Amazon's ad business is profitable, but it's freezing hiring anyway

Article

The news: **Amazon** pulled in a record **$9.48 billion** in ad revenues last quarter, but the retail ecommerce giant is freezing hiring in its advertising business ahead of what it expects to be a tepid holiday shopping season. The company will fill vacant positions but will not create any new ones, Bloomberg reports.

The slowdown: Amazon's stock has fallen sharply since it forecasted a sales growth slowdown for the holiday period. The company has seen signs of a consumer spending slowdown for some time, and is curbing hiring to eke out as much profit as possible in the year's final quarter.

- Advertisers have been watching consumer spending carefully in recent months, waiting for a cool down given extraordinarily high inflation. And while we still expect holiday spending to grow about 7%, there will be more spending on experiences and less on retail.
- Amazon has already felt that effect. Its second **Prime Day** last month paled in comparison to the first—with households spending 40% less, per data analysis from Klover.
- The holiday sales period has also gotten longer, diluting the effectiveness of holiday advertising. **Forty-five percent of merchants** said they're encouraging consumers to start shopping earlier. When holiday discounts and deals stretch out over the season, the sense of urgency disappears, causing consumers to spend less or wait longer to buy.
- All these factors will likely contribute to Amazon merchants spending less to advertise on the platform this holiday season.

Amazon's ad takeover: Still, even with a slower-than-usual holiday shopping season, it's still surprising to see Amazon hit the pause button on its profitable, growing advertising business.

- It's been a tough year for advertising across the board, but particularly for Big Tech companies like **Meta** that have seen revenues tumble due to economic concerns and addressability issues in the digital ad market. But Amazon has managed to not only stay in the green but grow its ad market share.
- In the US, we forecast that Amazon will have the third-highest ad revenues of any company (**$29.11 billion**), behind Meta and **Google**.
- Many ad companies overstaffed during the pandemic and then had to implement mass layoffs. Amazon itself is guilty of that, having ramped up hiring to meet pandemic demand and then finding itself overstaffed when the market cooled.

Our take: Amazon's ad business isn't going anywhere, but concerns about end-of-year spending and a general economic downturn are leading the company to slow its roll.

- Fewer hires may mean that Amazon will take more time to launch new ad products and tools, but it also means that it can squeeze out more profits and won't have to undertake a heavy course correction if the economy worsens.