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The good, the bad, the ugly: Zooming in on Amazon's Q4 results

Article

In the last quarter of 2022, Amazon increased its total net sales 9% YoY to hit $149.2 billion.

But compared to the massive growth the company has experienced in the past, its Q4 results were a bit lackluster.

“Overall, it wasn’t the best quarter for Amazon,” said our analyst Andrew Lipsman on a recent “Behind the Numbers: The Daily” podcast. Lipsman also noted that when you compare Q4 to Amazon’s past six quarters, there’s been decelerating growth for its online and physical stores.

“That to me is a worrying trend,” he said.

Ad revenues slow: While Amazon’s ad business is doing well compared to competitors Google and Meta (which are seeing declines in ad revenues), its Q4 performance has seen similar decelerating growth compared to its last six quarters, said Lipsman.

“This is a quarter where Amazon had another Prime Day they didn’t have last year, so it should have gotten an added boost. A little wind is being taken out of the sail here.”

To achieve growth in 2023, Amazon will have to find a way to energize its ad business, said Lipsman.

Increasing fees buoy services: Despite a rocky economic climate, sales for Amazon’s third-party seller service sales grew 20%, while subscription services sales grew 13%.

The growth isn’t because consumers are spending more; rather, it’s because Amazon is increasing its fees for customers and merchants, said Lipsman.

- Last year, Amazon raised the cost of its Prime membership by 16% to $139 per year.
- The ecommerce giant has also increased its cut of seller revenues from 40% to over 50%.

While passing off rising costs to customers and merchants may be a smart short-term strategy for Amazon, Lipsman warned that it could backfire if merchants and customers seek alternative options.

Walmart, in particular, has emerged as a strong competitor as it builds out its marketplace capabilities.

Amazon works on its physical presence: In Q4, Amazon grew physical store sales by 6%. Though brick-and-mortar business is a small percentage of Amazon’s total business, it’s been the subject of much discussion in the past few months.

Earlier this month, Amazon said it was temporarily putting a pause on expanding its Amazon Fresh grocery stores. But then, last week, CEO Andy Jassy said the company was doubling down on its grocery expansion plan and going “big” on brick-and-mortar stores.

Lipsman suggested that the reason Amazon is struggling to make Amazon Fresh stores profitable is because they aren't really resonating with consumers.

"They've got to figure out what's going to connect with customers," he said. "Grocery is a very human business. I've been in Amazon Fresh stores and the technology is cool, but they're lacking something in terms of the quality of experience on a human level."

The takeaway: Amazon ended the year in a dicey position. Slowing online sales were offset by an increase in ad revenues, but even those aren't growing as fast as they once were. To get back the massive growth of its past, Amazon needs to find new ways to innovate and invigorate its business, whether it's through additional advertising opportunities or a reconfiguration of its physical stores.

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