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Marketplace Pulse, which sampled seller transactions going back to 2016.

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By Spencer Soper, Bloomberg News (TNS).

Grappling with slowing sales growth and rising costs, Amazon.com Inc. is squeezing more money from the nearly 2 million small businesses that sell products on its sprawling online marketplace.

For the first time, Amazon's average cut of each sale surpassed 50% in 2022, according to a study by Marketplace Pulse, which sampled seller transactions going back to 2016.

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company was attracting new customers and rapidly increasing sales. That abruptly changed when pandemic lockdowns eased and people began traveling and dining out again, sucking the oxygen out of online shopping. Last year, Amazon generated the slowest sales growth in its history.

Consumers are far more deal-conscious than they were during the pandemic, so Amazon merchants are loath to raise prices. That reality, along with the steady increase in fees, means many sellers are struggling to make money — prompting some to handle shipping themselves and to spend less to advertise on Amazon's site.

"For these small businesses, it's getting harder and harder to be profitable because they are spending more and more money on Amazon fees," said Juozas Kaziukenas, Marketplace Pulse's founder and chief executive officer. "Amazon might be tempted to keep increasing fees because it's in a tough spot, but you have to reach some kind of equilibrium."

Amazon sellers choose to use its logistics services because, on average, they cost 30% less than alternatives from other shipping companies, and merchants are free to buy advertising anywhere, company spokesperson Mira Dix said in an emailed statement. The fees Amazon charges reflect the company's own costs and investments, she said.

"Many selling partners have built and run their businesses without advertising," she said. "If they choose to advertise their products, they have many service providers to choose from. Sellers are not required to use our logistics or advertising services, and only use them if they provide incremental value to their business."

Maintaining profits as sales slow presents a major challenge for Amazon's core online retail business. Without Amazon Web Services, the profitable cloud computing business, Amazon would have posted a $10 billion operating loss last year. CEO Andy Jassy is trying to restore the balance by cutting 18,000 corporate jobs

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Chuck Gregorich, who sells fire pits and outdoor furniture, says turning a profit on Amazon is getting harder. One of his popular fire pits costs $200, of which Amazon takes $112 for its commission, warehouse storage, delivery and advertising. That leaves him with $88 to pay the manufacturer, ship the product in from China and cover his overhead. He expects his Amazon logistics expenses to increase up to 8% this year due to a new fee structure that took effect in January and additional changes scheduled for later this year.

"I'll have to raise my prices and I already raised them a lot last year," said Gregorich, who is based in Eau Claire, Wisconsin.

The higher fees have compelled Gregorich to do more logistics himself. Other carriers can deliver fire pits for $28, he said, or about half what he pays Amazon to deliver bulky items. Amazon's delivery service often takes longer than the two days customers expect, so it's no longer worth paying a premium, he said. Dix, the Amazon spokesperson, said Gregorich's experience with delivery times is "the exception and does not represent the vast majority of both Amazon sellers we partner with and customers that we deliver for."

Sellers of non-perishable grocery items are in a different bind, said Gwen McShea, president of Lean Edge Marketing in Vermont, which has about 70 clients. One sells snack-sized bags of popcorn. A 24-pack helps them offer bulk discounts but Amazon has been ratcheting up fees owing to the package's large size. A six-pack has to be priced significantly higher than in stores to cover Amazon's delivery fees, she said.

"A single unit seems outrageously priced to the customer because it's so much more than the store, but then does the shopper really want two dozen in a bulk pack because that's a big commitment," she said. "It's tricky to find the sweet spot."

Amazon sellers don't control the commissions Amazon charges or fees for things like

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after clicking an ad, declined each quarter last year, she said.

"The advertising space on Amazon isn't as successful as it used to be for sellers," Burdick said. "A lot of sellers are choosing to offer discounts rather than advertise because shoppers are responding more to discounts."

Some sellers are benefitting from Amazon's changes. Desert Cactus, a Chicago-based company that sells flags, license-plate frames and other merchandise on behalf of colleges and professional sports teams, uses one of Amazon's cheapest shipping services designated for small, inexpensive products. Amazon increased the maximum product price allowed for the program to $12 from $10, which makes more Desert Cactus merchandise eligible, founder Joe Stefani said.

"It's hard to replace Amazon because the value is still there," he said. "They deliver all of these customers and the shipping fees are less than if we did it ourselves. It's the place to be and it's going to be for some time."

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