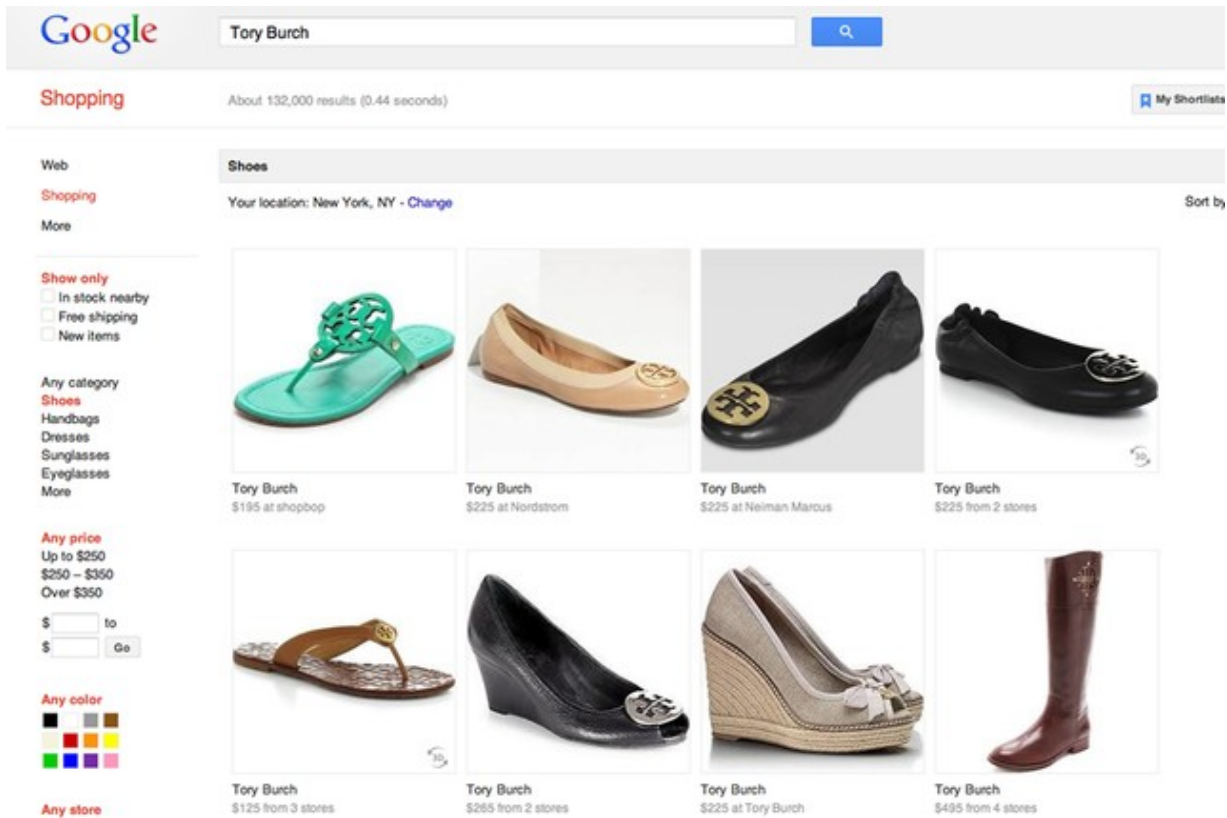


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# Amazon, Google Face Off in Fashion Ad Chase

By RACHEL STRUGATZ



A search on Google for Tory Burch.

Photo By Courtesy Photo

## Competitor or partner?

That's the question brands face in dealing with the behemoth of Amazon, whose vast operations compete with fashion brands and department stores in e-commerce. But these same brands and stores also are paying Amazon to advertise on its pages, which represent prime real estate in the ever-competitive e-commerce world.

In other words, Amazon is not only taking on retailers — it's also battling Google.

Just as the e-tailer has used its massive cash flow to build out an ever-bigger distribution network — including a large facility dedicated to fashion in Brooklyn that will open in the fall — Amazon is using its brand and prominence online to build an advertising platform that enables it to get a piece of sales that happen on other sites.



A search on Amazon for Tory Burch.

Photo By Courtesy Photo

“Any site that has a lot of traffic — whether it started as a search engine like Google or a retailer like Amazon —

they're all recognizing that they're also publishers and advertisers want to go where the eyeballs are. They are fighting over those brand dollars," said Darren Vengroff, chief scientist at RichRelevance and former principal engineer at Amazon. "It's a value chain where each step along the way is taking a few cents out of every dollar that eventually ends up in the brand's pocket. Google is trying to get that first cut at it and not let Amazon take it."

Google is trying to up its game with Google Shopping — looking to compete in a space where Amazon has been the leader — and Amazon is pushing its way more and more into paid search, a sector where Google historically has led the market.

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"This is how you monetize searches and traffic for brands, [and this is] exactly where the two are fighting it out right now," Vengroff said.

There's lots to fight over. According to a July study by eMarketer, Amazon brought in \$610 million in advertising revenue last year and is on track to reach \$835 million for 2013. Significant numbers, but they are still a fraction of advertising revenue at Google, which last year totaled \$32.73 billion.

The difference is that when a brand or retailer buys product listing ads, or PLAs, on Google or invests in paid search, there is no competitive element — Google is a search engine, not a retailer.

That doesn't mean it doesn't see Amazon as a threat. To better compete in the e-commerce universe, Google launched PLAs in 2010, and with the introduction of Google Shopping in May 2012, all product search became a paid-for model using PLAs. A Forrester study released last year shows the battle between the two firms: in 2009, 24 percent of consumers surveyed went to Google to "shop" and 18 percent went to Amazon, but in 2011, the numbers reversed, with 30 percent visiting Amazon to shop and just 13 percent going to Google.

"Google PLAs are a direct result of Amazon — to get customers to come to Google as a primary destination for shopping. They don't want to be just the intermediary — they want to be the destination," said Michael Griffin, founder and chief executive officer of Adlucent, a platform that works with companies on PLA optimization. He cited data from AdGooroo that lists Amazon as the leading paid-search advertiser on Google, despite being ranked 75th on Google's list of top PLA advertisers.

"They can easily be number one if they wanted to be. It's an indicator of how strategic it is to them. Amazon holding back on PLAs is an indicator that they know that by withholding, they will remain a premiere destination site for online shoppers," he said.

Google paid search remains the primary driver of online transactions, and where brands are investing a large percentage of their digital marketing budgets. It isn't that brands are choosing Google or Amazon — they now must advertise on both.

Amazon does have another edge: consumers searching on Amazon are usually doing so because they want to shop and are there with their wallets open, said Clark Fredricksen, vice president of eMarketer.

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"If you're searching for a brand [on Google], you might just be searching for the Wikipedia page because your friend mentioned at dinner. When you're searching on Amazon there's a good chance you're willing to buy something. Even if they have to pay a cut to Amazon instead of selling directly, ultimately, it still equals a transaction — a sold product and revenue," Fredricksen said.

Vengroff agreed. He calls traffic to Amazon more "qualified" than Google's, adding that many consumers who visit Amazon.com do so without doing a Google search first.

There is still the competitive aspect. A quick search on Amazon reveals that third-party retailers that advertise on the site might also be competing for sales with the e-tail giant.

Brands such as Tory Burch, Nordstrom, Gap, Old Navy and Athleta use Amazon to drive traffic directly to their own sites, paying the e-tailer to get access to their existing consumer base, as well as Amazon's customers. Brian Pitz, managing director of Jefferies & Co., estimated that 40 percent of the units sold on Amazon are now from third parties, and these can either be fulfilled by Amazon or not.

The e-tailer takes a cut of sales — or receives an advertising fee — from third parties advertising on the site. A search elicits results — many from Amazon or independent sellers — but also from third-party organizations with small print below that reads “available at external Web site.” When a consumer clicks on one of those products, they are directed elsewhere, and if they wish to purchase, conduct the transaction outside the confines of Amazon.

“Essentially, Amazon is saying, ‘OK, even if a certain percentage of people are going to go off-site anyway, let’s see if we can get a little slice of that dollar even for the people who leave,’” Vengroff said of the company’s efforts to generate ad revenue from users who come to browse and not actually buy anything, or those who browse and might decide to purchase from an external brand that has placed its products on Amazon. “In some cases, they may make more money directing someone else off site than a low margin retail click,” said Vengroff.

He admitted that if a consumer knows exactly what they want and it’s right there on Amazon, it’s likely they will just buy it there. It’s exploration that drives traffic off-site to Amazon advertisers, and the process of this user discovering a Web site and commerce channel they might not have otherwise visited if Amazon didn’t direct them there.

With respect to brands advertising on Amazon, for Pitz, everybody wins.

“They [brands] recognize the revenue on a net basis either way — [for example] a \$300 sale of shoes would mean \$90 net revenue to Amazon on a third-party sale,” Pitz said, assuming an approximate 30 percent take rate versus the \$300 gross revenue the company would receive if they were to sell the same pair of shoes out of their own inventory.

While it may have become standard operating procedure to both sell on Amazon and advertise on the site, companies don’t seem to want to publicize it. Tory Burch declined to comment about advertising on Amazon, where links directing consumers back to toryburch.com appear alongside the rest of Amazon’s selection of Tory Burch inventory.

The same goes for Nordstrom.

“We recognize customers have choices and check different sources for information, and so this is something we’ve been doing as a way to try and help customers find the most relevant product for what they’re looking for,” a spokesman for Nordstrom said.

Outside the realm of fashion, Jay Habegger, cofounder of online advertising network OwnerIQ, has witnessed a similar trend with verticals such as consumer electronics, where the practice is that most product is sold through third party retail channels, although there have been increases in manufacturers selling directly on their own e-commerce sites.

“I am a little surprised that those major [retail] brands [advertising on Amazon] would be fashion brands, and that Amazon would be such a big channel to them at this stage that they would be contributing channel support dollars as part of annual marketing spend,” said Habegger. “There is an inherent conflict but ultimately those brands have to support the channel.”

