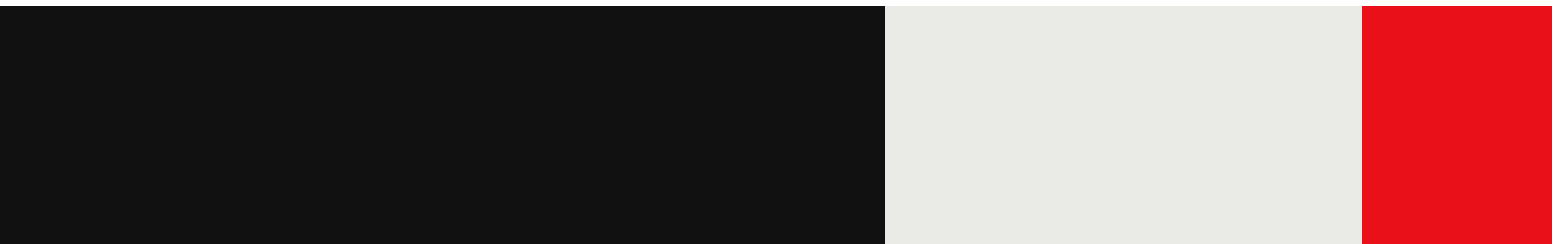


# The Daily: How Amazon is able to sell more things (and ads) and is delivery speed still paramount for online shoppers?

Audio



On today's podcast episode, we discuss how Amazon was able to sell even more things online, how their ad business is getting on, and whether the retail giant is right to keep focusing so much on delivery speed. Tune in to the discussion with our director of Briefings Jeremy Goldman and analyst Zak Stambor.

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## Episode Transcript:

Marcus Johnson (00:00):

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Jeremy Goldman (00:28):

There's only so far that you can follow this strategy and you have to understand that consumers have different preferences. To Zach's point, it's ultimately about removing friction in the experience. But what removing friction looks like is very different depending on who that customer is.

Marcus Johnson (00:49):

Hey gang, it's Thursday, May 9th, Jeremy, Zack, and listeners. Welcome to the Behind Numbers Daily and eMarket podcast. Made possible by Awin. I'm Marcus. Today I'm joined by two gentlemen. We introduced the first one. He is based in New York City and is the senior director of briefings. It's Jeremy Goldman.

Jeremy Goldman (01:06):

Great to be with you.

Marcus Johnson (01:08):

Hello there. Hello. We're also joined by one of our senior retail analysts based just above Chicago. It's Zach Stanbul.

Zak Stambor (01:16):

Hey Marcus. Hey Jerry.

Marcus Johnson (01:18):

Hey fella. So today's fact, so gents, do we know when people started using Hail Mary in football?

Jeremy Goldman (01:27):

Oh no, you're asking a football question to the wrong person.

Marcus Johnson (01:32):

Really? Hundred years ago. I hate football. Oh no. I thought, yeah, absolutely. Oh, it's just basketball. Then

Zak Stambor (01:39):

I will say 1947, that's

Marcus Johnson (01:42):

My fault. Nope, Jeremy a guess.

Jeremy Goldman (01:46):

Is it from ancient times? Does it predate football? I'm just guessing

Marcus Johnson (01:52):

Also the term. Yes, but when it got used as when it got used in Brooklyn, I

Jeremy Goldman (02:00):

Thought it was a trick question. Not 1927. 1927.

Marcus Johnson (02:05):

No, not that far back. So for folks, for context, hail Mary means to throw up a last second prayer of a pass way down the field in hopes of rescuing the game from certain defeats. And people will use Hail Mary in other contexts as well, but that's what it means for football. And so it started during a playoff game nearly 50 years ago now, five zero between the Vikings and the Cowboys. December 28th, 1975, when Cowboys quarterback Rogers Staubach was asked about his game-winning touchdown pass to Drew Pearson, he said, I closed my eyes and I said, aha, Mary. And that's how it got started. Oh, what's crazier is that the pass right before that, as they're driving down the field, was also store back to Pearson. Pearson catches it falling out of bounds. It's a great catch. After the play, there's a Minnesota vi. Minnesota is at home and store ACH and Pearson play for the Cowboys. And so there's a Minnesota Viking security guard on the sidelines who runs up and tries to kick Drew Pearson of the Cowboys. Oh my goodness. Whilst he's down. Wow. And Brian ddo of CBS was noting this in a piece that he wrote at the end of 2023 actually. But if you go and look at the video online, you can see him run up and try to kick him. Terrible decision.

Jeremy Goldman (03:24):

I feel like that's against the rules. I could be

Marcus Johnson (03:26):

Wrong. It should be not in the seventies. Anything's possible. Anyway, today's real topic, how Amazon is able to sell more things and more ads

Marcus Johnson (03:44):

In today's episode's verse in the league. We'll cover Amazon. No other news today. Let's do it. Gente just explained how they did to start 2024 Q1 that is, and we'll focus first on the largest segment of revenue, which is selling things online. And so we're playing slice of pie. Zach, how was Amazon able to grow online store sales, which is that line item I said makes them the most money. They were able to grow that by 7% in Q1. A significant turnaround for context from a 0.1% decline a year earlier from negative 0.1 Q1 last year to plus seven Q1 this year. Up to three reasons why attribute shares to each and it has to add up to a hundred percent.

Zak Stambor (04:30):

Okay, so I'll go with a whole half 50% to fast delivery times. Amazon's made a huge push to get things to your door quicker than ever, and it's really working. Nearly 60% of prime orders in the top 60 US metro areas arrive at the same or next day in Q1 up from around 50% in Q2 2023. So that's 50%. 30% is its big tentpole sales event that it propped up during the quarter, which is Amazon Big spring sale just provided a real lift. And then the final 20% is it's ever-growing selection, which is interesting because it seems like Amazon has everything, but there have always been some holes in its catalog and it is finding ways to fill the holes. And Clinique recently became the first Estin Water brand to set up shop on its premium beauty store, and it's making it easier for third party sellers to list items on the site using a new gen AI tool.

Marcus Johnson (05:35):

So you mentioned, so we've got 50% faster delivery times 30%, the big spring sale, 20% growing selection on the big spring sale the first ever end of q1. And are Rachel Wolf noting that whilst it delivered a modest sales lift, it was a successful prime acquisition tool, nearly one in four non-prime shoppers subscribing to Prime to access better discounts according to payments. Quick question on this sack. I mean they have prime day, which is typically in the summer, then they have a second prime day. They added the early events or early holiday



prime day around October time they've added this one spring sale. Do you see 'em adding another one anytime soon? And what do you make of this strategy?

Zak Stambor (06:21):

So what's really interesting about this one in comparison to those other two is that this one, you didn't have to be a prime member, which is why it's serving as a prime acquisition tool is really kind of interesting. What we're seeing is that they continue to prop up targeted category specific sales. They just announced their third of those sales that will take place in May. They had one for gaming, one focused on pets, and now they're going to have one on beauty. And so these targeted events really make a whole lot of sense because you can just push brands to pay for retail media dollars while also providing some lift in terms of sales.

Marcus Johnson (07:00):

Jeremy, what'd you make of that? I mean, does it dilute some of the impact from some of the other events eventually? I mean maybe it doesn't matter if you have multiple, then you are making enough growth from those to compensate for how much it might dilute the other ones. But what do you make of this strategy?

Jeremy Goldman (07:17):

Yeah, I think you raise a really good point there. One of the things that I've noticed is that it's obviously great to raise the bottom line in the short term, but then of course you kind of have to anniversary these sales in the long term. That's going to be a challenge in the future. I think that this is somewhat sustainable because you could get a little bit deeper with all these different categories. And as Zach pointed out, Amazon has a lot more categories than people give them credit for in part because they're so heavily weighted towards a few categories, but they obviously have the ability to follow this strategy for a while. But then to what extent do you start to see diminishing returns with the big sales? I think that that's certainly something that we're going to be able to witness firsthand over the next few quarters.

Marcus Johnson (08:04):

So we said 30% of this turnaround in online store sales growing 7% in Q1, up from flat last year, 30% big spring sale, 20% growing selection, but 50% most of it's fast delivery times. And as you mentioned, Zach, Amazon saying that close to 60%, just to reiterate, 60% of prime orders in the top 60 US metro areas, 60% of those orders arrived the same or next day in Q1

as up from 50% less than a year ago, say from 50 to 60% in terms of speed of delivery. And the same or next day on those orders, is Amazon right to focus on speed? And how much does delivery speed move the needle for folks today? Out of 10,

Zak Stambor (08:46):

Eight, maybe nine, eight and a half. I'll say oh

Marcus Johnson (08:48):

Eight, maybe nine.

Zak Stambor (08:49):

Yeah, I think it's a big deal and it provides a moat for Amazon. So first of all, if you know that your toilet paper will arrive at your door within hours, then you are going to think twice about hopping in your car, wasting a half hour driving back and forth to Target or whatever physical store you're going to go to because you can just click and bot. So it gives you a reassurance. And then the other piece of it is that Amazon doesn't have to focus as much on pricing when it offers this very clear convenience element because people are probably going to be willing to spend a tiny bit more because they know that the item that they purchase will quickly arrive at their door rather than having to wait a day or two or however long it will take from some other merchant.

Marcus Johnson (09:41):

I want to cite something that you said, and I'm wondering whether speed seems to still be important. It was when they started Prime, they noticed that people want things faster and that is one of the things that really propelled Amazon to where it's now. But you were writing saying also that people want control and they want options. And the other piece you were pointing out that being able to choose specific delivery days was important for 64% of consumers because their main concern was missing attempted deliveries. Something 54% of people said according to img. So do you think they should be at this point focusing more on control and options more so than speed, than getting it to people a couple of hours or sooner?

Zak Stambor (10:19):



I think it totally depends on who the consumer is and where the consumer lives. So if you're a consumer in an urban environment where the box will show up on your doorstep and very well maybe stolen, you really are focused on that control and the assurance that the package will arrive on Wednesday when you'll be home rather than on Tuesday when you're in the office. Whereas if you're in a suburban environment where that's less of a concern and you just want stuff fast, you just want stuff fast, you might not need the same level of control as you do somewhere else. Okay.

Jeremy Goldman (10:59):

Yeah. Another quick point about that by the way, is that one shouldn't assume that Amazon has the same market penetration in urban versus semi-urban, not quite rural communities, but in the burbs, just because they don't, there's obviously a certain, there's only so far that you can follow this strategy and you have to understand that consumers have different preferences. To Zach's point, it's ultimately about removing friction in the experience, but what removing friction looks like is very different depending on who that customer is.

Marcus Johnson (11:31):

Yeah, absolutely. So zooming out that line item, online sales, a 7% growth for Amazon in the quarter, but that line item continuing to account for less of Amazon's revenue, it's a 38% of its pie of its moneymaking pie, 38% in q1. That's the lowest it's ever been two years ago. Just two years ago, online accounted for half of Amazon's revenue. And so as that goes down, other things of course go up. One of those other things is advertising. And so we're going to focus on that for a second. With Slice of Pie, that accounts for 8.3% as of q1, that is 8.3% of the money Amazon makes coming from advertising. And so Jeremy, how is Amazon able to grow its ad business by 24% in q1 up even more so from the 21 it registered the same period last year?

Jeremy Goldman (12:27):

Yeah, I mean I think that there are a few reasons for this. I'm going to overwhelmingly give one answer, which is just the prime video switchover to by default starting to have ads in front of people if they are prime video customers or viewers. That is a huge part of this story in this quarter specifically, and obviously something to follow throughout this entire year. Then I think really the rest of it is retail media largely. But if I had to break that out as kind of almost two different stories, I might say 15% retail media like traditional and then 5% offsite because

Amazon is looking to move offsite with retail media in the same way that a lot of other players are looking to do, and it's going to be a storyline that we're going to be following very closely as well.

Marcus Johnson (13:21):

So 80% Prime video having ads, 15% retail media, traditional 5% offsite, roughly?

Jeremy Goldman (13:30):

Yep. I would say that. Okay.

Marcus Johnson (13:32):

Okay. It's been pretty consistent. The ad revenue growth, it's now five consecutive quarters of over 20% ad revenue growth, so incredibly strong and the share of money Amazon is making from ads keeps growing in 2022. Amazon made six times as much from online sales. The first one we talked about as it did from ads six times as much, and today it's four times as much. So ads closing that gap is still a ways behind online sales, but it is closing in on that portion, Zach, you make of where Amazon is ad wise at this point and how that links into their retail business?

Zak Stambor (14:08):

Well, I think the interesting piece is it really goes hand in hand with the strength of the overall retail platform. And when you see relatively strong growth in terms of retail sales, you're inevitably going to see strong growth on the advertising ends of things.

Marcus Johnson (14:26):

Yeah, it's quite the flywheel and looking at Amazon share of advertising, share of the digital ad pie in the US keeps growing. We expecting to have 14% sliced this year. What does 14% mean? It means it's two thirds the size of Meta who's in second place? So Amazon is two thirds the size of meta in terms of digital ad dollars in America, and put another way one encountered. It's the same amount of share Amazon has of the digital US digital ADPI. Amazon has the same amount of share as the next seven digital ad players combined from Microsoft in fourth all the way down to Pinterest in 10th. So it certainly feels like a LY at this

Jeremy Goldman (15:11):

Point. Oh, you beat me to the punch. I was going to say

Marcus Johnson (15:14):

There's

Jeremy Goldman (15:14):

A reason I was going to say there's a reason why we kind of refer to it as the LY now because it really is so heavily weighted towards a few players. The one thing that I'd add, and I'm normally like, I feel like the least cynical of all of us analysts, but maybe today I'm putting on a different hat. I think that there are two interesting things to follow as storylines throughout the year. One thing, the fact that they just obviously Prime video ad supported viewers, according to our forecast, they went from zero to 130.4 million for 2024 that was there. Obviously you can't even chart that growth from zero to something else. But then we're expecting over the next few years, 1.4%, 1.2, very, very low growth for Prime Video ad supported in part because Prime Video has been around for a while. So you look at that, it's very hard to expect this kind of robust growth from Prime video ad supported and you're going to have to just put more ads on it, which then obvious or charge more for them, which obviously is the same thing that the retail media bucket is going to be faced with.

Jeremy Goldman (16:21):

How do you maintain a strong user experience on the e-commerce portion of your business, which is obviously the thing that brings in the dollars you don't want to get in the way of people transacting, which is still the significant part of your business just in the name of growing the retail media ad business. And I think that that's going to be a storyline. Definitely the follow.

Zak Stambor (16:42):

Yeah, I think that's so true, and I think the ad load, they are just dipping their toes in those waters, but over time inevitably it will increase probably somewhat significant.

Marcus Johnson (16:58):

Alright, gens, we end with a grade. Zach, I'll start with you. What's your grade for Amazon's q1?

Zak Stambor (17:02):

Yeah, I think it's a, I mean they're operating in an environment where consumers are being cautious, they're being thoughtful about what they're spending on how they're spending it, and Amazon managed to deliver pretty strong numbers.

Marcus Johnson (17:16):

Jeremy,

Jeremy Goldman (17:17):

I think I'm going to have to say a minus only because again, because I'm being so negative today, but in all seriousness, I think their potential upside and that they haven't totally realized with Cloud and other parts of their business that we haven't talked about that could be contributing a little bit more, but the core parts of their business would definitely be an A as well. So overall, it'd be interesting to see if they can continue this trend next quarter.

Marcus Johnson (17:42):

Yeah. Speaking about next quarter, yeah, Q2 expectations. Amazon expects revenues to grow somewhere between seven to 11. Last Q2 for context was 11%. So that's where we're expecting one point to note profit more than tripled to over 10 billion and profit was up for a lot of the digital players as they used last year to get their house in order. So that's something else to point out. And then also just in terms of, we talked about LY this year, the duopoly, so Meta and Google their share of the US digital ad PI 47%. You throw Amazon into the equation and you get to 61 and that share of the LY will be growing because Amazon is driving that. So I think we're going to end with a consensus A for Amazon, which is the last of our digital ad giants. We covered a bunch of the other ones, so check those episodes out. But Amazon gets the A for Q1 or check in on Q2 in a couple of months. Thank you gents for hanging out today. Thank you so much to Jeremy.

Speaker 4 (18:40):

This was great. Thank

Marcus Johnson (18:41):

You. Yes, indeed. Thank you to Zach. Yeah, thanks

Speaker 4 (18:43):

For having me.

Marcus Johnson (18:44):

Yes, sir. Thank you to Victoria. She edits the show. And Stuart, who runs the team, Sophie does on social media, thank you to her. Thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Weekly. Listen, it's an e-marketer video podcast made possible by a win.