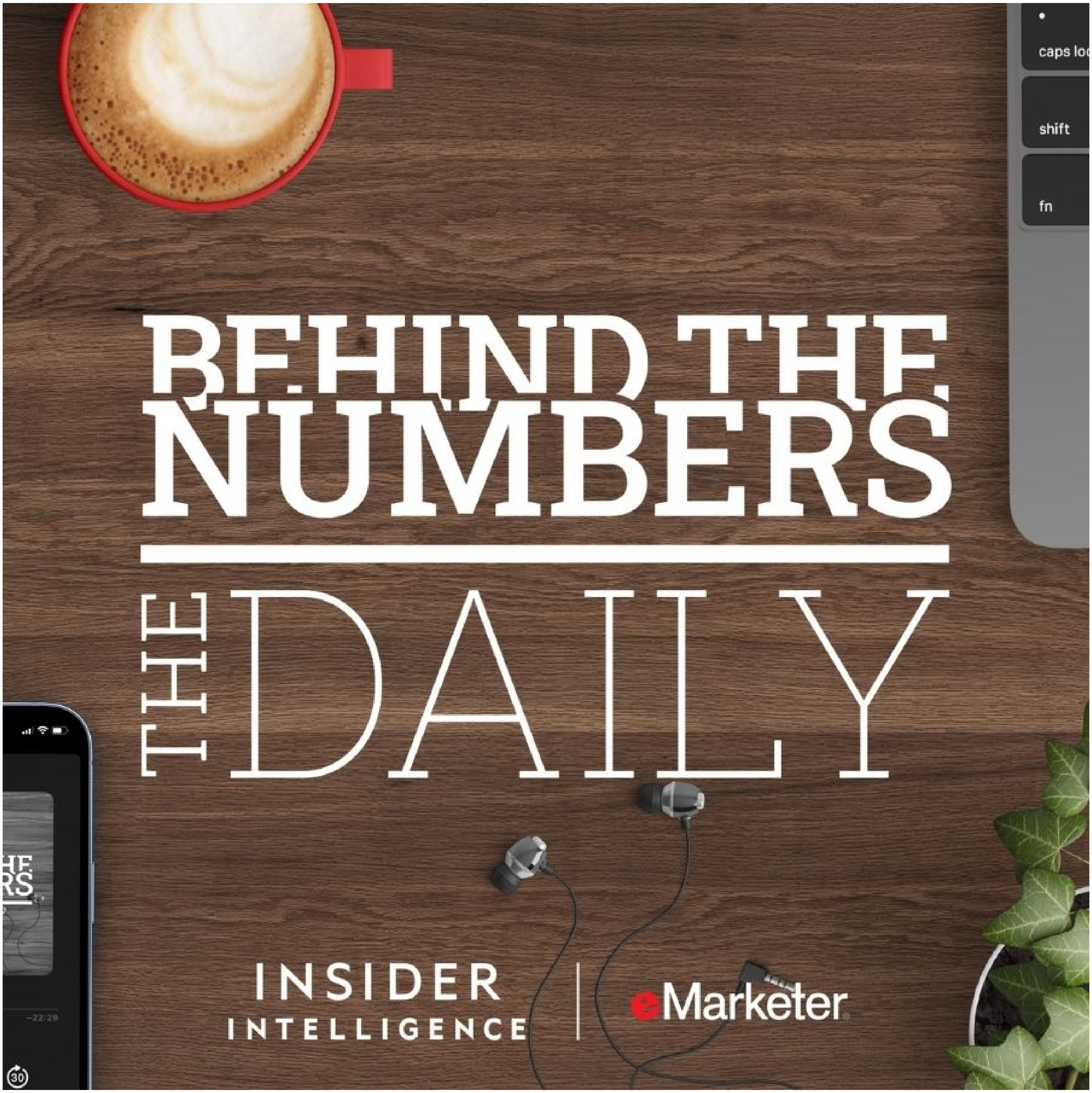
Jeremy Goldman, and Zak Stambor

The Daily: Has Amazon officially reversed course, retailer site searches, and watching ads to save money

Audio

On today's episode, we discuss whether Amazon can keep expenses down while also keeping customers happy, where the company will place its bets on grocery, and how its advertising arm has performed of late. "In Other News," we talk about why most retailers site searches aren't working and how many streaming viewers will watch ads to save a few bucks. Tune in to the discussion with our director of Briefings Jeremy Goldman and analyst Zak Stambor.

Subscribe to the "Behind the Numbers" podcast on Apple Podcasts, Spotify, Pandora, Stitcher, Podbean or wherever you listen to podcasts. Follow us on Instagram



Episode Transcript:

Marcus Johnson:

Unlock unlimited marketing opportunities that reach consumers everywhere using Awin's affiliate partnerships platform. Choose which partners best match your marketing objectives, control your costs by defining how you pay, and customize your affiliate marketing program using Awin's tech to mirror your unique goals, whatever they may be. Visit awin.com/emarketer to learn more and get started today.

Jeremy Goldman:

And I think ultimately I would say it's not even necessarily their dedication to customer experience, it's more so their desire to optimize the experience and find ways where they can cut back that are not going to impact the customer experience all that much.

Marcus Johnson:

Hey gang, it's Thursday, August 10th. Jeremy, Zak, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Awin. I'm Marcus. Finally I got a good mic again. I'm just going to thank you for bearing with me when I was overseas and didn't have the best mic in the world. We're back and today I'm joined by two folks. Let's meet them. We start with one of our senior directives of everything briefings based out of New York. It's Jeremy Goldman.

Jeremy Goldman:

Howdy and Happy Duran Duran Appreciation Day.

Marcus Johnson:

Exactly. I've been looking forward to this for a while. I had no idea. Also joined by one of our senior analysts covering everything, retail and e-commerce based out of Illinois, more specifically close to Chicago. It's Zak Stambor.

Zak Stambor:

Hey, Marcus. Hey, Jeremy.

Marcus Johnson:

Hello, fella. Today's facts, where does the Vice President of America live? Do you guys know?

Zak Stambor:

I do.

Marcus Johnson:

Really?

Zak Stambor:

Naval Observatory.

Marcus Johnson:

Yeah, stop-

Zak Stambor:

I used to live in DC.

Marcus Johnson:

Jeremy put his hand up as well. Okay.

Jeremy Goldman:

Yeah.

Marcus Johnson:

Wow. Is this common knowledge? Because I had no idea and never thought to look.

Zak Stambor:

I don't think it's common knowledge. And the vice president didn't live there until the '70s. They didn't have a house-

Marcus Johnson:

Just go on.

Zak Stambor:

... until the '70s.

Marcus Johnson:

Jesus, I need to have you on more often, Zak, then I wouldn't have to come up with a fact of the day. I could just ask you for some random information, but you're spot on. Yeah, so you both knew it all. All Vice President since here, Walter Mondale, 42nd Vice President of

America from '77 to '81 have lived. All the VPs from then onwards have lived with their families on the grounds of the US Naval Observatory, which is about 10 minute drive northwest of the White House. It's a white 19th century house at number one observatory circle in DC built in 1893. It's not that nicer house. It's okay.

Jeremy Goldman:

Can you just observe the Navy from there? Is there just a whole lot of Navy in the backyard? I don't know how that.

Marcus Johnson:

There are a lot of embassies nearby and there's also a Trader Joe's across the street and a Whole Foods. So, you've got everything you need really. Well played gents. You both knew that. Well, before we start the show, I'm actually have to revert back to what we were doing last week at the surprise question giveaway.

So, as I mentioned last week, it's back. This is the part of the show where we give away free stuff. But last week I forgot to tell you how to get in contact with us. So, let's try that again. So, basically every Thursday we read out a trivia question and all you have to do is email us the correct answer or you can Instagram message us and include a screenshot of a review of this podcast. It can be an old one, and then you can win a free Behind the Numbers branded water bottle. So, the correct answer to this question plus screenshot of your review equals free water bottle. The question is, which US president was a licensed bartender? Which US president was a licensed bartender? And I will let you know the winner next Thursday. If you know the answer, then you can email us at podcastemarketer.com or behindthenumbers_podcast on Instagram. You can also message us there if you prefer. Today's real topic, has Amazon officially reversed course for the better?

So, in today's show, first in the lead, we'll cover Amazon's Q2. Then for another news we'll discuss searching for things on retailer's websites and how many folks are willing to watch ads to save money. We'll start with the lead, of course. We're talking about how Amazon's done the past three months, April, May, and June, also known as Q2. So, let's talk about it. Revenue at Amazon grew 11% in Q2 reaching $134 billion. That would be 11% faster than the 9% they saw in Q1. And that 11 is faster than the 7 they saw, 7% they saw last Q2 2022. Jeremy, I'll start with you. What should we make of this 11% Q2 top line net sales growth for Amazon?

Jeremy Goldman:

So, I think that there are a lot of different factors we can talk about now, and I'm going to take one of the more boring ones so Zak can focus on the more interesting things. I mean, it's hard to overlook the fact that sales at AWS, they climbed 12% in the second quarter that was above projections. And AWS for those of our listeners who don't know, is a lot of the cloud infrastructure for the internet as we know it. AWS accounts for 70% approximately of Amazon's operating profits. So, it's really hard to overlook the slowness in that business. That 12% was less than they grew the quarter prior 16%. And I think if that is going to be slower, it just puts a lot more pressure on retail sales and retail media and all other facets of the business.

Marcus Johnson:

Yeah, I'd see your point. It makes up a ton of the profits, but just 17%, 17 of the revenue for the business, AWS, and that growth of 12%, a third of the growth it saw last Q2. Zak, when you look at Amazon's top line number, what jumps out to you?

Zak Stambor:

Well, when I'm looking at the retail numbers, it's undoubtedly a good positive story. There's positive momentum. As you said, they beat their top line guidance, they exceeded expectations. And when you look just at North America, which is the largest segment, they did really well, you also saw a 1% growth as well as a profit. And so, things are looking up when you look at the core retail business.

Marcus Johnson:

So, online net store sales, the retail part, 40% of Amazon's business grew 4%. That doesn't seem like a lot or enough for a company like Amazon given some of the growth we've seen in the past couple of years. But it has contracted five of the last six quarters. So, plus four is pretty damn good. Another interesting trend is that online net store sales and which is where it makes most of its money, that is a 40% share, as I mentioned, that was over 50% pre pandemic 2019. So, that share is going down as things like AWS and things like advertising, which we'll talk about in a bit, become more and more important. Third party seller services, that's about a quarter of the business. Second largest bit saw 18% growth. That's double last Q2's.

Zak Stambor:

Yeah, I'm glad you mentioned that because I thought that was really a positive sign because that's really at the crux of what the online business is all about is that marketplace. So, that provides the tail that get people to Amazon because you can find everything you could possibly need there. And so, to see that go up 18% is a real positive sign.

Marcus Johnson:

Yep. Third party seller services up 18%, online net store sales, as we said, up 4% and all that rolls up to that 11% top line. That's pretty impressive, that improved 11%, because that was without Prime Day. Prime Day fell just inside Q3, July 11th, July 12th. One more thing on positive revenue numbers. Amazon's profits nearly reached 7 billion in the quarter versus a 2 billion loss for the same period a year ago. So, that's also improving. So, gents, David Streitfeld of the New York Times is writing that some analysts have worried that Amazon's recent desire to keep expenses down clashes with its longstanding obsession over making customers happy. And so, this year they've been focusing much more on efficiency and making sure that they are as profitable as possible. And so, this service point from Mr. Streitfeld from the New York Times is, can you do that but also still have that furious commitment to customer happiness? Zak, is it possible?

Zak Stambor:

Yes. So, first of all, I just want to say I think that there's always been a lot of rhetoric from Amazon that they're the most customer-centric company around and they strive to be the world's most customer-centric company. But I think that has largely been overblown. And I'll give you one small example of that, and that's with customer service. And so, there's any number of retailers I can think of. Crutchfield in consumer electronics. I can think of Moosejaw in outdoor gear or I can even think of Amazon owned Zappos as companies where right, front, and center, it's very easy to get help when you need it. Amazon, it's never been particularly easy to get assistance if you want to chat or if you want to call.

So, in that respect, I think the customer-centric vision of Amazon has always been overblown. But that said, I think while there have been small maybe moves to make things a little bit tougher, charging people a nominal $1 fee to return things at a UPS store, if there's a nearby location that's a Kohl's or a Whole Foods, which is obviously cheaper for Amazon, they've made a lot of steps that have been customer-centric, namely speeding up delivery. And that's been a huge push for Amazon and that's really what keeps people buying and buying repeatedly from Amazon. So, I don't think their intention.

Jeremy Goldman:

Yeah. Let me just add, I mean, I largely agree with Zak, although I would say that it's a little harder to benchmark their level of customer service with a boutique or a specialty retailer. They've tried to brand themselves as very customer-centric in relation to what they are, which is a monolith. And I think that they've obviously spent a lot of time in the messaging in that front and they're consistently running experiments to see what can we do to optimize that is going to impact our bottom line in a positive way without really ticking off the customer.

So, there are all these different things that they're doing, and Zak mentioned a number of those. One of the things that they're doing is they've tried, and other retailers have as well about do you want less boxes? It'll be a little bit more efficient for us. It's going to be a little bit better for the environment and we know that you care about that. So, that's another thing that they're trying. And I think ultimately I would say it's not even necessarily their dedication to customer experience, it's more so their desire to optimize the experience and find ways where they can cut back that are not going to impact the customer experience all that much.

Marcus Johnson:

Yeah. Let's talk grocery gents. Inside Intelligence Retail Briefings, analyst, Rachel Wolf, explaining Amazon's grocery question. So, she writes that while Amazon's earnings released, highlighted the company's achievements in e-commerce, AWS advertising, generative AI, and even B2B, the company stayed pretty quiet on grocery. She says an indication that Amazon is struggling to figure out a path forward in that highly competitive sector. Zak, what do you expect Amazon's grocery future to look like?

Zak Stambor:

I think it'll look quite different than it does now, particularly when it comes to Amazon Fresh. Amazon's never really understood physical retail. They've never gotten it. And the grocery business kind of epitomizes that. The way in which Amazon grew was having a first mover advantage within e-commerce. But when they moved into the physical world, they were competing with a number of retailers that have been there for a long time and understand the business in a way that they just fundamentally don't. And grocery epitomizes that. And the Amazon Fresh experience epitomizes that.

When you go into the store, it's kind of soulless. There's a lack of inventory and there just isn't any sort of reason that you would shop there. There's nothing aside from whizz-bang technology that I don't know that the average consumer cares about that make you want to shop there. So, that's said. I think they will continue experimenting. I think a year from now, they'll probably just pull the plug on it. They have been talking about the success that they've seen with Whole Foods, so I expect that they'll lean in that direction in some sort of way, perhaps with new store formats as well as looking at ways to better leverage the Amazon ecosystem to push Whole Foods and weave it in more fully, which it's always been kind of off to the side, somewhat disconnected.

Marcus Johnson:

Yeah. You mentioned that in a year's time, they may pull the plug if things aren't going the way they hoped. Workers in this article from Rachel, and that she was noting that workers were told that this year could be a make or break for Amazon Fresh according to a former employee who spoke to the Washington Post as Amazon tries to find the right model that's profitable and scalable. So, maybe the clock is ticking on them really doubling down on a grocery future. Let's move to Amazon, Jeremy. Amazon's advertising revenues reached 11 billion in Q2. That would be up 22%, which is better than the last Q2. What does this 11% growth in ad revenues for Amazon tell us?

Jeremy Goldman:

So, it tells us that, I mean, it tells our listeners because I feel like you, me, Zak, were very close to this, but people really, when I speak to people and they're shocked when I tell them how big Amazon's advertising business is, they're not known for that. It's this extra thing. But we got to put that number in context that you just cited, right? So, this year, worldwide, Amazon will make up 7.5% of the overall global digital advertising market. It's going to grow to 9.2% by 2025 per our forecast. Google, Alphabet, whatever, is already on the decline in that regard. And Meta is going to basically peak this year and next and then drop ever so slightly by 2025. So, the key thing is that this is increasingly for consumer goods. They're finding that they can basically have a really nice attribution loop in terms of spending money with Amazon and being able to track the sales tied to it.

They're spending more on average on these ads, but they're getting more in return and people are coming back. And Amazon is one of many players, I should say, that are spending a lot on measurement and basically proving that ads work. That is the thing that you can do a lot better through digital ad channels. And Amazon has more money to basically throw at the problem of attribution than pretty much anybody else. And that's why the ad business is going to continue to become something that everybody's going to be paying attention to. And pretty soon the average person will be aware that Amazon's ad business is a huge part of their bottom line.

Zak Stambor:

I think this circles back to what you were initially asking about the customer experience, and Amazon has a huge ad load, and when you search for anything on Amazon, you'll undoubtedly be barraged with ads. But to Jeremy's point, people don't seem to mind. They don't seem to care. And I think that's because they're very good at providing relevant ads that give you what you need. And so, as a result, as long as they can do that and have the relevancy of the ads, they can continue to grow this business and essentially charge a toll for anyone who wants to sell anything on Amazon.

Jeremy Goldman:

Yeah. I think that Zak, I don't know if it was you or Rachel who wrote something about this, but for the Prime Day that just happened, we saw that sellers paid a decent percentage of their overall profits back to Amazon basically in terms of advertising, right? So, I think it really is a toll, and if you want to be successful in Amazon, chances are you are going to invest in their ad business.

Marcus Johnson:

Yeah. Getting closer and closer to table stakes. So, you mentioned Amazon just not known for advertising, but increasingly so, back in mid 2020 when Amazon first started breaking out advertising as a line item in its earnings, they made 5% of their money from ads. Today it's 8%, and is continuing to creep up. And then Jeremy, you mentions the share of ad dollars that Amazon accounts for. So, you said 9%, 9.2%. So, basically one in 10 digital ad dollars worldwide. Go to Amazon looking at the US.

So, Jason Aten of Inc. was writing that Amazon is already the third largest advertising platform. That's according to our numbers as well. He was saying that he wouldn't bet against it someday soon becoming the biggest advertising platform, digital advertising platform. According to our figures, by 2025, Google will have a 25% slice of the US digital ad pie down little from today. Meta will be in second with 18%. Amazon will be right behind them with 15% in third. So, there's a few point share of Meta's share of the US digital ad pie by 2025. That's what we've got time for the lead, time for the halftime report.

So Jeremy, I'll start with you. We normally talk about what's worth repeating for the first half. Instead, we're going to ask you about Amazon's second half of the year. What do you expect to see?

Jeremy Goldman:

I think that while the advertising story is going to be really important, because it's going to in some ways be a bellwether for the US digital advertising landscape in general. I also kind of think to Zak's point, grocery has been a little bit less integrated. The One Medical and how Amazon tackles health is also a little bit less integrated. How can Amazon better integrate all these different offerings that they have? Some of which we have have not spoken about in quite a while, but they have a lot of different subsidiaries.

Marcus Johnson:

Mm-hmm. Zak, how about you?

Zak Stambor:

I'm bullish. On Tuesday, they announced Amazon Prime Big Deal Days, the second tentpole sales event, and that should spur retail sales in October. It should also to what we were talking about just a few moments ago, drive substantial ad revenue.

Marcus Johnson:

Yeah, you mentions that second tentpole, the second Amazon Prime Day in October. The first, as I mentioned, was the start of July, which will fall in Q3. And so, they'll benefit from that. The added boost of the largest Prime Day ever in Q3. Amazon estimating that its Q3 revenue will grow between 9 to 13%. So, right in that range of this quarter, Q2's 11, but last Q3, they had 15% growth. So, the guidance are giving a little bit below that, but we shall see as we've got time for the first half time, time for the second.

Today, in other news, why most retailers site searches aren't working and how many streaming viewers will watch ads to save a few dollars. Story one, Zak, you recently wrote that most retailers site searches aren't working, meaning shoppers aren't finding what they're looking for. You point out that three in 10 shoppers say it takes at least three minutes to locate the item they need when using the search function on retail websites. In a similar share, three in 10 call their experiences finding products quick. So, just three in 10 call them quick according to a construct to consumer survey. But to you, Zak, the most important sentence from your article is what and why.

Zak Stambor:

Roughly three quarters of consumers are more likely to buy the item they're searching for if a retailer makes it easy to find. So, a bad site, search is really the equivalent of an unkempt store. If you can't find what you're looking for, you're not likely to stick around and make a purchase, you're likely to go somewhere else and you might not return ever again. And so, there's a real cost to having friction within the site search process. It's just basic blocking and tackling. But you've got to do it. You've got to hit those bright notes.

Marcus Johnson:

Yeah. Yeah. Three in 10 shoppers as I mentioned, and as you mentioned in the article, say it takes at least three minutes to locate the item they need, not to find everything. So, three minutes per item is quite a long time. If you're trying to find multiple items, then yeah, that can take a really long time.

Story two, Jeremy, you just put out a piece saying that six in 10 streaming viewers will watch ads to save a few bucks in it. You note that contrary to the widely accepted view of ad intolerance, and you say a mere 16 to 17% of viewers express an inability to tolerate ads. According to a hub entertainment research study, 59% of consumers prefer to watch ads to save 4 to $5 a month, as opposed to 41% who would rather pay an additional four to five to avoid ads. But to you, Jeremy, the most interesting sentence in your article is what and why?

Jeremy Goldman:

16 to 17% of viewers overall, inability to tolerate ads whatsoever. And then everybody else has different levels of tolerance for them. And I think it's interesting to me that we all love to talk about how we hate ads, but the reality is that most people have a degree of tolerance. They can love them. They can be like, ah, this is fine. It all depends what the ad is, but ultimately people just kind of accept ads as part of the fabric because it's always been around them. And depending on the service, we've seen a lot of people who have the type of viewing behavior where for one service they're on the ad supported tier, and then for another one they're on an ad free tier. So, human beings are complex, but ultimately it's like, do we hate ads nearly as much as we love to say we do? No. We definitely can tolerate them to some level on average.

Marcus Johnson:

Yeah, we say we hate ads. We hate ads, but love the value exchange, I think. And your point about you say this preference to watch ads and save money has remained consistent across various hub studies. So, it's been a thing we'll probably continue to be a thing. That's what we've got time for this episode. Thank you so much to my guests. Thank you to Jeremy.

Jeremy Goldman:

Thank you as always.

Marcus Johnson:

Thank you to Zak.

Zak Stambor:

Thank you for finally I'm on the daily.

Marcus Johnson:

I've been trying to have everyone for ages and Stuart keeps saying, I don't know about that stumble. That's not true. Thanks to Victoria who edits the show, James, who copy edits it, and Stuart who runs the team and has refused to have Zak on for a while. 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 Awin. If you do know the answer to which US president was a licensed bartender, you can send us the answer plus a review into podcast@emarketer.com or to behindthenumbers_podcast on Instagram to win a free Behind the Numbers branded water bottl