Andrew Lipsman

# The Daily: Amazon’s recently mixed performance, Pinterest's shoppable video, and malls refuse to go away

Audio

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On today's episode, we discuss what to make of Amazon's 2% decline in online store sales, how to interpret its advertising service's 19% revenue growth, and why the company is rethinking its Amazon Fresh strategy. "In Other News," we talk about how Pinterest views the future of shoppable video and how malls are resurging. Tune in to the discussion with our analyst Andrew Lipsman.



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Episode Transcription:

Marcus: Hey, gang. It's Tuesday, February 14th. Andrew and listeners, welcome to the Behind the Numbers Daily, an e-marketer podcast made possible by Tinuiti. I'm Marcus. Today I'm joined by one of our principle analysts who covers everything retail and e-commerce based out of Illinois, more specifically Chicago. Ladies and gentlemen, it's Andrew Lipsman.

Andrew: Illinois sounds weird. Hey, Marcus.

Marcus: It did sound weird, yeah. I was going to say Chicago but then

Andrew: I never introduce myself saying I'm from Illinois. I guess it's factually correct.

Marcus: I always say the state that people are from but that was weird for everyone involved.

Andrew: At least you didn't say Illinois.

Marcus: That's true, that's true. It could've been worse. Could've been worse. Illinois. So, fact of the day. Why is the NBA trophy called the Larry O'Brien Trophy? Do you know this one?

Andrew: I got to say you stumped me on this one. I had no idea.

Marcus: I feel like I should've known this one.

Andrew: I've heard it a million times. I have no idea who Larry O'Brien is.

Marcus: Uh-huh. So the league's championship trophy, the NBA's trophy is named after Larry O'Brien, has been since 1984, honoring the NBA's third commissioner. There have been five. David Stern was around before Adam Silver for ages. So, yeah, hadn't even considered that there could've been a commissioner before David Stern but Larry O'Brien was the third


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commissioner of the NBA who oversaw the NBA's absorption of four ABA teams and the elevation of national broadcast agreements.

Andrew: Well, there you go. I did not know that NBA history. As we're on the topic of trophies though I have to say

Marcus: Talk to me.

Andrew: ... we are having a new MVP trophy named for Michael Jordan, which makes me happy. An acknowledgement of the greatest of all time.

Andrew: LeBron, I know you got the scoring record but there's only one GOAT.

Marcus: That ruins the GOAT debate doesn't it? It's over now. There's no point. Yeah, congratulations to Michael. I still think it's Michael. I'm a Lakers guy. I love LeBron but come on, LeBron, it's Michael. Unless you win again and then I'll change my mind. James Naismith though, the inventor of basketball, I feel like he's got snubbed there. He can't get anything named after him. Thanks, James, for inventing the sport.

Andrew: He's got to have something.

Marcus: I know. Come on.

Andrew: We'll look that up after the show.

Marcus: Yeah. Anyway, today's real topic, Amazon's recent pick and mix performance. Andrew, we're talking Amazon today and we're going to check in and see how they've been doing recently. We'll start with their earnings to set the table for folks who didn't take a peak at them. So total net sales, that's the top line number in Q4. Let's call that 150 billion dollars. One, five, zero. That's up nine percent, same as last Q4. Zooming in a little, online stores net sales, that's 43 percent of the business, that's most of it, shrank two percent. Then you've got third party seller services, the next biggest piece, that's about 25 percent of the business. That grew at 20 percent, which was double last Q4. AWS is the next biggest portion, 14 percent. That also grew at 20, however that was half of last Q4. And then ad services. That's an eight percent slice, also grew at 20 percent like AWS and third party seller services. But that 20 percent was lower than 2021. And then the last two, you've got subscription services, that's mainly Prime. A six percent slice of Amazon's pie grew in the low teens similar to last Q4. And physical stores, which is the smallest slice, four percent grew at six percent. That's down from last year. But, Andrew, let's back it up and start with the second number that I


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mentioned, so not top line, the nine percent growth on the 150 billion dollars, but one below that. The 43 percent portion, the online stores net sales. Bit of a headline number because it fell two percent in Q4. What's your take?

Andrew: Yeah, well overall it wasn't the best quarter for Amazon. I'd say one of the ways that I look at the business, all these line items you're mentioning, you're giving the official year over year change. Amazon also provides the previous six quarters for all of these excluding foreign currency exchange effects. So some of the numbers I reference might be slightly different. But I pay attention to that because to me it tells the real health of the business and the direction. So the online stores in Q2 was zero percent on that and then Q3 accelerated to 13 percent. So that was really encouraging to see a reversal of that trend, which had been really softening. And then Q4 here most recently back down to two percent. So from 13 to two. So that to me is a worrying trend and softness, especially after it looked like things might actually be reversing themselves. And then as we'll talk about in a moment, that online stores business tends to correlate with several other line items that are connected to how much commerce is happening. So when that's not good it basically creates a drag on some other key parts of their business.

Marcus: Yeah. Three more numbers for you about online stores net sales, which I think help tell the story. The first one, not so good. Have had negative growth now for four out of the last five quarters. The second one is not so bad. That's looking at the full year picture because now we have Q4, we've got the full year picture and online stores net sales was down just one percent full year. That is worse than 2021's 13 percent so going from 13 down to negative one for full year, 2021 to 2022. The final one, Andrew, is just an interesting observation, I think. The line item online stores net sales pre-pandemic, 2019 to today has gone from accounting for 50 percent of Amazon's business to 43 percent. So you're seeing a shift there in how Amazon's making its money.

Andrew: Yeah, which isn't necessarily bad for the business. They've got some real bright spots in other parts of the company.

Marcus: Exactly, yeah. And one of those being advertising services. Revenue grew 19 percent for Amazon in Q4. 19 percent for advertising services, which it relatively recently broke out like a year or two ago now. 21 percent for the full year for advertising services for Amazon. Andrew, how should we read this number or these numbers, Q4 or full year? Pretty good.


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Andrew: Well, there's two ways to look at it. So I feel like this number, every quarter, is being cast in a very positive light and I'll talk about that first. Rightfully so because it's being compared to the growth rates at Meta and Google and Snap and others, which are basically flat lining or going negative and here's Amazon still growing at 20 percent on a big number.

Marcus: Yeah.

Andrew: So, that's good. Bright spot, right? And it speaks to the fact that dollars are still moving into e-commerce advertising and that performance matters. So Amazon long term ad business is a juggernaut that's only going to get bigger. I see this trend actually, in the most recent quarter, as a little bit worrying though because Amazon, again, this is the numbers excluding foreign currency effects. Q2 was up 21 percent, Q3 up 30 percent. So nice, big acceleration there. And then this quarter down to 23 percent. So one, you see the deceleration in that growth rate. But two, this was a quarter where Amazon had another Prime Day that they did not have the previous year. So it should've gotten an added boost. So I really was looking for some upside in that number, the potential to build upon that 30 percent growth rate from the previous quarter and the opposite happened. So a little bit of wind is being taken out of the sails there and part of the importance is that that advertising business is so profitable and it's lumped into the overall commerce line of business and that commerce business, if you take advertising out of it, is hemorrhaging money so it really relies on that to at least tread water, if not be profitable quarter to quarter. So any deceleration in that business, again, becomes a drag on Amazon's bottom line. So if you're Amazon you don't want to see that number continue to come down and down in subsequent quarters or it could start to be much more problematic.

Marcus: Yeah. Full year for 2022, we were expecting Amazon to take a 12 percent share of US digital ad revenue. That's about half of Meta's share, which is about 20 percent. Google is the biggest with closer to 30. But 2023, this year, Andrew, Amazon goes from 11.7 to 12.4. So, 12.4 this year. That's compared to Meta's 18 percent because that's ticked down in terms of share. So, no longer closer to half of Meta. It's actually closer to two thirds of the share that Meta has and closing in on about half of the share that Google has. So the share continue to tick up. As you mentioned, strong growth for Amazon, not so great for Google and Meta particularly in Q4. A bunch of other line items, which I mentioned at the top. If you had to choose the next most interesting line item from third party seller services, AWS, physical stores, subscription money, which would it be and why?


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Andrew: You're giving me a hard question. All right, so let me talk out of both sides of my mouth. The most important is AWS.

Marcus: Yes.

Andrew: It's a huge business and a huge profit driver and just like advertising, there's a deceleration in that growth rate, again going back the last few quarters. 33 percent growth in Q2, 28 in Q3 and then 20% in Q4. So that's coming down fast and that supports Amazon's operating profits. So that's worrisome and if that starts to come down significantly Amazon doesn't have those profits to lean on and they have to find it elsewhere. So that's what they're starting to do. We're seeing this in other areas of the business. I just don't know if it's enough to make up for the deceleration in AWS. So AWS is the most important. The most interesting is third party seller services and subscription services. They're not small slivers by any stretch of the business. And those tend to move in unison with the online stores number. But we saw a divergence in that pattern, right? Even though the online stores came down both of those numbers ticked up from Q3, which Q3 was pretty strong for both of those. So those are moving in a positive direction. Where is that coming from? Raising fees on customers and sellers. So the subscription services, that's Prime subscription primarily, and that's due to price increases and Amazon starting to realize some of the benefits of that. Third party seller services, they are continuing to extract more and more fees out of the marketplace sellers in the short term. That's good for Amazon's business. I do wonder about the long term consequences of that because these sellers are strained, they have fewer and fewer profits. Amazon is squeezing them more and more and at some point I think they start to diversify and look for other alternatives. You got a strong competitor like Walmart building up their marketplace pretty well right now so I do wonder about the long term ramifications of those increased fees.

Marcus: Yeah. Really quickly, you mentioned store sales. So physical stores net sales. So it's about a four percent share of the pie for Amazon and they grew 11 percent full year making about 19 billion dollars. Is that always going to be a footnote for Amazon or do you think at some point they're going to turn up the gas and actually get something cooking there.

Andrew: Yeah. I look past that line item today because it doesn't really move the needle in any direction. Long term as they build out more Amazon Fresh stores it will increase the revenue numbers because there's a lot of business that obviously goes through physical stores. And then the implications on the advertising business are significant. I've always looked at the


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Amazon Fresh strategy as all about data capture and being able to fuel ad targeting and measurement of effectiveness. And by the way, this is a competitive disadvantage against the Walmarts and other large brick and mortar retailers of the world. So this was actually a very interesting footnote in the commentary by Andy Jassy where he said basically that Amazon's going to slow it's role on the Amazon Fresh stores. Now it's big capital expenditure so they really need to mind those pennies in this environment but also my sense is that they're probably loosing money on these stores and they can't afford to dig a deeper hole in the near term even though it's so important to them strategically in the long term. I think they also need to retool these stores to make money out of it. I don't know if it's resonating with consumers as strongly as they need to. So they're going to take some time to figure that out. That's time that is to Amazon's disadvantage in terms of scaling that part of their ad business and to its competitor's advantage in being able to lean into that advantage in the next couple of years.

Marcus: And so, did you take that as they're going to decelerate or halt the roll out of these Amazon Fresh stores?

Andrew: Yeah, it sounds like they're pretty much halting them and retooling. I don't know at one point they start to re-accelerate that business but my guess is they're going to take some time to figure it out and if I'm reading between the lines it's not resonating with consumers. That's not driving enough sales so it's losing money. Got to figure out what's going to make it connect with consumers. Grocery is a very human business. It's human interaction and I've been in Amazon Fresh stores. The technology is cool but they're lacking something in terms of the quality of the experience on a human level. I don't know if that's easily fixed or not but I think they need to work on that to start bringing customers back on a more regular basis.

Marcus: And these have just walk out technology?

Andrew: They do.

Marcus: Well, it's funny because you said they're lacking a bit of something of a human example. They're lacking humans or a lot of humans that used to be cashiers or people in stores. Do you think that that might be part of this.

Andrew: So they talked about having a differentiated value proposition and people don't like the check-out line in grocery stores but there is some human interaction so maybe some people like that. But the other thing, at least in times I've gone into the store, is they've been


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pretty empty. So if I went through the check-out line it would've been a quick experience so it's actually not saving me time yet. It saves me time when it's a busy store. So I don't know if that value proposition is coming through strongly enough quite yet. Again, I think there's merit to it long term. There's just something else they have to figure out about bringing more depth of human interaction of just a nicer, brighter, friendlier experience. I got to Trader Joe's a lot. I like interacting with the store associates there.

Marcus: Yeah, yeah. Well, it's a big shift from the way we've shopped forever to shifting to not going through a check-out and just picking things off the shelf.

Andrew: Yeah, it feels more like a fulfillment center than a grocery store in many respects.

Marcus: Right. And that's a different experience entirely. A final question here, Andrew, what are you paying closest attention to with Amazon in the coming months?

Andrew: Yeah, I don't see a lot of bright spots for the core parts of Amazon's business so what I'm looking for is where do you get the growth if the forces that are out of their control on what's driving consumer spending and enterprise spending cutbacks on the commerce and cloud businesses, where does growth come from? Can they do something to juice the advertising business? I think they're going to need to try and the best way to do that would be Prime Days because there's a lot of ad spending that goes into Prime Days generally speaking. So do they start to do more Prime Days? We've seen the first year with two official Prime Days. Do they make it a quarterly event? That's something I'll be paying attention to because they've got to look for it somewhere. Yes, they're seeing some improvement on the third party seller services and subscription services but I don't know where else they look. I think advertising is that key piece to help plug the gap.

Marcus: Yeah. Speaking about what you're looking for in the next couple of months, Q1 guidance, Amazon expecting net sales to rise between four and eight percent. Last Q1 it was at seven.

Andrew: Really quickly, one other detail, something to watch out for. A big part of what I think is weighing on consumer demand right now is high ticket categories in particular. There was a lot of demand pulled forward during the pandemic, furniture and consumer electronics specifically. There is potential for some upside in Amazon's business. If consumer electronics, which has really struggled of late, starts to come back to its natural state as people renew those upgrade cycles for electronic, it's such a big piece of Amazon's business. So that's


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something, if we're just thinking about the general factors driving the consumer economy, if that picture brightens in the category Amazon will benefit and so maybe they could see some trend reversal there.

Marcus: Good point. All right. That's it for the lead. It's time now for the half-time report. Andrew, one takeaway from the first half, please.

Andrew: Amazon, it's all about advertising. We've been talking about it a lot but because of how big the business is and the profits and it's going to play an increasingly important role in the next few quarters for how Amazon can perform somewhat on the top line but especially on the bottom line. So I think we're going to see some major investments in building that out even more.

Marcus: I found a couple of interesting notes as well, which I wanted to mention here to sum up where Amazon's at. So there's the good, Amazon actually ended up beating its own guidance and analysts expectations. So I thought that was worth noting. The bad, this was Amazon's first unprofitable year since 2014. Alina Selyukh of NPR was pointing that out. They lost three billion dollars last year but the falling value of its investment in electric automaker, Rivian, certainly didn't help there. And then the third thing here is at the end of the day, as The Economist points out, Amazon is still the world's fifth most valuable company, third largest revenue generator and second biggest private employer. So when all said and done they're not doing too bad. That's what we got time for for the first half. Time for the second today. In other news. Pinterest leans into shopable videos and malls refuse to go away. Story one, Pinterest leans into shopable video as it hits 450 million users, writes Karlene Lukovitz of MediaPost. As insider intelligence retail analyst Rachel Wolff explains, Pinterest's goal is to enable shopping on its most trafficked features from the home feed to search to personalized recommendations, eventually making every pin, including those with video, shopable. Pinterest saw a six percent drop in monthly active users, MAUs, in Q4 of 2021. Q4 2022 saw a reversal of fortunes as MAUs grew four percent year on year. Andrew, what is your take on Pinterest leaning into shopable video?

Andrew: So on shopable video, I'm not a skeptic but I feel like it's one of those things that there's been a lot more hype than matches the reality of consumer behavior. So I say that generally speaking and I'm open to seeing shifts in behavior and I actually think that TikTok is probably going to drive more of that so I think this is an interesting moment in time. But all that said, the one context in which I think it could be most effective, especially relative to a


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specific business, is Pinterest. Pinterest is, I feel like, all potential because people are there saying what they want and desire across all these retail categories and Pinterest has never captured enough credit for the value they're creating for advertisers and a big part of that is enabling check-out in both regular static content and in video. So I really like the shift here. I think it's a smart move under Bill Ready's leadership. He comes from PayPal as well as Google so he knows a thing or two about this. I can't say with certainty this is going to work like gangbusters but I think it's a really, really smart strategy and it can only help not hurt.

Marcus: Two things for me, one positive, one negative. The positive, CEO Billy Ready said Pinterest is seeing its greatest growth among Gen Z, which grew double digits in Q4. He also noted that nearly half of all new videos pinned in Q4, nearly half were from Gen Z users. And then the negative point here is even if people wanted to it's not easy to buy things on social. Nearly nine in 10 American digital buyers said it was difficult to navigate from social media to a brand site according to SimplicityDX.

Andrew: And it doesn't have to be a high incidence behavior. That's part of the key. Pinterest is building from zero on this and actually, they resisted or actually took away their buy button years ago when everyone else was adding buy buttons and check-out to their experience. So it's all upside here and even a little bit of signal is really valuable to, I think, help fuel growth in their business.

Marcus: Yeah. Story two. Malls refuse to go away. New data shows mall traffic is up while vacancies decline, writes Insider Intelligence Senior Retail Analyst Zak Stambor. Year on year visits to indoor malls, open air lifestyle centers and outlet malls each rose between three to five percent in January, according to Placer dot A-I. Zak notes that the mall and outlet occupancy rate at Simon Property Group, America's biggest mall owner, was 95 percent its occupancy rate, 95 percent at the end of 2022. That's up two points year on year. And Simon also noting sales in those stores are up. Andrew, your take on malls apparently refusing to go away.

Andrew: Yeah, it's a space that needed to rationalize. Most were born out of the 1980s primarily or '70s even and things have changed consumers. So we've seen a lot of mall closures. We've seen a lot of anchor stores close and a lot of that has happened in recent years. So we're getting to something closer to equilibrium. 2022 was a strong year for all of brick and mortar, so malls saw some positive growth there. I still have questions around where the anchor stores, department stores go long term. I think we're still going to continue to see


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some closures but in the near term I think things were better than they have been. Malls still have a reason for existence, good malls especially. There were a lot of bad malls. The bad malls have closed or are in the process of closing but there is a footprint that makes sense and I think the format also is a big part of it. Fewer indoor and more outdoor and more modernly designed spaces is where this is all going. They're not going away.

Marcus: Three quick things for me. One of them is these are all points that Zak made in his article, which was brilliant. Andrew, you touched on one of them, which is that not all malls are created equal. High end mall operators like Simon have been able to command premium prices, Zak notes, for square footage. Lower class malls have not so they're more likely to go away. The second point here is that foot traffic still remains below pre-pandemic levels. So indoor malls, open air lifestyle centers and outlet malls are all eight to 12 percent below 2019 levels. They are up year on year but they're still below pre-pandemic levels, according to Placer dot A-I. And then finally, young people still like malls. In October Civic Science found that nearly two thirds of 18 to 24 year olds were likely to visit the mall to holiday shop versus one third of over 55s. That is all we have time for. Andrew, thanks so much for hanging out today.

Andrew: Thanks, Marcus. Always fun.

Marcus: And thank you to Victoria who edits the show. Thank you to James who copy edits it. Stuart who runs the team and everyone for listening in to the Behind the Numbers Daily, an e-marketer podcast made possible by Tinuiti. You guys are lucky that this wasn't just an NBA trades episode. We were very close to just talking about that, mainly because of Victoria. Not at all, she hates basketball. Anyway, you can hang out with Sarah Lebo tomorrow on the Reimagined Retail Show where she'll be speaking about loyalty in the age of economic uncertainty with analysts Sky Cannavis and Susie David Canyon.


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