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## BUSINESS

# Amazon, With Little Fanfare, Emerges as an Advertising Giant

Its push challenges the big ad sellers, including Facebook, Google and TV networks

By *Lara O'Reilly and Laura Stevens*

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Amazon.com Inc. [AMZN -5.87% ▼](#) handles nearly half of all online sales in the U.S., giving it a popular platform and a wealth of consumer data. Now it's on track to become the next juggernaut of online advertising, and its rise threatens to upend Silicon Valley's ad titans and change the way business is done on Madison Avenue.

The online retailer has ascended to the No. 3 spot in the U.S. digital ad market behind the dominant players, Alphabet Inc.'s Google and Facebook Inc. Though Amazon has just 4% of the market now, the company is expanding its avenues for marketers and hiring aggressively for its ad unit.

Some marketers eager for a new digital ad alternative are also conflicted about the rise of Amazon—a competing retailer with its own in-house brands to sell—setting up a new potential source of tension.

Amazon's ad revenue is on pace to double this year, to \$5.83 billion, according to eMarketer. Its ad sales are expected to jump \$28.4 billion over the next five years, according to Cowen & Co.—more than the combined increases in ad revenue for all television networks globally, according to figures from media-buyer GroupM.

The cumulative effect is an earthquake whose tremors will be felt by anyone selling ads, including digital publishers and TV networks. Retailers like Walmart Inc., Target Corp. and Kroger Co., which get paid by brands to place products in desirable locations within their stores, are already losing business to Amazon, ad executives say.

“I think the giant has been awoken,” said Bill Wise, chief executive of Mediaocean, a software platform that processes over \$150 billion of ad spending annually.

While Amazon has rapidly expanded into a number of new businesses in recent years, including groceries, entertainment and pharmaceuticals, its ad business has grown organically into a high-margin business. Its planned headquarters in New York City will give it a new, stronger tie to the traditional center of advertising, one that could lead to Amazon hiring away talent.

Meanwhile, the world's biggest ad agencies are racing to become specialists in how Amazon wants to do business, which is unlike anything they've seen before.

A big chunk of Amazon's ad business comes from its retail site, where companies pay to be listed as a “sponsored product” high up in the search results when a user enters a term like “diapers.”

In addition, marketers going through Amazon can choose video ads, TV-style spots in live sports telecasts, ads on the company's FireTV device and even ads on its cardboard delivery boxes. Amazon also helps brands advertise across the web on sites it doesn't own.

Amazon's copious data on consumers—from what they buy to what they ask artificial intelligence assistant Alexa to what they watch on Amazon's video service—holds unique appeal for ad buyers. Unlike Facebook and Google, it has actual purchase data from its retail site.

That enables Amazon to tell brands if their ads have led to purchases on its retail site, and then better target consumers on other sites—for example, showing them ads for a new pair of sneakers they had shopped for but never purchased.

“They have the data because they have the consumer,” said John Ghiorso, chief executive of Amazon-focused ad agency and consulting firm Orca Pacific.

Amazon's ad business now contributes to gross profit and is expected to generate more income than its cloud business—which currently provides the bulk of its profits—as soon as 2021, according to Piper Jaffray analysts.

Amazon is expected to collect 15 cents of each new dollar spent on U.S. digital ads in 2020, up from 5 cents last year, according to an analysis of data from research firm eMarketer.

Amazon declined to comment for this article.

The company's frugal culture has been something of a mismatch for the glitzy sales events and long lunches that grease business deals on Madison Avenue. At the annual Cannes Lions advertising festival on the French Riviera in June, companies like Google and Facebook rent out large beach spaces to meet with clients, while musical acts from Jon Bon Jovi to The Killers perform at parties.

Amazon typically keeps things low-profile. This year, Amazon's Web Services and Alexa units co-hosted a hackathon focused on poverty, clean water and gender equality.

“I don't think you will ever see the [Amazon] yacht at Cannes, unfortunately,” said Will Margaritis, lead Amazon consultant at advertising group Dentsu Aegis Network.

Amazon's role as both ad seller and e-commerce retailer can make for an awkward mix. Brand owners “see Amazon as a key distribution point for their brands, which is irresistible,” said Rob Norman, senior adviser at GroupM, a media-buying agency owned by ad giant WPP. However, those brands are conflicted because it's “clear Amazon is transferring profit and revenue from brands and retailers to itself.”

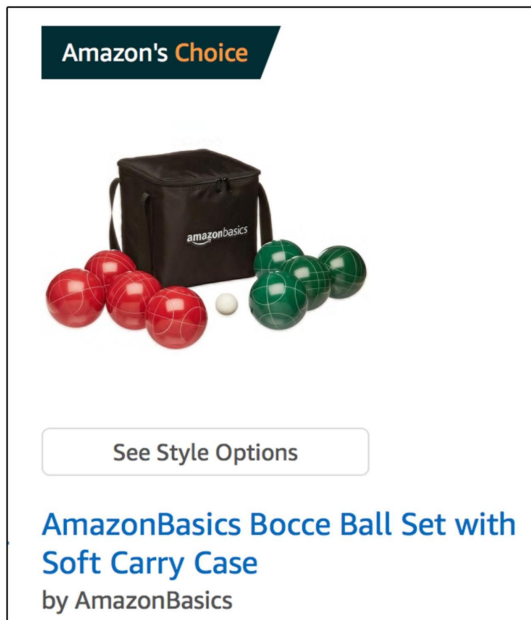
Addressing dozens of major brands and sellers at a conference this spring, Amazon ad sales executive Mauricio Guerra Escamez referenced a study that found roughly 92% of shoppers who start their search for a product on Amazon end up purchasing that product there, a statistic that surprised many in the room, according to one of the attendees.

Amazon-branded products get a special space at the top of the search results page. Analysts estimate the company operates dozens of in-house private labels.

Jason Boyce, chief executive of home recreation retailer Dazadi.com, competes with an AmazonBasics brand of bocce ball, which costs roughly \$10 less. Still, the site drives most of his sales. In a recent search for “bocce ball” on Amazon, the Amazon version was listed as a “sponsored item” near the top and then appeared three more times under “Amazon's Choice” and “Top Rated from Our Brands” before Mr. Boyce's Harvil brand. He hasn't bought ad space for that keyword. However, he has bought ads for the keywords “bocce” and “bocce ball set,” and in searches for those terms, Harvil appeared at the top. That typically costs him between about \$2 and \$4 a click.

“They get all the prime real estate. It's unfair,” Mr. Boyce says, but “we have to be on Amazon.”

Advertisers badly want another major digital player to emerge to help make the online ad market more competitive. Amazon is still far behind Google and Facebook, the tech duopoly that together receive 61% of U.S. online ad spending, according to eMarketer.



An Amazon branded set shows up as an 'Amazon's Choice' product in a search for 'bocce.'

L'Oréal SA says U.S. consumers have 25 to 30 “touch points” before purchasing a skin-care product, from ads to online searches to product reviews. “While Facebook and Google play an important role in the discovery of our products, advertising on Amazon—especially in the U.S.—gives us in addition the possibility to engage with our consumers at the moment they are likely to purchase,” said Lubomira Rochet, L'Oréal's chief digital officer.

Facebook and Google declined to comment.

Some advertisers say that Amazon—which has to balance the needs of big brands, ad agencies and smaller sellers—isn't giving them anywhere near the support that Google and Facebook provide in the form of teams of researchers and others who help brands plan and execute ad campaigns.

One ad executive estimated that for every 10 Google employees a large brand has at its disposal, Amazon provides one.

“The algorithm is not going to answer your phone calls, it's not going to go out to lunch with you,” said Connor Folley, a former Amazon marketing manager who now runs Downstream, a technology company that helps brands manage their advertising on the platform.

However, Amazon is adding advertising-related jobs at a fast clip: Hundreds of jobs are currently listed for sales, advertising and account managers around the globe, although it's unclear how many are directly for the advertising department.

Traditional brick-and-mortar retailers are feeling Amazon's pinch in the sector known as trade marketing, which aims to get products onto shelves and in the best locations in stores to get noticed.

Those budgets, particularly used by packaged-goods manufacturers in stores such as Walmart, Target or Kroger, are increasingly shifting to Amazon, advertising vendors, analysts and brands say. Trade marketing attracts an estimated \$178 billion a year in the U.S. and makes up most of Amazon's ad dollars in the U.S., Morgan Stanley analysts said in a note earlier this year.

Chris Carmichael, who used to be responsible for phone maker Nokia's trade marketing in the U.K. and later had a top role at HSBC, said trade marketing relationships with retailers have been “based on legacy” and renewed each year despite little visibility on consumer impact.

Amazon, however, can use its insights on shopping habits to help brands create messages that resonate the most with consumers, putting it “light years ahead of anyone else,” he said.

A Walmart Inc. spokeswoman said the company's supplier advertising is up overall. The company has recently said that it sees its own digital advertising business as an avenue for

growth. A Target spokeswoman said its partners have increased their year-over-year investment in product promotions, including through weekly ads and in-store signage. A Kroger spokeswoman declined to comment.

Amazon has been selling ad space in product-search results on its marketplace for roughly a decade. A big early barrier for advertisers using Amazon's self-serve ad buying tools was that it accepted payments only by credit card for all but its biggest clients, ad industry consultants say. As a result, some brands and marketing agencies were maxing out their corporate credit cards, spending \$20,000 multiple times a month, according to Mr. Ghiorso of Orca Pacific.

In 2015, Amazon switched to a traditional invoicing process for those types of search ads for more of its self-serve clients. Brands that had been sitting on the sidelines began to ramp up their spending, and the cost of search ads on Amazon "went through the roof," Mr. Folley said.

Ads promoting specific products—either within Amazon's search results or on product detail pages—are the biggest draw, accounting for roughly 29% of advertisers' spending, according to a survey of senior U.S. ad buyers by Cowen & Co.

Traditional web display ads account for another 13% of ad budgets. They can appear on Amazon.com as well as on third-party sites. For example, an airline can run ads on non-Amazon sites aimed at travel enthusiasts, including Amazon shoppers who have bought suitcases or travel books.

Amazon is eyeing a deeper push into video ads on its mobile site, according to people familiar with its plans, and is planning a new advertising-funded video platform, named "Free Dive" internally, through its movie and TV database brand IMDb. Digital video is an on-ramp to winning a piece of the roughly \$210 billion global TV ad market. The website The Information earlier reported on plans for the ad-supported video offering.

Amazon has entered its second season of streaming NFL "Thursday Night Football" for its Prime members. Last season's advertisers included Sling TV, Gillette and Hyundai. An Under Armour campaign aired during this season's NFL telecasts on Amazon, showcasing athletes going through gritty training sessions, followed viewers elsewhere on Amazon's platforms once the games had finished.

Amazon's Alexa voice assistant has tremendous potential as a marketing platform, though users shouldn't expect to hear ads there in the near term, according to people familiar with the situation. Brands are starting to use it to gain visibility. Consumers can say, "Alexa, tell Budweiser 'Whassup'" to have a conversation with the cast of the memorable '90s TV commercial. Amazon has said it has no plans to bring ads to Alexa.

Amazon is also exploring the idea of ad placements in the Echo Show, its smart speaker with a built-in screen, according to people familiar with the company's strategy.

Beyond traditional ads, the movie franchise "Minions" and musical film "The Greatest Showman" have bought ad space on the cardboard boxes and bags Amazon uses for delivery.

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In September, Verizon Communications Inc. offered a \$5 Amazon gift-card credit to users who scanned a bar code on their Amazon Prime Now delivery bags to check the availability of its Fios fiber-optic service at their address. John Nitti, Verizon chief media officer, called it a "next-gen

approach to direct mail."

This summer, General Mills Inc.'s Petits Filous kids yogurt brand paid to add instructions on Amazon Pantry boxes for kids to craft them into rockets, airplanes and ships. The instructions went on more than 200,000 orders in the U.K.

"We could have chosen anyone that does traditional deliveries," said Rahul Gursahani, a Northern Europe marketing manager at General Mills. "The credibility Amazon brings today:

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You can't beat that."

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