>Amazon Music</b>	Live-streamed Taylor Swift concert showcased Amazon’s foray into music and its subscription music service; \$1 for three months of Amazon Music
<b>Amazon Originals</b>	Ads during concert promoted Amazon original TV series and movies, which help drive interest in Prime membership
<b>Amazon Physical Stores</b>	Stores spread the word about Prime Day; \$10 credit for Whole Foods, Amazon Books, and Amazon 4-star stores helped drive traffic to Amazon
<b>Amazon Exclusives</b>	New collaborations and partnerships for only-on-Amazon products—HAUS LABORATORIES with Lady Gaga and Moon and Back by Hanna Andersson—created excitement and sent shoppers to Amazon
<b>Amazon Advertising</b>	A push for brands to spend to advertise their Prime deals on Amazon

the first sign in and another \$10 for the first in-app purchase. A strategy to drive traffic and sales through gift cards paid off particularly well. An offer for a \$5 Amazon credit with every \$25 gift-card purchase on Prime Days resulted in a 15-fold increase in the volume of gift cards compared with the previous six weeks.<sup>6</sup>

Amazon’s assets also took center stage at a new, live-streamed Prime Day entertainment show. During a Taylor Swift concert in New York City, host Jane Lynch worked Alexa into her routine, and each commercial break featured upcoming Amazon original shows such as *Homecoming* and *Good Omens* or lesser-known Prime perks like Amazon Wardrobe, which

<sup>6</sup>Jumpshot.

lets customers try clothes on before buying. Also new this year was an only-on-Amazon Prime Day launch of a celebrity product line: Lady Gaga's HAUS Laboratories beauty products. There were also Amazon-exclusive products from Hilary Duff's Cubcoats and JoJo Siwa's line of toys.

Amazon was also proactive about encouraging brands to spend on advertising in order to boost their Prime Day performance. A dedicated Prime Day advertising landing page with seller testimonials highlighted the company's growing array of advertising tools and focused on the role ads play in raising awareness of deals and generally amplifying impact. According to Amazon, companies that purchased sponsored ads enjoyed a 500 percent increase in ad-attributed sales during 2018's Prime Day, and we expect that kind of boost to carry over to 2019 as well.<sup>7</sup>

Apart from Amazon's products, other brands that enjoyed Prime Day success were Instant Pot and Anker, each of which had six products among the top 100 biggest-spiking products, and Gillette, which had five. Apple, Samsung, and Beam each had three products in the top 100. Category winners were electronics and appliances. Electronics saw a 320 percent increase in daily unit volume compared to the previous six weeks, largely because of Amazon's products in the smart-home, home-audio and theater, and tablets and e-readers subcategories. Daily volume in appliances jumped 480 percent due to heavy promotion of products like Instant Pots and Dyson Vacuums.<sup>8</sup>

## Other retailers try to make the most of Prime Day

This year, virtually every major retailer felt compelled to put its own stamp on Prime Day. Some did it head-on, like J Crew, which called their deals "Prime Time," and Ulta Beauty, which ran a cheeky "Primer Days Sale." Others emphasized urgency and savings without mentioning Prime: Macy's called it "Black Friday in July."

Retailers that saw meaningful spikes in traffic and conversion on Prime Days included Best Buy, Costco, Target, Kohl's, Bed Bath and Beyond, and Walmart. In what is an otherwise slow summer month, each of these companies had an estimated lift in traffic of between 22 and 56 percent and an estimated lift in their conversion rate of between 22 and 76 percent compared with the prior six weeks.<sup>9</sup> Each of these traffic lifts represented improvements over last year, though not all the conversion rate spikes were bigger.<sup>10</sup>

## A path forward for retailers

On future Prime Days, retailers should continue to double down on their strategies to both drive greater sales during the shopping event and set the foundation for longer-term customer lifetime value.

1. **Broaden access for customers: Internet searches on how to cancel your Prime membership were up this year as some Prime Day members reconsidered the value of their membership.**<sup>11</sup> Walmart capitalized on this sentiment by highlighting how its customers could get deals and two-day shipping with a \$35 purchase without getting locked into a costly membership fee. "Exclusive to everyone," the retailer noted. Walmart also broadened its promotional window to four days instead of two. Target similarly advertised its "Deal Days" with the tag line, "No membership required."
2. **Connect customers into brand ecosystems:** Target sought to bolster its ecosystem by running a cross-promotion with its shipping service Shipt. Customers who spent \$100 on Target.com during its Deal Days got a free six-month Shipt membership, which offers same-day delivery and normally costs \$99 a year. Target also offered members of its (free) REDcard loyalty program access to special deals, and further cemented bonds with its owned-brand devotees by giving rarely seen

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<sup>7</sup>Marketing Tech, "How Amazon's ad network fueled 2019 Prime Day—and will continue to do so."

<sup>8</sup>Jumpshot.

<sup>9</sup>SimilarWeb.

<sup>10</sup>Ibid.

<sup>11</sup>USA Today, "Are people cancelling Amazon Prime following Prime Day?" July 17, 2019.

discounts on Target home and apparel brands and unveiling a new tween-lifestyle line, More Than Magic. Similarly, Kohl's "Summer Deals" gave an extra, whole-order discount to its loyalty members. Retailers should continue to look for opportunities to keep customers locked into their brand ecosystems—for instance, by connecting them to adjacent parts of the business or integrating them more deeply into a loyalty program.

3. **Be strategic with offers and deals:** Digital-native brands like Dermstore, Bonobos, and Brooklinen endeavored to one-up Amazon's deals by offering flat, sitewide discounts of 20 to 30 percent. Best Buy and Newegg, on the other hand, selectively chose products, such as TVs, with which to beat Amazon. This approach that can help avoid a race to the bottom. Retailers should be surgical about selecting individual SKUs for deep promotions,

basing them on margin, basket-building potential, and/or exclusivity. Another approach is to bundle promotions, which increases the size of a customer's cart, or tie deals to loyalty-program participation so that value is not given away without some future benefit. In addition, given Amazon's focused push on its own products, brands should consider offering exclusive, attention-grabbing promotions with other retailers that make strategic sense to the business and offer value to the customer.

The big challenge for retailers will be how to move beyond promotions and discounts to gain a more sustained benefit from Prime Day. To effectively compete with Amazon, companies will need to acquire not just new sales, but build relationships with loyal shoppers and create a compelling value proposition that sustains those relationships over time.

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