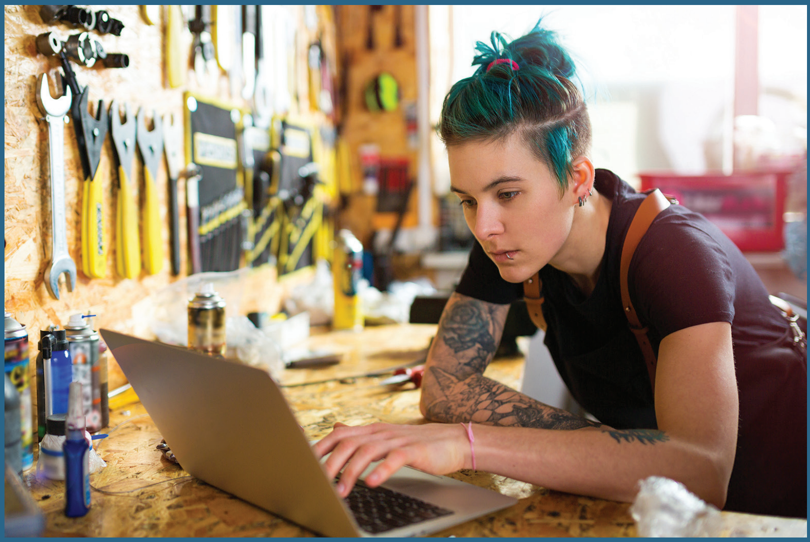
Stanford Media Group

Simple & Direct

Stanford Media Group — your "one-step" solution for marketing and distributing consumer products directly to consumers.



Tap into the Stanford Media Group's 25 years of experience in direct-to-consumer sales for bigger revenues and higher profits

For anyone who wants to get into e-commerce, selling directly to consumers through the Stanford Media Group is a far better proposition than going through a middleman or wholesaler such as Amazon – or setting up your own website.

Your margins are better, you're able to collect valuable data about your customers, and, perhaps most important, you have exclusive control over your business, your product, and your advertising and marketing spend -- instead of handing them over to a third party with its own agenda.

So why are so many sellers going the third-party route – using Amazon, for example -- instead of taking advantage of these e-commerce giants' huge online presence themselves and selling directly to consumers? Because they don't know how, or they don't understand the distinction.

> The **"secret sauce"** – the reason SMG is able to deliver such a better value **proposition** – is because the company requires from the **seller** the exclusive right to sell on these e-commerce marketplaces.

"Most people think there is no other option," says Mark Gilula, president of the Stanford Media Group, which has been active in direct sales to consumers for more than a quarter of a century. "It takes an enormous investment to set up one's own e-commerce business, selling directly to consumers – and it is a huge investment."

Indeed, most people interested in selling direct to consumers believe they need to build their own website. But there are other options.

The Stanford Media Group (SMG) is rolling out a new one-step solution for online sellers frustrated with the low profit potential and lack of control inherent in wholesaling to third parties – or using seller programs such as Amazon's Seller Central/FBA program, which gives sellers the misconception that they are in charge.

SMG specializes in branded media products – DVDs, Blu-ray Discs, CDs, books, video games – that have high consumer awareness (it's no secret that Amazon charges a significantly higher commission on media products – it's because they sell!).

SMG allows clients to sell their products directly to consumers on all the major online marketplaces, including Amazon, Walmart.com, eBay and Etsy, without any of the hassles and high costs of setting up their own operations – or the cavalcade of fees, many of which are front loaded, that sellers encounter when using proprietary fulfillment services such as Fulfillment by Amazon (FBA).

	Stanford Media Group	Amazon Seller Central (FBA)	Amazon Vendor Central
SRP	$39.99	$39.99	$39.99
Return to Seller	$23.91	$22.97	$12.78
Sets Pricing	Seller	Seller	Amazon
Controls Marketing	Seller	Amazon	Amazon
Controls Advertising	Seller	Amazon	Amazon

That's because we handle the backroom functions ourselves, at a much lower cost. Not only are the profits higher, but the seller maintains control over pricing, as well as marketing, messaging and advertising.

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The "secret sauce" – the reason SMG is able to deliver such a better value proposition – is because the company requires from the seller the exclusive right to sell on these e-commerce marketplaces. This means there are no competing sellers, which drives the price down. This also means Amazon or any other big online retailer won't have the product and thus can't set the price. Consumer demand determines what the price should be.

HOW IT BEGAN

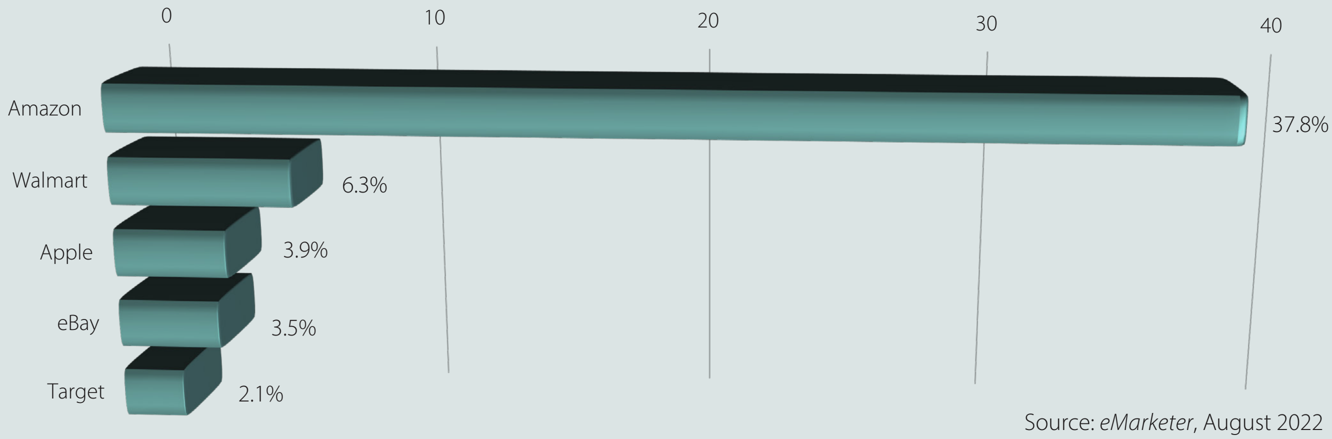
The history of e-commerce can be traced back to 1969, when two electrical engineering students from Columbus, Ohio, launched CompuServe, the first commercial online service[1]. Ten years later, British entrepreneur Michael Aldrich hooked up a modified TV set to a real-time multi-user transaction processing computer via a telephone line, enabling online shopping[2]. The first online marketplace was launched three years later, in 1982. The Boston Computer Exchange was centered around a bulletin board system designed to facilitate the sale or trade of used computers.

According to the Forbes Advisor, the **global** e-commerce market is expected to total **$6.3 trillion** in 2023 – and grow to more than **$8.1 trillion** by 2026.

It wasn't until the birth of the internet in 1991, however, that e-commerce became a viable business proposition. One of the earliest public online marketplaces was Book Stacks Unlimited, an online bookstore founded as a dial-up bulletin board in 1992. Three years later Amazon and eBay were founded, triggering an explosion in online selling[3]. Subsequent milestones include the 1998 launch of PayPal, which made online financial transactions quick, safe and easy; the 2005 debut of Amazon Prime memberships; the 2009 launch of Square, which allowed retailers to accept debit and credit payments through an app; and the 2014 debut of Apple Pay, a mobile payment and digital wallet tool.

Today, e-commerce has become a way of life. More than 20% of retail purchases are expected to take place online in 2023. According to the Forbes Advisor[4], the global e-commerce market is expected to total $6.3 trillion in 2023 – and grow to more than $8.1 trillion by 2026. In the United States alone, the e-commerce market is expected to generate over $1.1 trillion in sales in 2023.

Amazon is ubiquitous in online sales circles. The company alone is responsible for 37.8% of e-commerce sales, the highest market share of all e-commerce companies, according to eMarketer. Right behind Amazon are Walmart, Apple, eBay and Target.



Source: *eMarketer*, August 2022

WHERE IT STANDS

Many of the large online e-commerce sites, including Amazon and Walmart, have two very different business models. They sell merchandise themselves, and they allow other sellers to use their platforms to sell directly to consumers.

In each case, they make a lot of money – money that could, and should, be going to you.

Wholesaling to, say, Amazon and letting Amazon do all the work is certainly the easiest, but it comes at a high price. The seller effectively transfers the rights to his product to Amazon and is no longer in control. The markup is typically 50% or more, leaving the seller with less than half the retail cost paid by the customer – plus, additional fees are charged back. The seller has no say in setting the price or developing marketing materials, no control over inventory, and no customer insights, data, or relationships.

As Gilula says, "I am happy to pay Amazon their fees for the traffic that they get – that's no problem. But you don't need to sell them, wholesale, to take advantage of all that traffic. A supplier loses complete control of their business, and that's never a good thing."

Amazon's wholesale program, known as Vendor Central, is aimed at established brands that sell their products in bulk to Amazon. Amazon then manages the entire sales and fulfillment process, even deciding the appropriate profit margin itself.

In an interview with Fierce Retail[5], Elaine Kwon, founder of Kwontified, an e-commerce management and SaaS firm, said, "One of the main setbacks is the lack of autonomy over pricing and inventory. Additionally, the brand has very limited access to customer and product sales data that would help inform their Amazon retail strategy."

Amazon's Seller Central program is for sellers who want to sell their products themselves on the e-commerce giant's marketplace. Unfortunately for sellers, various fees and the cost for Amazon-provided services such as warehousing and fulfillment (known as Fulfillment by Amazon, or FBA, which is used by 89% of third-party sellers[6]) as well as mandatory advertising requirements are taking an increasingly large chunk out of their profits – to the point where seller service revenue, according to a February 2023 Marketplace Pulse study[7], now represents 23% of Amazon's total revenue, or nearly $120 billion! Call it "death by a thousand fees."

"The amount of fees is just mind-boggling," Gilula says. "Every time you look, it seems, there's another fee. Amazon hasn't raised their commission percentage in years, but that's because they don't have to. They make their money from fees, which go up at least a couple of times a year."

Indeed -- according to the Marketplace Pulse study, Amazon is now "pocketing" more than 50% of seller revenues – up from 40% just five years ago. According to the survey, "sellers are paying more because Amazon has increased fulfillment fees and made spending on advertising unavoidable. According to P&Ls provided by a sample of sellers, a typical Amazon seller pays a 15% transaction fee (Amazon calls it a referral fee), 20% to 35% in FBA fees (including storage and other fees), and up to 15% for advertising and

California's attorney general in 2022 filed an **antitrust lawsuit** against **Amazon**, alleging that the e-commerce giant stifles competition and **increases the prices** that consumers pay across the internet.

	Stanford Media Group	Amazon Seller Central (FBA)	Amazon Vendor Central
SRP	$39.99	$39.99	$39.99
Wholesale Cost	n/a	n/a	$15.58
Amazon Marketplace Fee	$7.79	$7.79	n/a
Fulfillment Fee*	$2.00	3.22*	n/a
Return Reserve**	n/a	n/a	0.8
Warehousing	$2.25	4.97	0.5
Advertising	n/a	4.01	n/a
Shipping to Warehouse	$3.85	n/a	n/a
Shipping to Consumers	$0.15	$0.25	$0.50
Chargebacks	n/a	n/a	$1.00
Return to Seller	$23.91	$22.97	$12.78

* Increases to $3.57 in Q4
** Advance payment for possible returns

promotions on Amazon." The study failed to note that Amazon also charges a variable closing fee of between 30 cents and $1.80.

FBA fees have steadily risen, according to the Marketplace Pulse study. "Amazon has raised fulfillment fees every year and introduced increases in storage fees," the survey says. "Selling on Amazon is tied to using FBA, so it's rare for sellers to be successful without using it."

Advertising costs, too, have gone up – and it's important to note that, according to the Marketplace Pulse study, "advertising on Amazon is not optional. Most of the best-converting screen space is allocated to advertising; thus, sellers inevitably have to advertise to have a chance to be discovered."

On top of that, Amazon has what's known as a "Buy Box," a sidebar to its page that encourages customers to add items to their carts. Amazon will only allow third-party sellers to gain "Buy Box" access if their product is priced below a certain threshold, which is typically as much as $2 less than the Amazon selling price. It is believed that 90% of sellers drop their price to gain Buy Box privileges. Selling exclusively eliminates this issue.

Not surprisingly, Amazon is focusing more and more on Seller Central and the increasingly lucrative FBA service. Marketplace Pulse[8] in May 2023 reported that "sellers will comprise 60% of overall units sold by the end of the year." The website noted that "the marketplace is more profitable, carries no inventory risk, and takes fewer employees to manage."

Amazon may be the biggest online marketplace, but it's not the only one. Walmart delivers a higher profit margin than Amazon, but it's also a lot smaller with less consumer traffic. For sellers, that means a tradeoff: lower costs and higher margins, but also less traffic – which means fewer sales.

"And it's important to note that sellers shouldn't limit themselves to one marketplace," Gilula says. "That's another advantage of SMG – we work with everyone, and pride ourselves on finding the right marketplace mix for each seller."

According to the Marketplace Pulse study, "sellers are combating fee increases and rising shipping costs by either raising prices, diversifying from FBA, or diversifying from Amazon altogether. However, sometimes it's only at the end of the tax year that they realize how little net profit they have left. A few sellers showed paying 60% and even 70% of their revenue to Amazon in fees. They still had to pay for inventory, freight, employees, and other expenses."

There's little chance of things changing. In February 2023, the same month of the Marketplace Pulse survey, Amazon reported virtually no profit in the preceding quarter[5]. The company's core e-commerce business was down 2% to $64.5 billion. But its revenue from servicing sellers, who provide 59% of products sold, was up 20% to $36.3 billion.

Amazon's tight controls over sellers also have been called into question. California's attorney general in 2022 filed an antitrust lawsuit against Amazon, alleging that the e-commerce giant stifles competition and

According to the Marketplace Pulse study, **Amazon** is now "pocketing" **more than 50%** of seller revenues – up from 40% just five years ago.

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increases the prices that consumers pay across the internet. According to the California Department of Justice press office[8], "In order to avoid competing on prices with other online e-commerce sites, Amazon requires merchants to enter into agreements that severely penalize them if their products are offered for a lower price off-Amazon." In the suit, the DOJ says, "Attorney General Bonta alleges that these agreements thwart the ability of other online retailers to compete, contributing to Amazon's dominance in the online retail marketplace and harming merchants and consumers through inflated fees and higher prices."

Amazon tried to get the suit tossed out, but in March 2023 a Superior Court judge rejected the bid to dismiss the anti-trust action, maintaining that California sufficiently alleged that Amazon's policies "have had the anticompetitive effect of raising prices on competing retail marketplaces as well as on third-party sellers' own websites."

A month later, in April 2023, Amazon agreed to settle two antitrust cases in the European Union over allegations that the company was improperly using data from third-party Amazon Marketplace sellers[9].

Under the settlement, Amazon agreed to stop using the data to support its own retail business, and to not use that data to help sell Amazon-branded and other private-label products. Amazon also promised to give third-party sellers an equal opportunity to be selected as a default option for its "Buy Box" and to qualify for the Amazon Prime shipping service for seven years. ■

SO WHAT DO WE DO?

Fortunately, there's now an alternative to selling wholesale or joining an increasingly expensive, proprietary sellers program. Stanford Media Group (SMG) provides a "one-step" solution for marketing and distributing consumer products directly to consumers.

Your products will be available for sale on all the big existing online marketplaces, including Amazon.com, eBay and Walmart.com. These marketplaces have done a tremendous job creating a worldwide presence on the Internet, much like the major television networks of the past, and should be appropriately compensated.

But since we are not wholesalers, you, the seller, call the shots. You're not selling us the product and handing over all the rights that come with such an arrangement – along with more half the revenues. Nor are you locking yourself into a proprietary sales program such as Amazon Central, where you'll find yourself paying inflated fees for all sorts of services that might not even be necessary for your branded products.

With SMG, fees are minimized and passed through, so there's no upcharge. There are no advertising requirements, either. "You have to look at goals," Gilula says. "The big e-commerce sites are out to make money and please their investors. SMG wants you to make money, and we want to please you, the seller. We make money selling goods, not charging fees or selling advertising."

Under SMG's program, because of the exclusivity factor, sellers also maintain control over everything, including market fluctuations from other sellers that might affect price – and profitability. We simply facilitate the sales process and handle warehousing and fulfillment, with a central warehouse that allows us to reduce distribution and logistics expenses dramatically. We also provide sales and customer data to our clients – something else you don't get when you're dealing with the big guys. On top of that, SMG has years of experience selling products in a multitude of marketplaces. This allows us to work with our clients to develop strategies that will help them grow product sales through price fluidity, innovative promotions, and effective marketing initiatives.

Here's how the process works.

The first step is to put together a situational analysis. What is the seller's goal? What's the product? We want to identify its market visibility and track historical sales performance in the three main avenues of commerce: retail stores, online marketplaces, and direct-to-consumer sales. This step is critical because SMG has a vested interest in the future success of your product. In lieu of fees, we earn a percentage of sales revenue. This gives us the proverbial "skin in the game" and is the reason we don't work with unknown or untested products.

Once the situational analysis is complete and both parties have agreed to move ahead, SMG uses its marketplace accounts to sell a client's products across all the big online e-commerce sites. All product is shipped to a central warehouse in the Midwest. This product remains the property of the client. Assets needed to create product listings, such as art and content, also are delivered to SMG. SMG and the client then agree on which marketplaces will be used to sell the product, and at what price. Once an agreement is reached and all product arrives at the warehouse, the listing is created and goes live.

All associated costs, from marketplace fees to warehousing and shipping, are passed through, but they typically total less than one-third of the selling price – which is a far better deal for the seller than going the wholesale route and walking away with less than half the sales price.

Selling direct really came of age with the internet. Before the World Wide Web, few manufacturers or distributors sold directly to consumers. In fact, those consumers who tried to buy direct were nudged toward retailers. The only exceptions were TV infomercials – remember K-Tel? – and occasional newspaper campaigns, but these amounted to a small fraction of overall product sales, the vast majority of which were conducted at brick-and-mortar retail stores.

The emergence of online shipping gave consumers the chance to go shopping without leaving their homes. Shoppers like it when brands interact directly with them – personal connections typically lead to higher sales. With direct buying, shoppers also get direct access to the most accurate information and support, are easily able to manage returns and other customer service issues, and don't have to worry about being swindled by a knock-off distributor.

For sellers, dealing directly with their customers is a great way to cut costs and maintain control, since an intermediary, or middle man, is no longer necessary. That's why more and more big brands are going direct, including Tesla, which bypasses traditional car dealerships; HP, which allows customers to select and customize their computers via the company's online store; and Nike is two years into a big shift toward direct-to-consumer. In June 2022, the sportswear giant reported that direct revenues grew 11%, led by a 25% spike in EMEA[9]. In a statement, Nike EVP and CFO Matt Friend said, "Two years into executing our Consumer Direct Acceleration, we are better positioned than ever to drive long-term growth while serving consumers directly at scale."

WHO WE ARE

SMG has over 25 years of experience with selling products directly to consumers -- mostly branded media products, including a wide assortment of DVDs and Blu-ray Discs ranging from Raiders of the Lost Ark to Beverly Hills Cop, from NFL Films to Leslie Neilson's Bad Golf Made Easy. Initially the company's marketing efforts focused on making a big splash in the mainstream media, with full-page ads in USA Today and other mass-circulation newspapers as well as TV spots and infomercials. But with the advent of the internet SMG jumped head-first into e-commerce and through careful study as well as trial and error developed its current business model, which Gilula says has been tested for 18 months "with amazing results."

Since SMG focuses on exclusive products, the company – and the seller – don't have to worry about the product being compromised through sudden and unexpected things such as price drops or a surge in supply. And unlike proprietary seller programs, there is no risk of inventory shortages because the seller, working closely with SMG, knows exactly what's in stock at any given time, is provided with real-time sales reports, and can thus track and react to advance orders.

"The whole point of what we do," Gilula says, "is exclusivity and maintaining control of the product. And what we were able to ascertain, through our 18-month trial, was that when we were the only seller with a given product at a given time, we

One seller was concerned because **Amazon** was taking pre-orders on a new DVD release but **never placed an order** for the product.

were able to sell the product at up to a 75% higher price, and we sold as much as 200% more units. It was also interesting to see that the other sellers' out-of-stock time ranged from four days to 10 days, while we had absolutely no down time at all."

One seller was concerned because Amazon was taking pre-orders on a new DVD release but never placed an order for the product. SMG agreed to serve as a "back up" and accept as well as fulfill orders for that item. After 45 days, the seller, through SMG, had sold 174 units at an average cost of $27.06 each. Once all associated expenses were paid, the seller wound up pocketing nearly 50% of the total sales proceeds, or $2,342.04 out of a total gross of $4,708.44. When other wholesale sellers, including Amazon, entered the market, the average sales price immediately dropped to $20 and, within another couple of months, to $17.50.

The **direct-to-consumer** business has really grown over the years, **and we've grown with it**.

Gilula is a veteran of the home entertainment business. He ran several home video companies at the height of the VHS era and then oversaw the transition to DVD and the shift in consumer habits from renting cassettes to buying and collecting discs. He staffed, trained and mentored the sales and marketing organization for a startup, which generated $20 million in incremental sales for the parent corporation, and held a series of progressively more responsible positions at such major organizations as the World Wrestling Federation and Capital Cities/ABC (now part of The Walt Disney Co.).

"The direct-to-consumer business has really grown over the years, and we've grown with it the entire time," Gilula says. "There are hundreds of thousands, if not millions, of home businesses engaged in e-commerce, but most of them still think the only way to go is through a third-party such as Amazon, either by wholesaling to them or by letting them run your online business.

"The best option, by far, is to do it yourself, and that's where we come in – we help you set up and run your own online business while you maintain control over everything as you generate significantly higher sales – and profits." ■

FOOTNOTES

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– Mark Gilula, President,
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