

The Daily: What Prime Day 2023 will bring, targeted ads during live sports, and Amazon's AI ambitions

Audio

On today's episode, we discuss how this year's Amazon Prime Day will be different, how competitors can maximize the sales holiday's impact, and an uncanny link between Prime Day and the end-of-year holiday season. "In Other News," we talk about the significance of NBCUniversal and Walmart Connect bringing targeted ads to live sports and Amazon's AI initiatives. Tune in to the discussion with our vice president and analyst Andrew Lipsman.

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Episode Transcript:

Marcus Johnson:

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Andrew Lipsman:

That said, for any major promotional tent pole, the big box retailers, Walmart, Target, Best Buy, they all have a chance to win consumers' attention. They've got marketing budgets and they're experienced in running these types of promotions and deals.

Marcus Johnson:

Hey gang, it's Tuesday, June 27th. Andrew, listeners, welcome to the Behind the Numbers Daily and eMarketer podcast. I'm Marcus. Today I'm joined by one of our vice presidents and principal analysts, covers retail for us based in Shy City A.K.A. Chicago, Mr. Andrew Lipsman.

Andrew Lipsman:

Hey, Marcus. Great to be with you.

Marcus Johnson:

Hello, sir. Today's fact, what is happening when you get brain freeze? So, brain freeze. That rapid onset headache you get when you eat ice cream too quickly is technically known as cold neuralgia or sphenopalatine ganglion neuralgia. I was practicing that quite a lot before the show. Nailed it. The Wake Forest Baptist Medical Center explains that when you drink something really cold too fast, you are rapidly changing the temperature in the back of the throat, at the juncture of the internal carotid artery, which feeds blood to the brain and the anterior cerebral artery, which is where brain tissue starts. So when the cold hits, it causes a dilation and contraction of those two arteries. And that's the sensation that the brain is interpreting as pain.

Andrew Lipsman:

Marcus, it hurts so bad. Brain freeze. And it's usually the things that I want so badly that I can't help myself.

It's summer right now. I make a lot of... I just put watermelon and ice in a blender. I make slush and I'm getting the worst brain freezes. Do you know how to end a brain freeze?

Marcus Johnson:

I do, yeah. Hit me. I've got a couple of ways. Yeah. What's your way?

Andrew Lipsman:

Oh, I only know one way. It's the thumb on the roof of your mouth. I don't know why it works, but it works.

Marcus Johnson:

In theory, there's three ways. One, stop eating cold stuff so quickly. Two, yes, thumb on the roof of your mouth or tongue. You can jam your tongue up to the root of your mouth because it's warm. A third way is to drink something tepid. Just normalize the temperature in your mouth. Basically, yeah, just be an adult. If it happens and you're not a kid, you really don't have an excuse to be perfectly honest.

Today's real topic, what Prime Day 2023 will look like.

In today's lead, we'll cover Prime Day. Then in other news, we'll discuss NBC Universal and Walmart Connect, bringing targeted ads to live sports and Amazon's foray into the AI race. But we start with the lead. We're talking about Prime Day in 2023. Andrew, what will this year's Prime Day event even look like compared to last year's?

Andrew Lipsman:

Well, I don't think it's going to look all that different. I don't know what happened for a while there, we had this ramp up in Prime Days from 2015 to let's say 2019, where every year it was growing by leaps and bounds. It was more of a production or more celebrities, more of an extravaganza. And then post pandemic things have leveled out. There's no indications right now... It's a big event. There's a lot of sales that are happening, but it's not quite as newsworthy perhaps as it was in the past. So I think we're going to see something this year that is similar to what was last year, which was some sense unremarkable.

Marcus Johnson:

Two Prime Day events last year, the mid-July, and then the one in mid-October was called Prime Early Access, which is a weird name. Didn't hit as much as people expected. At the very least, we've got to start calling it Prime Days.

Andrew Lipsman:

It's just too hard. Yes, because it's two-day events and then there's two of them now, and there's gotten some questions about whether is Amazon going to have these two prime events going forward? Yes. And there's already the indications that Amazon is communicating to sellers around the fall event. So there will be another fall event. We don't know that it'll be the exact same timing, but it's going to happen. So I think we should expect these two prime event 10 poles into the future and it may expand to three or four in the future. Who knows?

Marcus Johnson:

Three or four days or three or four events.

Andrew Lipsman:

Events.

Marcus Johnson:

You think it's more likely to go more events than spread out over more days? If you had to pick.

Andrew Lipsman:

If Amazon can pull it off, I could see getting-

Marcus Johnson:

Prime Week.

Andrew Lipsman:

... I think I could see it getting to being on a quarterly basis. Absolutely. But I don't think they're in a rush to do that yet. This is the first couple of years of having two per year, but in the future I see there being more prime events.

Marcus Johnson:

Also, let's assume that we're going to get, one in July, one in October, each lasting about 48 hours. What kind of a bump can we reasonably expect Prime Day to have on online retail sales? Especially given the current climate of lukewarm spending on advertising and 4% inflation, also known as double what it used to be 10 years leading up to the spring of 2021

when we first had the spike. So against this backdrop, what can we expect Prime Day to really do to online retail sales?

Andrew Lipsman:

Yeah, we're expecting about a 10% gain. So more than inflation, especially as inflation comes down, it's not like all the growth is going to inflation. Consumer economy is still chugging along all right. I think people are spending more in other areas including travel, which with so much summer travel, actually people have more reason to buy other items. So there is enough demand to support a healthy growth rate, but it's not going to be eye-popping. Now that said it, we were expecting about 13 and a half billion in industry-wide sales over the two-day event, e-commerce sales. So it's not just Amazon's event. It actually bleeds over into these other events across the industry. Putting that number in context, that's about 6.7 billion dollars in e-commerce spending a day, which is a little bit more than double what the typical spending is in US e-commerce. Two days of two x or maybe three x spending, if you're Amazon, it's a nice little bump there, especially during a time of the year where there's not a lot that's generating heavy shopping activity.

Marcus Johnson:

You said 10% growth year-on-year. That's 8 billion dollars in US Prime Day sales. We double the 5 billion Prime Day is going to generate overseas and Prime Day activates a lot of sales for other retailers as well. Amazon's Prime Day market share is falling. The share of money it makes from Prime Day is going down, the dollars are going up, but the share is going down.

Andrew Lipsman:

Just as others have gotten into the act and figured out a little bit better. They've been playing catch up to Amazon on Prime Day for a while now. They know how to draft off of the event and run their own competing promotions and take advantage of that spillover shopping activity. It's mostly steady, but Amazon is losing a little bit of share.

Marcus Johnson:

Is there a competitor that you consume? Is it by default Walmart? Is there a retailer that you can think really put a dent in Amazon's Prime Day bonanza, or are they kind of destined to just flounder in the background? Sure, they're getting a decent amount of a bump in sales, but it does seem like no one's really able to, the way Netflix released a streaming service and others

are playing catch up, there are some which are starting to get relatively or close-ish to Netflix. With Prime Day, it seems like no one's ever going to be able to have an event, which can even come a country mile away from what Amazon's been able to do.

Andrew Lipsman:

I don't think anyone can really compete with the frenzy of sales and activity and the number of third party marketplace sellers that are getting into the act. But that said, for any major promotional tent pole, the big box retailers, Walmart, target, best Buy, they all have a chance to win consumers attention. They've got marketing budgets and they're experienced in running these types of promotions and deals. So they all benefit as well, and I think they've gotten a lot better at it. Last year, for me, actually, I went into Prime Day, we talked about this on the podcast. Wanting to buy an Apple Watch and I went to Amazon, I couldn't find the Apple Watch in the color I wanted. The black was already sold out, and so I ended up going to Target and they had it in the right color, and so I bought it there. I didn't care why I bought it was the same price.

Marcus Johnson:

Same item, same price. That's fair. What's one way that brands and competitors can maximize Prime Day sales impact?

Andrew Lipsman:

You mentioned Walmart. What's interesting is that last year, Walmart had Walmart plus weekend in early June, and there was their own attempt at doing kind of a summer like event. They tried to bigfoot Amazon and if ever there was a time where this was going to work, Walmart plus was getting more traction. It was in the peak of inflation where Walmart was getting very attractive to consumers and the day landed with a whisper. It just didn't work. I thought it was a great strategy by Walmart, but the consumers didn't respond to it. So I think, if I were a brand or a competitor, what I would say is, "If you can't beat them, join them." Don't try and bigfoot Amazon, just ride the wave, participate in it. You have a place, especially if you're Walmart or Target.

It's very hard to create consumer behavior out of thin air. Amazon did it many years ago and it's been building ever since. But it's not just because of Amazon, it's because everyone else is doing it. The shoppers are locked in and the retailers are locked in. If you try and do it off

cycle, it's just hard. It's hard to win their attention. And so this year Walmart did not introduce a similar event, so it looks like they'll be aligning with the Prime Day tent pole.

Marcus Johnson:

I think you hit the nail on the head. It's about figuring out how best to ride that Prime Day wave, not reinvent the wave, so to speak. You mentioned that we're expecting US Prime Day sales to grow 10% year-on-year to 8 billion dollars. What can this year's Prime Day events, tell us about the upcoming holiday season, if anything?

Andrew Lipsman:

It turns out it's looking like a pretty good predictor of growth and consumer demand for the holiday season. In the past three years in particular, since the pandemic, we have seen growth rates on Prime Day, for Amazon, align very closely with what the ultimate holiday e-commerce growth rates have been. It's around 40% in both cases back in 2020. And then the next two years it was high single digits, low double digits, but very consistent.

Now why is this the case? I've been following retail and e-commerce for a long time, and we discovered in the early days of e-commerce that the back to school season, August ended up being a really good temperature check in predictor of holiday e-commerce. So I think it's a similar effect, and here it's in more concentrated fashion. It's not a whole month of sales, but it's what's happening during a couple day period. But it does give you some indicators as to which categories and products may be trending. Obviously some are going to be seasonal in Prime Day, but otherwise that's the case. And then it just tells you how responsive consumers are to promotions and what's the state of consumer demand.

Marcus Johnson:

In your report, you were saying that Prime Day can be a good indicator in terms of the upcoming holiday season. I was like, "How good?" And I went and looked and the growth rates of Prime Day and the holidays have closely aligned for the last three years, as you point out in your report on Prime Day, which just dropped. They're both within about three to four points of each other, 2020, 2021 and 2022. So you mentioned a good predictor of growth. They are indeed. They're better than that bloody groundhog you guys mess around with every year. We've got to stop with that America. We have to.

Victoria:

Still Live his life. Leave him alone.

Marcus Johnson:

Sorry, Victoria. All right. Let's talk about categories for a second because after the pandemic hit, folks started pulling forward planned purchases, right? New TVs, smart home devices, laptops, things like that. Growth into computer and consumer electronics nearly doubled in 2020 was still above pre-pandemic levels in 2021. But then last year, 2022 actually fell into the red declining nearly 2%. It is definitely been up and down as of late. Andrew, why do you think computer and consumer electronics, why do you think that category will turn a corner? And that's a particularly important category for Amazon as well, but why do you think that will turn a corner?

Andrew Lipsman:

Well, it has to turn a corner eventually, right? This demand was pulled forward. There are higher ticket purchases that drive the category and you don't update them all the time. So there's upgrade cycles that maybe on a three, four year cadence depending on what it is or longer, and we just haven't seen that rebound yet. I'm looking at Prime Day as a really interesting bellwether because Amazon obviously promotes a lot of its flagship electronics, the Kindles and Echo devices and fire TVs. And again, this is a temperature check on the state of the consumer and buying into some of these categories.

If you are thinking about consumer electronics, this is the event to get into the act. If we see a rebound during Prime Day, that to me actually is a great bellwether for not just Amazon, not just e-commerce, but the state of retail in total because it means that a huge category is coming back. If we think about Amazon having a little bit of lukewarm growth recently, there's all sorts of narratives that have taken off about why that is. And I think the simplest is actually, computers and consumer electronics is about 20% of their e-commerce business, and it's growing at low single digits right now for them.

Marcus Johnson:

Their largest category.

Andrew Lipsman:

It's a drag. It's a drag on their growth. So anything that shows that that's coming back is going to improve Amazon's top line and it's going to pull up a lot of other aspects of the business.

The big question is when? My guess is it's probably more like a 2024 thing that we start to see more of a rebound, but it could happen beginning with Prime Day.

Marcus Johnson:

Expecting computer and consumer electronics to stroll back into the black and grow 3% this year, but the lowest growth of all of Amazon's categories, but still heading in the right direction, over 7% growth next year. And it's computers specifically, which is what is dragging down that category. You mentioned selling these devices, these Amazon specific devices in a lot of instances. They're selling this category of consumer electronics less to make money, more to get inside the consumer's homes. They're selling their own consumer electronics to try and establish themselves inside your home with Amazon devices. Fire devices, echo devices, things like that. Which leads me into the next question, Andrew, tell us a bit about the relationship between Amazon's Prime Day and how it accelerates Amazon's new flywheel of media advertising and commerce.

Andrew Lipsman:

Media advertising and commerce is the new flywheel for Amazon. Obviously commerce is e-commerce, and now moving into the physical store with Amazon Fresh ads. The ads business has been growing very strongly for the last few years, and it's moving into things like TV advertising on Amazon's NFL, Thursday night football games, and then the media side of things. Amazon has media assets like Prime Video, Alexa is part of that. And then the Fire TV Omni, which is a voice activated TV that Amazon's promoting is sort of this point of integration for all of these things. So what I've said is that Amazon's new flywheel of media ads and commerce spins on the fulcrum of Prime membership. And then Prime Day is like an extra spin of the wheel every year to help that flywheel pick up steam.

Getting these devices into people's homes just helps fortify everything that Amazon is doing on all these different fronts. If you have the Fire TV Omni, which by the way, this year they have an invite only promotion and a 43-inch fire TV Omni series, normally \$399 for \$99, so 75% discount. Amazon is subsidizing adoption of all of these devices into the home, and it enables all these other high margin businesses for them.

Marcus Johnson:

It seems to be working. They're Well established, not just in terms of prime membership. Two out of every three Americans, two in 3. 65% have a prime membership, but 32% of Americans

have an Amazon fire CTV device, and 20% are Amazon Echo Smart speaker users, Alexa device people. So they are certainly well established and trying to get both feet in the door as opposed to just one to keep that flywheel going.

Talking about Prime membership, Andrew, I've got to finish the lead by talking about some recent news. So Annie Palmer of CNBC as well as others reporting, the FTC has sued Amazon alleging that it tricked customers into signing up for its prime subscription program, which is what Prime Day is named after. They say that they tricked them into signing up for the program some folks, and intentionally complicated the cancellation process as well. So this trigger is known as a dark pattern. For example, you could highlight or you would highlight buttons that you want consumers to click and you would gray out others that you don't want them to click. So you can steer people in certain directions and for example, trying to get them to enroll in Prime without true consent. What's your reaction to this story?

Andrew Lipsman:

I thought the timing of it was really interesting, and I still want to get to the bottom of it because the FTC news was announced on the same day that Amazon announced the Prime Day date. I don't know who was trying to Bigfoot who at the news. I really want to get to the bottom of this because, was the FTC waiting for Amazon to announce to drop this news, or was Amazon waiting to announce for when FTC was going to make this public in order to try and drown out bad news? I don't know, but the timing of it was interesting.

What do I make of it? I will say, I don't know anything in terms of the legal ramification here. I will say, many subscriptions seem to have some version of dark patterns. I don't know how you distinguish what it goes overboard in creating too much friction for consumers. So I don't feel very well-equipped to say whether this is or isn't, but we run into it every day. I was just talking about with family members about trying to get out of a subscription to a news publication and it was basically impossible to do it.

Marcus Johnson:

It happens with a lot of different services. The problem for Amazon is they're one of the biggest, and so they get the spotlight. Also there's a kind of patchwork of legislation across the US. I believe in California, there either are rules or they're trying to implement rules about data patterns and not allowing them to happen in California, but that's just one state of the

50. You definitely see them at other places, but Amazon draws the most attention from regulators.

Andrew Lipsman:

One quick thing I'll add on that is that in a subscription business, if that's the primary source of revenue, you want consumers to forget about it or not know and just keep auto-renewing. In Amazon's case, listen, it's high margin revenue to get that, but I will say if somebody doesn't actually know that they're a Prime member and it's auto-renewing in the background, part of what helps them drive a lot more sales for people is they know they're a prime member and they're getting these benefits. Prime members tend to spend about twice as much as the non-Prime member. I guess there's a little bit less incentive to try and get away with it from the consumer and not having knowledge that they were a prime member.

Marcus Johnson:

Especially because if you cancel, then you do get a pro-rata'd rate back. So it's not like they're trying to get you to bleed into the next month by a few days and then capture all that revenue from you throughout the month. They'll give you the rest of the month back. When I experienced that, that was actually a pretty good user experience and I thought, "You know what? Because of that, yeah, maybe I'll sign up to Prime in the future as opposed to leaving a bad taste in my mouth." So yeah, you're right. It doesn't seem like it would benefit them the way it would benefit other companies.

Andrew Lipsman:

I think they have more incentive to play the long game here with customers.

Marcus Johnson:

That's it for the lead. Time for the halftime report. Andrew, the main thing that's worth repeating from the first half, talking about Prime Day.

Andrew Lipsman:

Watch for any signs that Prime Day is a bellwether for what's ahead for Amazon e-commerce overall and the upcoming holiday season.

Marcus Johnson:

We'll keep our eye on it. July 11th and 12th is when Prime Day will be at least the first event recently announced, as Andrew mentioned. Andrew's got a full report out, Amazon Prime Day 2023 Rising Stakes for CPG and Consumer Electronics Brands. Link in the show notes, and of course it lives on insiderintelligence.com. We move to the second half of the show today. In other news, NBC Universal and Walmart Connect bring targeted ads to live sports and Amazon joins Microsoft and Google in the AI race.

Story one, NBC Universal and Walmart Connect bring targeted ads to live sports, notes senior director of briefings, Jeremy Goldman. He explains that through the partnership brands will be able to target ads during NBCU live sports based on Walmart's customer data and measure the impact on store and e-commerce sales. But Andrew, the most interesting sentence in this article on NBC Universal and Walmart Connect is what and why?

Andrew Lipsman:

It's Walmart Connect's venture to integrate retail media powered ads within live sports streaming shows a paradigm shift. Where data-driven targeting is harnessed and maximize the relevance and impact of ads. It's a paradigm shift. And we've never seen this before to introduce targeting and attribution to TV programming, but specifically live sports, which is the holy grail of ads supported TV and it's going to be powered on NBC and with Walmart data. I like every single piece of this and I think it will probably be a key point in determining the future of TV. And so I'm excited to see it happen.

Marcus Johnson:

Sarah had made this point on the Reimagine Retail show, that you and Max did with her last Wednesday about retail media, omnichannel retail media ad spending in the US 45 billion space today. Growing a healthy 20% over the next few years, each of the next few years. Today claiming 13% of digital ad spend. By 2027, it will be approaching 25% a quarter, approaching a quarter of all ad dollars, non-digital. All of them. Making it a hundred billion dollar space. Remarkable.

Story two. Amazon has joined Microsoft and Google in the AI race spurred by chat GPT, writes Tom Dotan of the Wall Street Journal. He notes that Amazon, the world's largest cloud provider, wants to become the Switzerland of generative AI and let companies choose their own software and models. Unlike Microsoft and Google, Amazon is targeting corporate customers. So far avoiding a major investment in an outside AI company or consumer facing

tools, Mr. Dotan points out. In addition to new AI tools, Amazon is expanding access to custom-made chips, it says can run AI software more efficiently and cheaply than competitors. But Andrew, Amazon joining Microsoft and Google in the AI race, what to you is the most interesting sentence in this article and why?

Andrew Lipsman:

You alluded to this point earlier, but it's by not being tied to any one AI startup, AWS is marketing itself as the Switzerland of the cloud giants. It's interesting because [inaudible 00:24:15] off, is we have this new technology taking hold. We always see this play out in tech, the open versus closed platform debates. It's almost like we're entering a new phase of this. And it's interesting that Amazon is saying that it's the open or Switzerland in the case. It's also ironic to me because Amazon, at least to retailers who are using cloud services, is anything but neutral. In fact, no retailers will do anything on AWS for that very reason. And the last point that I'll make on this, is that it's interesting to me that in this AI race in the cloud space right now, Amazon's number one, Microsoft is number two, and Google is number three. If I think about the AI race though, I would say that Google is probably in the number one position.

Marcus Johnson:

Flip it.

Andrew Lipsman:

Microsoft is number two and Amazon's number three. So you play this out a few years and it is really going to be a three horse race. And so it's going to be interesting, it's going to be competitive, and I'm very curious to see who ends up winning in this new world.

Marcus Johnson:

Two quick ones from me. So one was a quote which jumped out to me. AWS said it's AI will be more suited for businesses because it can be trained only on a customer's data, aka internal cash of documents rather than a broader set of webpages that other models use. They're saying that it could make it a safer choice for businesses that are nervous that their private data could end up shared and mixed up with other companies. I think that is a good point, and the fact that these AI models, a lot of them are just hoovering up data from all over the place does make them more risky. So I think that's a good incentive there. And then secondly, our

retail briefings analyst, Rachel Wolf, was recently writing about Amazon testing the use of AI to sum up what shoppers liked and disliked about products from their reviews.

So that is one way that they would be bringing it to a customer facing platform, but this is just testing at the moment. That's all we've got time for this episode. Thank you, Andrew for hanging out today. Thanks Marcus. And thank you to Victoria who edits the show. James, who copy edits it. Stuart who runs the team. And thanks to everyone for listening in. You can listen to our latest banking and payment show episode, which dropped today, talking about crypto being environmentally suspect, or we'll hopefully see you tomorrow for the Behind the Numbers Reimagining Retail Show and eMarketer podcast where host Sarah Libo talks with Analyst Sky Canaves and forecasting analyst Whitney Birdsall, all about where online marketplaces are heading.