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Random Ramblings — Major Changes in Amazon's Fees for Book Sellers

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I didn't expect to be writing so soon about the out-of-print book market after my recent column a few months ago, but **Amazon** has made major changes in its shipping rules and fees for book sellers. ("Random Ramblings — The Out-of-Print Book Market: Some Personal Perspectives," *ATG*, vol. 28, #5) These changes will affect both buyers and sellers and may potentially have a major impact on the market. At the same time, **Half.com**, **Ebay's** fixed price book seller, has also upped its commission rates but not modified its other rules. With its decline in market share, any impact of the **Half.com** actions will be much less serious. To include the rest of the market, I was not able to discover any changes for **Alibris** and **AbeBooks**, but I expect that both selling platforms are discussing what they should do to profit from **Amazon's** increase in selling costs.

Amazon

Amazon sent an email to its sellers on November 9, 2016 to announce the following changes in shipping policy and fees for selling Media products. This category includes books, CDs, VHS, DVDs, cassettes, and vinyl. The rules will become effective on March 1, 2017. I won't be discussing the third change, competing for the buy box, because of its limited importance.

Shipping

"Effective March 1, 2017, you will be able to set your own shipping prices for Standard delivery and set different shipping prices by region for Expedited, Two-Day, or International delivery." Currently, **Amazon** sets standard shipping rates for all media that sellers can't override. The credit is based upon the type of media except that the international shipping credit for books over one pound is higher. Sellers will be able to create up to twenty templates with complex rules for shipping that take into account the location where the item is headed, minimum shipping cost per order and per pound, and shipping priority. For example, a seller can set a higher charge for shipping to Alaska and Hawaii with first class to assure prompt delivery since media mail sometimes takes six weeks to arrive. In my opinion, the main advantage will be setting higher rates for international shipping to take into account that the actual mailing costs are much higher than the current fixed amount. Right now, I am willing to ship items abroad only if they weigh less than nine ounces because the shipping costs to many countries exceed the **Amazon** standard allocation. Finally, the seller can adjust these templates to reflect any future increases in postage costs.

Overall, I consider this change to be an advantage since it provides sellers with more flexibility. On the other hand, I'm sure that I'll make some mistakes in my initial templates. The other small issue is that I've found that **Amazon's** weights for books are sometimes incorrect so that the automatically calculated shipping allocation may be wrong.

Selling Fees

The changes to selling fees have more serious implications. I have edited the following quote to include only the essential sections and have excluded video games.

"We will be making two changes to how Selling on **Amazon** fees are charged for Media products (including Books, Music, Video, DVD, Software, and Video Games).

1) Variable Closing Fees (VCF): The VCF charge in Media product categories (Books, Music, Video, DVD, Software, and Video Games) will increase to \$1.80 from \$1.35 per item.

2) Referral fees: Currently, the referral fee for Media products is an applicable percentage of an item's sales price (excluding any shipping or gift wrap charges). Effective March 1, 2017, the referral fee will instead be calculated on the total sales price (the total amount paid by the customer, including the item price and any shipping or gift wrap charges), as follows:

Current Fees

* Books, Music, Video, DVD, Software, Video Games (non-console): VCF - \$1.35 per item; referral fee - 15% of the item price

New Fees

* Books, Music, Video, DVD, Software, Video Games (non-console): CF - \$1.80 per item; referral fee - 15% of the total sales price."

This change greatly increases the fees that **Amazon** collects on each sale as can be seen from the example below:

Price	Shipping	Total	Referral Fee	Variable Fee	Total fees	Remittance to seller
		to seller			to Amazon	
Old Fee Structure						
\$2.40	\$3.99	\$6.39	\$1.35	\$0.36	\$1.71	\$4.68
New Fee Structure assuming no changes in pricing						
\$2.40	\$3.99	\$6.39	\$1.80	\$0.96	\$2.76	\$3.63

This example does not include the \$1.00 fee that **Amazon** charges occasional sellers or the proportional cost per item for professional sellers who pay \$39.95 each month to avoid the occasional seller fee. As a professional seller who sells from 40-60 books each month and mails them out with media mail for \$2.61, the \$2.40 above is the minimum price for me to meet my target of at least \$1.00 profit per sale for books weighing one pound or less with a minimal acquisitions cost. I expect that I'll need to raise my average price at least \$1.00 per listing or change my shipping costs by the same amount to meet my profit goal.

The new pricing structure will have a particularly drastic effect upon the infamous **Amazon** "penny sellers." One of the most common topics on the **Amazon** discussion boards is how they can turn a profit at such low prices. The traditional answer is their ability to get much lower shipping rates by batching their large shipments. All this will change with the new fee structure:

Price	Shipping	Total	Referral Fee	Variable Fee	Total fees	Remittance to seller
		to seller			to Amazon	
Old Fee Structure						
\$0.01	\$3.99	\$4.00	\$1.35	\$0.00	\$1.35	\$2.65
New Fee Structure assuming no changes in pricing						
\$0.01	\$3.99	\$4.00	\$1.80	\$0.60	\$2.40	\$1.60

Even with the professional selling fee of effectively zero at their sales levels, I doubt that they will find a way to ship their books for \$1.60, but I eagerly await their reaction to these changes because the mega-sellers offer the most competitive prices on **Amazon**.

Implications of the New Fee Structure

Amazon has behaved very differently from most corporations by willingly forgoing immediate profits to increase market share, fund special initiatives, and acquire other companies. Investors have treated **Amazon** kindly on the assumption that future changes in this strategy have the potential to increase greatly its profitability. I wonder if the upping of fees for books and other media is a small step in this direction. As I indicated in my earlier column, **Amazon** is retreating from its orig-

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inal emphasis, selling books, to focus on selling mostly new products of all types on its own or through its professional sellers.

Amazon may also have judged that it has become the leading source for books in the United States and many foreign markets so that it can increase prices and profitability without losing significant market share. In the debates on the **Amazon** forums about this question, the general opinion is that most book buyers look to **Amazon** first and don't even know about the existence of competitors such as **AbeBooks**, which **Amazon** owns, **Alibris**, and other out-of-print book sellers. I have some direct evidence for this conclusion from the fact that I often sell books for higher prices on **Amazon** than the same books listed on **Half.com**. Similarly, sellers like me will remain with **Amazon**, whose commission structure is already high, because it is better to sell books with a high commission rate than not to sell many books at all. In other words, **Amazon** is taking advantage of its dominant market position in the out-of-print market. Furthermore, increases in fees to sellers, such as the recent hike by **Half.com**, which I won't describe in detail, may also lessen the impact of **Amazon's** increase.

The first practical implication of the new changes is that sellers will need to determine how they will revise their prices or shipping fees if they wish to keep the same profit margins. Since the default sort order on **Amazon** is descending price including shipping fees, changing one or the other should make little difference except a lower price without shipping appears in some initial views. Sellers can change each price individually or download their inventory to make systematic changes though the algorithms for this second option could be complex.

If all sellers decide to keep the same profit margins, the change will not affect their competitiveness within **Amazon**. Some buyers may become savvier about checking other vendors; but, for the reasons I give above, I find this unlikely to have major consequences. The main issue

will be that the increase in costs may deter some buyers from making purchases since the base rate for any item will increase 20% from \$4.00 to \$5.00 if sellers keep the same margins. The one positive will be for buyers of multiple items since **Amazon** no longer will automatically charge the \$3.99 shipping fee for each item since sellers can lower shipping costs for multi-item purchases.

For the many libraries that purchase from **Amazon**, this increase in costs is an unwelcome event. I know from the discussions that I encounter on several discussion lists that **Amazon** has become a large vendor in the library market. (I would like to hear from anyone who has even quasi-reliable statistics on the size of library marketplace for **Amazon**.) Especially for academic libraries, this potential 20% increase may lead to further reductions in the size of the monograph collection. With their greater sophistication, libraries of all types may consider other vendors as alternatives as long as their procedures don't overly complicate the buying process and increase staff costs.

Libraries that sell on **Amazon** will face the same transition issues and increased complexities of multiple shipping options including considering changing shipping prices to match increases in their seller fees. Where the Friends group sells the materials for the library, the volunteers who manage the process may encounter difficulties in finding the extra time required to manage the changes. In some cases, an increase in the backlog of materials to be processed from delays caused by the transition may create storage problems.

Conclusions

I don't want to overemphasize the implications of the **Amazon** changes. At this time next year, I expect that both buyers and sellers will have adjusted to variable shipping options and increased fees. **Amazon** will almost certainly remain the chief marketplace for buying and selling books and other media. The major effects will most likely be a potential decline in the number of items sold because of increased prices and an erosion of purchasing power for libraries that buy materials from **Amazon**. 🐼