

Amazon breaks away from its Big Tech peers with strong Q2 earnings

Article

The news: Amazon posted a net loss of \$2 billion in Q2 but still beat expectations, helped by strong sales growth in its North American business and improved productivity across its fulfillment network.

The numbers: Amazon's net sales rose 7% year-over-year (YoY) to \$121.2 billion, per its earnings statement, but higher fuel, energy, and transportation costs ate into profits.

- While sales in North America grew 10% YoY, sales in Amazon's international markets fell by 12%—perhaps a factor in its decision to [raise Prime fees](#) for European subscribers.
- Yet its outlook for Q3 is bullish: The company anticipates a **13% to 17% YoY increase in net sales** with help from Prime Day.

Ecommerce adoption slows: While Amazon, like other online retailers, benefited from the shift to ecommerce during the early pandemic, the company has been forced to adjust as consumers swing back to in-store shopping.

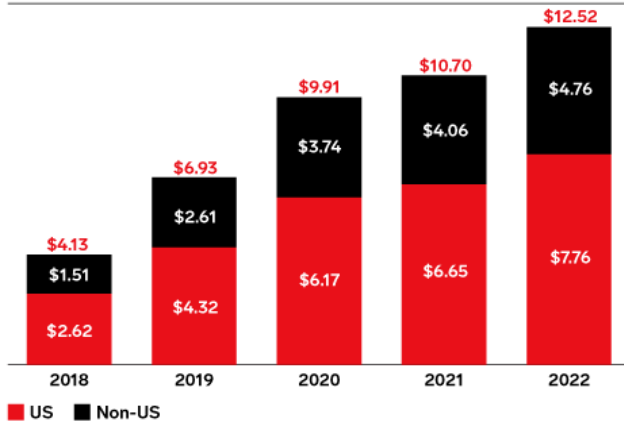
- **Amazon's online sales fell 4% YoY in Q2, while sales at physical stores grew 12%.**
- Amazon is still grappling with **\$2 billion** in costs related to [overexpansion of its warehouse and fulfillment network](#), which it had built out in expectation that demand for ecommerce would continue to soar, although CEO **Andy Jassy** said the company is “making progress” on improving efficiencies.

Prime Day round two: To juice growth, Amazon is leaning hard on its Prime service. The company is **planning a second Prime Day in October**, [per](#) an Insider report, which will help it get an early advantage in advance of the holiday season.

- Amazon's July Prime Day event was its [largest ever](#) in terms of units sold, although shoppers largely looked for deals on essentials rather than big-ticket items like electronics.
- However, the Prime Day bump for other retailers may be fading. While **sales rose 17% compared with Prime Day 2019, unit sales were down 5%**, [per](#) The NPD Group—a sign that inflation is causing shoppers to be more selective about where and what they buy.

US vs. Non-US Amazon Prime Day Retail Ecommerce Sales, 2018-2022

billions



Note: represents the gross value of products or services sold on Amazon.com (browser or app) during the Amazon Prime Day sales event, regardless of the method of payment or fulfillment; excludes travel and event tickets, Amazon Web Services (AWS) sales, advertising services, and credit card agreements; includes direct and marketplace sales
Source: eMarketer, June 2022

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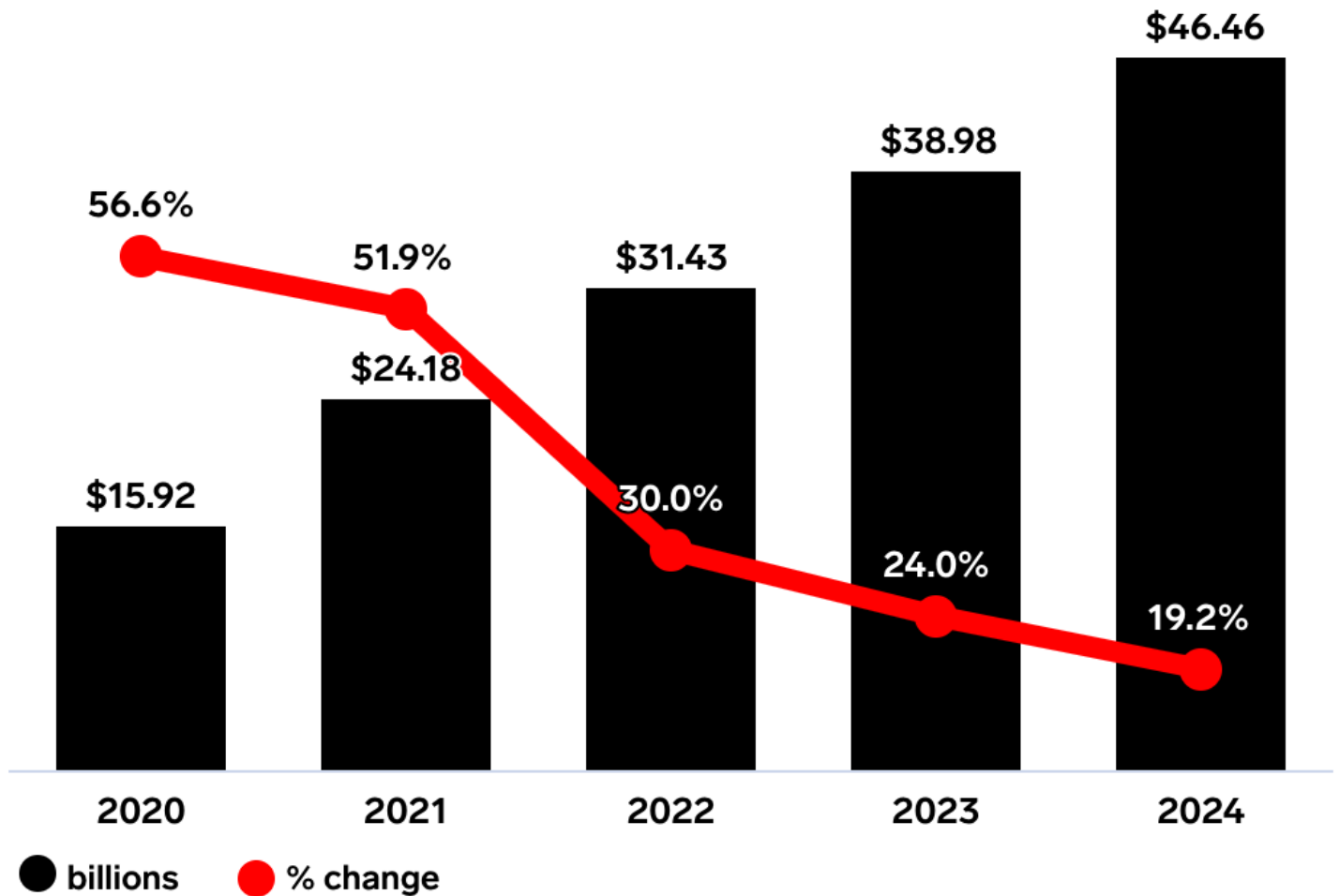
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A dominant force: Amazon has enough market power across multiple categories to keep it relatively insulated from the effects of a spending slowdown. It's the largest online marketplace in the US by a wide margin: This year, we expect Amazon to **account for 72.2% of all US marketplace sales.**

- That dominance gives it the ability to dictate terms for merchants, who are struggling under the weight of additional seller fees as well as rising production and transportation costs. Amazon reported a **13% increase in revenues from its third-party seller services**, which helped offset losses from its own retail business.
- Merchants are also spending more on Amazon's advertising service to better stand out among a sea of sellers: Amazon **generated more revenues from its ad business than from its subscription services** this quarter.

Amazon Ad Revenues

US, 2020-2024



Source: eMarketer, March 2022

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The big takeaway: Amazon's decision to add another Prime Day is a savvy one, as it allows the ecommerce company to drive both sales and ad revenues while keeping Prime members loyal. However, with antitrust activity beginning to center on the [core of Amazon's business](#), the company may be forced to make changes that are less beneficial to its bottom line.