



# Amazon Viewed Diapers.com as Top Competitor

From: Wiles, Chance  
 To: Rothman, Michelle; Harris, Stefanie; Taing, Mardi  
 CC: Pann (Adams), Jennifer  
 Sent: 5/12/2009 10:46:33 AM  
 Subject: RE: Benchmarking- Diapers.com

I've already done part of this.  
 Andrea- Can you take our review and look at the 3P piece with Stefanie?

From: Rothman, Michelle  
 Sent: Tuesday, May 12, 2009 10:03 AM  
 To: Wiles, Chance; Harris, Stefanie; Taing, Mardi  
 Cc: Pann (Adams), Jennifer  
 Subject: FW: benchmarking- Diapers.com  
 Stefanie and Mardi,

I think Chance is out this week, I'm hoping you can help with something asap today. **The benchmarking team recently completed a study of Diapers.com. They are our largest and fastest growing competitor in the on-line diaper and baby care space.** They are presenting their findings to JEFFB this afternoon.

One of the questions Wiles had was related to our selection versus Diapers.com. The Q&A did a comparison, but only did it for HFC, not baby GL. Attached are all brands found on Diapers.com that we believe are available in the baby store. I'm worried there's a fast way to compare which brands are offered by retail and which are offered by 3p. I just need a simple yes/no (I don't need asin counts). For the most part, you can do a vlookup of all ABIS brands to find matches. Not sure of the easiest way to do it for 3P, but it may work from fast track data/glance view data.

I'm so sorry for short notice, but since this is being presented to JEFFB today I want to be sure as possible. Is this something you can do by noon today? I'll owe you both lunch ☺

CC'ing Jen, as she may have an easy way to pull this info as well.  
 Thank you, thank you, thank you!!!!

From: Thekketara, John Thomas  
 Sent: Tuesday, May 12, 2009 3:57 AM

“The benchmarking team recently completed a study of Diapers.com. They are our largest and fastest growing competitor in the on-line diaper and baby care space.”

To validate- I also just called Diapers.com CS. (You'd be surprised as to how much competitive intelligence I've gather just by calling various competitors and asking ☺) Here is an excerpt from the call I just made.  
 Kevin: "I'm doing research on Diapers.com and was wondering how many different products you guys carry?"  
 CS REP: "As of last week I think we were at approximately 1400".  
 Kevin: "And how many brands are represented over these products?"  
 CS REP: "Last I heard, I think we sell around 250 different brands. You can find the whole list by going to Diapers.com, clicking More Brands and then clicking View all Brands."  
 It's unclear if the "1400 products" included sizes/colors. I didn't want to push my luck or raise suspicion.  
 Let me know if you have any questions.  
 Chee,  
 Kevin

Today's whr story that CMT price matching failed for them was depressing.

Michelle- please make it top priority to get the CMT matching back up and running for them. And please verify that we are matching against everything they sell. Also, please report back to why it failed for them and what we can do to assist it going forward.

Adding Chance: These guys are selling all kinds of baby products. Please verify that they are in your external competitor match list as well.

Michelle/Tom: We need a similar competitive overview of these guys as we are doing for Costco. For both, I want to know how many asins they are selling, and where their price points are.

D

From: Herrington, Doug  
 Sent: Monday, February 09, 2009 6:05 PM  
 To: Booms, Douglas; Renke, David  
 Cc: Sato, Steven; Purdy, Tom  
 Subject: RE: Diapers.com - looked at them ever?

Adding Tom

They approached us a few years ago, asking about deli vering diapers for us as a dropshipper.

They are our biggest competitor in the diaper space. **They keep the pressure on pricing on us. They apparently have lower fulfillment costs than we have** (or are allocated). They are a merchant on our site, with a few asins.

They also recently installed KIVA material handling equipment in their FC... which we've been... willing to explore a range of relationships" angle.

I'm interested. At the numbers below they may be giving us a run for our money. We can approach...  
 D

“They keep the pressure on pricing on us. They apparently have lower fulfillment costs than we have.”

2007 \$36MM  
 2008 \$89MM  
 2009 [projected] \$172MM  
 Company has \$12MM in cash.  
 Funding - raised \$17MM to date from Bessemer and Accel and others.  
 Good growth, no? Would be expensive, but do you think there is a pony in there? Could be an interesting fit with Fresh in some ways. Ie. Diaper delivery, baby



# Amazon's Plan to Weaken Diapers.com

From: herrington, doug  
 To: wales, chance; landry, stephenie;  
 Cc: nenke, david  
 Bcc:

“We have already initiated a more aggressive ‘plan to win’ against diapers.com. . . . To the extent this plan **undercuts** the core diapers business for diapers.com, it will slow the adoption of soap.com.”

Given diapers.com's pricing policies, soap.com is our most significant short term competitor in the hpc space.

What are we doing?

1. We have already initiated a more aggressive "plan to win" against diapers.com in the diaper/baby space, which includes market leading pricing on diapers ("double your SNS discount to 30% off diapers and wipes"), a free PRIME offering for new Moms, and a structured and marketed "Amazon Mom" program". Per Greg's suggestion on Friday, we are scheduling some time to review this with you. **To the extent this plan undercuts the core diapers business for diapers.com, it will slow the adoption of soap.com.**

From: Wales, Chance  
 To: Herrington, Doug  
 Cc: Rothman, Michelle; Furphy, Tom; Nenke, David  
 Sent: 2/9/2009 8:51:19 PM  
 Subject: Re: Diapers.com - looked at them ever?

I'll make sure we're matching and look back.  
 On Feb 9, 2009, at 7:10 PM, "Furphy, Tom" wrote:  
 Good point. Let's keep this as an option to consider. First let's make sure we are 100% matched, then see if we feel we need to go further.

From: Rothman, Michelle  
 To: Herrington, Doug; Furphy, Tom; Nenke, David; Wales, Chance

“[T]hese guys are our #1 short term competitor. . . . [W]e need to match pricing on these guys no matter what the cost.”

I'm sure their pure focus on diapers is a competitive advantage. In the near term we should advocate out a better internal allocation to reflect our strategy, or we should keep driving efficiencies like "no stocking of production-line-direct-to-consumer" model with P&G.

They must a bigger P&G diaper customer. . . .

From: Herrington, Doug  
 Sent: Monday, February 09, 2009 6:12 PM  
 To: Furphy, Tom; Rothman, Michelle; Nenke, David; Wales, Chance  
 Subject: Fw: Diapers.com - looked at them ever?

\*\*do not forward\*\*

More evidence these guys are our #1 short term competitor. As I've mentioned to each of you, I think, we need to match pricing on these guys no matter what the cost.

They also offer Free 2-day shipping on any order over \$49.



# The Plan Worked

fully integrated multi-category commerce site. Each launch of a new vertical will require significant incremental investments in brand development, inventory, and marketing/customer acquisition. For example, Soap.com took nine months, 20 people, and \$9MM of inventory build to launch, costing an estimate \$13MM. There will always be a trade-off between a focused specialist experience and the ability to acquire customers efficiently by amortizing the cost of customer acquisition across multiple categories. To date, Soap.com is the only new vertical that Quidsi has launched under this specialized website strategy, and it remains to be seen if Quidsi will be successful in extending this strategy to other categories. Our technical, merchandising, and RCX teams have diligenced this area and believe that from a technology perspective, Quidsi has the capabilities to launch new vertical sites in 6-8 weeks, although significant incremental merchandising and marketing resources will be required while also scaling their Chinese development team.

- **Technology Organizational Structure.** All of Quidsi's technology (website platform, WMS, database) is built using Microsoft products (.net architecture). This limits Amazon's ability to leverage our technical resources to assist Quidsi post-acquisition. In addition, Quidsi's software development, including for its website, is done under a development agreement by an 80-person Chinese software development company that has some affiliation with Quidsi's Director of Software Engineering, Wei Yan. This was an area that we focused on during diligence. We ultimately gained some comfort on this issue, since these employees are 100% dedicated to Quidsi projects and Quidsi appears to have contractually secured title to all intellectual property created by this team. Furthermore, Quidsi is negotiating a 3-year exclusive development agreement with this company, which should give us room after close to resolve this issue definitively. Ultimately, of course, we want future software and website development to be created by Amazon/Quidsi employees. See Legal Due Diligence summary for additional information.

- **Decelerating Growth in Core Diapers Category.** As noted, Quidsi had a challenging Q3-10 (1.7% quarter-over-quarter net revenue growth for Diapers.com), which management attributes to overall unfavorable conditions within the baby care segment. A large portion of this softness can be attributed to a recent decline in the acquisition of new diaper buying customers (down 7.5% year-over-year and down 21% quarter-over-quarter in Q3) as the average cost to acquire a new diaper customer increased significantly from \$30 to \$38 year-over-year. While Quidsi experienced a slowdown in the acquisition of new diaper buyers, the company has been able to accelerate the growth of non-diaper customers (up 152% year-over-year and 25% quarter-over quarter) which now represent more than 50% of all net revenue. Diligence confirmed that the company is building traction in non-diaper baby categories ('noncore' net revenue up 152% year-over-year in Q3 2010) and is building the Soap.com business, but the slowdown of net revenue growth in its core diaper business is concerning. Quidsi management believes the core diaper category by redeploying marketing to offers that drive repeat behavior such as its current offers.

#### Summary of Valuation and Synergies

of the company and the strength of its team, we believe Quidsi has a good chance of achieving its long term goals with enough time and investment.

Our model is especially sensitive to assumptions driving top line growth and Gross Margins for the Soap/BeautyBar vertical. A decrease in compounded annual revenue growth from 29% to 24% in 2011 through 2020 in the Soap/BB vertical decreases value by \$34MM. A 100 basis point decrease in longer-term Soap/BB gross margin (from 22.5% to 21.5%) decreases value by \$65MM.

Amazon.com, Inc.  
Attachment 4(c)-9  
November 2, 2010

**From:** Krawiec, Peter  
**Sent:** Tuesday, September 21, 2010 6:31 PM  
**To:** Wilke, Jeff; Herrington, Doug; Blackburn, Jeff  
**Subject:** Re: 30% cash back (no fees, no subs)

If you have not looked at management's forecast you should when you get a few mins-**they expect to lose lots of money over the nxt few yrs-this will make it worse.** They also expect a lot of their growth to come from soap.com which is unproven and less growth from diapers. In the end soap.com is projected to be bigger than diapers.com.

**From:** Wilke, Jeff

“[T]hey expect to lose lots of money over the nxt few yrs-this will make it worse.”

**Sent:** Tuesday, September 21, 2010 6:24 PM  
**To:** Wilke, Jeff; Krawiec, Peter; Blackburn, Jeff  
**Subject:** FW: 30% cash back (no fees, no subs)

Fyi, looks like Diapers.com put up a response to our Amazon Mom offer.

**From:** Herrington, Doug  
**Sent:** Tuesday, September 21, 2010 6:22 PM  
**To:** Landry, Stephenie; Wales, Chance; Nenke, David; French, Eric  
**Subject:** 30% cash back (no fees, no subs)

Looks like their response to Amazon Mom:

(screen shot below)

30% cash back on all diapers through end of year with every order of \$75 or more. We “heart” parents. No fees, no subscriptions, free overnight shipping.

“Decelerating Growth in Core Diapers Category. As noted, Quidsi had a challenging Q3-10 ...”