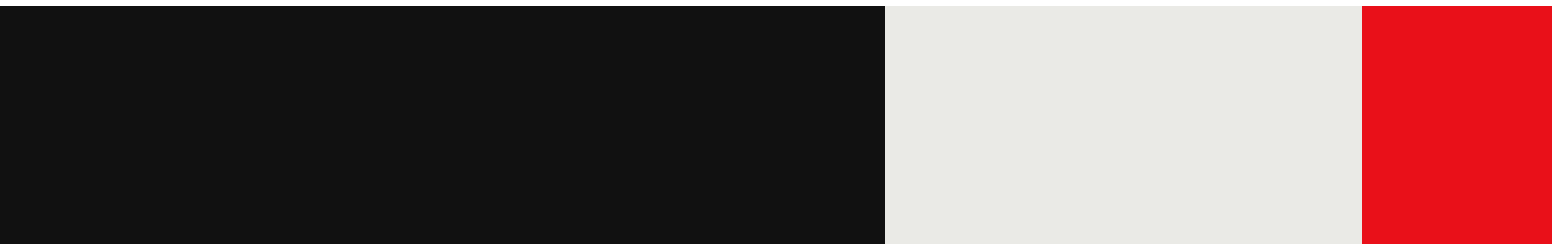


# The Daily: What's fueling Amazon's ad business, what's next for its brick-and-mortar plan of action, and more

Audio



On today's podcast episode, we discuss what's driving online store sales for Amazon, its outlook on brick-and-mortar, and how its ad business is continuing to outperform the market. Tune in to the discussion with host Marcus Johnson, director of Briefings Jeremy Goldman and analyst Rachel Wolff.

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## Episode Transcript:

Marcus Johnson (00:00):

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Jeremy Goldman (00:19):

To me, what that says is it's harder and harder as e-commerce continues to grow, to just dominate in this space and to create these moments that get the average consumer to care. So on one hand, it keeps growing. On the other hand, to get people excited about this thing remains something that's kind of difficult.

Marcus Johnson (00:41):

Hey gang, it's Thursday, August 15th. Rachel, Jeremy and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus. Today I'm joined by... I forgot. They sat right in front of me. Hello to you both. Let's first introduce one of our analysts who writes for our retail and e-commerce briefing, and she's based in New York, in the city. It's Rachel Wolff.

Rachel Wolff (01:04):

Hi.

Marcus Johnson (01:05):

Hello there. Welcome to the show. We're also joined by our senior director of briefings. He is based in the city as well. It's Jeremy Goldman.

Jeremy Goldman (01:12):

Hello, as always, great to be with you.

Marcus Johnson (01:14):

Hey, fella. Today we're talking Amazon, but we start with the fact of the day. Mirrors facing each other don't produce infinite reflections. So each reflection will be darker than the last and they eventually fade into invisibility because mirrors absorb a fraction of the energy of the light striking them. So the total number of reflections mirrors can produce is around a few hundred before they disappear. If only I spent the time it takes me to look these up doing real work.

Jeremy Goldman (01:50):

Rachel, did you know that?

Marcus Johnson (01:51):

I'd be doing so good at my job.

Jeremy Goldman (01:53):

Rachel, I always say that she's one of the people I know who would do the best at Jeopardy, but did you know that?

Rachel Wolff (01:59):

I did not. I can't even picture it.

Marcus Johnson (02:01):

I know. No one knew that.

Jeremy Goldman (02:03):

It hurts my head to just think about.

Marcus Johnson (02:04):

Because most people have a life and don't spend their time looking at this ridiculous stuff.

Jeremy Goldman (02:10):

You always have a good way of fracturing my brain, right before going into a recording, so well done.

Rachel Wolff (02:16):

Right when you need it.

Marcus Johnson (02:18):

We have to stop doing this. Anyway, today's real topic, why Amazon is both profitable and maybe a little disappointing. In today's episode, first in the lead, we'll cover Amazon. No, in other news. It's the whole episode. So we're talking about Amazon, how they've been doing recently. Well, top line, Amazon made \$148 billion in Q2. That's about as much money as Morgan Stanley's market cap. They made that in a quarter, which is, I don't understand how that's possible. To get there, it grew 10% in the quarter. A touch under last Q2. It's got a bunch of line items below the top line number. It's got advertising, it's got cloud, it's got online store

sales, which is Amazon's largest line item counting for about 37% of its money that grew about 5%.

Marcus Johnson (03:12):

So we're starting with slice of pie. Rachel is going to create a pie chart for us as to the reasons, three max, why Amazon was able to grow online store sales nearly 5% in Q2, which was a little better as I mentioned than last Q2's growth. Rachel, what does the pie chart of reasons look like for you?

Rachel Wolff (03:29):

So I would say the biggest slice of the pie, 50% is going to delivery speeds. And you see this quarter after quarter when Amazon speeds up delivery, people just order more stuff and they order more frequently because it's more convenient. And they had some stats, more than 5 billion items, same or next day so far in 2024, that's up 30% year-on-year, which is pretty remarkable. And they're on this huge push to just speed up delivery, especially in rural areas, which again, will just get people to shop more and more.

Marcus Johnson (04:03):

Yep. All right, 50%. What about the rest?

Rachel Wolff (04:07):

So 30% I would say goes to some of their cost-saving initiatives. And I would say that more in terms of prices. So they rolled out a series of sales events this year. I mean they've had Prime Day, they've had the big spring sale, but they've also had a lot of smaller sales like electronics and beauty, and that's really helping to turn them into a destination for cost-conscious shoppers, which a lot of people are these days thanks to inflation and economic uncertainty. And on top of that, they've had a few initiatives like lowering seller fees, which has made apparel cheaper and they've seen a pretty substantial unit increase on the back of that. So I think that's been a pretty big sales driver for them this quarter.

Marcus Johnson (04:53):

Okay, that leaves 20%. What are we allocating there?

Rachel Wolff (04:56):

So that's Prime. And again, quarter after quarter we see that Prime is a huge driver for them and part of that relates to the work that they're doing on delivery speeds, which again is driving Prime members to shop more often and spend more overall. And they've been tweaking Prime, they've been adding more perks like GrubHub Plus, and they have pharmacy add-ons and grocery and all of that. And that's just keeping Prime members in the fold.

Jeremy Goldman (05:23):

It's a really interesting thing where once you've bought into a particular program like that, you want to make it worthwhile for you and then you start to purchase more because of it. And that's why Amazon has seen fit to invest in all these different perks for Prime members, which by the way, I'm sure we'll talk about a bit, includes Prime Video, which now has ads and then it's a really nice fly wheel that they've got going on and it all is tied back to Prime.

Marcus Johnson (05:52):

Well, let's focus on Prime. So 50% delivery speeds, 30% focusing on price, and then 20% Prime in terms of driving that online store sales growth. So that's Rachel's slice of pie. But the last bit Prime, if we focus on that for a second. So this year Amazon Prime Day, July 16th and 17th. Consumer spent just over \$14 billion online representing an 11% growth year-on-year up from just shy of 13 billion last year according to Adobe Analytics. So that's how the day looked. It was about 7 billion per day. But Jeremy, I'll start with you for this one. What stood out to you the most about Prime Day 2024?

Jeremy Goldman (06:29):

Well, part of it is just that Prime Day or Prime sales are now becoming, I think, something that the consumer is going to expect and they're going to expect specific deals at specific times of year. And so to me, I think it's not even about the results, it's about the overall bigger picture. You see consumers that are savvier than ever before and will they start to wait for deals and just say, "Okay, I'm kind of thinking this thing's going to happen in the next 10 days or whatever next month. So I'll just hold off on that purchase." Rachel mentioned inflation, which is obviously a big consideration for a lot of people. And as you see more and more of these sales, will people just wait to get a better deal? You will see people to add things to their cart, maybe defer that actual purchase until they can get the best possible deal.

Marcus Johnson (07:26):

I agree with you on that. I think that they will... And I'm kind of wondering when July will be branded or rebranded the summer sales month, because Prime's currently the poster child of summer deals, but you have, and you've had for a while, a bunch of other ones, Target Circle Week, Walmart's July deals, TikTok shops deals for days. It's July 9th and 11th Temu week, mid-July, which is now a thing. Rachel, could you see whether it's these existing shopping holidays expanding in length or other ones joining the fray, could you see consumers start to realize that July is going to be a kind of bonanza for deals?

Rachel Wolff (08:03):

Yeah, absolutely. And I think we are already seeing that where you have a sizable number of shoppers that are comparison shopping between these sales to find the best deals because they expect them around this time of year.

Marcus Johnson (08:15):

Interesting.

Rachel Wolff (08:16):

And there's also the back-to-school element of it. People are pulling that spending forward. And so maybe that's just how these July sales are going to be framed. But yeah, I definitely do think that that's where it's trending.

Marcus Johnson (08:28):

Yeah, that's an interesting point as well because it does seem like Amazon is further aligning Prime Day with back-to-school shopping. But Dan Berthiaume of Chain Store Age was citing Adobe who singled out back-to-school shopping as a strong Prime Day growth driver as the event occurred closer to the start of back-to-school than in 2023. So this year was 16th, 17th of July, close to back-to-school than when it took place last year, which was 11th, 12th. So about a week earlier.

Jeremy Goldman (08:53):

By the way, another interesting thing, we had a chart that was published to subscribers that I thought was really interesting, which was that Amazon will see declining market share during Prime Day for the third year in a row in 2024, and it's relatively a small of a drop or going from 59.8% in 2022 to 59.3% in 2024. But to me what that says is it's harder and harder as e-



commerce continues to grow, to just dominate in this space and to really create these moments that get the average consumer to care. So on one hand, it keeps growing. On the other hand, to get people excited about this thing remains something that's kind of difficult when every other retailer is trying to do the same thing.

Marcus Johnson (09:41):

Yeah, I think that trend just speaks to, even though it's not falling by a lot, it speaks to how hard it's been for Amazon to continue to steal the limelights on those days or in and around the time of Prime and that people are going elsewhere. They're starting to realize that there will be deals in and around Prime Day. And we're starting to see some of them with some of the ones that I mentioned. Another thing that jumped out to me about Prime Day, which is something Rachel you mentioned, which is a driver of Amazon's Q2, the kind of online store sales, which is heavy discounting to match what we've seen from retail throughout the years, inflation continues to be a burden for consumers. Salesforce was noting that US discounts grew 10% to an average discount rate of 22% off, and global discounts were up 8% to an average rate of 20%.

Marcus Johnson (10:28):

When there's some research to back up how important these deals are, two points. One, according to some recent CivicScience research, the number one way to save money is looking for items on sale versus buying less or off brand, whatever. And then the second one, which is exactly the same answer, but different research, this is from Ipsos, agreeing, showing that buying brands on sale is again the number one way consumers trying to get around inflation. Also buy now pay later orders, accounting for 8% of all online orders for Prime, up 16%. I thought was interesting. Footnote here. [inaudible 00:11:02] online store sales, 37% of Amazon's money pie. On that, actually, that's the lowest point for Amazon in terms of how much they're making from online store sales. It used to account for half of its revenue in 2021, so it's gone from half to about a third of its revenue coming from online store sales in the last couple of years.

Marcus Johnson (11:22):

Another line item there is its physical store sales. It's a small one. In Q2, Amazon's physical store sales grew at their slowest rate in a quarter in three years at under 4%. The line items accounted for just under 4% of Amazon's revenue since 2020. Rachel, I find this part of

Amazon's business fascinating, even though it's the smallest, because they've had a lot of different store formats. They've pared back on a few of those. It seems like they're still in the experimental phase for a lot of their different in-store brands, but what do you think is next for Amazon's store's plan of action?

Rachel Wolff (11:57):

I mean, as you mentioned, it's such a small part of their business and I think that they've just really retreated on that front. As you mentioned, they closed a lot of their store concepts. They put fresh expansion on hold for a little bit, and then when they did relaunch it, they took out Just Walk Out, which is really what differentiated it from the competition. And I think what we're seeing is that they're less interested in experimenting with physical retail and instead with Amazon Fresh, they're opting to go more with tried and true formats like having Krispy Kreme stations in stores and painting them nice colors so people want to go in. But I think given all the money that they're now pouring into AI, I can see that physical stores for them is just not an area of priority anymore.

Marcus Johnson (12:47):

Yeah. Jeremy, what's your take here? Because [inaudible 00:12:50] I think is a really good way of putting this, to use Rachel's word. It's odd because they made 20 billion from this line item last year, so they're still making 5 billion a quarter. It's just nowhere near how much they're making in other business units. So what's your take on Amazon stores?

Jeremy Goldman (13:05):

First off, yeah, I probably would've thought that they would've talked about this and just found a way to solve for this a little bit more over the last few years. I think that when you're looking back to the Whole Foods acquisition, if you would've said that Amazon wouldn't have been able to figure this out at that point, at X number of years later, we would probably be surprised. But I think that one of the more interesting things here is that every single company has something that's within their DNA that they're focused on. And this has been something where at its core, this is not necessarily what Amazon is, right? It's harder to attract the best possible talent internally to go work on something that is lower margin and a smaller part of the business, and it becomes a bit of a vicious cycle where you don't invest in it and you don't get the right talent, and therefore it's like, why would we focus more on it next quarter?

Jeremy Goldman (13:59):

So is there an opportunity to do a better job here and to optimize? Absolutely. But ultimately Amazon is known for e-commerce and the Amazon brand has never translated perfectly or well, frankly, to brick and mortar.

Marcus Johnson (14:13):

So we talked about Amazon's online store sales. That's the biggest line item, it's 37%. We talked about stores, which is currently about 3 to 4%. So a very small part and a kind of stagnating part of its business, but one of the shares of its business that is growing in terms of where the dollars are coming from is advertising. Amazon's advertising revenue grew 20% in Q2, almost as fast as last Q2. So we'll go slice a pie again. Jeremy is going to create a pie chart for us as to the reasons why, three max, why Amazon was able to grow ad revenue around 20%.

Jeremy Goldman (14:47):

Okay, this was difficult for me, but I think I would probably put about 60% vast customer base and strong customer intent. So maybe you could word that a little bit better for me. But the way that I talk about that is that there are a ton of people who use Amazon virtually every day, and we're talking about retail media here, which is the lion's share of their advertising business right now. You know why they're there. They're telling you why they're there with their searching, and that becomes a major... That's something that you can charge quite a bit for since you know that these are highly motivated, targeted customers that you're not interrupting, in theory, you're adding value to their experience by routing them to the right products at the right time.

Marcus Johnson (15:40):

Yeah. All right, 60%, what we got for the rest of the pie chart?

Jeremy Goldman (15:43):

Okay. So 60%, I think that really data and targeting and the closed loop and measurement. So essentially being able to get real time feedback about what's working and what isn't with your retail media spend. That's something that advertisers have told me directly is a major portion of why they keep coming back to Amazon and why they're willing to spend a lot more on a per click basis. So that's about 30% right there.

Marcus Johnson (16:11):

Okay. 10 left.

Jeremy Goldman (16:13):

Yeah. And while I don't think it necessarily counts for 10% of their overall revenues directly, I think that the innovation and opening up new places to advertise, including on Prime Video, has to be something that we allocate something to. So that's why for me, it's like 10% right now. It's obviously something that's going to be growing in quarters to come, not because they're going to be more people watching Prime Video. We actually don't really expect that. It's a very interesting thing how they have this massive install base, but then we don't really expect it to grow that much. But we do expect essentially the ad volume to go up and for Amazon to be able to charge more for each one of those placements. So that's going to be a significant contributor that, by the way, all of this information that they get from serving up ads to consumers through Prime Video, all of that essentially gets appended to their customer record, which then is going to help them more with their retail media side of the business. So it's a virtuous cycle there.

Marcus Johnson (17:16):

And a huge driver of this is just how much they're spending on acquiring the rights to show people more entertainment and more content, expanding their reach into sports and entertainment to boost their advertising. Sebastian Herrera of the Wall Street Journal was saying about their completed \$2 billion a year, decade long media rights deal with the NBA, and this is reported on by the New York Times the size of that deal. And they're going to be streaming games starting from next season, 2025/26 on Prime Video, where the company also streams some NFL games. And this year began to show hands on the service to what Jeremy was saying. So that's a huge driver of this.

Marcus Johnson (17:55):

Advertising dollars, folks, they're flirting with becoming 10% of Amazon's entire business, and that could hit that marker next year on current trends. The advertising line item used to be about seven times smaller than what Amazon is known for selling things online, and now it's just four times smaller than online store sales, which is just remarkable growth on the advertising side. Honorary mention to Amazon's impressive cloud business, from 2019 to today, AWS has gone from accounting for 10% of Amazon's revenue to close to 20%. So

advertising growing, AWS growing and taking a lot of share predominantly from online store sales it seems.

Jeremy Goldman (18:37):

One thing, actually, curious, Rachel, if you have a perspective on this, but just... I can't tell if this is a good or bad thing about Amazon's business, and it's probably both, but the fact that it's advertising business is right now so incredibly tied to e-commerce sales means that when e-commerce sales are growing, retail media dollars are going to go up for them. But also when retail dollars, when e-com dollars are not growing that much, it's harder to get the retail media dollars to grow to make up for it since they're so intertwined. So that seems to be... Is that more of a good or bad thing?

Rachel Wolff (19:11):

Yeah, I mean, I think you can also see this with how many sales have they had this year? Six at least, right? And that's a huge advertising boom for them because merchants will pay to get in front of shoppers even if the overall e-commerce landscape isn't doing as strongly. So I think that it's mixed.

Marcus Johnson (19:29):

Yeah. Great points, folks. That's where we have to leave the conversation for today. But thank you so much for hanging out with me. Thank you to Jeremy.

Jeremy Goldman (19:37):

Pleasure as always. Thank you.

Marcus Johnson (19:38):

Yes indeed. Thank you to Rachel.

Rachel Wolff (19:40):

Great to be here.

Marcus Johnson (19:41):

And thank you to Victoria who edits the show. Stuart runs the team. Sophie does our social media. Thanks to everyone for listening in. We hope to see you tomorrow for the Behind the

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