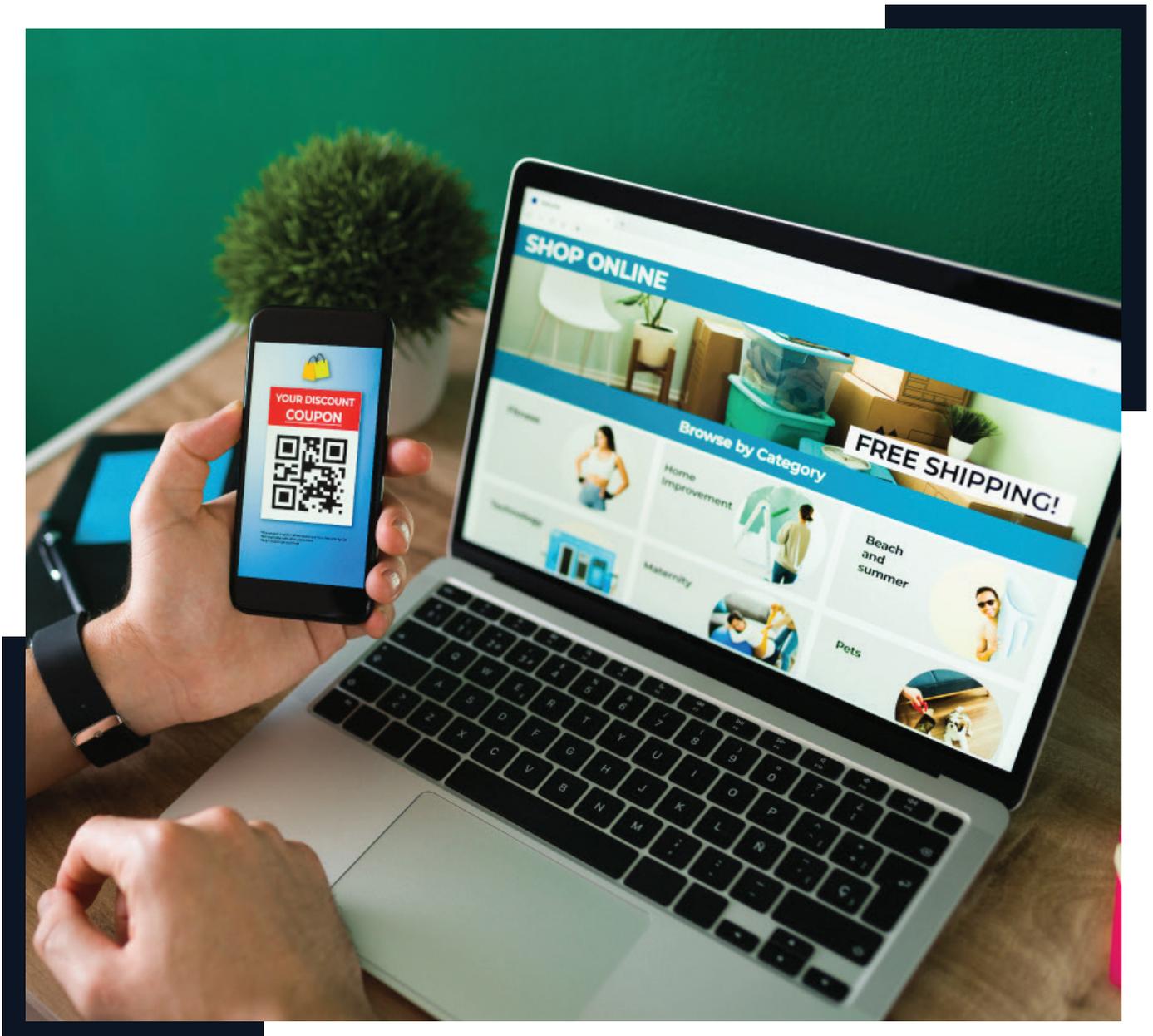


# PRIME DAY 2: A HARBINGER OF THE UPCOMING BATTLE FOR CONSUMER SPEND!





Amazon conducted a second Prime Day event this year, for the first time ever. It all started in 2015, when Amazon announced its premier Prime Day event - a 24-hour shopping spectacle in 2015 to celebrate Amazon's 20th anniversary. With each passing year, the scale of the event has grown leaps and bounds. This event has gone on to play a substantial role in changing consumer shopping behavior, with consumers eagerly waiting for this event to splurge big AND save big! During the first Prime Day of 2022, more than 300 million products were sold worldwide<sup>(1)</sup>, with the estimated GMV to be \$12Bn<sup>(2)</sup>.

As the famous Amazon flywheel depicts, increased traffic attracted more sellers and a larger assortment, which in turn led to prices becoming more competitive, eventually benefitting both consumers and Amazon. Wallets and banks have also tried to grab a slice of this pie by collaborating with Amazon to offer discounts and no cost EMIs to consumers. This increased affordability and allowed consumers to make discretionary spends on big ticket items easier. Over the years, this economic moat has grown in strength.

- Amazon Prime Day is a trend setter, with other retailers joining the bandwagon and running their own events around similar dates, to lure customers who are incentivized to spend and snag the best deals.

- Traditionally consumers used to wait for Black Friday deals to commence their holiday shopping. Now with a second Prime Day event, Amazon is changing the rules of the game, preempting competition, and pulling forward the holiday demand. Amazon's e-commerce revenue declined by 4% to \$50.9Bn in Q2 of 2022. By making it a member only event, Amazon is trying to bring to the fold a new set of loyal consumers who can drive the next leg of growth for its e-commerce revenue. Sellers are expected to spend more on advertising their products via sponsored advertisements, thereby driving revenue growth for Amazon's advertising division as well. Amazon does not regularly disclose its ad revenues, but in Q1 2022, Amazon revealed its digital ad number for the first time, amounting to **an impressive \$31.6Bn**. If it continues to follow this trajectory, Amazon's net digital advertising revenue will reach a projected value of **nearly \$40Bn by 2023**.

Other retailers are also following suit and have responded with competitive deals. Target announced Black Friday deals that started on October 6th, and will continue through Thanksgiving week. Walmart has also announced similar deals.



# How did the deals on Prime Early Access Sale fare as compared to earlier Prime Days ?

Based on the trends observed in the initial 24 hours, we see that while offer depth across categories is higher than the historical average of the past Prime Day events, it is lower than that of the 2022 Prime Day event. We hypothesize that higher unit costs and margin pressure has made it harder for sellers to offer steep discounts on their products. In addition to the pressure of starting sales earlier this year, retailers are expected to run promotions for a much longer period. It will be interesting to see how this event pans out next year, with retailers better prepared to spend for this event.

During the Early Access sale this year, the Consumer Electronics, Earbuds and Baby Products categories offered discounts which were deeper than or the same as the Prime Day 2022 event. For the other categories, discounts were deeper than 2021, but shallower than the Prime Day 2022 event. According to Numerator, **the average order value has dropped to \$46.28 from \$52.26** seen during the Prime Day 2022 event.

Category	PD 2019	PD 2020	PD 2021	PD 2022	EA 2022
Amazon brands	Shallow	Average	Deep	Deep	Deep
Apparel	Shallow	Average	Deep	Deep	Deep
Baby products	Deep	Average	Deep	Shallow	Deep
Consumer electronics	Shallow	Average	Deep	Deep	Deep
Earbuds	Shallow	Average	Deep	Deep	Deep
Footwear	Shallow	Average	Deep	Deep	Deep
Home improvement	Shallow	Average	Deep	Deep	Deep
Household supplies	Shallow	Deep	Deep	Deep	Deep
Personal care	Shallow	Average	Deep	Deep	Deep
Small appliance	Shallow	Deep	Deep	Deep	Deep
Smart home	Shallow	Average	Deep	Deep	Deep
TV	Shallow	Average	Deep	Shallow	Deep
Total	Shallow	Average	Deep	Deep	Deep

\*Historical promo percentages estimated

Shallow                      Average Discount%                      Deep

PD : Prime Day, EA : Prime Early Access Sale





# How can retailers respond to the Prime Day Early Access event ?

With the addition of this key event to the retail marketing calendar, it is imperative that retailers now revise their sales forecasts, recalibrate their plans and events, and realign their supply chains to accommodate for this event's impact on their sales for the remainder of this year.

- 1. Demand Forecasting** - Demand patterns for the remainder of 2022 will not be the same as last year. With consumers shopping heavily during this second Prime Day event, the forecasts for the upcoming holiday season must be revised based on the demand pull forward happening due to this event. As competitive events get added and external conditions change, forecasting systems must: 1) be agile enough to refresh demand forecasts in a short timeframe, 2) be powered by strong algorithms that can detect changes to demand at the most granular levels, and 3) be robust enough to accommodate the impact of this event by performing drift detection.
- 2. Pricing & Promotions** - With inflation already cutting into monthly budgets, consumers are taking extra caution with spending and will be bargain hunting. As consumers shop during the sale, they are bound to compare prices on Amazon with that of other e-commerce websites. The ability to identify Key Value Items and pricing these products dynamically to stay competitive, will play a critical role in driving traffic to a retailer's e-commerce channel. By embedding competitive intelligence into pricing solutions and using a robust rules engine to selectively price match based on elasticity, retailers can garner a higher consumer wallet share during this event as well as remain competitive throughout the year.
- 3. Allocation** - With demand surging and supply chains choked, there is hardly any retailer without the problem of excess inventory. The holiday season was typically seen as the period when retailers could ease this inventory into the market. But the Prime Day event has prompted consumers to shop earlier than usual. In such a scenario where clearing inventory becomes a tougher task, intelligent allocation systems integrated seamlessly with agile and robust demand forecasting engines allow inventory to be automatically allocated based on the complex rules-driven allocation. This allows allocators to invest their time in high-value work such as analyzing data and identifying cost-saving strategies and intervening only in case of exceptions. With seasonal items, this becomes even more critical as they have a very short lifecycle. If not allocated properly, these items may lead to lost sales or excess inventory which will have to undergo steep markdown.

# Are you ready for 2023 with such volatility in the business environment?

The Prime Day 2 event is an indicator that discounts and markdowns are here to stay and margins will be taking a hit during the holiday season and beyond as well. With the threat of recession looming, geopolitical skirmishes happening across the world, high inflation, low consumer and business confidence, retailers will have to be prepared for cut-throat competition during 2023 as well. They will have to heavily lean on their decision-making systems to make the right decisions. Intelligence and automation embedded in every aspect of decision making will enable retailers to navigate through these difficult times with some comfort.

As retailers get through the holiday season and plan for 2023, the ones that do well on the other side of inflation will already have these AI-driven systems in place, including:

- Forecasting engines that take a gamut of internal and external factors into account while generating the demand forecast
- Pricing systems that look at seasonality, elasticity, promotions, affinity and cannibalization
- Allocation systems that allow the right product to be in the right place at the right time using robust rule-based engines and exception management

Looking at all the changes in recent months and anticipating more changes ahead, this **coming year will be the toughest pricing environment in recent memory for merchants and retailers**. Ultimately, retailers must ensure their systems are equipped to help them succeed when they're needed most, and AI and data-driven decisions in 2023 will be more important than ever.

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