

**House of Representatives Standing Committee on Economics
Inquiry into Promoting Economic Dynamism, Competition and Business Formation**

Amazon Commercial Services Pty Ltd (**Amazon Australia**) provides the following responses to questions on notice that arose during a hearing held by the House of Representatives Standing Committee on Economics (**Committee**) on 29 August 2023, and provided in writing to Amazon Australia by the Committee Secretariat by letter dated 4 October 2023. The hearing was held as part of the Committee's Inquiry into Promoting Economic Dynamism, Competition and Business Formation.

QUESTION AM01QON

[CHAIR] I am going to explore a couple of competition issues, raised by the ACCC and others, that are posed by big tech in general but Amazon in particular. On this particular aspect of Amazon's operations there is a pretty strong argument that Amazon's platform and others like it are pro-competitive, in that they're giving smaller businesses much greater access to customers. We would be interested to see, if you are able to provide any kind of information on the Australian side, who is entering the market and how that is trending.

ANSWER:

Amazon first opened its store to third-party sellers in 1999 and we have strong incentives to see small businesses succeed in the Amazon store. Globally, sellers have been adding significantly more products to our stores' selection than Amazon itself. In the third quarter of this year, units sold by third-party sellers represented 60% of total units globally, sustaining the level from Q2, which is the highest we've seen.

We estimate that 95% of the Australian sellers in the Amazon Australian store are small businesses, and we are proud of the opportunities we offer them to grow and succeed.¹ By inviting third-party sellers into our Store, Amazon has created new opportunities for Australian small businesses to find new customers and benefit from our investments and the trust we have built over the years. We make it easier for these Australian small businesses to deliver locally and also to customers around the world using our stores in other countries. More than 14,000 Australian businesses sell in the AU Store and other Amazon stores worldwide. They sold more than 27 million units around the world in the 12 months to 30 June 2022, and we estimate they have created more than 20,000 Australian jobs to support their Amazon-related business activities.

We work hard to support our third-party sellers. We invest in programs, features and services to support them, including help pages and online training. We also provide free APIs enabling the programmatic transfer of data to and from sellers (or third parties they work with, e.g. multi-channel listing software like Shopify). This enables third-party sellers to multi-home with various elements of their online store, including: selection, inventory, pricing, and customer notifications.

¹ Based on a survey of sellers on the Amazon.com.au store using the definition of small businesses that the business has either fewer than 100 employees or less than \$10 million in annual revenue (both on and off Amazon).

The Australian retail sector is highly dynamic and characterised by the constant entry (and exit) of participants of all sizes into the retail sector. We have attached a summary of a report by Houston Kemp, commissioned by Amazon, on developments in the retail sector up to FY22, including an analysis of retail data published by the Australian Bureau of Statistics. The full report was provided to the Australian Competition and Consumer Commission and is available at:

<https://www.accc.gov.au/system/files/Digital%20Platform%20Services%20Inquiry%20-%20General%20Online%20Retail%20Marketplaces%20Submission%20-%20Amazon%20Australia%20-%20Public%20-%2024%20November%202022.pdf>)

The Houston Kemp report finds:

- consumers can easily access information on the products available, compare offers and purchase the products they prefer;
- there are a large number of retailers of various types and sizes, with overlapping or comparable product ranges operating across various retail channels;
- manufacturers, brand owners, third party sellers and retailers have a large number of retailers and channels to choose from and/or can sell their products directly to consumers; and
- entry and expansion for retailers is relatively easy, particularly given the low costs of entry associated with online channels, leading to many new retailers launching businesses and channels each year.

QUESTION AM02QON

[CHAIR] *Would you be able to provide a sense of how many people in your Australian team are dedicated to these kinds of issues—scams and consumer protection more generally?*

ANSWER:

As we indicated during the committee hearing on 29 August 2023, globally in 2022, Amazon invested over \$1.2billion and employed 15,000 people to counter scams, fake reviews, counterfeit products and similar conduct. The number of people currently employed in Australia that are actively involved in these functions is approximately 22, which includes software engineers, data analysts and compliance professionals. However, this figure does not include staff that have broader functions but support those working to counter scams, such as the public policy and legal teams.

Amazon takes a global approach to combatting scams, fake reviews, counterfeiting and similar abuse by bad actors. Our teams typically work across a range of issues, rather than focusing on particular forms of conduct. Accordingly, a breakdown of staff employed in particular countries or engaged in addressing particular conduct may not provide a complete and accurate picture of Amazon's response to such conduct.

QUESTION AM03QON

[MR RAE] *Proportionally, to what extent are you relying on third-party transport operators versus the Amazon Flex model... with some quantitative information about which of the models is used, in terms of both value of delivery and quantity of delivery?*

ANSWER:

The majority of packages are delivered by Amazon Flex.

We are continually looking to develop new and innovative ways to deliver packages to supplement our delivery capacity and better serve our customers. In Australia, we partner with transport carriers of all sizes to move Amazon packages across our fulfilment and delivery network. These range from family-owned businesses to some of the largest carriers in Australia. The way we allocate volume amongst carriers varies over time and is based on many factors including customer demand and delivery location.

Question AM04QON

[MR RAE] Could you take that on notice as well and come back to us with some information about whether drivers have either been disciplined or terminated for returning packages at the end of a shift?

ANSWER:

Delivery partners periodically return packages to our delivery station that are undeliverable for a variety of reasons beyond their control, such as not being able to access a delivery location. In those cases, their eligibility to deliver with Amazon Flex is not affected. For other reasons that are within their control, we have set service standards in our program's terms of service, which include standards about reliability and delivery quality. Delivery partners can access the terms of service at any time, so they are aware of the standards that meet our customer expectations. We also communicate to delivery partners that a single failure to meet applicable standards won't ordinarily lead to ineligibility to deliver for Amazon Flex. However, repeated instances, or a single severe breach of the terms of service, will impact a delivery partner's ability to participate in the program.

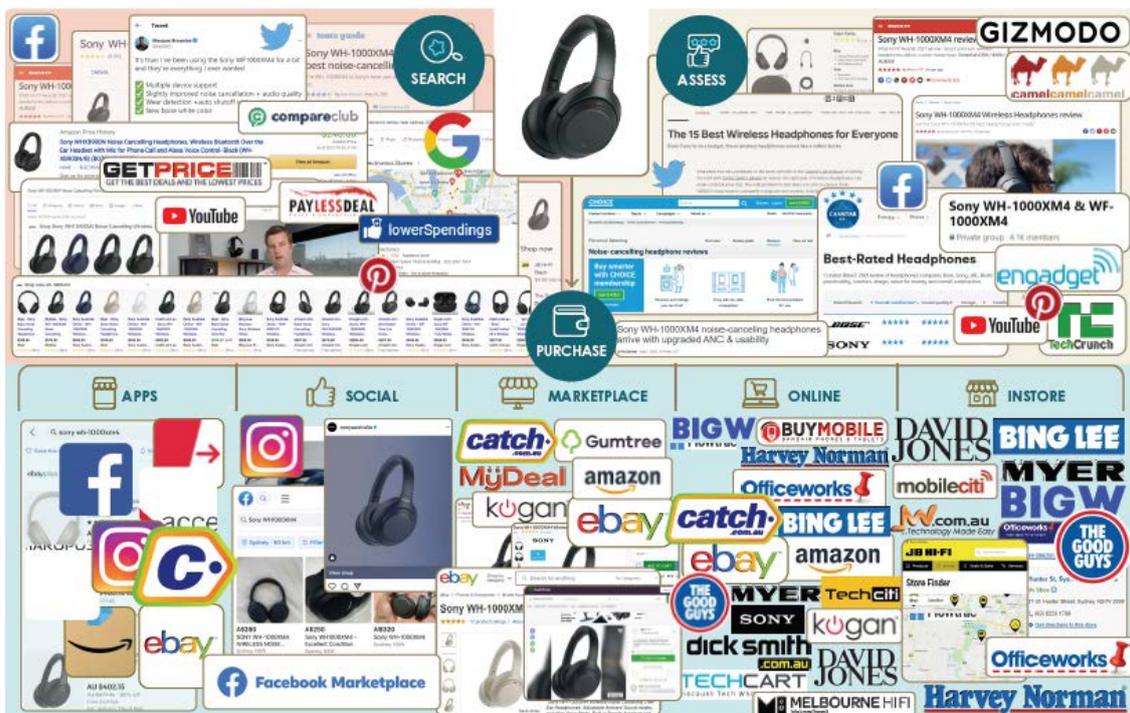
The retail sector is highly diverse and dynamic, consisting of around 157,000 businesses in Australia in FY22, 30,000 of which entered that year. Retailers compete across multiple channels – high streets, shopping centres, department stores, websites, marketplaces, mobile apps, social media. Retailers use omni-channel strategies to meet consumers where they want to shop.

Consumers can shop across combinations of these channels, and their decision points present at the search, assess and purchase stages of a purchase journey. Similarly, sellers have many choices as to how to reach consumers, including through the many offline and online channels, and have many choices of technology and partners to do so.

1. Retail sector is diverse and dynamic

The retail sector has seen substantial technological changes over the past 100 years, which has sped up in the last decade. Today, Australian retail is characterised by a diverse and dynamic range of relationships between sellers and their customers.

Retailers use a wide range of channels to reach customers. Channels include offline options such as high streets, shopping centres and department stores and online channels like direct-to-customer web stores, retail marketplaces, mobile shopping apps, and social media. These channels are converging as offline retailers have adapted to sell across multiple channels. An example of the omni-channel retail experience is shown below.



2. Retailers have a wide range of choices open to them

Retailers can, and do, use a wide range of channels to sell their products in order to maximise sales. All major bricks-and-mortar retailers in Australia now sell through multiple online channels.

A wide range of firms provide software solutions to enable retailers to either sell directly to consumers or replace some or all of the retail functions and services offered by marketplaces, eg, retail, marketing, payment processing, fulfillment.

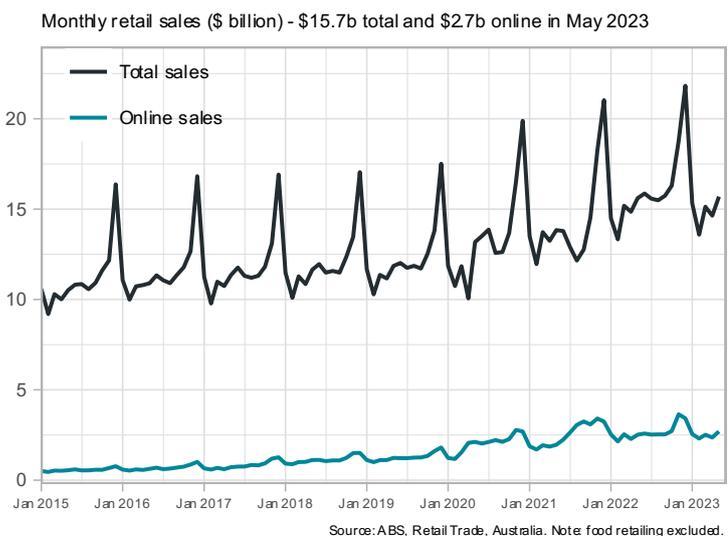
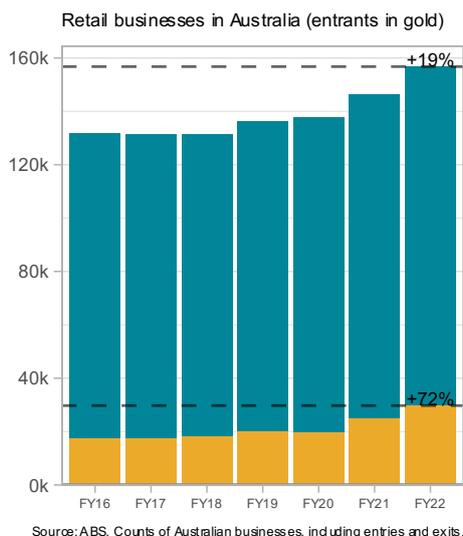
A marketplace is one retail channel that allows a retailer to increase visibility and access different consumers. No retailer is required to use a marketplace service given the many other channels available. In Australia there are also many marketplaces to choose from and they can be used at the same time. Large Australian retailers also offer marketplace services, such as Bunnings and Woolworths.



3. Strong degree of competition in the retail sector

Competition is strong between retailers in Australia because:

- there are many retailers – 157,000 at the end of FY22, up 19% since FY16 – exhibiting great diversity;
- retailers compete across multiple channels, because consumers can purchase through many channels and switch easily;
- barriers to entry and expansion in the retail setor are low, especially for selling online; and
- there are many entrants each year – 30,000 in FY22 – and small retailers are able to expand quickly and at low cost.



4. Effective consumer choice drives competition

Customers have many options at all stages of their journey to making a purchase.

Customers use various channels to find, research, and compare competing products. They expect to, and do, switch freely between retailers and channels to make purchases. The product received by consumers is the same, no matter what channel or retailer is used.

Most customers do not have a preference between shopping in-store or through a marketplace. Customers that purchase from a marketplace use many other channels (and retailers), and direct only a small proportion of their retail spend to marketplaces.



Consumers drive effective competition through the **search**, **assess** and **purchase** phases of shopping.

5. Benefits of competition

As shown, competition in the retail sector is vibrant. Indeed, competition ensures that businesses provide a range of products that consumers want at low prices.

In competitive markets, firms seek to bring products to market that are more highly valued by consumers than those of their competitors, using the least possible resources. They also seek to make new investments and innovate to keep pace with changing consumer preferences and technology over time – economists recognise this in the concept of ‘dynamic efficiency’, which is enhanced in competitive markets.

Firms have an incentive to strive for these outcomes because to do so will increase their expected profits. .

Retailers in a competitive market are constrained by:

- their competitors, ie, other retailers that are close substitutes;
- potential competitors, ie, firms that could become retailers;
- suppliers; and
- customers who have numerous substitutable options to acquire their good or services.

The principal benefit of competition is the enhancement in social welfare brought about by the more efficient use of scarce resources.