Blake Droesch

# The Daily: Is Amazon about to hit the throttle again, how Pinterest started 2023, and how popular is self-checkout?

Audio

On today's episode, we discuss how we should feel about Amazon's online sales being flat, how its ad business was able to have such a good quarter, and why the company has yet to find a mass grocery format worth expanding. "In Other News," we talk about how Pinterest has been doing and just how popular self-checkout is. Tune in to the discussion with our analyst Blake Droesch.

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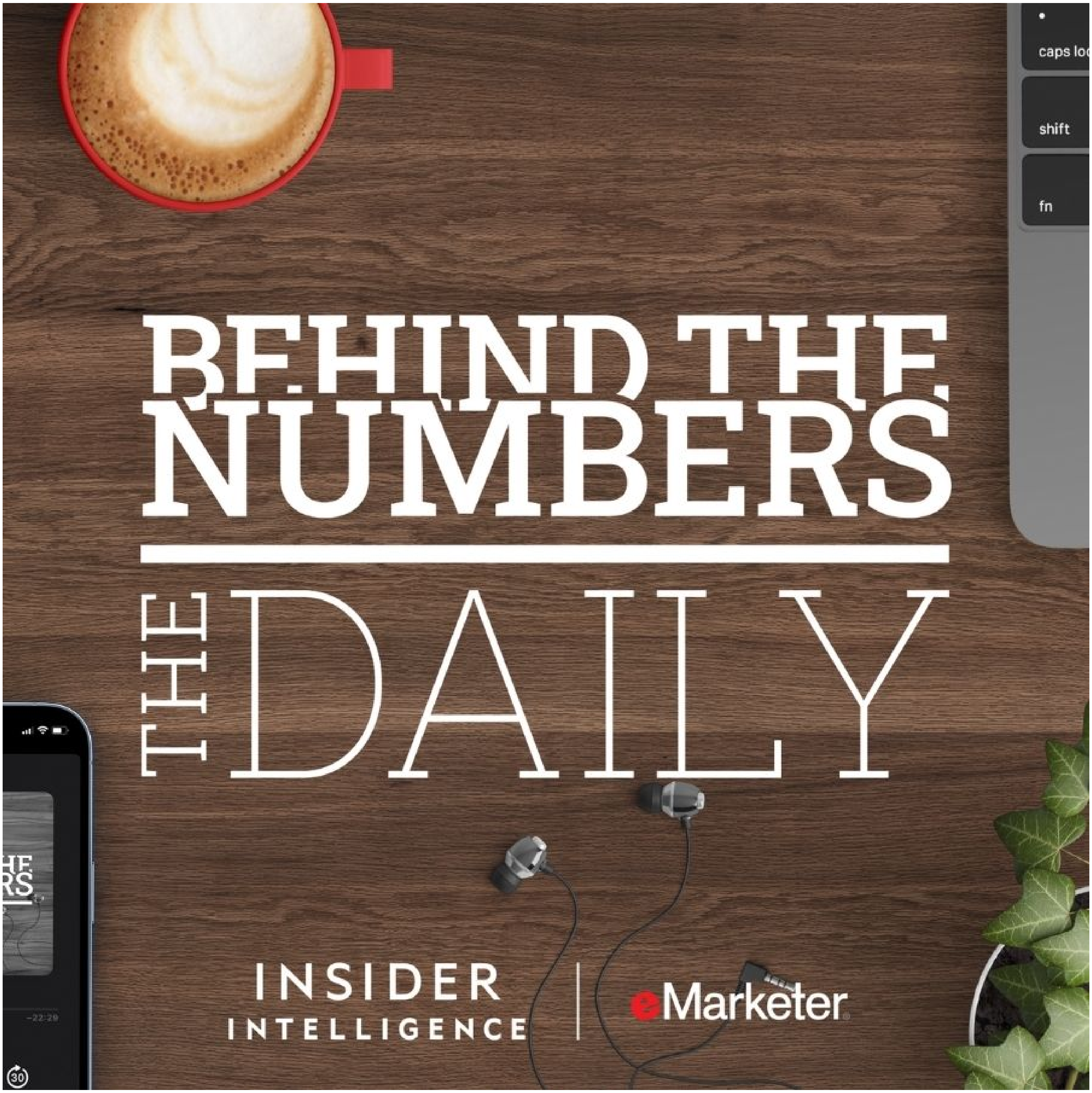


Episode Transcript:

Marcus Johnson:

Hey gang, it's Thursday, May 11th. Blake and listeners, welcome to The Behind the Numbers Daily, an eMarketer podcast made possible by InMobi. I'm Marcus. Today I'm joined by one of our senior analysts who covers retail and e-commerce based out of New York. You know him as Blake Droesch.

Blake Droesch:

Hey Marcus. It's great to be here.

Marcus Johnson:

Hey buddy. Thank you for hanging out today. Today's fact. What does 20/20 vision actually mean? If you have 20/20 vision, you can see an object that is 20 feet away clearly. 20/20 vision refers to normal vision in fact, not perfect vision. Dr. J Kevin McKinney of the American Academy of Ophthalmology says that only about 35% of all adults have 20/20 vision or normal vision without glasses, contact lenses or eye surgery. With correction about 75% of adults have 20/20 vision.

Blake Droesch:

It's very just disappointing as a couple of glasses wearing folks that 20 feet ahead of you is the average for normal. I can't see five feet ahead of me without glasses on.

Marcus Johnson:

Blake has 5/5 vision at best. Me too. Today's real topic, is Amazon about to hit the throttle again?

In today's episode first in the lead we cover Amazon's January to March. How did that go for them? Then for another news we'll check in on Pinterest and find out how popular self-checkout is.

We start, of course, with the lead. We're talking Amazon and their Q1 performance. Blake, let's start with the headline number. What did you make of Amazon's top line 9% growth for Q1?

Blake Droesch:

Yeah. I think the big question around Amazon, certainly as far as investors are concerned is as a company that has such a dominant market share in so many industries, where is the ceiling? And that's the big question when we look at is 9% a good number or a bad number?

And I think what we saw during the earnings call is that that number beat some of the expectations, but a lot of the color that came out, particularly around AWS, lended some uncertainty for the future.

I think when you look at Amazon, which is a rare beast with multiple different industries in which it dominates, where that balance is out and where the opportunities for growth are, and then trying to project it from a top line number, it can get very sticky. And I think we'll break down a couple of the components in terms of what's driving growth in this segment.

Marcus Johnson:

I know. I wonder how long we're going to be able to call them a retail company or a e-commerce company, because I typed that earlier and then deleted it because I was like, well ad business now, a cloud business as well. They obviously have a bunch of different devices on top of that. And obviously e-commerce is the main driver here, but some of those other units are growing quite quickly and getting quite sizable.

The top line number, yeah, it's hard to look at 9% without any context because 9% growth is slow by Amazon's kind of pre-pandemic, kind of pandemic fueled historical standards. But it's used to kind of very, very, very strong double digit growth. But it's two points higher, that 9% is two points higher than last Q1, which was seven. So pretty good.

A second point to make is they still made $127 billion in those three months, January, February, and March. It's the fourth straight quarter of making over $120 billion and it's double in Q1 this year. It was double what they made in Q1 2019.

Blake Droesch:

Yeah. And that's sort of the difference between what we look at as industry analysts versus what investors expect as a company that is achieving consistent growth. But when we try to unpack what 9% means, I mean you have to look at, like you said, what the money that they're currently bringing in based on their existing market share. I mean, you have this a company that has more than 37% US e-commerce sales. The second largest there is Walmart, which is 6.4%. It's got more than 11% of all worldwide e-commerce sales. And the numbers that I just cited, those are eMarketer numbers. We don't have a number for worldwide, but other firms estimate that that's only second to Alibaba.

So e-commerce, really how much bigger can it get, especially as Amazon really finds itself in this transition to a profitability over growth company, which is a drastic break from how they've previously operated. That's going to make international growth more difficult for e-commerce. And then when you look at US, the question that really begs to be answered is, how much larger than 37% market share will they be able to get?

Marcus Johnson:

Right. You mentioned profitability and the focus there. Cost-cutting effort seemed to be paying off after taking the captain's chair in 2022, the CEO, Andy Jassy, has cut the Halo fitness division, froze real estate expansion, overhauled its delivery network in the US, and cut 10% of its workforce in the last year.

One of the things that really drives Amazon, obviously Blake, is selling things on its platform, online sales. They were flat in the first three months of 2023. That line item accounts were about 40%. Online stores net sales, so it's main revenue driver, 40% of its business coming from selling things online. That was flat though in the first three months of 2023. That's year-on-year growth. How should we feel about online store sales at this point?

Blake Droesch:

Yeah. I mean, once again, I tend to look at it through the lens of market share. And if you unpack it on a category level, you could make the argument that its potential for growth is really maxed out in a lot of its core categories. Amazon makes up close to half of US e-commerce sales and consumer electronics and office supplies. They hover around a third of US e-commerce sales in categories like apparel, and toys and hobby, and health and personal care.

So really, when you have a company that makes up such a large percentage of the e-commerce market, its growth is really depended on consumer habits. Basically is the economy in a place where consumers are spending on these categories where Amazon has a dominant market share? And if the answer is yes, then it has a big impact on how Amazon can perform in e-commerce.

I just wrote a report about Amazon's US e-commerce sales by category. And when we look at where they're growing share, so basically where Amazon's sales growth on a category level is growing faster than the overall US e-commerce market, there aren't really many categories where it's outpacing the market. It's basically just staying flat.

There are certain exceptions like health and personal care, but like you said, I mean it's kind of living and dying with how these macro consumer trends are playing out given just where it is in terms of its approaching ceiling and having the share of the market.

Marcus Johnson:

I mean yeah, macro consumer trends, still the same old explanations ring true. A) folks are shopping in stores more now that the pandemic has calmed down. And we just got the great news as well from the World Health Organization just declaring the COVID-19 pandemic emergency over. So that is fantastic news. And obviously in the US things have been back to whatever normal is for a short while now, especially in the last 12 months. So people shopping in stores. And then B) folks tightening budgets because of inflation has been anywhere between 5% to 9% for each of the last 12 months after being around 2% for the previous 20 years. So those are just factors which we talked about last quarter, but there's still factors which apply today.

Also, there's this shift in terms of Amazon's business. I mean we talked about online store sales and they have an ad business, they have a cloud business, et cetera. And online store sales, it used to account for close to half around pre-pandemic, close to half of how much money they made, is now moved from about 50% of their business to about 40% of their business. So that is starting to shift in terms of making more money from other things.

Other things to note. If you look at the exact decimal growth of Q1, it was flat, but it was negative 0.1. So it technically, technically was negative. And they've been negative five of the last six quarters. Q3 of 2022 is the only positive they've seen in the last six quarters. So negative 0.1% is actually a bit ... is quite good. It's a bit of a turnaround of sorts.

Let's move to one of those line items, Blake, that we talked about that is growing, its advertising business. Amazon made nearly $10 billion in ad revenue in Q1. That's up over 20% similar to last Q1 and better than Q4's growth, in fact. Blake, how has Amazon's ad business been able to have such a good quarter?

Blake Droesch:

Yeah. Well, Amazon said that it's been their investments in machine learning that are improving the ad experience for consumers. But I tend to think that whenever executives bring up AI these days, it's sort of just a cheap way of changing the conversation to something else because I think the long and short of it is that the digital ad market has recovered a bit. It's not just Amazon. We saw Google's advertising search business has performed better than expected in recent months. Even Meta saw a bit of a turnaround as well.

But it goes back to basically consumer interests that we were talking about in the previous segment. The reason why Amazon is able to build such a viable advertising business is because they have tons of consumer traffic. And particularly as we see e-commerce adoption in places like digital grocery and health and personal care, which I alluded to, these spaces are really driving a lot of CPG brands to invest more heavily in Amazon's advertising business.

And it's another reason why this is going to be a critical focus for Amazon, because when we talk about Amazon building revenue from other areas of its business, advertising is not AWS. Where a AWS is really, it's a B2B product that they're selling to businesses, the advertising business and the health of the advertising business is very much dependent on the continued success of its e-commerce sales.

So if you have competitors like Walmart, which are actually in the US, has a larger digital grocery business than Amazon does right now, I mean granted on a big picture scale, e-commerce sales are much larger on Amazon compared to Walmart. But in groceries specifically, Walmart is beating it out. And that is an area where Amazon's going to need to focus and maintain the health of those sales in order to continue to keep luring CPG brands to spend ad dollars on their platform.

Marcus Johnson:

So $10 billion in Q1. We expect to add revenues for Amazon to grow 17% for the full year to 34 billion and then accelerate actually. 17% growth this year, 21% growth next year is what we're forecasting, and we're expecting it to cross the $44.0 billion mark in terms of its ad business.

Blake, what else are you keeping your eye on when it comes to Amazon at the moment?

Blake Droesch:

Yeah. I'm always fascinated by how Amazon approaches its expansion into physical retail. I think given this sort of profits overgrowth mindset that they're in now, they've really once again put the brakes on investing in Amazon Fresh and Go stores. But all that really means is that Amazon is still testing and still learning and is eventually going to reinvent their physical retail strategy once again.

And I always kind of take pause at the coverage that I see that paints Amazon's trial and error approach as a failure. They know what they're doing in this space and they understand the value of physical retail, particularly now when it comes to retail media and digital grocery becoming such larger pieces of the business. So really any new updates that sort of tease out what this next wave of thinking around the physical store is always going to be something that I'm going to look for when it comes to Amazon.

Marcus Johnson:

Yep. They've not seen negative growth on their physical store sales year-on-year since Q1 2021. And to your point, they're not looking for revenue growth here really at the moment. That you can see it. They're in the test and learn phase. And when they figure out what is going to work, you can see them moving all of their chips and placing them on that number because yeah, Rachel Wolfe is one of the analysts for our retail briefing, wrote something that really, well, she was saying that physical store sales rose in the quarter about 7% making about $5 billion. But Amazon has yet to determine the best course of action for brick and mortar and saying the CEO noting grocery as a huge growth opportunity at the same time acknowledging Amazon has yet to find a mass grocery format worth expanding despite significant investments in its Amazon Fresh banner. So definitely worth paying attention to because when it hits, it's going to really hit you would expect.

That's all we've got time for the lead. Time for the halftime report.

Blake, your takeaway from the first half.

Blake Droesch:

Yeah. So I think it's that big question that I'll just reiterate. I mean, where is the ceiling for a company like Amazon? When you look at AWS and you're seeing that predicting slowdown of growth, maybe that is the potential of the business, at least in terms of sort of being a powerhouse for growth that really attracts investors. I think we did a good job of spelling out the challenges and potential ceilings in the e-commerce space, and then where Amazon is going to take its advertising business.

I think the one thing that I didn't mention is that Amazon's got that 13% share of digital ad spending in the US that's a little bit smaller than the other two players in the tripoly, Meta and Google. But as you pointed out, Marcus, it's growing much faster than those two other players. And that's not only true for the US market. The same thing is true for the worldwide market.

So really looking at these three sectors and trying to gauge where's the ceiling and how much growth are you going to be able to squeeze out of these different sort of powerhouse divisions that they have.

Marcus Johnson:

Two final things worth noticing, Amazon posted over $3 billion in Q1 profits. That's 50% higher than analysts expected and way better than losing 4 billion like by they did last Q1. And secondly, the company expects Q2 sales to grow between 5% to 10% helped along by its ad business. That's what got time for for the lead. Time for the second half of the show today in other news. How has Pinterest been doing and just how popular is self-checkout?

Story one: How has Pinterest been doing? Well, in a recent article, Senior Director of briefings, Jeremy Goldman notes that the company now has 463 million, 436 million global monthly active users, MAUs, up 7%, beating analyst expectations. Pinterest made over $600 million in revenues for the quarter, up a better than expected 5%.

But Blake, the most interesting sentence to you in Jeremy's article was what and why?

Blake Droesch:

Yeah, I think it's a final sentence that says with a smaller devoted user base that engages in its platform differently than other social platforms, Pinterest has always been a bit of an odd duck, but its approach has the potential to take market share from larger social players.

I think that's just an important reminder. I mean, especially analysts, we tend to just compare numbers and figures against each other. But it's not always about quantity. I mean the quality of users and the experience that they get out of a platform can be highly valuable and it can be enough to really sustain a business model, even if they're not going to steal significant share from larger social players.

Marcus Johnson:

Yeah. Looking at their audience a bit closer, their users, we expect 25% of Americans to use Pinterest this year. That is flat. However, when you look by gender, 35% of all women, we expect to use Pinterest this year as compared to 15% of all men. And then the second thing here, we expect Pinterest to grow ad revenues 7% for the year, crossing $3 billion for the first time.

Story two: Who uses self-checkout asks Dan Berthiaume of Chain Store Age. According to a study from shopper intelligence company Catalina, nearly 40%, 40, of shoppers used both lane types in 2021, self-checkout and manned checkout, depending upon their shopping mission. Nearly 50% of shoppers preferred manned only lanes while just above 10% of shoppers were self-checkouts only people. So you've got 50% of people said, "Manned lanes only, please." 40% said, "I'll take either." And 10% said, "Just self-checkout. Thank you very much."

But zooming in on the hybrid shoppers, the folks who said, about 40% who said, "I'll take either," their transactions were split 50/50 between manned checkout and self-checkout. Manned checkout did account for nearly 70% of sales though. So transactions was 50/50, but sales was 70/30 in favor of manned checkout.

Blake, the most interesting sentence in this article from Mr. Berthiaume is what and why?

Blake Droesch:

Yeah, the interesting part to me was Catalina, which is this firm estimates that self-checkout lanes now account for nearly 40% of lanes in grocery chains in the US. And that's the takeaway for me, right? Because when I go into a store and I'm deciding if I want to do checkout or in-person, I look at the line and I see which line is shorter and I go on that line. And I think that's how most people tend to operate. So it's really about the availability of these self-checkout lanes that are driving that shift.

And yes, as the article points out, there are certain demographics. Older people tend to be resistant to self-checkout because the user experience is inherently bad on a lot of these checkout platforms, but it really comes down to the availability of options.

Marcus Johnson:

Yeah. Where are the fewer people? I'll go there. That's what we've got time for for this episode. Thank you so much to my guests. Thank you to Blake.

Blake Droesch:

Always a pleasure.

Marcus Johnson:

And thank you to Victoria who edits the show. She's back ladies and gentlemen. Thank you to James who copy edits it. He's also back. And Stuart who runs the team. Though seems less enthusiastic that James is back.

Blake Droesch:

Did your whole team go on vacation without you or something?

Marcus Johnson:

Pretty much, yeah. Stuart is the only one who's-

Blake Droesch:

I have this image of they're all just hanging out in The Bahamas and then you just didn't get the invite.

Marcus Johnson:

Did that happen? Probably. Stuart who runs the team, thank you to him, and thanks to everyone listening in. We'll see you tomorrow hopefully for Behind the Numbers Weekly listen. That's an eMarketer podcast made possible by InMobi.