

SURVIVING THE FLOOD

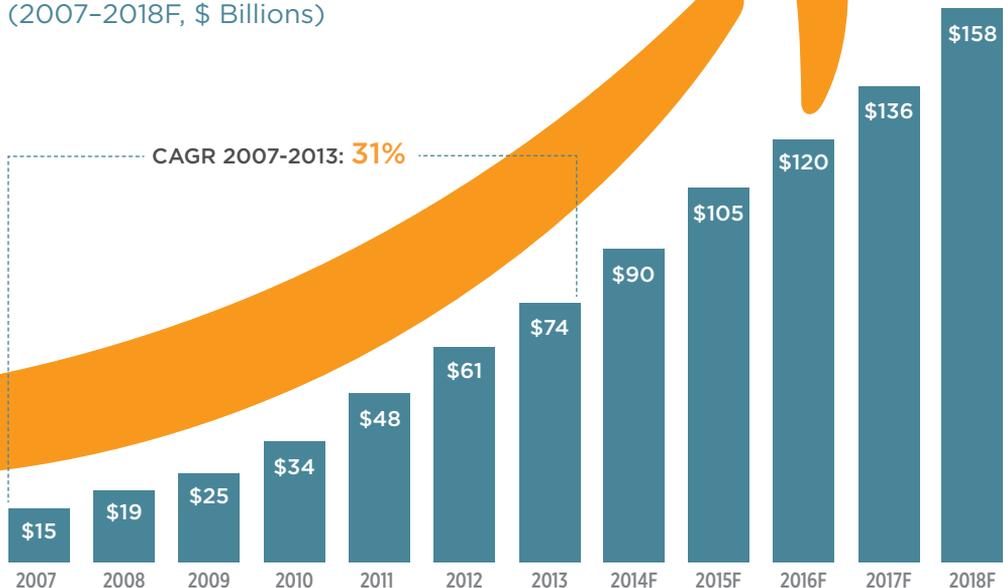


Identifying, and investing in, Amazon-resistant categories

Many investors and casual observers feel as if Amazon, like the river it was named for, is a massive force, taking out everything in its path.

Recent history has shown us Amazon's power. Its sales grew from \$15 to \$74 billion from 2007–2013, a compound annual growth rate of 31%, and are projected to more than double by 2018—to \$158 billion.

AMAZON SALES GROWTH (2007–2018F, \$ Billions)



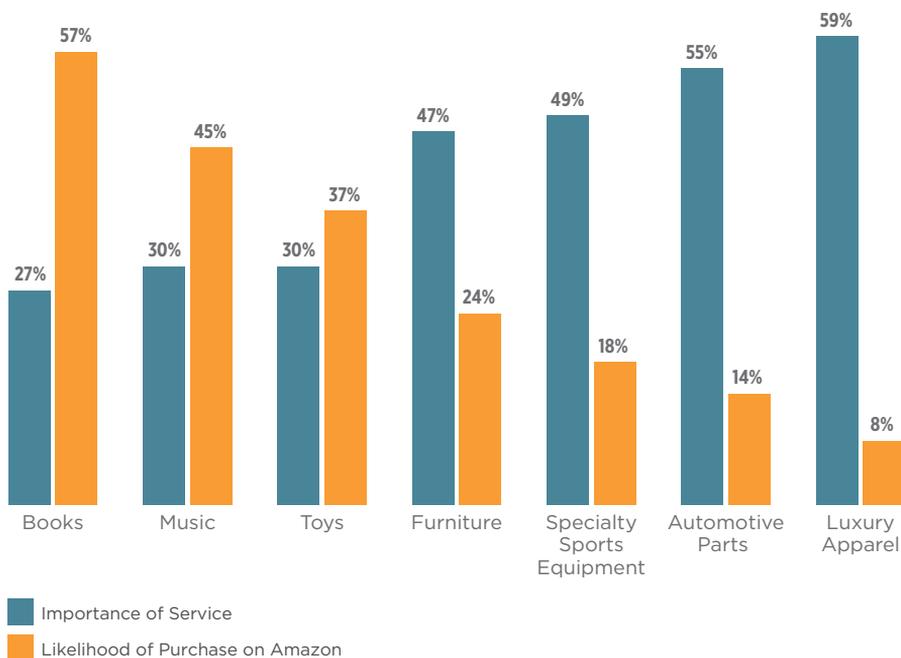
Source: Susquehanna Financial Group, Amazon financial reports and Kurt Salmon analysis

This growth is a result of several factors, including services like Prime, new partnerships with manufacturers and, perhaps most importantly, Amazon's continued encroachment on a far larger number of product categories like home improvement and grocery.

But according to 2014 Kurt Salmon research, Amazon will not be able to co-opt every category; retailers in high-service categories are most likely to continue to thrive and could make compelling investments. These include luxury and lifestyle retailers, furni-

EXHIBIT 1: Service Is More Important in Amazon-Resistant Categories

Reported Importance of Service vs. Amazon Purchase Proclivity



Source: Kurt Salmon Consumer Survey

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ture, specialty sports equipment—especially service-oriented products like bikes and skis—and automotive parts. On average, only 16% of 1,000 consumers surveyed by Kurt Salmon said they purchased anything in any one of these four categories on Amazon over the past six months, as illustrated in Exhibit 1.

But even though this number is bigger than, say, current grocery penetration, we believe Amazon will have trouble significantly growing share in these categories. That's because an average of 52% of consumers value service in these categories versus 29% in categories that Amazon has won.

Similarly, only 2% of current purchasers said service was not meaningful in making purchase decisions—regardless of channel—in these Amazon-resistant categories, compared to 12% for categories Amazon has already conquered.

This stands to reason, given that help finding the right products and installing or setting them up is critical in categories like automotive parts, specialty sports equipment and furniture. And the luxury goods shopping experience can be extremely tactile and often requires knowledgeable sales associates to help educate customers about products and brands. ❖

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